

Bald Head Island Transportation, Inc.

Financial Report
December 31, 2021

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In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

RSM US LLP

Wilmington, North Carolina
June 24, 2022

Bald Head Island Transportation, Inc.

**Balance Sheets
December 31, 2021 and 2020**

	2021	2020
Assets		
Current assets:		
Cash	\$ 18,351	\$ 5,400
Parts and supplies	101,492	56,667
Total current assets	119,843	62,067
Property and equipment:		
Automobiles	1,221,493	1,107,208
Machinery and equipment	354,737	354,737
Boats	4,957,751	4,865,615
Computer equipment	138,670	138,670
Land	64,355	64,355
	6,737,006	6,530,585
Less accumulated depreciation	3,634,740	3,486,399
	3,102,266	3,044,186
Construction in progress	-	53,991
	3,102,266	3,098,177
Total assets	\$ 3,222,109	\$ 3,160,244
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable and accrued expenses	\$ 190,491	\$ 230,334
Deferred income	200,506	116,715
Total current liabilities	390,997	347,049
Long-term debt:		
Related party loan	19,808,228	19,332,773
	19,808,228	19,332,773
Stockholders' deficit:		
Common stock, \$1 par value; 1,000 shares authorized; 1,000 shares issued and outstanding	1,000	1,000
Accumulated deficit	(16,978,116)	(16,520,578)
	(16,977,116)	(16,519,578)
Total liabilities and stockholders' deficit	\$ 3,222,109	\$ 3,160,244

See notes to financial statements.

Bald Head Island Transportation, Inc.

Statements of Income
Years Ended December 31, 2021 and 2020

	2021	2020
Revenues:		
Transportation revenues	\$ 6,720,694	\$ 5,160,592
Transportation revenues - affiliates	91,214	116,822
Total operating revenues	6,811,908	5,277,414
Operating expenses:		
Salaries and wages	2,711,526	2,433,631
Rent	1,252,708	1,252,708
Fuel	660,352	465,614
Repairs and maintenance	258,936	215,253
Marina expenses	314,423	303,865
Employee benefits	230,027	193,895
Payroll taxes	212,334	192,804
Parking	51,426	48,557
Transportation	69,536	67,172
Operating supplies and expenses	20,421	18,815
Communications and utilities	34,506	25,676
Insurance	303,869	277,831
Taxes and licenses	92,034	87,170
Advertising	11,050	26,321
Professional fees	53,152	57,044
Credit card	101,205	75,297
Management fees	146,976	106,976
Depreciation	343,489	289,227
Loss on disposal of fixed assets	114,439	98,536
Other	113,156	101,162
Total operating expenses	7,095,565	6,337,554
Operating loss	(283,657)	(1,060,140)
Other expense (income):		
Interest expense	173,881	458,767
Paycheck Protection Program loan forgiveness	-	(496,300)
Total other expense (income)	173,881	(37,533)
Net loss	\$ (457,538)	\$ (1,022,607)

See notes to financial statements.

Bald Head Island Transportation, Inc.

**Statements of Stockholders' Deficit
Years Ended December 31, 2021 and 2020**

	Common Stock	Accumulated Deficit
Deficit, December 31, 2019	\$ 1,000	\$ (15,497,971)
Net loss	-	(1,022,607)
Deficit, December 31, 2020	1,000	(16,520,578)
Net loss	-	(457,538)
Deficit, December 31, 2021	\$ 1,000	\$ (16,978,116)

See notes to financial statements.

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Bald Head Island Transportation, Inc.

Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Net loss	\$ (457,538)	\$ (1,022,607)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	343,489	289,227
Gain on Paycheck Protection Program loan forgiveness	-	(496,300)
Loss on disposal of property and equipment	114,439	98,536
Changes in:		
Accounts receivable	-	912
Parts and supplies inventories	(44,825)	(18,114)
Accounts payable and accrued expenses	(39,843)	8,623
Deferred income	83,791	(21,992)
Net cash used in operating activities	(487)	(1,161,715)
Cash flows from investing activities:		
Purchases of equipment	(462,017)	(312,729)
Net cash used in investing activities	(462,017)	(312,729)
Cash flows from financing activities:		
Advances from related party, net	475,455	978,144
Proceeds from Paycheck Protection Program loan	-	496,300
Net cash provided by financing activities	475,455	1,474,444
Net change in cash	12,951	-
Cash:		
Beginning	5,400	5,400
Ending	\$ 18,351	\$ 5,400
Supplemental cash flow information:		
Net cash paid for interest	\$ 173,881	\$ 458,767

See notes to financial statements.

Bald Head Island Transportation, Inc.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

Nature of business and ownership: Bald Head Island Transportation, Inc. (the Company) is a wholly owned subsidiary of Bald Head Island Limited, LLC (Limited). The Company operates commercial and passenger ferries between Southport, North Carolina and Bald Head Island, North Carolina and provides ground transportation throughout Bald Head Island.

Cash: The Company considers currency, demand deposits and highly liquid investments with original maturities of three months or less from the date of purchase to be cash equivalents.

Property and equipment: Property and equipment is recorded at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over estimated useful lives ranging from 2 to 40 years.

Impairment: At each balance sheet date, the Company reviews its long-lived assets, consisting primarily of equipment, for impairment. Accounting guidance requires recording a charge for impairment when the sum of the expected future gross cash flows is less than the carrying amount of the asset. Based on this definition of impairment and management's qualitative analysis, the Company has not recorded a charge for impairment in the value of the assets.

Income taxes: Deferred taxes are provided on a liability method, whereby deferred tax assets are recognized for deductible temporary differences and any operating loss or tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. The Company's temporary differences are not material at December 31, 2021 or 2020. Deferred tax assets and liabilities are adjusted for the effects of changes in the tax laws and related rates on the date of enactment.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. At December 31, 2021, the Company had combined interest limitation and net operating loss carryforwards of approximately \$16,903,832 of which approximately \$13,770,000 will begin to expire in 2022. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax asset will not be realized. Deferred tax assets related to the loss carryforwards are fully reserved at December 31, 2021 and 2020.

Revenue recognition: The Company's revenue is derived primarily from sales of tickets for passage on the Company's ferries. The Company recognized revenue in accordance with Accounting Standards Codification (ASC) Topic 606, Revenue from Contracts with Customers, which provides a five-step model for recognizing revenue from contracts with customers as follows:

- Identify the contract with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when or as performance obligations are satisfied

Performance obligations primarily include passage on the Company's ferries, as well as other luggage and tram services which are deemed immaterial. All performance obligations are considered to be satisfied the same day as ferry passage.

Bald Head Island Transportation, Inc.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

The Company records deferred income upon payment for bulk ticket sales and annual passes, delaying revenue recognition until services are performed. Annual passes are valid for 12 months and are recognized into revenue ratably over the service period. Bulk passes are initially deferred and recognized into revenue based on usage, which management estimates by comparing annual ticket sales to actual ticket usage.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recently issued accounting pronouncements: In December 2019, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes, which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in ASC 740 and also clarifies and amends existing guidance to improve consistent application. This ASU is effective for the Company beginning on January 1, 2022. Management has not yet evaluated the impact of this ASU on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in *Topic 840, Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. In September 2017, the FASB issued ASU 2017-13, *Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842): Amendments to Securities Exchange Commission (SEC) Paragraphs*, which rescinds certain SEC Observer comments and staff announcements from the lease guidance and incorporates SEC staff announcements on the effect of a change in tax law on leveraged leases from ASC 840 into ASC 842. In January 2018, the FASB issued ASU 2018-01, *Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842*, which amends the new lease guidance to add an optional transition practical expedient that permits an entity to continue applying its current accounting policy for land easements that exist or expire before the ASC 842 effective date. In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases*, which makes narrow scope improvements to the standard for specific issues. In July 2018, the FASB also issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides an optional transition method allowing the standard to be applied at the adoption date. In March 2019, the FASB issued ASU 2019-01, *Leases (Topic 842) Codification Improvements*, which exempts entities from having to provide the interim disclosures required by ASC 250-10-50-3 in the fiscal year in which a company adopts the new leases standard. A modified retrospective transition approach is required. An entity may adopt the guidance either (1) retrospectively to each prior reporting period presented in the financial statements with a cumulative effect adjustment recognized at the beginning of the earliest comparative period presented or (2) retrospectively at the beginning of the period of adoption through a cumulative effect adjustment.

In February 2020, the FASB issued ASU 2020-05, which defers the effective date of ASU 2016-02 one year, making it effective on January 1, 2022, with early adoption permitted. The Company is in the process of evaluating the impact of this new guidance.

Bald Head Island Transportation, Inc.

Notes to Financial Statements

Note 2. Related Party Transactions and Balances

The Company leased the facilities located at Bald Head Island Marina and leased the facilities at Deep Point Marina from Limited for each fiscal year presented. The lease term expires in December 2025, automatically renewing for five-year terms unless cancelled by either party. The Company paid Limited \$1,252,708 in rent under these leases in each of the years ended 2021 and 2020.

Future minimum lease payments under the related party leases are:

Years ending December 31:	
2022	\$ 1,252,708
2023	1,252,708
2024	1,252,708
2025	1,252,708
	<u>\$ 5,010,832</u>

The Company owes Limited \$19,808,228 at December 31, 2021. There is no agreement, terms, or expiration on the loan. Management determined to accrue interest at the previous year's blended annual rate established by the Internal Revenue Code (IRC), which was .89% at December 31, 2021.

Additionally, the Company paid Limited \$146,976 and \$106,976 in management fees for the years ended December 31, 2021 and 2020, respectively.

The Company is dependent on its parent for financing to fund future operations. While the Company has an accumulated deficit and ongoing losses, its obligations are primarily to its parent, and management anticipates the parent will continue to fund future operations sufficient to meet obligations.

Note 3. Employee Benefit Plan

The Company's employees participate in a multiple employer plan sponsored by Limited. Employee contributions are subject to an annual maximum as determined under the IRC. The Company no longer contributes to the plan.

Note 4. Other Income and Expense

On April 30, 2020, the Company borrowed \$496,300 from a commercial lender as part of the Paycheck Protection Program administered by the Small Business Administration (SBA) under Division A, Title I of the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act). Interest was charged at a rate of 1.00% per annum with final payment of the outstanding balance due on April 30, 2022. On December 7, 2020, the Company received full forgiveness of the loan from the SBA. Loan forgiveness in the amount of \$496,300 had been recorded as a gain in the statement of income for the year ended December 31, 2020.

Note 5. Subsequent Event

On May 17, 2022, the Company, along with Limited, entered into an asset purchase agreement to sell substantially all of the assets of the Company and Limited, to SharpVue Capital, LLC, subject to certain closing conditions. The agreement calls for a purchase price of \$67,200,000. Upon the change in control, the related party loan will be repaid and the lease agreements with facilities located at Bald Head Island Marina and Deep Point Marina will not be impacted. The purchase price allocation was not available at the time of financial statement issuance.