
BALD HEAD ISLAND TRANSPORTATION AUTHORITY
Southport, North Carolina

October 1, 2018

Via E-mail (govops@ncleg.net; jhtrogdon@ncdot.gov)

Joint Legislative Commission on Governmental Operations
North Carolina General Assembly
Legislative Building
16 West Jones Street
Raleigh, North Carolina 27601

Honorable James H. Trogdon, III
Secretary of Transportation
North Carolina Department of Transportation
1 South Wilmington Street
Raleigh, North Carolina 27601

Re: Bald Head Island Transportation Authority – Annual Report of Activities, Holdings and Finances Mandated by N.C. Gen. Stat. § 160A-684(f)

Ladies and Gentlemen:

Pursuant to Section 160A-684(f) of the North Carolina General Statutes, the Bald Head Island Transportation Authority (“BHITA” or the “Authority”) hereby submits this annual report of its activities, holdings, and finances to the Secretary of the Department of Transportation and to the Joint Legislative Commission on Governmental Operations. Since its formation on August 23, 2017, the Authority has made progress toward acquiring the assets of the existing private ferry system (the “System”) that currently serves Bald Head Island, North Carolina. The Authority’s Board of Trustees has held regular, monthly meetings since December 2017 and has hired a range of professional consultants to assist in the acquisition of the System. The Authority is working diligently to enter into a definitive purchase agreement with the current owners of the System, but is still conducting acquisition-related due diligence.

I. Bald Head Island Transportation Authority – Background and Governance

BHITA is a public authority of the State of North Carolina created in 2017 under Chapter 160A, Article 29 of the North Carolina General Statutes (the “Act”). The Act directs the Authority to acquire the “used and useful” assets of the System “at or below their appraised value”, and to finance such acquisition by “bonds or notes issued by the Authority or other financing mechanisms permitted under [the Act].” The Act permits the Authority to issue revenue bonds under Chapter 159 of the North Carolina General Statutes, and use the proceeds of such bonds to finance the acquisition.

The Authority is governed by an eleven-member Board of Trustees. Each trustee, and those who appointed them pursuant to the Act, are listed below:

1. Susan Rabon, Chair (appointee of the Governor of the State of North Carolina)

2. Brad Smith, Vice Chair (appointee of the Speaker of the North Carolina House of Representatives)
3. Landon Zimmer, Secretary (appointee of the Secretary of the North Carolina Department of Transportation)
4. David Jessen, Treasurer (appointee of the Speaker of the North Carolina Senate)
5. Rex Cowdry (appointee of the Secretary of the North Carolina Department of Transportation)
6. Jed Dixon (appointee of the Secretary of the North Carolina Department of Transportation)
7. Richard Kopp (appointee of the Brunswick County Board of Commissioners)
8. John Fisher (appointee of the Village of Bald Head Island Council)
9. Jim Powell (appointee of the Southport Board of Aldermen)
10. Andy Sayre (Mayor of the Village of Bald Head Island, *ex officio* voting member)
11. Kit Adcock (Mayor Pro Tempore of the Village of Bald Head Island, *ex officio* voting member)

II. Activities of the Bald Head Island Transportation Authority

The Board of Trustees held its first regular public meeting on December 14, 2017. Since that time, the Board has held regular meetings on a monthly basis in the City of Southport.¹ In 2018, the Board has hired professional consultants to assist it in evaluating the assets of the System. Both the Board and those professional consultants have reviewed a variety of diligence materials produced by the current owners of the System: Bald Head Island Transportation, Inc. and Bald Head Island Limited, LLC.

a. Professional Consultants for Acquisition Efforts

In January 2018, the Authority engaged McGuireWoods LLP to serve as its legal counsel. A team of McGuireWoods attorneys located in Raleigh and Wilmington is advising the Authority on the legal aspects of its acquisition and financing efforts.

On January 31, 2018, the Authority released a Request for Qualifications for Financial Advisory Services to thirteen organizations. After receiving submissions and conducting interviews with responding firms, the Board engaged Davenport & Company LLC in March 2018 to serve as financial advisor to the Authority. Davenport has studied the historical financial operations of the System, engaged with the Local Government Commission on the Authority's behalf, and will continue to advise the Authority on financing the acquisition of the System.

In June 2018, the Authority engaged HMS Consulting and Technical LLC, a division of HMS Global Maritime, to conduct a bond feasibility study for the System and to assess the current condition of the assets to be acquired. HMS conducted a site visit to Bald Head Island in August of 2018 and the results of HMS' findings should be available during the fall of 2018.

In the coming months, the Authority may hire additional professional consultants to assist it in evaluating and acquiring the watercraft, land, equipment and other structures that comprise the System.

b. Authority Operations

The Authority has not hired any employees since its formation, but has contracted with the former finance director of the Village of Bald Head Island, Deb Straub, to serve as the Authority's finance officer.

¹ Hurricane Florence forced the Board of Trustees to cancel its September 19, 2018 meeting.

Ms. Straub prepared the Authority's budgets for Fiscal Year 2017-18 and Fiscal Year 2018-19. Michelle Windham, the Clerk of the City of Southport, has provided various administrative services to the Authority under the terms of an Interlocal Agreement between the Authority and the City of Southport.

c. Due Diligence

Since January 2018, the Board of Trustees and its professional consultants have reviewed a variety of diligence materials produced by the current owners of the System. The Authority is continuing to evaluate the condition of the System's assets and their value, especially in light of potential damage caused by Hurricane Florence. In the coming months, the Board of Trustees will seek to complete its diligence efforts, secure acquisition funding, and negotiate an agreement with the current owners of the System that complies with the terms of the Act.

III. Holdings of the Bald Head Island Transportation Authority

The Authority has not yet completed its acquisition of the System. Therefore, the Authority has not received any funds from the System's operations. Other than as described in Section IV below, the Authority does not have any assets at this time. The Authority's consultants will be paid upon the consummation of the financing and subsequent acquisition of the System.

IV. Finances of the Bald Head Island Transportation Authority

a. Grant from Village of Bald Head Island

The Authority has secured limited operational funding from the Village of Bald Head Island (the "Village") under the terms of an Interlocal Agreement, dated March 16, 2018, between the Authority and the Village (the "Village ILA"). Under the Village ILA, the Village granted fifty thousand dollars (\$50,000) to the Authority to allow the Authority to cover operational expenses incurred prior to the acquisition of the System. Funds granted to the Authority by the Village of Bald Head Island are the only monies that the Authority has received since its formation. The Authority may seek additional grants from the Village of Bald Head Island to cover operational expenses in the coming months.

The Authority has leased a small office in the Southport City Hall from the City of Southport (the "City") pursuant to an Interlocal Agreement, dated April 12, 2018, with the City (the "Southport ILA"). The Southport ILA allows the City's Clerk, Michelle Windham, to provide various administrative and recordkeeping services for the Authority on an hourly basis.

b. The Authority's Budgets

At its June 2018 meeting, the Board of Trustees adopted the Authority's budgets for fiscal year 2017-18 and fiscal year 2018-19. Such budgets are set forth, respectively, in Exhibit A and Exhibit B attached hereto. The Authority intends to revise its 2018-19 budget if and when it determines that the acquisition of the System can be completed in such fiscal year.

c. Submission of Audit

Section 160A-684(f) of the Act requires the Authority to include "an audit of its accounts by a certified public accountant" with this report. Such audit is attached hereto as Exhibit C.

V. Summary

The Authority has made progress toward its statutory mandate of acquiring the assets of the System. In the coming months, the Authority and its Board of Trustees will continue to conduct its diligence efforts and work to negotiate a definitive purchase agreement with the System's current owners. Should you have any questions about this report or the Authority, please contact the Authority's legal counsel, Mary Nash Rusher (mrusher@mcguirewoods.com) or Connor Crews (ccrews@mcguirewoods.com).

Very truly yours,

**BALD HEAD ISLAND
TRANSPORTATION AUTHORITY**

/s/ Susan Rabon

Susan Rabon, Chair

cc: McGuireWoods LLP
Mary Nash Rusher
J. Dickson McLean
Henry L. Kitchin, Jr.
Connor H. Crews

Exhibit A

Budget Ordinance of the Bald Head Island Transportation Authority

Fiscal Year 2017-18

**AN ORDINANCE OF THE BALD HEAD ISLAND TRANSPORTATION AUTHORITY
ADOPTING A BUDGET FOR FISCAL YEAR 2017-2018**

WHEREAS, on May 16, 2018, the finance officer of the Bald Head Island Transportation Authority (the "Authority") submitted to the Authority's Board of Trustees (the "Board") a proposed budget of the Authority for Fiscal Year 2017-2018 (the "Proposed FY2018 Budget");

WHEREAS, pursuant to G.S. § 159-12(a), notice of a public hearing on the Proposed FY2018 Budget was published on June 6, 2018 in the *State Port Pilot*;

WHEREAS, pursuant to G.S. § 159-12(b), the Board held a public hearing on the Proposed FY2018 Budget on June 20, 2018;

WHEREAS, the Board has fully considered matters associated with the Proposed FY2018 Budget, including associated supplemental recommendations, and desires to enact a budget ordinance for the fiscal period ending June 30, 2018.

NOW, THEREFORE, BE IT ORDAINED by the Board of Trustees of the Bald Head Island Transportation Authority as follows:

1. The 2017-2018 budget, covering the financial operations of the Bald Head Island Transportation Authority for the fiscal period ending June 30, 2018 inclusive, which is shown in Section 2 below is hereby adopted and is incorporated herein by reference as if fully set herein verbatim.
2. The following anticipated fund revenues, departmental expenditures and interfund transfers are approved and appropriated for the Bald Head Island Transportation Authority General Fund for the Fiscal Year ending June 30, 2018.

<u>Expenditures:</u>	
Governing Body	\$ 9,465
Administration	\$ 37,370
Reserve for future appropriations	\$ 3,165
Total	\$ 50,000
<u>Revenues:</u>	
Grants	\$ 50,000
Total	\$ 50,000

3. The budget shall be administered on a departmental basis. The budget officer of the authority shall have the power and authority to make departmental and interdepartmental amendments. All such amendments shall be reported to the Board at the Board's regular meeting following the month in which such amendments are made.

4. All public funds which will accrue to the Authority during the fiscal period ending June 30, 2018 inclusive, shall be deposited in the Authority's accounts at Branch Banking and Trust Company

5. This ordinance shall expire at the close of Authority business on June 30, 2018.

Adopted this 20th day of June 2018

ATTEST:

Michelle Wintham
Authority Clerk

By: Susan W. Rader
Chairperson

Exhibit B

Budget Ordinance of the Bald Head Island Transportation Authority

Fiscal Year 2018-19

**AN ORDINANCE OF THE BALD HEAD ISLAND TRANSPORTATION AUTHORITY
ADOPTING A BUDGET FOR FISCAL YEAR 2018-2019**

WHEREAS, on May 16, 2018, the finance officer of the Bald Head Island Transportation Authority (the "Authority") submitted to the Authority's Board of Trustees (the "Board") a proposed budget of the Authority for Fiscal Year 2018-2019 (the "Proposed FY2019 Budget");

WHEREAS, pursuant to G.S. § 159-12(a), notice of a public hearing on the Proposed FY2019 Budget was published on June 6, 2018 in the *State Port Pilot*;

WHEREAS, pursuant to G.S. § 159-12(b), the Board held a public hearing on the Proposed FY2019 Budget on June 20, 2018;

WHEREAS, the Board has fully considered matters associated with the Proposed FY2019 Budget, including associated supplemental recommendations, and desires to enact a budget ordinance for the fiscal period ending June 30, 2019.

NOW, THEREFORE, BE IT ORDAINED by the Board of Trustees of the Bald Head Island Transportation Authority as follows:

1. The 2018-2019 budget, covering the financial operations of the Bald Head Island Transportation Authority for the fiscal period ending June 30, 2019 inclusive, which is shown in Section 2 below is hereby adopted and is incorporated herein by reference as if fully set herein verbatim.
2. The following anticipated fund revenues, departmental expenditures and interfund transfers are approved and appropriated for the Bald Head Island Transportation Authority General Fund for the Fiscal Year ending June 30, 2019.

<u>Expenditures:</u>	
Governing Body	\$ 9,465
Administration	\$ 37,870
Reserve for future appropriations	\$ 5,830
Total	\$ 53,165
<u>Revenues:</u>	
Grants	\$ 50,000
Fund Balance Appropriated	\$ 3,165
Total	\$ 53,165

3. The budget shall be administered on a departmental basis. The budget officer of the authority shall have the power and authority to make departmental and interdepartmental amendments. All such amendments shall be reported to the Board at the Board's regular meeting following the month in which such amendments are made.

4. All public funds which will accrue to the Authority during the fiscal period ending June 30, 2019 inclusive, shall be deposited in the Authority's accounts at Branch Banking and Trust Company.

5. This ordinance shall expire at the close of Authority business on June 30, 2019.

Adopted this 20th day of June 2018

ATTEST:

Michele Winham
Authority Clerk

By: Susan W. Faber
Chairperson

Exhibit C

Audited Financial Statements of Bald Head Island Transportation Authority

Fiscal Year 2017-18

Bald Head Island Transportation Authority

Financial Statements

Period from August 23, 2017 (Inception) through June 30, 2018

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Introductory Section

Bald Head Island Transportation Authority
Southport, North Carolina

Board of Trustees

Richard Kopp
Jim Powell
Andy Sayre
Kit Adcock
John (Jed) Dixon
Landon Zimmer
Rex Cowdry
Susan Rabon
Brad Smith
David Jessen
John Fisher

Officers

Susan Rabon, Chairperson
Brad Smith, Vice Chairperson
David Jessen, Treasurer
Landon Zimmer, Secretary

Interim Finance Director.....Debra M. Straub

Financial Section

Independent Auditors' Report

Board of Trustees
Bald Head Island Transportation Authority
Southport, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Bald Head Island Transportation Authority (the "Authority") as of June 30, 2018, and for the period from August 23, 2017 (inception) through June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Bald Head Island Transportation Authority as of June 30, 2018, and the respective changes in financial position and cash flows, thereof, for the period from August 23, 2017 (inception) through June 30, 2018 in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economical, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The budgetary schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The budgetary schedule is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements, or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary schedule is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Dixon Hughes Goodman LLP

**High Point, North Carolina
October 1, 2018**

Management's Discussion and Analysis

As management of the Bald Head Island Transportation Authority (the "Authority"), we offer readers of the Bald Head Island Transportation Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the period from August 23, 2017 (inception) through June 30, 2018. We encourage readers to read the information presented here, in conjunction with additional information that we have furnished in the Authority's financial statements, which follow this narrative.

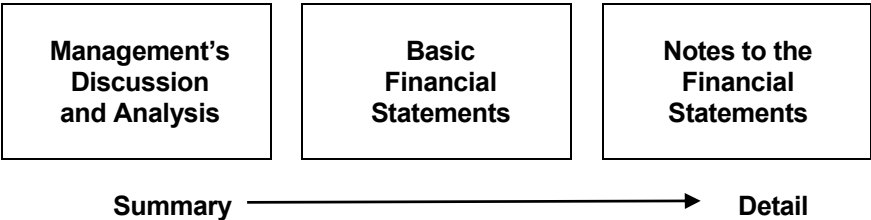
Financial Highlights

As of the close of the current fiscal year, the Bald Head Island Transportation Authority reported net position of \$34,524 all of which is classified as unrestricted.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Bald Head Island Transportation Authority's basic financial statements. The Authority's financial statements consist of two components: (1) basic financial statements and (2) notes to the financial statements (see Figure 1). In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Bald Head Island Transportation Authority.

Required Components of Annual Financial Report
Figure 1



Basic financial statements

The Bald Head Island Transportation Authority's basic financial statements are comprised of Exhibits A through C. The Bald Head Island Transportation Authority operates as a singular Enterprise Fund. All activities of the Authority are considered business-type activities. Business-type activities are those that the Authority charges customers to provide ferry and on island transportation services.

The next section of the basic financial statements is the notes. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, supplemental Information is provided. Budgetary information required by the General Statutes can be found in this part of the statements.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements start after Exhibit C of this report.

Financial analysis

**Bald Head Island Transportation Authority's Net Position
Figure 2**

	<u>Business-Type Activities</u>
Assets:	
Current and other assets	<u>\$ 40,646</u>
Total assets	<u>40,646</u>
Liabilities:	
Current liabilities	<u>6,122</u>
Net position:	
Unrestricted	<u>34,524</u>
Total liabilities and net position	<u>\$ 40,646</u>

Net position may serve, over time, as one useful indicator of the Authority's financial condition. The assets of the Bald Head Island Transportation Authority exceeded liabilities by \$34,524 (net position) as of June 30, 2018. The Authority's net position increased by \$34,524 for the fiscal year ended June 30, 2018. The entire net position of the Authority is unrestricted as of June 30, 2018.

**Bald Head Island Transportation Authority's Changes in Net Position
Figure 3**

Revenues:	
Grant income	<u>\$ 50,000</u>
Total revenues	<u>50,000</u>
Expenses:	
Governing Body & Trustees	<u>2,500</u>
General and Administrative	<u>12,976</u>
Total expenses	<u>15,476</u>
Increase in net position	34,524
Net position:	
Inception - August 23, 2017	<u>-</u>
End of year - June 30	<u>\$ 34,524</u>

Budget highlights for the fiscal year ending June 30, 2019

The 2018-2019 budget reflects additional estimated start-up administrative expenditures and revenues for the fiscal year. It assumes the financing and purchase of the ferry transportation system will take place in the first or second quarter of the fiscal year at which time a budget amendment will be required.

Requests for information

This report is designed to provide an overview of the Authority's finances for those with an interest in this area. Questions concerning any of the information found in this report, or requests for additional information, should be directed to Debra Straub at dms@hotmail.com.

Basic Financial Statements

Bald Head Island Transportation Authority
Statement of Net Position
June 30, 2018

Exhibit A

ASSETS

Current assets:

Cash	\$ 40,646
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Total current assets	40,646
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Total assets	40,646
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LIABILITIES AND NET POSITION

Current liabilities:

Accounts payable	6,122
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Total current liabilities	6,122
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NET POSITION

Unrestricted	34,524
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Total net position	\$ 34,524
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Bald Head Island Transportation Authority
Statement of Revenues, Expenses and Changes in Fund Net Position
Period from August 23, 2017 (Inception) through June 30, 2018

Exhibit B

Operating expenses

Governing body	\$ 2,500
Administration	<u>12,976</u>

Total operating expenses	<u>15,476</u>
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Operating loss	<u>(15,476)</u>
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Non-operating revenues

Grant from Village of Bald Head Island	<u>50,000</u>
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Total non-operating revenues	<u>50,000</u>
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Change in net position	34,524
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Net position

Inception - August 23, 2017	<u>-</u>
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End of year - June 30, 2018	<u><u>\$ 34,524</u></u>
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Bald Head Island Transportation Authority
Statement of Cash Flows
Period from August 23, 2017 (Inception) through June 30, 2018

Exhibit C

Cash flows from operating activities:

Cash paid for expenses \$ (9,354)

Net cash used by operating activities (9,354)

Cash flows from noncapital financing activities:

Cash received from grants 50,000

Net cash provided by noncapital financing activities 50,000

Net increase in cash and cash equivalents 40,646

Cash and cash equivalents:

Inception - August 23, 2017 -

End of year - June 30, 2018 \$ 40,646

Reconciliation of operating loss to net cash used by operating activities:

Operating loss \$ (15,476)

Adjustments to reconcile operating loss to net cash used by operating activities:

Increase in accounts payable 6,122

Net cash used by operating activities \$ (9,354)

Notes to Financial Statements

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Bald Head Island Transportation Authority (the "Authority") conform to generally accepted accounting principles as they apply to governments. The following is a summary of the more significant accounting policies:

A. Reporting entity

The Authority is a public authority, having been created pursuant to the Ferry Transportation Authority Act, North Carolina General Statutes Chapter 160A, Article 29 (the "Act") by resolutions of the Village Council of the Village of Bald Head Island, North Carolina, the Board of Alderman of the City of Southport, North Carolina, and the Board of Commissioners of Brunswick County, North Carolina, and as chartered by the North Carolina Secretary of State on August 23, 2017. The Authority is governed by an eleven-member Board of Trustees, in which the Mayor and Mayor Pro Tempore of the Village of Bald Head Island are automatically appointed as ex officio voting members. The remaining nine members serve staggered three-year terms and are appointed as follows: one member by the Governor; two members by the General Assembly under G.S. 120-121; three members by the Secretary of the Department of Transportation, one of whom must be a resident in the service area of the Authority, and at least one of whom must be a member of the Board of Transportation; one member by the Board of Commissioners of Brunswick County; one member by the Board of Alderman of the City of Southport; and one member by the Village Council of the Village of Bald Head Island.

The Authority was created for the purposes of operating a reliable and safe ferry and barge transportation system to transport passengers and freight between the City of Southport and the Village of Bald Head Island, to provide parking facilities for those passengers on the mainland, and to provide tram service to the island, to enhance the quality of life, mobility, and circumstances of the residents of the Village of Bald Head Island, the City of Southport, and Brunswick County, and to promote economic development and tourism throughout the Cape Fear region. The Village of Bald Head Island is only accessible by watercraft vessel, and is dependent upon an affordable ferry system that operates on the Cape Fear River between the City of Southport and the Village of Bald Head Island. The ferry system, barge, on-island tram system, terminals, and parking facilities are presently owned and operated by a number of privately held corporations. The Act permits the Authority to purchase those assets from the privately held corporations and to consolidate those operations into a single transportation authority, as defined in G.S. 160A-681, and with the powers set forth in G.S. 160A-685. The Authority is in the process of undergoing a bond feasibility study, with plans to purchase the assets of the privately held corporations by issuing municipal bonds during the fiscal year ending June 30, 2019.

B. Basis of presentation

Business-type activities are financed, in whole or in part, by fees charged to external parties. All activities of the Authority are considered business-type activities.

Fund financial statements

The fund financial statements provide information about the Authority's funds. The emphasis of fund financial statements is on major funds, each displayed in a separate column.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

Bald Head Island Transportation Authority

Notes to Financial Statements

The Authority has one fund category - proprietary funds.

Proprietary funds

Enterprise funds

Enterprise funds are used to account for those operations that (a) are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public, on a continuing basis, be financed or recovered primarily through user charges; or (b) where the governing body has decided that the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Bald Head Island Transportation Authority operates as a singular Enterprise Fund.

The Enterprise Fund is considered a major fund for the period from August 23, 2017 (inception) through June 30, 2018.

C. Measurement focus, basis of accounting

In accordance with North Carolina General Statutes, the fund of the Authority is maintained during the year using the modified accrual basis of accounting.

Proprietary fund financial statements

The proprietary fund financial statements are reported using the economic resources measurement focus. The proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The Authority's Enterprise Fund does not yet have operating revenues, as the capital assets for the ferry system have not yet been purchased by the Authority. Operating expenses for enterprise funds include the cost of sales and services and administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Budgetary data

The Authority's budget is adopted as required by North Carolina General Statutes. An annual budget ordinance is adopted for the Enterprise Fund. All annual appropriations lapse at the fiscal year-end. The budget is prepared at the line item level using the budgetary basis of accounting (modified accrual). To account for the difference between the budgetary basis of accounting and the full accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement, as applicable.

Expenditures may not legally exceed appropriations at the departmental level for enterprise funds. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

E. Assets, liabilities, and fund net position

(1) Deposits and investments

All deposits of the Authority are made in board-designated official depositories and are collateralized as required by State law [G.S. 159-31]. The Authority may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Authority may establish time deposit accounts such as NOW and SuperNow accounts, money market accounts, and certificates of deposit.

Bald Head Island Transportation Authority

Notes to Financial Statements

State law [G.S. 159-30(c)] authorizes the Authority to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and banker's acceptances; and the North Carolina Capital Management Trust (NCCMT).

(2) Cash and cash equivalents

The Authority considers demand deposits and investments with an original maturity of three months or less, which are not limited to use, to be cash and cash equivalents.

(3) Net position

Net position in proprietary fund financial statements is classified as net investment in capital assets; restricted and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, laws or regulations of other governments, or imposed by law through State statute.

(4) Use of estimates

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

2. Detail Notes on All Funds

A. Assets

(1) Deposits

All deposits of the Authority are made in Authority-designated official depositories and are collateralized as required by G.S. 159-31. The Authority may designate, as an official depository, any bank or savings and loan association whose principal office is located in North Carolina. Also, the Board may establish time deposit accounts and certificates of deposit. All of the Authority's deposits are insured or collateralized by using one of two options. Under the Dedicated Method, all deposits over the Federal depository insurance coverage are collateralized with securities held by the Authority's agent in the Authority's name. Under the Pooling Method, a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Authority, these deposits are considered to be held by the Authority's agent in the Authority's name. The amount of the pledged collateral is based on an approved averaging method for non-interest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Authority or the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Authority under the Pooling Method, the potential exists for under-collateralization; and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each pooling method depository.

The State Treasurer enforces standards of minimum capitalization for all Pooling Method financial institutions. The Authority relies on the State Treasurer to monitor those financial institutions. The Authority analyzes the financial soundness of any other financial institution used by the Authority. The Authority complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured. The Authority does not have a policy regarding custodial credit risk for deposits.

Bald Head Island Transportation Authority

Notes to Financial Statements

At June 30, 2018, the Authority's deposits had a carrying amount of \$40,646 and bank balance of \$42,849. All of the bank balance was covered by federal depository insurance. The Authority holds no petty cash.

B. Risk management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Authority carries public officials liability and employment practices liability coverage in the maximum liability of \$1,000,000.

In accordance with G.S. 159-29, the Authority's Treasurer of the Board of Directors is performance bonded through a commercial surety bond for \$50,000.

C. Commitments

The Authority entered into a contract with HMS Consulting to perform feasibility and planning activities to support the transition of the ownership and operation of the ferry system from the current owners to the Authority. Under the terms of the contract, HMS proposed a not-to-exceed limit of \$70,000 for the first phase of the contract, and has agreed to extend all payment terms until such time as bond financing and acquisition of the ferry system is completed. As of June 30, 2018, the Authority has not yet incurred any costs under the contract.

The Authority entered into a contract with Davenport & Company LLC to provide financial advisory services as it relates to the review, assessment and approach to evaluating the ferry system assets to be acquired, and structuring the purchase and financing of those assets from the current owners. Under the terms of the contract, Davenport & Company LLC proposed a not-to-exceed limit of \$50,000 to \$75,000 for planning, due diligence and non-transactional work, and \$75,000 to \$100,000 for the financing work. As of June 30, 2018, the Authority has not yet incurred any costs under the contract.

3. Related-Party Transactions

In accordance with an Interlocal Agreement with the City of Southport, the Authority leases office space from the City located at the Southport City Hall. The lease continues for a period of approximately two years. In consideration for the lease, the Authority pays to the City a sum of \$10 per year. The payment is due in arrears upon expiration of the lease term.

Also under the Interlocal Agreement with the City of Southport, the City provides the Authority with administrative support services at a rate of \$30 per hour. During the period from August 23, 2017 (inception) through June 30, 2018, \$888 of support services were incurred under this agreement, all of which remained payable at June 30, 2018.

In accordance with an Interlocal Agreement with the Village of Bald Head Island, the Authority received a grant of \$50,000 from the Village to allow the Authority to pay basic operating expenses until such time as the Authority has completed the acquisition of and is operating the ferry system.

The Authority compensates the trustees on the Board of Trustees for each official meeting the trustee attends, at a rate of \$50 per meeting. During the period from August 23, 2017 (inception) through June 30, 2018, trustees were compensated in the amount of \$2,500, of which \$297 remained payable at June 30, 2018.

Supplementary Information

Bald Head Island Transportation Authority
Schedule of Revenues and Expenditures -
Budget and Actual (Non-GAAP)
Period from August 23, 2017 (Inception) through June 30, 2018

Schedule 1

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues			
Non-operating revenues:			
Grant, Village of Bald Head Island	<u>50,000</u>	<u>50,000</u>	<u>-</u>
Total non-operating revenues	<u>50,000</u>	<u>50,000</u>	<u>-</u>
Total revenues	<u>50,000</u>	<u>50,000</u>	<u>-</u>
Expenditures			
Operating expenses:			
Governing body	9,465	2,500	6,965
Administration	<u>37,370</u>	<u>12,976</u>	<u>24,394</u>
Total expenses	<u>46,835</u>	<u>15,476</u>	<u>31,359</u>
Appropriation to fund balance	<u>3,165</u>	<u>-</u>	<u>(3,165)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 34,524</u>	<u>\$ 34,524</u>