

# **Dana Point Harbor Partners Drystack, LLC**

Financial Statements –  
Federal Income Tax Basis

December 31, 2021

# Dana Point Harbor Partners Drystack, LLC

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December 31, 2021

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## Independent Auditors' Report

The Members  
Dana Point Harbor Partners Drystack, LLC

### Opinion

We have audited the financial statements of Dana Point Harbor Partners Drystack, LLC (the Company), which comprise the statements of assets, liabilities and members' equity — federal income tax basis as of December 31, 2021, and the related statements of revenue and expenses — federal income tax basis, changes in members' equity — federal income tax basis and cash flows — federal income tax basis for the year then ended, and the related notes to the financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the assets, liabilities and members' equity of the Company as of December 31, 2021, and its revenue and expenses and changes in members' equity for the year then ended in accordance with the basis of accounting the Company uses for federal income tax purposes described in Note 2.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Emphasis of Matter – Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the basis of accounting the Company uses for federal income tax purposes, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting the Company uses for federal income tax purposes and for 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.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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.

#### **Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental statement of gross receipts is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

**BAKER TILLY US, LLP**

*Baker Tilly US, LLP*

Irvine, California  
March 25, 2022

## Dana Point Harbor Partners Drystack, LLC

Statement of Assets, Liabilities and Members' Equity —

Federal Income Tax Basis

December 31, 2021

### Assets

Development and improvements, net	\$	397,522
Cash		424,469
Accounts receivable		10,883
Deposits		<u>60,000</u>
Total assets	\$	<u><u>892,874</u></u>

### Liabilities and Members' Equity

#### Liabilities

Accounts payable	\$	98,134
Accrued liabilities		25,508
Tenant deposits		<u>117,276</u>
Total liabilities		<u><u>240,918</u></u>

#### Commitments and Contingencies (Note 6)

#### Members' Equity

		<u>651,956</u>
Total liabilities and members' equity	\$	<u><u>892,874</u></u>

## Dana Point Harbor Partners Drystack, LLC

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Statement of Revenue and Expenses —

Federal Income Tax Basis

Year Ended December 31, 2021

### Revenues

Rental	\$ 2,050,329
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### Expenses

Payroll and related	414,753
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Rent	287,556
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Other operating expenses	162,393
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Facilities	141,924
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Management fees	86,708
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General and administrative	42,015
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Property taxes and insurance	23,780
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Depreciation and amortization	<u>15,500</u>
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Total Expenses	<u>1,174,629</u>
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Excess of revenues over expenses	<u><u>\$ 875,700</u></u>
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## Dana Point Harbor Partners Drystack, LLC

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Statement of Changes in Members' Equity —

Federal Income Tax Basis

Year Ended December 31, 2021

<b>Members' equity – January 1, 2021</b>	\$ 263,411
Distributions to members	(487,155)
Excess of revenues over expenses	<u>875,700</u>
<b>Members' equity – December 31, 2021</b>	<u><u>\$ 651,956</u></u>

## Dana Point Harbor Partners Drystack, LLC

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Statement of Cash Flows —  
Federal Income Tax Basis  
Year Ended December 31, 2021

### Cash Flows From Operating Activities

Excess of revenues over expenses	\$ 875,700
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:	
Depreciation	15,500
Change in assets and liabilities:	
Accounts receivable	(4,159)
Accounts payable	(145,436)
Accrued liabilities	11,858
Tenant deposits	(1,400)
Net cash provided by operating activities	<u>752,063</u>

### Cash Flows From Investing Activities

Additions to development and improvements	<u>(58,027)</u>
Net cash used in investing activities	<u>(58,027)</u>

### Cash Flows From Financing Activities

Distributions to members	<u>(487,155)</u>
Net cash used in financing activities	<u>(487,155)</u>

**Net increase in cash** 206,881

**Cash, beginning of year** 217,588

**Cash, ending of year** \$ 424,469

# Dana Point Harbor Partners Drystack, LLC

Notes to Financial Statements — Federal Income Tax Basis  
December 31, 2021

## 1. Nature of Operations

Dana Point Harbor Partners Drystack, LLC (“DPHP Drystack” or the “Company”), a California limited liability company, was formed on July 17, 2018 (the “formation date”). The primary purpose of the Company is to redevelop the dry storage and launch ramp areas of a component of the Dana Point Harbor, described as the drystack and day boater area, in the city of Dana Point, California (the “Property”).

Pursuant to the Operating Agreement (the “Op Agreement”), the term of the Company commences on the formation date and shall continue until terminated according to the provisions of the Op Agreement.

The Company commenced operations on October 29, 2018 upon entering into a 66-year ground lease with the County of Orange, California, for the Property.

The Company is wholly owned by the following members (collectively, the “Members”):

- Burnham-Ward Properties, LLC (“BWP”) owns 33 1/3% (100 units)
- Bellwether Marine Development, LLC (“Bellwether”) owns 33 1/3% (100 units)
- R.D. Olson Investments II, LLC (“R.D. Olson”) owns 33 1/3% (100 units)

The three members and their responsibilities are as follows:

Bellwether is the Managing Member (“Manager”). Bellwether and certain affiliated entities are responsible for day-to-day operations of the dry storage areas, day-boat parking, launch ramp areas and direct lease activities, as well as planning and facilitation of improvements.

BWP provides payments and reimbursements for compliance costs and ongoing development.

R.D. Olson has deferred management decisions to Bellwether Financial Group personnel.

### **Management**

The description of the Company’s Op Agreement contained in these financial statements provides only general information. Refer to the Op Agreement for a more complete description of the provisions.

## 2. Summary of Significant Accounting Policies

### **Basis of Presentation**

The financial statements have been prepared on the accrual basis of accounting used for federal income tax purposes (“FITB”), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (“GAAP”). Certain presentations and the timing of the recognition of certain revenues and expenses in the accompanying financial statements – federal income tax basis differ from what would be required under GAAP. The primary differences, as applicable, are as follows:

- For FITB, rental income under operating leases is recognized as rentals become due, rather than on a straight-line basis over lease term in accordance with ASC 840, “Leases,” as required by GAAP.
- For FITB, the specific charge-off method is utilized to deduct bad debt expenses related to accounts receivable and is based on when a receivable is deemed uncollectible. As such, accounts receivable are carried at cost rather than at the amount expected to be collected. Under GAAP, an allowance for doubtful accounts is established when management believes collection of an account receivable is no longer probable.

## **Dana Point Harbor Partners Drystack, LLC**

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Notes to Financial Statements — Federal Income Tax Basis

December 31, 2021

- For FITB, depreciation of certain leasehold improvements is computed using the methods allowable for income tax purposes, instead of the estimated useful lives of individual assets as required by GAAP.
- For FITB, permanent declines in and, subsequently, realized losses on long-lived assets are recorded when the long-lived assets are abandoned or upon disposition of the long-lived assets. Under GAAP, such losses are provided when the assets are deemed impaired.
- Under GAAP, in accordance with ASC 740, "Income Taxes," the Company would be required to evaluate its uncertain tax positions and recognize liability for each uncertain tax position. This evaluation is not required for FITB.

### **Use of Accounting Estimates**

The preparation of financial statements in conformity with FITB requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of commitments and contingencies. Actual results could materially differ from those estimates.

### **Concentrations of Credit Risk**

Financial instruments, which potentially expose the Company to a concentration of credit risk, consist primarily of cash. Cash is maintained at financial institutions and, at times, the balances may exceed federally insured limits. The Company has never experienced any losses related to these balances.

### **General Risks**

The Company's operations and markets are affected by local and regional factors such as the respective economies, demographic demand for dry storage and dry stack facilities, population age, governmental rules and regulations, and general economic trends.

### **Accounts Receivable**

Accounts receivable primarily consist of receivables from tenants for rent and other charges, if applicable, recorded according to the terms of their respective leases. Uncollectable receivables are written off directly to bad debt expense when substantially all collection efforts have been exhausted.

### **Development and Improvements**

On October 29, 2018, the Company entered into an agreement with the County of Orange, California to lease property located in the City of Dana Point for 66 years. Under the terms of the agreement, the Company is required to redevelop and renovate the property. All improvements are accounted for as assets of the Company.

Development and improvements are carried at depreciated cost. Depreciation is computed using income tax methods. The cost of maintenance and repairs is charged to income as incurred; significant renewals or betterments are capitalized.

### **Revenue Recognition**

Revenue is recognized when it is due.

## Dana Point Harbor Partners Drystack, LLC

Notes to Financial Statements — Federal Income Tax Basis  
December 31, 2021

### Income Taxes

The Company is organized as a limited liability company and is treated as a partnership for federal and state income tax purposes. Accordingly, the Company does not provide for federal and state income taxes. The members are responsible for reporting their allocable share of the Company's income, gains, deductions, losses and credits on their respective tax returns.

Management believes that the Company has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Tax returns filed from inception of the Company to December 31, 2021 are subject to examination by federal and state tax authorities.

### 3. Development and Improvements, net

At December 31, 2021, development and improvements, net consist of the following:

Leasehold improvements	15,500
Less: accumulated depreciation	<u>(15,500)</u>
	—
Construction in progress	<u>397,522</u>
Total	<u>\$ 397,522</u>

Depreciation expense for the year ended December 31, 2021 was \$15,500.

### 4. Members' Equity

As of December 31, 2021, the Members have made the following contributions to the Company:

- BWP: \$583,333
- Bellwether: \$583,333
- R.D. Olson: \$583,333

In accordance with the Op Agreement, net cash flow, if any, shall be distributed to the Members quarterly, in proportion to their respective ownership interests. Further, at a minimum, the Company shall distribute to each Member an amount equal to 25% of the Company's taxable income multiplied by the sum of the maximum federal and state of California income tax rate in effect attributed to each Member on each of April, June, September. However, the Company shall make no distributions to the Members if after giving effect to the distribution, all liabilities of the Company, other than liability to the Members on account of the capital contributions, would exceed the fair value of the Company's assets. During the year ended December 31, 2021, \$487,155 in distributions were made to the Company's members.

In accordance with the Op Agreement, profits and losses with respect to any year shall be allocated to the Members, after giving effect to the special allocations, as defined, and subject to the loss limitation as follows:

#### **Profits**

First to the Members to the extent of the amount by which the cumulative losses allocated to the Members for all prior allocation periods exceeds the cumulative profits previously allocated to them, then to the Members in accordance with their respective percentage interest.

## **Dana Point Harbor Partners Drystack, LLC**

Notes to Financial Statements — Federal Income Tax Basis  
December 31, 2021

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### **Losses**

First to the Members to the extent of the amount by which the cumulative profits allocated to the Members for all prior allocation periods exceeds the cumulative losses previously allocated to them, then to the Members in accordance with their respective percentage interest.

### **Loss Limitation**

In accordance with the Op Agreement, losses allocated shall not exceed the maximum amount of losses that can be allocated without causing any Member to have an adjusted capital account deficit at the end of any fiscal year. In the event some, but not all, of the Members would have an adjusted capital account deficit as a consequence of an allocation of losses, the losses not allocable to any Member as a result of such limitation shall be allocated to the other Members in accordance with the positive balances in their respective capital accounts.

## **5. Related Party Transactions**

In accordance with the Op Agreement, the following fees are payable to the Manager:

### **Management Fees**

The Manager may charge management fees for the day-to-day management of the Property, as approved in the budget based on 4% of gross receipts, as defined. For the year ended December 31, 2021, the Company incurred \$80,933 in management fees, which are included in management fees in the accompanying statement of revenues and expenses – federal income tax basis. As of December 31, 2021, no amounts were payable to the Manager.

In addition, if the Manager hires a third-party operator for the operation of the Property shall be paid an asset management fee of 4% of the net operating income, as defined. For the year ended December 31, 2021, the Company incurred \$5,775 in asset management fees, which are included in management fees in the accompanying statement of revenues and expenses – federal income tax basis.

### **Developer Fees**

The Manager shall be entitled to a 4% development fee based upon the approved budget with such fee to be charged at the time of construction as such costs are incurred. For the year ended December 31, 2021, the Company incurred no development fees.

## **6. Commitments and Contingencies**

### **Leasing Arrangement**

The Company leases the property in the City of Dana Point from the County of Orange, California under a noncancelable operating lease that expires in 2084. The lease generally requires the Company to pay property taxes, insurance, normal maintenance, other operating costs of the property, and annual rental escalations. In addition, the lease requires contingent rent payments based upon a percentage of the applicable gross receipts. The amounts of future minimum lease payments do not reflect any contingent rental payments or potential adjustments for Consumer Price Index changes, as defined, and, accordingly, actual future lease payments may be higher. Minimum lease rent for the year ended December 31, 2021 was \$40,000 and contingent rent based on gross receipts was \$247,556.

## Dana Point Harbor Partners Drystack, LLC

Notes to Financial Statements — Federal Income Tax Basis  
December 31, 2021

The lease requires minimum annual payments as follows:

Years Ending December 31,	
2022	\$ 40,000
2023	40,000
2024	40,000
2025	40,000
2026	40,000
Thereafter	2,313,333
Total	<u>\$ 2,513,333</u>

### Management Agreements

The Company has engaged its Manager under an initial 5 year agreement commencing April 2019 to manage the day-to-day operations of the Company. After the initial term, the agreement will automatically renew successive 5 year periods unless cancelled at least 12 months in advance but no more than 15 months in advance, as defined.

### Contingencies

The Company's operations are subject to a variety of state and local regulations. Failure to comply with one or more regulations could result in fines, restrictions on its operations, or losses of permits that could result in the Company ceasing operations; however, the Company believes that it is in compliance with applicable local and state regulations as of December 31, 2021.

The Company is subject to certain claims and complaints that arise during the ordinary course of business. The Company is not aware of any claims or complaints that would have a significant effect on the financial position or results of operations of the Company if disposed of unfavorably.

### Indemnification

The Company has indemnified the Manager for all expenses, losses, liabilities or otherwise that the Company actually and reasonably incurs arising out of or relating to the conduct of the Company's activities, unless the loss is the result of fraud, deceit, gross negligence, reckless actions.

## 7. Subsequent Events

The Partnership has evaluated subsequent events from the date of the financial statements through March 25, 2022, the date on which the financial statements were available to be issued, and determined that there are no items to disclose.

**SUPPLEMENTAL SCHEDULE**

## Dana Point Harbor Partners Drystack, LLC

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Supplemental Statement of Gross Receipts  
Year Ended December 31, 2021

### Business Categories

Boat Slips, Anchorages, Moorings, Dockside Gear Lockers	\$	—
Boat-out or Boat Repair, Including Maintenance, Repair, Painting		—
Dry Stack Storage or Mast-up Storage		—
Gross Receipts from operation of excursion, sightseeing		—
Gross Receipts from Overnight Trailer Storage		1,195,469
Gross Receipts from parking operations		—
Installation or Operation of Coin-Operated Vending or Service		11,953
Launch and Retrieval of Small Boats		—
Lease Use or Occupancy for an Office (Including Boat Brokerage)		308,594
Lease, Use of Occupancy of the Boat Repair Shop		—
Miscellaneous Boater Services		—
Payments received from a Sublessee for the Cost of such Sublease		—
Rental of Boats for charter boats, bareboat charters and sport fishing		10,800
Rental of Boats or Other Commercial Boating Activities		427,849
Rental of Boats or Other Commercial Boating Activities; Misc. boater svc		20,374
Security Deposits paid by a Sublessee to a Lessee to be held		17,569
Service Enterprises, cable television, internet, satellite or other antennae		67,660
The sale of marine insurance in conjunction with boat sales/boat brokerage		—
Use or Occupancy of space used for display of new or used boats		—
		<hr/>
Total gross receipts	\$	<u>2,060,268</u>