



# DANA POINT HARBOR

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

Consolidated Financial Statements -  
Federal Income Tax Basis

As of December 31, 2020 and 2019 and  
for the Year Ended December 31, 2020 and  
for the period from October 29, 2018  
(Inception) to December 31, 2019

# Dana Point Harbor Partners Drystack, LLC

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## Independent Auditor's Report

### Members

Dana Point Harbor Partners Drystack, LLC  
Newport Beach, California

### *Opinion*

We have audited the consolidated financial statements of Dana Point Harbor Partners Drystack, LLC (the "Company"), which comprise the consolidated statements of assets, liabilities and members' equity- federal income tax basis as of December 31, 2020 and 2019, and the related consolidated statements of revenues and expenses - federal income tax basis, changes in members' equity - federal income tax basis, and cash flows - federal income tax basis for the year ended December 31, 2020 and for the period from October 29, 2018 (Inception) to December 31, 2019, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the assets, liabilities and members' equity of the Company as of December 31, 2020 and 2019, and its revenues and expenses, changes in members' equity and its cash flows for the year ended December 31, 2020 and for the period from October 29, 2018 (Inception) to December 31, 2019, in accordance with the basis of accounting the Company uses for federal income tax purposes as described in Note 2.

### *Basis for Opinion*

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

### *Emphasis of Matter Regarding COVID-19 and CARES Act*

As more fully described in Note 2 to the consolidated financial statements, the Company was materially impacted by the outbreak of the novel coronavirus ("COVID-19"), which was declared a global pandemic by the World Health Organization in March 2020. Also, on March 27, 2020, the President signed into law the Coronavirus Aid, Relief, and Economic Security ("CARES") Act to provide certain relief as a result of the COVID-19 outbreak. Our opinion is not modified with respect to these matters.

### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the accrual basis of accounting the Company uses for federal income tax purposes; this includes determining that this basis of accounting is an acceptable basis for the preparation of the consolidated financial statements in the circumstances 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.



In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued or available to be issued.

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

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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.

### ***Other Matters***

#### ***Supplemental information***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information presented in this report is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and



other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

***Restriction on Use***

This report is intended solely for the information and use of the Members of the Company and the County of Orange and is not intended to be and should not be used by anyone other than these specified parties.

**BDO USA, LLP**

Costa Mesa, California  
March 31, 2021

**Consolidated Financial Statements - Federal Income Tax Basis**

# Dana Point Harbor Partners Drystack, LLC

## Consolidated Statements of Assets, Liabilities and Members' Equity - Federal Income Tax Basis

<i>As of December 31,</i>	2020	2019
<b>Assets</b>		
Development and improvements	\$ 354,995	\$ 307,457
Cash	217,588	612,399
Accounts receivable	6,724	28,367
Deposits	60,000	60,000
<b>Total assets</b>	<b>\$ 639,307</b>	<b>\$ 1,008,223</b>
<b>Liabilities and Members' Equity</b>		
Accounts payable	\$ 243,570	\$ 75,820
Accrued liabilities	13,650	46,305
Other liabilities	118,676	124,045
<b>Total liabilities</b>	<b>375,896</b>	<b>246,170</b>
<b>Commitments and Contingencies (Note 6)</b>		
Members' equity	263,411	762,053
<b>Total liabilities and members' equity</b>	<b>\$ 639,307</b>	<b>\$ 1,008,223</b>

*See accompanying notes to the consolidated financial statements.*

**Dana Point Harbor Partners Drystack, LLC**  
**Consolidated Statements of Revenues and Expenses -**  
**Federal Income Tax Basis**

	For the year ended December 31, 2020	For the period from October 29, 2018 (Inception) to December 31, 2019
<b>Revenues:</b>		
Rental	\$ 1,757,230	\$ 1,660,158
<b>Total revenues</b>	<b>1,757,230</b>	<b>1,660,158</b>
<b>Expenses:</b>		
General and administrative	35,932	438,089
Marketing and advertising	-	2,420
Payroll and related	454,622	606,442
Facilities	510,060	444,051
Management fees	1,352,642	106,571
Property taxes and insurance	16,080	68,331
Other operating expenses	635,997	232,044
Other	539	157
<b>Total expenses</b>	<b>3,005,872</b>	<b>1,898,105</b>
<b>Excess of expenses over revenues</b>	<b>\$ (1,248,642)</b>	<b>\$ (237,947)</b>

*See accompanying notes to the consolidated financial statements.*



**Dana Point Harbor Partners Drystack, LLC**  
**Consolidated Statements of Changes in Members' Equity -**  
**Federal Income Tax Basis**

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	Total Members' Equity
Members' equity - October 29, 2018 (Inception)	\$ -
Contributions from members	1,000,000
Excess of expenses over revenues	(237,947)
Members' equity - December 31, 2019	762,053
Contributions from members	750,000
Excess of expenses over revenues	(1,248,642)
Members' equity - December 31, 2020	\$ 263,411

*See accompanying notes to the consolidated financial statements.*

## Dana Point Harbor Partners Drystack, LLC

### Consolidated Statements of Cash Flows - Federal Income Tax Basis

	For the year ended December 31, 2020	For the period from October 29, 2018 (Inception) to December 31, 2019
<b>Cash flows from operating activities</b>		
Excess of expenses over revenues	\$ (1,248,642)	\$ (237,947)
Adjustments to reconcile excess of expenses over revenues to net cash used in operating activities:		
Changes in assets and liabilities:		
Accounts receivable	21,644	(28,367)
Deposits	(5,369)	(60,000)
Accounts payable and accrued liabilities	135,095	122,125
Other liabilities	-	124,045
<b>Net cash used in operating activities</b>	<b>(1,097,272)</b>	<b>(80,144)</b>
<b>Cash flows from investing activities</b>		
Additions to development and improvements	(47,539)	(307,457)
<b>Net cash used in investing activities</b>	<b>(47,539)</b>	<b>(307,457)</b>
<b>Cash flows from financing activities</b>		
Contributions from members	750,000	1,000,000
<b>Net cash provided by financing activities</b>	<b>750,000</b>	<b>1,000,000</b>
<b>Net (decrease) increase in cash</b>	<b>(394,811)</b>	<b>612,399</b>
Cash, beginning of period	612,399	-
<b>Cash, end of period</b>	<b>\$ 217,588</b>	<b>\$ 612,399</b>

*See accompanying notes to the consolidated financial statements.*

# Dana Point Harbor Partners Drystack, LLC

## Notes to the Consolidated Financial Statements

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### 1. Organization and 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 dated October 17, 2018 (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 (“Inception”) 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”):

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

The three members and their responsibilities are as follows:

Bellwether Financial Group is the Managing Member, 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. Bellport Group Inc., an affiliate of Bellwether Financial Group, is the Manager of the Company (“Manager”).

Burnham Ward Properties provides payments and reimbursements for compliance costs and ongoing development.

R.D. Olson Development has equal ownership to Bellwether Financial Group and Burnham Ward Properties, and have deferred management decisions to Bellwether Financial Group personnel.

#### ***Management***

The description of the Company’s Op Agreement contained in these consolidated 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

#### ***Principles of Consolidation***

The accompanying consolidated financial statements - federal income tax basis include the accounts of the dry storage and dry stack operations. All significant intercompany transactions and balances have been eliminated in consolidation.

# Dana Point Harbor Partners Drystack, LLC

## Notes to the Consolidated Financial Statements

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### ***Basis of Presentation***

The consolidated 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 consolidated 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.
- For FITB, depreciation of certain property and equipment 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 consolidated 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.

The property leased by the Company as of December 31, 2020 and 2019 is located in Dana Point Harbor, California; accordingly, there is a geographic concentration of risk subject to fluctuation in the local economy.

### ***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.

# Dana Point Harbor Partners Drystack, LLC

## Notes to the Consolidated Financial Statements

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### ***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.

### ***Income Taxes***

The Company is organized as a limited liability company and is treated as a Company for deferral 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, 2020 are subject to examination by federal and state tax authorities. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in other expense. For the period from Inception to December 31, 2020, no interest or penalties were recorded in the accompanying consolidated financial statements.

### ***COVID-19***

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency due to a novel strain of coronavirus ("COVID-19"). In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The Company's operations were materially impacted as it depends significantly on the demand for the Company's services. As such, a significant continued disruption in the Company's operations may materially impact revenues and cash flows from operations. The Company continues to closely monitor the impact of COVID-19 on its operations.

### ***CARES Act***

The President has signed into law the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") as well as others that have provided various business tax incentives to taxpayers, certain provisions related to eligible providers and other economic stimulus. The Company will continue to evaluate and monitor all legislation to determine the ultimate impact, if any, to the Company.

# Dana Point Harbor Partners Drystack, LLC

## Notes to the Consolidated Financial Statements

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### 3. Development and Improvements, net

At December 31, 2020 and 2019, development and improvements, net consist of the following:

<i>December 31,</i>	<b>2020</b>	<b>2019</b>
Construction in progress	\$ 354,995	\$ 307,457
	<b>\$ 354,995</b>	<b>\$ 307,457</b>

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As of December 31, 2020, no improvements have been placed in service and no depreciation has been recognized.

### 4. Members' Equity

As of December 31, 2020, the Members have contributed the following cash contributions to the Company:

- Burnham-Ward Properties, LLC ("BWP") \$583,333
- Bellwether Marine Development, LLC ("Bellwether") \$583,333
- R.D. Olson Investments II, LLC ("RD 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 percentage interests. Further, at a minimum, the Company shall distribute to each Member an amount equal to twenty-five percent (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. As of December 31, 2020 and 2019, no distributions have been 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.

#### **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.

# Dana Point Harbor Partners Drystack, LLC

## Notes to the Consolidated Financial Statements

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### *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 such Member's capital accounts.

## **5. Related Party Transactions**

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

### *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, 2020 and for the period from Inception to December 31, 2019, the Company incurred \$70,176 and \$64,967 in management fees, respectively, which are included in management fees in the accompanying consolidated statements of revenues and expenses - federal income tax basis. As of December 31, 2020 and 2019, \$0 and \$4,290, respectively, were payable to the Manager and are included in the accompanying consolidated statements of assets, liabilities and members' equity - federal income tax basis.

In addition, if the Manager hires a third-party operator for the operation of the Property shall be paid an asset management fee of four percent (4%) of the net operating income, as defined. For the year ended December 31, 2020 and for the period from Inception to December 31, 2019, the Company incurred \$32,466 and \$41,604 in asset management fees, which are included in management fees in the accompanying consolidated statements of revenues and expenses - federal income tax basis.

### *Developer Fees*

The Manager shall be entitled to a four percent (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, 2020 and for the period from Inception to December 31, 2019, 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, 2020 and for the period from Inception to December 31, 2019 was \$40,000 and \$30,000, respectively and contingent rent based on gross receipts was \$206,634 and \$222,094, respectively.

# Dana Point Harbor Partners Drystack, LLC

## Notes to the Consolidated Financial Statements

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The lease requires minimum annual payments as follows:

*Years ending December 31,*

2021	\$	40,000
2022		40,000
2023		40,000
2024		40,000
2025		40,000
Thereafter		2,353,333
	\$	2,553,333

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### ***Management Agreement***

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, 2020.

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 consolidated financial position or results of operations of the Company if disposed of unfavorably.

In December 2020, the Company entered into a settlement arrangement with a previous manager for \$1.2 million. Such amount was paid and included in management fees on the consolidated statements of revenue and expenses for the year ended December 31, 2020.

### ***Indemnification***

The Company has indemnified the Managers 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 Company has evaluated subsequent events from the date of the consolidated financial statements through March 31, 2021, the date on which the consolidated financial statements were available to be issued, and determined that there are no items to disclose.



## Supplemental Schedule

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## Dana Point Harbor Partners Drystack, LLC

### Consolidated Statements of Gross Receipts

<i>Business Categories</i>	2020	2019
Boat Slips, Anchorages, Moorings, Dockside Gear Lockers	\$ -	\$ 1,660
Boat-out or Boat Repair, Including Maintenance, Repair, Painting	-	2,205
Dry Stack Storage or Mast-up Storage	-	-
Gross Receipts from operation of excursion, sightseeing	-	-
Gross Receipts from Overnight Trailer Storage	1,220,786	1,181,462
Gross Receipts from parking operations	-	-
Installation or Operation of Coin-Operated Vending or Service	16,156	16,506
Launch and Retrieval of Small Boats	-	27,790
Lease Use or Occupancy for an Office (Including Boat Brokerage)	-	-
Lease, Use of Occupancy of the Boat Repair Shop	-	-
Miscellaneous Boater Services	-	1,765
Payments received from a Sublessee for the Cost of such Sublease	-	3,004
Rental of Boats for charter boats, bareboat charters and sport fishing	7,200	1,480
Rental of Boats or Other Commercial Boating Activities	423,576	257,598
Rental of Boats or Other Commercial Boating Activities; Misc. boater svc	17,745	10,776
Security Deposits paid by a Sublessee to a Lessee to be held	32,495	31,233
Service Enterprises, cable television, internet, satellite or other antennae	65,696	84,127
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	-	-
<b>Total gross receipts</b>	<b>\$ 1,783,654</b>	<b>\$ 1,619,606</b>

*See accompanying notes to the consolidated financial statements and independent auditor's report.*