

QUONSET DEVELOPMENT CORPORATION
(A Component Unit of the State of Rhode Island)

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

JUNE 30, 2021

QUONSET DEVELOPMENT CORPORATION
(A Component Unit of the State of Rhode Island)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Quonset Development Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Quonset Development Corporation (a component unit of the State of Rhode Island) (the "Corporation"), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Corporation'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 audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 respective financial position of Quonset Development Corporation, as of June 30, 2021, and the respective changes in net position and cash flows thereof for the years then ended 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 4-9, the schedule of the Corporation's proportionate share of the net pension liability on Page 35, the schedule of the Corporation's contributions on Page 36 and the notes to the required supplementary information on Page 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the 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, economic, 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Quonset Development Corporation's basic financial statements. The schedule of travel and entertainment expenses on Page 38 and the State of Rhode Island required format on Pages 41-45 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards on Page 39 is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedule of travel and entertainment expenses, the State of Rhode Island required format and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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 schedule of travel and entertainment expenses, the State of Rhode Island required format and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2021 on our consideration of Quonset Development Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Quonset Development Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Quonset Development Corporation's internal control over financial reporting and compliance.

Marcum LLP

Providence, RI
September 30, 2021

QUONSET DEVELOPMENT CORPORATION

(A Component Unit of the State of Rhode Island)

Management's Discussion and Analysis (Unaudited)

June 30, 2021

As management of the Quonset Development Corporation (the "Corporation"), we offer readers of the Corporation's financial statements this narrative overview and analysis of the financial activities of the Corporation as of and for the fiscal years ending June 30, 2021 and June 30, 2020. This information should be read in conjunction with the Corporation's financial statements.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Corporation's basic financial statements.

The Corporation is a quasi-state agency, responsible for the development and management of the Quonset Business Park. It was created by the Rhode Island General Assembly on July 1, 2004 (RIGL 42-64.10) and became effective through a transfer of powers on January 1, 2005.

The Corporation engages only in business-type activities, that is, activities that are financed in whole or in part by charges to external parties for goods and services. As a result, the Corporation's basic financial statements include the statement of net position, the statement of revenues, expenses and changes in net position, the statement of cash flows and the notes to the financial statements. These basic financial statements are designed to provide readers with a broad overview of the Corporation's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the Corporation's assets and deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between the two amounts as net position. Over time, increases or decreases in the Corporation's net position may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating. You might also need to consider other non-financial factors when evaluating the Corporation's financial position. The statement of revenues, expenses and changes in net position presents information on how the Corporation's net position changed during the year.

All assets and deferred outflows of resources, liabilities and deferred inflows of resources, and changes in net position are reported, using the accrual basis of accounting for governmental agencies, as soon as the underlying event giving rise to the asset or liability and resulting change in net position occurs, regardless of the timing of when the cash is received or paid. Consequently, certain revenues and expenses reported in the statement of revenues, expenses and changes in net position will result in cash flows in future periods.

QUONSET DEVELOPMENT CORPORATION

(A Component Unit of the State of Rhode Island)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2021

Overview of the Financial Statements - Continued

Land use at the Quonset Business Park is governed by a Master Land Use and Development Plan adopted by the QDC Board on September 17, 2019. This document serves as the general guide for the continuing development of the site and related infrastructure improvements. QDC's development goals are:

- Create additional jobs
- Stimulate private sector investment
- Create additional tax base

Investing in infrastructure is the foundation for stimulating substantial private investment within the Park. Federal and State Government investment has totaled \$700 million since 1980. Private investment totaled approximately \$1.2 billion since 2005. The investment since 1980 has been more than \$2 billion. This infrastructure investment has been directed to multiple projects including buildings, demolition, rail improvements, road construction, utility upgrades, sign installation, bulkhead replacement, environmental clean-up, and purchase of a mobile crane for the port. This investment in infrastructure will provide the platform for continued development. The Quonset Business Park currently hosts more than 200 diversified companies with over 12,200 employees.

The Corporation aggressively pursues all Federal and State grants available. These grants include, but are not limited to EDA (Economic Development Administration) grants, Department of Transportation grants, and DHS Port Security grants.

In FY 2016, the Corporation identified a need to rehabilitate Pier 2 at the Port of Davisville. The multi-year project will total approximately \$83.1M. A General Obligation bond from the State of RI was approved by the voters in the amount of \$50M for this project, and State also has allocated \$10M in RICAP funds towards the project. An additional \$3.1M in RICAP funds will be included in the proposed FY 2023 State of RI budget. The Corporation issued a revenue bond in FY 2020 in the amount of \$14M and the remaining balance of \$6M will be funded by the Corporation.

Pursuant to the Corporation's by-laws, the Corporation's Board of Directors has dictated that all monies generated by excess operating surplus also be reserved for all unfunded capital needs.

QUONSET DEVELOPMENT CORPORATION
(A Component Unit of the State of Rhode Island)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2021

Overview of the Financial Statements - Continued

Capital Projects started and/or completed in this fiscal year included:

Land Site Development	\$ 1,285,450
Water System Upgrades	333,356
MARAD Grant - Pier 1	55,128
Freight Rail Project	148,388
Port of Davisville - Pier 2 Improvements	1,148,855
Allen Harbor Dredging	67,404
At Grade Rail Crossings (DOT Grant)	<u>141,910</u>
	<u>\$ 3,180,491</u>

The corporation is also responsible for managing the property associated with the Quonset State Airport on the behalf of the Rhode Island Airport Corporation. This includes approximately 55 acres of property located outside the operating boundary of the airfield designated as "revenue generating properties". The Corporation manages the leasing associated with this property and transfers the associated revenue, less a management fee, to the Airport Corporation. See Footnote 6 for a summary of capital assets.

Financial Highlights

- Total assets were \$336,100,559 at June 30, 2021 and \$299,278,845 at June 30, 2020. Of these total assets, \$302,887,120 and \$267,243,659, respectively, are considered capital assets.
- Total liabilities were \$54,743,271 at June 30, 2021 and \$46,261,864 at June 30, 2020. Of those total liabilities, \$29,811,229 and \$27,181,588 respectively, are long-term liabilities.

QUONSET DEVELOPMENT CORPORATION
(A Component Unit of the State of Rhode Island)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2021

Financial Highlights - Continued

- Total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources (net position) by \$281,234,251 at June 30, 2021 and \$252,856,469 at June 30, 2020.
- The Corporation's major source of revenues resulted in charges for services for rentals and fees in the amount of \$13,165,913 for the year ended June 30, 2021, and \$13,530,693 for year ended June 30, 2020.
- Income (loss) before contributed capital and transfers was (\$324,606) for the year ended June 30, 2021 and \$2,325,772 for the year ended June 30, 2020.
- Depreciation and amortization expense were \$5,126,056 for the year ended June 30, 2021, and \$5,274,256 for the year ended June 30, 2020.
- EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) was \$7,945,658 for the year ended June 30, 2021 and \$8,316,356 for the year ended June 30, 2020.

Summary of Operations and Changes in Net Position

	<u>2021</u>	<u>2020</u>
Operating Revenues	\$ 18,328,581	\$ 17,207,435
General Expenses	<u>(10,382,923)</u>	<u>(8,891,079)</u>
Operating Income (Before Depreciation)	7,945,658	8,316,356
Depreciation Expense	<u>(5,126,056)</u>	<u>(5,274,256)</u>
Operating Income	2,819,602	3,042,100
Non-Operating Expenses, Net	<u>(3,144,208)</u>	<u>(716,328)</u>
Income/(Loss) Before Contributed Capital and Transfers	(324,606)	2,325,772
Transfer to State of Rhode Island	--	(1,200,000)
Contributed Capital	<u>28,702,388</u>	<u>32,038,929</u>
Change in Net Position	<u>\$ 28,377,782</u>	<u>\$ 33,164,701</u>

QUONSET DEVELOPMENT CORPORATION
(A Component Unit of the State of Rhode Island)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2021

Summary of Major Operating Expenses

	<u>2021</u>	<u>2020</u>
Personnel Services	\$ 4,882,541	\$ 4,279,490
Contractual Services	1,073,404	793,978
Utility Department Services	609,485	694,655
Other Expenses	3,817,493	3,122,956
Depreciation and Amortization	<u>5,126,056</u>	<u>5,274,256</u>
 Total Operating Expenses	 <u>\$ 15,508,979</u>	 <u>\$ 14,165,335</u>

Summary of Statement of Net Position

	<u>2021</u>	<u>2020</u>
Current Assets	\$ 22,940,307	\$ 16,710,297
Other Assets	10,273,132	15,324,889
Capital Assets, net	<u>302,887,120</u>	<u>267,243,659</u>
 Total Assets	 <u>336,100,559</u>	 <u>299,278,845</u>
Deferred Outflows of Resources:		
Deferred outflows of resources - pension related	<u>553,873</u>	<u>463,583</u>
 Total Deferred Outflows of Resources	 <u>553,873</u>	 <u>463,583</u>
Current Liabilities	24,932,042	19,080,276
Long-term Liabilities	<u>29,811,229</u>	<u>27,181,588</u>
 Total Liabilities	 <u>54,743,271</u>	 <u>46,261,864</u>
Pension Deferred Inflows of Resources:		
Deferred inflows of resources - pension related	<u>676,910</u>	<u>624,095</u>
 Total Deferred Inflows of Resources	 <u>676,910</u>	 <u>624,095</u>
 Total Net Position	 <u>\$ 281,234,251</u>	 <u>\$252,856,469</u>

QUONSET DEVELOPMENT CORPORATION
(A Component Unit of the State of Rhode Island)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2021

Request for Information

This financial report is designed to provide a general overview of the Corporation's finances for all those interested in the Corporation's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Finance Director, Quonset Development Corporation, 95 Cripe Street, North Kingstown, Rhode Island, 02852.

QUONSET DEVELOPMENT CORPORATION
(A Component Unit of the State of Rhode Island)

STATEMENT OF NET POSITION

JUNE 30, 2021

Assets and Deferred Outflows of Resources

Current Assets

Cash and cash equivalents	\$ 738,338
Cash and cash equivalents - restricted for grant	7,002,196
Cash and cash equivalents - restricted for municipal services fund	1,701,146
Cash and cash equivalents - restricted for capital construction	5,000,488
Accounts receivable, state general obligation bonds	2,604,149
Accounts receivable, net	5,336,590
Due from Rhode Island Airport Corporation, current portion	235,000
Due from Rhode Island Ready	28,538
Note receivable, current portion	18,605
Prepaid expenses and other assets	<u>275,257</u>

Total Current Assets 22,940,307

Non-Current Assets

Cash and cash equivalents - restricted - cash held by bond trustee	7,970,864
Note receivable, net of current portion	40,992
Due from Rhode Island Airport Corporation, net of current portion	923,034
Net pension asset	1,338,242
Capital assets, net	<u>302,887,120</u>

Total Non-Current Assets 313,160,252

Total Assets 336,100,559

Deferred Outflows of Resources

Deferred outflows of resources - pension related	<u>553,873</u>
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Total Deferred Outflows of Resources 553,873

The accompanying notes are an integral part of these financial statements.

QUONSET DEVELOPMENT CORPORATION
(A Component Unit of the State of Rhode Island)

STATEMENT OF NET POSITION (CONTINUED)

JUNE 30, 2021

Liabilities, Deferred Inflows and Net Position

Current Liabilities

Accounts payable	\$ 5,801,445
Accrued expenses	8,485,045
Current portion of bonds payable	130,834
Current portion of loans payable	1,547,666
Deposits and unearned revenue, current portion	<u>8,967,052</u>

Total Current Liabilities 24,932,042

Non-Current Liabilities

Bonds payable, net of current portion	15,569,166
Loans payable, net of current portion	12,882,088
Deposits and unearned revenue, net of current portion	<u>1,359,975</u>

Total Non-Current Liabilities 29,811,229

Total Liabilities 54,743,271

Deferred Inflows of Resources:

Deferred inflows of resources - pension related	<u>676,910</u>
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Total Deferred Inflows of Resources 676,910

Net Position

Net investment in capital assets	280,728,230
Restricted for municipal services fund	9,532
Unrestricted	<u>496,489</u>

Total Net Position \$ 281,234,251

The accompanying notes are an integral part of these financial statements.

QUONSET DEVELOPMENT CORPORATION
(A Component Unit of the State of Rhode Island)

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEAR ENDED JUNE 30, 2021

Operating Revenues	
Charges for services:	
Rentals and fees	\$ 13,165,913
Other revenue	1,060,618
Utilities	<u>4,102,050</u>
Total Operating Revenues	<u>18,328,581</u>
Operating Expenses	
Personnel services	4,882,541
Contracted services	1,073,404
Utility department services	609,485
General expenses	3,817,493
Depreciation	<u>5,126,056</u>
Total Operating Expenses	<u>15,508,979</u>
Operating Income	<u>2,819,602</u>
Non-Operating Revenues/(Expenses)	
Loss on disposal of capital assets	(2,315,850)
Interest	(836,307)
Investment income	<u>7,949</u>
Total Non-Operating Expenses	<u>(3,144,208)</u>
Change in Net Position Before Capital Contributions	<u>(324,606)</u>
Capital Contributions	
Capital appropriations - State of Rhode Island	12,438,444
Contributions in aid of construction ("CIAC")	<u>16,263,944</u>
Total Capital Contributions	<u>28,702,388</u>
Change in Net Position	28,377,782
Net Position - Beginning of Year	<u>252,856,469</u>
Net Position - End of Year	<u>\$ 281,234,251</u>

The accompanying notes are an integral part of these financial statements.

QUONSET DEVELOPMENT CORPORATION
(A Component Unit of the State of Rhode Island)

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2021

Cash Flows from Operating Activities	
Receipts from customers	\$ 20,411,483
Receipts from grantor	899,686
Payments to suppliers	(2,308,503)
Payments to pension plan	(352,912)
Payments to employees	<u>(4,579,531)</u>
Net Cash Provided by Operating Activities	<u>14,070,223</u>
Cash Flows from Capital and Related Financing Activities	
Capital appropriation and contributions	32,480,589
Purchase of capital assets	(49,596,824)
Proceeds from sale of capital assets	8,141,656
Proceeds from debt issuance	1,858,000
Principal payments on debt obligations	(3,578,227)
Interest paid on debt obligations	<u>(836,307)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(11,531,113)</u>
Cash Flows from Investing Activities	
Collections on note receivable	15,114
Investment income	<u>7,949</u>
Net Cash Provided by Investing Activities	<u>23,063</u>
Net Increase in Cash and Equivalents	2,562,173
Cash and Equivalents - Beginning of Year	<u>19,850,859</u>
Cash and Equivalents - End of Year	<u>\$ 22,413,032</u>
Cash and Equivalents	
Cash and cash equivalents	\$ 738,338
Cash and cash equivalents - restricted for grant	7,002,196
Cash and cash equivalents - restricted for municipal services fund	1,701,146
Cash and cash equivalents - restricted for capital construction	5,000,488
Cash and cash equivalents - restricted - cash held by bond trustee	<u>7,970,864</u>
Cash and Equivalents - End of Year	<u>\$ 22,413,032</u>

The accompanying notes are an integral part of these financial statements.

QUONSET DEVELOPMENT CORPORATION
(A Component Unit of the State of Rhode Island)

STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2021

Reconciliation of Operating Income to Net Cash Provided by Operating Activities:

Operating income	\$ 2,819,602
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	5,126,056
Net pension activity	(91,499)
Changes in:	
Accounts receivable	1,427,043
Due from Rhode Island Airport Corporation	313,585
Due from Rhode Island Ready	(28,538)
Prepaid expenses and other assets	(44,566)
Accounts payable and accrued expenses	3,278,042
Deposits and unearned revenue	<u>1,270,498</u>
Net Cash Provided by Operating Activities	<u>\$ 14,070,223</u>

Supplemental Disclosure of Cash Flows Information:

During fiscal year 2021, the Corporation financed capital asset acquisitions of \$2,901,762 through the issuance of debt.

The accompanying notes are an integral part of these financial statements.

QUONSET DEVELOPMENT CORPORATION
(A Component Unit of the State of Rhode Island)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS DESCRIPTION

Quonset Development Corporation (the “Corporation”) is a quasi-state agency, established as a special purpose subsidiary of the Rhode Island Commerce Corporation (formerly the Rhode Island Economic Development Corporation), which is responsible for the development and management of the Quonset Business Park. The Corporation was created by the Rhode Island General Assembly on July 1, 2004 and became effective through a transfer of powers on January 1, 2005. The Corporation is a component unit of the State of Rhode Island. More information is available on the Corporation’s website: www.quonset.com.

The Corporation leases property for commercial, industrial, and recreational uses. The Corporation’s leasing activities consist of the rental of land and buildings located at the Quonset Business Park under both non-cancelable operating leases expiring through 2073 and operating leases with lease periods of one year or less, or which are cancelable at the option of the Corporation or the tenant. Rental revenue under operating leases is recognized based on the terms of the lease contracts, except for contingent rentals, which are recognized when the tenant reports the rental activity. The Corporation also provides water and waste disposal services to tenants and recognizes the related revenue as services are provided. For the year ended June 30, 2021, approximately 37% of rental revenues and utility and service revenues are derived from agreements with two customers. The leases for those two customers expire between 2030 and 2047.

BASIS OF PRESENTATION

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”), as prescribed by the Governmental Accounting Standards Board (“GASB”). Under the accrual basis, revenues are recorded when earned and expenses are recorded when the related liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements have been met. The Corporation has determined that it functions as a business-type activity, as defined by GASB.

The Corporation’s policies for defining operating activities in the statement of revenues and expenses are those that generally result from exchange transactions such as payments received for services and payments made for the purchase of goods and services. Certain other transactions are reported as non-operating activities. These non-operating activities include the Corporation’s operating and capital appropriations from the State of Rhode Island, loss on disposal of capital assets, net investment income, and interest expense.

QUONSET DEVELOPMENT CORPORATION
(A Component Unit of the State of Rhode Island)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (CONTINUED)

The accompanying statement of revenues and expenses demonstrates the degree to which the direct expenses of a given function are offset by revenues. Direct expenses are those that are clearly identifiable within a specific function. Operating revenues, consisting primarily of charges to tenants for rent and utility services, are generated directly from the primary activity of the Corporation. Operating expenses, including depreciation on capital assets, are the costs incurred in connection with the provision of the Corporation's primary activities and services to its customers. Revenues and expenses not meeting these definitions are classified as non-operating. Capital appropriations and contributions in aid of construction ("CIAC") are reported as non-operating.

NET POSITION

Resources are classified for accounting purposes into the following net position categories:

Net Investment in Capital Assets:

Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, repair, or improvement of those assets.

Restricted - Nonexpendable:

Net position subject to externally imposed conditions that the Corporation must maintain in perpetuity.

Restricted - Expendable:

Net position whose use is subject to externally imposed conditions that can be fulfilled by the actions of the Corporation or by the passage of time.

Unrestricted:

All other categories of net position. Unrestricted net position may be designated by the Corporation.

The Corporation has adopted a policy of generally utilizing restricted – expendable funds, when available, prior to unrestricted funds.

QUONSET DEVELOPMENT CORPORATION
(A Component Unit of the State of Rhode Island)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of highly liquid financial instruments with maturities of three months or less when purchased.

CASH HELD BY TRUSTEE

Funds held by Trustee are for ongoing construction projects from bond proceeds.

USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions about future events. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as reported amounts of revenues and expenses during the reporting period. Management evaluates the estimates and assumptions on an ongoing basis using historical experience and other factors that management believes to be reasonable under the circumstances. Adjustments to estimates and assumptions are made as facts and circumstances require. As future events and their effects cannot be determined with certainty, actual results may differ from the estimates used in preparing the accompanying financial statements. Significant estimates and assumptions are required as part of determining the value of accounts receivables, estimating depreciation and estimation of pension.

TAX STATUS

The Corporation is a component unit of the State of Rhode Island and is therefore exempt from income taxes under Section 115 of the Internal Revenue Code.

ACCOUNTS RECEIVABLE AND CONCENTRATION

Accounts receivable are periodically evaluated for collectability based on past history with customers. At June 30, 2021, approximately 78% of the Corporation's accounts receivable are due from two customers.

QUONSET DEVELOPMENT CORPORATION
(A Component Unit of the State of Rhode Island)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CAPITAL ASSETS

Real estate assets, including improvements, are generally stated at cost. Furnishings and equipment are stated at cost on the date of acquisition or, in the case of gifts, at fair value at date of donation. In accordance with the Corporation's capitalization policy, land, vehicles, equipment, computer software for internal use, and works of art and historical treasures, building and infrastructure improvements with a unit cost of \$5,000 or more are capitalized. Interest costs on debt related to capital assets are capitalized during the construction period and then depreciated over the life of the asset. Corporation capital assets, with the exception of land and construction in progress are depreciated on a straight-line basis over their estimated useful lives, which range from 5 to 50 years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

CONTRIBUTIONS IN AID OF CONSTRUCTION ("CIAC")

CIAC are additions and/or upgrades to infrastructure made by tenants that have been assigned to the Corporation for approved projects. The contributions are reported as non-operating capital contributions, and as additions to the Corporation's capital assets.

PAYMENTS IN LIEU OF TAXES ("PILOT")

On behalf of the Town of North Kingstown, Quonset Development Corporation as an agent for the State of Rhode Island collects costs associated with services provided to the tenants by the town.

COMPENSATED ABSENCES

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and the Corporation's policies. Unused vacation and sick leave are accumulated and accrued as earned.

UNEARNED REVENUE

The Corporation defers recognition of rental receipts until the period to which they relate.

GRANT REVENUE

Revenues from grants are recognized as eligibility requirements imposed by the provider are met.

QUONSET DEVELOPMENT CORPORATION
(A Component Unit of the State of Rhode Island)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RHODE ISLAND COMMERCE CORPORATION PENSION PLAN AND TRUST

For purposes of measuring the net pension liability or asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Rhode Island Commerce Corporation Pension Plan and Trust (the “Plan”) and the additions to/deductions from the Plan’s fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

RECENTLY ISSUED GOVERNMENTAL ACCOUNTING STANDARDS

The following are recently issued governmental accounting standards which may be applicable to the Corporation in future years:

GASB Statement 87 – *Leases* is effective for the Corporation’s fiscal year ending June 30, 2022. Management is in process of completing its review of the requirements of this standard and its applicability.

GASB Statement 88 – *Certain Disclosures Related to Debt, Including Borrowings and Direct Placements* is effective for the Corporation’s fiscal year ending June 30, 2022. Management is in process of completing its review of the requirements of this standard and its applicability.

GASB Statement 89 – *Accounting for Interest Costs Incurred before the End of a Construction Period* is effective for the Corporation’s fiscal year ending June 30, 2022. Management is in process of completing its review of the requirements of this standard and its applicability.

GASB Statement 91 – *Conduit Debt Obligations* is effective for the Corporation’s fiscal year ending June 30, 2023. Management has not completed its review of the requirements of this standard and its applicability.

GASB Statement 96 – *Subscription-Based Information Technology Arrangements (“SBITA”)* is effective for the Corporation’s fiscal year ending June 30, 2023. Management has not completed its review of the requirements of this standard and its applicability.

GASB Statement 97 – *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457, Deferred Compensation Plans* is effective for the Corporation’s fiscal year ending June 30, 2022. Management is in process of completing its review of the requirements of this standard and its applicability.

QUONSET DEVELOPMENT CORPORATION
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

NOTE 2 - CASH AND CASH EQUIVALENTS

The Corporation's policy is in accordance with Chapter 35-10.1 of the Rhode Island General Laws dealing with Public Finance, which states that any depository institutions holding public deposits shall insure or pledge eligible collateral equal to one hundred percent of any time deposit with maturities greater than sixty days. If any depository institution does not meet its minimum capital standards as prescribed by its federal regulator, it shall insure or pledge eligible collateral equal to one hundred percent of all public deposits. The Corporation does not have a policy for custodial credit risk associated with deposits. None of the cash deposits of the Corporation were required to be collateralized at June 30, 2021 pursuant to this statutory provision.

At June 30, 2021, the carrying amount of the Corporation's cash deposits was \$22,413,032 (which includes \$7,970,864 of cash held by the trustee for future revenue bond drawdowns). The bank balance of these funds was \$21,787,952, of which \$500,000 was covered by federal depository insurance and \$19,668,546 was either fully collateralized or covered by another source. The remaining bank balance of \$1,619,406 was uninsured and uncollateralized and held in depository institutions that exceed the minimum capital standards. The insured balances reflect guarantees from the FDIC in effect during June 30, 2021.

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are:

- a) Uncollateralized,
- b) Collateralized with securities held by the pledging financial institution, or
- c) Collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name.

NOTE 3 - ACCOUNTS RECEIVABLE, NET

At June 30, 2021, accounts receivable, including the allowance for uncollectible accounts, are as follows:

Rentals	\$ 198,612
Utilities and service	372,787
Rhode Island Air National Guard	1,009,695
Port activities	122,075
Construction - deposits	3,152,310
Grants - RIDOT	297,542
Payments in lieu of taxes	<u>196,176</u>
	5,349,197
Less: allowance for uncollectable	<u>(12,607)</u>
	<u>\$ 5,336,590</u>

QUONSET DEVELOPMENT CORPORATION
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

NOTE 4 - NOTE RECEIVABLE

At June 30, 2021, the Corporation had a note receivable in the amount of \$59,597 with a tenant, related to capital expenditures on property leased by the tenant. The note receivable is payable in monthly installments of \$1,550 that includes interest of 5% through December 2024.

NOTE 5 - DUE FROM RHODE ISLAND AIRPORT CORPORATION

The Corporation has an agreement with the Rhode Island Airport Corporation (“RIAC”) whereby each party exchanges services performed during the year as part of each respective party’s operational needs. The resulting balance for the Corporation at year-end is either a net payable or net receivable depending on the extent of services performed.

As of June 30, 2021, RIAC owes the Corporation \$1,158,034 with \$235,000 as a current asset and \$923,034 as a non-current asset, resulting from previous operating activity.

The parties have agreed that RIAC will make non-interest-bearing annual installments of \$235,000 to be applied first, to the existing balance and then to balances related to future services provided.

The amount due by the Corporation will be applied against future payments due from RIAC. Interest has not been imputed since these transactions represent an intergovernmental transaction and RIAC is not imputing interest due to lack of materiality.

QUONSET DEVELOPMENT CORPORATION
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the Corporation for the year ended June 30, 2021 is as follows:

	Estimated Lives (in years)	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets, not depreciated:					
Land		\$ 57,289,096	\$ 2,230,881	\$ 269,428	\$ 59,250,549
Construction in progress		<u>80,940,922</u>	<u>43,918,856</u>	<u>4,011,094</u>	<u>120,848,684</u>
Total capital assets, not depreciated		<u>138,230,018</u>	<u>46,149,737</u>	<u>4,280,522</u>	<u>180,099,233</u>
Capital assets, depreciated:					
Land improvements	40	44,206,906	3,227,689	--	47,434,595
Buildings and improvements	20-50	112,274,787	5,660,451	11,326,627	106,608,611
Furnishings and equipment	5-20	<u>19,635,730</u>	<u>218,109</u>	<u>36,971</u>	<u>19,816,868</u>
Total capital assets, depreciated		<u>176,117,423</u>	<u>9,106,249</u>	<u>11,363,598</u>	<u>173,860,074</u>
Total capital assets		<u>314,347,441</u>	<u>55,255,986</u>	<u>15,644,120</u>	<u>353,959,307</u>
Less: accumulated depreciation:					
Land improvements		12,615,333	1,397,759	--	14,013,092
Buildings and improvements		25,755,631	2,802,824	1,123,247	27,435,208
Furnishings and equipment		<u>8,732,818</u>	<u>925,473</u>	<u>34,404</u>	<u>9,623,887</u>
Total accumulated depreciation		<u>47,103,782</u>	<u>5,126,056</u>	<u>1,157,651</u>	<u>51,072,187</u>
Capital assets, net		<u>\$ 267,243,659</u>	<u>\$ 50,129,930</u>	<u>\$ 14,486,469</u>	<u>\$ 302,887,120</u>

NOTE 7 - DEPOSITS AND UNEARNED REVENUE

Deposits and unearned revenue consist of the following at June 30, 2021:

Deposit liabilities	\$ 8,712,251
Unearned revenue	<u>1,614,776</u>
Total deposits and unearned revenue	10,327,027
Current portion of deposits and unearned revenue	<u>8,967,052</u>
Deposits and unearned revenue, net of current portion	<u>\$ 1,359,975</u>

QUONSET DEVELOPMENT CORPORATION
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

NOTE 8 - LONG-TERM OBLIGATIONS

Long-term liabilities consist of the following at June 30, 2021:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds and loans payable:					
Revenue bond payable	\$15,700,000	\$ --	\$ --	\$15,700,000	\$ 130,834
Loans payable	<u>13,248,219</u>	<u>4,759,762</u>	<u>3,578,227</u>	<u>14,429,754</u>	<u>1,547,666</u>
Total bonds and loans payable	<u>28,948,219</u>	<u>4,759,762</u>	<u>3,578,227</u>	<u>30,129,754</u>	<u>1,678,500</u>
Other long-term liabilities:					
Deposits and unearned revenue	<u>5,904,219</u>	<u>4,422,808</u>	<u>--</u>	<u>10,327,027</u>	<u>8,967,052</u>
Total other long-term liabilities	<u>5,904,219</u>	<u>4,422,808</u>	<u>--</u>	<u>10,327,027</u>	<u>8,967,052</u>
Total long-term liabilities	<u>\$34,852,438</u>	<u>\$ 9,182,570</u>	<u>\$ 3,578,227</u>	<u>\$40,456,781</u>	<u>\$10,645,552</u>

BOND PAYABLE

On April 1, 2020, The Rhode Island Commerce Corporation issued the \$15,700,000, Quonset Development Corporation Economic Development Revenue Bonds, Series 2020 Bonds. The proceeds of the Series 2020 bonds were to further the development of the Port Facilities within the State of Rhode Island and to pay off the Series 2012 bonds. The bond requires a monthly payment of \$65,417 beginning May 2022, plus interest of 3.1% through April 2042.

QUONSET DEVELOPMENT CORPORATION
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

NOTE 8 - LONG-TERM OBLIGATIONS (CONTINUED)

BOND PAYABLE (CONTINUED)

Principal and interest payments on the bond payable for the next five years and the remaining period through maturity are as follows:

Years Ending June 30	Principal	Interest	Total
2022	\$ 130,834	\$ 83,143	\$ 213,977
2023	785,004	482,983	1,267,987
2024	785,004	461,205	1,246,209
2025	785,004	435,138	1,220,142
2026	785,004	408,211	1,193,215
2027-2031	3,925,020	2,194,894	6,119,914
2032-2036	3,925,020	1,046,062	4,971,082
2037-2041	3,925,020	421,903	4,346,923
2042	<u>654,090</u>	<u>9,544</u>	<u>663,634</u>
	<u>\$15,700,000</u>	<u>\$ 5,543,083</u>	<u>\$21,243,083</u>

LOANS PAYABLE

The Corporation entered into an agreement with Dillabur, LLC for the purchase of approximately 3.95 acres of land in June 2018. The loan is payable in monthly installments of \$76,188 that includes interest of 5% through June 2026. At June 30, 2021, the balance of this loan was \$4,037,778.

The Corporation entered into an agreement with MBQ, LLC for three office buildings at Romano Vineyard Way in September 2017. The loan was refinanced in May 2021 and is payable in monthly installments of \$18,688 that includes interest of 3.86% through April 2031. At June 30, 2021, the balance of this loan was \$1,832,536.

The Corporation entered into an agreement for the purchase of a new truck in April 2021. The loan is payable in monthly installments of \$800 that includes interest of 6.309% through April 2024. At June 30, 2021, the balance of this loan was \$37,363.

QUONSET DEVELOPMENT CORPORATION
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

NOTE 8 - LONG-TERM OBLIGATIONS (CONTINUED)

LOANS PAYABLE (CONTINUED)

The Corporation entered into an agreement with MBQ, LLC for a building at Romano Vineyard Way in June 2019. The loan is payable in monthly installments of \$36,408 that includes interest of 4.58% through June 2029. At June 30, 2021, the balance of this loan was \$2,921,841.

The Corporation entered into an agreement with MBQ, LLC for a building at Romano Vineyard Way in May 2021. The loan is payable in monthly installments of \$28,793 that includes interest of 3.86% through April 2031. At June 30, 2021, the balance of this loan was \$2,823,382.

The Corporation entered into an agreement with West Shore Quonset, LLC for a building at 935 Roger Williams Way in August 2018. The loan is payable in monthly installments of \$20,000 that includes interest of 6.38% through August 2038. At June 30, 2021, the balance of this loan was \$2,526,349.

The Corporation entered into an agreement with MBQ, LLC for a building at Romano Vineyard Way in July 2019. The loan is payable in monthly installments of \$3,125 that includes interest of 4.58% through June 2029. At June 30, 2021, the balance of this loan was \$250,505.

Principal and interest on loans payable in subsequent years are as follows:

Years Ending June 30	Principal	Interest	Total
2022	\$ 1,547,666	\$ 660,387	\$ 2,208,053
2023	1,622,562	585,490	2,208,052
2024	1,714,649	506,664	2,221,313
2025	1,774,616	423,835	2,198,451
2026	1,867,421	337,875	2,205,296
2027-2031	4,471,761	905,396	5,377,157
2032-2036	874,016	325,984	1,200,000
2037-2039	<u>557,063</u>	<u>45,853</u>	<u>602,916</u>
	<u>\$14,429,754</u>	<u>\$ 3,791,484</u>	<u>\$18,221,238</u>

Interest expense on all debt for the year ended June 30, 2021 was \$836,307.

QUONSET DEVELOPMENT CORPORATION
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

NOTE 9 - PENSION PLAN

Employees of the Corporation hired prior to January 1, 2006 are covered by a cost sharing multiple-employer defined benefit pension plan, the Rhode Island Commerce Corporation Pension and Trust (the "Plan"), administered by Rhode Island Commerce Corporation ("RICC"). Under a cost-sharing plan, pension obligations for employees of all employers are pooled and Plan assets are available to pay the benefits of the employees of any participating employer providing pension benefits through the Plan, regardless of the status of the employers' payment of its pension obligation to the Plan.

The Plan provides retirement, disability, and death benefits to Plan members and beneficiaries. Cost-of-living adjustments are provided to members and beneficiaries. The Plan assigns RICC the authority to amend benefit provisions. The actuarially determined benefits are based on 60% of average compensation and are adjusted based on length of service. The minimum length of service is one year, and employees are fully vested after 5 years of service.

The funding policy provides for contribution requirements to be established by RICC. Plan members are not required to contribute to the Plan. The employer is responsible for funding the cost of all benefits. The Corporation contributed \$352,912 for the years ended June 30, 2021, 2020 and 2019, equal to 100% of the required contributions for each year.

The Plan issues a financial report that includes financial statements and required supplementary information for the plans administered by the Plan. The report may be obtained by contacting management of RICC. This report also includes a summary of significant accounting policies and a more comprehensive description of 1) the groups of employees covered, 2) the types of benefits provided, and 3) the elements of the respective pension benefit formula.

PENSION ASSET, PENSION EXPENSE, DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

At June 30, 2021, the Corporation reported an asset of \$1,338,242 for its proportionate share of the net pension asset related to its participation in the Plan. The net pension asset was measured as of June 30, 2020 and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation date of July 1, 2019. The Corporation's proportion of the net pension asset was based on its share of contributions to the Plan for fiscal year 2020 relative to the total contributions of all participating employers for that fiscal year. At June 30, 2020 measurement date the Corporation's proportion was 59.19%.

For the year ended June 30, 2021, the Corporation recognized a pension expense of \$173,207.

QUONSET DEVELOPMENT CORPORATION
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

NOTE 9 - PENSION PLAN (CONTINUED)

PENSION ASSET, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES (CONTINUED)

Deferred Outflows of Resources

Contributions subsequent to the measurement date	\$ 352,912
Changes in assumptions	<u>200,961</u>
Total	<u>\$ 553,873</u>

Deferred Inflows of Resources

Difference between expected and actual experience	(70,705)
Difference between projected and actual earnings on Plan investments	<u>(606,205)</u>
Total	<u>\$ (676,910)</u>

The \$352,912 reported as deferred outflows of resources related to pensions resulting from the Corporation's contributions in fiscal year 2021 subsequent to the measurement date will be recognized as a change of the net pension asset in the subsequent period.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as an increase (reduction) in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2022	\$ (181,784)
2023	(193,383)
2024	(78,877)
2025	<u>(21,905)</u>
	<u>\$ (475,949)</u>

ACTUARIAL ASSUMPTIONS

The total pension asset was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.00%
Investment rate of return	6.50%

QUONSET DEVELOPMENT CORPORATION
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

NOTE 9 - PENSION PLAN (CONTINUED)

ACTUARIAL ASSUMPTIONS (CONTINUED)

Mortality rates were based on PubG-2010 above median employee/healthy annuitant (male/female) with MP-2019 generational improvements. The net pension asset was measured as of June 30, 2020, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of July 1, 2019 and adjusted through June 30, 2020.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	60.00%	9.00%
Fixed Income	40.00%	4.00%
	<u>100.00%</u>	

These return assumptions are then weighted by the target asset allocation percentage, factoring in correlation effects, to develop the overall long-term expected rate of return best-estimate on an arithmetic basis.

DISCOUNT RATE

The discount rate used to measure the total pension liability was 6.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from Plan members will be made at the current contribution rate and that contributions from the employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

QUONSET DEVELOPMENT CORPORATION
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

NOTE 9 - PENSION PLAN (CONTINUED)

SENSITIVITY OF THE NET PENSION ASSET (LIABILITY) TO CHANGES IN THE DISCOUNT RATE

The following presents the net pension asset calculated using the discount rate of 6.5 percent as well as what the net pension asset (liability) would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate.

1.0% Decrease (5.50%)	Current Discount Rate (6.50%)	1.0% Increase (7.50%)
\$ (45,426)	\$ 1,338,242	\$ 2,517,332

PENSION PLAN FIDUCIARY NET POSITION

As noted earlier, the Plan’s financial report that includes financial statements and required supplementary information for the Plan is available by requesting it from management of RICC at 315 Iron Horse Way, Providence, RI 02988. The report contains detailed information about the pension plan’s fiduciary net position.

NOTE 10 - RETIREMENT AND SAVINGS PLAN

Employees of the Corporation hired on or after January 1, 2006 participate in the Quonset Development Corporation Retirement and Savings Plan (“401a”), a discretionary contribution plan. The plan, administered by the Corporation, provides for the Corporation to make discretionary matching and/or additional contributions as approved by the Board of Directors. For fiscal year ended June 30, 2021, the Corporation contributed 4% of eligible salary and provided up to an additional 3% to the extent the employee participated in the Quonset Development Corporation Deferred Compensation Plan (“457”). The contributions for the fiscal year ended June 30, 2021 were \$145,844. All employees are eligible to participate in the Quonset Development Corporation Deferred Compensation Plan (“457”). Both the 401a and 457 plans are calendar year based.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

GRANTS

The Corporation receives significant financial assistance from federal and state agencies in the form of grants. Expenditures of funds under these programs require compliance with the grant agreements and are subject to audit. Any disallowed expenditures resulting from such audits become a liability of the Corporation. In the opinion of management, such adjustments, if any, are not expected to materially affect the financial condition of the Corporation.

QUONSET DEVELOPMENT CORPORATION
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

NOTE 11 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

SUPERFUND SITE REDEVELOPMENT PROGRAM

The Corporation's capital assets are located at the former Davisville Naval Construction Battalion Center ("NCBC"), which has been named a Superfund site by the United States Environmental Protection Agency ("EPA"). From 1951 to 1994, NCBC provided mobilization support to Naval construction forces, which led to the contamination of several areas throughout the installation. In 1989, EPA added the site to its list of hazardous waste sites needing cleanup. PCB spill debris, a battery acid tank, asphalt, and lead-contaminated soil were removed to prevent them from migrating into nearby water. The base closed in 1994 and in 1996 the Corporation began redevelopment. The statement of net position and statement of revenues, expenses and changes in net position do not reflect any amounts associated with the clean-up as the Corporation has not been identified as a responsible party, and the costs of any future remediation efforts are currently unknown since the costs cannot be estimated.

RISK MANAGEMENT

The Corporation is self-insured for unemployment compensation. No accrual has been made for claims expected to arise from services on or before June 30, 2021 because Corporation officials are of the opinion that, based upon the Corporation's historical experience, any claims will not be material.

CAPITAL IMPROVEMENTS

At June 30, 2021, the Corporation was obligated for the completion of certain construction contracts under commitments totaling approximately \$920,000 which are expected to be funded from capital appropriation, reimbursements and cash and cash equivalents.

LEGAL CONTINGENCIES

Various lawsuits are pending or threatened against the Corporation that arose from the ordinary course of operations. In the opinion of management, no litigation is now pending, or threatened that would materially affect the Corporation's financial position.

QUONSET DEVELOPMENT CORPORATION
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

NOTE 11 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

RISKS AND UNCERTAINTIES

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the United States. In March 2020, the World Health Organization declared COVID-19 a global pandemic. The Corporation is monitoring the outbreak of COVID-19 and the related business and travel restrictions and changes to behavior intended to reduce its spread. The Corporation has been able to continue its operations in accordance with the guidelines issued by the Center for Disease Control and Prevention and the State of Rhode Island. Due to the rapid development and fluidity of this situation, the magnitude and duration of the pandemic and its impact on the Corporation's operations is uncertain as of the date the financial statements were available to be issued.

NOTE 12 - RENTALS UNDER OPERATING LEASES

Aggregate minimum future contractual rental payments to be received by the Corporation from noncancelable operating leases, excluding CPI increases effective under the leases, as of June 30, 2021 are as follows:

Years Ending June 30,	Amount
2022	\$ 10,313,247
2023	9,755,332
2024	8,733,436
2025	7,811,207
2026	6,871,502
Thereafter	<u>131,718,079</u>
Total	<u>\$ 175,202,803</u>

The following reports the cost and accumulated depreciation for buildings under lease agreements at June 30, 2021:

Cost	\$ 25,768,712
Less: accumulated depreciation	<u>3,071,623</u>
Total	<u>\$ 22,697,089</u>

QUONSET DEVELOPMENT CORPORATION
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

NOTE 13 - OPERATING LEASES

The Corporation has entered into several operating leases for office equipment including copiers, printers and a postage machine. Expenditures incurred under the terms of the operating leases totaled approximately \$10,000 for the year ended June 30, 2021.

The following is a schedule of future minimum lease payments due under the terms of the above-noted lease agreements:

<u>Years Ending June 30,</u>	<u>Amount</u>
2022	\$ 2,772
2023	747
2024	252
2025	<u>147</u>
Total	<u>\$ 3,918</u>

The Corporation has also entered into four operating rental agreements for building space with lease maturity dates ranging from 2029 through 2045. Rent expense under these agreements for the year ended June 30, 2021 was approximately \$1,200,000.

The following is a schedule of future minimum lease payments due under the terms of the above-noted lease agreements:

<u>Years Ending June 30,</u>	<u>Amount</u>
2022	\$ 1,333,356
2023	1,333,356
2024	1,333,356
2025	1,333,356
2026	1,333,356
2027-2031	5,695,050
2032-2036	4,723,320
2037-2041	4,723,320
2042-2045	<u>2,801,414</u>
Total	<u>\$ 24,609,884</u>

QUONSET DEVELOPMENT CORPORATION
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

NOTE 14 - STATE APPROPRIATIONS

STATE CONTRIBUTED CAPITAL - PIER 2 PROJECT

In November 2016, the Rhode Island voters approved the issuance of \$50 million in General Obligation Bonds to fund infrastructure modernization and repairs to the Port of Davisville at Quonset, including Pier 2. The State of Rhode Island reimburses the Corporation as construction costs are incurred in accordance with the funding agreement.

The estimated cost of the project over a multi-year period is \$83.1 million and is anticipated to be completed in fiscal year 2023. The Corporation is expecting approximately \$6 million related to the Pier 2 project to be funded by the Corporation's operating funds, approximately \$14 million in revenue bonds issued in FY2020, and approximately \$10 million in appropriations from the Rhode Island Capital Plan ("RICAP") fund, with an additional \$3.1 million in RICAP funds to be included in the proposed fiscal year 2023 State of Rhode Island budget.

During the year ended June 30, 2021, approximately \$12.4 million was appropriated from the State of Rhode Island from the issuance of General Obligation Bonds for the Pier 2 project.

GENERAL INFRASTRUCTURE PROJECT - TENANT

The Corporation has a memorandum of understanding ("MOU") with a tenant to complete the infrastructure project. Costs related to the general infrastructure project are funded through a combination of RICAP funds and tenant reimbursement. The project is to be funded by the tenant, with the State of Rhode Island expected to contribute \$14 million of RICAP funding for the project, which reduces the amount to be paid by the tenant. The State of Rhode Island had previously appropriated \$8 million of RICAP funding with an additional \$6 million of RICAP funding being appropriated for the project in FY2022.

The infrastructure project is to be completed in three phases. First phase is the utility and roadway work. Phase two is the new approach channel work and the third phase is new pier work. The tenant is to pay the requisitions for the work as the project is completed. The total expected project cost is approximately \$37.0 million.

During the year ended June 30, 2021, no RICAP funding was appropriated for the general infrastructure project and approximately \$16.1 million was contributed by a tenant.

QUONSET DEVELOPMENT CORPORATION
(A Component Unit of the State of Rhode Island)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

NOTE 14 - STATE APPROPRIATIONS (CONTINUED)

STATE CAPITAL PLAN FUNDS - INFRASTRUCTURE PROJECT

The RICAP Fund was modeled on a financial technique originating in the State of Delaware. The RICAP Fund is used for capital expenditures and for debt reduction. The technique is a "pay-as-you-go" capital funding program which has been a key factor in improving the state's debt management policies. The Corporation did not receive any appropriations from RICAP Funds during the year ended June 30, 2021.

REQUIRED SUPPLEMENTARY INFORMATION

QUONSET DEVELOPMENT CORPORATION
(A Component Unit of the State of Rhode Island)

**SCHEDULE OF THE CORPORATION'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY (UNAUDITED)**

LAST SEVEN FISCAL YEARS

Year ended	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Valuation date	6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014	6/30/2013
Measurement date	6/30/2020	6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014
Corporation's proportion of the net pension liability (asset)	59.19%	59.19%	59.21%	59.21%	59.53%	59.12%	57.85%
Corporation's proportionate share of the net pension asset (liability)	\$ 1,338,242	\$ 1,284,218	\$ 783,000	\$ (120,839)	\$ (917,526)	\$ (2,482)	\$ 656,075
Corporation's covered-employee payroll	\$ 1,215,095	\$ 1,567,615	\$ 1,496,555	\$ 1,611,747	\$ 1,752,376	\$ 1,848,245	\$ 1,881,967
Corporation's proportionate share of the net pension asset (liability) as a percentage of its covered-employee payroll	110.13%	81.92%	52.32%	-7.50%	-52.36%	-0.13%	34.86%
Plan fiduciary net position as a percentage of the total pension liability	110.43%	110.46%	106.64%	98.95%	91.89%	100.01%	106.84%

Note:

Schedule is intended to show information for 10 years - additional years will be displayed as they become available.

QUONSET DEVELOPMENT CORPORATION
(A Component Unit of the State of Rhode Island)

SCHEDULE OF THE CORPORATION'S CONTRIBUTIONS (UNAUDITED)

LAST SEVEN FISCAL YEARS

Fiscal year ended	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 352,912	\$ 352,912	\$ 352,912	\$ 352,911	\$ 352,912	\$ 144,768	\$ 86,736
Contribution in relation to contractually required contribution	<u>(352,912)</u>	<u>(352,912)</u>	<u>(352,912)</u>	<u>(352,911)</u>	<u>(352,912)</u>	<u>(144,768)</u>	<u>(86,736)</u>
Contribution deficiency	<u>\$ --</u>						
Corporation's covered-payroll	\$ 1,049,641	\$ 1,215,095	\$ 1,567,615	\$ 1,496,555	\$ 1,611,747	\$ 1,752,376	\$ 1,848,245
Contribution as a percentage of covered-employee payroll	33.62%	29.04%	22.51%	23.58%	21.90%	8.26%	4.69%

Note:

Schedule is intended to show information for 10 years - additional years will be displayed as they become available.

QUONSET DEVELOPMENT CORPORATION
(A Component Unit of the State of Rhode Island)

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2021

NOTE 1 - CHANGES IN ASSUMPTIONS

Amounts reported in 2020 measurement date reflect adjustment to the following:

Mortality rates are based on PubG-2010 above median Employee/Healthy Annuitant (Male/Female) with MP-2019 Generational Improvements tables. Previously, rates were based on the RP-2014 Employee/Healthy Annuitant (Male/Female) with MP-2018 Generational Improvements from 2006 tables.

SUPPLEMENTARY INFORMATION

QUONSET DEVELOPMENT CORPORATION
(A Component Unit of the State of Rhode Island)

SCHEDULE OF TRAVEL AND ENTERTAINMENT EXPENSES

FOR THE YEAR ENDED JUNE 30, 2021

<u>Date</u>	<u>Payee</u>	<u>Amount</u>	<u>Purpose</u>	<u>Traveler</u>
7/17/2020	Joseph Riccio	\$ 58	Meeting with CEO of AAPA - Narragansett, RI	Joseph Riccio
8/20/2020	Jill Sherman	25	Society for SHRM Management Conference (Virtual)	Jill Sherman
10/1/2020	Joseph Riccio	129	CONNECT Conference (Virtual)	Joseph Riccio
2/2/2021	Joseph Riccio	245	Automotive Logistics and Supply Conference - Virtual; 2/2/2021-2/3/2021	Joseph Riccio
3/31/2021	Joseph Riccio	69	CONNECT Conference - Virtual	Joseph Riccio
5/12/2021	Joseph Riccio	169	CONNECT Conference - Virtual	Joseph Riccio
5/14/2021	Joseph Riccio	230	NAPA Meeting - Baltimore, MD; 9/8/2021-9/10/2021	Joseph Riccio
5/14/2021	Joseph Riccio	275	AAPA Annual Meeting - Austin, TX; 9/26/2021-10/1/2021	Joseph Riccio
6/22/2021	Joseph Riccio	490	Automotive Logistics and Supply Conference - Virtual; 6/22/2021-6/23/2021	Joseph Riccio
6/27/2021	Joseph Riccio	25	Propeller Club Dinner Social - Newport, RI	Joseph Riccio
6/30/2021	Robert Blackburn	<u>(992)</u>	NAPA and AAPA Meetings - Scheduled for 3/18/2019-3/20/2019 (Void)	Robert Blackburn
	Total	<u>\$ 723</u>		

See independent auditors' report on supplementary information.

QUONSET DEVELOPMENT CORPORATION
(A Component Unit of the State of Rhode Island)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2021

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Pass-Through Entity</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>	<u>Passed Through to Subrecipient</u>
<i>Department of Commerce - Economic Development Administration</i>	Rhode Island Airport Corporation	12.401	\$ 159,433	\$ 159,433
National Guard Military Operations and Maintenance ("O&M") Projects			<u>\$ 159,433</u>	<u>\$ 159,433</u>

See independent auditors' report on supplementary information.

QUONSET DEVELOPMENT CORPORATION
(A Component Unit of the State of Rhode Island)

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Quonset Development Corporation under programs of the federal government for the year ended June 30, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Quonset Development Corporation, it is not intended to and does not present the financial position, changes in net position, or cash flows of Quonset Development Corporation.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 - INDIRECT COST RATE

Quonset Development Corporation has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

See independent auditors' report on supplementary information.

QUONSET DEVELOPMENT CORPORATION
(A Component Unit of the State of Rhode Island)

STATE OF RHODE ISLAND REQUIRED FORMAT

JUNE 30, 2021

Statement of Net Position

Attachment B

Assets

Current Assets:

Cash and cash equivalents	\$ 738,338
Receivables (net)	5,355,195
Restricted assets:	
Cash and cash equivalents	13,703,830
Due from primary government	2,604,149
Due from other component units	235,000
Other assets	<u>303,795</u>
Total current assets	<u>22,940,307</u>

Noncurrent Assets:

Receivables (net)	40,992
Restricted assets:	
Cash and cash equivalents	7,970,864
Due from other component units	923,034
Net pension asset	1,338,242
Capital assets - nondepreciable	180,099,233
Capital assets - depreciable (net)	<u>122,787,887</u>
Total noncurrent assets	<u>313,160,252</u>
Total assets	<u>336,100,559</u>

Deferred outflows of resources

Deferred pension amounts	<u>553,873</u>
Total deferred outflows of resources	<u>553,873</u>

See independent auditors' report on supplementary information.

QUONSET DEVELOPMENT CORPORATION
(A Component Unit of the State of Rhode Island)

STATE OF RHODE ISLAND REQUIRED FORMAT

JUNE 30, 2021

Statement of Net Position (Continued)

Attachment B

Liabilities

Current liabilities:

Accounts payable	5,801,445
Accrued expenses	8,485,045
Unearned revenue	8,967,052
Current portion of long-term debt	<u>1,678,500</u>
Total current liabilities	<u>24,932,042</u>

Noncurrent liabilities:

Unearned revenue	1,359,975
Loans payable	12,882,088
Bonds payable	<u>15,569,166</u>
Total noncurrent liabilities	<u>29,811,229</u>

Total liabilities 54,743,271

Deferred inflows of resources

Deferred pension amounts	<u>676,910</u>
Total deferred inflows of resources	<u>676,910</u>

Net position

Net investment in capital assets	280,728,230
Restricted for:	
Other	9,532
Unrestricted	<u>496,489</u>
Total net position	<u>\$ 281,234,251</u>

See independent auditors' report on supplementary information.

QUONSET DEVELOPMENT CORPORATION
(A Component Unit of the State of Rhode Island)

STATE OF RHODE ISLAND REQUIRED FORMAT

FOR THE YEAR ENDED JUNE 30, 2021

<u>Statement of Activities</u>	<u>Attachment C</u>
Expenses	\$ 16,345,286
Program revenues:	
Charges for services	17,267,963
Capital grants and contributions	<u>29,763,006</u>
Total program revenues	<u>47,030,969</u>
Net revenues	<u>30,685,683</u>
General revenue (expenses):	
Interest and investment earnings	7,949
Loss on disposal of capital assets	<u>(2,315,850)</u>
Total general revenues (expenses)	<u>(2,307,901)</u>
Change in net position	28,377,782
Total net position - beginning	<u>252,856,469</u>
Total net position - ending	<u>\$ 281,234,251</u>

See independent auditors' report on supplementary information.

QUONSET DEVELOPMENT CORPORATION
(A Component Unit of the State of Rhode Island)

STATE OF RHODE ISLAND REQUIRED FORMAT

JUNE 30, 2021

Attachment D

Schedule of Debt Service to Maturity - Long-Term Debt

Fiscal Years	<u>Other (Bonds Payable)</u>	
<u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2022	\$ 130,834	\$ 83,143
2023	785,004	482,983
2024	785,004	461,205
2025	785,004	435,138
2026	785,004	408,211
2027 - 2031	3,925,020	2,194,894
2032 - 2036	3,925,020	1,046,062
2037 - 2041	3,925,020	421,903
2042 - 2046	<u>654,090</u>	<u>9,544</u>
	<u>\$ 15,700,000</u>	<u>\$ 5,543,083</u>

See independent auditors' report on supplementary information.

QUONSET DEVELOPMENT CORPORATION
(A Component Unit of the State of Rhode Island)

STATE OF RHODE ISLAND REQUIRED FORMAT

JUNE 30, 2021

Attachment E

Schedule of Changes in Long-Term Debt

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Bonds payable	\$15,700,000	\$ --	\$ --	\$15,700,000	\$ 130,834	\$15,569,166
Bonds payable - Direct Payment	--	--	--	--	--	--
Net unamortized premium/discount	--	--	--	--	--	--
Bonds payable	15,700,000	--	--	15,700,000	130,834	15,569,166
Notes payable	--	--	--	--	--	--
Notes payable - Direct Borrowings	--	--	--	--	--	--
Loans payable	13,248,219	4,759,762	3,578,227	14,429,754	1,547,666	12,882,088
Obligations under capital leases	--	--	--	--	--	--
Net pension liability	--	--	--	--	--	--
Net OPEB liability	--	--	--	--	--	--
Due to primary government	--	--	--	--	--	--
Due to component units	--	--	--	--	--	--
Due to other governments and agencies	--	--	--	--	--	--
Unearned revenue	5,904,219	4,422,808	--	10,327,027	8,967,052	1,359,975
Compensated absences	--	--	--	--	--	--
Arbitrage rebate	--	--	--	--	--	--
Pollution remediation	--	--	--	--	--	--
Funds Held for Others	--	--	--	--	--	--
Other liabilities - include explanation	--	--	--	--	--	--
	<u>\$34,852,438</u>	<u>\$ 9,182,570</u>	<u>\$ 3,578,227</u>	<u>\$40,456,781</u>	<u>\$10,645,552</u>	<u>\$29,811,229</u>

See independent auditors' report on supplementary information.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors of
Quonset Development Corporation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Quonset Development Corporation (a component unit of the State of Rhode Island) (the "Corporation") as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise Quonset Development Corporation's basic financial statements, and have issued our report thereon dated September 30, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Quonset Development Corporation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Quonset Development Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of Quonset Development Corporation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Quonset Development Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Marcum LLP

Providence, RI
September 30, 2021