

QUONSET DEVELOPMENT CORPORATION

(a Component Unit of the State of Rhode Island)

FINANCIAL STATEMENTS

JUNE 30, 2020

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

Financial Statements

June 30, 2020

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Quonset Development Corporation
North Kingstown, Rhode Island

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"), which comprise the statement of net position for the year ended June 30, 2020, the related statements of revenues and expenses and change in net position, and cash flows for the year then ended, 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 the financial statements based on our audit. We conducted our audit 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, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component unit of Quonset Development Corporation as of June 30, 2020, and the respective change in financial position and, where applicable, cash flows thereof for the year 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 36, the schedule of the Corporation's contributions on page 37 and the notes to the required supplementary information on page 38 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.

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Corporation's basic financial statements. The schedule of travel and entertainment expenses on page 39 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards on page 40 and the notes to the schedule of expenditures of federal awards on page 41 are presented for purposes of additional analysis as required by U.S. Office of Management and Budget and the provisions of the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and it is also not a required part of the basic financial statements.

The schedule of travel and entertainment expenses 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 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 15, 2020 on our consideration of the 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 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.



**Certified Public Accountants
Braintree, Massachusetts**

September 15, 2020

QUONSET DEVELOPMENT CORPORATION

(a Component Unit of the State of Rhode Island)

Management's Discussion and Analysis (Unaudited)

June 30, 2020

As management of the Quonset Development Corporation (the "Corporation or QDC"), 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, 2020 and June 30, 2019. 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 and 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, liabilities and deferred inflows, 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 and expenses and changes in net position presents information on how the Corporation's net position changed during the year.

All assets and deferred outflows and liabilities and deferred inflows 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 and expenses and changes in net position will result in cash flows in future periods.

QUONSET DEVELOPMENT CORPORATION

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2020

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 of 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 12,000 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 \$85M. 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 \$5M will be included in a proposed FY 2021, Article 5 General Obligation Bond question. 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, 2020

Overview of the Financial Statements - Continued

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

Land Site Development	\$534,297
Maintenance Equipment	127,446
Building Access Security Controls	114,560
Buildings and Improvements	494,911
Roadway Improvements	815,230
Port of Davisville – Pier 1 Improvements	267,410
Water System Upgrades	77,331
Romano Vineyard Way – at grade rail crossing (DOT Grant)	<u>403,254</u>
	<u>\$2,834,439</u>

During the year the additions to capital assets include \$24,471,589 for Pier 2 improvements, \$11,818,771 of Tennant Improvements and other various projects for total additions of approximately \$39.7 million.

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 \$299,278,845 at June 30, 2020 and \$246,483,051 at June 30, 2019. Of these total assets, \$267,243,659 and \$232,860,358, respectively, are considered capital assets.
- Total liabilities were \$46,261,864 for the year ending June 30, 2020 and \$26,661,313 for the year ending June 30, 2019. Of those total liabilities, \$27,181,588 and \$14,812,946 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, 2020

Financial Highlights – Continued

- Total assets exceeded total liabilities (net position) by \$252,856,469 at June 30, 2020 and \$219,691,768 at June 30, 2019.
- The Corporation's major source of revenues resulted in charges for services for rentals and fees in the amount of \$13,530,693 for the year ending June 30, 2020, and \$13,022,907 for year ending June 30, 2019.
- Income before contributed capital was \$1,125,772 for the year ending June 30, 2020 and \$1,919,970 for the year ending June 30, 2019.
- Depreciation and amortization expense were \$5,274,256 for the year ending June 30, 2020, and \$5,151,891 for the year ended June 30, 2019.
- Income before capital contributions and transfer was \$2,325,772 for the year ending June 30, 2020 and \$1,919,970 for the year ending June 30, 2019.

Summary of Operations and Changes in Net Position

	<u>2020</u>	<u>2019</u>
Operating Revenues	\$ 17,207,435	\$ 16,997,770
General Expenses	<u>(8,891,079)</u>	<u>(8,879,271)</u>
Operating Income (Before Depreciation)	8,316,356	8,118,499
Depreciation and Amortization Expense	<u>(5,274,256)</u>	<u>(5,151,891)</u>
Operating Income	3,042,100	2,966,608
Non-Operating Revenue/(Expense), Net	<u>(716,328)</u>	<u>(1,046,638)</u>
Income Before Contributed Capital and transfers	<u>2,325,772</u>	1,919,970
Transfers to state of Rhode Island	<u>(1,200,000)</u>	<u>-</u>
Contributed Capital	<u>32,038,929</u>	<u>32,463,607</u>
Change in Net Position	\$ <u>33,164,701</u>	\$ <u>34,383,577</u>

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

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2020

Summary of Major Operating Expenses

	<u>2020</u>	<u>2019</u>
Personnel Services	\$ 3,167,358	\$ 3,208,609
Contractual Services	793,978	884,171
Utility Department Services	1,806,787	1,795,256
Other Expenses	3,122,956	2,991,235
Depreciation and Amortization	<u>5,274,256</u>	<u>5,151,891</u>
Total Operating Expenses	<u>\$ 14,165,335</u>	<u>\$ 14,031,162</u>

Summary of Statement of Net Position

	<u>2020</u>	<u>2019</u>
Current Assets	\$ 16,710,297	\$ 11,352,773
Other Assets	15,324,889	2,269,920
Capital Assets, net	<u>267,243,659</u>	<u>232,860,358</u>
Total Assets	<u>299,278,845</u>	<u>246,483,051</u>
Pension Deferred Outflows of Resources:		
Differences between expected and actual plan Experience	\$ 110,671	\$ 19,039
Contributions made after the plan measurement date	<u>352,912</u>	<u>352,912</u>
Total Deferred Outflows of Resources	<u>463,583</u>	<u>371,951</u>
Current Liabilities	\$ 19,080,276	\$ 11,848,367
Long-term Liabilities	<u>27,181,588</u>	<u>14,812,946</u>
Total Liabilities	<u>46,261,864</u>	<u>26,661,313</u>
Pension Deferred Inflows of Resources:		
Differences between expected and actual pension plan experience	\$ 602,498	\$ 433,000
Differences from change in plan assumptions	<u>21,597</u>	<u>68,921</u>
Total Deferred Inflows of Resources	624,095	501,921
Total Net Position	<u>\$ 252,856,469</u>	<u>\$ 219,691,768</u>

QUONSET DEVELOPMENT CORPORATION
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2020

Debt

During fiscal year 2020, a bond for \$15,700,000 was issued to retire the 2012 bond of approximately \$1.9 million and the remaining balance of the bond for the further development of the Port Facilities. It is projected that the Port Facilities upgrade will be completed by fiscal year 2022. The refinancing of the Series 2012 bonds resulted in an economic gain of \$497,147.

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, 2020

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

Statement of Net Position

June 30, 2020

Assets and Deferred Outflows of Resources

Current Assets:

Cash and equivalents	\$ 184,230
Cash and equivalents - restricted for grant	1,000,197
Cash and equivalents - restricted for municipal services fund	1,526,515
Cash and equivalents - restricted for capital construction	3,912,430
Accounts receivable, state general obligation bonds	6,382,350
Accounts receivable, net	3,165,110
Due from Rhode Island Airport Corporation, current portion	293,717
Note receivable, current portion	15,057
Prepaid expenses and other assets	<u>230,691</u>

Total Current Assets 16,710,297

Non-current Assets:

Cash and equivalents - restricted - cash held by bond trustee	12,803,115
Note receivable, net of current portion	59,654
Due from Rhode Island Airport Corporation, net of current portion	1,177,902
Net pension asset	1,284,218
Capital assets, net	<u>267,243,659</u>

Total Non-current Assets 282,568,548

Total Assets 299,278,845

Deferred Outflows of Resources:

Differences between expected and actual pension plan experience	110,671
Contributions made after the pension plan measurement date	<u>352,912</u>

Total Deferred Outflows of Resources \$ 463,583

See accompanying notes to the financial statements.

Liabilities, Deferred Inflows of Resources and Net Position

Current Liabilities:

Current portion of loans payable	\$ 1,933,631
Accounts payable	6,718,288
Accrued expenses	4,691,138
Deposits and unearned revenue, current portion	<u>5,737,219</u>

Total Current Liabilities 19,080,276

Non-current Liabilities:

Bond payable, net of current portion	15,700,000
Loans payable, net of current portion	11,314,588
Deposits and unearned revenue, net of current portion	<u>167,000</u>

Total Non-current Liabilities 27,181,588

Total Liabilities 46,261,864

Deferred Inflows of Resources:

Differences between expected and actual earnings on pension plan investments	602,498
Differences from change in plan assumptions	<u>21,597</u>

Total Deferred Inflows of Resources 624,095

Net Position:

Net investment in capital assets	251,098,555
Restricted for municipal services fund	313,089
Unrestricted	<u>1,444,825</u>

Total Net Position \$ 252,856,469

QUONSET DEVELOPMENT CORPORATION

(a Component Unit of the State of Rhode Island)

Statement of Revenues and Expenses and Change in Net Position

For the Year Ended June 30, 2020

Operating Revenues:

Charges for services:

Rentals and fees	\$ 13,530,693
Other revenue	315,783
Utilities	<u>3,360,959</u>

Total Operating Revenues 17,207,435

Operating Expenses:

Personnel services	3,167,358
Contracted services	793,978
Utility department services	1,806,787
General expenses	3,122,956
Depreciation	<u>5,274,256</u>

Total Operating Expenses 14,165,335

Operating Income 3,042,100

Non-Operating Revenues (Expenses):

Interest	(724,466)
Investment income	<u>8,138</u>

Total Non-Operating Revenues (Expenses) (716,328)

Change in Net Position Before Capital Contributions and Transfers 2,325,772

Capital Contributions:

Capital appropriations - RICAP	9,000,000
Capital appropriations - State of Rhode Island	15,352,547
Contributions in aid of construction ("CIAC")	<u>7,686,382</u>

Total Capital Contributions 32,038,929

Change in Net Position Before Transfers 34,364,701

Transfer:

Transfer to State of Rhode Island	<u>(1,200,000)</u>
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Change in Net Position 33,164,701

Net Position, Beginning of Year 219,691,768

Net Position, End of Year \$ 252,856,469

See accompanying notes to the financial statements.

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

Statement of Cash Flows

For the Year Ended June 30, 2020

Cash Flows from Operating Activities:	
Receipts from customers	\$ 21,690,218
Payments to suppliers	(5,250,016)
Payments to pension plan	(352,912)
Payments to employees	<u>(3,200,364)</u>
Net Cash Provided by Operating Activities	<u>12,886,926</u>
Cash Flows from Non-capital Financing Activity:	
Transfer to state of Rhode Island	<u>(1,200,000)</u>
Net Cash Provided by Noncapital Financing Activity	<u>(1,200,000)</u>
Cash Flows from Capital and Related Financing Activities:	
Capital appropriation and contributions	25,617,923
Purchase of capital assets	(33,618,840)
Proceeds from bonds	15,700,000
Interest paid on capital debt and leases	(724,466)
Principal paid on capital debt and leases	<u>(4,480,841)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>2,493,776</u>
Cash Flows from Investing Activities:	
Collections on note receivable	25,557
Investment income	<u>8,138</u>
Net Cash Provided by Investing Activities	<u>33,695</u>
Net Increase in Cash and Equivalents	14,214,397
Cash and Equivalents, Beginning of Year	<u>5,212,090</u>
Cash and Equivalents, End of Year	<u>\$ 19,426,487</u>
Cash and Equivalents:	
Cash and equivalents	\$ 184,230
Cash and equivalents - restricted for grant	1,000,197
Cash and equivalents - restricted for municipal services fund	1,526,515
Cash and equivalents - restricted for capital construction	3,912,430
Cash and equivalents - restricted - held by bond trustee	<u>12,803,115</u>
Cash and Equivalents, End of Year	<u>\$ 19,426,487</u>

QUONSET DEVELOPMENT CORPORATION

(a Component Unit of the State of Rhode Island)

Statement of Cash Flows - Continued

For the Year Ended June 30, 2020

Reconciliation of Operating Income to Net Cash Provided by

Operating Activities:

Operating income	\$ 3,042,100
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	5,274,256
Net pension activity	(470,676)
Changes in:	
Accounts receivable	(392,943)
Due from Rhode Island Airport Corporation	1,830,003
Prepaid expenses and other assets	(3,673)
Accounts payable and accrued expenses	562,136
Deposits and unearned revenue	<u>3,045,723</u>
Net Cash Provided by Operating Activities	<u>\$ 12,886,926</u>

Supplemental Disclosure of Cash Flows Information:

During fiscal year 2020, the Corporation financed capital asset acquisitions of \$355,532 through the issuance of debt and \$5,683,185 from accounts payable.

See accompanying notes to the financial statements.

QUONSET DEVELOPMENT CORPORATION

(a Component Unit of the State of Rhode Island)

Notes to the Financial Statements

June 30, 2020

Note 1 - **Summary of Significant Accounting Policies**

Business Description

Quonset Development Corporation (the “Corporation”) was incorporated on July 2, 2004 under Rhode Island law for the purpose of developing and managing state lands in the Quonset Business Park for commercial purposes. The Corporation is a component unit of the State of Rhode Island since it is a legally separate organization that receives support from the state. 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, 2020, approximately 52% of rental revenues and utility and service revenues are derived from agreements with two customers. The leases for those two customers expire between 2030 to 2047.

In March 2020, the Governor of Rhode Island declared a state of emergency and ordered all non-essential business services to temporarily cease due to the COVID-19 outbreak. The COVID-19 crisis created volatility in the financial markets and a significant decrease in the overall economy. The Corporation did not see a material decrease in revenue or collection of receivables after the declaration of the state of emergency.

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 U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (“GASB”). Revenues are recorded when earned and expenses are recorded when a 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.

QUONSET DEVELOPMENT CORPORATION

(a Component Unit of the State of Rhode Island)

Notes to the Financial Statements - Continued

June 30, 2020

Note 1 - **Summary of Significant Accounting Policies - Continued**

Basis of Presentation - continued

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, net investment income, and interest expense.

The accompanying statement of revenues and expenses demonstrate 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, accounts payable, accrued expenses, outstanding principal balances of debt attributable to the acquisition, construction, repair, or improvement of those assets. For significant unspent debt proceeds, the portion of the debt attributable to the unspent amount is not included in the calculation of net investment in capital 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.

QUONSET DEVELOPMENT CORPORATION

(a Component Unit of the State of Rhode Island)

Notes to the Financial Statements - Continued

June 30, 2020

Note 1 - **Summary of Significant Accounting Policies - Continued**

Net Position - continued

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.

Cash and Equivalents

Cash and equivalents consist of highly liquid financial instruments with an original maturity date of three months or less.

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 U.S. 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 generally 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. The Corporation does not require collateral or other forms of security from its customers. At June 30, 2020, approximately 71% of the Corporation's accounts receivable are due from four customers.

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

Notes to the Financial Statements - Continued

June 30, 2020

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 \$500 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 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

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Notes to the Financial Statements - Continued

June 30, 2020

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.

GASB Statement 84 – Fiduciary Activities is effective for reporting periods beginning after December 15, 2019. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Management has not completed its review of the requirements of this standard and its applicability.

GASB Statement 87 – Leases is effective for periods beginning after June 15, 2021. Implementation of this standard will require lessees to recognize on their statement of net position the rights and obligations resulting from leases categorized as operating leases as assets, liabilities, or deferred inflows / outflows of resources. It provides for an election on leases with terms of less than twelve months to be excluded from this Standard. Management has not completed 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 reporting periods beginning after December 15, 2020. Earlier application is encouraged. The objective of this Statement is to improve the information that is disclosed in the notes to the government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contraction obligation is established. The Statement requires that additional essential information related to debt be disclosed in the notes to the financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant

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Notes to the Financial Statements - Continued

June 30, 2020

Note 1 - **Summary of Significant Accounting Policies - Continued**

events of default with finance-related consequences, significant termination events with financed-related consequences, and significant subjective acceleration clauses. For the notes to the financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. Management has not completed 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 reporting periods beginning after December 15, 2020. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The Statement is to be applied prospectively to projects. Management has not completed its review of the requirements of this standard and its applicability.

GASB Statement 91 – *Conduit Debt Obligations* is effective for reporting periods beginning after December 15, 2021. The objective of this Statement is to improve the consistency of reporting conduit debt. This Statement requires government entities that issues conduit debt, but is not the obligor, not to recognize the liability unless it is more likely than not that the government issuer will service the debt. 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 reporting periods beginning after June 15, 2022. The objective of this Statement is to provide accounting and financial reporting guidance for transactions in which a governmental entity contracts with another party for the right to use their software. A right to use asset and a corresponding liability would be recognized for SBITAs. Management has not completed its review of the requirements of these standards and its applicability.

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Notes to the Financial Statements - Continued

June 30, 2020

Note 1 - **Summary of Significant Accounting Policies - Continued**

GASB Statement 97 – *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457, Deferred Compensation Plans* is effective for reporting periods beginning after June 15, 2021. The objective of this Statement is to provide financial reporting consistency in which the potential component unit does not have a governing board and the primary government performs the duties that a governing board would perform. In the absence of a governing board of the potential component unit, the situation should be treated as the same as the primary government appointing a majority of the potential component unit's governing board. Management has not completed its review of the requirements of these standards and its applicability.

Note 2 - **Cash and 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.

At June 30, 2020, the carrying amounts of the Corporation's cash deposits were \$19,426,487 and the bank balances were \$6,731,974. There was \$12,803,115 held by the trustee the Washington Trust Company of Westerly, a financial institution duly organized and validly existing under the laws of the state ("Bond Purchaser"). 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.

Of the bank balances as of June 30, 2020, \$500,000 was covered by federal depository insurance; collateralization agreements covered \$5,116,617 and \$1,115,357 was in excess of federal depository insurance limits and not covered by an alternative source. The insured balances reflect guarantees from the FDIC in effect during June 30, 2020.

QUONSET DEVELOPMENT CORPORATION
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Notes to the Financial Statements - Continued

June 30, 2020

Note 3 - **Accounts Receivable, net**

At June 30, 2020, accounts receivable, including the allowance for uncollectible accounts, are as follows:

Rentals	\$ 898,496
Rhode Island Air National Guard	759,965
Utilities and service	693,739
Grants - Rhode Island Fast Ferry	136,610
Drawdown on 2020 Revenue Bond	424,372
Payments in lieu of taxes	<u>264,535</u>
	3,177,177
Less: allowance for uncollectable	<u>(12,607)</u>
	<u>\$ 3,165,110</u>

Note 4 - **Note Receivable**

At June 30, 2020, the Corporation had a note receivable in the amount of \$74,711 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, 2020, RIAC owes the Corporation \$1,471,619 with \$293,717 as a current asset and \$1,177,902 as a non-current asset.

The parties have agreed that RIAC will make non-interest-bearing annual installments of \$235,580 to be applied first, to the existing balance and then to balances related to future services provided. In addition to the \$235,580 there is \$58,137 related to project costs for a total current portion due from RIAC of \$293,717.

QUONSET DEVELOPMENT CORPORATION
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Notes to the Financial Statements - Continued

June 30, 2020

As of June 30, 2020, RIAC owes the Corporation \$1,177,902 from previous operating activity.

Note 5 - **Due From Rhode Island Airport Corporation**

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.

Note 6 - **Capital Assets**

Capital asset activity for the Corporation for the year ended June 30, 2020 is as follows:

	Estimated Lives (in years)	Beginning Balance	Additions	Disposal	Reclass- ifications	Ending Balance
Capital assets, not depreciated:						
Land		\$ 57,039,096	\$ 250,000	\$ -	\$ -	\$ 57,289,096
Construction in progress		<u>42,636,332</u>	<u>38,304,590</u>	<u>-</u>	<u>-</u>	<u>80,940,922</u>
Total capital assets, not depreciated		<u>99,675,428</u>	<u>38,554,590</u>	<u>-</u>	<u>-</u>	<u>138,230,018</u>
Capital assets, depreciated:						
Land improvements	40	44,134,646	72,260	-	-	44,206,906
Buildings and improvements	20-50	111,497,892	776,895	-	-	112,274,787
Furnishings and equipment	5-20	<u>19,381,918</u>	<u>253,812</u>	<u>-</u>	<u>-</u>	<u>19,635,730</u>
Total capital assets, depreciated		<u>175,014,456</u>	<u>1,102,967</u>	<u>-</u>	<u>-</u>	<u>176,117,423</u>
Total capital assets		<u>274,689,884</u>	<u>39,657,557</u>	<u>-</u>	<u>-</u>	<u>314,347,441</u>
Less: accumulated depreciation:						
Land improvements		11,238,917	1,376,416	-	-	12,615,333
Buildings and improvements		22,839,450	2,916,181	-	-	25,755,631
Furnishings and equipment		<u>7,751,159</u>	<u>981,659</u>	<u>-</u>	<u>-</u>	<u>8,732,818</u>
Total accumulated depreciation		<u>41,829,526</u>	<u>5,274,256</u>	<u>-</u>	<u>-</u>	<u>47,103,782</u>
Capital assets, net		<u>\$ 232,860,358</u>	<u>\$ 34,383,301</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 267,243,659</u>

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Notes to the Financial Statements - Continued

June 30, 2020

Note 7 - **Deposits and Unearned Revenue**

Deposits and unearned revenue consist of the following at June 30, 2020:

Deposit liabilities	\$ 5,679,640
Unearned revenue	<u>224,579</u>
Total deposits and unearned revenue	5,904,219
Current portion of deposits and unearned revenue	<u>5,737,219</u>
Deposits and unearned revenue, net of current portion	<u>\$ 167,000</u>

Note 8 - **Long-Term Obligations**

Long-term liabilities consist of the following at June 30, 2020:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds and loans payable:					
Revenue bond payable	\$ 2,476,820	\$ 15,700,000	\$ 2,476,820	\$ 15,700,000	\$ -
Loans payable	<u>14,896,708</u>	<u>355,532</u>	<u>2,004,021</u>	<u>13,248,219</u>	<u>1,933,631</u>
Total bonds and loans payable	<u>17,373,528</u>	<u>16,055,532</u>	<u>4,480,841</u>	<u>28,948,219</u>	<u>1,933,631</u>
Other long-term liabilities:					
Deposits and unearned revenue	<u>4,123,680</u>	<u>1,780,539</u>	-	<u>5,904,219</u>	<u>5,737,219</u>
Total other long-term liabilities	<u>4,123,680</u>	<u>1,780,539</u>	-	<u>5,904,219</u>	<u>5,737,219</u>
Total Long-term Liabilities	<u>\$ 21,497,208</u>	<u>\$ 17,836,071</u>	<u>\$ 4,480,841</u>	<u>\$ 34,852,438</u>	<u>\$ 7,670,850</u>

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Notes to the Financial Statements - Continued

June 30, 2020

Note 8 - **Long-Term Obligations - Continued**

Bond Payable

On August 29, 2012, the Rhode Island Commerce Corporation issued the \$6,579,203 Quonset Development Corporation Economic Development Revenue Bonds, Series 2012 Bonds. The proceeds of the Series 2012 bonds were used to dredge between piers and parts of Narragansett Bay to enable use by larger ships. The bond requires a monthly payment of \$69,103, including interest of 3.3% through August 2022. The remaining balance of the bonds of \$1,917,068 were paid during the refinance in April 2020. The refinancing of the Series 2012 bonds resulted in an economic gain of \$497,147, but no deferred gain or loss.

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.

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

<u>Years Ending June 30.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ -	\$ 90,730	\$ 90,730
2022	130,833	85,916	216,749
2023	785,000	480,491	1,265,491
2024	785,000	455,904	1,240,904
2025	785,000	431,318	1,216,318
2026-2030	3,925,000	1,787,798	5,712,798
2031-2035	3,925,000	1,173,143	5,098,143
2036-2040	3,925,000	558,488	4,483,488
2041-2045	<u>1,439,167</u>	<u>47,331</u>	<u>1,486,498</u>
	<u>\$ 15,700,000</u>	<u>\$ 5,111,119</u>	<u>\$ 20,811,119</u>

QUONSET DEVELOPMENT CORPORATION
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Notes to the Financial Statements - Continued

June 30, 2020

Note 8 - **Long-Term Obligations - Continued**

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, 2020, the balance of this loan was \$4,724,511.

The Corporation entered into an agreement with MBQ, LLC for three office buildings at Romano Vineyard Way in September 2017. The loan is payable in monthly installments of \$61,950 that includes interest of 4.08% through August 2023. At June 30, 2020, the balance of this loan was \$2,204,715.

The Corporation entered into an agreement with J.R. Vinagro Corporation for excavation and grading services pertaining to land in June 2017. The loan is payable in monthly installments of \$25,000 through December 2020. The loan was amended on November 11, 2017 and April 4, 2019 increasing the loan balance by \$87,087 and \$205,020, respectively. The loan is not interest-bearing. At June 30, 2020, the balance of this loan was \$142,107. No interest has been recognized in the financial statements due to lack of materiality.

The Corporation entered into an agreement for the purchase of two new trucks in September 2016. The loan is payable in monthly installments of \$2,470 that includes interest of 5.012% through August 2021. At June 30, 2020, the balance of this loan was \$33,524.

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, 2020, the balance of this loan was \$3,217,516.

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, 2020, the balance of this loan was \$2,602,454.

QUONSET DEVELOPMENT CORPORATION
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Notes to the Financial Statements - Continued

June 30, 2020

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 July 2019. The loan is payable in monthly installments of \$3,125 that includes interest of 4.58% through June 2029. At June 30, 2020, the balance of this loan was \$275,823.

The Corporation entered into an agreement for the purchase of two new trucks in August 2019. The loans are payable in monthly installments of \$582 and \$448 that include interest of 7.1% and 7.1% through July 2023. At June 30, 2020, the balance of these loans was \$47,569.

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

<u>Years Ending June 30.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 1,933,631	\$ 624,236	\$ 2,557,867
2022	1,851,779	537,594	2,389,373
2023	1,935,284	449,151	2,384,435
2024	1,395,260	365,233	1,760,493
2025	1,338,660	299,414	1,638,074
2026-2030	3,221,653	794,872	4,016,525
2031-2035	820,115	379,885	1,200,000
2036-2040	751,837	88,120	839,957
	<u>\$ 13,248,219</u>	<u>\$ 3,538,505</u>	<u>\$ 16,786,724</u>

Interest costs on all debt for the year ended June 30, 2020 were \$724,466.

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.

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Notes to the Financial Statements - Continued

June 30, 2020

Note 9 - **Pension Plan - Continued**

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, \$352,912 and \$352,911 for the fiscal years ended June 30, 2020, 2019 and 2018, respectively, equal to 100% of the required contributions for each year, respectively.

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, and Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2020, the Corporation reported an asset of \$1,284,218 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, 2019 and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation date of July 1, 2018. The Corporation's proportion of the net pension asset was based on its share of contributions to the Plan for fiscal year 2019 relative to the total contributions of all participating employers for that fiscal year. At June 30, 2019 the Corporation's proportion was 59.19%.

For the year ended June 30, 2020, the Corporation recognized a pension benefit of \$29,532.

QUONSET DEVELOPMENT CORPORATION
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Notes to the Financial Statements - Continued

June 30, 2020

Note 9 - **Pension Plan - Continued**

Pension Asset, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources - continued

The \$352,912 reported as deferred outflows of resources related to pensions resulting from the Corporation's contributions in fiscal year 2020 subsequent to the measurement date will be recognized as a change of the net pension asset for the year ended June 30, 2020.

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

<u>Years Ending</u> <u>June 30,</u>	<u>Amount</u>
2021	\$ 5,164
2022	(290,136)
2023	(171,479)
2024	<u>(56,973)</u>
	<u>\$ (513,424)</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%

Mortality rates were based on the RP 2014 employee healthy annuitant (male/female) with MP - 2017 tables generational improvements from 2006. The net pension asset was measured as of June 30, 2019, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of July 1, 2018 and adjusted through June 30, 2019.

QUONSET DEVELOPMENT CORPORATION

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Notes to the Financial Statements - Continued

June 30, 2020

Note 9 - **Pension Plan - Continued**

Actuarial Assumptions - continued

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	<u>40.00%</u>	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.

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Notes to the Financial Statements - Continued

June 30, 2020

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.

1.00% Decrease (5.50%)	Current Discount Rate (6.50%)	1.00% Increase (7.50%)
\$ (38,503)	\$ 1,284,218	\$ 2,411,856

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, 2020, 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, 2020 were \$107,014. 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.

QUONSET DEVELOPMENT CORPORATION

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Notes to the Financial Statements - Continued

June 30, 2020

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.

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 statements of net position and revenues and 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, 2020, 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, 2020, the Corporation was obligated for the completion of certain construction contracts under commitments totaling \$2,696,349 which are expected to be funded from capital appropriation, reimbursements and cash and equivalents.

QUONSET DEVELOPMENT CORPORATION
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Notes to the Financial Statements - Continued

June 30, 2020

Note 11 - **Commitments and Contingencies - Continued**

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.

Uncertainties

The COVID-19 crisis as discussed in Note 1 is ongoing. Although operations at the Corporation have not been materially impacted to date, there is continued uncertainty about the economy. Management cannot reasonably estimate the duration or impact on the finances and operations.

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, 2020 are as follows:

Years Ending <u>June 30,</u>	<u>Amount</u>
2021	\$ 7,626,211
2022	7,482,541
2023	7,218,182
2024	7,100,520
2025	6,660,941
Thereafter	<u>110,131,588</u>
Total	<u>\$ 146,219,983</u>

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

Notes to the Financial Statements - Continued

June 30, 2020

Note 12 - **Rentals Under Operating Leases**

The following reports the cost and accumulated depreciation for buildings under lease agreements at June 30, 2020:

Cost	\$ 20,913,954
Less: accumulated depreciation	<u>3,256,445</u>
	<u>\$ 17,657,509</u>

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 \$22,000 for the year ended June 30, 2020.

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

Years Ending <u>June 30,</u>	<u>Amount</u>
2021	\$ <u>9,479</u>
Total	<u>\$ 9,479</u>

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.

QUONSET DEVELOPMENT CORPORATION

(a Component Unit of the State of Rhode Island)

Notes to the Financial Statements - Continued

June 30, 2020

Note 14 - State Appropriations - Continued

The estimated cost of the project over a multi-year period is \$85 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 \$5M to be included in a proposed FY 2021, Article 5 General Obligation Bond question.

During the year ended June 30, 2020, approximately \$5.0 million was appropriated from RICAP funds and approximately \$15.4 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 \$8 million of RICAP funding for the project, which reduces the amount to be paid by the tenant.

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

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, 2020, approximately \$4 million was appropriated from RICAP funds for the general infrastructure project and approximately \$7.7 million was contributed by a tenant.

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

Notes to the Financial Statements - Continued

June 30, 2020

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 was been a key factor in improving the state's debt management policies. The Corporation received appropriations from RICAP Funds for both the Pier 2 Project and for general infrastructure projects during the year ended June 30, 2020.

Note 15 - **Transfer of funds to State of Rhode Island**

During the year, there was a transfer of \$1,200,000 to the State of Rhode Island. The assessment was authorized in the 2020 State Appropriation Act and reported as a transfer in the in the statement of revenues and expenses and change in net position.

**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)

Rhode Island Commerce Corporation Pension Plan and Trust

Year ended	<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	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014	6/30/2013
Measurement date	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 (asset) liability	59.21%	59.21%	59.21%	59.53%	59.12%	57.85%
Corporation's proportionate share of the net pension asset (liability)	\$ 1,284,218	\$ 783,000	\$ (120,839)	\$ (917,526)	\$ (2,482)	\$ 656,075
Corporation's covered-employee payroll	\$ 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	81.92%	52.32%	-7.50%	-52.36%	-0.13%	34.86%
Plan fiduciary net position as a percentage of the total pension liability	110.48%	106.64%	98.95%	91.89%	99.98%	106.84%

Notes:

The GASB pronouncement requiring the presentation of the information on this schedule became effective for years beginning after June 15, 2014 and is intended to provide data for the most recent ten years. Information is only available for six years.

See accompanying notes to the required supplemental information.

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

Schedule of the Corporation's Contributions (Unaudited)

Year ended	<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	\$ 352,911	\$ 352,912	\$ 144,768	\$ 86,736
Contributions in relation to the contractually required contribution	<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	\$ 1,215,095	\$ 1,567,615	\$ 1,496,555	\$ 1,611,747	\$ 1,752,376	\$ 1,848,245
Contribution as a percentage of covered-employee payroll	29.04%	22.51%	23.58%	21.90%	8.26%	4.69%

Notes:

The GASB pronouncement requiring the presentation of the information on this schedule became effective for years beginning after June 15, 2014 and is intended to provide data for the most recent ten years. Information is only available for six years.

See accompanying notes to the required supplemental information.

QUONSET DEVELOPMENT CORPORATION
(a Component Unit of the State of Rhode Island and Providence Plantations)

Notes to the Required Supplementary Information (Unaudited)

For the Year Ended June 30, 2020

Note 1 - **Changes of Assumptions**

Amounts reported in 2017 measurement date reflect an adjustment to the following:

Mortality rates were based on the RP 2014 generational non-annuitant/annuitant with MP 2017 Improvement (Male/Female) tables. Previously, rates were based on the RP 2014 generational non-annuitant/annuitant with MP 2016 Improvement (Male/Female) tables.

SUPPLEMENTAL 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, 2020

<u>Date</u>	<u>Payee</u>	<u>Amount</u>	<u>Purpose</u>	<u>Traveler</u>
7/17/2019	MCCULLOUGH MATT - PETTY CASH	\$18.35	Wind Energy Meeting & QDC Board Meeting	Petty Cash - Meetings Norine Lux, Chelsea Seifert,
7/17/2019	RIPEC	\$2,500.00	RIPEC Annual Meeting - Providence, RI	Steven King & RIPEC invited guests
7/31/2019	BLACKBURN, ROBERT	\$991.78	Replacement Check for 3/26/2019; AAPA Spring Conference	Robert Blackburn
8/15/2019	NE REGIONAL Pretreatment Seminar	\$400.00	Lowell, MA	Kristin Andel & William Young Dennis Colberg, Tim Andrews, Kevin Gardner,
8/21/2019	Narraganset Water Pollution Control	\$140.00	NWPC Trade Show, Cranston, RI	Brian Goodwin
8/21/2019	Narraganset Water Pollution Control	\$35.00	NWPC Trade Show, Cranston, RI	William Young
8/22/2019	CHRISTIAN JONES	\$857.00	Port Director Interviewee, Round trip OR/RI Airfare/Travel Expenses	Christian Jones
8/30/2019	DAVIES, EDWARD	\$25.52	DEM Manager's Meeting, Providence, RI & WIMS Meeting Lowell, MA	Edward Davies
9/11/2019	QUONSET O CLUB	\$128.00	Cyber Security Event, North Kingstown, RI	Stephanie Werbe
9/24/2019	Rhode Island SHRM	\$20.00	Fall Legislative Breakfast, Providence, RI	Jill Sherman
9/24/2019	Town Place Suites	\$266.68	North Kingstown, RI	Christian Jones - Port Director Interviewee
9/25/2019	NEARC	\$375.00	NE ARC users Conference, Sunday River Resort, Newry, ME	Antonio Ambrosio
9/30/2019	SUNDAYRIVER	\$400.20	NE ARC Conference, Newry, ME	Antonio Ambrosio
10/4/2019	KING	\$33.08	Mileage RIHPC Meeting & RIAC Meeting	Steven King
10/9/2019	ALLISON FIELDS	\$651.23	Port Director Interviewee, Round trip VA/RI	Allison Fields
10/23/2019	RI STATE OF MARKET	\$79.00	State of Market Meeting, Providence, RI	Chelsea Seifert
10/31/2019	AMBROSIO	\$333.46	NE ARC Conference, Newry, ME	Antonio Ambrosio
10/24/2019	ARAMARK	\$31.68	UMass Lowell - Pretreatment Conference	Kristin Andel & William Young
10/31/2019	ANDEL, KRISTIN	\$209.42	Pretreatment Conference, Lowell, MA/Native Plant Symposium, Bristol, RI	Kristin Andel
12/12/2019	RICCIO, JOSEPH	\$908.10	North Atlantic Ports Association Semi-Annual Meeting, Washington, DC	Joseph Riccio
1/31/2020	GARDNER KEVIN	\$24.50	NEWEA Annual Conference, Boston, MA	Kevin Gardner
1/31/2020	GOODWIN BRIAN	\$44.00	NEWEA Annual Conference, Boston, MA	Brian Goodwin
1/31/2020	RI Commerce Corp	\$1,000.00	RI PTEC DOD, Providence, RI Cancelled/Rescheduled 6/24&6/25/20 Cancelled(Refunded)	Joseph Riccio
1/31/2020	RICCIO, JOSEPH	\$961.80	NAHMA Meeting, Washington, DC	Joseph Riccio
2/11/2020	DAVIES EDWARD	\$304.86	NEWEA Annual Conference, Boston, MA	Edward Davies
2/24/2020	RICCIO, JOSEPH -	\$698.88	NAMHA, Washington, DC	Joseph Riccio
3/17/2020	RICCIO, JOSEPH	\$1,235.81	AAPA Spring Conference Washington, DC - Cancelled (Credit Issued fo future use)	Joseph Riccio
4/1/2020	JOSEPH RICCI	-\$649.00	Connect Conference Cancelled - Scheduled for 3/31-4/2/2020 (Refund)	Joseph Riccio
	Total	<u>\$12,524.35</u>		

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

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2020

<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> National Guard Military Operations and Maintenance (O&M)Projects	Rhode Island Airport Corporation	12.401	\$ 3,165,580	\$ 3,165,580
Total Expenditures of Federal Awards			<u>\$ 3,165,580</u>	<u>\$ 3,165,580</u>

See accompanying notes to the supplemental 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***



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
North Kingstown, Rhode Island

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 (the "Corporation"), which comprise the statement of net position as of June 30, 2020, the related statement of revenues and expenses and change in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and we have issued our report thereon dated September 15, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 the 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 Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**Certified Public Accountants
Braintree, Massachusetts**

September 15, 2020