

**QUONSET DEVELOPMENT CORPORATION
MEETING OF BOARD OF DIRECTORS**

September 16, 2014

PUBLIC SESSION MINUTES

A meeting of the Board of Directors of the Quonset Development Corporation (the "Corporation") was held at 4:30 p.m. on Monday, September 16, 2014, at the offices of the Corporation located at 95 Cripe Street, North Kingstown, Rhode Island, pursuant to notice to all members of the Board of Directors and a public notice of the meeting as required by the Bylaws of the Corporation and applicable Rhode Island Law.

The following members constituting a quorum were present and participated throughout the meeting as indicated: Guy Asadorian, Jr., Robert H. Breslin, Jr., Elizabeth Dolan, John A. Dorsey, John G. Laramée, Gregory A. Mancini, Anthony F. Miccolis, Jr., James Rugh, and Marcel A. Valois. Absent were: James Berson and Richard A. Welch. Also present were: Steven J. King, P.E., Managing Director; E. Jerome Batty, Secretary; Steven J. Cohen, O'Conner & Drew, P.C.; and Corporation's staff and members of the public.

1. **CALL TO ORDER:**

The meeting was called to order at 4:33 p.m. by Chairman Marcel A. Valois.

2. **APPROVAL OF MINUTES:**

Upon motion duly made by Mr. Laramée and seconded by Mr. Breslin, the Board:

VOTED: To approve the Public Session Minutes of the July 15, 2014 meeting, as presented.

Voting in favor were: Guy Asadorian, Jr., Robert H. Breslin, Jr., Elizabeth Dolan, John G. Laramée, Gregory A. Mancini, and James Rugh.

Voting Against were: None.

Unanimously Approved.

3. **STAFF REPORTS:**

Prior to reviewing his staff report with the Board, Mr. King explained that the Cape Wind Agreement was still in place despite the fact that Cape Wind had signed a lease agreement with Massachusetts Clean Energy Center to use New Bedford for their turbine offshore wind project. Mr. King explained that Cape Wind had proposed using sites at both Quonset and New Bedford.

Mr. Dorsey joined the meeting at 4:35 p.m. and Mr. Miccolis joined the meeting at 4:41 p.m.

Mr. Miccolis requested the Corporation Staff provide a comparison of the previous year's monthly data for the Port on the Staff Report going forward.

Mr. Mancini asked if the Corporation provides a monthly financial statement. Mr. King stated no, but under the new quasi-public rules put in place by the State of Rhode Island, the Corporation will be providing a quarterly statement which will be posted on the website. Mr. King noted a presentation was scheduled for later during the meeting to explain some of the new guidelines.

4. COMMITTEE REPORTS:

The Audit Finance Committee report was deferred until after the Audited Financial Statements and the FY2016 budget were presented. No other committee meetings were held.

5. APPROVALS:

A. Acceptance of the FY2014 Audited Financial Statements:

Mr. Barry introduced Mr. Steven Cohen, the senior audit principal from the firm of O'Connor & Drew, P.C., who reviewed the FY2014 Audited Financial Statements (Tab 3). Mr. Cohen explained that the statements were audited using both the auditing standards generally accepted in the United States of America and the *Government Auditing Standards* issued by the Comptroller General of the United States. Mr. Cohen issued two reports; (1) an unmodified opinion on the Financial Statements and (2) a report giving a clean opinion (no material weakness or significant deficiencies) on the Corporation's internal controls as they relate to revenue, disbursements, and payroll. The latter report does not result in an opinion, but acts as a negative assurance that controls are sufficient.

Mr. Cohen noted that an unqualified opinion on the Financial Statements is the best opinion that can be issued and indicates that the statements are free from material misrepresentation. Mr. Cohen highlighted two significant transactions in the FY2014 Audited Financial Statements, noting that there were no significant changes to the Corporation's accounting policies. The first transaction relates to a prior period adjustment due to a change in accounting principles for the capitalized lease commissions for \$921,624. Mr. Cohen pointed out that this change is a result of a modification to GASB 65, *Items Previously Reported as Assets and Liabilities*. Mr. Cohen noted the second significant transaction in the FY2014 Audited Financials Statements was the property purchases totaling \$3.4 million.

Mr. Cohen reviewed the draft audited statements with the Board (Exhibit A) briefly describing the Independent Auditor's responsibility and opinion. Mr. Cohen explained that the report is covered in detail in Management's Discussion and Analysis. Specifically, Mr. Cohen pointed out on the income sheet (pg. 7) that the Corporation pulled depreciation and

amortization out of the “Operating Expenses” resulting in the \$800,000 change in “Operating Income” and resulting from the completion of Tiger Grant projects. Mr. Cohen further pointed out that “Operating Income”, (as reflected on pg. 10) before expenses and pulling out depreciation, actually increased by about \$100,000. However, grant income was significantly less in FY2014 than FY2013 and also the Corporation only paid one interest payment on the dredging bond in FY2013 versus four payments in FY2014 in which resulted in a significant change in net position.

Mr. Cohen reviewed the “Statement of Net Position”, (pg. 9) noting the Corporation’s balance as of June 30, 2014 was roughly \$162 Million, noting all but \$1 Million of those funds are invested in infrastructure.

Finally, Mr. Cohen pointed out the Corporation’s pension plan assets currently out weight the liabilities, which is almost never seen in pension plans.

Mr. Asadorian stated that the Audit Finance Committee did meet prior to the Board meeting to discuss and review the Audited Financial Statements at length and the Audit Finance Committee recommended approval of the Financial Statements to the Board.

Upon motion duly made by Mr. Asadorian and seconded by Mr. Laramee, the Board:

VOTED: To accept the FY2014 Audited Financial Statements as presented to the Board, subject to approval by the State Auditor General.

Voting in favor were: Guy Asadorian, Jr., Robert H. Breslin, Jr., Elizabeth Dolan, John A. Dorsey, John G. Laramee, Gregory A. Mancini, Anthony F. Miccolis, Jr. and James Rugh.

Voting Against were: None.

Unanimously Approved.

B. Approval of the FY2016 Operating Budget:

Kevin M. Barry, Quonset Development Corporation’s Finance Director, reviewed the FY2016 Operating Budget and highlighted some major points (Exhibit B). Mr. Barry noted that the Corporation’s revenues have remained relatively flat over the last 3 years, with a slight increase budgeted for FY2016. Mr. Barry explained that the Corporation takes a very conservative approach to revenue and will only include revenue from leases that are already active and will be active in FY2016. Therefore, the revenues of leases expiring prior to FY2016, but are expected to continue are not included in this total. Mr. King explained that the Corporation has no line of credit or financial buffer so the conservative approach allows for any unexpected changes in revenues or expenses. Mr. Barry continued, pointing out other revenues include Pier Income, Water and Waste Water Sales, Airport Fund Allocation, and Town of North Kingstown Municipal Services. Mr. Barry stated that Pier income has increased slightly mainly due to recent changes to the Tariff. Water and Waste Water sales

depend on usage, therefore, the actual budgets for FY2014 revenue greatly influences the current budget. Mr. Barry explained that the Corporation actually takes in over \$8.3 Million in rental income, but approximately \$1.5 Million of that revenue is from RI Airport Corporation's ("RIAC") property. The Corporation acts as property manager and takes in an allocation on those properties owned by the RIAC.

Mr. Barry also informed the Board that the Corporation reviewed the actuals going back to FY2010 and compared them to FY2016. The Corporation has had a 66% increase in revenues; an average of about 10% per year, while total expenses have only increased 11% and salaries have only increased 8% over those 6 years.

Mr. Barry reviewed the Corporation's expenses with the Board noting that personnel expenses only increased slightly. The FY2016 budget includes an increase of 3% to wages and salary but the increase is not definite and will be based on performance. Mr. Barry also stated that payroll overhead was kept to a minimum by keeping medical and dental expenses low. Mr. Barry added employees of the Corporation pay 19% of their medical costs. On point, Mr. Barry stated the Corporation's total personnel expense only increased by 1.5%, primarily due to the retirement of a few high waged longtime employees.

Mr. Barry continued by explaining that "Operating Expenses" are slightly down in FY2016 and remarked any excess revenues are put toward "Capital Expenditures". Mr. Barry reviewed the larger expenses including "Legal and Audit"; however, increased expense from legal is due to new lucrative deals. Mr. Breslin asked if Legal Services and Auditing Services go out to bid. Mr. King confirmed that Audit Services does go out to bid but Legal Services fall under Professional Services and are discretionary.

Mr. Barry pointed out that the next large line item is "Consultants"; noting the Corporation does not have an in-house IT Department and must pay for this service. Also, Public Relations and Payroll Services fall under "Consultants". Although "Consultants" is a large item on the budget, costs are actually down from previous years because the Corporation replaced contracted security employees at the Pier with a security firm which has saved on costs to the Corporation.

Mr. Barry mentioned again that the GASB 65 change and the way commissions can now be expensed and reminded the Board that big commissions are a result of big real estate deals. Mr. Barry stated Insurance continues to be a large expense mainly due to the Mobile Harbor Crane and D & O insurance. Finally, Mr. Barry reviewed another line item expense, "Other Operating" expense, which the Corporation tries to not use but often an expense does not fall in any of the designated categories. Mr. Barry stated that the FY2014 "Other Operating" expense was high because it included the financing of the new office building at Romano Vineyard Way but is reduced for FY2016.

Mr. Barry reviewed Debt Service and Capital Projects noting that the major maintenance projects for the Corporation in FY2016 include roof repairs to buildings in West Davisville and planned capital projects include Zarbo Avenue Bulkhead replacement and Terminal 4 Bulkhead Cap, Cleats and Bollard replacement.

Mr. Asadorian stated that the Audit Finance Committee tested a number of the budget's assumptions and recommends the FY2016 Budget for approval by the full Board.

Upon motion duly made by Mr. Asadorian and seconded by Mr. Rugh, the Board:

VOTED: To approve the FY2016 Operating Budget as presented to the Board.

Voting in favor were: Guy Asadorian, Jr., Robert H. Breslin, Jr., Elizabeth Dolan, John A. Dorsey, John G. Laramée, Gregory A. Mancini, Anthony F. Miccolis, Jr. and James Rugh.

Voting Against were: None.

Unanimously Approved.

C. Discussion of Quasi-Public Corporations Accountability and Transparency Act

John R. Pariseault of Hinckley Allen presented to the Board the new Quasi-Public Corporations Accountability and Transparency Act that will be effective January 1, 2015 under Senate Bill No. 2585 (Exhibit C) and reviewed the Corporation's responsibility under the act.

6. **ADJOURNMENT:**

Upon motion duly made by Mr. Miccolis and seconded by Ms. Dolan, the meeting adjourned at 5:36 p.m.

Respectfully submitted:

By: 

E. Jerome Batty, Secretary