

QUONSET DEVELOPMENT CORPORATION

**(a Component Unit of the State of Rhode Island
and Providence Plantations)**

FINANCIAL STATEMENTS

JUNE 30, 2019

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

Financial Statements

June 30, 2019

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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 and Providence Plantations) (the "Corporation"), which comprise the statement of net position for the year ended June 30, 2019, 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, the financial statements referred to above present fairly, in all material respects, the financial position of Quonset Development Corporation as of June 30, 2019, and the respective change in net position and 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 35, the schedule of the Corporation's contributions on page 36 and the notes to the required supplementary information on page 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 38 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 39 and the notes to the schedule of expenditures of federal awards on page 40 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 17, 2019 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.

O'Connor and Drew, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

September 17, 2019

QUONSET DEVELOPMENT CORPORATION

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

Management's Discussion and Analysis (Unaudited)

June 30, 2019

As management of the Quonset Development Corporation (the "Corporation"), we offer readers of the Corporation's financial statements this narrative overview and analysis of the financial activities of the Corporation as of and for the fiscal years ending June 30, 2019 and June 30, 2018. 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, the 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 liabilities, with the difference between the two amounts as net position. Over time, increases or decreases in the Corporation's net position may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating. You might also need to consider other non-financial factors when evaluating the Corporation's financial position. The statement of revenues, expenses and changes in net position presents information on how the Corporation's net position changed during the year.

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

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

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2019

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 in October of 2008 and amended in 2010 and 2012. This document serves as the general guide for the continuing development of the site and related infrastructure improvements. In broad terms, QDC's development goals are as follows:

- 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 \$696 million since 1980. Private investment of approximately \$1 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 nearly 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 project, over the course of six years, will total \$90M. 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 \$15M in RICAP funds towards the project. The corporation will look to issue a revenue bond in FY 2020 for the remaining balance of \$25M.

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 and Providence Plantations)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2019

Overview of the Financial Statements - Continued

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

| | |
|--|--------------------|
| Land Site Development | \$1,450,000 |
| Maintenance Equipment | 134,000 |
| NK Athletic Fields * | 158,000 |
| Roadway Improvements (Resurfacing) | 201,000 |
| Building Reconfiguration – G2 Building | 228,000 |
| Water System Upgrades | 136,000 |
| Waste Water Treatment Facility – Replace Secondary Tank | <u>410,000</u> |
| | <u>\$2,717,000</u> |

*The NK athletic fields project was a joint venture with the town of North Kingstown and RI DEM. RI DEM provided 50% of the funding thru a grant, the town provided 25%, and Quonset provided the remaining 25% of the cost.

The corporation is also responsible for managing the property associated with the Quonset State Airport on the behalf of the RI 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 \$246,483,051 at June 30, 2019 and \$206,161,352 at June 30, 2018. Of these total assets, \$232,860,358 and \$193,838,609, respectively, are considered capital assets.
- Total liabilities were \$26,661,313 for the year ending June 30, 2019 and \$21,099,290 for the year ending June 30, 2018. Of those total liabilities, \$14,812,946 and \$11,294,482 respectively, are long-term liabilities.

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

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2019

Financial Highlights – Continued

- Total assets exceeded total liabilities (net position) by \$219,691,768 at June 30, 2019 and \$185,308,191 at June 30, 2018.
- The Corporation's major source of revenues resulted in charges for services for rentals and fees in the amount of \$13,022,907 for the year ending June 30, 2019, and \$13,374,734 for year ending June 30, 2018.
- For the year ended June 30, 2018 the Corporation earned \$13,594,391 as a result of a lease termination that is reported as operating revenues.
- Income before contributed capital was \$1,919,970 for the year ending June 30, 2019 and \$16,128,416 for the year ending June 30, 2018.
- Depreciation and amortization expense were \$5,151,891 for the year ending June 30, 2019, and \$5,042,956 for the year ended June 30, 2018.
- EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) was \$7,071,865 for the year ending June 30, 2019 and \$21,171,372 year ending June 30, 2018.

Summary of Operations and Changes in Net Position

| | <u>2019</u> | <u>2018</u> |
|--|-----------------------------|----------------------|
| Operating Revenues | \$ 16,997,770 | \$ 29,913,641 |
| Operating Expenses | <u>(8,879,271)</u> | <u>(7,569,679)</u> |
| Operating Income (Before Depreciation) | 8,118,499 | 22,343,962 |
| Depreciation and Amortization Expense | <u>(5,151,891)</u> | <u>(5,042,956)</u> |
| Operating Income | 2,966,608 | 17,301,006 |
| Non-Operating Revenue/(Expense), Net | <u>(1,046,638)</u> | <u>(1,172,590)</u> |
| Income Before Contributed Capital | <u>1,919,970</u> | <u>16,128,416</u> |
| Contributed Capital | <u>32,463,607</u> | <u>117,760</u> |
| Change in Net Position | \$ <u>34,383,577</u> | \$ <u>16,246,176</u> |

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

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2019

Summary of Major Operating Expenses

| | <u>2019</u> | <u>2018</u> |
|-------------------------------|----------------------|----------------------|
| Personnel Services | \$ 3,208,609 | \$ 3,187,329 |
| Contractual Services | 884,171 | 768,262 |
| Utility Department Services | 1,795,256 | 1,801,923 |
| Other Expenses | 2,991,235 | 1,812,165 |
| Depreciation and Amortization | <u>5,151,891</u> | <u>5,042,956</u> |
| Total Operating Expenses | <u>\$ 14,031,162</u> | <u>\$ 12,612,635</u> |

Summary of Statement of Net Position

| | <u>2019</u> | <u>2018</u> |
|---|--------------------|--------------------|
| Current Assets | \$ 11,352,773 | \$ 10,901,040 |
| Other Assets | 2,269,920 | 1,421,703 |
| Capital Assets, net | <u>232,860,358</u> | <u>193,838,609</u> |
| Total Assets | <u>246,483,051</u> | <u>206,161,352</u> |
| Pension Deferred Outflows of Resources: | | |
| Differences between expected and actual plan Experience | \$ 19,039 | \$ 73,895 |
| Differences between projected and actual earnings of plan investments | - | 618,891 |
| Contributions made after the plan date | <u>352,912</u> | <u>352,911</u> |
| Total Deferred Outflows of Resources | <u>371,951</u> | <u>1,045,697</u> |
| Current Liabilities | 11,848,367 | 9,804,808 |
| Long-term Liabilities | <u>14,812,946</u> | <u>11,294,482</u> |
| Total Liabilities | <u>26,661,313</u> | <u>21,099,290</u> |

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

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2019

Pension Deferred Inflows of Resources:

| | | |
|---|------------------------------|------------------------------|
| Differences between expected and actual pension plan experience | \$ 433,000 | \$ 663,548 |
| Differences from change in plan assumptions | <u>68,921</u> | <u>136,060</u> |
| Total Deferred Inflows of Resources | 501,921 | 799,568 |
| Total Net Position | \$ <u>219,691,768</u> | \$ <u>185,308,191</u> |

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 and Providence Plantations)

Statement of Net Position

June 30, 2019

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

Statement of Net Position

June 30, 2019

Assets and Deferred Outflows of Resources

Current Assets:

| | |
|---|----------------|
| Cash and equivalents | \$ 878,409 |
| Cash and equivalents - restricted for capital construction | 2,553,546 |
| Cash and equivalents - restricted for municipal services fund | 1,780,135 |
| Accounts receivable, net | 1,848,758 |
| Due from State of Rhode Island and Providence Plantations | 2,149,937 |
| Due from Rhode Island Airport Corporation, current portion | 1,888,140 |
| Note receivable, current portion | 26,830 |
| Prepaid expenses and other assets | <u>227,018</u> |

Total Current Assets 11,352,773

Non-current Assets:

| | |
|---|--------------------|
| Note receivable, net of current portion | 73,438 |
| Due from Rhode Island Airport Corporation, net of current portion | 1,413,482 |
| Net pension asset | 783,000 |
| Capital assets, net | <u>232,860,358</u> |

Total Non-current Assets 235,130,278

Total Assets 246,483,051

Deferred Outflows of Resources:

| | |
|---|----------------|
| Differences between expected and actual pension plan experience | 19,039 |
| Contributions made after the pension plan valuation date | <u>352,912</u> |

Total Deferred Outflows of Resources 371,951

See accompanying notes to the financial statements.

Liabilities, Deferred Inflows of Resources and Net Position

Current Liabilities:

| | |
|--|------------------|
| Current portion of bond payable | \$ 757,046 |
| Current portion of loans payable | 1,976,536 |
| Accounts payable | 1,374,685 |
| Accrued expenses | 3,789,420 |
| Deposits and unearned revenue, current portion | <u>3,950,680</u> |

Total Current Liabilities 11,848,367

Noncurrent Liabilities:

| | |
|---|----------------|
| Bond payable, net of current portion | 1,719,774 |
| Loans payable, net of current portion | 12,920,172 |
| Deposits and unearned revenue, net of current portion | <u>173,000</u> |

Total Noncurrent Liabilities 14,812,946

Total Liabilities 26,661,313

Deferred Inflows of Resources:

| | |
|--|---------------|
| Differences between expected and actual earnings on pension plan investments | 433,000 |
| Differences from change in plan assumptions | <u>68,921</u> |

Total Deferred Outflows of Resources 501,921

Net Position:

| | |
|--|------------------|
| Net investment in capital assets | 215,486,830 |
| Restricted for municipal services fund | 467,461 |
| Unrestricted | <u>3,737,477</u> |

Total Net Position \$ 219,691,768

QUONSET DEVELOPMENT CORPORATION

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

Statement of Revenues and Expenses and Change in Net Position

For the Year Ended June 30, 2019

Operating Revenues:

Charges for services:

| | |
|------------------|------------------|
| Rentals and fees | \$ 13,022,907 |
| Other revenue | 900,000 |
| Utilities | <u>3,074,863</u> |

Total Operating Revenues 16,997,770

Operating Expenses:

| | |
|-----------------------------|------------------|
| Personnel services | 3,208,609 |
| Contracted services | 884,171 |
| Utility department services | 1,795,256 |
| Other | 2,991,235 |
| Depreciation | <u>5,151,891</u> |

Total Operating Expenses 14,031,162

Operating Income 2,966,608

Non-Operating Revenues (Expenses):

| | |
|--------------------------------|--------------|
| Interest | (658,849) |
| Loss on sale of capital assets | (396,953) |
| Investment income | <u>9,164</u> |

Total Non-Operating Revenues (Expenses) (1,046,638)

Change in Net Position Before Capital Contributions 1,919,970

Capital Contributions:

| | |
|--|------------------|
| Capital appropriations - RICAP | 7,532,898 |
| Capital appropriations - State of Rhode Island | 15,552,946 |
| Contributions in aid of construction ("CIAC") | <u>9,377,763</u> |

Total Capital Contributions 32,463,607

Change in Net Position 34,383,577

Net Position, Beginning of Year 185,308,191

Net Position, End of Year \$ 219,691,768

See accompanying notes to the financial statements.

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

Statement of Cash Flows

For the Year Ended June 30, 2019

| | |
|--|----------------------------|
| Cash Flows from Operating Activities: | |
| Receipts from customers | \$ 15,654,374 |
| Payments to suppliers | (1,758,148) |
| Payments to pension plan | (352,912) |
| Payments to employees | <u>(3,260,210)</u> |
| Net Cash Provided by Operating Activities | <u>10,283,104</u> |
| Cash Flows from Capital and Related Financing Activities: | |
| Capital appropriation and contributions | 30,938,501 |
| Purchase of capital assets | (38,115,573) |
| Interest paid on capital debt and leases | (658,849) |
| Principal paid on capital debt and leases | <u>(2,371,607)</u> |
| Net Cash Used by Capital and Related Financing Activities | <u>(10,207,528)</u> |
| Cash Flows from Investing Activities: | |
| Collections on note receivable | 31,529 |
| Investment income | <u>9,164</u> |
| Net Cash Provided by Investing Activities | <u>40,693</u> |
| Net Increase in Cash and Equivalents | 116,269 |
| Cash and Equivalents, Beginning of Year | <u>5,095,821</u> |
| Cash and Equivalents, End of Year | <u>\$ 5,212,090</u> |
| Cash and Equivalents: | |
| Cash and equivalents | \$ 878,409 |
| Cash and equivalents - restricted for capital construction | 2,553,546 |
| Cash and equivalents - restricted for municipal services fund | <u>1,780,135</u> |
| Cash and Equivalents, End of Year | <u>\$ 5,212,090</u> |

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

Statement of Cash Flows - Continued

For the Year Ended June 30, 2019

Reconciliation of Operating Income to Net Cash Provided by

Operating Activities:

| | |
|---|--------------------------|
| Operating income | \$ 2,966,608 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation | 5,151,891 |
| Net pension activity | (527,740) |
| Changes in: | |
| Accounts receivable | 206,528 |
| Due from State of Rhode Island and Providence Plantations | 214,504 |
| Due from Rhode Island Airport Corporation | (1,361,383) |
| Prepaid expenses and other assets | (86,241) |
| Accounts payable and accrued expenses | 3,907,479 |
| Deposits and unearned revenue | <u>(188,542)</u> |
| Net Cash Provided by Operating Activities | <u>\$ 10,283,104</u> |

Supplemental Disclosure of Cash Flows Information:

During fiscal year 2019, the Corporation financed capital asset acquisitions of \$6,455,020 through the issuance of debt.

See accompanying notes to the financial statements.

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

Notes to the Financial Statements

June 30, 2019

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 and Providence Plantations since it is a legally separate organization that receives support from the state.

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, 2019, approximately 45% of rental revenues and utility and service revenues are derived from agreements with two customers. The leases for those two customers expire between 2020 to 2047.

More information is available on the Corporation’s website: www.quonset.com.

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 and Providence Plantations)

Notes to the Financial Statements - Continued

June 30, 2019

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.

Restricted – Nonexpendable: Net position subject to externally imposed conditions that the Corporation must maintain in perpetuity.

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

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

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

Notes to the Financial Statements - Continued

June 30, 2019

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

Net Position - continued

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 restricted for capital construction relates to projects described in note 14 for a general infrastructure tenant project. Cash restricted for municipal services fund is restricted for the Town of North Kingston infrastructure projects.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Tax Status

The Corporation is a component unit of the State of Rhode Island and Providence Plantations 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, 2019, approximately 59% of the Corporation's accounts receivable are due from two customers.

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 \$1,000 or more are capitalized. Interest costs on debt related to capital assets are capitalized during the construction period and then depreciated over the life of the asset. Corporation capital assets, with the exception of land and construction in progress are depreciated on a straight-line basis over their estimated useful lives, which range from 5 to 50 years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

Notes to the Financial Statements - Continued

June 30, 2019

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

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.

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.

QUONSET DEVELOPMENT CORPORATION
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Notes to the Financial Statements - Continued

June 30, 2019

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

GASB Statement 84 – *Fiduciary Activities* is effective for reporting periods beginning after December 15, 2018. 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 reporting periods beginning after December 15, 2019. Earlier application is encouraged. The objective of this Statement is to better meet the information needs of financial statement users by improving the financial reporting for leases. This Statement increases the usefulness of financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions in the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about leasing activities. 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, 2019. 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 events of default with finance-related consequences, significant termination events

QUONSET DEVELOPMENT CORPORATION
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Notes to the Financial Statements - Continued

June 30, 2019

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

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, 2019. Earlier application is encouraged. 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. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus.

As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. 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, 2020. 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.

QUONSET DEVELOPMENT CORPORATION
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Notes to the Financial Statements - Continued

June 30, 2019

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, 2019, the carrying amounts of the Corporation's cash deposits were \$5,212,090 and the bank balances were \$5,626,747. 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, 2019, \$661,636 was covered by federal depository insurance; collateralization agreements covered \$4,928,626 and \$36,485 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, 2019.

Note 3 - **Accounts Receivable**

At June 30, 2019, accounts receivable, including the allowance for uncollectible accounts, are as follows:

| | |
|-----------------------------------|----------------------------|
| Rentals | \$ 1,257,918 |
| Utilities and service | 596,147 |
| Payments in lieu of taxes | <u>7,300</u> |
| | 1,861,365 |
| Less: allowance for uncollectable | <u>(12,607)</u> |
| | <u><u>\$ 1,848,758</u></u> |

QUONSET DEVELOPMENT CORPORATION
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Notes to the Financial Statements - Continued

June 30, 2019

Note 4 - **Note Receivable**

At June 30, 2019, the Corporation had two notes receivable in the amount of \$100,268 with tenants, relative to capital expenditures on property leased by the tenant. The notes receivable are payable in monthly installments of \$1,550 and \$1,792 that includes interest of 0% and 5% through December 2024 and November 2020, respectively. Interest has not been imputed on the zero-interest loan due to materiality.

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, 2019, RIAC owes the Corporation \$3,301,662 with \$1,888,140 as a current liability and \$1,413,482 as a noncurrent liability.

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 \$1,652,560 related to project costs for a total current portion due from RIAC of \$1,888,140.

As of June 30, 2019, RIAC owes the Corporation \$1,413,482 from previous operating activity.

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

QUONSET DEVELOPMENT CORPORATION
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Notes to the Financial Statements - Continued

June 30, 2019

Note 6 - **Capital Assets**

Capital asset activity for the Corporation for the year ended June 30, 2019 is as follows:

| | Estimated Lives (in years) | Beginning Balance | Additions | Disposal | Reclass- ifications | Ending Balance |
|---------------------------------------|----------------------------------|-----------------------|----------------------|---------------------|------------------------|-----------------------|
| Capital assets, not depreciated: | | | | | | |
| Land | | \$ 57,128,313 | \$ 307,736 | \$ (396,953) | \$ - | \$ 57,039,096 |
| Construction in progress | | <u>5,815,494</u> | <u>36,820,838</u> | - | - | <u>42,636,332</u> |
| Total capital assets, not depreciated | | <u>62,943,807</u> | <u>37,128,574</u> | <u>(396,953)</u> | - | <u>99,675,428</u> |
| Capital assets, depreciated: | | | | | | |
| Land improvements | 40 | 43,788,009 | 346,637 | - | - | 44,134,646 |
| Buildings and improvements | 20-50 | 104,648,987 | 6,848,905 | - | - | 111,497,892 |
| Furnishings and equipment | 5-20 | <u>19,135,441</u> | <u>246,477</u> | - | - | <u>19,381,918</u> |
| Total capital assets, depreciated | | <u>167,572,437</u> | <u>7,442,019</u> | - | - | <u>175,014,456</u> |
| Total capital assets | | <u>230,516,244</u> | <u>44,570,593</u> | <u>(396,953)</u> | - | <u>274,689,884</u> |
| Less: accumulated depreciation: | | | | | | |
| Land improvements | | 9,871,013 | 1,367,904 | - | - | 11,238,917 |
| Buildings and improvements | | 19,938,271 | 2,901,179 | - | - | 22,839,450 |
| Furnishings and equipment | | <u>6,868,351</u> | <u>882,808</u> | - | - | <u>7,751,159</u> |
| Total accumulated depreciation | | <u>36,677,635</u> | <u>5,151,891</u> | - | - | <u>41,829,526</u> |
| Capital assets, net | | <u>\$ 193,838,609</u> | <u>\$ 39,418,702</u> | <u>\$ (396,953)</u> | <u>\$ -</u> | <u>\$ 232,860,358</u> |

QUONSET DEVELOPMENT CORPORATION
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Notes to the Financial Statements - Continued

June 30, 2019

Note 7 - Deposits and Unearned Revenue

Deposits and unearned revenue consist of the following at June 30, 2019:

| | |
|---|-------------------|
| Deposit liabilities | \$ 3,877,887 |
| Unearned revenue | 245,793 |
| Total deposits and unearned revenue | 4,123,680 |
| Current portion of deposits and unearned revenue | 3,950,680 |
| Deposits and unearned revenue, net of current portion | <u>\$ 173,000</u> |

Note 8 - Long-Term Obligations

Long-term liabilities consist of the following at June 30, 2019

| | <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 | \$ 3,208,944 | \$ - | \$ 732,124 | \$ 2,476,820 | \$ 757,046 |
| Loans payable | <u>10,081,170</u> | <u>6,455,020</u> | <u>1,639,482</u> | <u>14,896,708</u> | <u>1,976,536</u> |
| Total bonds and loans payable | <u>13,290,114</u> | <u>6,455,020</u> | <u>2,371,606</u> | <u>17,373,528</u> | <u>2,733,582</u> |
| Other long-term liabilities: | | | | | |
| Deposits and unearned revenue | 6,431,711 | - | 2,308,031 | 4,123,680 | 3,950,680 |
| Net pension liability | <u>120,839</u> | <u>-</u> | <u>120,839</u> | <u>-</u> | <u>-</u> |
| Total other long-term liabilities | <u>6,552,550</u> | <u>-</u> | <u>2,428,870</u> | <u>4,123,680</u> | <u>3,950,680</u> |
| Total Long-term Liabilities | <u>\$ 19,842,664</u> | <u>\$ 6,455,020</u> | <u>\$ 4,800,476</u> | <u>\$ 21,497,208</u> | <u>\$ 6,684,262</u> |

QUONSET DEVELOPMENT CORPORATION
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Notes to the Financial Statements - Continued

June 30, 2019

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.

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

| | Principal | Interest | Total |
|-----------------------|------------------|-----------------|--------------|
| Years Ending June 30, | | | |
| 2020 | \$ 757,046 | \$ 72,184 | \$ 829,230 |
| 2021 | 783,189 | 46,041 | 829,230 |
| 2022 | 810,045 | 19,185 | 829,230 |
| 2023 | 126,540 | 517 | 127,057 |
| | \$ 2,476,820 | \$ 137,927 | \$ 2,614,747 |

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, 2019, the balance of this loan was \$5,376,149.

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, 2019, the balance of this loan was \$2,843,844.

QUONSET DEVELOPMENT CORPORATION
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Notes to the Financial Statements - Continued

June 30, 2019

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

Loans Payable - continued

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 2019. 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, 2019, the balance of this loan was \$442,106. 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, 2019, the balance of this loan was \$60,744.

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, 2019, the balance of this loan was \$3,500,000.

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, 2019, the balance of this loan was \$2,673,865.

QUONSET DEVELOPMENT CORPORATION
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Notes to the Financial Statements - Continued

June 30, 2019

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

Loans Payable - continued

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

| | Principal | Interest | Total |
|-----------------------|------------------|-----------------|---------------|
| Years Ending June 30, | | | |
| 2020 | \$ 1,976,536 | \$ 687,664 | \$ 2,664,200 |
| 2021 | 1,898,668 | 607,639 | 2,506,307 |
| 2022 | 1,815,293 | 524,207 | 2,339,500 |
| 2023 | 1,896,818 | 437,744 | 2,334,562 |
| 2024 | 1,358,371 | 356,692 | 1,715,063 |
| 2025-2029 | 5,951,022 | 1,541,966 | 7,492,988 |
| | \$ 14,896,708 | \$4,155,912 | \$ 19,052,620 |

Interest costs on all debt for the year ended June 30, 2019 were \$658,849.

Note 9 - **Pension Plan**

Employees of the Corporation hired prior to January 1, 2006 are covered by a cost sharing multiple-employer defined benefit pension plan, the Rhode Island Commerce Corporation Pension and Trust (the "Plan"), administered by Rhode Island Commerce Corporation ("RICC"). Under a cost-sharing plan, pension obligations for employees of all employers are pooled and Plan assets are available to pay the benefits of the employees of any participating employer providing pension benefits through the Plan, regardless of the status of the employers' payment of its pension obligation to the Plan. The Plan provides retirement, disability, and death benefits to Plan members and beneficiaries. Cost-of-living adjustments are provided to members and beneficiaries. The Plan assigns RICC the authority to amend benefit provisions. The actuarially determined benefits are based on 60% of average compensation and are adjusted based on length of service. The minimum length of service is one year, and employees are fully vested after 5 years of service.

QUONSET DEVELOPMENT CORPORATION
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Notes to the Financial Statements - Continued

June 30, 2019

Note 9 - **Pension Plan - Continued**

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, \$352,911 and \$352,912 for the fiscal years ended June 30, 2019, 2018 and 2017, respectively, equal to 100% of the required contributions for each year.

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

Pension Asset (Liabilities), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2019, the Corporation reported an asset of \$783,000 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, 2018 and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation date of July 1, 2017. The Corporation's proportion of the net pension asset was based on its share of contributions to the Plan for fiscal year 2018 relative to the total contributions of all participating employers for that fiscal year. At June 30, 2018 the Corporation's proportion was 59.19%.

For the year ended June 30, 2019, the Corporation recognized a pension benefit of \$174,828.

The \$352,912 reported as deferred outflows of resources related to pensions resulting from the Corporation's contributions in fiscal year 2019 subsequent to the measurement date will be recognized as a change of the net pension asset (liability) for the year ended June 30, 2019.

QUONSET DEVELOPMENT CORPORATION
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Notes to the Financial Statements - Continued

June 30, 2019

Note 9 - **Pension Plan - Continued**

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

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

| <u>Years Ending</u> <u>June 30,</u> | <u>Amount</u> |
|--|---------------------|
| 2019 | \$ (105,416) |
| 2020 | (29,794) |
| 2021 | (233,164) |
| 2022 | <u>(114,508)</u> |
| | <u>\$ (482,882)</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, 2018, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of July 1, 2017 and adjusted through June 30, 2018.

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.

QUONSET DEVELOPMENT CORPORATION
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Notes to the Financial Statements - Continued

June 30, 2019

Note 9 - **Pension Plan - Continued**

Actuarial Assumptions - continued

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% |
| | 100.00% | |

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

Discount Rate

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

QUONSET DEVELOPMENT CORPORATION
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Notes to the Financial Statements - Continued

June 30, 2019

Note 9 - **Pension Plan - Continued**

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the net pension liability (asset) calculated using the discount rate of 6.5 percent as well as what the net pension liability (asset) 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%) |
|---------------------------|-------------------------------------|---------------------------|
| \$ 520,968 | \$ (783,000) | \$ (1,892,630) |

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, administrated 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, 2019, 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, 2019 were \$107,150. 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, 2019

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, 2019, 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, 2019, the Corporation was obligated for the completion of certain construction contracts under commitments totaling \$2,961,132 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, 2019

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

Legal Contingencies

In the opinion of management, no litigation either pending, or threatened that would materially affect the Corporation's financial position.

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, 2019 are as follows:

| Years Ending <u>June 30,</u> | <u>Amount</u> |
|---------------------------------|-----------------------|
| 2020 | \$ 7,095,760 |
| 2021 | 6,241,063 |
| 2022 | 6,323,237 |
| 2023 | 6,176,261 |
| 2024 | 6,023,024 |
| Thereafter | <u>191,574,888</u> |
| Total | <u>\$ 223,434,233</u> |

The following reports the cost and accumulated depreciation for buildings under lease agreements at June 30, 2019:

| | |
|--------------------------------|----------------------|
| Cost | \$ 20,613,954 |
| Less: accumulated depreciation | <u>2,689,490</u> |
| | <u>\$ 17,924,464</u> |

QUONSET DEVELOPMENT CORPORATION
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Notes to the Financial Statements - Continued

June 30, 2019

Note 12 - **Rentals Under Operating Leases - Continued**

During the year, there was a cash buy-out of a lease by a tenant that resulted in lease buy-out fees of \$900,000. These lease buy-out fees occurred during the ordinary course of operations and was reported as other operating revenue in the statement of revenues and expenses and change in net position.

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 \$22,500 for the year ended June 30, 2019.

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> |
|---------------------------------|------------------|
| 2020 | 21,882 |
| 2021 | 9,479 |
| Total | <u>\$ 31,361</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 and Providence Plantations)

Notes to the Financial Statements - Continued

June 30, 2019

Note 14 - **State Appropriations - Continued**

The estimated cost of the project over a six-year period is \$90 million and will be completed in fiscal year 2022. The Corporation is expecting approximately \$4 million related to the Pier 2 project to be funded by the Corporation's operating funds, approximately \$21 million to be funded by revenue bonds issued through the Rhode Island Commerce Corporation and approximately \$15 million in appropriations from the Rhode Island Capital Plan (RICAP) fund. The revenue bonds are expected to be issued in fiscal year 2020 and will be repaid by the Corporation.

During the year ended June 30, 2019, approximately \$3.5 million was appropriated from RICAP funds and approximately \$15.6 million was appropriated from the State of Rhode Island from the issuance of General Obligation Bonds for the Pier 2 project.

General Infrastructure Project - Tenant

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

The 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, 2019, approximately \$4 million was appropriated from RICAP funds for the general infrastructure project and approximately \$9.4 million was contributed by a tenant.

State Capital Plan Funds - Infrastructure Project

The RICAP Fund was modeled on a financial technique originating in the State of Delaware. The RICAP Fund is used for capital expenditures and for debt reduction. The technique is a "pay-as-you-go" capital funding program which has been a key factor in improving the state's debt management policies. The Corporation received appropriations from RICAP Funds for both the Pier 2 Project and for general infrastructure projects during the year ended June 30, 2019.

**REQUIRED SUPPLEMENTARY
INFORMATION**

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

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, 2019</u> | <u>June 30, 2018</u> | <u>June 30, 2017</u> | <u>June 30, 2016</u> | <u>June 30, 2015</u> |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|
| Valuation date | 6/30/2017 | 6/30/2016 | 6/30/2015 | 6/30/2014 | 6/30/2013 |
| Measurement date | 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% | 59.53% | 59.12% | 57.85% |
| Corporation's proportionate share of the net pension asset (liability) | \$ 783,000 | \$ (120,839) | \$ (917,526) | \$ (2,482) | \$ 656,075 |
| Corporation's covered-employee payroll | \$ 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 | 52.32% | -7.50% | -52.36% | -0.13% | 34.86% |
| Plan fiduciary net position as a percentage of the total pension liability | 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 four years.

See accompanying notes to the required supplemental information.

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

Schedule of the Corporation's Contributions (Unaudited)

| Year ended | <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 | \$ 352,911 | \$ 352,912 | \$ 144,768 | \$ 86,736 |
| Contributions in relation to the contractually required contribution | <u>(352,912)</u> | <u>(352,911)</u> | <u>(352,912)</u> | <u>(144,768)</u> | <u>(86,736)</u> |
| Contribution excess | <u>\$ -</u> |
| Corporation's covered-employee payroll | \$ 1,567,615 | \$ 1,496,555 | \$ 1,611,747 | \$ 1,752,376 | \$ 1,848,245 |
| Contribution as a percentage of covered-employee payroll | 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 four 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, 2019

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 and Providence Plantations)

Schedule of Travel and Entertainment Expenses

For the Year Ended June 30, 2019

| <u>Date</u> | <u>Pavee</u> | <u>Amount</u> | <u>Purpose</u> | <u>Traveler</u> |
|-------------|-----------------|---------------|--|---|
| 1/31/2019 | BLACKBURNROBERT | \$ 5.00 | Jan 2019 Mileage | Robert Blackburn |
| 2/22/2019 | AMERASSOCPORT | 845.00 | 3/19-3/21 Conference | Robert Blackburn |
| 3/7/2019 | NORTHKINGCC | 35.00 | NK Chamber of Commerce | Robert Blackburn |
| 3/14/2019 | BLACKBURNROBERT | 152.00 | NAMHA Meeting | Robert Blackburn |
| 3/14/2019 | BLACKBURNROBERT | 568.99 | FVL Conference | Robert Blackburn |
| 3/21/2019 | BLACKBURNROBERT | 79.58 | NAMH Meeting | Robert Blackburn |
| 3/28/2019 | ULTIMAMEDIALTD | 2,350.00 | Conf | Robert Blackburn |
| 4/24/2019 | WASHTRUSTVISA | 45.00 | Propeller Club - B Blackburn | Robert Blackburn |
| 5/7/2019 | NORTH ATLANTIC | 260.00 | Annual MTG 2019 | Robert Blackburn |
| 5/31/2019 | WASHTRUSTVISA | 195.00 | World Trade Day - B Blackburn | Robert Blackburn |
| 11/30/2018 | WASHTRUSTVISA | 398.76 | NERPCA Hotel - BY & KA | William Young & Kristen Andel |
| 12/19/2018 | TRAPANI | 20.45 | Mileage July-Dec | Katherine Trapani |
| 5/3/2019 | NORTHKINGCC | 70.00 | Chamber Event, SW, NL & BB | Stephanie Werbe, Norine Lux & Robert Blackburn |
| 6/12/2019 | MCCULLOUGH MATT | 12.00 | Petty Cash, Parking | Steven King & Kevin Barry |
| 8/30/2018 | NEREGIONALPRETR | 350.00 | Pretreatment Workshop, BY & KA | William Young & Kristen Andel |
| 9/27/2018 | RIPEC | 2,500.00 | 2018 Annual Dinner RIPEC | Steven King & Kevin Barry & RIPEC Guests |
| 2/7/2019 | PROVIDENCEENGIN | 450.00 | Engineer of the Year T Spinard- Annual Mtg | Steven King, Kevin Barry, William Young, Katherine Trapani, Gina Capalbo, & Russell Hillman |
| 2/20/2019 | ACEC | 100.00 | Smart Cities Conf | Katherine Trapani & Stephanie Werbe |
| 3/7/2019 | NORTHKINGCC | 70.00 | Annual Mtg, BB & SK | Steven King & Robert Blackburn |
| 4/30/2019 | NEARC | 65.00 | NEARC Spric Conf - AA | Antonio Ambrosio |
| 5/31/2019 | WASHTRUSTVISA | 60.00 | Grow Smart - K Andel | Kristen Andel |
| 9/30/2018 | BLACKBURNROBERT | 60.00 | NY, NY | Robert Blackburn |
| 10/17/2018 | BLACKBURNROBERT | 825.74 | 10/18 Houston, TX, Break bulk | Robert Blackburn |
| 10/25/2018 | BLACKBURNROBERT | 114.00 | Train NYC 10/30/18 | Robert Blackburn |
| 10/31/2018 | BLACKBURNROBERT | 36.50 | Oct 2018 expenses | Robert Blackburn |
| 11/19/2018 | BLACKBURNROBERT | 42.00 | Marad Grant Lunch | Robert Blackburn |
| 11/28/2018 | BLACKBURNROBERT | 184.00 | R/T Train to NJ | Robert Blackburn |
| 11/30/2018 | WASHTRUSTVISA | 449.04 | Hilton Garden, Plymouth, MA E Ryan | Eric Ryan |
| 12/27/2018 | BLACKBURNROBERT | 210.00 | NAMHA - train to NYC | Robert Blackburn |
| 1/25/2019 | BLACKBURNROBERT | 41.50 | Travel 1/22/19 | Robert Blackburn |
| 2/26/2019 | BLACKBURNROBERT | 269.59 | North Atlantic Ports | Robert Blackburn |
| 2/28/2019 | BLACKBURNROBERT | 7.50 | Feb 2019 Mileage | Robert Blackburn |
| 3/21/2019 | BLACKBURNROBERT | 30.00 | NAMH Meeting | Robert Blackburn |
| 3/26/2019 | BLACKBURNROBERT | 991.78 | AAPA Spring Conference | Robert Blackburn |
| 4/30/2019 | BLACKBURNROBERT | 1,275.79 | April 19, 19 FVL Conference | Robert Blackburn |
| 5/3/2019 | NORTHKINGCC | 35.00 | NK Chamber of Commerce | Robert Blackburn |
| 6/11/2019 | MORRISOND | 91.27 | Dan Morrison FSO School | Daniel Morrision |
| 6/18/2019 | BLACKBURNROBERT | 678.15 | NAMHA & MHI Vestas Mtgs | Robert Blackburn |
| 9/13/2018 | BLACKBURNROBERT | 524.00 | Bbulk 2018 Conf | Robert Blackburn |
| 9/25/2018 | BLACKBURNROBERT | 249.73 | Marine Highway Conf 9/18/18 | Robert Blackburn |
| 9/27/2018 | BLACKBURNROBERT | 890.56 | Auto Logistics /MH conf 9/18/18 | Robert Blackburn |
| 11/30/2018 | BLACKBURNROBERT | 5.00 | Nov 2018 Mileage | Robert Blackburn |
| 4/30/2019 | ROBERT W. RAY | 133.98 | NEWWA Training Seminar | Robert Ray |
| 4/30/2019 | ATLANTICSTATES | 330.00 | AS Rural Water annual Conf JF, DF, JB | Jimmy Folco, Douglas Fredette & Joseph Bruni |
| 2/22/2019 | COURTEMANCHE | 25.00 | Petty Cash, DC Train to Boston, NEWEA | Dennis Colberg |
| 6/27/2019 | DAVIESEDWARD | 215.76 | Mileage May 19 | Edward Davies |
| 6/30/2019 | DAVIESEDWARD | 128.76 | JUNE Accrual | Edward Davies |
| 9/6/2018 | NWPCA | 150.00 | Narr. Water Pollution Control Annual MTG - DC, BY, TA, BG & KG | Dennis Colberg, William Young, Timothy Andrews, Brian Goodwin & Kevin Gardner |
| 4/30/2019 | ATLANTICSTATES | 110.00 | ASRW Conf 4/24/19 - ED | Edward Davies |
| 4/30/2019 | NWPCA | 105.00 | NWPC - AWARDS dinner 4 attendees | William Young, Edward Davies, Timothy Andrews & Brian Goodwin |
| | Total | \$ 16,841.43 | | |

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

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2019

| <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> |
|---|----------------------------------|------------------------|---------------------------------|---|
| National Guard Military Operations and Maintenance (O&M) Projects | Rhode Island Airport Corporation | 12.401 | \$ 4,459,418 | \$ 4,459,418 |
| Total Expenditures of Federal Awards | | | <u>\$ 4,459,418</u> | <u>\$ 4,459,418</u> |

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

Notes to the Schedule of Expenditures of Federal Awards

June 30, 2019

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal award activity of Quonset Development Corporation, a component unit of the State of Rhode Island and Providence Plantations (the “Corporation”), under programs of the Federal Government for the year ended June 30, 2019. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”). Because the Schedule presents only a selected portion of the operations of the Corporation, it is not intended to and does not present the financial position, changes in net position or cash flows of the Corporation.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenses are recognized following the cost principles contained in the Uniform Guidance.

Note 3 - Determination of Major Programs

The determination of major federal financial assistance programs was based on the overall level of expenditures for all federal programs for the State of Rhode Island, of which the Corporation is a component unit. As such, the determination of major programs is made at the State level, where it was determined that none of the Corporation’s federal programs were major programs during the State fiscal year ended June 30, 2019.

Note 4 - Passed Through to Subrecipients

The Corporation passed through \$4,459,418 of federal awards to subrecipients for the National Guard Military Operations and Maintenance (O&M) Projects during the state fiscal year ended June 30, 2019.

Note 5 - Indirect Cost Rate

The Corporation has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance in certain circumstances.

**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, 2019, the related statement of revenues and expenses, 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 17, 2019.

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) to determine the 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 determination of financial statement amounts. 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.

O'Connell and Duen, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

September 17, 2019