

BLOCK ISLAND UTILITY DISTRICT

FINANCIAL STATEMENTS

AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2020

BLOCK ISLAND UTILITY DISTRICT

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INDEPENDENT AUDITORS' REPORT

To The Board of Utility Commissioners
Block Island Utility District
New Shoreham, Rhode Island

Report on the Financial Statements

We have audited the accompanying financial statements of the Block Island Utility District (District), as of December 31, 2020, and for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our 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 the Block Island Utility District, as of December 31, 2020, and its changes in financial 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 management's discussion and analysis on pages 3–9 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 16, 2021, on our consideration of the District'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Marcum LLP

Providence, RI
April 16, 2021

BLOCK ISLAND UTILITY DISTRICT

MANAGEMENT'S DISCUSSION & ANALYSIS

DECEMBER 31, 2020

Overview of the Entity:

In the January 2017 session, the Rhode Island General Assembly passed the Block Island Utility District Act of 2017 enabling the creation of the Block Island Utility District. In October of 2017, the first Utility District election was held in which five Utility District Commissioners were duly elected by the Utility District's ratepayer/members. On January 16, 2019, the Utility District reached an agreement with the Block Island Power Company to acquire the assets of the power company for \$5,800,000. On March 25, 2019, the acquisition was closed and the Utility District began operating as the Block Island Utility District DBA Block Island Power Company.

The Utility District purchased all of the real property, personal property, rights in any real and personal property, facilities, equipment, contract rights, other tangible and intangible property owned by Block Island Power Company, subject to all rights of the Block Island Power Company's ratepayers as delineated in state law and in previous orders of the Rhode Island Public Utilities Commission and the Rhode Island Division of Public Utilities and Carries.

The Utility District also purchased the rights to use the names "Block Island Power Company" and "BIPCo".

The Utility District assumed the following liabilities, without limitation, of the Block Island Power Company: trade payables, accrued expenses, accrued payroll and withholdings, customer deposits, all liabilities and obligations of certain business contracts, liabilities to customers for repair or replacement of products sold or delivered prior to the closing and any other liabilities reflected in the power company's general ledger.

The acquisition was a purchase of the assets and not a de facto-merger of the Block Island Utility District and the Block Island Power Company.

Within this section of the District's annual financial report, management provides discussion and analysis of the financial activities of the District for the year ended December 31, 2020 as compared to the previous fiscal year ended December 31, 2019. The District's performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

Financing:

The acquisition was financed by a non-secured line of credit in the amount of \$5,800,000 provided by the National Rural Utilities Cooperative Finance Corporation ("CFC"). Additionally, upon closing, CFC provided the Utility District with an unsecured operating Line of Credit in the amount of \$670,000. \$370,000 was made available for operating expenses and \$300,000 is reserved for a contingent liability in the event that the original Block Island Power Company (now Island Light and Power) is required to compensate its minority shareholder, through a final judgement of a court of competent jurisdiction, by any amount greater than \$900,000.

BLOCK ISLAND UTILITY DISTRICT

MANAGEMENT'S DISCUSSION & ANALYSIS

DECEMBER 31, 2020

On July 15, 2019, the Rhode Island Division of Public Utilities and Carriers (RI-DPUC) approved the Utility District's long-term debt application. Following a 30-day appeal period, the Utility District and CFC executed a Mortgage and Securities Agreement securing the \$5,800,000 loan and subsequently securing the \$670,000 Line of Credit.

CFC also issued the Utility District a \$250,000 Letter of Credit for purposes of posting financial assurance to the ISO-New England for power supply and transmission expenses.

The financing, acquisition and organizational activities that took place in 2019 took a significant effort on the part of the Utility District Commissioners and management, designed to yield savings from operating as a nonprofit. The savings have created significant value for the Utility District's rate payer/members and will help support the Utility District's ongoing short and long-term goals, which include a capital intensive plan to rebuild a previously neglected and run-down distribution system as well as investment in member-facing programs such as an efficiency program.

On September 1, 2019, the Utility District submitted a revenue neutral rate case for consideration by the Rhode Island Public Utilities Commission (RI-PUC). The rate case included a significant capital program, a voltage conversion fund, an efficiency program as well as other critical programs, with no additional rate increase requested by the Utility District. The Utility District and the DPUC have reached a settlement agreement and the new rates went into effect on June 1, 2020.

Overview of the Financial Statements:

The financial statements include (1) the statement of net position, (2) the statement of revenue, expenses and changes in net position, (3) the cash flow statement, and (4) notes to the financial statements.

The statement of net position is designed to indicate our financial position as of a specific point in time. Our net position increased in the current period by \$746,133.

The statement of revenues, expenses and changes in net position summarizes our operating results and reveals how much, if any, income was earned for the period. As discussed in more detail below, our operating gain for the year was \$248,555.

The statement of cash flows provides information about the cash receipts and cash payments during the accounting period. It also provides information about the investing and financing activities for the same period. A review of our cash flows indicates that the cash receipts from operating activities (sales of electricity) adequately covered electric operating expenses, capital additions and debt service.

BLOCK ISLAND UTILITY DISTRICT

MANAGEMENT'S DISCUSSION & ANALYSIS

DECEMBER 31, 2020

Financial Highlights:

Summary of Net Position

Presented below is the District's condensed summary of net position at December 31, 2020 compared to December 31, 2019. The statement of net position presents the assets and deferred outflows of resources, liabilities, and net position of the District's at the end of the fiscal year. The purpose of the statement of net position is to give the financial statement readers a snapshot of the fiscal condition of the District as of a certain point in time. It presents end of year data for assets, deferred outflows of resources, liabilities, and net position (assets and deferred outflows of resources, minus liabilities).

	<u>2020</u>	<u>2019</u>	<u>\$ Change</u>	<u>% Change</u>
Current assets	\$ 1,766,378	\$ 1,455,376	\$ 311,002	21.4%
Noncurrent assets	6,655,370	6,296,373	358,997	5.7%
Deferred outflows of resources	<u>176,134</u>	<u>202,751</u>	<u>(26,617)</u>	-13.1%
Total assets and deferred outflows of resources	<u>\$ 8,597,882</u>	<u>\$ 7,954,500</u>	<u>\$ 643,382</u>	8.1%
Current liabilities	\$ 1,249,864	\$ 1,266,917	\$ (17,053)	-1.3%
Long-term debt, net of current portion	<u>5,786,236</u>	<u>5,871,934</u>	<u>(85,698)</u>	-1.5%
Total liabilities	<u>7,036,100</u>	<u>7,138,851</u>	<u>(102,751)</u>	-1.4%
Net investment in capital assets	753,513	273,705	\$ 479,808	175.3%
Restricted for capital and power	232,673	248,357	(15,684)	-6.3%
Unrestricted net position	<u>575,596</u>	<u>293,587</u>	<u>282,009</u>	96.1%
Total net position	<u>1,561,782</u>	<u>815,649</u>	<u>746,133</u>	91.5%
Total liabilities, deferred inflows of resources and net position	<u>\$ 8,597,882</u>	<u>\$ 7,954,500</u>	<u>\$ 643,382</u>	8.1%

Total assets of the District at December 31, 2020 and 2019 were \$8,421,748 and \$7,751,749, respectively, a change of 8.64%. The significant components of current assets are cash, unbilled revenues, and material and supplies inventory. The significant components of noncurrent assets are capital assets and deferred regulatory assets. Capital assets include land, buildings and building improvements, construction in progress, and equipment. All capital assets except for land and construction in progress are shown net of accumulated depreciation.

BLOCK ISLAND UTILITY DISTRICT

MANAGEMENT'S DISCUSSION & ANALYSIS

DECEMBER 31, 2020

Total liabilities of the District at December 31, 2020 and 2019 were \$7,036,100 and \$7,138,851, respectively, a change of 1.4%. Current liabilities include accounts payable, accrued liabilities, unearned revenue and current portion of notes payable. Noncurrent liabilities are primarily made up of the long-term portion of debt and retirement liability.

Deferred outflows of resources relate to the District's retirement liability. In 2020, the District's retirement liability related deferred outflows decreased by \$26,617.

Net position represents the District's equity, which is accounted for in three major categories. The first category, net investment in capital assets, represents the District's equity in land, buildings and building improvements, construction in progress, and equipment, net of related capital debt outstanding. The next net position category is restricted net position; this shows the amounts subject to external restriction. The last category is unrestricted net position; these funds are available to use for any lawful and prudent purpose of the District. Unrestricted net position increased by \$282,009, or 96.1%, for the fiscal year.

Summary of Revenues, Expenses and Changes in Net Position

Presented below is the condensed summary of revenues, expenses and changes in net position information for fiscal year ended December 31, 2020 compared to the year ended December 31, 2019. The information reflects the results of operations for the District. All revenues and expenses are accounted for on an accrual basis.

	<u>2020</u>	<u>2019</u>	<u>\$ Change</u>	<u>% Change</u>
Operating revenues	\$ 5,193,522	\$ 4,607,624	\$ 585,898	12.7%
Operating expenses	<u>4,944,967</u>	<u>3,823,859</u>	<u>1,121,108</u>	29.3%
Operating income	248,555	783,765	(535,210)	-68.3%
Nonoperating revenues net of nonoperating expenses	<u>497,578</u>	<u>55,935</u>	<u>441,643</u>	789.6%
Increase in Net Position	<u>\$ 746,133</u>	<u>\$ 839,700</u>	<u>\$ (93,567)</u>	-11.1%

While comparative data is available to be included in this management's discussion and analysis, the district was only operational in the previous year for nine months. Therefore, the data is not fully comparative.

BLOCK ISLAND UTILITY DISTRICT

MANAGEMENT'S DISCUSSION & ANALYSIS

DECEMBER 31, 2020

Utility Plant and Debt Administration:

The electric distribution system on Block Island consists of:

- Approximately 50 miles of distribution lines,
- A 2.4 kV Delta substation with six distribution circuits,
- A generation plant that consists of four Milton-Cat diesel generators totaling approximately 7 MW of capacity that are permitted to run 500 hours/year for back up operation, and
- An interconnection to National Grid's substation that is part of the Block Island Transmission System ("BITS"). The BITS is also connected to the Block Island Wind Farm, the nation's first offshore wind farm owned by Orsted.

The Utility District also owns the tallest communications tower on Block Island, which hosts two radio stations and four cellular carriers. This is a source of roughly \$250,000 in revenue for the Utility District per year which helps fund the operating budget. These financial statement represent nine months of the District being fully operational, therefore, the cell tower revenue generated under the District's name was less the annualized anticipated amount of \$250,000.

The Utility District's generation plant, substation, communications tower, facilities and interconnection are generally in fair to good condition. The distribution system, however, was neglected by the previous owners and will be the focus of the Utility District's future capital plans for the next 3-5 years. Additionally, the capacity of the distribution system requires an imminent upgrade that can be achieved with a voltage conversion from 2.4 kV Delta to 4.160 kV Wye. The voltage conversion will, essentially, double the capacity of the circuits that are converted, allowing for future load growth necessary to support beneficial electrification and a growing summer economy. The voltage conversion will take place over a 1-5 year period planned to start in 2020.

The Utility District utilizes a fully deployed, point to point radio AMI system that allows access to real time 5-minute interval data. This data is housed in a cloud-based Meter Data Management System (MDMS) that is fully integrated with the Utility District's comprehensive iVUE software package provided by the National Information Systems Cooperative (NISC). The systems include a customer information system (CIS), accounting system (ABS), a GIS based mapping system, an outage management system (OMS), a customer facing mobile application (Smarthub) that allows for online access to usage and payment information and a mobile field application that all employees utilize on iPads which gives full access to all our systems based on needs and permissions.

BLOCK ISLAND UTILITY DISTRICT

MANAGEMENT'S DISCUSSION & ANALYSIS

DECEMBER 31, 2020

Capital Assets

At December 31, 2020, capital assets, net of accumulated depreciation was \$6,422,697 which includes land, buildings and building improvements, construction in progress, and equipment. The schedule below reflects the changes in capital assets, net of depreciation, from December 31, 2019 to December 31, 2020:

	<u>Block Island Utility District's</u> <u>Capital Assets</u> <u>(Net of depreciation)</u>			
	<u>2020</u>	<u>2019</u>	<u>\$ Change</u>	<u>% Change</u>
Land and land rights	\$ 867,685	\$ 863,921	\$ 3,764	0.4%
Construction in progress	92,430	544	91,886	16890.8%
Buildings and improvements	1,478,511	1,424,568	53,943	3.8%
Equipment	4,481,337	3,958,815	522,522	13.2%
Accumulated depreciation	<u>(497,266)</u>	<u>(199,832)</u>	<u>(297,434)</u>	148.8%
Total	<u>\$ 6,422,697</u>	<u>\$ 6,048,016</u>	<u>\$ 374,681</u>	6.2%

Additional information on the Block Island Utility District's capital assets can be found in Note 6 to the financial statements, which accompany this report.

Debt Administration

At December 31, 2020, the District had total long-term debt of \$5,819,021, an increase of \$44,710 compared to the prior year. Additional information on the District's long-term debt can be found in the notes to financial statements.

	<u>2020</u>	<u>2019</u>	<u>\$ Change</u>	<u>% Change</u>
Notes payable	<u>\$ 5,819,021</u>	<u>\$ 5,774,311</u>	<u>\$ 44,710</u>	0.8%
Total	<u>\$ 5,819,021</u>	<u>\$ 5,774,311</u>	<u>\$ 44,710</u>	0.8%

Additional information on the Block Island Utility District's long term debt can be found in Note 10 to the financial statements, which accompany this report.

Credit Rating

The Block Island Utility District does not have a credit rating at this time, and is not required to have a credit rating by CFC. We continue to evaluate the costs and benefits of obtaining a credit rating and will do so if the benefits outweigh the costs.

BLOCK ISLAND UTILITY DISTRICT

MANAGEMENT'S DISCUSSION & ANALYSIS

DECEMBER 31, 2020

Request for Information

The financial report is designed to provide our customers, Board of Utility Commissioners, and creditors with a general overview of the District's finances and to show the District's accountability for the customer charges received. Questions concerning this report, or requests for additional information, should be directed to Mr. Jeffery M. Wright, President or William Penn, Treasurer, Block Island Utility District, 100 Ocean Avenue, P.O. Box 518, Block Island, RI 02807, Telephone (401)466-5851.

BLOCK ISLAND UTILITY DISTRICT

STATEMENT OF NET POSITION

DECEMBER 31, 2020

Capital Assets

Utility Plant in Service:

Land, at cost	\$ 867,685
Buildings and equipment, at cost	<u>5,959,848</u>

Total land, buildings, and equipment, at cost 6,827,533

Less: accumulated depreciation 497,266

Net Utility Plant in Service 6,330,267

Construction in Progress 92,430

Capital Assets, Net 6,422,697

Current Assets

Cash	839,877
Cash, customer deposits	92,029
Accounts receivable, customers (net)	49,491
Accounts receivable, other	4,500
Unbilled revenues	321,341
Materials and supplies inventory	385,505
Prepayments	<u>73,635</u>

Total Current Assets 1,766,378

Other Assets

Deferred regulatory asset - rate case	136,698
Deferred regulatory asset - direct assignment facilities charges	<u>95,975</u>

Total Other Assets 232,673

Deferred Outflows of Resources

Retirement plan related outflows	<u>176,134</u>
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Total Assets and Deferred Outflows of Resources \$ 8,597,882

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

BLOCK ISLAND UTILITY DISTRICT
STATEMENT OF NET POSITION (CONTINUED)

DECEMBER 31, 2020

Net Position

Net investment in capital assets	\$ 753,513
Restricted:	
Regulatory costs - rate case	136,698
Direct Assignment Facility charges	95,975
Unrestricted net position	<u>575,596</u>

Total Net Position	<u>1,561,782</u>
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Long-Term Liabilities

Notes payable - net of current portion	5,610,102
Retirement liability	<u>176,134</u>

Total Long-Term Liabilities	<u>5,786,236</u>
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Current Liabilities

Notes payable - current portion	208,919
Accounts payable	381,993
Accrued compensated absences	37,114
Accrued expenses - other	142,720
Voltage conversion	58,700
Unearned revenue	328,389
Customer deposits	<u>92,029</u>

Total Current Liabilities	<u>1,249,864</u>
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Total Liabilities	<u>7,036,100</u>
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Total Liabilities and Net Position	<u><u>\$ 8,597,882</u></u>
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The accompanying notes are an integral part of these financial statements.

BLOCK ISLAND UTILITY DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEAR ENDED DECEMBER 31, 2020

Operating Revenues	<u>\$ 5,193,522</u>
Operating Expenses	
Operation and maintenance	3,291,560
General and administrative	1,290,710
Depreciation	297,434
Payroll taxes	<u>65,263</u>
Total Operating Expenses	<u>4,944,967</u>
Operating Income	<u>248,555</u>
Non-Operating Revenue (Expense)	
Grant revenue - solar project	329,885
Miscellaneous revenues	101,228
Rental income - cell tower	230,300
Rental income - antenna sites	7,200
Rental income - property	33,400
Interest on debt	<u>(204,435)</u>
Net Non-Operating Revenue	<u>497,578</u>
Net Income	746,133
Net Position - Beginning of Year	<u>815,649</u>
Net Position - End of Year	<u><u>\$ 1,561,782</u></u>

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

BLOCK ISLAND UTILITY DISTRICT
STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2020

Cash Flows from Operating Activities	
Cash received from customers	\$ 5,361,534
Cash payments to employees	(930,129)
Cash payments to suppliers	<u>(3,853,949)</u>
Net Cash Provided by Operating Activities	<u>577,456</u>
Cash Flows from Noncapital Financing Activities	
Proceeds from noncapital debt	<u>149,837</u>
Net Cash Provided by Noncapital Financing Activities	<u>149,837</u>
Cash Flows from Capital and Related Financing Activities	
Capital acquisitions	(672,115)
Use of maintenance reserve	(380,715)
Proceeds from deferred regulatory assets	15,685
Proceeds from solar grant	329,885
Payments of loan principal	(105,128)
Proceeds from Block Island Power Company	108,146
Interest paid	<u>(204,435)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(908,677)</u>
Cash Flows from Investing Activities	
Other revenues	<u>378,037</u>
Net Cash Provided by Investing Activities	<u>378,037</u>
Net Increase in Cash	196,653
Cash, Beginning of Year	<u>735,253</u>
Cash, End of Year	<u><u>\$ 931,906</u></u>
Cash is reported in the financial statements as follows:	
Cash	\$ 839,877
Cash, customer deposits	<u>92,029</u>
Total	<u><u>\$ 931,906</u></u>

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

BLOCK ISLAND UTILITY DISTRICT
STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2020

Reconciliation of Operating Income to Net Cash Provided by

Operating Activities:

Cash Flows from Operating Activities:

Operating income	\$ 248,555
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	297,434
Changes in assets and liabilities:	
(Increase) in accounts receivable and unbilled revenue	(55,108)
(Increase) in materials and supplies inventory	(131,490)
(Increase) in prepayments	(43,806)
Increase in accounts payable and accrued liabilities	38,751
Increase in unearned revenue	203,262
Increase in customer deposits	<u>19,858</u>

Total Adjustments	<u>328,901</u>
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Net Cash Provided by Operating Activities	<u><u>\$ 577,456</u></u>
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The accompanying notes are an integral part of these financial statements.

BLOCK ISLAND UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

The Block Island Utility District (the Utility District) was established in 2017 by an act of the Rhode Island General Assembly as a quasi-municipal non-profit corporation having a distinct legal existence to the State of Rhode Island. Major functions include electric distribution utility services on Block Island.

A five-member Board of Utility Commissioners has full management authority over the Utility District. The electric utility is also subject to regulations by the Rhode Island Public Utilities Commission (RIPUC).

The accounting methods and procedures adopted by the District conform to accounting principles generally accepted in the United States of America (GAAP) for governments as promulgated by the Governmental Accounting Standards Board (GASB) and specifically applicable to enterprise funds and follow the uniform system of accounts prescribed by regulatory bodies having jurisdiction over its activities. The more significant of the District's accounting policies are described below.

REPORTING ENTITY

In evaluating how to define the District, for financial reporting purposes, management has applied the entity definition criteria of GASB in considering all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*. Under GASB Statement No. 61, a legally separate entity is required to be included as a component unit if it is fiscally dependent upon the primary government and there is a financial benefit or burden relationship present. The primary government is financially accountable if it appoints the voting majority of the organizations governing board and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government. A potential component unit has a financial benefit or burden relationship with the primary government if, for example, any one of the following conditions exists:

- a) The primary government is legally entitled to or can otherwise access the organization's resources.
- b) The primary government is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization.
- c) The primary government is obligated in some manner for the debt of the organization.

Based upon the application of the criteria, it was determined that there were no component units to be reported.

BLOCK ISLAND UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF ACCOUNTING

The District presents its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) promulgated by the GASB. Under the accrual basis revenues are recognized when earned and expenses when the related liability for goods and services is incurred, regardless of the timing of cash flows.

The Federal Energy Regulatory Commission (FERC) uniform system of accounts has been adopted by the Utility District.

The District is reported as an enterprise fund. Enterprise funds function similar to private businesses where the intent is that costs are financed primarily through billings to those who benefit from the services provided.

NEW ACCOUNTING STANDARDS ADOPTED

During 2020, the District did not adopt any accounting standards that would have a material impact the District's financial statements.

CASH AND CASH EQUIVALENTS

The District considers cash equivalents to be all highly liquid investments with a maturity of three months or less when purchased. There were no cash equivalents held at year end.

RECEIVABLES AND UNBILLED REVENUE

Accounts receivable from customers are shown net of a provision for uncollectible accounts of \$9,252. Accounts receivable are considered uncollectible and written off when all legal means for collection have been exhausted. Estimated unbilled revenues from electric sales are recognized at the end of each calendar year. The estimated amount is based on billings during the period following the close of the calendar year.

REVENUE RECOGNITION

Electric division revenues are based on rates established by the District and filed with the Rhode Island Public Utility Commission (RIPUC). Revenues from sales of electricity are recorded on the basis of consumption by customers based on monthly meter readings taken on a cycle basis. Revenues are stated net of discounts and any related bad debts.

BLOCK ISLAND UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MATERIALS AND SUPPLIES INVENTORY

Materials and supplies inventory consists of electrical utility parts and supplies valued at cost. Cost is determined using a weighted average method on a first-in-first-out basis. The cost of materials and supplies is capitalized and recorded as capital additions or expenses when installed or consumed, rather than when purchased.

CAPITAL ASSETS

Additions to capital assets with an individual cost of more than \$500 and an estimated useful life of more than one year are classified as capital assets. The cost of additions to utility plants includes contracted work, direct labor, materials, and other indirect charges (and interest, if applicable). Donated assets are valued at their estimated fair value on the date donated. Repairs and maintenance are recorded as expenses when incurred.

Depreciation of capital assets is charged as an expense against operations, and accumulated depreciation is reported on the statement of net position. Depreciation has been provided over the assets estimated useful lives of 5 to 50 years using the straight-line method of depreciation. No depreciation is taken on land or land rights. Depreciation is begun in the year when the asset is placed in service. The cost of property sold, retired or otherwise disposed of is removed from the asset account, and the related depreciation is removed from the accumulated depreciation account. The resulting gain or loss is reported in the statement of revenues, expenses, and changes in net position.

LONG-LIVED ASSETS IMPAIRMENT

The District reviews the carrying value of its long-lived assets to ensure that any impairment issues are identified and appropriately reflected in the financial statements. Factors involved in this review include the market value of the assets, business conditions, future plans for asset use, and the expected future cash flows generated from the assets. Should the expected cash flows be less than the carrying value, an impairment loss would be recognized to reduce the carrying value. No impairment losses were recognized in the 2020 financial statements.

PENSIONS

For purposes of measuring the retirement liability, benefit payments are recognized when due and payable in accordance with benefit terms.

BLOCK ISLAND UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

RESTRICTED VERSUS UNRESTRICTED RESOURCES

When both restricted and unrestricted amounts are available for use, it is the District's practice to use restricted resources first.

SUBSEQUENT EVENTS

The District has evaluated subsequent events through April 16, 2021, the date the financial statements were available to be issued. Except as noted below, there were no events identified which require recognition or disclosure in the financial statements. The District received notice on March 29, 2021 from their bank that the Promissory Note entered into on May 28, 2020 for \$149,837 has been completely forgiven and is considered paid in full.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

DEPOSITS WITH FINANCIAL INSTITUTIONS

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. It is the District's policy to follow the requirements contained in Section 35-10.1-7 of the General Laws of the State of Rhode Island, dealing with the collateralization of public deposits, which requires that all time deposits with maturities of greater than 60 days and all deposits in institutions that do not meet the minimum capital requirements of its Federal regulator must be collateralized.

BLOCK ISLAND UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

NOTE 3 – NET POSITION

Net position is reported in three categories:

Net Investment in Capital Assets consists of all capital assets, reduced by accumulated depreciation, the outstanding balances of any bonds, mortgages, notes or other borrowing that are attributable to the acquisition, construction, or improvement of those assets. At December 31, 2020, the net investment in capital assets was \$753,513.

Restricted Net Position consists of restricted assets, when constraints are placed on the assets by creditors, grantors, contributors, laws, regulations, etc. At December 31, 2020, restrictions of \$232,673, of which \$95,975 represents the net position restricted for Direct Assignment Facilities Charges which covers interconnection facilities and associated equipment located in National Grid's substation and the line connecting to the substation. This cost is based on a Gross Plan investment with a carrying charge. The remaining \$136,698 represents the net position restricted for regulatory costs.

Unrestricted Net Position is designed to represent the net available assets, for the entire District. At December 31, 2020, the unrestricted net position was \$575,596.

NOTE 4 – CASH

DEPOSITS

The District maintains deposits with financial institutions in excess of amounts insured by the Federal Deposit Insurance Corporation (“FDIC”). Beginning on January 1, 2013 the FDIC, insure up to \$250,000 per depositor, per insured depository institution for each account ownership category. At December 31, 2020, the carrying amount of the District’s cash was \$931,906. The District maintains its collateralization of US Government Securities with a 102% margin under a custodian agreement with the Washington Trust Company whereby all funds are collateralized and held in the District’s name. Custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District has not experienced any losses of funds in excess of federally insured limits held in any financial institutions. Management feels custodial risk is minimal because the US Government Securities are held in the name of the District which is independent of the financial conditions of the depository financial institutions.

BLOCK ISLAND UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

NOTE 5 – PREPAYMENTS

At December 31, 2020, prepayments consist of the following advance payments:

Purchased power	\$ 20,000
Insurance Premiums	<u>53,635</u>
Total	<u>\$ 73,635</u>

NOTE 6 – CAPITAL ASSETS

A summary of capital assets is presented below:

	1/1/2020	Additions	Adjustments	12/31/2020
Nondepreciable Assets:				
Land and land rights	\$ 863,921	\$ 3,764	\$ --	\$ 867,685
Construction in progress	544	540,333	(448,447)	92,430
Depreciable Assets				
Buildings	1,424,568	53,943	--	1,478,511
Equipment	<u>3,958,815</u>	<u>522,522</u>	<u>--</u>	<u>4,481,337</u>
Total Cost	6,247,848	1,120,562	(448,447)	6,919,963
Accumulated Depreciation	<u>(199,832)</u>	<u>(297,434)</u>	<u>--</u>	<u>(497,266)</u>
Net Capital Assets	<u>\$ 6,048,016</u>	<u>\$ 823,128</u>	<u>\$ (448,447)</u>	<u>\$ 6,422,697</u>

NOTE 7 – RETIREMENT

The District has an agreement with seven individuals to pay each a monthly pension benefit of \$1,000, which includes the spouse as a continued recipient of the pension in the event of the death of the primary pensioner. None of the agreements are part of a qualified plan and payments will end upon either the recipient's death or the death of their surviving spouse. The district reported a liability of \$176,134 at December 31, 2020.

BLOCK ISLAND UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

NOTE 7 – RETIREMENT (CONTINUED)

In addition to assets, the statement of financial position may report a separate section for deferred outflows of resources. The separate section represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resource (expense) until that later date. At December 31, 2020, the district had retirement plan deferred outflows of \$176,134. As part of the acquisition of Block Island Power Company, the District agreed to continue providing the retirement benefits as noted in the previous paragraph in order to retain the employees. In doing so, consideration exceeded the net position acquired. In accordance GASB Statement 69 – *Government Combinations and Disposals of Government Operations*, a deferred outflow was included in the financial statements which will be amortized over the life of the participating individuals.

NOTE 8 – COMPENSATED ABSENCES

Employees accumulate vacation benefits after one full year of employment. After one full year of employment an employee is granted five vacation days, after the third full year of employment the employee is granted ten vacation days, after the tenth full year of employment an employee is granted fifteen vacation days and at the end of an employee's eleventh year of employment and each subsequent year one half day of vacation time is added per year of employment. Vacation time must be used in the year earned with two exceptions; employees may request to be paid for one week (cash out) at the end of the year or carried into sick time as detailed in the sick time section.

Each employee shall receive two normal working days off to be used as personal days after the first year of employment.

Each employee is allowed five sick days after one full year of work. Sick days can be carried forward year to year – limited to 20 days. Until 20 days are accrued, vacation days may be carried forward to comprise a total of 20 sick days. If an employee's sick time balance is zero then vacation or unpaid time must be taken. As of December 31, 2020 the liability for accrued sick leave and vacation was \$37,114.

NOTE 9 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. There were no significant reductions in insurance coverage for the past three years.

BLOCK ISLAND UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

NOTE 10 – LONG-TERM LIABILITIES

The following is a summary of the District's long-term debt activity for the year ended December 31, 2020:

Description	Date Issued	Original Principal	Maturity Date	Interest Rate	Outstanding January 01, 2020	Additions	Retirements	Outstanding December 31, 2020	Due Within One Year
Notes Payable									
CFC Acquisition Loan	10/1/2019	\$ 5,800,000	6/30/2050	3.66%	\$ 5,774,311	\$ --	\$ (105,127)	\$ 5,669,184	\$ 109,028
Paycheck Protection Program Loan	5/28/2020	<u>\$ 149,837</u>	6/30/2021	1.00%	<u>--</u>	<u>149,837</u>	<u>--</u>	<u>149,837</u>	<u>99,891</u>
Total Notes Payable		<u>\$ 5,949,837</u>			<u>5,774,311</u>	<u>149,837</u>	<u>(105,127)</u>	<u>5,819,021</u>	<u>208,919</u>
Retirement Liability									
					<u>202,751</u>	<u>--</u>	<u>(26,617)</u>	<u>176,134</u>	<u>--</u>
Long-Term Liabilities									
					<u>\$ 5,977,062</u>	<u>\$ 149,837</u>	<u>\$ (131,744)</u>	<u>\$ 5,995,155</u>	<u>\$ 208,919</u>

BLOCK ISLAND UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

NOTE 10 – LONG-TERM LIABILITIES (CONTINUED)

Presented below is a summary of the District's note payable debt service requirements to maturity by year:

Year	Principal	Interest	Total
2021	208,919	206,007	\$ 414,926
2022	163,021	201,961	364,982
2023	117,270	197,766	315,036
2024	121,621	193,414	315,035
2025	126,134	188,902	315,036
2026-2030	704,444	870,734	1,575,178
2031-2035	845,202	729,975	1,575,177
2036-2040	1,014,087	561,090	1,575,177
2041-2045	1,216,717	358,459	1,575,176
2046-2050	<u>1,301,606</u>	<u>116,052</u>	<u>1,417,658</u>
Total	<u>\$ 5,819,021</u>	<u>\$ 3,624,360</u>	<u>\$ 9,443,381</u>

Interest expense incurred on the long-term debt for the year ended December 31, 2020 was \$204,435.

In accordance with the bond covenants, the District shall achieve an Average Modified Debt Service Coverage, (MDSC), ratio of not less than 1.35. The District shall not decrease its rates for electric service if it has failed to achieve a MDSC Ratio of 1.35 for the calendar year prior to such reduction subject only to an order from a Governmental Authority properly exercising jurisdiction over the District. At December 31, 2020 the District maintained a MDSC of 4.62 which satisfied the covenant. There is one additional covenant mandating the audited financial statements be submitted within 120 days after year end. The financial statements are dated April 16, 2021 which satisfies the covenant.

On May 28, 2020 the District entered into a Paycheck Protection Program (PPP) loan agreement with The Washington Trust Company in the amount of \$149,837 with a maturity date of two years and an interest rate of 1.0%. The agreement noted that the United States Small Business Administration (SBA) may provide loan forgiveness of principal and accrued interest under the Loan based on the sum of documented payroll costs, covered mortgage interest payments, covered rent payments, and covered utilities over the eight (8) week period following the date of the Loan; provided that at least seventy-five percent (75%) of the forgivable loan amount is attributable to payroll costs, and not more than twenty-five percent (25%) of the forgivable loan amount is attributable to non-payroll costs.

BLOCK ISLAND UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

NOTE 11 – LINE OF CREDIT

On March 3, 2020 the Utility District renewed their revolving line of credit arrangement with the National Rural Utilities Cooperative Finance Corporation (CFC) which carries a maximum possible balance of \$670,000. Amounts borrowed on the line bear interest at a rate which is set and published by CFC from time to time. The balance on the line of credit was \$0 as of December 31, 2020, at which time the interest rate was 3.25%.

NOTE 12 – ROOFTOP SOLAR GENERATION PROJECT

In the spring of 2020, the HBC Affordable Apartments granted the District a roof top solar project. The project was commissioned on July 26, 2020. The combined rating of the solar PV equipment is 94.1 kW DC and 81.0 kW AC. Operation of the solar PV equipment by the District is subject to the following conditions: (a) the solar PV equipment shall be separately metered, (b) generation produced by the solar PV equipment shall be valued at the prior year's net metering rate as approved by the RIPUC in the District's annual standard offer and transmission reconciliation filing, (c) any value attributable to generation produced by the solar PV equipment shall be paid into a restricted account ("Solar Restricted Fund"), and (d) monies in the Solar Restricted Fund shall be used as directed by the Board of Commissioners to create a decommissioning fund for the solar PV equipment, for maintenance of the solar PV equipment, and for capital projects related to the District's distribution system. During 2020, the total generation was 38,248 kWh which was valued at \$7,812. There were no monies spent on maintenance and the Board of Commissioners approved \$7,812 to be transferred from the Solar Restricted Fund to offset costs associated with the pole replacement capital project.

NOTE 13 – CREDIT RISK CONCENTRATION

The District operates within an industry which has undergone state and federal restructuring. The restructuring process has affected issues which may have significant financial impact on Block Island, but at this time it is not possible to determine the nature of or extent of that impact.

The District provides electrical power service to customers within a small geographic area. The Division grants credit to all of its customers. No customers exceeded 10% of revenues or accounts receivable.

BLOCK ISLAND UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

NOTE 14 – COMMITMENTS AND CONTINGENCIES

CONTINGENT LIABILITY

As noted in the executed asset sale agreement, the Board of Directors of the seller, Block Island Power Company (BIPCO) had adopted a resolution recommending the sale of the Purchased Assets to Block Island Utility District (BIUD) as contemplated by the agreement (the “Corporate Action”).

A Trust which is the holder of one third of the issued and outstanding shares of capital stock of BIPCO (the "Trust Shares") objected to the Corporate Action. The Corporate Action was approved by a majority vote of BIPCO's shareholders and the Trust has made demand for the fair value of the Trust Shares.

Based upon the amount paid for the BIPCO shares by the Town of New Shoreham, the appraisal received and the current BIPCO financials, the parties anticipated that the fair value of the Trust Shares was approximately \$900,000, however, in the unlikely event that the fair value of the Trust shares is determined to be more than \$900,000 by agreement, by the final judgement of a court of competent jurisdiction, or other, the District will pay directly to the Trust any amount over said \$900,000 up to a maximum of \$300,000. This contingent liability assumption was offered by the District as an inducement to BIPCO to consummate the transactions contemplated in the agreement. As of April 16, 2021, this contingency has not been resolved, and an estimable liability cannot be determined. The maximum liability will not exceed \$300,000.

NOTE 15 – ECONOMIC UNCERTAINTIES

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of business across the country for non-essential services. There is considerable uncertainty about the duration of closings. The District has been able to continue its operations in this environment, however, at this point, the extent to which COVID-19 may impact the District’s financial condition or results of operations is uncertain.

**INDEPENDENT AUDITOR'S 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 Utility Commissioners
Block Island Utility District
New Shoreham, 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 the Block Island Utility District, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Block Island Utility District's basic financial statements, and have issued our report thereon dated April 16, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Block Island Utility District's internal control over financial reporting (internal control) as a basis of designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Block Island Utility District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Block Island Utility District'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 Block Island Utility District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Marcum LLP

Providence, RI
April 16, 2021