

Financial Management Policies and Procedures

For

Block Island Utility District

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Revision 4

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Section 1: Purpose

This Financial Policy is to provide guidelines and direction from the Board of Commissioners (hereinafter “Board”) to Management in order to maintain a sound financial position and provide for the security of the financial resources of the Block Island Utility District (hereinafter “Utility District”).

The Utility District is organized under the laws of the State of Rhode Island and will at all times be operated on as a quasi-municipal corporation, having a distinct legal existence from the state, established and empowered to:

1. Fulfill electric utility functions, powers, rights and obligations;
2. Exercise certain powers as an electric distribution company and power producer; and
3. Provide additional utility services not inconsistent with the duties, power and obligations of the utility district.

In addition to these legal requirements, the Utility District is guided in its operations by regulations and operational practices prescribed by various regulatory bodies and/or lender(s). Beyond these legal, regulatory, and lending requirements, the Utility District has an obligation to its members to ensure the financial integrity of the Utility District so that it can provide high quality electric service at the lowest possible long-term cost consistent with prudent business practices not only for today, but long into the future.

Section 2: Responsibilities

Review and Approval by the Board. The Board is responsible for: (1) reviewing, discussing, and evaluating the Utility District President’s (hereinafter “President”) recommendations for the Financial Policy; (2) approving the Financial Policy as presented or amended; (3) reviewing and evaluating this Policy annually; (3) revising this Policy as circumstances warrant.

Implementation of the Policy. The President is responsible for implementing this Policy and for overseeing development of the practices and procedures necessary to maintain the financial integrity of the District.

Recommendations to the Board. The President is responsible for recommending to the Board revisions to this Policy as circumstances warrant.

Compliance with the Policy. The Board and President are responsible for assuring compliance with this Policy.

Section 3: Planning Documents

In order to maintain a sound financial position and provide for the most effective management and security of the financial resources of the Utility District, the Board directs the President to create and/or update or see to the creation and/or updating of the following planning reports and documents (hereinafter “Reports”). These Reports shall be created/updated on a regular basis with frequencies no less than the timeframes in the table below. All Reports shall be reviewed and approved by the Board. Note that from time to time there may be other planning reports not included below that may be necessary to meet this policy’s intent.

Planning Report Description	To Be Created/Updated with frequencies no less than the following
Wholesale Power Contract	Annually
Load Forecast Study (formerly PRS)	Annually
Long Range Construction Plan	2 Years
Construction Work Plan	2 Years
Cooperative Strategic Plan	2-3 Years
10 Year Financial Forecast	Annually
Capital Budget	Annually
Operating Budget	Annually

The Utility District shall use all resources at its disposal to assist in preparing the aforementioned planning reports. These resources shall include, but are not limited to: annual independent audit; CFC Key Ratio Trend Analysis (KRTA); historical operating statements, balance sheets, and cash flow analyses; and cost of service study.

Section 4: Financial Goals and Parameters

The Board directs Management to operate the Utility District so that its financial operating results are within the following goals and parameters as established by the Board. Utility District management shall review these financial goals and parameters annually and recommend changes to the Board, if necessary.

Equity Ratio

In order to minimize the risks associated with insolvency and maintain an optimal cost of capital, management shall strive to achieve the following equity ratio(s):

Total Equity: The Board will set a short term and long equity goal which is acceptable to the Utility District’s lenders.

Equity ratio is defined as Total Margins & Equity divided by Total Assets, as calculated by KRTA ratio 16, on a consolidated basis.

Coverage ratios

In order to minimize liquidity and insolvency risk, management shall achieve the following coverage ratio as set by the National Rural Utilities Cooperation Finance Corporation (CFC):

In accordance with the security agreement requirements of CFC, The Utility District shall maintain a minimum average MDSC (2 of 3 year high average) of 1.35. MDSC (2 of 3 year high average) is defined as the average of the high two MDSC ratios of the last three years, as calculated by KRTA ratio 11.

Cost of Service Study

Management and Board shall strive to maintain a fair, equitable and risk rated balance between the collection of revenue and incurring of expenses between all revenue classes. This balance shall be determined through completion of an industry accepted cost-of-service study, completed on a regular basis, but no less frequently than once every 3 years.

Section 5: Financial Forecasting

Management shall create financial forecasts including an Annual Budget and a 10-year financial forecast, further described below. The forecasts shall use the planning documents identified in section 3 and incorporate the financial goals identified in section 4.

Annual Budget

Based on the planning documents and the financial goals identified in sections 3 and 4, management shall prepare or cause to be prepared an annual financial budget. The budget shall be prepared for the ensuing fiscal year and shall be presented to the Board for their approval no later than October. An Annual Financial Forecast will be presented annually at the Utility District's Annual Meeting each year.

The budget shall include, at a minimum, the following:

- Assumptions used to prepare the budget
- Description of the primary changes and projects contemplated for the coming year
- Statement of operations by month
- Balance sheet
- Statement of changes in cash flow, detailing cash from operations, investing and financing
- Capital Expenditures (CAPEX) by month

10-year financial forecast

Based on the planning documents and the financial goals identified in sections 3 and 4, management shall prepare, or cause to be prepared, a 10-year financial forecast. The first forecast year will contain the financial data from the annual

budget above. A summary of the financial forecast shall be reported to the Board no later than October at its regular or special board meeting each year. The financial forecast shall include and comply with all of the financial goals and parameters identified by the Board in section 4 plus include significant assumptions utilized in its preparation. In order to comply with typical lender requirements, the 10-year financial forecast shall, at a minimum, contain the following sections:

- Ratios
- Balance sheet
- Statement of operations
- General funds
- Load projections
- Determination of operating revenue
- Plant investment
- Determination of debt and debt service
- Cash flow

Conflicts with financial goals

If the financial goals in section 4 conflict with each other to such a degree that the financial forecast cannot reasonably achieve all of them at the same time, management shall communicate the conflict(s) to the Board. The Board shall, with Management's guidance, discuss and resolve these conflicts.

Rate policies/philosophy

Management shall recommend to the Board retail electric rates as recommended or amended to meet the aforementioned financial goals established by the Board. The rates shall include a power cost factor adjustment designed to automatically adjust revenues based on changes in the Utility District's wholesale power cost.

Section 6: Collateralization of Bank Accounts

All deposits shall be secured by obligations of the United States or of Rhode Island with the market value at all times must being greater than or equal to 100% of the deposits.

Section 7: Receipts

All receipts are to be deposited into the Washington Trust Company Receipt or Sweep Account. Once the deposits are cleared, they are automatically transferred to the General Checking Account.

Section 8: Disbursements

All Disbursements are to be made from the Washington Trust Company General Checking Account..

- Invoices: All invoices are to be approved by the President and at least one other employee familiar with the invoice.

- ACH Payments: All ACH Payments are to be approved by the President and at least one other employee familiar with the invoice.
- Payroll: ADP will provide payroll services and will be administered by the President. Payroll records will be reviewed by the District's Treasurer on a monthly basis.
- Credit Card: The President's company credit card statements and supporting backup will be reviewed by the District's Treasurer on a monthly basis.
- Check Run Reports: Check run reports will be reviewed by the Utility District's Treasurer on a monthly basis.
- President's Expense Report: The Utility District's Treasurer or Chairperson must approve the President's expense reports before the reimbursement is paid.

Section 9: Petty Cash

The amount of Petty Cash shall not exceed \$750.

Section 10: Short Term Investments

Short Term Investments shall be limited to Washington Trust Company ICS, the Insured Cash Sweep Service, and/or CDARS.

Section 11: Short Term Debt

The District will maintain a Short-Term Working Capital Line of Credit with a lender approved by the Board (currently CFC). The amount of the Line of Credit will be based on short term Cash Flow Projections. The outstanding balance under the Line of Credit will zero during each fiscal year. The Chair, President and Treasurer are authorized to drawdown and repay amounts under the Line of Credit.

- The line-of-credit for short-term operating purposes shall not exceed what is approved by the Board.
- The President shall consider and discuss establishing a line-of-credit for interim or bridge financing with the board on a case-by-case basis.
- The President is authorized to establish emergency lines-of-credit as necessary to support the capital and operating needs of storm recovery efforts

Section 12: Long Term Debt

The District will use Long Term Debt with a lender approved by the Board (currently CFC) to finance long term capital investments.

The aggregate amount of all loans drawn and available to be drawn by the District shall not exceed the maximum debt limit (MDL) as identified in the District's mortgage documents.

Section 13: Procurement - Code of Conduct

No employee, officer, commissioner or agent of BIUD shall participate in the selection, award or administration of a bid or contract if a conflict of interest is real or apparent to a reasonable person.

No employee, officer, commissioner or agent of BIUD shall do business with, award contracts to, or show favoritism toward a member of his/her immediate family, spouse's family or to any company, vendor or concern who either employs or has any relationship to a family member; or award a contract or bid which violates the spirit or intent of Federal, State and local procurement laws and policies established to maximize free and open competition among qualified vendors.

No employee, officer, commissioner or agent of BIUD shall solicit or accept gratuities, gifts, consulting fees, trips, favors or anything having a monetary value in excess of twenty-five dollars (\$25) from a vendor, potential vendor, or from the family or employees of a vendor, potential vendor or bidder; or from any party to a sub-agreement or ancillary contract.

Section 14: Procurement – Level of Approvals

The Utility District President will approve all purchases made by the Utility District and its employees.

The Utility District President is authorized to approve budgeted purchases up to \$100,000. He/she will inform the Board of any purchase >\$100,000 prior to committing to the purchase.

The utility District President is authorized to approve unbudgeted purchases up to \$15,000. He/she will obtain Board Approval for purchases >\$15,000 prior to committing to the purchase.

Exception: In the event of an emergency need such as storm damage repair or other immediate urgent need, the President is authorized to make purchases after informing the Board Chairperson or Treasurer of the need. In the event of an imminent threat that may require pre-planning and staging of materials and contract help, the President shall ensure adequate lines of credit to cover anticipated costs and if appropriate inform the RI-PUC and DPUC of the unplanned financial impact.

Section 15: Procurement – Bid Process

All procurement transactions will be conducted to provide – to the maximum extent possible – free and open competition among suppliers. The purchasing process must identify and clearly specify standards for the goods or services desired and seek competitive offers where possible to obtain the best possible quality at the best possible price. The standards and specifications shall be communicated consistently among all vendors.

For purchases over \$1,000 and up to \$10,000, the purchaser shall obtain competitive pricing from as many qualified vendors as possible. This can be done verbally, via e-mail or by a formal request for proposal (“RFP”).

For purchases greater than \$10,000 and less than \$50,000, the purchaser shall obtain competitive pricing from as many qualified vendors as possible. This can be done via e-mail or by a formal request for proposal (“RFP”). All requests for pricing, vendor proposals and selections shall be retained for at least five years.

For purchases greater than \$50,000, the purchaser shall obtain competitive pricing from as many qualified vendors as possible, preferably no less than three vendors. This shall be done using a formal request for proposal (“RFP”) and a formal contract shall be executed. All requests for pricing, vendor proposals, selections and resulting contracts shall be retained indefinitely.

Price should be one of the factors in the evaluation of responses, but BIUD does not require accepting the lowest price if other factors are important to the decision.

- There should be an objective method for selection, and any factors for evaluation and selection should be listed in the procurement documents.
- Awards shall be made to the bidder or offeror whose bid is responsive to the solicitation and is most advantageous to the Organization (price, quality and other factors considered).
- A bid may be rejected when it is in the Organization’s interest to do so.

All procurement files must include the basis for contractor selection, justification for lack of competition when competitive bids or offers were not obtained.

Sole source vendors may be used for manufacturer specific items such as Milton Cat for generating equipment.

Single source warehouse vendors can be used for specialized electric utility equipment in order to streamline procurements provided competitive pricing is obtained at least once every two years. Examples of warehouse vendors includes electrical suppliers such as Wesco or Graybar and pole suppliers such as Coppers or MacFarland Cascade

Whenever possible, BIUD must engage in affirmative efforts to utilize small businesses, local businesses, minority owned firms, and women's business enterprises.

Section 16: Financial Management and Accounting System

The billing and accounting system used by the Utility District will be provided by the National Information Solutions Cooperative (NISC). Any change must be approved by the Board.

Section 17: Financial Statements

- Monthly Balance Sheet, Profit and Loss Statement and Cash Flow Statement in accordance with GAAP shall be prepared to be reviewed at monthly Board Meeting.
- Audited and Certified Financial Statement shall be prepared within 120 days at the end of each fiscal year.