

**BLOCK ISLAND UTILITY DISTRICT**

**FINANCIAL STATEMENTS**

**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2021**

# 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 Audit of the Financial Statements**

#### ***Opinion***

We have audited the financial statements of the Block Island Utility District (District), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Block Island Utility District, as of December 31, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Entity's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 22, 2022, 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.

A handwritten signature in black ink that reads "Marcum LLP". The script is cursive and fluid, with the letters "M", "a", "r", "c", "u", "m" and "L", "L", "P" clearly visible.

Providence, RI  
April 22, 2022

# **BLOCK ISLAND UTILITY DISTRICT**

## **MANAGEMENT’S DISCUSSION & ANALYSIS**

**DECEMBER 31, 2021**

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### **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 Carriers.

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, 2021 as compared to the previous fiscal year ended December 31, 2020. 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 was 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, 2021**

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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.

On August 6, 2021, the Rhode Island Superior Court issued its decision valuing the McGinnes Trust Share at \$1,715,000, of which the Town of New Shoreham was ordered to pay the amount exceeding the \$900,000 previously paid plus interest and expenses. The District's share from the Asset Purchase Agreement with Block Island Power Company was \$300,000. The line of credit noted above was utilized in paying this liability.

CFC also issued the Utility District a \$325,000 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. Those rates remain the same.

On June 1, 2021 the Utility District submitted its annual power supply and transmission reconciliation filing for consideration by the Rhode Island Public Utilities Commission. The rates were all adjusted down to reflect actual incurred expenses and estimated future costs in 2021/2022. The Last Resort/Power Supply rate was adjusted from \$0.10 to \$0.074. The transmission rate was adjusted from \$0.0896 to \$0.0852.

### **Overview of the Financial Statements:**

The financial statements include (1) the statement of net position, (2) the statement of revenues, 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 \$429,294.

# BLOCK ISLAND UTILITY DISTRICT

## MANAGEMENT'S DISCUSSION & ANALYSIS

DECEMBER 31, 2021

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 \$97,630.

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.

### Financial Highlights:

#### Summary of Net Position

Presented below is the District's condensed summary of net position at December 31, 2021 compared to December 31, 2020. 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>2021</u>	<u>2020</u>	<u>\$ Change</u>	<u>% Change</u>
Current assets	\$ 1,104,095	\$ 1,766,378	\$ (662,283)	-37.5%
Noncurrent assets	7,807,431	6,655,370	1,152,061	17.3%
Deferred outflows of resources	<u>148,155</u>	<u>176,134</u>	<u>(27,979)</u>	-15.9%
Total assets and deferred outflows of resources	<u>\$ 9,059,681</u>	<u>\$ 8,597,882</u>	<u>\$ 461,799</u>	5.4%
Current liabilities	\$ 1,473,369	\$ 1,249,864	\$ 223,505	17.9%
Long-term debt, net of current portion	<u>5,595,236</u>	<u>5,786,236</u>	<u>(191,000)</u>	-3.3%
Total liabilities	<u>7,068,605</u>	<u>7,036,100</u>	<u>32,505</u>	0.5%
Net investment in capital assets	1,852,199	753,513	1,098,686	145.8%
Restricted for capital and power	95,077	232,673	(137,596)	-59.1%
Unrestricted net position	<u>43,800</u>	<u>575,596</u>	<u>(531,796)</u>	-92.4%
Total net position	<u>1,991,076</u>	<u>1,561,782</u>	<u>429,294</u>	27.5%
Total liabilities, deferred inflows of resources and net position	<u>\$ 9,059,681</u>	<u>\$ 8,597,882</u>	<u>\$ 461,799</u>	5.4%



# BLOCK ISLAND UTILITY DISTRICT

## MANAGEMENT'S DISCUSSION & ANALYSIS

**DECEMBER 31, 2021**

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Total assets of the District at December 31, 2021 and 2020 were \$8,911,526 and \$8,421,748, respectively, a change of 5.82%. 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.

Total liabilities of the District at December 31, 2021 and 2020 were \$7,068,605 and \$7,036,100, respectively, a change of 0.5%. 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 2021, the District's retirement liability related deferred outflows decreased by \$27,979.

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 accumulated depreciation and 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 decreased by \$531,796, or 92.4%, for the fiscal year. This decrease was a result of the timing of the purchase of capital assets and when the District secured the underlying capital debt, which occurred subsequent to year end.

### 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, 2021 compared to the year ended December 31, 2020. The information reflects the results of operations for the District. All revenues and expenses are accounted for on an accrual basis.

	<u>2021</u>	<u>2020</u>	<u>\$ Change</u>	<u>% Change</u>
Operating revenues	\$ 5,282,395	\$ 5,193,522	\$ 88,873	1.7%
Operating expenses	<u>5,184,765</u>	<u>4,944,967</u>	<u>239,798</u>	4.8%
Operating income	97,630	248,555	(150,925)	-60.7%
Nonoperating revenues net of nonoperating expenses	<u>331,664</u>	<u>497,578</u>	<u>(165,914)</u>	-33.3%
Increase in Net Position	<u>\$ 429,294</u>	<u>\$ 746,133</u>	<u>\$ (316,839)</u>	-42.5%

# **BLOCK ISLAND UTILITY DISTRICT**

## **MANAGEMENT'S DISCUSSION & ANALYSIS**

**DECEMBER 31, 2021**

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### **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.

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 which began in 2020. Phase one of five will be completed in April 2022.

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, 2021

### Capital Assets

At December 31, 2021, capital assets, net of accumulated depreciation was \$7,712,354 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, 2020 to December 31, 2021:

	<u>Block Island Utility District's</u> <u>Capital Assets</u> <u>(Net of depreciation)</u>			
	<u>2021</u>	<u>2020</u>	<u>\$ Change</u>	<u>% Change</u>
Land and land rights	\$ 1,167,685	\$ 867,685	\$ 300,000	34.6%
Construction in progress	550,761	92,430	458,331	495.9%
Buildings and improvements	1,537,382	1,478,511	58,871	4.0%
Equipment	5,277,291	4,481,337	795,954	17.8%
Accumulated depreciation	<u>(820,765)</u>	<u>(497,266)</u>	<u>(323,499)</u>	65.1%
Total	<u>\$ 7,712,354</u>	<u>\$ 6,422,697</u>	<u>\$ 1,289,657</u>	20.1%

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, 2021, the District had total long-term debt of \$5,860,155 an increase of \$41,134 compared to the prior year. Additional information on the District's long-term debt can be found in the notes to financial statements.

	<u>2021</u>	<u>2020</u>	<u>\$ Change</u>	<u>% Change</u>
Notes payable	\$ 5,560,155	\$ 5,819,021	\$ (258,866)	-4.4%
Line of Credit	<u>300,000</u>	<u>--</u>	<u>300,000</u>	100.0%
Total	<u>\$ 5,860,155</u>	<u>\$ 5,819,021</u>	<u>\$ 41,134</u>	0.7%

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, 2021**

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### **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, 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, 2021

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### Capital Assets

#### Utility Plant in Service:

Land, at cost	\$ 1,167,685
Buildings and equipment, at cost	<u>6,814,673</u>

Total land, buildings, and equipment, at cost	7,982,358
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Less: accumulated depreciation	<u>820,765</u>
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<b>Net Utility Plant in Service</b>	7,161,593
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Construction in Progress	<u>550,761</u>
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<b>Capital Assets, Net</b>	<u>7,712,354</u>
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### Current Assets

Cash	32,140
Cash, customer deposits	112,204
Accounts receivable, customers (net)	60,771
Accounts receivable, other	11,777
Unbilled revenues	245,698
Materials and supplies inventory	568,423
Prepayments	<u>73,082</u>

<b>Total Current Assets</b>	<u>1,104,095</u>
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### Other Assets

Deferred regulatory asset - rate case	<u>95,077</u>
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<b>Total Other Assets</b>	<u>95,077</u>
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### Deferred Outflows of Resources

Retirement plan related outflows	<u>148,155</u>
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<b>Total Assets and Deferred Outflows of Resources</b>	<u><u>\$ 9,059,681</u></u>
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*The accompanying notes are an integral part of these financial statements.*

**BLOCK ISLAND UTILITY DISTRICT**  
**STATEMENT OF NET POSITION (CONTINUED)**  
**DECEMBER 31, 2021**

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**Net Position**

Net investment in capital assets	\$ 1,852,199
Restricted:	
Regulatory costs - rate case	95,077
Unrestricted net position	<u>43,800</u>

<b>Total Net Position</b>	<u>1,991,076</u>
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**Long-Term Liabilities**

Notes payable - net of current portion	5,447,081
Retirement liability	<u>148,155</u>

<b>Total Long-Term Liabilities</b>	<u>5,595,236</u>
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**Current Liabilities**

Notes payable - current portion	113,074
Line of credit	300,000
Accounts payable	207,311
Accrued compensated absences	34,289
Accrued expenses - other	177,640
Voltage conversion	154,880
Unearned solar credits	18,845
Unearned revenue	355,126
Customer deposits	<u>112,204</u>

<b>Total Current Liabilities</b>	<u>1,473,369</u>
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<b>Total Liabilities</b>	<u>7,068,605</u>
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<b>Total Liabilities and Net Position</b>	<u><u>\$ 9,059,681</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, 2021

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<b>Operating Revenues</b>	<u>\$ 5,282,395</u>
<b>Operating Expenses</b>	
Operation and maintenance	3,423,684
General and administrative	1,373,590
Depreciation	323,500
Payroll taxes	<u>63,991</u>
<b>Total Operating Expenses</b>	<u>5,184,765</u>
<b>Operating Income</b>	<u>97,630</u>
<b>Non-Operating Revenue (Expense)</b>	
Grant income - Paycheck Protection Program	149,837
Miscellaneous revenues	89,775
Rental income - cell tower	226,700
Rental income - antenna sites	21,292
Rental income - property	28,800
Interest on debt	<u>(184,740)</u>
<b>Net Non-Operating Revenue</b>	<u>331,664</u>
<b>Net Income</b>	429,294
<b>Net Position - Beginning of Year</b>	<u>1,561,782</u>
<b>Net Position - End of Year</b>	<u>\$ 1,991,076</u>

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

# BLOCK ISLAND UTILITY DISTRICT

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2021

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### Cash Flows from Operating Activities

Cash received from customers	\$ 5,412,515
Cash payments to employees	(943,919)
Cash payments to suppliers	<u>(4,146,120)</u>

<b>Net Cash Provided by Operating Activities</b>	<u>322,476</u>
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### Cash Flows from Noncapital Financing Activities

Proceeds from line of credit	<u>300,000</u>
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<b>Net Cash Provided by Noncapital Financing Activities</b>	<u>300,000</u>
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### Cash Flows from Capital and Related Financing Activities

Capital acquisitions	(1,613,156)
Proceeds from deferred regulatory assets	137,597
Payments of loan principal	(258,866)
Interest paid	<u>(184,740)</u>

<b>Net Cash Used in Capital and Related Financing Activities</b>	<u>(1,919,165)</u>
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### Cash Flows from Investing Activities

Other revenues	<u>509,127</u>
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<b>Net Cash Provided by Investing Activities</b>	<u>509,127</u>
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<b>Net Decrease in Cash</b>	(787,562)
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<b>Cash, Beginning of Year</b>	<u>931,906</u>
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<b>Cash, End of Year</b>	<u><u>\$ 144,344</u></u>
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### Cash is reported in the financial statements as follows:

Cash	\$ 32,140
Cash, customer deposits	<u>112,204</u>
<b>Total</b>	<u><u>\$ 144,344</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, 2021**

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**Reconciliation of Operating Income to Net Cash Provided by  
Operating Activities:**

**Cash Flows from Operating Activities:**

Operating income	\$ 97,630
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	323,500
Changes in assets and liabilities:	
Decrease in accounts receivable and unbilled revenue	64,363
(Increase) in materials and supplies inventory	(93,568)
Decrease in prepayments	553
(Decrease) in accounts payable and accrued liabilities	(135,759)
Increase in unearned revenue	26,737
Increase in unearned solar credits	18,845
Increase in customer deposits	<u>20,175</u>
<b>Total Adjustments</b>	<u>224,846</u>
<b>Net Cash Provided by Operating Activities</b>	<u><u>\$ 322,476</u></u>

*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, 2021**

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### **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, 2021**

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**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 2021, 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 \$9,040. 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, 2021**

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### **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 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 2021 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, 2021**

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### **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 22, 2022, 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 approval on January 12, 2022 to incur debt in the amount of \$1,800,000 which will be utilized to permanently finance the asset valuation payment of \$300,000 and for the financing of the voltage conversion project in the amount of \$1,500,000. Loan agreements were signed on February 24, 2022 to secure the debt with National Rural Utilities Cooperative Finance Corporation (CFC).

### **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, 2021**

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**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, and 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, 2021, the net investment in capital assets was \$1,852,199.

Restricted Net Position consists of restricted assets, when constraints are placed on the assets by creditors, grantors, contributors, laws, regulations, etc. At December 31, 2021, restrictions of \$95,077 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, 2021, the unrestricted net position was \$43,800.

**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, 2021, the carrying amount of the District’s cash was \$144,344. 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, 2021**

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**NOTE 5 – PREPAYMENTS**

At December 31, 2021, prepayments consist of the following advance payments:

Purchased power	\$ 20,000
Insurance Premiums	<u>53,082</u>
Total	<u><u>\$ 73,082</u></u>

**NOTE 6 – CAPITAL ASSETS**

A summary of capital assets is presented below:

	Balances January 1, 2021	Additions	Retirements & Adjustments	Balances December 31, 2021
Nondepreciable Assets:				
Land and land rights	\$ 867,685	\$ 300,000	\$ --	\$ 1,167,685
Construction in progress	92,430	1,313,156	(854,825)	550,761
Depreciable Assets				
Buildings	1,478,511	58,871	--	1,537,382
Equipment	<u>4,481,337</u>	<u>795,954</u>	<u>--</u>	<u>5,277,291</u>
Total Cost	6,919,963	2,467,981	(854,825)	8,533,119
Accumulated Depreciation	<u>(497,266)</u>	<u>(323,499)</u>	<u>--</u>	<u>(820,765)</u>
Net Capital Assets	<u><u>\$ 6,422,697</u></u>	<u><u>\$ 2,144,482</u></u>	<u><u>\$ (854,825)</u></u>	<u><u>\$ 7,712,354</u></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 \$148,155 at December 31, 2021.

# **BLOCK ISLAND UTILITY DISTRICT**

## **NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2021**

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### **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, 2021, the District had retirement plan deferred outflows of \$148,155. 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 with 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, 2021 the liability for accrued sick leave and vacation was \$34,289.

### **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, 2021**

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**NOTE 10 – LONG-TERM LIABILITIES**

The following is a summary of the District's long-term debt activity for the year ended December 31, 2021:

Description	Date Issued	Original Principal	Maturity Date	Interest Rate	Outstanding January 1, 2021	Additions	Retirements	Outstanding December 31, 2021	Due Within One Year
Notes Payable									
CFC Acquisition Loan	10/1/2019	\$ 5,800,000	6/30/2050	3.66%	\$ 5,669,184	\$ --	\$ (109,029)	\$ 5,560,155	\$ 113,074
Paycheck Protection Program Loan	5/28/2020	\$ 149,837	6/30/2021	1.00%	149,837	--	(149,837)	--	--
CFC Line of Credit	3/3/2020	<u>\$ 300,000</u>	3/22/2022	2.45%	<u>--</u>	<u>300,000</u>	<u>--</u>	<u>300,000</u>	<u>300,000</u>
Total Notes Payable		<u>\$ 6,249,837</u>			<u>5,819,021</u>	<u>300,000</u>	<u>(258,866)</u>	<u>5,860,155</u>	<u>413,074</u>
Retirement Liability									
					<u>176,134</u>	<u>--</u>	<u>(27,979)</u>	<u>148,155</u>	<u>--</u>
Long-Term Liabilities									
					<u>\$ 5,995,155</u>	<u>\$ 300,000</u>	<u>\$ (286,845)</u>	<u>\$ 6,008,310</u>	<u>\$ 413,074</u>

# BLOCK ISLAND UTILITY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED DECEMBER 31, 2021

#### 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
2022	\$ 413,074	\$ 201,961	\$ 615,035
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>\$ 5,860,155</u>	<u>\$ 3,418,353</u>	<u>\$ 9,278,508</u>

Interest expense incurred on the long-term debt for the year ended December 31, 2021 was \$184,740.

In accordance with the bond covenants, the District shall achieve an Average Modified Debt Service Coverage, (MDSC) a 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, 2021 the District maintained a MDSC of 3.12 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 22, 2022, which satisfies the covenant.

#### 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 \$300,000 as of December 31, 2021, at which time the interest rate was 2.45 %.

# **BLOCK ISLAND UTILITY DISTRICT**

## **NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2021**

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### **NOTE 12 – ROOFTOP SOLAR GENERATION PROJECT**

In the spring of 2020, the HBC Affordable Apartments granted the District a rooftop 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 2021, the total generation was 109,298 kWh which was valued at \$18,835. There were no monies spent on maintenance and the Board of Commissioners approved \$18,835 to be transferred from the Solar Restricted Fund to offset costs associated with the pole replacement capital project. The Board also approved transferring 10% of all future annual generation credits to be placed in a restricted account to fund maintenance and de-commission at the project's end of life.

### **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.

### **NOTE 14 – 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 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 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, 2021, and the related notes to the financial statements, as listed in the table of contents, which collectively comprise the Block Island Utility District's basic financial statements, and have issued our report thereon dated April 22, 2022.

**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.

### **Report on 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.

A handwritten signature in black ink that reads "Marcum LLP". The script is cursive and fluid, with the letters "M", "L", and "P" being particularly prominent.

Providence, RI  
April 22, 2022