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Attorney for Interstate Navigation Company
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Subject: Interstate Navigation Company Status Report to the Public Utilities Commission (PUC) regarding earnings reports, annual reports, and software search.

Dear Mike,

This letter is the Interstate Navigation Company "Status Report." This report provides the status of the FY 2020 Earnings Reports and Annual Report as well as the software search. This report also projects on how the Covid crisis will potentially impact the FY 2021 earnings.

FY 2020 Earnings Report

The FY 2020 Earnings Report cannot be completed until the FY 2020 Annual Report is completed. The financial data required for the Earnings Report are taken directly from the Annual Report and the data is cross-referenced to pages from the Annual Report. The Earnings Report for FY 2020 has not been completed to date since it is still waiting for the completion of the FY 2020 Annual Report. Once the Annual Report is finished, it only takes 3 to 4 days to turn around the Earnings Report.

FY 2020 Annual Report

The FY 2020 Annual Report cannot be completed until the FY 2020 financial statements are completed. Interstate is much further along with completing the FY 2020 financials than it was at this point in last November for the FY 2019 report. Interstate finally caught up with finishing its FY 2019 financials just this past July. Interstate has continued working during the last three months to bring the FY 2020 financials to near completion. Regarding FY 2020, the expenditure side of Interstate's general ledger has been posted, but it still needs some adjustments for year-end accruals. The income side of

the general ledger for all revenues besides freight income has been posted but will also need some adjustments for year-end accruals. Regarding freight income, only the first seven months were posted to the accounting system. The remaining postings and analysis to prepare the year-end accruals are projected to be completed by the second week of December.

Interstate's outside accountant, Lisa Peabody CPA, will still need post all year-end adjustments and prepare workpapers for the financial review to support the ending financial numbers. Ms. Peabody is projected to complete the year-end adjustments and prepare workpapers for the financial review before the end of December. Due to Generally Accepted Accounting Principles, the accountant preparing financial entries should not be the same accountant that performs the financial review. B&E Consulting, LLC (B&E) performs the financial review. B&E will also prepare the Annual Report and Earnings Report. Ms. Peabody is projected to complete the year-end adjustments and prepare workpapers for the financial review before the end of December. B&E is prepared to prioritize the reports once the information is received from Ms. Peabody. Realistically, it will take at least another month to complete the financials, Annual Report and Earnings Report.

Even though the financials are not yet finished, Ms. Peabody has a tentatively projected profit for FY 20 of around \$1 million. This projection does not take into consideration any PPP loan forgiveness. At the beginning of the COVID crisis, Interstate received approximately \$1 million from a PPP loan. The payroll that the loan covered spans both the end of FY 20 and the beginning of FY 21. There is still government guidance coming out regarding when the loan forgiveness would be recognized. Based on current guidance, it would appear that if the loan is forgiven, it would be recognized during the current fiscal year (FY21).

Status of the Accounting System

As mentioned in the March 2020 status report, Interstate maintains two different programs to handle its main general ledger and billing system. The billing system handles the ticket generation and collections, which must be manually posted to the accounting system. This dual software approach delays the timeliness of financial data. As a result, Interstate's Board authorized me to investigate an integrated system to help Interstate have more timely data.

As reported back in the March status report, contacting other regulated ferry operations yielded little alternatives because the other ferries have a dissimilar mix of service or utilizing an integrated municipal system that would not be available to Interstate. The best choice still appears to be Interstate's external IT support company. The company has found a package that will integrate with Interstate's current billing system. I have not yet been able to review the package and meet with Jon Synderman of Interstate's external IT support company. Unfortunately, the continuing COVID crisis continues to make scheduling such a meeting an issue.

FY 2021 Earnings due to COVID impact

I have prepared two schedules which are attached to this letter. One schedule projects the FY 2021 revenue. The other schedule uses this projected revenue to project the FY 2021 earnings. The earnings schedule leaves the expenditures at the known FY 2019 levels. My analysis from this schedule shows that FY 2021 will run a loss for the year without any PPP loan forgiveness.

To project the COVID crisis's impact on FY 21 revenues, I obtained the June, July, August and September 2020 passenger and vehicle counts which were reduced due to COVID. These counts were added to the remaining months, which were left at 2019 levels. These counts were applied to the traditional service rates, which were decreased in January of 2020. The fast ferry rates reflect the actual rate for June and the increased July 2020 rate for the remaining months. Other revenue sources impacted by passenger counts were adjusted on a prorated basis. Lastly, tour revenue was eliminated since this service was not provided during the COVID crisis.

If I can be of any additional assistance, please do not hesitate to contact me directly.

Sincerely

David G. Bebyn CPA
President

This Analysis projects revenue Using actual June, July, August and September 2020 Counts and projects remaining revenue based on FY 2019.

This assumes that expenditures are the same as FY 2019

		<u>Total</u>
<u>Calculation of Net Income available for Common Equity</u>		
Revenues	Annual Report	\$ 13,844,831
Operation and Maintenance Expenses *	Annual Report	12,799,224
Total Depreciation Expense	Annual Report	<u>970,090</u>
Pre-Tax Operating Income		75,517
Adjustments:		
Fast Ferry Depreciation & Amortization	\$168,000 + \$94,166 annually	262,166
Fast Ferry Principal	Annual Report-FF Schedule	(162,689)
Fast Ferry Interest	Annual Report-FF Schedule	(148,155)
Excess HL Expenses over settlement of \$315K	Annual Report-HL Schedule	15,821
Amortization of Gain on Nelseco	See Attachment-1	<u>-</u>
Total Adjustments		(32,857)
Adjusted Pre-Tax Operating Income		42,660
Interest on Debt Supporting Rate Base	Rate Base** X Wtd Debt Cost***	147,626
Adjusted Pre-Tax Income		<u>(104,966)</u>
Income Taxes (rate 21%)		<u>(22,043)</u>
Net Income available for Common Equity		<u>\$ (82,923)</u>
<u>Calculation of Common Equity Applicable to Rate Base</u>		
Common Equity Supporting Rate Base	Equity Ratio**** X Rate base	<u>\$ 1,457,316</u>
<u>Calculation of the return on Common Equity and Percentage above ROE Ceiling</u>		
Return on Common Equity	Net Income / CE supp RB	-5.7%
ROE Ceiling from Settlement		<u>12.0%</u>
Percentage of Earnings Above 12%	Return on CE - ROE Ceiling	-17.7%

* This Analysis does not take into consideration any PPP loan forgiveness. Interstate received a PPP loan for about \$1 million. The payroll expenditures that are covered by this loan occurred during both FY 20 and FY 21. If the loan forgiveness is granted, it will not occur until the second half of FY 21.

**Projected
2021 ROE**

Analysis of Revenue
Interstate Navigation Company

	Actual FYE 5/31/19	Projected FYE 5/31/21	Projected Variance
Revenues:			
Operating Revenue:			
Passenger	\$ 8,889,762	\$ 7,323,380	\$ (1,566,382)
Vehicle	4,383,364	4,130,376	(252,988)
Freight	1,204,336	1,204,336	-
Mail	50,367	50,367	-
Charters	395,775	296,831	(98,944)
Other Revenue (Itemize):			
Tour and Cruise	147,484	-	(147,484)
Concession / Bar	816,050	669,161	(146,889)
Bike, Moped, etc	166,332	136,392	(29,940)
Miscellaneous	1,353	1,353	-
Landing Fee Commission	39,798	32,634	(7,164)
Homeland Security Grant	-	-	-
Refund, Void & Credits	-	-	-
Total Gross Operating Revenue	\$ 16,094,621	\$ 13,844,831	\$ (2,249,790)