

CAPE & VINEYARD ELECTRIC COOPERATIVE, INC.

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

**CAPE & VINEYARD ELECTRIC COOPERATIVE, INC.
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YEAR ENDED JUNE 30, 2015**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Cape & Vineyard Electric Cooperative, Inc.
South Yarmouth, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the Cape & Vineyard Electric Cooperative, Inc. as of and for the year ended June 30, 2015, and the related notes to the 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.

Auditor's 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. 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 auditor's 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.

To the Board of Directors
Cape & Vineyard Electric Cooperative, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Cape & Vineyard Electric Cooperative, Inc. as of June 30, 2015, and the change in financial position and cash flows 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 (located on pages 3 through 4) 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.



CliftonLarsonAllen LLP

Boston, Massachusetts
August 19, 2016

**CAPE & VINEYARD ELECTRIC COOPERATIVE, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

As management of the Cape & Vineyard Electric Cooperative, Inc. (CVEC), we offer readers of these financial statements this narrative overview and analysis of CVEC's financial activities for the year ended June 30, 2015.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the financial statements, which consists of the following two components:

1. Financial statements
2. Notes to the financial statements

Financial Statements

CVEC's financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP), as set forth by the Governmental Accounting Standards Board (GASB). The financial statements are presented on the accrual basis of accounting and include the following three basic financial statements: (1) the Statement of Net Position, (2) the Statement of Revenues, Expenses and Change in Net Position and (3) the Statement of Cash Flows.

The financial statements can be found on pages 5 – 7 of this report.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 8 – 13 of this report.

Financial Statement Analysis

The following tables present current and prior year data on the financial statements.

Net Position

CVEC's assets exceeded liabilities by \$382,371 at the close of the fiscal year and are summarized as follows:

	<u>2015</u>	<u>2014</u>	<u>Change (\$)</u>	<u>Change (%)</u>
Assets				
Current Assets	\$ 1,081,900	\$ 432,206	\$ 649,694	150.3%
Liabilities				
Current Liabilities	699,529	187,884	511,645	272.3%
Net Position				
Unrestricted	<u>\$ 382,371</u>	<u>\$ 244,322</u>	<u>\$ 138,049</u>	<u>56.5%</u>

**CAPE & VINEYARD ELECTRIC COOPERATIVE, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

CVECs assets consist primarily of cash and cash equivalents and accounts receivable. The increase in CVEC's current assets corresponds with the increase in current liabilities as the number of on-line projects are significantly higher than the prior year.

Liabilities consist of accounts payable and accrued expenses which increased significantly related to the number of on-line projects and corresponds with increase in current assets.

Changes in Net Position

CVEC's net position increased by \$138,049 for the year ended June 30, 2015 and is summarized as follows:

	<u>2015</u>	<u>2014</u>	<u>Change (\$)</u>	<u>Change (%)</u>
Operating Revenues	\$ 1,678,328	\$ 163,875	\$ 1,514,453	924.2%
Operating Expenses	<u>1,953,955</u>	<u>713,757</u>	<u>1,240,198</u>	<u>173.8%</u>
Operating (Loss)	(275,627)	(549,882)	274,255	-49.9%
Nonoperating Revenues	<u>413,676</u>	<u>482,816</u>	<u>(69,140)</u>	<u>-14.3%</u>
Change in Net Position	138,049	(67,066)	205,115	-305.8%
Net Position - Beginning of Year	<u>244,322</u>	<u>311,388</u>	<u>(67,066)</u>	<u>-21.5%</u>
Net Position - End of Year	<u><u>\$ 382,371</u></u>	<u><u>\$ 244,322</u></u>	<u><u>\$ 138,049</u></u>	<u><u>56.5%</u></u>

Operating revenues consist of photovoltaic solar sales. Operating revenues increased approximately \$1,600,000 due to an increase in on-line projects and usage associated with the projects.

Operating expenses consist primarily of purchased power costs (\$1,619,695 or 83%) and legal expenses (\$181,816 or 9%). Operating expenses increased approximately \$1,200,000 due to an increase in purchased power costs due to an increase in on-line projects and usage associated with the projects.

Requests for Information

This financial report is designed to provide a general overview of the CVEC's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report should be addressed to the President of the Board of Directors, 23H2 White's Path, Suite 2, South Yarmouth, MA 02664.

CAPE & VINEYARD ELECTRIC COOPERATIVE, INC.
STATEMENT OF NET POSITION
JUNE 30, 2015

ASSETS

Current Assets:

Cash	\$ 284,927
Accounts Receivable	
Members - Energy Sales	686,464
Members - Renewable Energy Certificates	66,470
NMC Pass-through	36,474
Prepaid Expenses	7,565
Total Current Assets	<u>1,081,900</u>

LIABILITIES

Current liabilities:

Accounts Payable and Accrued Expenses	<u>699,529</u>
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NET POSITION

Unrestricted	<u><u>\$ 382,371</u></u>
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See accompanying Notes to Financial Statements.

CAPE & VINEYARD ELECTRIC COOPERATIVE, INC.
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
YEAR ENDED JUNE 30, 2015

OPERATING REVENUES

Energy Sales and Net Metering Credit Sales	\$ 1,619,489
Operational Administrative Adder	58,839
Total Operating Revenues	<u>1,678,328</u>

OPERATING EXPENSES

Contracted Labor (Note 2f)	80,287
Purchased Power Costs	1,619,695
Legal Fees	181,816
Administrative and General	72,157
Total Operating Expenses	<u>1,953,955</u>

Operating (Loss)	<u>(275,627)</u>
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NONOPERATING REVENUES

Investment Income	154
Member Contributions (Note 4)	403,455
Member Fees	25
Administrative and Other Services Income	10,042
Total Nonoperating Revenues	<u>413,676</u>

CHANGE IN NET POSITION	138,049
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NET POSITION AT BEGINNING OF YEAR	<u>244,322</u>
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NET POSITION AT END OF YEAR	<u><u>\$ 382,371</u></u>
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See accompanying Notes to Financial Statements.

CAPE & VINEYARD ELECTRIC COOPERATIVE, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers and Users	\$ 1,088,353
Payments to Vendors	(1,369,588)
Payments for Contracted Labor	(80,287)
Net Cash Used for Operating Activities	<u>(361,522)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Proceeds from Sales of Renewable Energy Certificates	82,670
Purchase of Renewable Energy Certificates	(82,670)
Pass-through NMC Receipts	1,092,138
Pass-through NMC Disbursements	(1,128,612)
Member Contributions (Note 4)	403,455
Administrative and Other Services Income	10,067
Net Cash from Noncapital Financing Activities	<u>377,048</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	<u>154</u>
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NET CHANGE IN CASH AND CASH EQUIVALENTS

15,680

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR

269,247

CASH AND CASH EQUIVALENTS AT END OF YEAR

\$ 284,927

RECONCILIATION OF OPERATING (LOSS) TO NET CASH USED FOR OPERATING ACTIVITIES

Operating (Loss)	<u>\$ (275,627)</u>
Adjustments to Reconcile Operating (Loss) to Net cash from operating activities:	
Effect of Changes in Operating Assets and liabilities:	
Accounts Receivable	(589,975)
Prepaid Expenses	(7,565)
Accounts Payable and Accrued Expenses	511,645
Total Adjustments	<u>(85,895)</u>

NET CASH USED FOR OPERATING ACTIVITIES

\$ (361,522)

See accompanying Notes to Financial Statements.

CAPE & VINEYARD ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 REPORTING ENTITY

The Cape & Vineyard Electric Cooperative, Inc. (CVEC) consists of 17 member municipalities, 2 counties and one intergovernmental organization located on Cape Cod and Martha's Vineyard in the State of Massachusetts. CVEC was established September 12, 2007 under Massachusetts General Laws for the purpose of developing and/or owning renewable electric generation facilities and procuring and/or selling long term electric supply or other energy-related goods or services at competitive prices to its Members and consumers within its Member communities.

CVEC is governed by a Board of Directors that consists of an appointed Director from each Member. The Officers of CVEC are elected annually by the Board of Directors and consist of a President, Vice President, Treasurer and Clerk.

Any municipality or county or political subdivision thereof, or body politic that meets the requirements of Internal Revenue Code Section 115, is eligible to apply for membership in the CVEC, provided that the governing board of each Member has authorized its membership.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. CVEC accounts for its operations as an enterprise fund. The significant accounting policies are described herein.

A. Measurement Focus, Basis of Accounting and Basis of Presentation

CVEC's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred, regardless of the timing of related cash flows.

CVEC distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

B. Deposits

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition.

CAPE & VINEYARD ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Accounts Receivable

Accounts receivable are recorded at the time of the underlying event. The allowance for uncollectible amounts is estimated based on historical trends and specific account analysis. At June 30, 2015, all amounts are deemed collectible.

D. NMC Pass-through

NMC Pass-through represents the amount related to cash-out projects for which CVEC receives gross earned Net Metering Credit (NMC) amounts that are for the benefit of participating entities. Any receivable or payable amounts represent timing differences between the receipt and disbursement of funds.

E. Revenue Recognition

CVEC Members and participants in net metered sales agreements are billed their portion of power used (and related maintenance fee and operational adders) based on actual production during each month. Except for billings related to renewable energy certificates, Members are billed monthly. Billings for renewable energy certificates are performed quarterly.

F. Contracted Labor

Personal services are provided to the Compact through an agreement with Barnstable County. As such, CVEC has agreed to reimburse the County for all expenses related to salaries and benefits. The related charges in these financial statements represent charge backs to CVEC from the County.

G. Purchased Power Costs

Purchased power costs reflect actual purchased power or purchased net metering credits from the multiple solar photovoltaic (PV) installation sites and, once completed, from the Future Generation Wind project.

H. Legal Fees

Legal fees primarily represent costs incurred related to Solar PV installations, wind project agreements and general legal matters.

I. Income Taxes

CVEC is exempt from federal and state income taxes

CAPE & VINEYARD ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Use of Estimates

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

NOTE 3 DEPOSITS

Deposits are governed by the Massachusetts General Laws and CVEC's by-laws.

Deposits – Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, CVEC's deposits may not be recovered. CVEC's policy for custodial credit risk of deposits is to rely on FDIC insurance. As of June 30, 2015, \$49,032 of CVEC's bank balance of \$299,032 was uninsured and uncollateralized.

NOTE 4 MEMBER CONTRIBUTIONS

The Cape Light Compact (a CVEC Member) provided CVEC contributions totaling \$403,455 related to CVEC's operations for the period July 1, 2014 through June 30, 2015. This contribution did not provide the Cape Light Compact an individual or separate interest in the property or the assets of CVEC. In addition, CVEC has no obligation to repay the contributed amounts. Contributions from the Compact since inception total \$3,472,877, of which \$2,952,877 was funded from the Compact's mil-adder revenue. Beginning in fiscal year 2016, the Compact will no longer provide these contributions.

CAPE & VINEYARD ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 5 RELATED PARTY TRANSACTIONS

Fiscal Administration and Procurement

Barnstable County (a member of CVEC) provides, among other things, the following financial and administrative services:

- Barnstable County serves as CVEC's fiscal administrator. Such services consist of banking, accounting, billing, collection and financial reporting.
- Barnstable County provides the necessary administrative services related to the procurement of goods and services on behalf of CVEC

Barnstable County provides these services free of charge.

Letter of Credit

In order to secure CVEC's performance under its PPA's with Consolidated Edison Solutions, Inc., CVEC was required to obtain an irrevocable standby letter of credit equal to the value of one year's worth of payments under the PPA agreements. The letter of credit is guaranteed by Barnstable County (at no cost to the County) through the use of Cape Light Compact funds, for which Barnstable County serves as fiscal agent.

The required letter of credit value totals \$100,000 and expires November 30, 2016.

No amounts have been drawn on the letter of credit through the date of this report.

Renewable Energy Certificates

Renewable energy certificates purchased by CVEC are sold to the Cape Light Compact for an amount equal to CVEC's cost. Total purchases and sales of renewable energy certificates for the year ending June 30, 2015 totaled \$82,670.

CAPE & VINEYARD ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 6 COMMITMENTS

761 kW Solar PV Installation Project

CVEC has entered into seven “Power Purchase Agreements” (PPA) with Consolidated Edison Solutions, Inc. for 100% of the net energy generated at various installations at a fixed rate through fiscal years 2025 and 2026.

CVEC has entered into seven “Cooperative Net Metered Power Purchase and Equipment Attachment Agreements” with Consolidated Edison Solutions, Inc. and the Towns of Barnstable, Bourne, Brewster, Eastham and Harwich, to sell 100% of the net energy generated as part of the 761 kW PV installation project to the respective Towns at a fixed rate through fiscal years 2025 and 2026.

CVEC has entered into seven “Agreements for the Purchase and Sale of Renewable Energy Certificates” with Consolidated Edison Solutions, Inc. for the purchase of renewable energy certificates based on the net energy generated as part of the 761 kW PV installation project at a fixed rate through fiscal years 2025 and 2026.

Rounds 1 & 2 Solar PV Initiative

CVEC has entered into 25 “Inter-Governmental Project Development Agreements” with the Towns of Barnstable, Bourne, Brewster, Chatham, Eastham, Edgartown, Harwich, Orleans, Provincetown, Tisbury and West Tisbury, the Barnstable Fire District and the Dennis-Yarmouth Regional School District for the lease of land to design, procure, install, test, commission, own, operate and maintain a solar PV system. The lease calls for a rate of \$1 per year through fiscal years 2031, 2032, 2033 and 2034.

CVEC has entered into 25 “Energy Management Services Agreements for Solar PV Systems”, with various third party contractors. The agreements are effective through fiscal years 2031, 2032, 2033 and 2034 and provide for, among other things, the following:

- The design, installation, operation and maintenance of a solar PV system by the third party contractors
- CVEC’s purchase of 100% of the net energy generated as part of each solar PV system at a fixed rate through fiscal years 2031, 2032, 2033 and 2034
- CVEC’s option to purchase the solar PV system at various dates over the term of the agreements

CAPE & VINEYARD ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 6 COMMITMENTS (CONTINUED)

CVEC has entered into 25 “Inter-Governmental Net Metered Power Sales Agreements” with the Towns of Barnstable, Bourne, Brewster, Chatham, Eastham, Edgartown, Harwich, Orleans, Provincetown, Tisbury and West Tisbury, the Barnstable Fire District and the Dennis-Yarmouth Regional School District to sell a percentage of the net energy generated at the solar PV installation sites to the respective Towns based on their respective estimated annual usage at a fixed rate through fiscal years 2031 (Towns of Barnstable, Brewster, Chatham, Eastham, Edgartown, Harwich and Tisbury), 2032 (Towns of Chatham and West Tisbury, and the Dennis-Yarmouth Regional School District), 2033 (Towns of Barnstable, Bourne, Orleans and Provincetown) and 2034 (Barnstable Fire District).

CVEC has entered into 9 “Inter-Governmental Net Metered Power Sales Agreements” with the Towns of Brewster, Chatham, Chilmark, Oak Bluffs, Provincetown and Yarmouth, the Monomoy Regional School District, and Barnstable County and Dukes County, to sell excess energy generated at several sites (associated with CVEC’s Rounds 1 and 2 PV Solar initiatives) at a fixed rate through 2039.

CVEC has entered into a “Control Agreement for Deposit Account” to secure its obligations related to certain “Energy Management Services Agreements”.

Future Generation Wind Project

CVEC has entered into a “Net Metering Power Purchase Agreement” with a third party to purchase a portion of the energy generated by a wind energy generation project (Project) and receive from the host an allocation of the net metering credits to offset electric utility bills of participating CVEC Members or other governmental entities. The term of this agreement is the 20th anniversary of the commercial operation date of the Project. The term of the agreement may be extended no less than 5 years and no more than 25 years.

CVEC has entered into 7 “Inter-Governmental Net Metered Power Sales Agreements” with the Towns of Brewster, Chatham, Oak Bluffs, Provincetown and Yarmouth, the Monomoy Regional School District, and Barnstable County to sell energy generated by the Project and provide the aforementioned entities their respective share of the net metering credits to offset electric utility bills. The term of these agreements is the 20th anniversary of the commercial operation date of the Project.