

**CAPE & VINEYARD ELECTRIC COOPERATIVE, INC.**

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2016**



**CAPE & VINEYARD ELECTRIC COOPERATIVE, INC.  
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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Cape & Vineyard Electric Cooperative, Inc., which comprise the statement of net position as of June 30, 2016, the related statements of revenues, expenses, and change in net position, and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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.

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, 2016, and the change in its financial position and its 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  
February 9, 2017

**CAPE & VINEYARD ELECTRIC COOPERATIVE, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

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, 2016.

**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 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 \$321,990 at the close of the fiscal year and are summarized as follows:

	<u>2016</u>	<u>2015</u>	<u>Change (\$)</u>	<u>Change (%)</u>
<b>Assets</b>				
Current Assets	\$ 1,077,122	\$ 1,081,900	\$ (4,778)	-0.44%
<b>Liabilities</b>				
Current Liabilities	755,132	699,529	55,603	7.95%
<b>Net Position</b>				
Unrestricted	<u>\$ 321,990</u>	<u>\$ 382,371</u>	<u>\$ (60,381)</u>	<u>-15.8%</u>

**CAPE & VINEYARD ELECTRIC COOPERATIVE, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2016**

CVECs assets consist primarily of cash and accounts receivable. There were no significant changes from the prior year.

Liabilities consist of accounts payable and accrued expenses, and net metering credits (NMC) pass-through liabilities. There were no significant changes from the prior year.

**Changes in Net Position**

CVEC's net position decreased by \$60,381 for the year ended June 30, 2016 and is summarized as follows:

	<u>2016</u>	<u>2015</u>	<u>Change (\$)</u>	<u>Change (%)</u>
Operating Revenues	\$ 2,811,277	\$ 1,678,328	\$ 1,132,949	67.50%
Operating Expenses	<u>2,874,343</u>	<u>1,953,955</u>	<u>920,388</u>	<u>47.10%</u>
Operating (Loss)	(63,066)	(275,627)	212,561	-77.12%
Nonoperating Revenues	<u>2,685</u>	<u>413,676</u>	<u>(410,991)</u>	<u>-99.35%</u>
Change in Net Position	(60,381)	138,049	(198,430)	-143.74%
Net Position - Beginning of Year	<u>382,371</u>	<u>244,322</u>	<u>138,049</u>	<u>56.50%</u>
Net Position - End of Year	<u><u>\$ 321,990</u></u>	<u><u>\$ 382,371</u></u>	<u><u>\$ (60,381)</u></u>	<u><u>-15.79%</u></u>

Operating revenues consist of photovoltaic solar sales. Operating revenues increased approximately \$1,130,000 due to an increase in usage associated with new projects that came on-line in the prior year, but were operating for a full year in 2016.

Operating expenses consist primarily of purchased power costs (\$2,639,791, or 92%) and administrative and general expenses (\$117,741, or 4%). Operating expenses increased approximately \$920,000 due to an increase in purchased power costs associated with new projects that came on-line in the prior year operating for a full year.

Nonoperating revenues decreased by approximately \$411,000 due to CVEC no longer receiving member contributions from the Cape Light Compact.

**Requests for Information**

This financial report is designed to provide a general overview of the CVEC's 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, 2016**

**ASSETS**

**CURRENT ASSETS**

Cash	\$ 525,876
Accounts Receivable	
Members - Energy Sales	534,351
Members - Renewable Energy Certificates	7,245
Prepaid Expenses	9,650
Total Current Assets	<u>1,077,122</u>

**LIABILITIES**

**CURRENT LIABILITIES**

Accounts Payable and Accrued Expenses	557,997
NMC Pass-through	197,135
Total Current Liabilities	<u>755,132</u>

**NET POSITION**

Unrestricted	<u>\$ 321,990</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, 2016**

**OPERATING REVENUES**

Energy and Net Metering Credit Sales	\$ 2,639,791
Operational Administrative Adder	166,886
Other Revenue	4,600
Total Operating Revenues	2,811,277

**OPERATING EXPENSES**

Contracted Labor (Note 2)	83,720
Purchased Power Costs	2,639,791
Legal Fees	33,091
Administrative and General	117,741
Total Operating Expenses	2,874,343

**OPERATING LOSS**

(63,066)

**NONOPERATING REVENUES**

Investment Income	266
Other Services Income	2,419
Total Nonoperating Revenues	2,685

**CHANGE IN NET POSITION**

(60,381)

Net Position - Beginning of Year

382,371

**NET POSITION - END OF YEAR**

\$ 321,990

*See accompanying Notes to Financial Statements.*

**CAPE & VINEYARD ELECTRIC COOPERATIVE, INC.**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED JUNE 30, 2016**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from Customers and Users	\$ 3,022,615
Payments to Vendors	(2,934,240)
Payments for Contracted Labor	(83,720)
Net Cash Provided by Operating Activities	4,655

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Proceeds from Sales of Renewable Energy Certificates	27,765
Purchase of Renewable Energy Certificates	(27,765)
Pass-through NMC Receipts	2,297,956
Pass-through NMC Disbursements	(2,064,347)
Administrative and Other Services Income	2,419
Net Cash Provided by Noncapital Financing Activities	236,028

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	266
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**NET CHANGE IN CASH AND CASH EQUIVALENTS**

240,949

Cash and Cash Equivalents - Beginning of Year

284,927

**CASH AND CASH EQUIVALENTS - END OF YEAR**

\$ 525,876

**RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES**

Operating Loss	\$ (63,066)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Effect of Changes in Operating Assets and Liabilities:	
Accounts Receivable	211,338
Prepaid Expenses	(2,085)
Accounts Payable and Accrued Expenses	(141,532)
Total Adjustments	67,721
Net Cash Provided by Operating Activities	\$ 4,655

See accompanying Notes to Financial Statements.

**CAPE & VINEYARD ELECTRIC COOPERATIVE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**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.

**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.

**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, 2016**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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, 2016, all amounts are deemed collectible.

**Net Metering Credit (NMC) Pass-through**

NMC Pass-through represents the amount related to cash-out projects for which CVEC receives gross earned 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.

**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.

**Contracted Labor**

Personnel 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.

**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 operational, from the Future Generation Wind and Nexamp projects.

**Legal Fees**

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

**Income Taxes**

CVEC is exempt from federal and state income taxes

**CAPE & VINEYARD ELECTRIC COOPERATIVE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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, 2016, \$309,750 of CVEC's bank balance of \$719,924 was uninsured and uncollateralized.

**NOTE 4 RELATED PARTY TRANSACTIONS**

**Fiscal Administration and Procurement**

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

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

CVEC paid approximately \$10,200 for these services for the year ended June 30, 2016.

During fiscal year 2016, CVEC hired a third party service provider to provide these services.

**Letter of Credit**

In order to secure CVEC's performance under its Power Purchase Agreements (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, 2017.

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

**CAPE & VINEYARD ELECTRIC COOPERATIVE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 4 RELATED PARTY TRANSACTIONS (CONTINUED)**

**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 ended June 30, 2016 totaled \$27,765.

**NOTE 5 COMMITMENTS**

**761 kW Solar PV Installation Project**

CVEC has entered into 7 PPA's 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 7 "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 7 "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 and 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; and
- 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, 2016**

**NOTE 5 COMMITMENTS (CONTINUED)**

**Rounds 1 and 2 Solar PV Initiative (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, 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, 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 operations 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, 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.

**Nexamp Project**

CVEC has entered into a “Net Metering Purchase and Sale Agreement” with a third party to purchase a portion of the energy generated by a solar energy 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 operations date of the Project or on the day preceding the 25<sup>th</sup> anniversary of the effective date, unless terminated earlier as provided in the agreement.

**CAPE & VINEYARD ELECTRIC COOPERATIVE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 5 COMMITMENTS (CONTINUED)**

CVEC has entered into 6 "Inter-Governmental Net Metering Credit Purchase Agreements" with the Towns of Chatham, Chilmark, Oak Bluffs, Provincetown, Yarmouth, and the Monomoy Regional School District 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 25th anniversary of the effective date, unless terminated earlier as provided in the agreement.