

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

Financial Statements

For the Period from Inception through June 30, 2010



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# *Independent Auditors' Report*



*Certified Public Accountants*

SULLIVAN, ROGERS & COMPANY, LLC  
Corporate Place I, Suite 204 • 99 South Bedford Street  
Burlington, Massachusetts 01803  
P • 781-229-5600 F • 781-229-5610 www.sullivan-rogers.com

## **Independent Auditors' Report**

The Board of Directors  
Cape & Vineyard Electric Cooperative, Inc.

We have audited the accompanying balance sheet of the Cape & Vineyard Electric Cooperative, Inc. (a Massachusetts corporation) as of June 30, 2010, and the related statements of operations and members' equity and cash flows for the period from inception (September 12, 2007) through June 30, 2010. These financial statements are the responsibility of the Cooperative's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2010, and the results of its operations and its cash flows for the initial period then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Sullivan, Rogers &amp; Company, LLC". The signature is written in a cursive, flowing style.

May 24, 2011

# *Financial Statements*

**BALANCE SHEET**

JUNE 30, 2010

<b>ASSETS</b>	<u>2010</u>
<b>Current assets:</b>	
Cash and cash equivalents.....	\$ 147,642
<b>Receivables:</b>	
Members - energy sales, net of allowance (\$0).....	16,365
Members - renewable energy certificates, net of allowance (\$0).....	5,200
Members - other, net of allowance (\$0).....	<u>25</u>
<b>Total assets</b> .....	<u><u>\$ 169,232</u></u>
 <b>LIABILITIES AND MEMBERS' EQUITY</b>	
<b>Current liabilities:</b>	
Accounts payable.....	\$ 138,614
Accrued liabilities.....	<u>2,678</u>
<b>Total liabilities</b> .....	<u>141,292</u>
 Members' equity.....	<u>27,940</u>
<b>Total liabilities and members' equity</b> .....	<u><u>\$ 169,232</u></u>

See accompanying notes to financial statements.



**STATEMENT OF OPERATIONS AND MEMBERS' EQUITY**

FOR THE PERIOD FROM INCEPTION THROUGH JUNE 30, 2010

	2010
<b>OPERATING REVENUES</b>	
Sales - energy.....	\$ 16,365
Sales - renewable energy certificates.....	5,200
Other.....	41,056
TOTAL OPERATING REVENUES.....	62,621
<b>OPERATING EXPENSES</b>	
Salaries.....	27,520
Purchased power costs.....	20,957
Legal fees.....	738,847
Feasibility studies.....	216,825
Administrative and general.....	54,842
TOTAL OPERATING EXPENSES.....	1,058,991
NET OPERATING INCOME (LOSS).....	(996,370)
<b>OTHER INCOME</b>	
Investment income.....	3,960
NET INCOME (LOSS).....	(992,410)
MEMBERS' EQUITY, Beginning of Period.....	-
Member contributions.....	1,020,000
Member fees.....	350
MEMBERS' EQUITY, End of Period.....	\$ 27,940

See accompanying notes to financial statements.

**STATEMENT OF CASH FLOWS**

FOR THE PERIOD FROM INCEPTION THROUGH JUNE 30, 2010

	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Net operating income (loss).....	\$ (996,370)
Changes in assets and liabilities.....	
Accounts receivable.....	(21,565)
Accounts payable.....	138,614
Accrued expenses.....	2,678
	(876,643)
<b>NET CASH (USED BY) OPERATING ACTIVITIES.....</b>	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Investment income.....	3,960
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Member contributions.....	1,020,000
Member fees.....	325
	1,020,325
<b>NET CASH FROM FINANCING ACTIVITIES.....</b>	
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	147,642
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD.....	-
CASH AND CASH EQUIVALENTS AT END OF PERIOD.....	\$ 147,642

See accompanying notes to financial statements.

**NOTE 1 - ORGANIZATION**

Cape and Vineyard Electric Cooperative, Inc. (CVEC or the Cooperative) consists of 17 member municipalities and one intergovernmental organization located on Cape Cod and Martha's Vineyard in the State of Massachusetts. The Cooperative 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.

The Cooperative is governed by a Board of Directors that consists of an appointed Director from each member. The Officers of the Cooperative 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 Cooperative, provided that the governing board of each Member has authorized its membership.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****A. General**

The accounting records of the Cooperative are maintained in accordance with the Uniform System of Accounts as prescribed for electric utilities by the Federal Energy Regulatory Commission (FERC). The Cooperative follows the accounting principles issued by the Financial Accounting Standards Board (FASB).

**B. 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 expenses during the reporting period. Actual results could differ from those estimates.

**C. Cash and Cash Equivalents**

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.

**D. Revenue Recognition**

CVEC Members are billed their portion of power used (and related maintenance fee) based on actual usage during each month. Except for billings related to renewable energy credits, Members are billed monthly. Billings for renewable energy credits are performed quarterly.

**E. Purchased Power Costs**

CVEC's rates reflect actual purchased power costs and the cost of renewable energy credits.

**F. Legal Fees**

Legal fees primarily represent costs incurred related to several projects including Brewster Wind, Harwich Wind, and Consolidated Edison Solutions, Inc. solar photovoltaic installation project. Legal fees also represent expenses related to general legal consulting.

### *G. Feasibility Studies*

Feasibility Studies represent costs incurred related to the Brewster Wind, Harwich Wind and general wind related projects. These expenses consist of services associated with environmental impact studies, sound impacts, site surveying/mapping, permitting, avian studies, regulatory requirement assessments, wind resource assessments and utility interconnection.

### *H. Income Taxes*

The Cooperative is exempt from federal and state income taxes.

### *I. Members' Equity*

The Members of the Cooperative have no individual or separate interest in the property or the assets of Cooperative.

### *J. Date of Management's Review*

Subsequent events were evaluated through May 24, 2011, which is the date the financial statements were available to be issued.

## **NOTE 3 - MEMBER CONTRIBUTIONS**

The Cape Light Compact (a CVEC Member) provided an initial contribution of \$520,000 to cover the initial operating and transactional costs of CVEC. The Cape Light Compact also provided CVEC an additional \$500,000 for two committed wind projects.

The total contribution of \$1,020,000 did not provide the Cape Light Compact an individual or separate interest in the property or the assets of the cooperative. In addition, CVEC has no obligation to repay the contributed amounts.

## **NOTE 4 - POWER SUPPLY AND SALE AGREEMENTS**

On various dates, CVEC has entered into seven "Power Purchase Agreements" (PPA) with Consolidated Edison Solutions, Inc. for 100% of the net energy generated as part of the 916 kilowatt (KW) solar photovoltaic (PV) installation project at a fixed rate through fiscal years 2025 and 2026.

On various dates, 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 916 KW PV installation project to the respective Towns at a fixed rate through fiscal years 2025 and 2026.

On various dates, 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 916 KW PV installation project at a fixed rate through fiscal years 2025 and 2026.

**NOTE 5 - RELATED PARTY TRANSACTIONS**Member Services Agreement

CVEC has entered into a Member Services Agreement (Agreement) with its initial Members (Barnstable County, the Town of Barnstable and the Cape Light Compact) to provide, among other things, the following financial and administrative services:

- Barnstable County serves as the Cooperative's fiscal administrator. Such services consist of banking, accounting, billing, collection and financial reporting for a cost of \$1 per year.
- Barnstable County provides the necessary administrative services related to the procurement of goods and services on behalf of the Cooperative.

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 and other PPA and REC agreements. The letter of credit is guaranteed by Barnstable County.

The initial required letter of credit value totaled \$100,000 and expires July 23, 2011. At June 20, 2010, no amounts had been drawn on the letter of credit.

Renewable Energy Credits

The renewable energy credits purchased from Consolidated Edison Solutions, Inc. are sold to the Cape Light Compact for an amount equal to CVEC's cost. Total renewable energy credit sales for the period from inception through June 30, 2010 totaled \$5,200.

**NOTE 6 - SUBSEQUENT EVENTS**

Subsequent to June 30, 2010, the Town of West Tisbury was admitted as a CVEC member.