

CAPE & VINEYARD ELECTRIC COOPERATIVE, INC.

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

**CAPE & VINEYARD ELECTRIC COOPERATIVE, INC.
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YEAR ENDED JUNE 30, 2017**

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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 are comprised of the statement of net position as of June 30, 2017, 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, 2017, and the change in its 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
January 12, 2018

**CAPE & VINEYARD ELECTRIC COOPERATIVE, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

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, 2017.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the financial statements, which consist 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 \$300,841 at the close of the fiscal year and are summarized as follows:

	<u>2017</u>	<u>2016</u>	<u>Change (\$)</u>	<u>Change (%)</u>
Assets				
Current Assets	\$ 1,093,340	\$ 1,077,122	\$ 16,218	1.51%
Liabilities				
Current Liabilities	792,499	755,132	37,367	4.95%
Net Position				
Unrestricted	<u>\$ 300,841</u>	<u>\$ 321,990</u>	<u>\$ (21,149)</u>	<u>-6.6%</u>

**CAPE & VINEYARD ELECTRIC COOPERATIVE, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

CVEC's assets consist primarily of cash and accounts receivable.

Liabilities consist of accounts payable and accrued expenses, and net metering credits (NMC) pass-through liabilities.

Changes in Net Position

CVEC's net position decreased by \$21,149 for the year ended June 30, 2017 and is summarized as follows:

	<u>2017</u>	<u>2016</u>	<u>Change (\$)</u>	<u>Change (%)</u>
Operating Revenues	\$ 3,187,580	\$ 2,811,277	\$ 376,303	13.39%
Operating Expenses	<u>3,215,923</u>	<u>2,874,343</u>	<u>341,580</u>	<u>11.88%</u>
Operating (Loss)	(28,343)	(63,066)	34,723	-55.06%
Nonoperating Revenues	<u>7,194</u>	<u>2,685</u>	<u>4,509</u>	<u>167.93%</u>
Change in Net Position	(21,149)	(60,381)	39,232	-64.97%
Net Position - Beginning of Year	<u>321,990</u>	<u>382,371</u>	<u>(60,381)</u>	<u>-15.79%</u>
Net Position - End of Year	<u><u>\$ 300,841</u></u>	<u><u>\$ 321,990</u></u>	<u><u>\$ (21,149)</u></u>	<u><u>-6.57%</u></u>

Operating revenues consist of photovoltaic solar sales. Operating revenues increased approximately \$376,000 due to new projects and service agreements that began in fiscal year 2017.

Operating expenses consist primarily of purchased power costs (\$2,991,439, or 93%) and administrative and general expenses (\$123,880, or 4%). Operating expenses increased approximately \$342,000 due to an increase in purchased power costs associated with the new projects that began in fiscal year 2017.

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, 2017

ASSETS

CURRENT ASSETS

Cash	\$ 663,546
Accounts Receivable	
Members - Energy Sales	420,611
Prepaid Expenses	9,183
Total Current Assets	<u>1,093,340</u>

LIABILITIES

CURRENT LIABILITIES

Accounts Payable and Accrued Expenses	713,249
NMC Pass-through	79,250
Total Current Liabilities	<u>792,499</u>

NET POSITION

Unrestricted	<u><u>\$ 300,841</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, 2017

OPERATING REVENUES	
Energy and Net Metering Credit Sales	\$ 2,991,439
Operational Administrative Adder	182,101
Other Revenue	14,040
Total Operating Revenues	<u>3,187,580</u>
OPERATING EXPENSES	
Salary and Benefits	46,693
Contracted Labor (Note 2)	43,911
Purchased Power Costs	2,991,439
Legal Fees	10,001
Administrative and General	123,879
Total Operating Expenses	<u>3,215,923</u>
OPERATING LOSS	<u>(28,343)</u>
NONOPERATING REVENUES	
Investment Income	260
Other Services Income	6,934
Total Nonoperating Revenues	<u>7,194</u>
CHANGE IN NET POSITION	(21,149)
Net Position - Beginning of Year	<u>321,990</u>
NET POSITION - END OF YEAR	<u><u>\$ 300,841</u></u>

See accompanying Notes to Financial Statements.

**CAPE & VINEYARD ELECTRIC COOPERATIVE, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2017**

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers and Users	\$ 3,301,320
Payments to Vendors	(2,969,600)
Payments for Contracted Labor and Payroll	(90,604)
Net Cash Provided by Operating Activities	241,116

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Proceeds from Sales of Renewable Energy Certificates	48,245
Purchase of Renewable Energy Certificates	(41,000)
Pass-through NMC Receipts	1,800,728
Pass-through NMC Disbursements	(1,918,613)
Administrative and Other Services Income	6,934
Net Cash Used by Noncapital Financing Activities	(103,706)

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	260
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NET CHANGE IN CASH AND CASH EQUIVALENTS

137,670

Cash and Cash Equivalents - Beginning of Year

525,876

CASH AND CASH EQUIVALENTS - END OF YEAR

\$ 663,546

RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating Loss	\$ (28,343)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Effect of Changes in Operating Assets and Liabilities:	
Accounts Receivable	113,740
Prepaid Expenses	467
Accounts Payable and Accrued Expenses	155,252
Total Adjustments	269,459
Net Cash Provided by Operating Activities	\$ 241,116

See accompanying Notes to Financial Statements.

CAPE & VINEYARD ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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 Commonwealth 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, 2017

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, 2017, 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

Through December 31, 2016, personnel services were provided to CVEC through an agreement with Barnstable County (County). As such, CVEC reimbursed the County for all expenses related to salaries and benefits up until that date. The related charges in these financial statements represent charge backs to CVEC from the County.

Salary and Benefits

Effective January 1, 2017, the previously contracted personnel became employees of CVEC and are no longer contracted 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, Future Generation Wind project, Syncarpha project, and, once operational, from the Nexamp project.

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, 2017

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 Federal Deposit Insurance Corporation (FDIC) insurance. As of June 30, 2017, \$157,534 of CVEC's bank balance of \$657,634 was uninsured and uncollateralized.

NOTE 4 RELATED PARTY TRANSACTIONS

Letter of Credit

In order to secure CVEC's performance under its Power Purchase Agreements (PPAs) 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.

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 ended June 30, 2017 totaled approximately \$41,000.

CAPE & VINEYARD ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 5 COMMITMENTS

761 kW Solar PV Installation Project

CVEC has entered into 7 PPAs 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, 2017

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 25th anniversary of the effective date, unless terminated earlier as provided in the agreement.

CAPE & VINEYARD ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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.

Syncarpha Project

CVEC has entered into a “Net Metering Purchase and Sale Agreement” with a third party to purchase a portion of the net energy generated from the facility (Project) and receive from the host an allocation of the net metering credits to offset electric utility bills of participating 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 25th anniversary of the effective date, unless terminated earlier as provided in the agreement.

CVEC has entered into 2 “Inter-Governmental Net Metering Credit Purchase Agreements” with the Cotuit Fire District Water Department and Centerville, Osterville, Marston Mills Fire 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.