



**Cape & Vineyard Electric Cooperative, Inc.
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Business and Fiscal Policies and Procedures

Draft presented to
Executive Committee of the Board of Directors
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Draft Prepared by:



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I. Introduction

The Cape & Vineyard Electric Cooperative, Inc. hereinafter referred to as CVEC, maintains a control environment described in this document and endorsed by the Manager of Programs and Administration (Manager), which is a contract position (see Section X. Payroll and Personnel) and Board of Directors.

Internal Control Structure

The policies and procedures described within this document achieve corporation objectives and provide contract staff, management, the Board of Directors and agents with comprehensive policies and procedures related to business practices and financial controls. These policies and practices are part of a broader policy base that includes personnel policies, procurement procedures, and record retention guidelines that are aligned with government regulations.

Control Environment

CVEC's internal control techniques are achieved through documented policies and procedures, segregation of duties and regulatory compliance. CVEC's policies and procedures and internal control systems have been configured to help mitigate risks, threats, and vulnerabilities of the financial information system. As a result, the following goals are achieved:

- Obligations and costs comply with applicable laws;
- All assets are safeguarded against waste, loss, unauthorized use, and misappropriation.
- Revenues and expenditures that apply to CVEC operations and managed energy projects (projects) are recorded and properly accounted for;
- Revenues and expenditures can be assessed and reported by restricted and unrestricted funds.

Control Objectives, Key Controls and Procedures

CVEC's internal control structure is developed to prevent, detect and correct errors, omissions and irregularities in business transactions and processes, and to assure continuity of business operations. Some of the specific standards that CVEC adheres to include:

- **Documentation.** Internal control systems, all transactions and other significant events are clearly documented, and the documentation is readily available for examination.
- **Recording of transactions and events.** Transactions and other significant events are promptly recorded and properly classified.
- **Execution of transactions and events.** Transactions and other significant events are authorized and executed only by persons acting within the scope of their authority.
- **Separation of duties.** Key duties and responsibilities in authorizing, processing, recording, and reviewing transactions are separated among contracted staff, an outsourced energy consulting firm (ECF), an outsourced accounting consulting firm (ACF) and the Board of Directors.

- **Supervision.** Qualified and continuous supervision is provided by the Finance Committee under the auspices of the Board of Directors to ensure that internal control objectives are achieved.

Accounting System

CVEC utilizes QuickBooks (QB) as its accounting system and it is kept on an internal hard drive in the corporate office. All users have CVEC issued passwords. CVEC outsources bookkeeping and accounting functions to an outsourced accounting consulting firm (ACF). The ACF provides CVEC with services to include posting financial activity to QB, reconciling the general ledger, bank activity and unrestricted/restricted cash. The firm also prepares and submits monthly fiscal reports to the board and audit documentation to CVEC auditors at year end.

Annual Audit

An audit of CVEC's financial statements is performed on an annual basis by an independent certified public accounting firm. Audits are conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. *CVEC's audit will include an A-133 audit for the years (if any) that it will expend \$500,000 or more in a year in Federal awards.*

At a minimum, the auditor will:

- Examine the financial statements of CVEC and render an opinion regarding the fairness and appropriateness of the presentation of those statements under generally accepted auditing standards and the standards for financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.
- Review the control policies and procedures of CVEC to ensure compliance with Generally Accepted Accounting Principles (GAAP), OMB Circular A-122, Cost Principles for Non-Profit Organizations, OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and any regulatory body with whom CVEC does business.
- Perform the audit to obtain reasonable assurance that CVEC's financial statements and records are completed in such a manner that they are free of material statement, whether caused by error or fraud.
- Perform tests of CVEC's compliance with certain provision of laws, regulations, contracts and grants.
- Prepare and submit a management letter to the Board of Directors and Management concerning any weaknesses noted in course of audit.
- Prepare and submit MA Corporate Excise Return Form 355

CVEC will provide an independent auditor the reconciled trial balance and supporting files and documents within 90 days after the close of CVEC's fiscal year. It is expected that the independent auditor will present a preliminary draft version of the audit within 150 days after the close of CVEC's fiscal year, and a final draft no later than 180 days.

II. Sarbanes-Oxley Act

In accordance with the Sarbanes-Oxley Act that was signed into law on July 30, 2002, CVEC has implemented provisions to this law by establishing an independent and competent finance/audit committee. Each member of CVEC's finance/audit committee is a member of the board of directors, not part of the management team, and does not receive any compensation (either directly or indirectly) from CVEC as a consultant. The finance/audit committee is composed of individuals who are not compensated for their service on this committee and do not have a financial interest in or any other conflict of interest with any entity doing business with the CVEC. In addition, CVEC's Board of Directors ensures that members have the financial competency to understand financial statements and to evaluate accounting firm bids. The finance/audit committee reviews all financial policies and procedures concerning accounting and internal control practices. In addition, the finance/audit committee meets with the auditor, reviews the annual audit, and recommends its approval or modification to the full board. CVEC will issue a request for proposals to audit firms every 4 years with an understanding that bringing in a new firm helps to ensure that all practices are closely examined.

CVEC's ACF is responsible for generating timely and accurate financial statements for the CVEC and presents these documents each month to the board and the finance/audit committee and quarterly to government funding agencies if required.

III. Fiscal Year and Accounting Calendar

CVEC operates on a fiscal year of July 1 through June 30. Statements of Activities (Income Statements), or Statements of Income & Expenditures for each of administration and projects, a Balance Sheet and Cash Flow Statement of Restricted and Unrestricted Cash are prepared and distributed to the Manager, Finance Committee and Board of Directors on a monthly basis.

IV. Method of Accounting

Financial statements for CVEC are prepared using accrual based methods in conformity with accounting principles generally accepted in the United States of America. The performance of the CVEC is measured by recognizing economic financial events when they occur and it is the policy of CVEC to maintain complete financial information including a Statement of Financial Position (Balance Sheet), Statement of Activities (Income Statements), cash flow report, and general ledger. These financial statements are established in accordance with Generally Accepted Accounting Principles (GAAP) in Federal Office of Management and Budget Circular A-122, Cost Principles for Non-Profit Organizations, and the standards for financial audits contained in Government Auditing Standards in Federal Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

V. Record Retention

The Manager is responsible for setting the standards for retention and management of CVEC's records, will adhere to the official retention and disposition schedules (attached), and ensure that the records of the CVEC are safeguarded during the retention period in a secured onsite and/or offsite storage location. In addition, records are easily retrievable for examination by authorized administrators, auditors and other authorized individuals. At the end of the appropriate retention period, inactive records shall be destroyed according to the applicable schedule unless they support current audit or litigation. The disposal process and methods will preserve the confidentiality of documents through the final point of disposition.

This POLICY seeks to:

- promote compliance with federal, state and local regulations governing auditability and retention of records (OMB Circular No. A-133 and The Sarbanes-Oxley Act);
- dispose of records no longer needed to satisfy legal, regulatory or other requirements;
- ensure that the means of destruction is appropriate for the type of record under consideration;
- ensure the preservation of records of permanent value;
- ensure that record retention policies schedules and procedures are reviewed and modified as necessary to respond to changes in technology and regulations.

Refer to Addendum A: Record Retention Policy

VI. Procurement

1. POLICY/PROCEDURE: CVEC follows the “Uniform Procurement Act-Chapter 30B relative to Energy Management” as outlined by the Commonwealth of MA “General Laws.”
Reference: <https://malegislature.gov/Laws/Generalaws/Part1/TitleIII/Chapter30B>
2. Code of Conduct: No members of the Board of Directors, contract staff, officer, volunteer or agent of CVEC shall participate in the selection, award or administration of a contract if a real or apparent conflict of interest would be involved. Such a conflict would arise when the employee, officer, volunteer, agent, any member of his or her immediate family, his or her partner, or an CVEC which employs or is about to employ any of the parties indicated herein, has a financial or other interest in the firm or company selected for an award. Officers, employees and agents of CVEC shall neither solicit nor accept gratuities, favors or anything of monetary value from contractors or subcontractors with the exception of unsolicited gifts of nominal value (not to exceed \$25). Failure to abide by this Code of Conduct may lead to discipline ranging from exclusion from participation, suspension with or without pay and, in egregious situations, termination.

3. Competition: All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition. In order to ensure objective contractor performance and eliminate unfair competitive advantage, CVEC shall develop specifications, statements of work, and invitations for bids and/or requests for proposals that are clear, concise and complete. Awards shall be made to the bidder or offer whose bid is responsive to the solicitation and is most advantageous to CVEC when considering price, quality and other factors of past performance, including references. Contractors who have been disbarred or suspended under the E.O.s 12549 and 12689 shall not be considered. Any and all bids or offers may be rejected when it is in CVEC's interest to do so.

When appropriate, Manager and Board of Directors will do an analysis of the lease and purchase alternatives to determine which option is the most economical and practical. General wisdom holds that the longer a piece of equipment is to be held in ownership, the more viable the purchase option becomes.

4. CVEC will reference the Excluded Parties List at www.epls.gov to ensure vendor being used by CVEC is not ineligible or excluded from receiving government contracts. A copy of the list will be printed on the procurement packet if required.
5. Board Approval: In the event that a contract will be issued whose total value will exceed \$10,000, such contract shall be reviewed by and approved by the Board of Directors. The Board shall consider such items as whether the item is necessary, whether the item is allowable, whether the item was budgeted, whether the procurement policy was followed and whether resources are available for the purchase.
6. Capitalization policy: Any single expenditure of \$1,000.00 or more, for a tangible item expected to have a useful life of more than 12 months will be recorded as a capital asset and depreciation will be charged over its useful life.
7. Positive efforts shall be made by CVEC to utilize small businesses, minority-owned firms and women's business enterprises whenever possible. Consideration shall be given for larger contracts where subcontractors to be used qualify as Women Owned or Minority businesses. If possible, we encourage the use of consortiums of small business, minority owned business or women owned business if the contract is too large to be fulfilled by one of these companies individually. We will use, when appropriate, the services of the Small Business Administration and the Department of commerce's Minority Business Development Organization in soliciting and encouraging small businesses, minority owned businesses or women owned businesses to bid.
8. Manager shall take pains to assure that no purchasing is done for items that are or will soon become unnecessary.

9. All records related to procuring a product, good or service including, any and all contract and bid documents, shall be made available to the awarding Organization as required and/or as requested.

a) Conflict of Interest

Occasionally it will be in the best interest of CVEC to acquire goods and services from, or to give or sell goods or services to, external parties that are associated with CVEC or with some of its employees. To protect employees of CVEC, as well as CVEC itself, from allegations of a conflict of interest, transactions must be dealt with in an arms-length basis.

This policy includes all Officers, Directors and Employees of CVEC in an executive, professional, administrative, supervisory or technical capacity. It also includes any person responsible for the approval, issuance or allocation of an order, contract, commitment or specification for materials or services to be furnished by external suppliers. In addition, this policy includes any person responsible for the determination of prices or terms, the sale or purchase of materials, supplies, or services to clients or from suppliers on behalf of CVEC.

- POLICY: CVEC follows the Conflict of Interest Law for Municipal Employees as outlined by the State Ethics Commission.
 - Refer to: <http://www.mass.gov/ethics/education-and-training-resources/implementation-procedures/municipal-employee-summary.html>
1. Contract staff, and Board Members are required to provide a certificate of completion of online training surrounding Conflict of Interest provided by the Commonwealth of Massachusetts.
 2. Contract staff, Managers, Board Members and other CVEC agents are prohibited from accepting substantial gifts, benefits or favors for their use or enjoyment offered by a client, supplier, proposed supplier, purchaser, proposed purchaser, donor, proposed donor, association, institution or person with whom the member is dealing with on behalf of CVEC.
 3. Members of CVEC must always deal at arms-length when conducting business or having financial dealings on behalf of CVEC with any enterprise. In particular:
 - (a) CVEC's contract staff are prohibited from approving requisitions or payments for the purchase of goods or services from enterprises in which the member, or some member of his/her immediate family has a financial interest, and
 - (b) CVEC's contract staff are prohibited from selling, giving or approving sales or gifts to enterprises in which the member, or some member of his/her immediate family, has a financial interest.

4. Contract Staff of CVEC are prohibited from doing business with, having financial dealings with or receiving remuneration or substantial gifts from any supplier, purchaser or enterprise that competes or conflicts with the aims and objectives of CVEC.

When any member of CVEC finds himself/herself in a situation that breaches, has breached or is likely to breach these guidelines, the member will immediately disclose the matter to his/her immediate supervisor and to the President. The supervisor will either take over the matter personally or will delegate it to another Board Member, ensuring in the process that no further breach of this policy occurs. In each case, where a breach of this policy has been reported to a supervisor, the Manager or Board Member will be immediately advised in writing of the breach. Any gift or benefit unknowingly received by an contract staff must be turned over to CVEC with a disclosure.

b) Contracts-Delegation of Authority to Sign

POLICY: As part of its normal operations CVEC may enter into two types of contracts. One type of contract will commit CVEC to purchase certain services or materials from an outside party. The second type will obligate CVEC to perform a service or to supply materials to an outside party. This policy provides signing authority guidelines for both types of contracts.

PROCEDURE:

1. A member of the Executive Committee of the Board of Directors or the Manager will normally sign purchase contracts on behalf of CVEC providing the purchase falls within planned and ordinary budgeted expenses and in the normal course of business.
2. Performance Contracts: Special consideration is needed when CVEC contracts with another party to perform a service, provide advice, information, or supply material, whether or not income is the intent of the partnership. In such situations CVEC must ensure that the legal, financial and insurance implications are thoroughly understood. Typically, all such contracts will be signed on behalf of CVEC even though specific individuals or departments will provide the service.

The signing authorities for such "performance" contracts will be as follows:

All contracts, documents or written instruments requiring execution by CVEC will be signed by the Manager, the President or other member of the Executive Committee where necessary. Once appropriately signed, such contracts, documents or written instruments will bind CVEC without any further authorization or formality.

3. Any contract over \$35,000 must be presented to the full Board of Directors, which will authorize the Executive Committee or the President to execute contracts,

documents, or written instruments in accordance with the corporate bylaws.

c) Contracts-Purchase of Goods & Services

POLICY/PROCEDURE: CVEC follows the “Uniform Procurement Act” as outlined by the Commonwealth of MA “General Laws.”

Reference: <https://malegislature.gov/Laws/Generalaws/Part1/TitleIII/Chapter30B>

VII. Accounts Payable

Receipt of Externally Generated Vendor Invoices

Energy Project Funds:

Vendor invoices are generated by CVEC from Energy Reports received from the Utility companies and/or ECF.

Refer to “CVEC’s Transaction Process by Project” which outlines procedure for Revenue and Expense recognition

Non-Energy Project Funds:

Operating and administrative vendor invoices are generated by the daily operations of CVEC and are processed routinely. The Manager receives and opens bills, stamps with date received, researches and resolves errors or discrepancies. Vendor invoices for approved budget items less than \$10,000 are approved and signed by the Manager. The following vendor bills are forwarded to the President or Vice-President for approval prior to entry into QuickBooks: Legal Fees billed to CVEC, and/or bills for unbudgeted expenses.

The ACF enters vendor invoices and allocates to the appropriate budget line item. A W-9 is required from all vendors requiring a 1099 tax statement before processing payments.

Checks for open operating vendor bills are prepared weekly and routed with the approved invoice to CVEC signatories. Checks in the amount of \$10,000 for non-budgeted expenditures and/or non-energy expenditures require two signatures.

Receipt of Business Expenses incurred by Employee

The Manager may incur a business expense and be reimbursed for those expenses by completing an out-of-pocket reimbursement request form that includes the following information:

- Date of request
- Date expense incurred
- Separate each expense
- Description of expense with purpose

- Amount of expense incurred, less tax, if paid nonprofit organizations cannot reimburse sales tax
- Attach all receipts
- Sign

This form is then submitted to the member of the Executive Committee or Finance Committee to review and approval and is then sent to the ACF for processing. Checks are signed by CVEC periodically appointed signatories.

Travel and Staff Mileage

CVEC will reimburse employees and consultants for reasonable expenses incurred during ordinary and necessary business activity carried out in CVEC's interest.

Mileage Reimbursement. Only employees and eligible consultants of CVEC are entitled to mileage reimbursement at the rate established by CVEC with reference to Internal Revenue Service (IRS) rates, and are not eligible to be reimbursed directly for the cost of gas, oil, repairs, etc. for their personal vehicle. Parking and tolls are reimbursable items.

A "Business Travel Expense Report" is completed in its entirety, including Date of Trip, Purpose of Travel, Miles per Trip, and signed by the Manager. The Manager's Expense Report is signed by a member of the Executive Committee or Finance Committee.

Company miles driven do not include the standard number of miles driven for the employee to go from their home to the office/program. Miles driven should be calculated from the home office to the location of the business activity.

Overnight Lodging. Overnight lodging at reasonable or average market rates will be reimbursed. Hotel accommodations in excess of \$250 per night must be approved in advance by a member of the Executive Committee. Meals, when traveling, will be reimbursed for actual expenditures supported by receipts not including alcohol. Federal per-diem rates shall be used as guidance for establishing reimbursement rates.

Air Travel. Air Travel, as well as ground transportation (vehicle rental, taxi, bus, or limousine) is approved by the member of the Executive Committee, and will be reimbursed via receipts when used in conjunction with approved business travel. Gas and oil are reimbursable for rented vehicles, for that portion of business activity only.

Entertainment is a non-reimbursable item unless it is specifically related to a business meeting and approved in advance by the member of the Executive Committee. Alcoholic beverages are never reimbursable, and must always be paid for by the employee.

If a credit card is used, the "customer copy" of the charge slip signed by the contract staff traveling is acceptable documentation. All receipts must be attached to the "Business Travel Expense Report."

VIII. Cash Management

Cash Receipts and Bank Deposits

CVEC receives payments from energy participants, contracts, customers, grants, reimbursements, refunds and donations via checks, credit cards, wires or ACH electronic payments. Checks are deposited weekly and deposit receipt is sent to ACF for posting. Electronic payments are recorded by the ACF within 2 business days of receipt of payment.

Checks - When a check is received, the Manager will stamp the date on the correspondence and attach to a copy of the check. The Manager will endorse “For Deposit Only” or stamp check, completes a deposit slip, and then deposits at the bank. Documentation and bank deposit slip are routed to the ACF who then enters information into QuickBooks, after which manager files all documentation.

Wire and ACH - When Cash has been transferred via Wire or ACH from funding organizations, a bank notification of funds received is routed to the ACF who then enters information into QuickBooks and files all documentation.

Cash Disbursements

Disbursements includes the process used to pay outstanding invoices, check requests, employee reimbursements, or other transactions requiring payment by check.

The ACF prints out an Unpaid Bills Report from QuickBooks. This information, along with cash balances is provided to the Manager who then determines what bills should be paid and authorizes payment by the ACF.

Check Process follows:

- Print checks from QuickBooks weekly or bi-weekly according to due dates;
- Use manual (hand-written) checks only when technical difficulties exist which will be defined
- Route all checks written or printed, with vendor backup to Manager for review
- Manager forwards to CVEC signatories for review and signature
- Mail payments to vendors or distribute checks to Manager
- File paid bills, check requests, and expense reports;
- Keep both printed, manual and blank checks in a locked file

Refer to “CVEC’s Transaction Process by Project” which outlines procedure for Deposit and Disbursements of energy project funds.

Bank Oversight and Transfers

CVEC's bank accounts include a Control Account for Energy payments from Utilities, and Project Checking Account from which disbursements are made to participants, energy system owners and CVEC's Disbursement Account for adder revenue received on projects.

The ACF and Manager oversee cash management and engage in the following process:

- ACF transfers funds from the Century Control Account, which holds energy receipts received from the Utility (Local Distribution Company), into the CVEC Project Account based on ledger statement of energy credits received from Utility.
- ACF uses on-line service to initiate transfer and confirms by monthly reconciliation to bank statements.
- ACF disburses the Adder revenue from the Project Account to the Disbursement Account by check written from QuickBooks.
- Banks Statements are opened and reviewed by a Finance Committee member and routed to the ACF.
- All transfers from Control Account are limited to transfers into CVEC Operating Account only.

Refer to Addendum C: "CVEC's Transaction Process by Project" which outlines procedure for Deposit and Disbursements of project funds.

Bank Statements & Reconciliations

This procedure is used for reconciling cash accounts in the general ledger to statements provided by the bank. In addition to performing weekly (or even more frequent) comparison of bank balances per bank statement to QB registers. The following process is followed:

- Banks Statements are opened and reviewed by a Finance Committee member and routed to the ACF.
- The ACF reconciles each account in QuickBooks within the 7 days after receiving month end statements;
- ACF and Manager Research reconciliation discrepancies to determine cause;
- Make appropriate corrections to accounting and/or bank records;
- Save reconciliation report files electronically;
- Print reconciliation reports;
- Print register detail report from QuickBooks for each account and routes to Manager and Financial Committee for review;
- File in folders by account for the calendar year.
- Forwards banks statements and reconciliations to the Auditor annually.

IX. Revenue Recognition and Accounts Receivable

Government or Private Grant Funding

The Manager and ACF will oversee the Request for Reimbursement from Grant Funders (if any). Request for Reimbursement will be initiated pursuant to contract specifications and all documentation will be sent to the ACF for posting to Accounts Receivable. A grant may be set up as a specific Program within the Chart of Accounts to report on expenditures incurred if required and/or to directly be reimbursed for expenditures. The Manager or ACF will provide the necessary documentation on a timely basis in order to receive payment from grants.

Reimbursements, Contract and Service Agreement Revenue

Revenue of this kind is recorded upon receipt of energy reports from the ECF (Noted as “PEG”), or contract provider (noted as “Non-PEG”) pursuant to a contractual agreement’s payment schedule or upon creation of a customer invoice by the ACF via QuickBook’s system. Electronic Deposit confirmations are routed to the ACF to post the Revenue and internally generated Invoices are posted by the ACF that directly sets up an Accounts Receivable. Accounts Receivable Reports are generated twice a month and reviewed by the ACF and forwarded to the Manager who conducts follow up communication with customer’s (participant’s) late payments. Disputes, if any, with ECF are resolved by Manager..

Refer to Addendum C: “CVEC’s Transaction Process by Project” which outlines procedure for Revenue and Expense recognition.

Interest Income

All bank accounts are interest bearing. Interest earned is recorded at the time of monthly bank statement reconciliation by the ACF as a credit to interest income.

X. Payroll and Personnel

CVEC does not directly employ staff. The Manager of Programs and Administration is contracted from Barnstable County through an Administrative Services Agreement which is subject to annual appropriation. It shall continue in effect unless there is a termination of the contract by either party.

Refer to Barnstable County Personnel Policies for details on payroll procedures.

Gifts Provided by the CVEC

PURPOSE: To provide spending guidelines when purchasing gifts to consumers, employees and volunteers of CVEC.

POLICY: Modest gifts may be purchased for contract staff and volunteers to recognize length of service, retirement or resignation from CVEC, or for some other special event or achievement. A gift or flowers may be provided for a birth, adoption, illness, bereavement, marriage or any other significant event.

FRAUD POLICY

BACKGROUND: This fraud policy is established to facilitate the development of controls that will aid in the detection and prevention of waste, fraud, or abuse against CVEC. It is the intent to promote consistent CVEC behavior by providing guidelines and assigning responsibility for the development of controls and conduct investigations.

SCOPE OF POLICY: This policy applies to any irregularity, or suspected irregularity, involving contract staff, board members, consultants, volunteers and any other agent acting on behalf of CVEC or agencies doing business with the CVEC and /or any other parties with a business relationship with CVEC.

Any investigative activity required will be conducted without regard to the suspected wrongdoer's length of service, position/title or relationship to CVEC.

POLICY: Management is responsible for the detection and prevention of waste, fraud, abuse, misappropriations and other irregularities. Each CVEC supervisor will be familiar with the types of improprieties that might occur within his or her area of responsibility, and be alert for any indication of irregularity.

Any irregularity that is detected or suspected must be reported immediately by the reporting individual in accordance with CVEC's Whistleblower Policy. (See Appendix B)

DEFINITIONS

Fraudulent or Dishonest Conduct: A deliberate act or failure to act with the intention of obtaining an unauthorized benefit. It includes any act that constitutes fraud under applicable federal or state statute or regulation.

Waste: The thoughtless or careless expenditure, consumption, mismanagement, use or squandering of resources owned or allocated to CVEC.

Abuse: The excessive or improper use of a CVEC asset(s) and/or the intentional destruction, diversion, misapplication, maltreatment of resources owned, assigned or allocated to CVEC.

ACTIONS CONSTITUTING FRAUD: The terms fraud, defalcation, misappropriation, and other fiscal irregularities refer to, but not limited to:

Forgery or alteration of documents;
Unauthorized alternation or manipulation of computer files;
Fraudulent financial reporting;
Pursuit of a benefit or advantage in violation of CVEC Conflict of Interest Policy;
Misappropriate or misuse of CVEC resources, such as funds, supplies, or other assets;
Authorizing or receiving compensation for goods not received or services not performed; and
Authorizing or receiving compensation for hours not worked.
Profiteering as a result of insider knowledge of CVEC activities
Disclosing confidential and proprietary information to outside parties
Accepting or seeking anything of material value from contractors, vendors or persons providing services/materials to CVEC, excepting gifts of less than \$25 in value
Destruction, removal or inappropriate use of records, furniture, fixtures, and equipment
Any similar or related irregularity

OTHER IRREGULARITIES: Irregularities concerning an individual's moral, ethical or behavioral conduct should be resolved by the supervisor of that individual and the President. If there is any question as to whether an action constitutes fraud, the President shall report the matter per guidelines defined in CVEC's Whistleblower Policy.

Refer to CVEC's Whistle Blower Policy for further procedure surrounding but not limited to:

Reporting
Rights & Responsibilities of Supervisor
Investigation
Whistle Blower Protection & Confidentiality

TERMINATION: If an investigation under this section results in a recommendation to terminate the contract of an individual, the recommendation will be reviewed by the President (or, if the President is the subject of the investigation, by the Executive Committee of the Board of Directors) and by outside counsel before any such action is taken. The final decision to terminate a contract staff is made by the President (or, if the President is the subject of the investigation, by the Executive Committee of the Board of Directors).

Refer to: Addendum B - CVEC Whistle Blower Policy

XI. Grants and Contracts

Grants and Contract Management

CVEC's Manager and Board of Directors will manage grants and contracts (if any)

- Manage government and municipal grants and matching cash and in-kind funds by utilizing the accounting system to provide financial reports with comparisons of approved budgeted line items and subcategories to actual to ensure compliance to the awarded budget;
- Refer to and have knowledge of OMB Circulars and MA 30B to ensure compliance;

- Refer to and have knowledge of all government contract, statutory and programmatic requirements and ensure compliance;
- Create a grant file to collect documentation for auditing purposes;
- Submit timely required grant reports, performance reports and financial reports compiled by ACF.

XII. Fixed Assets

Certain items purchased by CVEC that have a significant cost and a useful life of two or more years will be recorded as assets (capitalized) and depreciated over their estimated useful lives as listed below. Furnishings and equipment, including computer equipment purchased for a unit cost of \$1,000 or more, are capitalized. CVEC will use straight-line depreciation for all its fixed assets. In the year of acquisition and relinquishment, six months or half-year convention of depreciation will be used. The estimated useful lives are as follows:

- Furniture, fixtures and equipment - 3 to 5 years
- Computer equipment - 3 years
- Renovations - 5 to 25 years
- Leasehold Improvements the shorter of the useful life or the remaining lease term

XIII. Information and Technology

a) Disaster Preparedness

Computer data files must be safeguarded against fire, flood or any other harmful act. Secure Network for Small Business, Inc. shall maintain proper procedures for the recovery of data and other secure information. These shall be detailed on a Disaster Preparedness Plan. *(To be written)*

b) Privacy

The President maintains CVEC's confidential information including password restrictions, password change scheduling, firewalls, and other procedures that will safeguard protected data.

c) Computer Information Backup

POLICY: To safeguard critical data and ensure the continuous operation of CVEC, computer data files will be adequately backed-up on a weekly basis.

PROCEDURE:

QuickBooks is stored on a hard drive that is attached to a stand-alone desktop. Automatic back-up is through OneDrive, a Microsoft service. Manager also performs a backup on alternating thumb drives from the CVEC computer every Friday using PathSync.

d) Computer Usage

POLICY: All unauthorized or illegitimate use of CVEC's computer resource system (all hardware and software, whether owned, leased, rented or on loan to CVEC) is strictly prohibited. Excessive personal use of the resource is also prohibited, especially when it overburdens the system and impacts on its efficiency. Other prohibited uses include, but are not limited to, the infringement on the intellectual rights of others, unauthorized modification and/or destruction of hardware and software, attempts to circumvent the security system to gain access to unauthorized systems and/or files, interference with the ability of others to access the resource in order to perform their duties, and the use of CVEC's computer resource for personal gain.

It is the responsibility of all users to respect the intellectual property rights of all authors, contributors, and publishers, and to protect and safeguard their own password(s) and system(s) from unauthorized users. Furthermore, all users must adhere to the terms and conditions of all software licenses, contracts, agreements and policies which legally bind CVEC to third parties.

All electronic information residing on CVEC's networks and equipment, including electronic email, is the property of CVEC and is subject to examination by authorized agent if any breach of this policy is suspected, or if it is necessary to comply with a federal or state law.

Any employee in violation of this policy may be denied access to CVEC's computer resource and may also be subject to other disciplinary action.

e) Software Purchases and Site Licensing

POLICY: The Executive Committee must approve the purchase of all software products and site licensing agreements in excess of one thousand dollars (\$1,000). Refer to Contracts section.

f) Telephone Usage and Scope

PURPOSE: To manage the cost of long distance telephone charges and to ensure that telephone lines are available to conduct CVEC's business.

POLICY: CVEC owned telephones are only to be used to conduct CVEC's business. Under certain circumstance, however, the Manager is authorized to make or receive or make personal calls subject to the following:

1. The calls do not adversely affect CVEC or the Manager's ability to perform his/her official duties.
2. The calls are of a reasonable duration and frequency.
3. The calls cannot be reasonably made outside of business hours.

XIV. Governance

The Board of Directors of CVEC Corporation, with the support of its Finance and Executive Committee, and the policies approved and issued by the Board provide governance to CVEC Corporation and its employees and/or contract staff with regard to business practices and internal controls. The following references are relevant to and reflective of this role:

- Addendum A – Records Retention Policy
- Addendum B - Whistleblower Policy – (Sample attached)
- Addendum C – CVEC Transaction Process for Energy Projects

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ADDENDUM A-Record Retention Policy

POLICY: Organization shall retain all financial records as required for a period of seven (7) years beyond the submission and acceptance of the final audit report. Records that are due to be destroyed will be destroyed on the agency sight, by a document destruction company that offers secure and certified document destruction services. Destruction will be supervised by a member of the Finance Manager. A certification of document destruction will be obtained from the shredding vendor upon completion of destruction.

The following table provides the minimum requirements organization will follow for records retention:

Type of Document	Minimum Requirement
Accounts payable ledgers and schedules	7 years
Audit reports	Permanently
Bank Reconciliations	2 years
Bank statements	3 years
Checks (for important payments and purchases)	Permanently
Contracts, mortgages, notes and leases (expired)	7 years
Contracts (still in effect)	Permanently
Correspondence (general)	2 years
Correspondence (legal and important matters)	Permanently
Correspondence (with customers and vendors)	2 years
Deeds, mortgages, and bills of sale	Permanently
Depreciation Schedules	Permanently
Duplicate deposit slips	2 years
Employment applications	3 years
Expense Analyses/expense distribution schedules	7 years
Year End Financial Statements	Permanently
Insurance Policies (expired)	3 years
Insurance records, current accident reports, claims, policies, etc.	Permanently
Internal audit reports	3 years
Inventories of products, materials, and supplies	7 years
Invoices (to customers, from vendors)	7 years
Minute books, bylaws and charter	Permanently
Patents and related Papers	Permanently
Payroll records and summaries	7 years
Personnel files (terminated employees)	7 years
Retirement and pension records	Permanently
Tax returns and worksheets	Permanently
Timesheets	7 years
Trademark registrations and copyrights	Permanently

ADDENDUM B - Whistle Blower Policy

The Organization is committed to operating in furtherance of its tax-exempt purposes and in compliance with all applicable laws, rules and regulations, including those concerning accounting and auditing, and prohibits fraudulent practices by any of its board members, officers, employee and/or contract staffs and/or contract staff, or volunteers. This policy outlines a procedure for employee and/or contract staffs and/or contract staff to report actions that an employee and/or contract staff reasonably believes violates a law, or regulation or that constitutes fraudulent accounting or other practices. This policy applies to any matter which is related to the business of Organization and does not relate to private acts of an individual not connected to the business of the organization.

If an employee and/or contract staff has a reasonable belief that an employee and/or contract staff of the Organization has engaged in any action that violates any applicable law, or regulation, including those concerning accounting and auditing, or constitutes a fraudulent practice, the employee and/or contract staff is expected to immediately report such information to the President. If the employee and/or contract staff does not feel comfortable reporting the information to the President, he or she is expected to report the information to the Vice-President of the Board.

All reports will be followed up promptly, and an investigation conducted. In conducting its investigations, the Organization will strive to keep the identity of the complaining individual as confidential as possible, while conducting an adequate review and investigation.

The Organization will not retaliate against an employee and/or contract staff in the terms and conditions of employment because that employee and/or contract staff: (a) reports to a supervisor, to the President, the Board of Directors or to a federal, state or local agency what the employee and/or contract staff believes in good faith to be a violation of the law; or (b) participates in good faith in any resulting investigation or proceeding, or (c) exercises his or her rights under any state or federal law(s) or regulation(s) to pursue a claim or take legal action to protect the employee and/or contract staff's rights.

The Organization may take disciplinary action (up to and including termination) against an employee and/or contract staff who in management's assessment has engaged in retaliatory conduct in violation of this policy.

In addition, the Organization will not, with the intent to retaliate, take any action harmful to any employee and/or contract staff who has provided to law enforcement personnel or a court truthful information relating to the commission or possible commission by the Organization, or any of its employee and/or contract staff of a violation of any applicable law or regulation.

ADDENDUM C- CVEC Transaction Process for Energy Projects

CVEC Transaction Process – Cashout PV Projects

1. The CVEC Manager receives the utility statements via email and/or mail identifying the energy period, kilowatt hours, and Net Metering Credits (NMC) for the preceding month as per the Schedule Zs filed by CVEC with the utility.
2. The CVEC Manager files statement electronically and sends a copy to the vendor and Energy Consulting Firm (ECF).
3. The Outsourced Accounting Firm (ACF) creates an invoice for each project in QuickBooks (QB) for the amount of NMC funds to be received by CVEC from the utility company per the utility statement. These NMC funds are posted as a credit to the general ledger liability account #23550 Cash Out–NMC.
4. When wired funds are received from utility company a payment against the liability account #23550 is disbursed (See section 7 below).
5. The CVEC Manager receives a bill from vendor based on the utility statement. The Manager files and forwards a copy of the vendor bill to ECF.
6. ECF prepares a Net Metering Credit and Billing Report for each project which is forwarded back to Manager in PDF and excel format. The reports break down disbursements of cash to host, vendor, and to offtakers, if applicable. The report includes operational adder based on kilowatt hours to support CVEC operations and administration. The data is held in an msql file created and maintained by ECF that is based on the Schedule Z filed by CVEC with the utility.
7. The ACF uses the ECF report to create bills in QB for future disbursement of the funds due to the vendors, hosts, and offtakers, if any, based on the utility statement. Invoices and Bills are dated the last day of the energy period.
 - a. The NMC funds due to hosts and offtakers are posted as a debit to the general ledger liability account #23550 Cash Out–NMC.
 - b. The funds per the Power Purchase Agreement (PPA) between the hosts and offtakers are posted as revenue to CVEC as a credit to the general ledger revenue account #42200-PV Hosts Revenue (PPA) and as a debit to the offsetting general ledger expense account #61550-Purchased Power Costs.
 - c. The revenue sharing funds, if any, are posted as revenue to CVEC as a credit to the general ledger revenue account #42101-Rev Share collected for Host and as a debit to the offsetting general ledger expense account #62560-OT Rev Share with Host.
 - d. An administrative operational adder, if part of agreement, is posted as a credit to general ledger account #45000 – Operational Adder and a debit to the general ledger liability account #23550 Cash Out-NMC.
8. The utility wires the funds due per the utility statement into CVEC’s Century Bank “Control Account”.
9. The ACF applies the wired funds against each project invoice in QB. Funds equal to what was received are transferred online from the Century Control account to the Century Project Account in order for funds to be disbursed to the corresponding vendors, hosts, offtakers and CVEC.

10. The ACF creates checks for the disbursements from the Century Project Account to the vendors, hosts, offtakers and CVEC after ECF reports are reconciled by the ACF.
11. Checks are routed to the Manager for review after which they are routed to a signatory with a check register printed from QB for review and signing.
12. Signed checks are mailed by the Manager or assistant.
13. Banks statements are opened and reviewed by a member of the Finance or Executive Committee, then routed to the ACF for reconciliation.
14. A monthly reconciliation of both Century accounts against QB is completed by the ACF.
15. A report is compiled and presented to the Manager and the Finance Committee monthly, and Board of Directors periodically, of the reconciled activity.

CVEC Transaction Process – Allocation PV Projects

16. The CVEC Manager receives the utility statements via email and/or mail identifying the energy period, kilowatt hour, and NMC that have been posted to customer's electric accounts as per the Schedule Zs filed by CVEC with the utility.
17. The CVEC Manager files statement electronically and sends a copy to the vendor and ECF.
18. The CVEC Manager receives a bill from vendor based on the utility statement. The Manager files and forwards the vendor bill to ECF.
19. ECF prepares a Net Metering Credit and Billing Report for each project which is forwarded back to Manager in PDF and excel format. The reports break down disbursements of NMC made by utility directly to host and to offtakers, if applicable. The report includes operational adder, based on kilowatt hours, to support CVEC operations and administration. The data is held in an msql file created and maintained by ECF that is based on the Schedule Z filed by CVEC with the utility.
20. The ACF uses the ECF report to create invoices to corresponding hosts and offtakers, if applicable and to create bills to corresponding Project Owners in QB for future collection and disbursement of the funds due to the Project Owners and hosts based on the utility statement.
 - a. The funds due to Project Owners for PPA from the hosts and offtakers, are posted as revenue to CVEC as a credit to the general ledger revenue account #42200-PV Hosts Revenue (PPA) and as a debit to the offsetting general ledger expense account #61550-Purchased Power Costs.
 - b. The revenue sharing funds are posted as revenue to CVEC as a credit to the general ledger revenue account #42101-Rev Share collected for Host and as a debit to the offsetting general ledger expense account #62560-OT Rev Share with Host.
 - c. An administrative operational adder, if part of agreement, is posted as revenue to CVEC as a credit to general ledger account #45000 – Operational Adder and a debit to the general ledger account #11000 –Accounts Receivable.
21. The ACF prints the invoices and routes to Manager for review and mailing.

22. ECF reports are reconciled by the ACF when the payments come in from hosts and oftakers the ACF applies the payments against the invoices in QB.
23. ACF creates checks for the Project Owner and hosts, if revenue share applicable, from the TD Bank Checking Account.
24. Checks are routed to the Manager for review after which they are routed to a signatory with a check register printed from QB for review and signing.
25. Signed checks are mailed by the Manager or assistant.
26. Banks statements are opened and reviewed by a member of the Finance or Executive Committee, then routed to the ACF for reconciliation.
27. A monthly reconciliation of TD Checking account against QB is completed by the ACF.
28. A monthly reconciliation of activity between the ECF reports and QB is completed by the ACF and reviewed by a member of the Finance Committee.
29. A report is compiled and presented to the Manager and the Finance Committee monthly, and Board of Directors periodically, of the reconciled activity.
30. Bank deposits are made weekly by the Manager. The ACF records the deposit in QB.

CVEC Transaction Process – Allocation PV Projects located Behind-the-Meter – No ECF involvement (see Wixon for additional process)

1. The CVEC Manager receives via email and/or mail the vendor invoice, which is based on the reading of production from the vendor production meter located on-site identifying the energy period, kilowatt hours and PPA costs.
2. The ACF creates an invoice to the host for reimbursement of PPA costs, as well as the CVEC Operational Adder, if any. There is no revenue sharing in Behind-the-Meter PV installs, as all production is absorbed by host on-site.
 - a. The funds due to Project Owners for PPA from the hosts are posted as revenue to CVEC as a credit to the general ledger revenue account #42200-PV Hosts Revenue (PPA) and as a debit to the offsetting general ledger expense account #61550-Purchased Power Costs.
 - b. An administrative operational adder, if part of agreement, is posted as revenue to CVEC as a credit to general ledger account #45000 – Operational Adder and a debit to the general ledger account #11000 –Accounts Receivable.
3. The ACF creates a bill in QB for the payment due to Project Owner.
4. When the payment is received from the host, the ACF applies funds to corresponding invoices in Accounts Receivable.
5. ACF creates a check to pay the corresponding Project Owner bill in QB.
6. Checks are routed to the Manager for review after which they are routed to a signatory with a check register printed from QB for review and signing.
7. Signed checks are mailed by the Manager or assistant.
8. A monthly reconciliation of activity between the vendor bills and QB is completed by the ACF.

WIXON – ECF is involved with Wixon

1. Wixon is essentially a Behind-the-Meter installation as described immediately above. However, in summer months there is an excess of power. In these times the host continues to be invoiced for vendor (PPA) costs as above. In addition, however the host becomes an offtaker as well, and, in summer, along with the 8 other offtakers, there are transactions treated as in “CVEC Transaction Process – Allocation PV Projects” for the excess power (see above).
2. A monthly reconciliation of Behind-the-Meter activity between the vendor bill and QB is completed by the ACF.
3. For summer excess power activity, a monthly reconciliation between the ECF reports and QB is completed by the ACF.

Annual Reports

On an annual basis ECF provides annual reports detailing production and the ECF disbursement directions for all projects and participants.

Monthly Bank Reconciliations

Performed by the ACF monthly and reviewed by member of the Finance Committee.

Monthly Finance Committee Meetings

The Finance Committee meets monthly to review the financials provided by the ACF on a monthly basis.

ADDENDUM D- CVEC Annual Filings and Certifications

(updated June 16, 2014)

1. Corporate Filings

CVEC is a corporation organized under G.L. c. 156B and G.L. c. 164, Section 136. CVEC's fiscal year ends June 30.

Under G.L. c. 156B, corporations are required to file an annual report with the Secretary of the Commonwealth on or before the fifteenth day of the third month following the close of its fiscal year. G.L. c. 156B, Section 109. CVEC's annual report is therefore due on or before September 15th of each year. There are no required corporate filings under G.L. c. 164, Section 136.

Here is the link to the corporate forms on the Massachusetts Secretary of Commonwealth, Corporation Division's website: <http://www.sec.state.ma.us/cor/corpweb/cordom/dominf.htm#2>.

2. Tax Filings

a. *Federal*

CVEC has obtained a private letter ruling from the IRS regarding its tax status. The PLR is currently available on CVEC's website. The IRS requires state and local governments to file an information return. More information about this can be found on the IRS web site under the topic heading "Information Return Reporting for State & Local Governments" (<http://www.irs.gov/Government-Entities/Federal,-State-&-Local-Governments>).

b. *State*

CVEC also received an information letter from the MA DOR regarding its tax status. The state requires CVEC to file MA DOR **Form 355** Business or Manufacturing Corporation Excise Return which can be obtained from MA DOR's web site. In its information letter to CVEC, MA DOR stated that CVEC is a retailer or vendor within the meaning of G.L. c. 64H, § 1 and must register and file sales tax returns with MA DOR. Filing and payment of sales and use tax is done annually, quarterly or yearly, depending on the amount of tax collected. Currently it is annually. Returns are required to be filed even when no tax is due. Certain recordkeeping requirements must also be complied with.

3. Annual Audits

CVEC is not required to have an annual audit under its organizational statutes, G.L. c. 164, Section 136 and c. 156B. However, CVEC's Bylaws (as amended as of July 2013) contain auditing and reporting requirements:

12.7 Reports; Financial Audits

The Cooperative shall prepare an annual report which shall be provided, without charge, to each of its Members at the annual meeting of the Members, or at such other time as the Board of Directors may determine. External financial audits will be conducted on a regular and recurring basis by a C.P.A. in accordance with

generally accepted accounting practices (“GAAP”) or such other standard as the Board of Directors shall determine.

4. DOER/DPU/FERC Filings

As each PV project goes online, CVEC will need to file annual reports with DOER regarding the system operation and production. It should be noted that the EMS Agreements obligate the contractor to assist in the filing of these reports.

5. Filings Related to Loans and Project Financing

In the future, CVEC may be required to submit annual filings to a lender (such as the Rural Utility Service) in connection with financings.

6. Filings Related to Contracts/Project Administration

CVEC has entered into many intergovernmental agreements (IGAs) with its members. IGAs require inclusion of sufficient financial safeguards and issuance of periodic financial statements. More specifically, G.L. c. 40, s. 4A requires the following:

All agreements put into effect under this section shall provide sufficient financial safeguards for all participants, including, but not limited to: accurate and comprehensive records of services performed, costs incurred, and reimbursements and contributions received; the performance of regular audits of such records; and provisions for officers responsible for the agreement to give appropriate performance bonds. The agreement shall also require that periodic financial statements be issued to all participants.

In addition, when CVEC uses the exemption from G.L. c. 30B for contracts for energy or energy related services, it must:

submit to the department of public utilities, the department of energy resources, and the office of the inspector general a copy of the contract and a report of the process used to execute the contract; provided, further, that for any such contract determined to contain confidential information under subclause (r) of section 7 of chapter 4, the governmental body shall instead maintain a record of the procurement processes and awards for 6 years after the date of the final payment. The governmental body shall make such records available to the inspector general upon request; provided, however, that the inspector general shall not disclose said information.

See G.L. c. 30B, Section 1(33).

7. Board Member Training Requirements

CVEC Board members are required to participate in Open Meeting Law and Ethics trainings. More specifically, the Open Meeting Law requires as follows:

Within 2 weeks of qualification for office, all persons serving on a public body shall certify, on a form prescribed by the attorney general, the receipt of a copy of the open meeting law, regulations promulgated pursuant to section 25 and a copy of the educational materials prepared by the attorney general explaining the open meeting law and its application pursuant to section 19. Unless otherwise directed or approved by the attorney general, the

appointing authority, city or town clerk or the executive director or other appropriate administrator of a state or regional body, or their designees, shall obtain such certification from each person upon entering service and shall retain it subject to the applicable records retention schedule where the body maintains its official records. The certification shall be evidence that the member of a public body has read and understands the requirements of the open meeting law and the consequences of violating it.

G.L. c. 30A, Section 20(g). The Massachusetts State Ethics Commission's website states as follows:

Each year, every state, county, and municipal employee must be given a summary of the conflict of interest law prepared by the Ethics Commission and, every two years, they must complete an online training program prepared by the Commission. Every municipality must designate a liaison to the Commission. All records of compliance with these requirements must be retained for 6 years. These requirements apply to all public employees, as defined by the conflict of interest law and described below, except to the extent that an employing public agency exempts certain categories of employees from these requirements in accordance with the guidelines set forth below (see section 2). These requirements also apply to regional public entities, as discussed below in section 6. Former public employees are not subject to these requirements.

Educational materials can be found on the Commission's website: (<http://www.mass.gov/ethics/education-and-training-resources>). The Commission has classified CVEC as a regional municipal entity.

8. Board Member Ethics Disclosures

Individual board members have additional ethics reporting requirements depending on other public or private positions that they may hold, and on their financial interests. More information can be found here:

<http://www.mass.gov/ethics/disclosure-forms/municipal-employee-disclosure-forms/>.