

Fox Islands Wind, LLC
FINANCIAL STATEMENTS
December 31, 2022

Fox Islands Wind, LLC
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Kittell Branagan & Sargent

Certified Public Accountants

Vermont License #167

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Fox Islands Wind, LLC
Vinalhaven, Maine

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Fox Islands Wind, LLC, as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise Fox Islands Wind, LLC's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Fox Islands Wind, LLC as of December 31, 2022 and 2021, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in governmental auditing standards issued by the comptroller general of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the financial statements section of our report. We are required to be independent of Fox Islands Wind, LLC, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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. In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Fox Islands Wind, LLC's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and government auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements. In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Fox Islands Wind, LLC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Fox Islands Wind, LLC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by Government Auditing Standards

In accordance with Governmental Auditing Standards, we have also issued our report dated April, 7, 2023 on our consideration of Fox Islands Wind, LLC's internal control over financial reporting and on our test of its compliance with certain provisions of laws and regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of Fox Islands Wind, LLC's internal controls over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Fox Islands Wind, LLC's internal control over financial reporting and compliance.



St. Albans, Vermont
April 7, 2023

Fox Islands Wind, LLC
BALANCE SHEETS
December 31,

ASSETS

	<u>2022</u>	<u>2021</u>
CURRENT ASSETS		
Cash	\$ 3,431	\$ 8,728
Restricted cash	836,891	794,766
Due from member - electricity sales	96,859	93,362
Accounts receivable - renewable energy credit sales	138,570	87,745
Prepaid expenses and other current assets	<u>117,660</u>	<u>28,186</u>
TOTAL CURRENT ASSETS	<u>1,193,411</u>	<u>1,012,787</u>
WIND TURBINES AND EQUIPMENT		
Land	35,000	35,000
Wind turbines	13,827,326	13,827,326
Equipment	<u>309,762</u>	<u>309,762</u>
	14,172,088	14,172,088
Less accumulated depreciation	<u>(5,972,296)</u>	<u>(5,515,452)</u>
TOTAL WIND TURBINES AND EQUIPMENT	<u>8,199,792</u>	<u>8,656,636</u>
TOTAL ASSETS	<u>\$ 9,393,203</u>	<u>\$ 9,669,423</u>

LIABILITIES AND MEMBERS' EQUITY

CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 64,142	\$ 52,214
Line of credit with member	95,000	13,000
Notes payable - RUS, payments contractually due in one year	<u>551,274</u>	<u>531,823</u>
TOTAL CURRENT LIABILITIES	<u>710,416</u>	<u>597,037</u>
LONG TERM LIABILITIES		
Notes payable - Member	106,253	106,253
Notes payable - RUS	<u>3,736,331</u>	<u>4,286,132</u>
TOTAL LONG TERM LIABILITIES	<u>3,842,584</u>	<u>4,392,385</u>
TOTAL LIABILITIES	4,553,000	4,989,422
MEMBERS' EQUITY	<u>4,840,203</u>	<u>4,680,001</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 9,393,203</u>	<u>\$ 9,669,423</u>

See Accompanying Notes to Financial Statements

Fox Islands Wind, LLC
 STATEMENTS OF OPERATIONS
 For the Years Ended December 31,

	<u>2022</u>	<u>2021</u>
SALES		
Electricity sales	\$ 1,168,203	\$ 1,081,506
Renewable energy credit sales	<u>263,864</u>	<u>195,808</u>
TOTAL SALES	<u>1,432,067</u>	<u>1,277,314</u>
OPERATING EXPENSES		
General operating expenses	647,514	604,848
Depreciation expense	<u>456,844</u>	<u>459,794</u>
TOTAL OPERATING EXPENSES	<u>1,104,358</u>	<u>1,064,642</u>
INCOME FROM OPERATIONS	<u>327,709</u>	<u>212,672</u>
OTHER INCOME (EXPENSE)		
Interest expense	(177,547)	(196,905)
Interest income	6,925	18,962
Other	<u>3,115</u>	<u>1,454</u>
TOTAL OTHER INCOME (EXPENSE)	<u>(167,507)</u>	<u>(176,489)</u>
NET INCOME	160,202	36,183
MEMBERS' EQUITY, BEGINNING OF YEAR	<u>4,680,001</u>	<u>4,643,818</u>
MEMBERS' EQUITY, END OF YEAR	<u>\$ 4,840,203</u>	<u>\$ 4,680,001</u>

See Accompanying Notes to Financial Statements

Fox Islands Wind, LLC
STATEMENTS OF CASH FLOWS
For the Years Ended December 31,

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 160,202	\$ 36,183
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation expense	456,844	459,794
Amortization expense	1,473	1,473
(Increase) decrease in the following assets:		
Due from member - electricity sales	(3,497)	(4,973)
Accounts receivable - renewable energy credit sales	(50,825)	5,662
Prepaid expenses and other current assets	(89,474)	537
Increase (decrease) in the following liabilities		
Accounts payable and accrued expenses	<u>11,928</u>	<u>10,799</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>486,651</u>	<u>509,475</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in restricted cash	<u>(42,125)</u>	<u>(6,662)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from advances on FIEC line of credit	383,000	200,000
Principal payments on FIEC line of credit	(301,000)	(187,000)
Principal payments on note payable - RUS	<u>(531,823)</u>	<u>(511,838)</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>(449,823)</u>	<u>(498,838)</u>
NET INCREASE (DECREASE) IN CASH	(5,297)	3,975
CASH - Beginning of Year	<u>8,728</u>	<u>4,753</u>
CASH - End of Year	<u>\$ 3,431</u>	<u>\$ 8,728</u>
SUPPLEMENTARY CASH FLOW INFORMATION		
Interest paid during the year	<u>\$ 176,074</u>	<u>\$ 195,432</u>

See Accompanying Notes to Financial Statements

Fox Islands Wind, LLC
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Fox Islands Wind, LLC (the Company) is a limited liability Company organized in Maine for the purpose of developing wind as a source of electric energy for the Fox Islands of North Haven and Vinalhaven, Maine. The Company is a wholly owned subsidiary of Fox Islands Electric Cooperative, Inc. (FIEC). These financial statements do not include the activities of FIEC for the years ended December 31, 2022 and 2021. See Note 4 for additional related party activities and disclosures for the years then ended.

Basis of Presentation

The financial statements of the Company have been prepared on the accrual basis of accounting.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Regulatory Accounting

The Company utilizes the Uniform System of Accounts established by RUS, except where the MPUC has prescribed other treatment. In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 980, Regulated Operations, The Company records certain assets and liabilities in accordance with the economic effects of the rate making process.

Regulatory Matters

The Company is subject to various environmental regulations arising relating to its business, which may require future cost increases or revenue reductions.

Revenue Recognition and Accounts Receivable

The Company recognizes revenue by providing electricity to FIEC, its sole member, under a Power Purchase Agreement. Revenue is recognized as the electricity is delivered. In addition, revenue is generated through the sale of Renewable Energy Credits (RECs) to unrelated parties under a REC purchase agreement. Revenue from sale of RECs under a fixed price take-or-pay contract is recognized when the related electricity is generated.

Accounts receivable are carried at their cost basis and are reviewed for collectability and, if necessary, an allowance for doubtful accounts is established. Any uncollectible accounts are charged off.

Wind Turbines and Equipment

Wind turbines and equipment are recorded at cost and depreciated over the estimated useful lives of the assets using the straight-line method. Turbine blades are assigned a 20-year life, the nacelles have a 30-year life, and the towers are assigned a 40-year life. Substation equipment has a 30-year life. Roads and trails, communication equipment, and other equipment have a 10-year life.

Fox Islands Wind, LLC
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

The Company is not a tax paying entity for federal or state income tax purposes, and thus no income tax expense has been recorded in the financial statements. The Company had no income tax expense in 2022 and 2021.

The Company follows guidance issued by the Financial Accounting Standards Board to account for uncertainties in income taxes. Management has evaluated the Company's tax positions and has concluded that the Company has taken no uncertain tax positions that require adjustment to the financial statements. Tax years from December 31, 2019 and later are open for Internal Revenue Service (IRS) or state examinations.

NOTE 2 NOTE PAYABLE – RUS

	<u>2022</u>	<u>2021</u>
Mortgage notes payable, U.S. Department of Agriculture (RUS) 35-year terms at the following interest rates:		
3.55% mortgage notes, due December, 2029	\$4,297,917	\$4,829,740
Unamortized debt issuance costs	<u>(10,312)</u>	<u>(11,785)</u>
Total long-term debt	4,287,605	4,817,955
Less current installments:	<u>(551,274)</u>	<u>(531,823)</u>
Long-term debt, excluding current installments	<u>\$3,736,331</u>	<u>\$4,286,132</u>

RUS borrowings have annual restrictive covenants for a times interest earned ratio (TIER) and debt service coverage ratio (DSC). The Company must maintain a TIER of 1.05 or better in two out of three years and a debt service coverage ratio of not less than 1.00 in two out of three years. The TIER's were 1.94 in 2022, 1.19 in 2021, and 1.35 in 2020. The DSC's were 1.12 in 2022, .98 in 2021 and 1.05 in 2020. The Company met both the TIER and DSC requirements for the year ended December 31, 2022.

The principal payments contractually due for the next five years and thereafter are as follows:

2023	\$ 551,274
2024	571,264
2025	591,100
2026	612,335
2027	633,897
Thereafter	<u>1,338,047</u>
	<u>\$4,297,917</u>

Fox Islands Wind, LLC
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022

NOTE 2 NOTE PAYABLE – RUS (continued)

The RUS has required the Company, as a condition of financing, to establish a debt service reserve fund and an operations and maintenance reserve fund. The balance of the debt services reserve fund was \$707,291 and \$708,366 at December 31, 2022 and 2021, respectively, while the balance of the operations and maintenance reserve fund was \$129,600 and \$86,400 at December 31, 2022 and 2021, respectively. These accounts are classified as restricted cash in current assets at December 31, 2022 and 2021. The debt service reserve fund is held in two separate bank accounts, both of which are interest bearing.

In December, 2019, RUS approved the withdrawal of \$180,000 out of the operations and maintenance reserve to fund the repairs of one of the wind turbines (see Note 3). In accordance with the RUS approval, in January, 2020 the Company began making deposits to replenish the reserve at a rate of \$3,600/month for 48 months with a final payment of \$7,200 on December 2023 which would replenish the account in full.

Interest income recorded in 2022 and 2021 was \$6,925 and \$18,962, respectively.

NOTE 3 COMMITMENTS AND CONTINGENT LIABILITIES

Operating Leases

The Company leases land under an operating lease that the wind turbines are on and land adjacent to the wind turbines for the purpose of complying with applicable rules and regulations. These leases are non-cancelable and expire in December 2029. Fox Islands Electric Cooperative purchased the referenced land and assumed all rights to and obligations of the leases on March 30, 2023.

Other

In 2022, the Fox Islands Wind Project did not produce enough REC's for what the Company was contracted to sell. The Company produced 7758 RECs and was required to purchase 745 REC's on the open market at a price of \$31.00 per REC. No new commitments were made during the year.

In 2021, the Fox Islands Wind Project did not produce enough REC's for what the Company was contracted to sell. The Company produced 8310 RECs and was required to purchase 195 REC's on the open market at a price of \$36.50 per REC.

In 2020, the Company entered into a firm commitment to sell 8,500 MA Class 1 (2022) RECs at a fixed price with a further sale of 100% remaining Unit Production of MA Class 1 (2022) RECS on a unit contingent basis at a fixed price per REC.

NOTE 4 RELATED PARTY TRANSACTIONS

At December 31, 2022 and 2021, due from member - electricity sales is due from FIEC. All electricity sales were to FIEC.

At December 31, 2022 and 2021, the Company had accounts payable due to FIEC totaling \$7,746 and \$17,129, respectively.

Fox Islands Wind, LLC
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022

NOTE 4 RELATED PARTY TRANSACTIONS (continued)

Other related party transactions with FIEC include incurring \$78,179 and \$94,652 during the years ended December 31, 2022 and 2021 respectively, in expenses paid to FIEC for providing accounting services and maintenance services.

The Company has lease agreements with Hacienda, LLC and Amaziah's Mill for land use related to the wind project. The lease fees paid to Hacienda, LLC were \$17,255 and \$19,843 for the years ended December 31, 2022 and 2021, respectively, and Amaziah's Mill \$24,673 and \$29,937 for the years ended December 31, 2022 and 2021, respectively. A member of the board as well as the COO of the Company is the Lessor in both of these leases. As disclosed in note 3, these leases were purchase by Fox Islands Electric Cooperative, Inc. on March 30, 2023.

Note Payable - Member and Line of Credit with Member

In 2013, FIEC received permission from the Maine Public Utilities Commission that allowed FIEC to provide a ten year, 3.0% term loan of \$320,000 (note payable - member) and a \$120,000 variable rate line of credit (line of credit with member) to the Company, both of which are secured by Company assets.

The line of credit had an outstanding balance of \$95,000 and \$13,000 at December 31, 2022 and 2021, respectively. The line of credit matures in July 2023.

The outstanding balance of the note payable - member as of December 31, 2022 and 2021 is \$106,253. The note requires monthly payments of \$3,090 for ten years. The final payment of the loan was December 2022; however, on January 1, 2020 the Company received approval from the Fox Islands Electric Cooperative, Inc. board of directors to suspend all payments through December 2023 extending the maturity date to December 2026.

The principal payments contractually due for the next five years and thereafter are as follows:

2023	\$ -
2024	34,362
2025	35,407
2026	<u>36,484</u>
	<u>\$ 106,253</u>

There was no interest paid to FIEC for the years ended December 31, 2022 and 2021, respectively.

Fox Islands Wind, LLC
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022

NOTE 5 MEMBERS' EQUITY

The Company has issued Class A and B membership units. At December 31, 2014 Diversified Communications owned all of the Class A units and FIEC owned all of the Class B units. The Class B member only had the right to elect the Company's Management Committee. The Company was obligated to make a mandatory minimum distribution of \$25,000 per year to the Class A member until the earlier of January 2019 or the Call Point, which is the point in time at which the Class A member has achieved a predetermined rate of return. Once the Call Point has occurred, the Class B member may purchase all the Class A member's units for a predetermined price. In October 2014 the Class A member entered into an agreement with the Company and FIEC to sell its membership interest to FIEC for the purchase price of \$50,000, effective January 1, 2015.

Activity in the members' equity for the years ended December 31, 2022 and 2021 is as follows:

	Class A Member (Diversified Communications)	Class B Member (FIEC)	Accumulated Deficit	Total
Balance, December 31, 2020	\$ -	\$ 5,487,500	\$ (843,682)	\$ 4,643,818
Net income	-	-	36,183	36,183
Balance, December 31, 2021	-	5,487,500	(807,499)	4,680,001
Net income	-	-	160,202	160,202
Balance, December 31, 2022	<u>\$ -</u>	<u>\$ 5,487,500</u>	<u>\$ (647,297)</u>	<u>\$ 4,840,203</u>

NOTE 6 SUBSEQUENT EVENTS

In accordance with professional accounting standards, the Company has evaluated subsequent events through April, 7, 2023, the date which the financial statements were available to be issued. All subsequent events requiring recognition as of December 31, 2022 have been incorporated into these financial statements herein.

ADDITIONAL REPORTS



Kittell Branagan & Sargent

Certified Public Accountants

Vermont License #167

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Directors
Fox Islands Wind, LLC

We have audited, in accordance with the 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, the financial statements of the Fox Islands Wind, LLC's, which comprise the statement of financial position as of December 31, 2022, and the related statements of operations, equities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April, 7, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fox Islands Wind, LLC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fox Islands Wind, LLC's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fox Islands Wind, LLC's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fox Islands Wind, LLC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Kittell, Branagan + Sargent" with a long horizontal flourish extending to the right.

St. Albans, Vermont
April 7, 2023