

Cape Light Compact Governing Board
Wednesday, August 14, 2013
Open Session Meeting Minutes

The Governing Board of the Cape Light Compact met on Wednesday, August 14, 2013 in Rooms 11 & 12, Superior Court House, 3195 Main Street, Barnstable, MA 02630.

Present were:

Joyce Flynn, Chairwoman, Yarmouth
Robert Schofield, Vice-Chair, Bourne
Peter Cocolis, Treasurer, Chatham until 3:30 pm
Barry Worth, Secretary, Harwich
Peter Cabana, Member at Large, Dukes County
David Anthony, Barnstable
Deane Keuch, Brewster
Timothy Carroll, Chilmark - by Teleconference
Brad Crowell, Dennis
Fred Fenlon, Eastham
William Doherty, Barnstable County @2:30 pm
Thomas Mayo, Mashpee
Ronald Zweig, Falmouth
Richard Toole, Oak Bluffs
Kenneth Rowell, Orleans
Everett Horn, Sandwich
Sue Hruby, West Tisbury

Legal Counsel:

Jeffrey Bernstein, Esq., BCK Law, LLC

Staff Present:

Maggie Downey, Compact Administrator
Margaret Song, Residential Program Manager
Briana Kane, Sr. Residential Program Coordinator
Matthew Dudley, Residential Program Coordinator
Lindsay Henderson, Communications & EE Data Analyst
Joseph Soares, Sr. Power Supply Planner

Auditor:

Chris Rogers, Sullivan, Rogers & Company, LLC - presenter

Public:

Ed Maroney, Barnstable Patriot
Dan McCready, Cape Cod Broadcasting

Absent Were:

Michael Hebert, Aquinnah
Edgartown - Vacant
Sharon Lynn - Provincetown
William Straw - Tisbury
Peter Fontecchio - Truro
Kathy Hubby - Wellfleet

Meredith Miller, C&I Program Manager
Nicole Price, C&I Program Planner
Vicki Marchant, C&I Program Analyst
Philip Moffitt, EM&V Analyst
Debbie Fitton, Energy Education Coordinator

CALL TO ORDER

At 2:08 pm, Chairwoman Flynn called the meeting to order. Chr. Flynn introduced Sue Hruby as the newest member of the Cape Light Compact Governing Board, representing West Tisbury.

PUBLIC COMMENT

Dan McCready stated that he was recording the meeting.

MEETING MINUTES

Secretary Worth presented the June 12, 2013 Meeting Minutes for consideration. *D. Anthony made a correction on pg. 2, line 56 by adding that he met with C. McLaughlin and Pres. Checklick of CVEC for his own interest and R. Zweig corrected line 60 to read R. Zweig is also satisfied... and to delete that he was not in*

attendance, as he was there. R. Zweig made a motion to approve the minutes of June 12, 2013 as amended, seconded by R. Schofield and voted unanimously in favor with P. Cabana, R. Toole, Brad Crowell, Sue Hruby & D. Keuch abstaining.

FINANCIAL STATEMENT REPORT

Chris Rogers from Sullivan, Rogers & Company, LLC presented the Cape Light Compact's Independent Audited Financial Statements for years 2009, 2010 and 2011. He stated that Cape Light Compact has been included in the Barnstable County audit, but that independent audit financial statements had never been performed. C. Rogers stated that all information that was requested of Cape Light Compact was received in a timely and organized manner.

William Doherty arrived at 2:30 pm.

Maggie Downey asked C. Rogers if he could verify that no energy efficiency funds have been used to fund Cape & Vineyard Electric Cooperative (CVEC). C. Rogers instructed the Board to turn to page 23 in the 2009 financial report, which shows that no money for CVEC has been funded by the energy efficiency fund, and that any money from CVEC came from the Power Supply Reserve Fund. Peter Cabana clarified that the 6 month lag in receiving money for the energy efficiency program is not because the Compact did not collect the money. C. Rogers stated that because the energy efficiency program started on January 1, the Compact was not able to collect the energy efficiency reconciling factor until July 1, which resulted in the 6 month lag. M. Downey stated that that issue has been resolved for Cape Light Compact only and that energy efficiency funds for the program year are now collected within the program year. D. Anthony asked if the OPEB obligation is paid out. C. Rogers said that nothing is paid out and that it is just a liability as the Compact did not have retirees at the time. R. Zweig pointed out that the Compact is a self-reliant entity. J. Flynn stated that the County does not subsidize the Compact. C. Rogers stated that the Compact is charged directly for any retirement costs and that the first retiree did not happen until 2011. C. Rogers mentioned that government accounting is different than corporate accounting. B. Crowell was pleased with the work that was done, and stated that this information is what they were looking for in order to communicate to the public. He would like to see a combined cash flow statement and wants to see the treasurer's report in a similar format. P. Cocolis stated that he has tried to mimic that format without spending money for additional software. C. Rogers stated that unfortunately the County's accounting system does not allow for this type of report. He said he could give the Board a couple of suggestions for software. B. Crowell wanted to remind the Board that the public cannot understand our financial statements and that it may be worth looking into. C. Rogers stated that the County's focus is on function and if a charge does not fit into that model, then it gets classified as other. He mentioned that the County system does not adhere to the Compact's operations. C. Rogers stated that they did not find any wrongdoings by the Compact, which is stated in the Management Letter. There are some suggestions that were made, that will be implemented by the Compact. They were unable to start the 2012 audit until the annual report filing which happened August 1. J. Flynn thanks C. Rogers for his clear presentation today and for attending the June Assembly of Delegates meeting.

P. Cocolis left at 3:30.

ENERGY EFFICIENCY UPDATE

1. Overview of 2012 Annual Report: M. Downey asked if the Board would table the 2012 Annual Report overview until September due to time constraints. The Board agreed.

2. C&I Waiver Request: V. Marchant presented the waiver request for Monomoy High School, which is comprised of Harwich and Chatham. She stated that the incentive is \$563,336 and will save approximately 554,673 kWh annually. B. Worth stated that the school is being built state of the art, so if these items were not included then it would be a shame. V. Marchant stated that this is the first time that the Compact and National Grid are working together on a comprehensive design project. *D. Anthony moved for the Board to approve the waiver of the \$300k incentive cap (2 towns at \$150k per town) for the Monomoy High School New Construction Comprehensive Design Approach project, thereby allowing a total project incentive of \$563,336, seconded by B. Crowell, voted unanimously in favor.*

CHAIRMAN'S REPORT:

1. Update on Meeting with Assembly of Delegates: J. Flynn stated that it is important to attend to the Assembly meetings, but feels that none of their minds have changed. She noted that the Assembly said that the Agreed Upon Procedures did not tell the whole story and that we were hiding things, and that there are still members of the Assembly who believe a forensic audit is needed. It was noted that the office of Inspector General is not an audit firm. M. Downey stated that the Compact's Financial Statement will be posted on the website in the next few days.

2. Demand Letter Sent to C. Powicki of Brewster: J. Flynn stated the C. Powicki gave a PowerPoint presentation to the Assembly with Cape Light Compact's logo, which included misinformation. Legal counsel sent a letter to him demanding him to stop using the Compact's logo and to cease and desist from making false allegations about the Compact's Power Supply Program, as well as to cease and desist from personal and defamatory attacks on Cape Light Compact's Administrator.

3. DPU Letter of July 19, 2013: J. Flynn stated that the Department of Public Utilities (DPU) has stated that they are taking no action on the request for a public hearing on the Compact's electric rates.

ADMINISTRATOR'S REPORT

1. Treasurer's Report: M. Downey handed out the treasurer's report, P. Cocolis' absence, for the period of January through June 2013.

OPEN SESSION VOTE ON ENTRY INTO EXECUTIVE SESSION AND REQUIRED DECLARATIONS OF THE CHAIR

Chr. Flynn then declared the need to enter into Executive Session pursuant to MGL Ch. 30A § 21 (a) (10) for a discussion on Power Supply Procurement Strategy (confidential and competitively sensitive information) and for an update on DPU Regulatory Litigation, in accordance with MGL Ch. 30A § 21 (a) (3) and that an open session may have a detrimental effect on the bargaining or litigating position of the Cape Light Compact. *P. Cabana moved the Board vote to enter into Executive Session and at the conclusion of the Executive Session not to reconvene in open session, seconded by B. Worth and voted unanimously by roll call in favor.* Counsel and staff remained.

Respectfully submitted,
Lindsay Henderson, Recording Clerk

Reviewed by Barry Worth on: 9.4.13

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Cape Light Compact

Fiscal Year 2009, 2010 and 2011
Financial Statement Audit Exit Conferences

August 14, 2013

Presented by: Chris Rogers, CPA, Shareholder

Agenda

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- Background
- Engagements summary
- Financial statement structure
- Reporting entity
- Financial statement summaries (2009 – 2011)
 - Opinions
 - Financial highlights
 - Significant footnotes
 - Additional Information
- Reports on IC Over FR and Compliance
- Management Letter
- Questions

Background

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- Since inception (1997) all Cape Light Compact funds have been included in the annual audit of Barnstable County's financial statements
 - These audits did not include the preparation of separately issued financial statements for the Compact
- July 2012 - Presentation to Compact Governing Board on Compact Audit and Attestation Recommendations
- September 2012 – Compact Board votes to proceed with Recommendations
- March 2013 – Report on Applying Agreed Upon Procedures presented to the Board

Engagements Summary

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- ❑ Audits began February 2013
- ❑ Multiple drafts issued for each year beginning early June 2013
- ❑ Final documents issued August 2013
- ❑ Information was provided timely and was well organized
- ❑ Management and staff responsive to all inquiries
- ❑ No disagreements with management



Financial Statement Structure

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- Auditors' opinion (p 1-2)
- Management's discussion and analysis (p 4-8)
- Financial statements and notes (p 10-19)
- Additional information (p 21-24)
 - ▣ Combining statements of net assets and revenues, expenses and changes in net assets
 - ▣ Reconciliation of audited EE operating expenses to the annual DPU report

Reporting Entity

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- Financial statements include the direct financial activities of the Compact, such as:
 - Energy efficiency programs funded by:
 - Energy efficiency/system benefit charges
 - EERF charges
 - RGGI proceeds received via the Commonwealth
 - Forward capacity market
 - Opt-in green program
- Financial statements do not include:
 - Federal and state grants received by Barnstable County but administered by the Compact
 - These funds have been reported as governmental funds in Barnstable County's annual audited financial statements



Opinions

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- Opinions (p 1-2)
 - Unqualified (best opinion available) for all years (2009, 2010 and 2011)
 - FS presented fairly, in all material respects, the financial position and results of operations and cash flows in accordance with GAAP (GASB)

Financial Highlights - 2009

8

- Statement of Net Assets (p 10)
 - Assets - \$5.3m
 - Cash and cash equivalents - \$3.6m
 - Accounts receivable - \$1.7m
 - Liabilities - \$2.9m
 - A/P and accrued expenses - \$2.7m
 - Net OPEB obligation - \$102k
 - Net Assets – \$2.4m



Financial Highlights - 2009

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- **Statement of Revenues, Expenses and Change (p 11)**
 - **Increase in net assets of \$501k, or 26.3%**
 - **Total operating revenues \$10.4m**
 - **Energy efficiency - \$4.9m**
 - **Intergovernmental (RGGI) - \$4.0m**
 - **Total operating expenses - \$10.1m**
 - **Energy efficiency programs - \$8.8m, or 87%**
 - **Grants to CVEC - \$720k, or 7%**
 - **Total nonoperating revenues (expenses) - \$196k**
 - **Forward capacity market - \$329k**
 - **RECs - (\$133k)**

Significant Footnotes - 2009

10

- Note 5 - Long-term Obligations (p 16)
 - Net OPEB obligation - \$102k
 - Represents Compact's estimated share of County's annual cost
 - Compensated absences - \$47k



Significant Footnotes - 2009

- Note 8 – Related Party Transactions (p 17 – 18)
 - Administrative services agreement with County
 - Grants provided to CVEC (\$720k)
 - County paying for certain Compact activities from General Fund (County) budget - \$189k
 - Subsequent to year-end, Compact funds were used to secure a \$100k line of credit for CVEC
 - Subsequent to year-end, the Compact entered into 2 agreements to purchase RECs from CVEC

Significant Footnotes - 2009

12

- Note 10 – Commitments (p 18)
 - Compact is committed under several agreements to purchase RECs at fixed prices through March 2012
 - Maximum commitment totals \$7.7m
 - Substantial portion of the RECs are purchased by supplier at cost
 - Compact participates in ISO-NE Forward Capacity Market
 - After June 1, 2010 committed to deliver specified units of EE at a fixed price per unit
 - Penalties are assessed if Compact fails to deliver its capacity supply obligation
 - Prior to June 1, 2010 paid a fixed price based on EE reported to ISO-NE



Significant Footnotes - 2009

13

- Note 10 – Commitments (continued)
 - Subsequent to year-end, Compact entered into 5-year agreement to purchase all RECs generated by 3rd party facility
 - Subsequent to year-end (2012), Compact entered into several agreements to sell REC's it had acquired (or committed to acquire) from a third party
 - Future cash inflows total \$657k.

Additional Information - 2009

14

- Additional Information (p 22 – 24)
 - Combining statement of net assets (p 22) and combining statement of revenues, expenses and changes in net assets (p 23)
 - These statements segregate the Compact’s activities between Energy Efficiency, Power Supply Reserve, budgeted operating funds and the Green Program
 - Reconciliation of audited GAAP EE operating expenses to annual DPU report (p 24)
 - Reconciling items (net change in accrued expenses, accrued payroll, net OPEB obligation and compensated absences) represent differences in basis of accounting (accrual versus modified accrual)



Financial Highlights - 2010

15

- Statement of Net Assets (p 10)
 - Assets - \$3.9m
 - Cash and cash equivalents - \$1.9m
 - Accounts receivable - \$2.0m
 - Liabilities - \$3.6m
 - A/P and accrued expenses - \$3.3m
 - Net OPEB obligation - \$204k
 - Net Assets – \$322k

Financial Highlights - 2010

16

- **Statement of Revenues, Expenses and Change (p 11)**
 - **Decrease in net assets of \$2.1m, or 86.6%**
 - Result of lag in receipt of revenues (6 months) from the EE program
 - Experienced by all EE program administrators
 - **Total operating revenues \$12.4m**
 - Energy efficiency - \$5.1m
 - EE reconciliation factor (EERF) - \$4.7m
 - **Total operating expenses - \$14.5m**
 - Energy efficiency programs – 13.4m, or 93%
 - Grants to CVEC - \$500k, or 3.5%
 - **Total nonoperating revenues (expenses) – (\$39k)**
 - Forward capacity market - \$556k
 - RECs - (\$590k)



Significant Footnotes - 2010

17

- Note 5 - Long-term Obligations (p 16)
 - Net OPEB obligation - \$204k
 - \$102k current year cost, which represents Compact's estimated share of County's annual cost
 - Compensated absences - \$45k

Significant Footnotes – 2010

- Note 8 – Related Party Transactions (p 17 – 18)
 - Administrative services agreement with County
 - Grants provided to CVEC (\$500k)
 - County paying for certain Compact activities from General Fund (County) budget - \$97k
 - Subsequent to year-end, Compact funds were used to secure a \$100k line of credit for CVEC



Significant Footnotes - 2010

19

- **Note 10 – Commitments (p 18)**
 - Compact is committed under several agreements to purchase RECs at fixed prices through June 2015
 - Maximum commitment totals \$6.1m
 - Compact participates in ISO-NE Forward Capacity Market
 - After June 1, 2010 committed to deliver specified units of EE at a fixed price per unit
 - Penalties are assessed if Compact fails to deliver its capacity supply obligation
 - Prior to June 1, 2010 paid a fixed price based on EE reported to ISO NE

Significant Footnotes - 2010

- Note 10 – Commitments (continued)
- Subsequent to year-end (2012), Compact entered into several agreements to sell REC's it had acquired (or committed to acquire) from a third party
 - Future cash inflows total \$657k.



Additional Information - 2010

- Additional Information (p 22 – 24)
- Combining statement of net assets (p 22) and combining statement of revenues, expenses and changes in net assets (p 23)
 - These statements segregate the Compact’s activities between Energy Efficiency, Power Supply Reserve, budgeted operating funds and the Green Program
- Reconciliation of audited GAAP EE operating expenses to annual DPU report (p 24)
 - Most reconciling items (net change in accrued expenses, accrued payroll, net OPEB obligation and compensated absences) represent differences in basis of accounting (accrual versus modified accrual)
 - One reconciling item (\$247k) relates to County grant expenses that DPU directed to include in the annual report

Financial Highlights – 2011

22

- Statement of Net Assets (p 10)
 - Assets - \$4.2m
 - Cash and cash equivalents - \$2.2m
 - Accounts receivable - \$2.0m
 - Liabilities - \$3.3m
 - A/P and accrued expenses - \$2.9m
 - Net OPEB obligation - \$301k
 - Net Assets – \$908k



Financial Highlights - 2011

23

- Statement of Revenues, Expenses and Change (p 11)
 - Increase in net assets of \$587k, or 182%
 - Total operating revenues \$18.4m
 - Energy efficiency - \$5.0m
 - EE reconciliation factor (EERF) - \$11.5m
 - Total operating expenses - \$18.1m
 - Energy efficiency programs – 16.6m, or 92%
 - Grants to CVEC - \$744k, or 4.1%
 - Total nonoperating revenues (expenses) – \$218k
 - Forward capacity market - \$699k
 - RECs - (\$479k)

Significant Footnotes - 2011

- Note 5 - Long-term Obligations (p 16)
 - Net OPEB obligation - \$301k
 - \$102k current year cost, which represents Compact's estimated share of County's annual cost
 - Compensated absences - \$46k



Significant Footnotes – 2011

- Note 8 – Related Party Transactions (p 17 – 18)
 - Administrative services agreement with County
 - Grants provided to CVEC (\$744k)
 - County paying for certain Compact activities from General Fund (County) budget - \$99k
 - Subsequent to year-end, Compact funds were used to secure a \$100k line of credit for CVEC

Significant Footnotes - 2011

26

- Note 10 – Commitments (p 18)
 - Compact is committed under several agreements to purchase RECs at fixed prices through June 2015
 - Maximum commitment totals \$2.8m
 - Compact participates in ISO-NE Forward Capacity Market
 - Committed to deliver specified units of EE at a fixed price per unit
 - Penalties are assessed if Compact fails to deliver its capacity supply obligation



Significant Footnotes - 2011

27

- Note 10 – Commitments (continued)
 - Subsequent to year-end (2012), Compact entered into several agreements to sell REC's it had acquired (or committed to acquire) from a third party
 - Future cash inflows total \$657k.

Additional Information - 2011

- Additional Information (p 22 – 24)
 - Combining statement of net assets (p 22) and combining statement of revenues, expenses and changes in net assets (p 23)
 - These statements segregate the Compact’s activities between Energy Efficiency, Power Supply Reserve, budgeted operating funds and the Green Program
 - Reconciliation of audited GAAP EE operating expenses to annual DPU report (p 24)
 - Most reconciling items (net change in accrued expenses, accrued payroll, net OPEB obligation and compensated absences) represent differences in basis of accounting (accrual versus modified accrual)
 - One reconciling item (\$200k) relates to County grant expenses that DPU directed to include in the annual report



Report on IC over FR, Compliance and Federal Award Programs

29

- Document structure
 - Report on internal control (IC) over financial reporting (FR), compliance and other matters
 - Required by Government Auditing Standards
 - No opinion provided
 - Must report the following:
 - Any significant deficiencies or material weaknesses in internal control over financial reporting
 - Material noncompliance related to laws, regulations, contracts and grant agreements
 - Results
 - No findings for 2009, 2010 and 2011

Management Letter

30

- One management letter prepared for all years
- Does not identify the strengths of the financial systems
- Summary
 - ▣ 3 comments
 - 1 informational



Management Letter

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- Chart of Accounts (p 1)
- County provides accounting and financial reporting services
 - Compact's chart of account structure designed with some characteristics of County governments
 - Differs from Compact's operations
 - Current structure focused on reporting by function; miscellaneous account used when activity cannot be grouped by function
- We identified several instances whereby "miscellaneous" expense accounts were used for the purchase of RECs and grants to CVEC
 - These activities are an integral part of operations and should be reported separately in the general ledger
- We recommend chart of accounts be structured in a manner that is customized to the Compact's operations

Management Letter

- “Mil-Adder” Funds (p 2)
 - We identified the following regarding “Mil-Adder” funds:
 - Investment income is not being allocated to the fund (as prescribed by Section 15.3 of the Competitive Electric Supply Agreement (CESA))
 - Although not required by the CESA, Board formally votes the use of “mil-adder” funds related to the annual operating budget, grants to CVEC and various other operating expense
 - Represents 92.8% of expenses between 1/1/09 – 12/31/11
 - Remaining 7.2% (i.e., legal expenses related to DPU proceedings and opt out notices) were discussed at Board meetings but not formally voted
 - We believe a formal vote on the use of all “mil-adder” funds would strengthen controls over disbursements
 - We recommend:
 - Investment income be allocated to the “Mil-adder” fund monthly
 - Procedures be implemented whereby the Board formally votes the use of all “mil-adder” funds (i.e., budget process)



Management Letter

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- Pension Accounting and Financial Reporting (p 3)
- GASBS 68 revises/establishes new financial reporting requirements related to pension benefits
 - Required to recognize long-term obligation for pension benefits
 - Also requires:
 - More comprehensive measure of annual pension costs
 - Conditions on the use of discount rate
 - Requirement to use entry age method and each service period's cost is determined by level % of pay (attribution method)
- We recommend management familiarize itself with GASBS 68 and prepare for its implementation

Questions

