

CAPE LIGHT COMPACT

**INDEPENDENT AUDITORS' REPORT ON
FINANCIAL STATEMENTS AND
ADDITIONAL INFORMATION**

FOR THE YEAR ENDED DECEMBER 31, 2012

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Independent Auditors' Report

Independent Auditors' Report

To the Board of Representatives
Cape Light Compact
Barnstable, Massachusetts 02630

Report on the Financial Statements

We have audited the accompanying financial statements of the Cape Light Compact as of and for the year ended December 31, 2012, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Cape Light Compact as of December 31, 2012, and the change in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (located on pages 4 through 9) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements. The additional information (located on pages 23 through 26) is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The additional information, consisting of combining statements and the reconciliation of Audited Energy Efficiency GAAP Expenses to Department of Public Utilities Report as identified in the accompanying table of contents, is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements and the reconciliation of Audited Energy Efficiency GAAP Expenses to Department of Public Utilities Report is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2014 on our consideration of the Cape Light Compact's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cape Light Compact's internal control over financial reporting and compliance.



Boston, Massachusetts
October 1, 2014

Management's Discussion and Analysis

CAPE LIGHT COMPACT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012

As management of the Cape Light Compact (Compact), we offer readers of these financial statements this narrative overview and analysis of the Compact's financial activities for the calendar year ended December 31, 2012.

The management's discussion and analysis (MD&A) is presented in the following sections:

1. Background
2. Overview of the Financial Statements
3. Financial Statement Analysis

Please refer to the audited *Financial Statements* when reading the MD&A.

Background

Since 1997, the Compact has represented a unique "partnership" between each of the Cape Cod and Martha's Vineyard towns and counties. The Compact consists of the twenty-one towns in Barnstable and Dukes Counties, as well as the two counties themselves. It is organized through a formal Intergovernmental Agreement under Massachusetts General Laws, Chapter 40, Section 4A.

The Compact serves as a regional municipal load aggregator and energy efficiency program administrator pursuant to Massachusetts General Laws, Chapter 164, Section 134 and offers a variety of programs and advocacy activities to help consumers with their electric energy needs. The purposes of the Compact, include, among other things, (1) to provide the basis for aggregation of all consumers on a non-discriminatory basis; (2) to negotiate the best terms and conditions for electricity supply and transparent pricing; (3) to provide sharing of economic savings to consumers based on current electric rates and/or cost-of-service ratemaking; (4) to provide full public accountability to consumers; and (5) to utilize and encourage demand side management and other forms of energy efficiency and to advance consumer awareness and adoption of a wide variety of energy efficiency measures through the implementation of an energy efficiency plan.

The Compact as a Municipal Aggregator:

The Compact is a regional municipal aggregator under Massachusetts General Laws, Chapter 164, Section 134 and its aggregation plan was originally approved by the Massachusetts Department of Telecommunications and Energy, now the Massachusetts Department of Public Utilities (DPU), in 2000 and various power supply contracts have been reviewed and approved pursuant to the plan. The Compact presently offers a competitive electric power supply option on an opt-out basis to over 200,000 potential customers, across all customer classes, who are located within the Compact's service territory. The Compact's current form of universal service competitive electric supply agreement was approved by the DPU in 2004.

The Compact as Energy Efficiency Program Administrator and the 2010-2012 Energy Efficiency Plan:

The Compact's 2010 - 2012 Energy Efficiency Plan was approved by the DPU on January 28, 2010 in compliance with the Massachusetts state energy efficiency goals and policies, including the Green Communities Act, (Chapter 169, Section 11 of the Acts of 2008). In the third full year of its three-year energy efficiency plan, 2012 continued to build on the successes of program year 2011 and demonstrated remarkable success with respect to goal attainment and achievement of real benefits for the environment and economy. Below are the highlights of a few of the many accomplishments in the 2012 program year:

CAPE LIGHT COMPACT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012

- Celebrated the 2012 Northeast Energy Efficiency Partnerships (NEEP) Business Leaders Award for Energy Efficiency for our customer, the Sea Crest Beach Hotel, a premier lodging and conference destination in Falmouth, Massachusetts that made maximizing energy efficiency a top priority when undertaking a \$15 million overhaul of the resort, with everything from new insulation and windows, high efficiency Heating, Ventilation and Air Conditioning (HVAC) and lighting fixtures, to room occupancy sensors and water saving measures throughout the hotel.
- Received, along with other regional PAs, the 2012 ENERGY STAR® Award for Sustained Excellence for the Residential Products Initiative, and 2012 ENERGY STAR® for Homes Leadership in Housing Award.
- Completed a significant number of high-profile, large customer projects and commitments that more than doubled our large C&I program investments in 2012 over the prior year, including:
 - A new construction project that doubled the size of a major regional ice arena, without increasing energy costs – an estimated annual energy savings of more than 500,000 kWh through measures such as a new Green Machine refrigeration system that reduces the energy needed to freeze and condition the ice, building envelope improvements such as a low-emissivity (low-e) ceiling and 3.5-inch thick foam insulation in rink walls, and using rejected waste heat from the rink refrigeration system to help meet water heating load;
 - A state-of-the-art “tunnel” batch washer system installed at Cape Cod Commercial Linen Services – the largest on-Cape provider of commercial laundering services for the Cape and South Shore’s large hospitality industry. The multi-chambered washer is almost 40 feet long and is estimated to save annually more than 100,000 kWh of electricity, 80,000 therms of natural gas, and over 20 million gallons of water;
 - Installation of two new 250-ton air-cooled optimized-IPLV screw chillers at one of Cape Cod’s only two regional hospitals, with expected annual energy savings of more than 430,000 kWh; and
 - An Advanced Buildings project at Massachusetts Maritime Academy’s new library building, the American Bureau of Shipping Information Commons, which houses the Academy’s archives and museum, library, and 360-degree ship’s bridge simulator, and includes geothermal heating and cooling and a day-lighting design with louvers on exterior windows.
- Signed a multi-year energy efficiency memorandum of understanding with one of the world’s largest private, non-profit ocean research institutions.

The Compact as Consumer Advocate:

The Compact represents the interests of Cape Cod and Martha’s Vineyard electric ratepayers in selected state regulatory proceedings and with NSTAR Electric, the incumbent distribution company using Compact staff and outside technical and legal support. Consumer advocacy was a major activity of the Compact in 2012. In addition to its more traditional consumer advocacy work, in 2012, the Compact also engaged in consumer education, working to ensure that consumers were armed with ample information to evaluate offers from competitive power suppliers.

The year proved to be a crucial one in the development of standards and processes for allowing distributed energy generation facilities to interconnect to local distribution systems. The integration of these kinds of systems help achieve the Commonwealth’s renewable energy goals, increase fuel diversity, and can increase the resiliency of and defer investment in the local distribution system. The Compact played a strong role in developing applicable standards, ensuring the safe and sensible connection of these resources without unnecessary costs.

CAPE LIGHT COMPACT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012

The Compact provided an operating grant to the Cape & Vineyard Electric Cooperative (CVEC) to pursue the development of renewable energy generation on Cape Cod and Martha's Vineyard. CVEC's efforts resulted in the award of a contract to build 16.5 MW of solar/PV systems on Cape Cod and Martha's Vineyard. Over the 20 year contract, Cape Cod and Martha's Vineyard electric rate payers will save approximately \$40 million in avoided energy supply costs from this 16.5 MW solar/PV project.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the *financial statements*, which consists of the following two components:

1. Financial statements
2. Notes to the financial statements

This report also contains additional information that supplements the financial statements.

Financial Statements

The Compact's financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP), as set forth by the Governmental Accounting Standards Board (GASB). The financial statements are presented on the accrual basis of accounting and include the following three basic financial statements: (1) the Statement of Net Position, (2) the Statement of Revenues, Expenses and Change in Net Position and (3) the Statement of Cash Flows.

The financial statements can be found on pages 12-14 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 15-22 of this report.

Additional Information

In addition to the financial statements and accompanying notes, this report also presents additional information. Presented in this information are combining statements of net position and revenues, expenses and change in net position, as well as a reconciliation of audited energy efficiency GAAP expenses to the amounts reported to the DPU. The additional information can be found on pages 23-26.

Financial Statement Analysis

The following tables present current and prior year data on the financial statements.

CAPE LIGHT COMPACT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012

Net Position

The Compact's assets exceeded liabilities by \$1,699,453 at the close of the calendar year and are summarized as follows:

	<u>2012</u>	<u>2011</u>	<u>Change (\$)</u>	<u>Change (%)</u>
Assets				
Current assets.....	\$ 13,032,041	\$ 4,224,381	\$ 8,807,660	208.5%
Liabilities				
Current liabilities.....	10,890,751	2,973,585	7,917,166	266.2%
Noncurrent liabilities....	<u>441,837</u>	<u>342,528</u>	<u>99,309</u>	<u>29.0%</u>
Total liabilities.....	<u>11,332,588</u>	<u>3,316,113</u>	<u>8,016,475</u>	<u>241.7%</u>
Net Position				
Unrestricted.....	<u>\$ 1,699,453</u>	<u>\$ 908,268</u>	<u>\$ 791,185</u>	<u>87.1%</u>

The Compact's assets consist primarily of cash and cash equivalents and various accounts receivable. The substantial increase in the Compact's assets reflects the transition, as directed by the DPU, to a calendar year recovery schedule, which increased assets by approximately \$9,800,000.

Liabilities primarily consist of accounts payable and accrued expenses and amounts due to Barnstable County for short-term cash advances. The substantial increase in current liabilities primarily reflects an increase in accounts payable and accrued expenses related to the energy efficiency programs.

Changes in Net Position

The Compact's net position increased by \$791,185 for the year ended December 31, 2012 and is summarized as follows:

	<u>2012</u>	<u>2011</u>	<u>Change (\$)</u>	<u>Change (%)</u>
Operating revenues.....	\$ 26,779,763	\$ 18,421,601	\$ 8,358,162	45.4%
Operating expenses.....	<u>26,951,578</u>	<u>18,053,320</u>	<u>8,898,258</u>	<u>49.3%</u>
Operating income (loss).....	(171,815)	368,281	(540,096)	-146.7%
Nonoperating revenues (expenses), net....	<u>963,000</u>	<u>218,251</u>	<u>744,749</u>	<u>341.2%</u>
Change in net position.....	791,185	586,532	204,653	34.9%
Net position - beginning of year.....	<u>908,268</u>	<u>321,736</u>	<u>586,532</u>	<u>182.3%</u>
Net position - end of year.....	<u>\$ 1,699,453</u>	<u>\$ 908,268</u>	<u>\$ 791,185</u>	<u>87.1%</u>

CAPE LIGHT COMPACT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012

Operating revenues primarily consist of mandatory energy efficiency (\$4,973,477) and energy efficiency reconciliation factor (\$19,771,607) charges.

Approximately 89% (or \$23,968,075) of the Compact's operating expenses relate directly to energy efficiency programs.

The substantial increase in both operating revenues and expenses reflect an increase in the 2012 energy efficiency program budget as approved by the DPU.

Requests for Information

This financial report is designed to provide a general overview of the Compact's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report should be addressed to the Compact Administrator, Barnstable County, P.O. Box 427, Superior Court House, Barnstable, Massachusetts 02630.

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Financial Statements

CAPE LIGHT COMPACT
STATEMENT OF NET POSITION
DECEMBER 31, 2012

ASSETS

Current assets:

Cash and cash equivalents.....	\$	1,406,636
Receivables, net of allowance for uncollectible amounts:		
Energy efficiency.....		285,607
Energy efficiency reconciliation factor.....		10,744,085
Mil-adder.....		72,745
Green program.....		16,632
Intergovernmental (RGGI).....		440,927
Other.....		49,980
Intangible assets.....		<u>15,429</u>

Total assets..... 13,032,041

LIABILITIES

Current liabilities:

Accounts payable and accrued expenses.....		8,677,314
Accrued payroll.....		40,546
Due to Barnstable County.....		2,165,658
Compensated absences.....		<u>7,233</u>

Total current liabilities..... 10,890,751

Noncurrent liabilities:

Compensated absences.....		65,095
Due to Barnstable County.....		<u>376,742</u>

Total noncurrent liabilities..... 441,837

Total liabilities..... 11,332,588

NET POSITION

Unrestricted.....	\$	<u><u>1,699,453</u></u>
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The accompanying notes are an integral part of the financial statements.

CAPE LIGHT COMPACT
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2012

OPERATING REVENUES	
Energy efficiency.....	\$ 4,973,477
Energy efficiency reconciliation factor.....	19,771,607
Mil-adder.....	994,960
Green program.....	115,776
Intergovernmental (RGGI).....	917,484
Member contributions.....	3,659
Other.....	2,800
	<u>26,779,763</u>
OPERATING EXPENSES	
Salaries and benefits.....	1,449,301
Energy efficiency programs:	
Residential programs.....	14,099,859
Low income programs.....	2,831,752
Commercial and industrial programs.....	6,744,539
Others programs.....	291,925
Grants to Cape & Vineyard Electric Cooperative.....	402,885
Legal.....	695,504
Other professional services.....	17,469
Marketing.....	84,368
Other operating.....	333,976
	<u>26,951,578</u>
	<u>(171,815)</u>
NONOPERATING REVENUES (EXPENSES)	
Forward capacity market.....	826,155
Renewable energy certificates.....	140,697
Investment income.....	1,089
Interest expense.....	(4,941)
	<u>963,000</u>
	<u>791,185</u>
CHANGE IN NET POSITION.....	791,185
NET POSITION AT BEGINNING OF YEAR.....	908,268
NET POSITION AT END OF YEAR.....	<u>\$ 1,699,453</u>

The accompanying notes are an integral part of the financial statements.

CAPE LIGHT COMPACT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers and users.....	\$ 17,147,979
Payments to vendors and customers.....	(19,766,032)
Payments for employee services.....	<u>(1,334,729)</u>
 NET CASH USED FOR OPERATING ACTIVITIES.....	 <u>(3,952,782)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Cash advances from Barnstable County.....	2,165,658
Proceeds from sales of renewable energy certificates.....	1,123,031
Purchase of renewable energy certificates.....	(997,763)
Proceeds from forward capacity market.....	846,705
Interest expense.....	<u>(4,941)</u>
 NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	 <u>3,132,690</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment income.....	<u>1,089</u>
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NET CHANGE IN CASH AND CASH EQUIVALENTS..... (819,003)

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR..... 2,225,639

CASH AND CASH EQUIVALENTS AT END OF YEAR..... \$ 1,406,636

**RECONCILIATION OF OPERATING INCOME TO NET CASH
FROM OPERATING ACTIVITIES**

Operating (loss).....	\$ <u>(171,815)</u>
Adjustments to reconcile operating income to net cash from operating activities:	
Changes in assets and liabilities not requiring current cash flows:	
Due to Barnstable County from OPEB charge back.....	76,011
Effect of changes in operating assets and liabilities:	
Accounts receivable.....	(9,631,784)
Warrants payable and accrued expenses.....	5,736,245
Accrued payroll.....	12,674
Compensated absences.....	<u>25,887</u>
 Total adjustments.....	 <u>(3,780,967)</u>

NET CASH FROM OPERATING ACTIVITIES..... \$ (3,952,782)

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

Member contributions.....	\$ <u><u>3,659</u></u>
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The accompanying notes are an integral part of the financial statements.

CAPE LIGHT COMPACT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 1 - REPORTING ENTITY

The Cape Light Compact (Compact) was established in 1997 pursuant to an Inter-Municipal Agreement authorized by Chapter 40, Section 4A of the Massachusetts General Laws for the purpose of providing competitive electric supply, green power options, energy efficiency programs and consumer advocacy for the residents and businesses of Cape Cod and Martha's Vineyard.

The Compact's membership consists of 21 towns and 2 counties on Cape Cod and Martha's Vineyard and is governed by a 23 member Board of Representatives appointed by each of the member towns and counties.

These financial statements do not include state and federal grants awarded to Barnstable County that are administered by the Compact. Such grants are included as governmental funds in the County's annual financial statement audit.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. The Compact accounts for its operations as an enterprise fund. The significant accounting policies are described herein.

A. Measurement Focus, Basis of Accounting and Basis of Presentation

The Compact's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred, regardless of the timing of related cash flows.

The Compact distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

B. Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. Investments are carried at fair value.

C. Accounts Receivable

Accounts receivable are recorded at the time of the underlying event. The allowance for uncollectible amounts is estimated based on historical trends and specific account analysis. At December 31, 2012, all amounts are 100% collectible.

D. Intangible Assets

Intangible assets represent renewable energy certificates (RECs) and are valued at the Compact's contract purchase price.

CAPE LIGHT COMPACT
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2012

E. Capital Assets

Capital assets are recorded at historical cost. All individual purchases and construction costs in excess of \$5,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

Depreciable capital assets are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

<u>Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Vehicles.....	5

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

F. Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on state laws and executive policies. Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred.

G. Due to Barnstable County

Amounts due to Barnstable County represent operating cash advances received, which is presented as a current liability, and the accumulated charge back from Barnstable County related to other postemployment benefits, which is presented as a noncurrent liability.

H. Revenue Recognition

Energy efficiency revenues are derived from the Massachusetts Department of Public Utilities (DPU) mandatory charge of 2.5 mills (\$0.0025) per kilowatt hour to fund energy efficiency programs. These charges are initially collected by the electric distribution company and subsequently provided to the Compact. The Compact recognizes the energy efficiency charge as operating revenue on the accrual basis of accounting.

In addition to the mandatory charge, the Compact, and all Massachusetts energy efficiency program administrators, have an Energy Efficiency Reconciliation Factor Charge (EERF). The EERF is a fully reconciling funding mechanism designed to recover costs associated with energy efficiency programs by reconciling energy efficiency revenue amounts collected in electric rates with the total expense amounts incurred for energy efficiency programs, as approved by the DPU. These charges are initially collected by the electric distribution company and subsequently provided to the Compact. The Compact recognizes the EERF charge as operating revenue on the accrual basis of accounting.

CAPE LIGHT COMPACT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Mil-adder revenues are derived from the 1 mil (\$0.001) per kilowatt hour surcharge used to fund the Compact's non-energy efficiency operational expenses, as provided in the Compact's competitive electric supply agreement (CESA) approved by the Massachusetts Department of Telecommunications and Energy, now the Department of Public Utilities. These charges are collected by the Compact's contracted electric supply company on behalf of the Compact and subsequently are remitted to the Compact. The Compact's Governing Board appropriates these funds through the annual budget process; in addition, funds are disbursed by the Compact's Administrator based on contractual and regulatory obligations. Mil-adder charges are recognized as operating revenue on the accrual basis of accounting.

Green program revenues are derived from the Compact's voluntary opt-in green energy program for which participants pay a premium for matching their electric generation purchases with renewable energy. This additional charge (green program adder) is initially collected by the Compact's contracted electric supply company and subsequently provided to the Compact. The Compact recognizes the green program adder as operating revenue on the accrual basis of accounting.

Intergovernmental revenues are received from the Commonwealth via the Commonwealth's participation in the Regional Greenhouse Gas Initiative (RGGI) quarterly CO₂ auctions. The 2008 Massachusetts Green Communities Act assigned at least 80% of RGGI fund proceeds for energy efficiency programs administered by the state's electric utilities and energy efficiency service providers. The Compact recognizes the Intergovernmental (RGGI) proceeds as operating revenue on the accrual basis of accounting.

I. Forward Capacity Market

The Compact participates in ISO New England's forward capacity market. The Compact recognizes proceeds from the forward capacity market as nonoperating revenue on the accrual basis. These funds are used for energy efficiency projects.

J. Member Contributions

Member contributions represent amounts budgeted and paid for by the County (a Compact member) through the County's general fund.

K. Salaries and Benefits

Employees of the Compact are legally employed by the County. As such, expenses related to salaries and benefits, including pension and other postemployment benefits, represent charge backs to the Compact from the County.

L. Use of Estimates

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

CAPE LIGHT COMPACT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 3 - DEPOSITS AND INVESTMENTS

The County Treasurer, through an Administrative Services Agreement more fully described in Note 8, maintains the Compact's deposits and investments. The County Treasurer maintains its cash and investments in accordance with the municipal finance laws of the Commonwealth, which authorize the County Treasurer to invest temporarily idle cash in bank term deposits and certificates of deposits, and treasury and agency obligations of the United States government with maturities of one year or less; U.S. treasury or agency repurchase agreements with maturities of not more than 90 days; money market accounts; and the state treasurer's investment pool - the Massachusetts Municipal Depository Trust (MMDT).

The MMDT meets the criteria of an external investment pool and operates in accordance with applicable state laws and regulations. The Treasurer of the Commonwealth serves as Trustee. The reported value of the pool is the same as the fair value of the pool shares.

The County Treasurer maintains separate bank accounts for the Compact's energy efficiency funds and line of credit maintained for the Cape & Vineyard Electric Cooperative (CVEC). All other Compact funds are included in the County's pooled cash. The components of the Compact's cash and cash equivalents maintained by the County Treasurer are as follows:

	<u>Amount</u>
Checking account.....	\$ 58,627
Escrow account.....	100,589
Pooled cash.....	<u>1,247,420</u>
 Total.....	 <u>\$ 1,406,636</u>

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Capital assets being depreciated:</u>				
Vehicles.....	\$ 23,319	\$ -	\$ -	\$ 23,319
 <u>Less accumulated depreciation for:</u>				
Vehicles.....	(23,319)	-	-	(23,319)
 Total capital assets being depreciated, net.....	 \$ -	 \$ -	 \$ -	 \$ -

CAPE LIGHT COMPACT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 5 - LONG-TERM OBLIGATIONS

The following represents a summary of changes that occurred in long-term obligations during the year ended December 31, 2012:

	Balance January 1, 2012	Increases	Decreases	Balance December 31, 2012	Current Portion
Due to Barnstable County.....	\$ 300,731	\$ 76,011	\$ -	\$ 376,742	\$ -
Compensated absences.....	46,441	25,887	-	72,328	7,233
Total.....	<u>\$ 347,172</u>	<u>\$ 101,898</u>	<u>\$ -</u>	<u>\$ 449,070</u>	<u>\$ 7,233</u>

NOTE 6 - DUE TO BARNSTABLE COUNTY

The Compact (through the County) provides health, dental and life insurance coverage (other postemployment benefits (OPEB)) for its retirees and their survivors. As described in Note 2, these amounts represent charge backs to the Compact from the County.

The County's annual OPEB cost for its fiscal year ended June 30, 2013 totaled approximately \$2,165,000. The amount allocated to the Compact by the County totaled \$76,011 and is reported as salaries and benefits expense. The total accumulated liability at December 31, 2012 totals \$376,742 and will be paid out in future years.

Subsequent to year end the Compact's Board voted to set aside \$300,731 for the funding of the amount due to the County related to OPEB.

NOTE 7 - PENSION PLAN

Plan Description - The Compact (through the County) contributes to the Barnstable County Retirement Association (the Association), a cost-sharing multiple-employer defined benefit pension plan administered by the Barnstable County Retirement Board. Substantially all employees of the County are members of the Association.

Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. The Association provides retirement, disability and death benefits to plan members and beneficiaries. Cost-of-living adjustments granted between 1981 and 1997 and any increases in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be authorized by the Barnstable County Retirement Board and are borne by the Association. The Association issues a publicly available report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by contacting the Association located at 750 Attucks Lane, Hyannis, Massachusetts, 02601.

Funding Policy - Chapter 32 of MGL governs the contributions of plan members and the County. Plan members are required to contribute to the Association at rates ranging from 5% to 11% of annual covered compensation. The County is required to pay into the Association its share of the association-wide actuarial determined contribution that is apportioned among the employers based on annual covered payroll. The County's contributions to the Association for the fiscal years ended June 30, 2013, 2012, and 2011 were \$3,172,649, \$3,035,921 and \$3,099,389, respectively, which equaled its required contribution for each fiscal year.

CAPE LIGHT COMPACT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

The Compact's required and paid share (based on a percentage of payroll) of the County's contribution for the current and preceding two years totaled \$153,380, \$124,594 and \$103,887, respectively.

NOTE 8 - RELATED PARTY TRANSACTIONS

Administrative Services

The Compact has entered into an Administrative Services Agreement (Agreement) with the County, a member of the Compact, to provide, among other things, the following:

- Fiscal administration services, such as banking, accounting, reporting, etc.
- Procurement administration services

Cape & Vineyard Electric Cooperative

The Compact is a Member of CVEC, whose purpose is to develop and/or own renewable electric generation facilities and procuring and/or selling long-term electric supply or other energy-related goods or services at competitive prices to its Members and consumers within its Member communities.

Operating Grant

During the year ended December 31, 2012, the Compact's Board of Representatives authorized a \$402,885 grant to CVEC for 2013 operations. This grant did not provide the Compact an individual or separate interest in the assets of CVEC.

Subsequent to year end, the Compact's Board of Representatives authorized grants to CVEC totaling \$402,745 and \$403,455 to fund 2014 and 2015 operations, respectively. These grants did not provide the Compact an individual or separate interest in the assets of CVEC.

Renewable Energy Certificates

Renewable energy certificates (RECs) purchased by CVEC are sold to the Compact for an amount equal to CVEC's cost for the Compact's Green Power Program. Total purchases for the year ended December 31, 2012 totaled approximately \$73,000.

Letter of Credit

The Compact (through the County) has guaranteed a letter of credit obtained by CVEC. The value of the letter of credit totals \$100,000 and expired November 30, 2013. Subsequent to year-end, the letter of credit was extended to November 30, 2014. No amounts have been drawn on the letter of credit.

Loan

Subsequent to year end, the Compact's Board of Representatives authorized a loan to CVEC in the amount of \$100,000 for potential cash flow deficits related to potential delays in receiving payments related to net metering credits. The authorized loan period is for 6 months at a rate of 1.1%. No amounts have been drawn on the loan authorization.

CAPE LIGHT COMPACT
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2012

Barnstable County

During the year ended December 31, 2012, the County budgeted and paid for \$3,659 of the Compact's expenses related to legal services and other operating costs.

NOTE 9 - OPERATING LEASES

The Compact is committed under operating leases for vehicles used by the Compact. Future minimum payments under these operating leases are as follows:

<u>Fiscal Year</u>	<u>Payment</u>
2013.....	\$ 9,416
2014.....	9,416

Lease expenses for the year ended December 31, 2012 totaled \$7,818 and are reported as other operating expense.

NOTE 10 - COMMITMENTS

REC Purchases

At December 31, 2012, the Compact is committed under an agreement to purchase RECs at fixed prices through the second quarter of calendar year 2015. The Compact's estimated commitment (based on units produced) under this agreement is as follows:

<u>December 31</u>	<u>Amount</u>
2013.....	\$ 336,600
2014.....	336,600
2015.....	<u>168,300</u>
Total.....	<u>\$ 841,500</u>

The Compact is also committed to purchase all RECs purchased by CVEC for an amount equal to CVEC's cost through the third quarter (first quarter generation period) of calendar year 2015. CVEC's purchases are based on units/RECs produced, which cannot be reasonably estimated at this time.

REC Sales

At December 31, 2012, the Compact is committed under an agreement to sell RECs it had acquired (or had committed to acquire) from a third party. The RECs will be sold at fixed prices through the second quarter of calendar year 2013. Expected cash inflows total \$245,220.

Subsequent to year-end, the Compact entered into agreements to sell RECs it had acquired (or had committed to acquire) from a third party. The RECs will be sold at fixed prices through the fourth quarter of calendar year 2014. Expected cash inflows total \$1,572,770.

CAPE LIGHT COMPACT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Forward Capacity Market

The Compact participates in ISO New England's forward capacity market and has made commitments to deliver specified units of energy efficiency at a fixed price per unit. If the Compact fails to deliver its capacity supply obligation it is subject to penalties determined by the rules of the forward capacity market.

NOTE 11 - FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS

The GASB has issued the following statements:

- Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented during 2013. Management does not believe the implementation of this Statement will significantly impact the basic financial statements.
- Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, which is required to be implemented during 2015. The implementation of this Statement will represent a significant change in the accounting and reporting of pension expense and the related liability. For the first time, the Compact will be required to recognize its long-term obligation for pension benefits as a liability and to more comprehensively measure the annual costs of pension benefits.

These pronouncements will be implemented by their respective implementation dates.

This information is an integral part of the accompanying financial statements.

Additional Information

CAPE LIGHT COMPACT
 COMBINING STATEMENT OF NET POSITION BY PROGRAM
 DECEMBER 31, 2012

ASSETS	Energy Efficiency Fund	Power Supply Reserve	Operating	Green Program	Total
Current assets:					
Cash and cash equivalents.....	\$ -	\$ 924,633	\$ 331,236	\$ 150,767	\$ 1,406,636
Receivables, net of allowance for uncollectible amounts.....					
Energy efficiency.....	285,607	-	-	-	285,607
Energy efficiency reconciliation factor.....	10,744,085	-	-	-	10,744,085
Mil-adder.....	-	72,745	-	-	72,745
Green program.....	-	-	-	16,632	16,632
Intergovernmental (RGGI).....	440,927	-	-	-	440,927
Other.....	49,980	-	-	-	49,980
Intangible assets.....	-	3,274	-	12,155	15,429
Total assets.....	<u>11,520,599</u>	<u>1,000,652</u>	<u>331,236</u>	<u>179,554</u>	<u>13,032,041</u>
LIABILITIES					
Current liabilities:					
Accounts payable and accrued expenses.....	8,677,314	-	-	-	8,677,314
Accrued payroll.....	36,643	-	3,903	-	40,546
Due to Barnstable County.....	2,165,658	-	-	-	2,165,658
Compensated absences.....	6,060	-	1,173	-	7,233
Total current liabilities.....	<u>10,885,675</u>	<u>-</u>	<u>5,076</u>	<u>-</u>	<u>10,890,751</u>
Noncurrent liabilities:					
Compensated absences.....	54,536	-	10,559	-	65,095
Due to Barnstable County.....	319,802	-	56,940	-	376,742
Total noncurrent liabilities.....	<u>374,338</u>	<u>-</u>	<u>67,499</u>	<u>-</u>	<u>441,837</u>
Total liabilities.....	<u>11,260,013</u>	<u>-</u>	<u>72,575</u>	<u>-</u>	<u>11,332,588</u>
NET POSITION					
Unrestricted.....	<u>\$ 260,586</u>	<u>\$ 1,000,652</u>	<u>\$ 258,661</u>	<u>\$ 179,554</u>	<u>\$ 1,699,453</u>

CAPE LIGHT COMPACT
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION BY PROGRAM
 FOR THE YEAR ENDED DECEMBER 31, 2012

	Energy Efficiency Fund	Power Supply Reserve	Operating	Green Program	Total
OPERATING REVENUES					
Energy efficiency.....	\$ 4,973,477	\$ -	\$ -	\$ -	\$ 4,973,477
Energy efficiency reconciliation factor.....	19,771,607	-	-	-	19,771,607
Mil-adder.....	-	994,960	-	-	994,960
Green program.....	-	-	-	115,776	115,776
Intergovernmental (RGGI).....	917,484	-	-	-	917,484
Member contributions.....	-	-	3,659	-	3,659
Other.....	2,800	-	-	-	2,800
TOTAL OPERATING REVENUES.....	25,665,368	994,960	3,659	115,776	26,779,763
OPERATING EXPENSES					
Salaries and benefits.....	1,288,538	-	160,763	-	1,449,301
Energy efficiency programs:					
Residential programs.....	14,099,859	-	-	-	14,099,859
Low income programs.....	2,831,752	-	-	-	2,831,752
Commercial and industrial programs.....	6,744,539	-	-	-	6,744,539
Others programs.....	291,925	-	-	-	291,925
Grants to Cape & Vineyard Electric Cooperative.....	-	-	402,885	-	402,885
Legal.....	392,029	-	303,475	-	695,504
Other professional services.....	-	-	16,287	1,182	17,469
Marketing.....	84,368	-	-	-	84,368
Other operating.....	283,008	785	50,183	-	333,976
TOTAL OPERATING EXPENSES.....	26,016,018	785	933,593	1,182	26,951,578
OPERATING INCOME (LOSS).....	(350,650)	994,175	(929,934)	114,594	(171,815)
NONOPERATING REVENUES (EXPENSES)					
Forward capacity market.....	826,155	-	-	-	826,155
Renewable energy certificates.....	-	199,272	-	(58,575)	140,697
Investment income.....	1,089	-	-	-	1,089
Interest expense.....	(4,941)	-	-	-	(4,941)
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	822,303	199,272	-	(58,575)	963,000
INCOME (LOSS) BEFORE TRANSFERS.....	471,653	1,193,447	(929,934)	56,019	791,185
TRANSFERS					
Transfers in.....	-	1,955	988,920	-	990,875
Transfers out.....	-	(988,920)	(1,955)	-	(990,875)
TOTAL TRANSFERS.....	-	(986,965)	986,965	-	-
CHANGE IN NET POSITION.....	471,653	206,482	57,031	56,019	791,185
NET POSITION AT BEGINNING OF YEAR.....	(211,067)	794,170	201,630	123,535	908,268
NET POSITION AT END OF YEAR.....	\$ 260,586	\$ 1,000,652	\$ 258,661	\$ 179,554	\$ 1,699,453

CAPE LIGHT COMPACT
RECONCILIATION OF AUDITED ENERGY EFFICIENCY GAAP EXPENSES
TO DEPARTMENT OF PUBLIC UTILITIES (DPU) REPORT
FOR THE YEAR ENDED DECEMBER 31, 2012

Energy efficiency operating fund expenses reported on 2012 combining statement of revenues, expenses and change in net position (page 25).....	\$	<u>26,016,018</u>
 <u>Reconciling items:</u>		
To record net change in accrued expenses.....		(69,527)
To record net change in amount due to Barnstable County (OPEB charge backs).....		(66,826)
To record net change in compensated absences.....		<u>(22,446)</u>
Total reconciling items.....		<u>(158,799)</u>
Energy efficiency expenses reported on the 2012 DPU annual report.....	\$	<u><u>25,857,219</u></u> (A)

(A) This amount is reported on the modified accrual basis of accounting and reviewed annually by the DPU