

CAPE LIGHT COMPACT

INDEPENDENT AUDITORS' REPORT ON

FINANCIAL STATEMENTS AND

ADDITIONAL INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2014

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Independent Auditors' Report

To the Board of Representatives
Cape Light Compact
Barnstable, Massachusetts

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, 2014, 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, 2014, 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 management's discussion and analysis (located on pages 3 through 6) 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 combining statements and reconciliation of audited energy efficiency GAAP expenses to Department of Public Utilities report (additional information) are presented for purposes of additional analysis and are not a required part of the basic financial statements. The additional information 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 additional information 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 August 10, 2015, 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.

CliftonLarsonAllen LLP



Boston, Massachusetts
August 10, 2015

CAPE LIGHT COMPACT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014

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, 2014.

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 "regional 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 in 2000 and various power supply contracts have been executed 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 Massachusetts Department of Telecommunications and Energy (DTE), now the Massachusetts Department of Public Utilities (DPU), in 2004.

The Compact as Energy Efficiency Program Administrator and the 2013-2015 Energy Efficiency Plan:

The Compact's 2013 - 2015 Energy Efficiency Plan was approved by the DPU on January 31, 2013 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 second three-year energy efficiency plan, the Compact is on track to reach its three-year goals by the end of 2015. Including actual results from 2013 and 2014, the Compact achieved 69% of its three-year lifetime energy savings goal, and spent 75% of its planned budget. Below are the highlights of the 2014 program year:

CAPE LIGHT COMPACT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014

- All programs were cost-effective with a benefit-cost ration (BCR) of 3.21
- Achieved net benefits of \$95.7 million
- Achieved annual energy savings of 50 GWh
- Achieved lifetime energy savings of 494 GWh
- Achieved total benefits of \$139 million

The Falmouth Ice Arena received the 2014 Northeast Energy Efficiency Partnership (NEEP) 2014 NEEP Business Leaders Award. The newly constructed 48,000 square foot facility is a state-of-the-art complex which features:

- A low-e ceiling that provides a nearly 90 percent reduction in radiant heat transfer from the rink ceiling to the ice sheet, thereby reducing the energy needed to keep the ice cool
- A high-efficiency Green Machine refrigeration system, which is expected to save 132,000 kWh annually, more than \$22,000 compared to standard refrigeration systems
- Updated lighting systems and controls, including motion sensors

These comprehensive measures have significantly reduced the facility's total energy use and save almost half a million kilowatt hours per year in electricity use alone.

The Compact as Consumer Advocate:

Energy issues can be complex and decisions made by legislators or state regulators can have far-reaching impacts for consumers. The impacts range from electricity costs to ensuring protection and opportunities for consumers and their communities. The Compact monitors issues under consideration and participates when there is clearly something at stake for the region. The Compact's work in this arena helped to secure the return of more than \$25 million from the sale of the Canal Electric Plant in 1999, and more than \$10 million in avoided costs and savings since that time.

The focus of the Compact's work at the state level in 2014 was the filing of an updated Aggregation Plan. This is a state-required plan related to the Compact's organization, operations and funding. The original plan was approved by the Department of Public Utilities (DPU) in 2000. Changes that had occurred over more than a decade in energy markets, state rules and a local company that no longer existed (Commonwealth Electric) had to be addressed in the update and presented for public comment. The updated plan was approved by the DPU in 2015.

The Compact also participated in several proceedings such as one concerning service quality and frequent outages we experience in our region. The Compact promoted mechanisms that hold distribution companies, such as NSTAR accountable for service quality (mainly reliability), including strong incentives aimed at encouraging continual improvement.

The Compact also participated in a proceeding at the DPU which addressed issues related to Massachusetts' competitive market. While the Compact addressed a number of different issues in this proceeding, it pushed hard for common-sense safeguards to protect consumers. Many of these focused on transparency, ensuring that customers are provided with straightforward, accurate information. The compact also advocated for stricter controls for power suppliers engaging in door-to-door marketing, following reports Compact staff received from residents that felt they had received misleading information from these kinds of marketers.

CAPE LIGHT COMPACT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014

A top priority issue that will continue to unfold over the next few years and yield far-reaching effects is what is known as "Modernization of the Grid." Development of a new "smart grid" that combines data communications with electricity supply is intended to produce a transformation in how electricity is generated, delivered, and consumed. At stake locally are reliability, greater control over costs, and the amount of independent power generation from homeowners and businesses that will be accepted onto the distribution system. Consumers are viewed as a vital part of this transformation. The Department of Public Utilities is proposing an "opt-out" for all consumers to have "smart meters" installed that will enable time-of-use pricing and other innovations. The Compact has been engaged in this issue since it was announced in 2012. In 2014 the DPU issued an order requiring all utilities such as NSTAR to file a ten-year plan. The plan is due in August 2015.

The Compact provided its final grant for operations to the Cape & Vineyard Electric Cooperative (CVEC). CVEC has installed 28 MW of PV projects on Cape Cod and Martha's Vineyard, which will save electric ratepayers approximately \$40 million in avoided energy supply costs.

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 9 - 11 of this report.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 12 - 18 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 19 - 21.

CAPE LIGHT COMPACT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014

Financial Statement Analysis

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

Net Position

The Compact's assets exceeded liabilities by \$3,475,068 at the close of the calendar year and are summarized as follows:

	2014	2013	Change (\$)	Change (%)
Assets				
Current assets.....	\$ 12,951,947	\$ 11,458,282	\$ 1,493,665	13.0%
Liabilities				
Current liabilities.....	8,822,173	3,427,698	5,394,475	157.4%
Noncurrent liabilities.....	654,706	528,324	126,382	23.9%
Total liabilities.....	9,476,879	3,956,022	5,520,857	139.6%
Net Position				
Unrestricted.....	\$ 3,475,068	\$ 7,502,260	\$ (4,027,192)	-53.7%

The Compact's assets consist primarily of cash and cash equivalents and various accounts receivable. The increase in the Compact's assets primarily reflects the increase in the current liabilities offset by the overall increase in the related expenses.

Liabilities primarily consist of accounts payable and accrued expenses. The substantial increase in current liabilities primarily reflects a delay in the payment of energy efficiency program accounts payable related to the significant increase in expenses.

CAPE LIGHT COMPACT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014

Changes in Net Position

The Compact's net position decreased by \$4,027,192 for the year ended December 31, 2014 and is summarized as follows:

	2014	2013	Change (\$)	Change (%)
Operating revenues.....	\$ 32,912,468	\$ 31,399,282	\$ 1,513,186	4.8%
Operating expenses.....	<u>38,307,909</u>	<u>26,842,847</u>	<u>11,465,062</u>	<u>42.7%</u>
Operating income (loss).....	(5,395,441)	4,556,435	(9,951,876)	-218.4%
Nonoperating revenues (expenses), net.....	<u>1,368,249</u>	<u>1,246,372</u>	<u>121,877</u>	<u>9.8%</u>
Change in net position.....	(4,027,192)	5,802,807	(9,829,999)	-169.4%
Net position - beginning of year.....	<u>7,502,260</u>	<u>1,699,453</u>	<u>5,802,807</u>	<u>341.5%</u>
Net position - end of year.....	<u>\$ 3,475,068</u>	<u>\$ 7,502,260</u>	<u>\$ (4,027,192)</u>	<u>-53.7%</u>

Operating revenues primarily consist of mandatory energy efficiency charges (\$4,977,316) and energy efficiency reconciliation factor charges (\$24,971,214). The increase in operating revenues primarily reflects energy efficiency funds collected in advance of energy efficiency projects and their related expenses.

Approximately 90% (or \$34,616,409) of the Compact's operating expenses relate directly to energy efficiency programs. Approximately 75% of the Compact's original three-year (2013-2015) energy efficiency budget of \$83,586,651 had been spent through December 31, 2014. The energy efficiency budget is funded via energy efficiency and energy efficiency reconciliation factor charges over the three-year period. As a result, annual differences can exist for recognized revenues and expenses.

During 2015, the DPU approved a mid-term modification increasing the Compact's 2013-2015 energy efficiency budget to \$103,382,379.

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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CAPE LIGHT COMPACT
STATEMENT OF NET POSITION
DECEMBER 31, 2014

ASSETS

Current assets:

Cash and cash equivalents.....	\$ 9,286,223
Receivables, net of allowance for uncollectible amounts:	
Energy efficiency.....	403,978
Energy efficiency reconciliation factor.....	2,517,772
Mil-adder.....	72,833
Green program.....	20,033
Intergovernmental (RGGI).....	485,287
Other.....	101,804
Intangible assets.....	<u>64,017</u>
Total assets.....	<u>12,951,947</u>

LIABILITIES

Current liabilities:

Accounts payable and accrued expenses.....	8,764,257
Accrued payroll.....	48,250
Compensated absences.....	<u>9,666</u>
Total current liabilities.....	<u>8,822,173</u>

Noncurrent liabilities:

Compensated absences.....	86,991
Due to Barnstable County (OPEB).....	567,715
Total noncurrent liabilities.....	<u>654,706</u>
Total liabilities.....	<u>9,476,879</u>

NET POSITION

Unrestricted.....	\$ 3,475,068
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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, 2014

OPERATING REVENUES

Energy efficiency.....	\$ 4,977,316
Energy efficiency reconciliation factor.....	24,971,214
Mil-adder.....	956,198
Green program.....	93,931
Intergovernmental (RGGI).....	<u>1,913,809</u>
 TOTAL OPERATING REVENUES.....	<u>32,912,468</u>

OPERATING EXPENSES

Salaries and benefits.....	1,805,038
Energy efficiency programs:	
Residential programs.....	18,017,390
Low income programs.....	2,393,998
Commercial and industrial programs.....	13,992,737
Others programs.....	212,284
Grants to Cape & Vineyard Electric Cooperative.....	403,455
Legal.....	846,415
Other professional services.....	99,272
Marketing.....	153,860
Other operating.....	<u>383,460</u>
 TOTAL OPERATING EXPENSES.....	<u>38,307,909</u>
 OPERATING (LOSS).....	<u>(5,395,441)</u>

NONOPERATING REVENUES

Forward capacity market.....	1,106,467
Renewable energy certificates, net.....	242,183
Net metering credits.....	8,553
Investment income.....	<u>11,046</u>
 TOTAL NONOPERATING REVENUES.....	<u>1,368,249</u>

CHANGE IN NET POSITION.....	<u>(4,027,192)</u>
 NET POSITION AT BEGINNING OF YEAR.....	<u>7,502,260</u>
 NET POSITION AT END OF YEAR.....	<u>\$ 3,475,068</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, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers and users.....	\$ 33,688,009
Payments to vendors and customers.....	(31,112,935)
Payments for employee services.....	(1,674,117)
NET CASH FROM OPERATING ACTIVITIES.....	<u>900,957</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Proceeds from sales of renewable energy certificates.....	767,273
Purchase of renewable energy certificates.....	(492,370)
Proceeds from net metering credits.....	3,852
Proceeds from forward capacity market.....	<u>1,099,255</u>
NET CASH USED FOR NONCAPITAL FINANCING ACTIVITIES.....	<u>1,378,010</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment income.....	<u>11,046</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	<u>2,290,013</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	<u>6,996,210</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	<u>\$ 9,286,223</u>

**RECONCILIATION OF OPERATING (LOSS) TO NET CASH
FROM OPERATING ACTIVITIES**

Operating (loss).....	\$ (5,395,441)
Adjustments to reconcile operating (loss) to net cash from operating activities:	
Changes in assets and liabilities not requiring current cash flows:	
Due to Barnstable County from OPEB charge back.....	99,343
Effect of changes in operating assets and liabilities:	
Accounts receivable.....	775,541
Warrants payable and accrued expenses.....	5,389,936
Accrued payroll.....	1,534
Compensated absences.....	<u>30,044</u>
Total adjustments.....	<u>6,296,398</u>
NET CASH FROM OPERATING ACTIVITIES.....	<u>\$ 900,957</u>

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

CAPE LIGHT COMPACT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

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, 2014, 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 FINANCIAL STATEMENTS
DECEMBER 31, 2014

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:

Asset Type	Estimated Useful Life (in years)
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 the accumulated charge back from Barnstable County related to other postemployment benefits.

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.

Operational-adder revenues are derived from a 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. Operational-adder charges are recognized as operating revenue on the accrual basis of accounting.

CAPE LIGHT COMPACT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

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. 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.

K. Use of Estimates

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

NOTE 3 - DEPOSITS 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.

CAPE LIGHT COMPACT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

The County Treasurer maintains separate bank accounts for the Compact's energy efficiency funds, power supply reserve 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 Compact's cash and cash equivalents maintained by the County Treasurer are allocated as follows:

	<u>Amount</u>
Energy efficiency.....	\$ 7,675,510
Power supply reserve.....	743,467
Operating.....	675,429
Green program.....	<u>191,817</u>
 Total.....	 <u>\$ 9,286,223</u>

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<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.....	\$ -	\$ -	\$ -	\$ -

NOTE 5 - LONG-TERM OBLIGATIONS

The following represents a summary of changes that occurred in long-term obligations during the year ended December 31, 2014:

	Balance January 1, 2014	Increases	Decreases	Balance December 31, 2013	Current Portion
Due to Barnstable County.....	\$ 468,372	\$ 99,343	\$ -	\$ 567,715	\$ -
Compensated absences.....	66,613	30,044	-	96,657	9,666
 Total.....	 \$ 534,985	 \$ 129,387	 \$ -	 \$ 664,372	 \$ 9,666

CAPE LIGHT COMPACT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

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 amount allocated to the Compact by the County totaled \$99,343 and is reported as salaries and benefits expense. The accumulated liability at December 31, 2014 totals \$567,715 and will be paid out in future years.

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, 2015, 2014, and 2013 were \$3,316,165, \$3,278,641 and \$3,172,649, respectively, which equaled its required contribution for each fiscal year.

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 \$225,527, \$174,831 and \$153,380, 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.

CAPE LIGHT COMPACT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

Operating Grant

During the year ended December 31, 2014, the Compact's Board of Representatives authorized a \$403,455 grant to CVEC for 2015 operations. This grant 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, 2014 totaled approximately \$38,000.

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 expires November 30, 2015. No amounts have been drawn on the letter of credit.

Loan

The Compact's Board of Representatives has 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.

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>
2015.....	\$ 4,184
2016.....	7,324
2017.....	7,324
2018.....	5,492

Lease expenses for the year ended December 31, 2014 totaled \$9,416 and are reported as other operating expense.

CAPE LIGHT COMPACT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE 10 - COMMITMENTS

REC Purchases

At December 31, 2014, the Compact is committed under certain agreements to purchase RECs at fixed prices through the 2nd quarter of calendar year 2016. The Compact's estimated commitment (based on units produced) under this agreement is as follows:

	December 31	Amount
2015.....	\$ 1,225,670	
2016.....		<u>4,228,880</u>
Total.....	\$	<u><u>5,454,550</u></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, 2014, the Compact is committed under various 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 second quarter of calendar year 2015. Expected cash inflows total \$404,950.

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 Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27, and Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68, which are required to be implemented during 2015. The implementation of these Statements 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.

This information is an integral part of the accompanying financial statements

CAPE LIGHT COMPACT
COMBINING STATEMENT OF NET POSITION BY PROGRAM
DECEMBER 31, 2014

	Energy Efficiency Fund	Power Supply Reserve	Operating	Green Program	Total
ASSETS					
Current assets:					
Cash and cash equivalents.....	\$ 7,675,510	\$ 743,467	\$ 675,429	\$ 191,817	\$ 9,286,223
Receivables, net of allowance for uncollectible amounts.....					
Energy efficiency.....	403,978	-	-	-	403,978
Energy efficiency reconciliation factor.....	2,517,772	-	-	-	2,517,772
Mil-adder.....	-	72,833	-	-	72,833
Green program.....	-	-	-	20,033	20,033
Intergovernmental (RGGI).....	485,287	-	-	-	485,287
Other.....	97,103	4,701	-	-	101,804
Intangible assets.....	-	64,017	-	-	64,017
Total assets.....	<u>11,179,650</u>	<u>885,018</u>	<u>675,429</u>	<u>211,850</u>	<u>12,951,947</u>
LIABILITIES					
Current liabilities:					
Accounts payable and accrued expenses.....	8,713,765	-	50,492	-	8,764,257
Accrued payroll.....	39,828	-	8,422	-	48,250
Compensated absences.....	<u>6,372</u>	<u>-</u>	<u>3,294</u>	<u>-</u>	<u>9,666</u>
Total current liabilities.....	<u>8,759,965</u>	<u>-</u>	<u>62,208</u>	<u>-</u>	<u>8,822,173</u>
Noncurrent liabilities:					
Compensated absences.....	57,345	-	29,646	-	86,991
Due to Barnstable County.....	<u>485,446</u>	<u>-</u>	<u>82,269</u>	<u>-</u>	<u>567,715</u>
Total noncurrent liabilities.....	<u>542,791</u>	<u>-</u>	<u>111,915</u>	<u>-</u>	<u>654,706</u>
Total liabilities.....	<u>9,302,756</u>	<u>-</u>	<u>174,123</u>	<u>-</u>	<u>9,476,879</u>
NET POSITION					
Unrestricted.....	<u>\$ 1,876,894</u>	<u>\$ 885,018</u>	<u>\$ 501,306</u>	<u>\$ 211,850</u>	<u>\$ 3,475,068</u>

CAPE LIGHT COMPACT
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION BY PROGRAM
FOR THE YEAR ENDED DECEMBER 31, 2014

	Energy Efficiency Fund	Power Supply Reserve	Operating	Green Program	Total
OPERATING REVENUES					
Energy efficiency.....	\$ 4,977,316	\$ -	\$ -	\$ -	\$ 4,977,316
Energy efficiency reconciliation factor.....	24,971,214	-	-	-	24,971,214
Mil-adder.....	-	956,198	-	-	956,198
Green program.....	-	-	-	93,931	93,931
Intergovernmental (RGGI).....	1,913,809	-	-	-	1,913,809
TOTAL OPERATING REVENUES.....	31,862,339	956,198	-	93,931	32,912,468
OPERATING EXPENSES					
Salaries and benefits.....	1,487,096	-	317,942	-	1,805,038
Energy efficiency programs:					
Residential programs.....	18,017,390	-	-	-	18,017,390
Low income programs.....	2,393,998	-	-	-	2,393,998
Commercial and industrial programs.....	13,992,737	-	-	-	13,992,737
Others programs.....	212,284	-	-	-	212,284
Grants to Cape & Vineyard Electric Cooperative.....	-	-	403,455	-	403,455
Legal.....	432,205	-	414,210	-	846,415
Other professional services.....	-	-	99,272	-	99,272
Marketing.....	115,416	-	38,444	-	153,860
Other operating.....	231,055	3,000	149,405	-	383,460
TOTAL OPERATING EXPENSES.....	36,882,181	3,000	1,422,728	-	38,307,909
OPERATING INCOME (LOSS).....	(5,019,842)	953,198	(1,422,728)	93,931	(5,395,441)
NONOPERATING REVENUES (EXPENSES)					
Forward capacity market.....	1,106,467	-	-	-	1,106,467
Renewable energy certificates.....	-	361,526	-	(119,343)	242,183
Net metering credits.....	-	8,553	-	-	8,553
Investment income.....	9,057	1,989	-	-	11,046
TOTAL NONOPERATING REVENUES (EXPENSES), NET...	1,115,524	372,068	-	(119,343)	1,368,249
INCOME (LOSS) BEFORE TRANSFERS.....	(3,904,318)	1,325,266	(1,422,728)	(25,412)	(4,027,192)
TRANSFERS					
Transfers in.....	-	16,756	1,684,872	-	1,701,628
Transfers out.....	-	(1,684,872)	(16,756)	-	(1,701,628)
TOTAL TRANSFERS.....	-	(1,668,116)	1,668,116	-	-
CHANGE IN NET POSITION.....	(3,904,318)	(342,850)	245,388	(25,412)	(4,027,192)
NET POSITION AT BEGINNING OF YEAR.....	5,781,212	1,227,868	255,918	237,262	7,502,260
NET POSITION AT END OF YEAR.....	\$ 1,876,894	\$ 885,018	\$ 501,306	\$ 211,850	\$ 3,475,068

CAPE LIGHT COMPACT
RECONCILIATION OF AUDITED ENERGY EFFICIENCY GAAP EXPENSES
TO DEPARTMENT OF PUBLIC UTILITIES (DPU) REPORT
FOR THE YEAR ENDED DECEMBER 31, 2014

Energy efficiency operating fund expenses reported on 2014 combining
statement of revenues, expenses and change in net position (page 23)..... \$ 36,882,181

Reconciling items:

To record net change in accrued expenses.....	(35,312)
To record net change in accrued payroll.....	15
To record net change in amount due to Barnstable County (OPEB charge backs).....	(82,871)
To record net change in compensated absences.....	<u>(6,876)</u>
Total reconciling items.....	<u>(125,044)</u>
Energy efficiency expenses reported on the 2014 DPU annual report.....	\$ <u>36,757,137</u> (A)

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