

**CAPE LIGHT COMPACT**

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

**FOR THE YEAR ENDED DECEMBER 31, 2013**



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TABLE OF CONTENTS

	Page
Independent Auditors' Report .....	1
Management's Discussion and Analysis .....	4
Financial Statements .....	9
Statement of net position .....	10
Statement of revenues, expenses and change in net position .....	11
Statement of cash flows .....	12
Notes to financial statements .....	13
Additional Information .....	21
Combining statement of net position by program .....	22
Combining statement of revenues, expenses and change in net position by program .....	23
Reconciliation of Audited Energy Efficiency GAAP Expenses to Department of Public Utilities Report .....	24

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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, 2013, 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, 2013, 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 8) 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 21 through 24) 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, 2013

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, 2013.

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 first full year of its second three-year energy efficiency plan, 2013 continued to build on the successes of program years 2010-2012 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 2013 program year:

CAPE LIGHT COMPACT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2013

- Achieved 82% increase in Total Resources Costs (TRC) benefits with only a 29% increase in TRC costs, yielding a 116% increase in net benefits as compared to 2010;
- Continued expansion of the Commercial & Industrial Program Implementation throughout Barnstable County by continuing to identify and manage projects funded by both the U.S. Department of Energy's (USDOE) Energy Efficiency Conservation Block Grant and the U.S. Department of Agriculture Grant;
- Celebrated the 2011 NEEP Business Leaders Award for Cape Air, the largest regional airline in the U.S. Also celebrated Falmouth's Seacrest Resort with a Mass Saver award for its extensive effort to increase the business' efficiency through participation in the Compact's C&I programs.

*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 2013.

For instance, as a result of the Compact's participation in DPU 12-126, an increase in residential distribution charges of approximately \$20 million was prevented. The Compact also played an active role in dockets pertaining to purchase of receivables, which will help level the playing field for not only the Compact, but all competitive supplies as they compete with Basic Service rates. New purchase of receivables policies allow the Compact and all suppliers to treat uncollectibles the same as do electric distribution companies. The Compact also was central in several working groups formed from DPU 12-76, which pertains to plans to upgrade the Commonwealth's electric distribution and delivery systems with "smart grid" elements. This process of grid modernization holds the potential for both great expenditures and great savings for consumers, making the Compact's involvement critical.

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 the Cape & Vineyard Electric Cooperative's 28 MW installation of PV projects on Cape Cod and Martha's Vineyard.

***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 10-12 of this report.

CAPE LIGHT COMPACT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2013

**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 13-19 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 22-24.

**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 \$7,502,260 at the close of the calendar year and are summarized as follows:

	<u>2013</u>	<u>2012</u>	<u>Change</u> <u>(\$)</u>	<u>Change</u> <u>(%)</u>
<b>Assets</b>				
Current assets.....	\$ 11,458,282	\$ 13,032,041	\$ (1,573,759)	-12.1%
<b>Liabilities</b>				
Current liabilities.....	3,427,698	10,890,751	(7,463,053)	-68.5%
Noncurrent liabilities.....	<u>528,324</u>	<u>441,837</u>	<u>86,487</u>	<u>19.6%</u>
Total liabilities.....	<u>3,956,022</u>	<u>11,332,588</u>	<u>(7,376,566)</u>	<u>-65.1%</u>
<b>Net Position</b>				
Unrestricted.....	<u>\$ 7,502,260</u>	<u>\$ 1,699,453</u>	<u>\$ 5,802,807</u>	<u>341.5%</u>

The Compact's assets consist primarily of cash and cash equivalents and various accounts receivable. The decrease in the Compact's assets primarily reflects the repayment to Barnstable County for short-term cash advances totaling approximately \$2,200,000.

Liabilities primarily consist of accounts payable and accrued expenses. The substantial decrease in current liabilities primarily reflects a more aggressive approach to paying energy efficiency program accounts payable timely.

CAPE LIGHT COMPACT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2013

Changes in Net Position

The Compact's net position increased by \$5,802,807 for the year ended December 31, 2013 and is summarized as follows:

	2013	2012	Change (\$)	Change (%)
Operating revenues.....	\$ 31,399,282	\$ 26,779,763	\$ 4,619,519	17.3%
Operating expenses.....	26,842,847	26,951,578	(108,731)	-0.4%
Operating income (loss).....	4,556,435	(171,815)	4,728,250	-2751.9%
Nonoperating revenues (expenses), net....	1,246,372	963,000	283,372	29.4%
Change in net position.....	5,802,807	791,185	5,011,622	633.4%
Net position - beginning of year.....	1,699,453	908,268	791,185	87.1%
Net position - end of year.....	<u>\$ 7,502,260</u>	<u>\$ 1,699,453</u>	<u>\$ 5,802,807</u>	<u>341.5%</u>

Operating revenues primarily consist of mandatory energy efficiency charges (\$5,062,003) and energy efficiency reconciliation factor charges (\$23,051,079). The increase in operating revenues primarily reflects energy efficiency funds collected in advance of energy efficiency projects and their related expenses.

Approximately 87% (or \$23,483,326) of the Compact's operating expenses relate directly to energy efficiency programs.

***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.

# *Financial Statements*

CAPE LIGHT COMPACT  
STATEMENT OF NET POSITION  
DECEMBER 31, 2013

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**ASSETS**

Current assets:

Cash and cash equivalents.....	\$	6,996,210
Receivables, net of allowance for uncollectible amounts:		
Energy efficiency.....		478,670
Energy efficiency reconciliation factor.....		3,234,578
Mil-adder.....		78,415
Green program.....		15,546
Intergovernmental (RGGI).....		468,235
Other.....		89,891
Intangible assets.....		<u>96,737</u>

Total assets..... 11,458,282

**LIABILITIES**

Current liabilities:

Accounts payable and accrued expenses.....		3,374,321
Accrued payroll.....		46,716
Compensated absences.....		<u>6,661</u>

Total current liabilities..... 3,427,698

Noncurrent liabilities:

Compensated absences.....		59,952
Due to Barnstable County.....		<u>468,372</u>

Total noncurrent liabilities..... 528,324

Total liabilities..... 3,956,022

**NET POSITION**

Unrestricted.....	\$	<u><u>7,502,260</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, 2013

<b>OPERATING REVENUES</b>	
Energy efficiency.....	\$ 5,062,003
Energy efficiency reconciliation factor.....	23,051,079
Mil-adder.....	1,000,404
Green program.....	109,334
Intergovernmental (RGGI).....	<u>2,176,462</u>
 TOTAL OPERATING REVENUES.....	 <u>31,399,282</u>
<b>OPERATING EXPENSES</b>	
Salaries and benefits.....	1,641,667
Energy efficiency programs:	
Residential programs.....	14,986,050
Low income programs.....	2,450,015
Commercial and industrial programs.....	5,849,960
Others programs.....	197,301
Grants to Cape & Vineyard Electric Cooperative.....	402,745
Legal.....	654,508
Other professional services.....	124,671
Marketing.....	185,299
Other operating.....	<u>350,631</u>
 TOTAL OPERATING EXPENSES.....	 <u>26,842,847</u>
 OPERATING INCOME.....	 <u>4,556,435</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Forward capacity market.....	954,584
Renewable energy certificates.....	295,614
Investment income.....	3,715
Interest expense.....	<u>(7,541)</u>
 TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	 <u>1,246,372</u>
 CHANGE IN NET POSITION.....	 5,802,807
 NET POSITION AT BEGINNING OF YEAR.....	 <u>1,699,453</u>
 NET POSITION AT END OF YEAR.....	 <u>\$ 7,502,260</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, 2013

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers and users.....	\$ 38,683,834
Payments to vendors and customers.....	(30,504,173)
Payments for employee services.....	<u>(1,549,582)</u>
NET CASH FROM OPERATING ACTIVITIES.....	<u>6,630,079</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Cash advance repayments to Barnstable County.....	(2,165,658)
Proceeds from sales of renewable energy certificates.....	645,768
Purchase of renewable energy certificates.....	(431,462)
Proceeds from forward capacity market.....	914,673
Interest expense.....	<u>(7,541)</u>
NET CASH USED FOR NONCAPITAL FINANCING ACTIVITIES.....	<u>(1,044,220)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Investment income.....	<u>3,715</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	5,589,574
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	<u>1,406,636</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	<u>\$ 6,996,210</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES</b>	
Operating income.....	\$ <u>4,556,435</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.....	91,630
Effect of changes in operating assets and liabilities:	
Accounts receivable.....	7,284,552
Warrants payable and accrued expenses.....	(5,302,993)
Accrued payroll.....	6,170
Compensated absences.....	<u>(5,715)</u>
Total adjustments.....	<u>2,073,644</u>
NET CASH FROM OPERATING ACTIVITIES.....	<u>\$ 6,630,079</u>

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



CAPE LIGHT COMPACT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013

**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, 2013, 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, 2013

**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 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

CAPE LIGHT COMPACT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013

Administrator based on contractual and regulatory obligations. Operational-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 CO<sub>2</sub> 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 THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013

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.....	\$ 4,462,191
Escrow account.....	100,783
Pooled cash.....	<u>2,433,236</u>
Total.....	<u>\$ 6,996,210</u>

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2013, 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.....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**NOTE 5 - LONG-TERM OBLIGATIONS**

The following represents a summary of changes that occurred in long-term obligations during the year ended December 31, 2013:

	<u>Balance January 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31, 2013</u>	<u>Current Portion</u>
Due to Barnstable County....	\$ 376,742	\$ 91,630	\$ -	\$ 468,372	\$ -
Compensated absences.....	72,328	-	(5,715)	66,613	6,661
Total.....	<u>\$ 449,070</u>	<u>\$ 91,630</u>	<u>\$ (5,715)</u>	<u>\$ 534,985</u>	<u>\$ 6,661</u>

CAPE LIGHT COMPACT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013

**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 \$91,630 and is reported as salaries and benefits expense. The total accumulated liability at December 31, 2013 totals \$468,372 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, 2014, 2013, and 2012 were \$3,278,641, \$3,172,649 and \$3,035,921, 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 \$174,831, \$153,380 and \$124,594, respectively.

CAPE LIGHT COMPACT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013

**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, 2013, the Compact's Board of Representatives authorized a \$402,745 grant to CVEC for 2014 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 a grant to CVEC totaling \$403,455 to fund 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, 2013 totaled approximately \$80,000.

*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, 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.

**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:

CAPE LIGHT COMPACT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013

Fiscal Year	Payment
2014.....	\$ 9,416

Lease expenses for the year ended December 31, 2013 totaled \$9,416 and are reported as other operating expense.

**NOTE 10 - COMMITMENTS**

*REC Purchases*

At December 31, 2013, 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:

December 31	Amount
2014.....	\$ 336,600
2015.....	168,300
Total.....	\$ 504,900

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, 2013, 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 fourth quarter of calendar year 2014. Expected cash inflows total \$756,548.

*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, 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

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## *Additional Information*

CAPE LIGHT COMPACT  
 COMBINING STATEMENT OF NET POSITION BY PROGRAM  
 DECEMBER 31, 2013

ASSETS	Energy Efficiency Fund	Power Supply Reserve	Operating	Green Program	Total
<b>Current assets:</b>					
Cash and cash equivalents.....	\$ 5,383,418	\$ 1,091,191	\$ 338,360	\$ 183,241	\$ 6,996,210
Receivables, net of allowance for uncollectible amounts.....					
Energy efficiency.....	478,670	-	-	-	478,670
Energy efficiency reconciliation factor.....	3,234,578	-	-	-	3,234,578
Mil-adder.....	-	78,415	-	-	78,415
Green program.....	-	-	-	15,546	15,546
Intergovernmental (RGGI).....	468,235	-	-	-	468,235
Other.....	89,891	-	-	-	89,891
Intangible assets.....	-	58,262	-	38,475	96,737
Total assets.....	<u>9,654,792</u>	<u>1,227,868</u>	<u>338,360</u>	<u>237,262</u>	<u>11,458,282</u>
<b>LIABILITIES</b>					
<b>Current liabilities:</b>					
Accounts payable and accrued expenses.....	3,374,321	-	-	-	3,374,321
Accrued payroll.....	39,843	-	6,873	-	46,716
Compensated absences.....	5,684	-	977	-	6,661
Total current liabilities.....	<u>3,419,848</u>	<u>-</u>	<u>7,850</u>	<u>-</u>	<u>3,427,698</u>
<b>Noncurrent liabilities:</b>					
Compensated absences.....	51,157	-	8,795	-	59,952
Due to Barnstable County.....	402,575	-	65,797	-	468,372
Total noncurrent liabilities.....	<u>453,732</u>	<u>-</u>	<u>74,592</u>	<u>-</u>	<u>528,324</u>
Total liabilities.....	<u>3,873,580</u>	<u>-</u>	<u>82,442</u>	<u>-</u>	<u>3,956,022</u>
<b>NET POSITION</b>					
Unrestricted.....	<u>\$ 5,781,212</u>	<u>\$ 1,227,868</u>	<u>\$ 255,918</u>	<u>\$ 237,262</u>	<u>\$ 7,502,260</u>

CAPE LIGHT COMPACT  
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION BY PROGRAM  
 FOR THE YEAR ENDED DECEMBER 31, 2013

	Energy Efficiency Fund	Power Supply Reserve	Operating	Green Program	Total
<b>OPERATING REVENUES</b>					
Energy efficiency.....	\$ 5,062,003	\$ -	\$ -	\$ -	\$ 5,062,003
Energy efficiency reconciliation factor.....	23,051,079	-	-	-	23,051,079
Mil-adder.....	-	1,000,404	-	-	1,000,404
Green program.....	-	-	-	109,334	109,334
Intergovernmental (RGGI).....	2,176,462	-	-	-	2,176,462
<b>TOTAL OPERATING REVENUES.....</b>	<b>30,289,544</b>	<b>1,000,404</b>	<b>-</b>	<b>109,334</b>	<b>31,399,282</b>
<b>OPERATING EXPENSES</b>					
Salaries and benefits.....	1,425,156	-	216,511	-	1,641,667
Energy efficiency programs:					
Residential programs.....	14,986,050	-	-	-	14,986,050
Low income programs.....	2,450,015	-	-	-	2,450,015
Commercial and industrial programs.....	5,849,960	-	-	-	5,849,960
Others programs.....	197,301	-	-	-	197,301
Grants to Cape & Vineyard Electric Cooperative.....	-	-	402,745	-	402,745
Legal.....	350,495	-	304,013	-	654,508
Other professional services.....	-	-	123,434	1,237	124,671
Marketing.....	185,299	-	-	-	185,299
Other operating.....	274,330	21,501	54,800	-	350,631
<b>TOTAL OPERATING EXPENSES.....</b>	<b>25,718,606</b>	<b>21,501</b>	<b>1,101,503</b>	<b>1,237</b>	<b>26,842,847</b>
<b>OPERATING INCOME (LOSS).....</b>	<b>4,570,938</b>	<b>978,903</b>	<b>(1,101,503)</b>	<b>108,097</b>	<b>4,556,435</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Forward capacity market.....	954,584	-	-	-	954,584
Renewable energy certificates.....	-	346,003	-	(50,389)	295,614
Investment income.....	2,645	1,070	-	-	3,715
Interest expense.....	(7,541)	-	-	-	(7,541)
<b>TOTAL NONOPERATING REVENUES (EXPENSES), NET.....</b>	<b>949,688</b>	<b>347,073</b>	<b>-</b>	<b>(50,389)</b>	<b>1,246,372</b>
<b>INCOME (LOSS) BEFORE TRANSFERS.....</b>	<b>5,520,626</b>	<b>1,325,976</b>	<b>(1,101,503)</b>	<b>57,708</b>	<b>5,802,807</b>
<b>TRANSFERS</b>					
Transfers in.....	-	26,023	1,124,783	-	1,150,806
Transfers out.....	-	(1,124,783)	(26,023)	-	(1,150,806)
<b>TOTAL TRANSFERS.....</b>	<b>-</b>	<b>(1,098,760)</b>	<b>1,098,760</b>	<b>-</b>	<b>-</b>
<b>CHANGE IN NET POSITION.....</b>	<b>5,520,626</b>	<b>227,216</b>	<b>(2,743)</b>	<b>57,708</b>	<b>5,802,807</b>
<b>NET POSITION AT BEGINNING OF YEAR.....</b>	<b>260,586</b>	<b>1,000,652</b>	<b>258,661</b>	<b>179,554</b>	<b>1,699,453</b>
<b>NET POSITION AT END OF YEAR.....</b>	<b>\$ 5,781,212</b>	<b>\$ 1,227,868</b>	<b>\$ 255,918</b>	<b>\$ 237,262</b>	<b>\$ 7,502,260</b>

CAPE LIGHT COMPACT  
RECONCILIATION OF AUDITED ENERGY EFFICIENCY GAAP EXPENSES  
TO DEPARTMENT OF PUBLIC UTILITIES (DPU) REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2013

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Energy efficiency operating fund expenses reported on 2013 combining statement of revenues, expenses and change in net position (page 23).....	\$	<u>25,718,606</u>
<u>Reconciling items:</u>		
To record net change in accrued expenses.....		2,545
To record net change in accrued payroll.....		(3,200)
To record net change in amount due to Barnstable County (OPEB charge backs).....		(82,773)
To record net change in compensated absences.....		<u>3,755</u>
Total reconciling items.....		<u>(79,673)</u>
Energy efficiency expenses reported on the 2013 DPU annual report.....	\$	<u><u>25,638,933</u></u> (A)

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