CAPE LIGHT COMPACT

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2011

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Independent Auditors' Report

SULLIVAN ROGERS & COMPANY

Certified Public Accountants

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Independent Auditors' Report

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

We have audited the accompanying statement of net assets of the Cape Light Compact as of December 31, 2011 and the related statement of revenues, expenses and change in net assets and statement of cash flows for the year then ended. These financial statements are the responsibility of the Cape Light Compact's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011 and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated June 27, 2013 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The additional information is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Bullion, Ray & Company, LLC

June 27, 2013

Management's Discussion and Analysis

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, 2011.

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 approved by the Massachusetts Department of Telecommunications and Energy 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 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 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 second full year of its three-year energy efficiency plan, 2011 continued to build on the successes of program year 2010 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 2011 program year:

- Achieved 82% increase in Total Resources Costs (TRC) benefits with only a 29% increase in TRC costs, and 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:

Through technical and legal support the Compact represents the interests of Cape Cod and Martha's Vineyard electric ratepayers in selected state proceedings and with NSTAR Electric, the incumbent distribution company. Consumer advocacy was a major activity of the Compact in 2011. The Compact was an active participant and a great deal of time was spent in working to protect consumer interests through the NSTAR/NU merger.

As a result of the Compact's participation in DPU 11-05, 11-06 and 11-07, customers will share in approximately $111 million worth of net savings produced by three long term contracts entered into between NSTAR and renewable energy developers. The results were part of the Order issued by the DPU on August 19, 2011.

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 16.5 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 Assets, (2) the Statement of Revenues, Expenses and Change in Net Assets and (3) the Statement of Cash Flows.

The financial statements can be found on pages 10-12 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 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 assets and revenues, expenses and change in net assets, 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 Assets

The Compact's assets exceeded liabilities by $908,268 at the close of the calendar year and are summarized as follows:

	2011	2010	Change ($)	Change (%)
Assets				
Current assets..............	$ 4,224,381	$ 3,887,047	$ 337,334	8.7%
Liabilities				
Current liabilities.........	2,973,585	3,321,077	(347,492)	-10.5%
Noncurrent liabilities.....	342,528	244,234	98,294	40.2%
Total liabilities.........	3,316,113	3,565,311	(249,198)	-7.0%
Net Assets				
Unrestricted................	$ 908,268	$ 321,736	$ 586,532	182.3%

The Compact's assets consist entirely of cash and cash equivalents and various accounts receivable. Liabilities primarily consist of accounts payable and accrued expenses.

Changes in Net Assets

The Compact's net assets increased by $586,532 for the year ended December 31, 2011 and are summarized as follows:

	2011	2010	Change ($)	Change (%)
Operating revenues	$ 18,421,601	$ 12,407,344	$ 6,014,257	48.5%
Operating expenses	18,053,320	14,450,495	3,602,825	24.9%
Operating income (loss)	368,281	(2,043,151)	2,411,432	-118.0%
Nonoperating revenues (expenses), net	218,251	(38,835)	257,086	-662.0%
Change in net assets	586,532	(2,081,986)	2,668,518	-128.2%
Net assets - beginning of year	321,736	2,403,722	(2,081,986)	-86.6%
Net assets - end of year	$ 908,268	$ 321,736	$ 586,532	182.3%

Operating revenues primarily consist of mandatory energy efficiency charges ($5,002,909) and energy efficiency reconciliation factor charges ($11,512,830).

Approximately 92% (or $16,560,962) 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

STATEMENT OF NET ASSETS

DECEMBER 31, 2011

ASSETS		
Current assets:		
Cash and cash equivalents	$	2,225,639
Receivables, net of allowance for uncollectible amounts:		
Energy efficiency		396,197
Energy efficiency reconciliation factor		1,137,652
Mil-adder		74,542
Green program		37,411
Intergovernmental (RGGI)		282,410
Other		70,530
Total assets		4,224,381
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses		2,941,069
Accrued payroll		27,872
Compensated absences		4,644
Total current liabilities		2,973,585
Noncurrent liabilities:		
Compensated absences		41,797
Net OPEB obligation		300,731
Total noncurrent liabilities		342,528
Total liabilities		3,316,113
NET ASSETS		
Unrestricted	$	908,268

See notes to financial statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2011

OPERATING REVENUES		
Energy efficiency	$	5,002,909
Energy efficiency reconciliation factor		11,512,830
Mil-adder		1,017,694
Green program		124,350
Intergovernmental (RGGI)		662,002
Member contributions		99,054
Other		2,762
TOTAL OPERATING REVENUES		18,421,601
OPERATING EXPENSES		
Salaries and benefits		1,072,216
Energy efficiency programs:		
Residential programs		9,023,019
Low income programs		2,098,841
Commercial and industrial programs		3,622,264
Others programs		198,815
Grants to Cape & Vineyard Electric Cooperative		743,792
Legal		667,145
Other professional services		82,536
Marketing		142,618
Other operating		402,074
TOTAL OPERATING EXPENSES		18,053,320
OPERATING INCOME		368,281
NONOPERATING REVENUES (EXPENSES)		
Forward capacity market		699,489
Renewable energy certificates		(479,184)
Investment income		600
Interest expense		(2,654)
TOTAL NONOPERATING REVENUES (EXPENSES), NET		218,251
CHANGE IN NET ASSETS		586,532
NET ASSETS AT BEGINNING OF YEAR		321,736
NET ASSETS AT END OF YEAR	$	908,268

See notes to financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	$ 18,440,449
Payments to vendors and customers	(17,327,745)
Payments for employee services	(974,773)
NET CASH FROM OPERATING ACTIVITIES	137,931
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from sales of renewable energy certificates	1,350,552
Purchase of renewable energy certificates	(1,829,736)
Proceeds from forward capacity market	686,930
Interest expense	(2,654)
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES	205,092
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment income	600
NET CHANGE IN CASH AND CASH EQUIVALENTS	343,623
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,882,016
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 2,225,639
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES	
Operating income	$ 368,281
Adjustments to reconcile operating income to net cash from operating activities:	
Changes in assets and liabilities not requiring current cash flows:	
Net OPEB obligation	96,977
Changes in assets and liabilities requiring current cash flows:	
Accounts receivable	18,848
Warrants payable and accrued expenses	(346,641)
Accrued payroll	(997)
Compensated absences	1,463
Total adjustments	(230,350)
NET CASH FROM OPERATING ACTIVITIES	$ 137,931
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES	
Member contributions	$ 99,054

See notes to financial statements.

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 significant accounting policies are described herein.

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

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* the Compact applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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, 2011, all amounts are 100% collectible.

D. Capital Assets

Capital assets are recorded at historical cost. All 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.

E. 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.

F. Post Retirement Benefits

In addition to providing pension benefits, and as more fully described in Note 6, the Compact (through the County) provides health, dental and life insurance coverage for current and future retirees and their spouses.

G. 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 has 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.

Mil-adder revenues are derived from the 1 mil ($0.001) per kilowatt hour surcharge used to establish reserves as provided in the Compact's competitive electric supply agreement (CESA) approved by the Massachusetts Department of Telecommunications and Energy. These charges are collected by the 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 program for which participants pay a premium for matching their electric generation purchases with renewable energy. This additional charge ("adder") is initially collected by the 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.

H. 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.

I. Member Contributions

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

J. 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.

The County Treasurer maintains separate bank accounts and an investment (repurchase agreement) 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:

	Amount
Checking account............	$ 100,969
Escrow account...............	100,388
Repurchase agreement......	1,077,096
Pooled cash....................	947,186
Total............................	$ 2,225,639

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated:				
Vehicles	$ 23,319	$ -	$ -	$ 23,319
Less accumulated depreciation for:				
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, 2011:

	Balance January 1, 2011	Increases	Decreases	Balance December 31, 2011	Current Portion
Net OPEB obligation	$ 203,754	$ 101,877	$ (4,900)	$ 300,731	$ -
Compensated absences	44,978	1,463	-	46,441	4,644
Total	$ 248,732	$ 103,340	$ (4,900)	$ 347,172	$ 4,644

NOTE 6 - OTHER POST EMPLOYMENT BENEFITS

Plan Description – The Compact (through the County) provides health, dental and life insurance coverage for its retirees and their survivors (hereinafter referred to as the "Plan") as a single-employer defined benefit Other Post Employment Benefit (OPEB) plan. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions. Changes to plan design and contribution rates must be accomplished through the collective bargaining process. The Plan does not issue a standalone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

Funding Policy - The contribution requirements of Plan members and the County are established and may be amended by the County. The required health and dental insurance (including Medicare Part B) contribution rates of Plan members and the County are 25% and 75%, respectively. The Plan members and the County contribute 25% and 75%, respectively, towards a $10,000 term life insurance premium. The County currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the County. The 75% County portion referred to above that relates to the Compact are paid by Compact funds.

Annual OPEB Cost and Net OPEB Obligation - The County's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an actuarially determined amount that is calculated in accordance with the parameters set forth in GASB Statement #45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The County's annual OPEB cost for its fiscal year ended June 30, 2012 totaled approximately $3,186,000. The Compact's share of that cost totaled $101,877 and is reported as salaries and benefits.

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, 2012, 2011, and 2010 were $3,035,921, $3,099,389 and $4,789,706, respectively, which equaled its required contribution for each fiscal year.

The Compact's share (based on a percentage of payroll) of the County's contribution for the year ended December 31, 2011 totaled $124,594 and is reported as salaries and benefits.

NOTE 8 - RELATED PARTY TRANSACTIONS

<u>Administrative Services</u>

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

<u>Cape & Vineyard Electric Cooperative</u>

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.

During the year ended December 31, 2011, the Compact's Board of Representatives authorized the following grants to CVEC:

- $335,792 for fiscal year 2011 operations (supplemental)
- $408,000 for fiscal year 2012 operations

These grants did not provide the Compact an individual or separate interest in the assets of CVEC.

Barnstable County

During the year ended December 31, 2011, the County budgeted and paid for $99,054 of the Compact's expenses related to legal services, other operating costs, marketing and other professional services.

Subsequent Events

Subsequent to year-end, the Compact (through the County) guaranteed a letter of credit obtained by CVEC. The value of the initial letter of credit totals $100,000 and expired July 23, 2011. The letter of credit has since been extended twice and expires November 30, 2013. No amounts have been drawn on the letter of credit as of the date of this report.

NOTE 9 - OPERATING LEASES

The Compact is committed under an operating lease for a vehicle used by the Compact. Lease expenses for the year ended December 31, 2011 totaled $4,536 and are reported as other operating expense. The final lease payment will be made during the year ended December 31, 2012 for $756.

NOTE 10 - COMMITMENTS

At December 31, 2011, the Compact is committed under several agreements to purchase RECs at fixed prices through the second quarter of calendar year 2015. The Compact's maximum base commitments under these agreements are as follows:

December 31		Amount
2012....................	$	1,941,985
2013....................		336,600
2014....................		336,600
2015....................		168,300
Total....................	$	2,783,485

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.

Subsequent Event

During calendar year 2012, the Compact entered into several agreements to sell REC's it had acquired (or had committed to acquire) from a third party. Expected future cash inflows total $656,813.

NOTE 11 - FUTURE IMPLEMENTATION OF GASB PRONOUCEMENTS

The GASB has issued the following statements:

- Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is required to be implemented during 2012. The implementation of this Statement will require a change to the title of the Statement of Net Assets to the Statement of Net Position.

- 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.

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Additional Information

COMBINING STATEMENT OF NET ASSETS

DECEMBER 31, 2011

ASSETS		Energy Efficiency Fund		Power Supply Reserve		Operating		Green Program		Total
Current assets:										
Cash and cash equivalents	$	1,158,511	$	719,628	$	261,376	$	86,124	$	2,225,639
Receivables, net of allowance for uncollectible amounts										
Energy efficiency		396,197		-		-		-		396,197
Energy efficiency reconciliation factor		1,137,652		-		-		-		1,137,652
Mil-adder		-		74,542		-		-		74,542
Green program		-		-		-		37,411		37,411
Intergovernmental (RGGI)		282,410		-		-		-		282,410
Other		70,530		-		-		-		70,530
Total assets		3,045,300		794,170		261,376		123,535		4,224,381
LIABILITIES										
Current liabilities:										
Accounts payable and accrued expenses		2,941,069		-		-		-		2,941,069
Accrued payroll		24,172		-		3,700		-		27,872
Compensated absences		3,815		-		829		-		4,644
Total current liabilities		2,969,056		-		4,529		-		2,973,585
Noncurrent liabilities:										
Compensated absences		34,335		-		7,462		-		41,797
Net OPEB obligation		252,976		-		47,755		-		300,731
Total liabilities		3,256,367		-		59,746		-		3,316,113
NET ASSETS										
Unrestricted	$	(211,067)	$	794,170	$	201,630	$	123,535	$	908,268

See accompanying independent auditors' report.

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2011

	Energy Efficiency Fund	Power Supply Reserve	Operating	Green Program	Total
OPERATING REVENUES					
Energy efficiency	$ 5,002,909	$ -	$ -	$ -	$ 5,002,909
Energy efficiency reconciliation factor	11,512,830	-	-	-	11,512,830
Mil-adder	-	1,017,694	-	-	1,017,694
Green program	-	-	-	124,350	124,350
Intergovernmental (RGGI)	662,002	-	-	-	662,002
Member contributions	-	-	99,054	-	99,054
Other	2,665	97	-	-	2,762
TOTAL OPERATING REVENUES	17,180,406	1,017,791	99,054	124,350	18,421,601
OPERATING EXPENSES					
Salaries and benefits	917,557	-	154,659	-	1,072,216
Energy efficiency programs:					
Residential programs	9,023,019	-	-	-	9,023,019
Low income programs	2,098,841	-	-	-	2,098,841
Commercial and industrial programs	3,622,264	-	-	-	3,622,264
Others programs	198,815	-	-	-	198,815
Grants to Cape & Vineyard Electric Cooperative	-	335,792	408,000	-	743,792
Legal	218,054	70,175	378,916	-	667,145
Other professional services	-	4,037	68,593	9,906	82,536
Marketing	136,125	-	6,493	-	142,618
Other operating	346,287	5,125	50,662	-	402,074
TOTAL OPERATING EXPENSES	16,560,962	415,129	1,067,323	9,906	18,053,320
OPERATING INCOME (LOSS)	619,444	602,662	(968,269)	114,444	368,281
NONOPERATING REVENUES (EXPENSES)					
Forward capacity market	699,489	-	-	-	699,489
Renewable energy certificates	-	(371,890)	-	(107,294)	(479,184)
Investment income	600	-	-	-	600
Interest expense	(2,654)	-	-	-	(2,654)
TOTAL NONOPERATING REVENUES (EXPENSES), NET	697,435	(371,890)	-	(107,294)	218,251
INCOME (LOSS) BEFORE TRANSFERS	1,316,879	230,772	(968,269)	7,150	586,532
TRANSFERS					
Transfers in	-	22,034	1,067,400	-	1,089,434
Transfers out	-	(1,067,400)	(22,034)	-	(1,089,434)
TOTAL TRANSFERS	-	(1,045,366)	1,045,366	-	-
CHANGE IN NET ASSETS	1,316,879	(814,594)	77,097	7,150	586,532
NET ASSETS AT BEGINNING OF YEAR	(1,527,946)	1,608,764	124,533	116,385	321,736
NET ASSETS AT END OF YEAR	$ (211,067)	$ 794,170	$ 201,630	$ 123,535	$ 908,268

See accompanying independent auditors' report.

RECONCILIATION OF AUDITED ENERGY EFFICIENCY GAAP EXPENSES TO DEPARTMENT OF PUBLIC UTILITIES (DPU) REPORT

FOR THE YEAR ENDED DECEMBER 31, 2011

Energy efficiency operating fund expenses reported on 2011 combining statement of revenues, expenses and change in net assets (page 23)	$	16,560,962
Reconciling items:		
To record net change in accrued expenses		229,609
To record net change in accrued payroll		445
To record net change in net OPEB obligation		(81,415)
To record net change in compensated absences		(1,580)
Grant expenditures reported as part of the DPU annual report		200,139
Total reconciling items		347,198
Energy efficiency expenses reported on the 2011 DPU annual report	$	16,908,160 (A)

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

See accompanying independent auditors' report.