Cape Light Compact

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

August 14, 2013
Presented by: Chris Rogers, CPA, Shareholder
Agenda

- Background
- Engagements summary
- Financial statement structure
- Reporting entity
- Financial statement summaries (2009 – 2011)
  - Opinions
  - Financial highlights
  - Significant footnotes
  - Additional Information
- Reports on IC Over FR and Compliance
- Management Letter
- Questions
Since inception (1997) all Cape Light Compact funds have been included in the annual audit of Barnstable County’s financial statements.

These audits did not include the preparation of separately issued financial statements for the Compact.

- July 2012 - Presentation to Compact Governing Board on Compact Audit and Attestation Recommendations
- September 2012 – Compact Board votes to proceed with Recommendations
- March 2013 – Report on Applying Agreed Upon Procedures presented to the Board
Engagements Summary

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

- Auditors’ opinion (p 1-2)
- Management’s discussion and analysis (p 4-8)
- Financial statements and notes (p 10-19)
- Additional information (p 21-24)
  - Combining statements of net assets and revenues, expenses and changes in net assets
  - Reconciliation of audited EE operating expenses to the annual DPU report
Financial statements include the direct financial activities of the Compact, such as:

- Energy efficiency programs funded by:
  - Energy efficiency/system benefit charges
  - EERF charges
  - RGGI proceeds received via the Commonwealth
  - Forward capacity market
- Opt-in green program

Financial statements do not include:

- Federal and state grants received by Barnstable County but administered by the Compact
  - These funds have been reported as governmental funds in Barnstable County’s annual audited financial statements
Opinions

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

- Statement of Net Assets (p 10)
  - Assets - $5.3m
    - Cash and cash equivalents - $3.6m
    - Accounts receivable - $1.7m
  - Liabilities - $2.9m
    - A/P and accrued expenses - $2.7m
    - Net OPEB obligation - $102k
  - Net Assets – $2.4m
Financial Highlights - 2009

- Statement of Revenues, Expenses and Change (p 11)
  - Increase in net assets of $501k, or 26.3%
  - Total operating revenues $10.4m
    - Energy efficiency - $4.9m
    - Intergovernmental (RGGI) - $4.0m
  - Total operating expenses - $10.1m
    - Energy efficiency programs - $8.8m, or 87%
    - Grants to CVEC - $720k, or 7%
  - Total nonoperating revenues (expenses) - $196k
    - Forward capacity market - $329k
    - RECs - ($133k)
Note 5 - Long-term Obligations (p 16)

- Net OPEB obligation - $102k
  - Represents Compact’s estimated share of County’s annual cost
- Compensated absences - $47k
Note 8 – Related Party Transactions (p 17 – 18)

- Administrative services agreement with County
- Grants provided to CVEC ($720k)
- County paying for certain Compact activities from General Fund (County) budget - $189k
- Subsequent to year-end, Compact funds were used to secure a $100k line of credit for CVEC
- Subsequent to year-end, the Compact entered into 2 agreements to purchase RECs from CVEC
Note 10 – Commitments (p 18)

Compact is committed under several agreements to purchase RECs at fixed prices through March 2012

- Maximum commitment totals $7.7m
- Substantial portion of the RECs are purchased by supplier at cost

Compact participates in ISO-NE Forward Capacity Market

- After June 1, 2010 committed to deliver specified units of EE at a fixed price per unit
  - Penalties are assessed if Compact fails to deliver its capacity supply obligation
- Prior to June 1, 2010 paid a fixed price based on EE reported to ISO-NE
Note 10 – Commitments (continued)

Subsequent to year-end, Compact entered into 5-year agreement to purchase all RECs generated by 3rd party facility

Subsequent to year-end (2012), Compact entered into several agreements to sell REC’s it had acquired (or committed to acquire) from a third party

- Future cash inflows total $657k.
Additional Information - 2009

- Additional Information (p 22 – 24)
  - Combining statement of net assets (p 22) and combining statement of revenues, expenses and changes in net assets (p 23)
    - These statements segregate the Compact’s activities between Energy Efficiency, Power Supply Reserve, budgeted operating funds and the Green Program
  - Reconciliation of audited GAAP EE operating expenses to annual DPU report (p 24)
    - Reconciling items (net change in accrued expenses, accrued payroll, net OPEB obligation and compensated absences) represent differences in basis of accounting (accrual versus modified accrual)
Financial Highlights - 2010

- Statement of Net Assets (p 10)
  - Assets - $3.9m
    - Cash and cash equivalents - $1.9m
    - Accounts receivable - $2.0m
  - Liabilities - $3.6m
    - A/P and accrued expenses - $3.3m
    - Net OPEB obligation - $204k
  - Net Assets – $322k
Financial Highlights - 2010

- **Statement of Revenues, Expenses and Change (p 11)**
  - Decrease in net assets of $2.1m, or 86.6%
    - Result of lag in receipt of revenues (6 months) from the EE program
    - Experienced by all EE program administrators
  - Total operating revenues $12.4m
    - Energy efficiency - $5.1m
    - EE reconciliation factor (EERF) - $4.7m
  - Total operating expenses - $14.5m
    - Energy efficiency programs – 13.4m, or 93%
    - Grants to CVEC - $500k, or 3.5%
  - Total nonoperating revenues (expenses) – ($39k)
    - Forward capacity market - $556k
    - RECs - ($590k)
Note 5 - Long-term Obligations (p 16)

- Net OPEB obligation - $204k
  - $102k current year cost, which represents Compact’s estimated share of County’s annual cost
- Compensated absences - $45k
Note 8 – Related Party Transactions (p 17 – 18)

- Administrative services agreement with County
- Grants provided to CVEC ($500k)
- County paying for certain Compact activities from General Fund (County) budget - $97k
- Subsequent to year-end, Compact funds were used to secure a $100k line of credit for CVEC
Note 10 – Commitments (p 18)

Compact is committed under several agreements to purchase RECs at fixed prices through June 2015
- Maximum commitment totals $6.1m

Compact participates in ISO-NE Forward Capacity Market
- After June 1, 2010 committed to deliver specified units of EE at a fixed price per unit
  - Penalties are assessed if Compact fails to deliver its capacity supply obligation
- Prior to June 1, 2010 paid a fixed price based on EE reported to ISO NE
Note 10 – Commitments (continued)

Subsequent to year-end (2012), Compact entered into several agreements to sell REC’s it had acquired (or committed to acquire) from a third party

- Future cash inflows total $657k.
Additional Information (p 22 – 24)

- Combining statement of net assets (p 22) and combining statement of revenues, expenses and changes in net assets (p 23)
  - These statements segregate the Compact’s activities between Energy Efficiency, Power Supply Reserve, budgeted operating funds and the Green Program

- Reconciliation of audited GAAP EE operating expenses to annual DPU report (p 24)
  - Most reconciling items (net change in accrued expenses, accrued payroll, net OPEB obligation and compensated absences) represent differences in basis of accounting (accrual versus modified accrual)
  - One reconciling item ($247k) relates to County grant expenses that DPU directed to include in the annual report
Financial Highlights – 2011

- Statement of Net Assets (p 10)
  - Assets - $4.2m
    - Cash and cash equivalents - $2.2m
    - Accounts receivable - $2.0m
  - Liabilities - $3.3m
    - A/P and accrued expenses - $2.9m
    - Net OPEB obligation - $301k
  - Net Assets – $908k
Financial Highlights - 2011

- Statement of Revenues, Expenses and Change (p 11)
  - Increase in net assets of $587k, or 182%
  - Total operating revenues $18.4m
    - Energy efficiency - $5.0m
    - EE reconciliation factor (EERF) - $11.5m
  - Total operating expenses - $18.1m
    - Energy efficiency programs – 16.6m, or 92%
    - Grants to CVEC - $744k, or 4.1%
  - Total nonoperating revenues (expenses) – $218k
    - Forward capacity market - $699k
    - RECs - ($479k)
Note 5 - Long-term Obligations (p 16)

- Net OPEB obligation - $301k
  - $102k current year cost, which represents Compact’s estimated share of County’s annual cost
- Compensated absences - $46k
Note 8 – Related Party Transactions (p 17 – 18)

- Administrative services agreement with County
- Grants provided to CVEC ($744k)
- County paying for certain Compact activities from General Fund (County) budget - $99k
- Subsequent to year-end, Compact funds were used to secure a $100k line of credit for CVEC
Note 10 – Commitments (p 18)

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

Subsequent to year-end (2012), Compact entered into several agreements to sell REC’s it had acquired (or committed to acquire) from a third party.

Future cash inflows total $657k.
Additional Information - 2011

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

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

- One management letter prepared for all years
- Does not identify the strengths of the financial systems

Summary
- 3 comments
  - 1 informational
Chart of Accounts (p 1)

- County provides accounting and financial reporting services
  - Compact’s chart of account structure designed with some characteristics of County government
    - Differs from Compact’s operations
  - Current structure focused on reporting by function; miscellaneous account used when activity cannot be grouped by function
- We identified several instances whereby “miscellaneous” expense accounts were used for the purchase of RECs and grants to CVEC
  - These activities are an integral part of operations and should be reported separately in the general ledger
- We recommend chart of accounts be structured in a manner that is customized to the Compact’s operations
“Mil-Adder” Funds (p 2)

- We identified the following regarding “Mil-Adder” funds:
  - Investment income is not being allocated to the fund (as prescribed by Section 15.3 of the Competitive Electric Supply Agreement (CESA))
  - Although not required by the CESA, Board formally votes the use of “mil-adder” funds related to the annual operating budget, grants to CVEC and various other operating expense
    - Represents 92.8% of expenses between 1/1/09 – 12/31/11
    - Remaining 7.2% (i.e., legal expenses related to DPU proceedings and opt out notices) were discussed at Board meetings but not formally voted
    - We believe a formal vote on the use of all “mil-adder” funds would strengthen controls over disbursements
- We recommend:
  - Investment income be allocated to the “Mil-adder” fund monthly
  - Procedures be implemented whereby the Board formally votes the use of all “mil-adder” funds (i.e., budget process)
Pension Accounting and Financial Reporting (p 3)

GASBS 68 revises/establishes new financial reporting requirements related to pension benefits

- Required to recognize long-term obligation for pension benefits
- Also requires:
  - More comprehensive measure of annual pension costs
  - Conditions on the use of discount rate
  - Requirement to use entry age method and each service period’s cost is determined by level % of pay (attribution method)

We recommend management familiarize itself with GASBS 68 and prepare for its implementation
Questions