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Cape Light Compact

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

August 14, 2013

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Agenda

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- 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

Background

- 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

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- 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

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- 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

Reporting Entity

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- 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

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- Opinions (p 1-2)
 - 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

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- 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

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- 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)

Significant Footnotes - 2009

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- Note 5 - Long-term Obligations (p 16)
 - ▣ Net OPEB obligation - \$102k
 - Represents Compact's estimated share of County's annual cost
 - ▣ Compensated absences - \$47k

Significant Footnotes - 2009

- 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

Significant Footnotes - 2009

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- 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

Significant Footnotes - 2009

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- 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

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- 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

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- 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)

Significant Footnotes - 2010

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- 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

Significant Footnotes – 2010

- 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

Significant Footnotes - 2010

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- 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

Significant Footnotes - 2010

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- 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 - 2010

- 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

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- 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

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- 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)

Significant Footnotes - 2011

24

- 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

Significant Footnotes – 2011

25

- 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

Significant Footnotes - 2011

- 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

Significant Footnotes - 2011

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- 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

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- 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

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- One management letter prepared for all years
- Does not identify the strengths of the financial systems
- Summary
 - ▣ 3 comments
 - 1 informational

Management Letter

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- 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

Management Letter

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- “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)

Management Letter

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- 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