

**CAPE LIGHT COMPACT
MANAGEMENT LETTER
DECEMBER 31, 2009, 2010 AND 2011**



Certified Public Accountants

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

In planning and performing our audit of the financial statements of the Cape Light Compact (Compact) as of and for the years ended December 31, 2009, 2010 and 2011, 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, we considered the Compact's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Compact's internal control. Accordingly, we do not express an opinion on the effectiveness of the Compact's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We also want to make you aware of a recently issued accounting standard that will impact your financial statements in future years. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. This letter does not affect our reports dated June 14, 2013, June 18, 2013 and June 27, 2013 on the 2009, 2010 and 2011, respectively, financial statements of the Compact.

The Compact's written responses to the matters identified in our audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, the Board of Representatives and others within the organization and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Sullivan, Rogers & Company, LLC".

June 27, 2013

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CAPE LIGHT COMPACT

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Comments and Recommendations

Chart of Accounts

Comment

The Compact has entered into an Administrative Services Agreement with Barnstable County (a member of the Compact) to provide, among other things, accounting and financial reporting services. The Compact's chart of account structure was designed with some characteristics of County Government, which differs from the Compact's actual operations. Barnstable County's chart of account structure is focused on reporting at the functional level and, as such, utilizes a "miscellaneous" account to record financial activity that cannot be categorized into one of the County's functional line items.

We identified several instances whereby "miscellaneous" accounts were charged for the purchase of renewable energy certificates and grants to the Cape & Vineyard Electric Cooperative. These expenses are an integral part of the Compact's operations and should be recorded in their own accounts on the general ledger.

Recommendation

We recommend the chart of accounts be structured in a manner that is customized to the Compact's operations.

Management's Response

The Compact will work with the Barnstable County's Finance Department to revise the Compact's chart of accounts to include the appropriate object codes as noted above.

"Mil-Adder" Funds

Comment

In accordance with Section 15.3 of the Compact's Competitive Electric Supply Agreement (CESA), the Compact is allowed to charge a "mil-adder". The following represents an excerpt of Section 15.3 of the CESA:

"The Compact shall cause all funds collected for it by Supplier hereunder to be deposited in a dedicated, interest-bearing account. The Compact may expend such funds for any purpose as may be allowed by law and as determined in the reasonable discretion of the Compact's Governing Board."

We identified the following regarding the "mil-adder" funds collected by and provided by the Supplier:

1. Although amounts are appropriately segregated and reported on the general ledger, investment income is not allocated to the fund.
2. Although not required by the CESA, the Compact's Board of Representatives formally approves (via vote) the use of "mil-adder" funds for the Compact's annual operating budget, amounts granted to the Cape & Vineyard Electric Cooperative and various other expenses. These disbursements accounted for 92.8% of the use of "mil adder funds" for the period January 1, 2009 through December 31, 2011. The remaining 7.2% of disbursements (i.e., legal expenses related to DPU proceedings and opt-out notice requirements) were discussed by the Board of Representatives, but were not formally voted by the Board of Representatives. We believe a formal vote of the Board of Representatives on the *use* of all "mil-adder" funds would strengthen internal controls surrounding the disbursement of such funds.

Recommendation

We recommend investment income be allocated to the "mil-adder" fund monthly.

We recommend procedures be implemented whereby the Board of Representatives formally vote the use of all "mil-adder" funds.

Management's Response

Investment income will be allocated to the "mil-adder" fund monthly.

The Compact will implement procedures whereby the Board of Representatives votes on the disbursement of "mil adder" funds through the budget process.

Pension Accounting and Financial Reporting

Comment

In June of 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 68, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*, which revises and establishes new financial reporting requirements for governments that provide pension benefits to its employees and retirees.

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. The implementation of this Statement will also:

- More comprehensively measure the annual costs of pension benefits
- Place conditions on the use of the discount rate used to measure the projected benefit payments to their actuarial present value
- Require the use of the “entry age” actuarial cost allocation method, with each period’s service cost determined by a level percentage of pay (referred to as attribution method)

It should be noted that the implementation of GASB Statement No. 68 is strictly a financial reporting standard and does not constitute a state or federal mandate regarding the funding of the net pension obligation.

The Compact’s required implementation date of GASB Statement No. 68 is calendar year 2015.

Recommendation

We recommend management familiarize itself with GASB Statement No. 68 to prepare for its implementation.

Management’s Response

The Compact will work with the Barnstable County Retirement Association to familiarize itself with GASB Statement No. 68 and institute appropriate practices to address this issue.