

CAPE LIGHT COMPACT
INDEPENDENT AUDITORS' REPORT ON
FINANCIAL STATEMENTS AND
ADDITIONAL INFORMATION
YEAR ENDED DECEMBER 31, 2015

**CAPE LIGHT COMPACT
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INDEPENDENT AUDITORS' REPORT

To the Board of Representatives
Cape Light Compact
Barnstable, Massachusetts

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, 2015, 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, 2015, 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 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 combining statements and reconciliation of audited energy efficiency GAAP expenses to Department of Public Utilities report (additional information) are presented for purposes of additional analysis and are not a required part of the basic 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 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 additional information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Board of Representatives
Cape Light Compact

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2016, 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Boston, Massachusetts
August 30, 2016

**CAPE LIGHT COMPACT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015**

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, 2015.

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. As stated in its Intergovernmental Agreement, 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 updated in 2015 with review and approval by the Massachusetts Department of Public Utilities ("DPU). The Compact's 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, now the 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 ("GCA"), (Chapter 169, Section 11 of the Acts of 2008). The Compact is pleased with the results of its 2013-2015 Three-Year Energy Efficiency Plan, the second of such plans envisioned by the GCA. The Compact met its planned three-year savings and benefit goals by the end of 2015, while maintaining the balance between meeting the budget for its program and complying with the directives

**CAPE LIGHT COMPACT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015**

of the GCA in ensuring that it makes available all cost-effective energy efficiency opportunities. Below are the highlights of the 2015 program year:

- Surpassed the 2015 lifetime MWh savings goals for each of its three customer sectors
- Recipient of the ENERGY STAR Partner of the Year 2015 The Lighting & Products Sponsors of Mass Save® Award
- Recipient of the ENERGY STAR Partner of the Year 2015 Sustained Excellence Award
- Recipient of the following 2015 National Energy Education Development Program State and National Youth Awards:
 - Eastham Elementary School: Elementary Level State School of the Year
 - Harwich Cares, Harwich Middle School: Junior Level State School of the Year and National Junior Level Finalist
 - Martha's Vineyard Regional High School: Senior Level State School of the Year
- Completed its territory-wide LED Streetlight Initiative, which began in 2013 with demonstration installations and moved into full implementation in 2014. When the last installations were completed in 2015, more than 15,000 streetlights had been upgraded to LEDs, with an estimated lifetime energy savings of more than 49 GWh—48 percent greater than originally expected.
- Completed its first Combined Heat and Power (“CHP”) project since the start of the statewide three-year plans.
- Participated in the largest Commercial and Industrial (“C&I”) Comprehensive Design Approach (“CDA”) New Construction project in its territory to date - the Monomoy Regional High School received more than a half a million dollars in energy efficiency funds from the Compact, and is estimated to deliver 505 MWh of annual energy savings.

The results for all three years of the 2013–2015 Three-Year Plan, presented in this 2013–2015 Term Report (“Term Report”), indicate that the Compact achieved its total three-year goals by the end of 2015. Over the three-year term, the Compact has achieved:

- cost-effective programs with a benefit-cost ratio (“BCR”) of 3.23;
- net benefits of \$275 million;
- annual energy savings of 132 GWh;
- lifetime energy savings of 1,407 GWh;
- total benefits of \$398 million; and
- program costs of \$101 million.

**CAPE LIGHT COMPACT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015**

The Compact as Consumer Advocate:

Energy issues can be complex and decisions made by legislators or state regulators can have far-reaching impacts for consumers. The impacts range from increased (or decreased) electricity costs to ensuring protection and opportunities for consumers and their communities. The Compact monitors issues under consideration and participates when there is clearly something at stake for the region. The Compact's work in this arena helped to secure the return of more than \$25 million from the sale of the Canal Electric Plant in 1999, and more than \$10 million in avoided costs and savings since that time.

The focus of the Compact's work at the state level in 2015 was review of the filings by the electric distribution companies of their Grid Modernization Plans. Development and revision (and the subsequent regulatory review of) these Plans will continue to unfold over the next few years and hopefully yield far-reaching effects in what is known as "Modernization of the Grid." Development of a new "smart grid" that combines data communications with electricity supply is intended to produce a transformation in how electricity is generated, delivered, and consumed. At stake locally are reliability, greater control over costs, and the amount of independent power generation from homeowners and businesses that will be accepted onto the distribution system. Consumers are viewed as having a vital role in this transformation.

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 9 – 11 of this report.

Notes to 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 12 – 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 20 – 22.

**CAPE LIGHT COMPACT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015**

Financial Statement Analysis

The following tables present current and prior year data on the financial statements.

Net Position

The Compact's liabilities exceeded assets by \$148,281 at the close of the calendar year and are summarized as follows:

	2015	2014	Change (\$)	Change (%)
Assets				
Current Assets	\$ 7,670,966	\$ 12,951,947	\$ (5,280,981)	-40.8%
Noncurrent Assets	524,372	-	524,372	N/A
Total Assets	<u>8,195,338</u>	<u>12,951,947</u>	<u>(4,756,609)</u>	<u>-36.7%</u>
Liabilities				
Current Liabilities	5,110,674	8,822,173	(3,711,499)	-42.1%
Noncurrent Liabilities	3,232,945	654,706	2,578,239	393.8%
Total Liabilities	<u>8,343,619</u>	<u>9,476,879</u>	<u>(1,133,260)</u>	<u>-12.0%</u>
Net Position (Deficit)				
Net Investment in Capital Assets	524,372	-	524,372	N/A
Unrestricted (Deficit)	(672,653)	3,475,068	(4,147,721)	-119.4%
Total Net Position (Deficit)	<u>\$ (148,281)</u>	<u>\$ 3,475,068</u>	<u>\$ (3,623,349)</u>	<u>-104.3%</u>

The Compact's assets consist primarily of cash and cash equivalents, accounts receivable and capital assets. The decrease in the Compact's current assets primarily reflects the decrease in the current liabilities as a result of timing differences in the prior year. The increase in noncurrent assets is a result of the construction in progress related to the development of new software.

Liabilities primarily consist of accounts payable and accrued long-term liabilities. The substantial decrease in current liabilities primarily reflects a timing difference in accounts payable. The substantial increase in noncurrent liabilities represents the recognition of the allocated portion of the estimated liability for pension benefits from Barnstable County (see Note 6), which amounted to \$2,415,259.

**CAPE LIGHT COMPACT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015**

Changes in Net Position

The Compact's net position decreased by \$3,623,349 for the year ended December 31, 2015 and is summarized as follows:

	2015	2014	Change (\$)	Change (%)
Operating Revenues	\$ 36,371,915	\$ 32,912,468	\$ 3,459,447	10.5%
Operating Expenses	41,242,028	38,307,909	2,934,119	7.7%
Operating Income (Loss)	(4,870,113)	(5,395,441)	525,328	-9.7%
Nonoperating Revenues (Expenses), Net	1,246,764	1,368,249	(121,485)	-8.9%
Change in Net Position	(3,623,349)	(4,027,192)	403,843	-10.0%
Net Position - Beginning of Year	3,475,068	7,502,260	(4,027,192)	-53.7%
NET POSITION (DEFICIT) - END OF YEAR	\$ (148,281)	\$ 3,475,068	\$ (3,623,349)	-104.3%

Operating revenues primarily consist of mandatory energy efficiency charges (\$5,085,556) and energy efficiency reconciliation factor charges (\$28,580,327). The increase in operating revenues primarily reflects energy efficiency funds collected in advance of energy efficiency projects and their related expenses.

Approximately 86% (or \$35,298,066) of the Compact's operating expenses relate directly to energy efficiency programs. Approximately 91% of the Compact's three-year (2013-2015) energy efficiency budget, modified from \$83,586,651 to \$103,382,379 in 2015, had been spent through December 31, 2015. The energy efficiency budget is funded via energy efficiency and energy efficiency reconciliation factor charges over the three-year period. As a result, annual differences can exist for recognized revenues and expenses. The primary increase in operating expenses represents the recognition of the allocated portion of the estimated liability for pension benefits from Barnstable County, which amounted to \$2,415,259 (See note 6).

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, Open Cape Building, Barnstable, Massachusetts, 02630.

**CAPE LIGHT COMPACT
STATEMENT OF NET POSITION
DECEMBER 31, 2015**

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 4,079,372
Receivables, Net of Allowance for Uncollectible Amounts:	
Energy Efficiency	485,137
Energy Efficiency Reconciliation Factor	2,502,989
Mil-Adder	67,022
Green Program	9,472
Intergovernmental (RGGI)	439,542
Other	59,982
Prepaid Expenses	23,130
Intangible Assets	4,320
Total Current Assets	7,670,966

Noncurrent Assets:

Capital Assets Not Being Depreciated	524,372
Total Assets	8,195,338

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Expenses	5,079,136
Accrued Contracted Labor Payable	17,726
Accrued Contracted Labor - Compensated Absences	13,812
Total Current Liabilities	5,110,674

Noncurrent Liabilities:

Accrued Contracted Labor - Compensated Absences	124,310
Accrued Long-Term Liabilities (Note 6)	3,108,635
Total Noncurrent Liabilities	3,232,945

Total Liabilities	8,343,619
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NET POSITION (DEFICIT)

Net Investment in Capital Assets	524,372
Unrestricted Deficit	(672,653)
Total Net Deficit	\$ (148,281)

See accompanying Notes to Financial Statements.

**CAPE LIGHT COMPACT
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
YEAR ENDED DECEMBER 31, 2015**

OPERATING REVENUES

Energy Efficiency	\$ 5,085,556
Energy Efficiency Reconciliation Factor	28,580,327
Mil-adder	666,022
Green Program	76,819
Intergovernmental (RGGI)	1,963,191
Total Operating Revenues	<u>36,371,915</u>

OPERATING EXPENSES

Contracted Labor (Note 2j)	4,397,354
Energy Efficiency Programs:	
Residential Programs	20,936,612
Low Income Programs	3,235,576
Commercial and Industrial Programs	10,671,846
Others Programs	454,032
Legal	570,471
Other Professional Services	148,373
Marketing	291,818
Other Operating	535,946
Total Operating Expenses	<u>41,242,028</u>

Operating Loss (4,870,113)

NONOPERATING REVENUES

Forward Capacity Market	1,090,417
Renewable Energy Certificates, Net	147,527
Investment income	8,820
Total Nonoperating Revenues	<u>1,246,764</u>

CHANGE IN NET POSITION

(3,623,349)

Net Position - Beginning of Year

3,475,068

NET DEFICIT - END OF YEAR

\$ (148,281)

See accompanying Notes to Financial Statements.

**CAPE LIGHT COMPACT
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2015**

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers and Users	\$ 36,372,357
Payments to Vendors and Customers	(40,529,795)
Payments for Contracted Labor	(1,845,493)
Net Cash Used by Operating Activities	<u>(6,002,931)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Proceeds from Sales of Renewable Energy Certificates	1,537,374
Purchase of Renewable Energy Certificates	(1,353,280)
Proceeds from Forward Capacity Market	1,127,538
Net Cash Provided by Noncapital Financing Activities	<u>1,311,632</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition of Capital Assets	(524,372)
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CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	<u>8,820</u>
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NET CHANGE IN CASH AND CASH EQUIVALENTS

(5,206,851)

Cash and Cash Equivalents - Beginning of Year

9,286,223

CASH AND CASH EQUIVALENTS - END OF YEAR

\$ 4,079,372

**RECONCILIATION OF OPERATING LOSS TO NET CASH
FROM OPERATING ACTIVITIES**

Operating Loss	\$ (4,870,113)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Changes in Assets and Liabilities not Requiring Current Cash Flows:	
Accrued Long-Term Liabilities	2,540,920
Effect of Changes in Operating Assets and Liabilities:	
Accounts Receivable	442
Warrants Payable and Accrued Expenses	(3,685,121)
Accrued Contracted Labor	(30,524)
Accrued Contracted Labor - Compensated Absences	41,465
Total Adjustments	<u>(1,132,818)</u>

NET CASH FROM OPERATING ACTIVITIES

\$ (6,002,931)

See accompanying Notes to Financial Statements.

**CAPE LIGHT COMPACT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

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 (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, 2015, all amounts are 100% collectible.

**CAPE LIGHT COMPACT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. *Intangible Assets*

Renewable Energy Certificates (RECs) are valued at the Compact's contract purchase price. Total RECs at December 31, 2015 amounted to \$4,320.

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	<u>5</u>

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. *Accrued Contracted Labor - Compensated Absences*

Accrued contracted labor – compensated absences represents charge backs from the County related to an agreement to reimburse the County for contracted labor vacation and sick leave.

G. *Accrued Long-Term Liabilities*

Accrued long-term liabilities represent the accumulated charge backs from the County related to an agreement to reimburse the County for other postemployment benefits and pension benefits (see Note 6).

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.

**CAPE LIGHT COMPACT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. *Revenue Recognition (Continued)*

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 funds are collected by the Compact's contracted electric supply company on behalf of the Compact as part of the Compact's electric rates and are subsequently 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. 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 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.

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.

**CAPE LIGHT COMPACT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Contracted Labor

Personal services are provided to the Compact through an agreement with the County. As such, the Compact has agreed to reimburse the County for all expenses related to salaries and benefits, including pension and other postemployment benefits. The related charges in these financial statements 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.

The County Treasurer maintains separate bank accounts for the Compact's energy efficiency funds, power supply reserve 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 Compact's cash and cash equivalents maintained by the County Treasurer are allocated as follows:

	Amount
Energy Efficiency	\$ 2,437,807
Power Supply Reserve	775,012
Operating	649,422
Green Program	217,131
Total	\$ 4,079,372

**CAPE LIGHT COMPACT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2015 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital Assets Not Being Depreciated:</u>				
Construction in Progress (Software)	\$ -	\$ 524,372	\$ -	\$ 524,372
<u>Capital Assets Being Depreciated:</u>				
Vehicle	23,319	-	-	23,319
<u>Accumulated Depreciation:</u>				
Vehicles	(23,319)	-	-	(23,319)
Total Capital Assets Being Depreciated, Net	-	-	-	-
Total Capital Assets	<u>\$ -</u>	<u>\$ 524,372</u>	<u>\$ -</u>	<u>\$ 524,372</u>

During 2015, the Compact entered into an agreement to perform significant modifications to licensed computer software for the benefit of the energy efficiency program. The software is expected to be substantially complete in 2016 and the amortization of the asset will begin at that point through the contract period ending in 2021.

NOTE 5 LONG-TERM OBLIGATIONS

The following represents a summary of changes that occurred in long-term obligations during the year ended December 31, 2015:

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Accrued Long-Term Liabilities (Note 6)	\$ 567,715	\$ 2,802,969	\$ (262,049)	\$ 3,108,635	\$ -
Accrued Contracted Labor - Compensated Absences	96,657	41,465	-	138,122	13,812
Total	<u>\$ 664,372</u>	<u>\$ 2,844,434</u>	<u>\$ (262,049)</u>	<u>\$ 3,246,757</u>	<u>\$ 13,812</u>

NOTE 6 ACCRUED LONG-TERM LIABILITIES

The County provides health, dental and life insurance coverage (other postemployment benefits (OPEB)) for its retirees and their survivors. As described in Note 2, the amounts reported in these financial statements represent charge backs to the Compact from the County.

The County's expense and liability related to OPEB are reported in the County's financial statements. The 2015 amount charged to the Compact totaled \$108,345 and is reported as contracted labor expense in these financial statements. The accumulated long-term liability at December 31, 2015 totaled \$693,376.

**CAPE LIGHT COMPACT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 6 ACCRUED LONG-TERM LIABILITIES (CONTINUED)

The Compact (through the County) participates in the Barnstable County Retirement Association (the Association), a cost-sharing multiple-employer defined benefit pension plan administered by the Barnstable County Retirement Board. As described in Note 2, the amounts reported in these financial statements represent charge backs to the Compact from the County.

The County's expense and liability related to its net pension liability are reported in the County's financial statements. The 2015 amount charged to the Compact totaled \$2,415,259 and is reported as contracted labor expense in these financial statements. The accumulated long-term liability reported at December 31, 2015 totaled \$2,415,259.

NOTE 7 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
- IT support

The Compact paid the County approximately \$55,000 for these services for the year ended December 31, 2015.

During 2015, the Compact began renting office space from the County, for which the Compact paid approximately \$20,000 for Rent and \$18,000 for custodial services for the year ended December 31, 2015. These expenses are reported as other operating expenses in the accompanying financial statements.

Cape & Vineyard Electric Cooperative (CVEC)

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.

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, 2015 totaled approximately \$32,000.

**CAPE LIGHT COMPACT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 7 RELATED PARTY TRANSACTIONS (CONTINUED)

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, 2016. No amounts have been drawn on the letter of credit.

NOTE 8 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:

<u>Calendar Year</u>	<u>Payment</u>
2016	\$ 7,324
2017	7,324
2018	1,220

Lease expenses for the year ended December 31, 2015 totaled \$9,295 and are reported as other operating expenses.

NOTE 9 COMMITMENTS

REC Purchases

At December 31, 2015, the Compact is committed under certain agreements to purchase RECs at fixed prices through the 2nd quarter of calendar year 2017. The Compact's estimated commitment (based on units produced) under these agreements are as follows:

<u>December 31</u>	<u>Amount</u>
2016	\$ 7,087,630
2017	2,858,750
Total	<u>\$ 9,946,380</u>

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.

**CAPE LIGHT COMPACT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 9 COMMITMENTS (CONTINUED)

REC Sales

At December 31, 2015, the Compact is committed to 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 second quarter of calendar year 2017. Expected cash inflows under this agreement are as follows:

<u>December 31</u>	<u>Amount</u>
2016	\$ 7,087,630
2017	2,858,750
Total	<u>\$ 9,946,380</u>

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.

**CAPE LIGHT COMPACT
COMBINING STATEMENT OF NET POSITION BY PROGRAM
DECEMBER 31, 2015**

ASSETS	Energy Efficiency	Power Supply Reserve	Operating	Green Program	Total
Current Assets:					
Cash and Cash Equivalents	\$ 2,437,807	\$ 775,012	\$ 649,422	\$ 217,131	\$ 4,079,372
Receivables, Net of Allowance for Uncollectible Amounts:					
Energy Efficiency	485,137	-	-	-	485,137
Energy Efficiency Reconciliation Factor	2,502,989	-	-	-	2,502,989
Mil-Adder	-	67,022	-	-	67,022
Green Program	-	-	-	9,472	9,472
Intergovernmental (RGGI)	439,542	-	-	-	439,542
Other	59,982	-	-	-	59,982
Prepaid Expenses	-	23,130	-	-	23,130
Intangible Assets	-	4,320	-	-	4,320
Total Current Assets	5,925,457	869,484	649,422	226,603	7,670,966
Noncurrent Assets:					
Capital Assets Not Being Depreciated	524,372	-	-	-	524,372
Total Assets	6,449,829	869,484	649,422	226,603	8,195,338
LIABILITIES					
Current Liabilities:					
Accounts Payable and Accrued Expenses	5,069,669	-	9,467	-	5,079,136
Accrued Contracted Labor Payable	15,136	-	2,590	-	17,726
Accrued Contracted Labor - Compensated Absences	10,839	-	2,973	-	13,812
Total Current Liabilities	5,095,644	-	15,030	-	5,110,674
Noncurrent Liabilities:					
Accrued Contracted Labor - Compensated Absences	97,552	-	26,758	-	124,310
Accrued Long-Term Liabilities	2,545,689	-	562,946	-	3,108,635
Total Noncurrent Liabilities	2,643,241	-	589,704	-	3,232,945
Total Liabilities	7,738,885	-	604,734	-	8,343,619
NET POSITION (DEFICIT)					
Net Investment in Capital Assets	524,372	-	-	-	524,372
Unrestricted (Deficit)	(1,813,428)	869,484	44,688	226,603	(672,653)
Total Net Position (Deficit)	\$ (1,289,056)	\$ 869,484	\$ 44,688	\$ 226,603	\$ (148,281)

**CAPE LIGHT COMPACT
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGE IN NET POSITION BY PROGRAM
YEAR ENDED DECEMBER 31, 2015**

	Energy Efficiency	Power Supply Reserve	Operating	Green Program	Total
OPERATING REVENUES					
Energy Efficiency	\$ 5,085,556	\$ -	\$ -	\$ -	\$ 5,085,556
Energy Efficiency Reconciliation Factor	28,580,327	-	-	-	28,580,327
Mil-Adder	-	666,022	-	-	666,022
Green Program	-	-	-	76,819	76,819
Intergovernmental (RGGI)	1,963,191	-	-	-	1,963,191
Total Operating Revenues	<u>35,629,074</u>	<u>666,022</u>	<u>-</u>	<u>76,819</u>	<u>36,371,915</u>
OPERATING EXPENSES					
Contracted Labor	3,594,746	-	802,608	-	4,397,354
Energy Efficiency Programs:					
Residential Programs	20,936,612	-	-	-	20,936,612
Low Income Programs	3,235,576	-	-	-	3,235,576
Commercial and Industrial Programs	10,671,846	-	-	-	10,671,846
Other Programs	454,032	-	-	-	454,032
Legal	391,976	-	178,495	-	570,471
Other Professional Services	23,665	5,250	119,458	-	148,373
Marketing	218,674	-	73,144	-	291,818
Other Operating	364,096	19,553	152,297	-	535,946
Total Operating Expenses	<u>39,891,223</u>	<u>24,803</u>	<u>1,326,002</u>	<u>-</u>	<u>41,242,028</u>
Operating Income (Loss)	<u>(4,262,149)</u>	<u>641,219</u>	<u>(1,326,002)</u>	<u>76,819</u>	<u>(4,870,113)</u>
NONOPERATING REVENUES (EXPENSES)					
Forward Capacity Market	1,090,417	-	-	-	1,090,417
Renewable Energy Certificates	-	209,593	-	(62,066)	147,527
Investment Income	5,782	3,038	-	-	8,820
Total Nonoperating Revenues (Expenses), Net	<u>1,096,199</u>	<u>212,631</u>	<u>-</u>	<u>(62,066)</u>	<u>1,246,764</u>
Income (Loss) Before Transfers	<u>(3,165,950)</u>	<u>853,850</u>	<u>(1,326,002)</u>	<u>14,753</u>	<u>(3,623,349)</u>
TRANSFERS					
Transfers In	-	71,222	940,606	-	1,011,828
Transfers Out	-	(940,606)	(71,222)	-	(1,011,828)
Total Transfers	<u>-</u>	<u>(869,384)</u>	<u>869,384</u>	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	<u>(3,165,950)</u>	<u>(15,534)</u>	<u>(456,618)</u>	<u>14,753</u>	<u>(3,623,349)</u>
Net Position - Beginning of Year	<u>1,876,894</u>	<u>885,018</u>	<u>501,306</u>	<u>211,850</u>	<u>3,475,068</u>
NET POSITION (DEFICIT) - END OF YEAR	<u>\$ (1,289,056)</u>	<u>\$ 869,484</u>	<u>\$ 44,688</u>	<u>\$ 226,603</u>	<u>\$ (148,281)</u>

**CAPE LIGHT COMPACT
RECONCILIATION OF AUDITED ENERGY EFFICIENCY GAAP
EXPENSES TO DEPARTMENT OF PUBLIC UTILITIES (DPU) REPORT
YEAR ENDED DECEMBER 31, 2015**

Energy Efficiency Operating Fund Expenses Reported on 2015 Combining Statement of Revenues, Expenses and Change in Net Position (Page 22)	\$ 39,891,223
Reconciling items:	
To Record Net Change in Accrued Contracted Labor	24,971
To Record Net Change in Accrued Long-Term Liabilities	(2,060,243)
To Record Net Change in Accrued Contracted Labor - Compensated Absences	(33,835)
Expenditures Capitalized for Financial Reporting Purposes	<u>524,372</u>
Total Reconciling Items	<u>(1,544,735)</u>
2015 Energy Efficiency Expenses Reported on the 2013-2015 DPU Term Report	<u><u>\$ 38,346,488</u></u> (A)

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