CAPE LIGHT COMPACT

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY INFORMATION AND SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2016

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, 2016, 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.

Board of Representatives
Cape Light Compact

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, 2016, 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 (supplementary 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 supplementary 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 November 20, 2017, 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 solely 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 effectiveness of Cape Light Compact's 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
November 20, 2017

CAPE LIGHT COMPACT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016

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, 2016.

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 2016-2018 Energy Efficiency Plan:

The Compact's 2016 - 2018 Energy Efficiency Plan, its third three-year plan, was approved by the DPU on January 28, 2016 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 2016. Program year 2016 built on the nationally acclaimed accomplishments of the 2013-2015 Three-Year Plan and the 2010-2012 Three-Year Plan, showing remarkable success with respect to goal attainment and achievement of real benefits for the

environment and the economy in the Commonwealth of Massachusetts. Notably, in 2016 the Compact received the Community Partner Award from Habitat for Humanity of Cape Cod.

The 2016 results indicate that the Compact is on track to reach its three-year energy savings goals by the end of 2018. Including actual results from 2016, the Compact achieved 37 percent of its three-year annual energy savings goal, achieved 25 percent of its three-year total benefit goal, and spent 21 percent of its planned three-year budget. Over the three-year term, the Compact is working to achieve:

- Robustly cost-effective programs with a benefit-cost ratio ("BCR") of 2.59,
- Net benefits of $229 million,
- Annual energy savings of 182 gigawatt hours ("GWh"),
- Lifetime energy savings of 1,645 GWh,
- Total benefits of $372 million, and
- Program costs of $112 million.

The Compact is committed to energy education outreach within its community and continues to be a regionally and nationally recognized leader in the design and implementation of its energy education programs. As a municipal aggregator with a unique service territory, the Compact supports the community's efforts to develop a deeper and broader knowledge of energy efficiency technology and practices, moving towards an energy-literate society.

Highlights from 2016 include:

- The Compact participated in energy education school-based presentations and all-school Energy Carnivals, through which students learn the basic lessons of energy efficiency, energy forms, and energy sources in a first-hand, fun, and engaging way. The Compact reached over 2,000 students and teachers through these efforts in 2016.
- The Compact reached teachers in its service territory through National Energy Education Development ("NEED") Teacher Workshops, in partnership with the statewide Energy Education Working Group and in-service training for school systems.
- The Compact participated in Cape Cod and Martha's Vineyard science education festivals, demonstrating the science of energy, building energy efficiency, and renewable energy resources.

In addition, the Compact implemented a new energy efficiency education initiative, Be Energy Efficient Smart ("BEES"), which includes both a classroom lesson and take-home student kit and survey. Within this initiative, the Compact trained 24 teachers and engaged the following schools:

- Provincetown School
- Wellfleet Elementary

- Eastham Elementary
- Eddy Elementary
- Orleans Elementary
- Monomoy Middle and High School
- Mattacheese Middle School
- Sandwich STEM Academy
- Mashpee High School

Through BEES, a total of 1,195 students received kits to install energy saving measures in their homes. Of those students, 47 percent completed and returned their surveys, resulting in net annual savings of 44 MWh with a seven-year measure life.

For the thirteenth year in a row, the schools that the Compact works with were recognized by the NEED Project and the Massachusetts State Department of Energy Resources for their outstanding work in energy education outreach to their communities. These recognitions are highlighted below.

- State Junior Level Finalist: Monomoy Middle School. Students met weekly to discuss how to raise awareness and teach valuable lessons about energy, including ways to reduce energy consumption through recycling. Students also presented a day-long Energy Carnival for fellow students.
- State Senior Level Finalist: Martha's Vineyard High School. Martha's Vineyard Regional High School students from the MVironment Club visited the island's elementary schools to help teach students about energy science engineering. These students took time out of their busy schedules to plan each activity every week.

The Compact as Consumer Advocate:

Consistent with its mission, Cape Light Compact remains a strong advocate for residents and businesses of Cape Cod and Martha's Vineyard on energy issues.

In 2016, much of that advocacy was focused on grid modernization. A transformation of the electric system into a "smart grid" has begun through Grid Modernization Plans filed with the DPU by each investor-owned electric distribution company in Massachusetts (Eversource, National Grid, and Unitil). These Plans will set the stage for how consumers pursue renewable energy, energy storage and other smart devices and appliances in their homes and businesses.

In response to the grid modernization orders by the DPU, Eversource submitted their proposed Grid Modernization Plan in August 2015 for the first phase of smart grid development in their service territory, including Cape Cod and Martha's Vineyard. The Compact is participating in the DPU review of Eversource's Grid Modernization Plan.

As an entity whose customers and operations will be directly affected by grid modernization, the Compact has been hard at work for the last several years to ensure the customers of the Cape and the Vineyard are represented in this process. In 2016, we launched a public education campaign that included a joint educational forum with the Cape Cod Technology Council and seven public input sessions throughout the fall, in addition to engaging all Boards of Selectmen and Town Councils. The Compact focused on three key areas: (1) installation of "smart meters;" (2) a balanced allocation of benefits and costs to ensure that Cape and Vineyard consumers are not charged for grid modernization improvements in Boston or elsewhere in the Eversource territory; and (3) reliability and resiliency.

In the coming year, the Compact will remain heavily engaged in the Eversource Grid Modernization Plan review process before the DPU, continuing to advocate for equitable treatment of customers and for outcomes that best meet the needs of Cape and Vineyard consumers.

Overview

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 10 – 12 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 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 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.

Financial Statement Analysis

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

Net Position

The Compact's assets exceeded liabilities by $10,368,773 at the close of the calendar year and are summarized as follows:

	2016	2015	Change ($)	Change (%)
Assets				
Current Assets	$ 17,921,836	$ 7,670,966	$ 10,250,870	133.6%
Noncurrent Assets	610,096	524,372	85,724	16.3%
Total Assets	18,531,932	8,195,338	10,336,594	126.1%
Liabilities				
Current Liabilities	4,254,235	5,110,674	(856,439)	-16.8%
Noncurrent Liabilities	3,908,924	3,232,945	675,979	20.9%
Total Liabilities	8,163,159	8,343,619	(180,460)	-2.2%
Net Position (Deficit)				
Net Investment in Capital Assets	610,096	524,372	85,724	16.3%
Unrestricted (Deficit)	9,758,677	(672,653)	10,431,330	-1550.8%
Total Net Position (Deficit)	$ 10,368,773	$ (148,281)	$ 10,517,054	-7092.7%

The Compact's assets consist primarily of cash and cash equivalents, accounts receivable and capital assets. The increase in the Compact's current assets primarily reflects the decrease in the current expenses as a result of decrease participation in the energy efficiency program. The increase in noncurrent assets is a result of the completion of 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 increase in the chargeback for other postemployment and pension benefits.

Changes in Net Position

The Compact's net position increased by $10,517,053 for the year ended December 31, 2016 and is summarized as follows:

	2016	2015	Change ($)	Change (%)
Operating Revenues	$ 38,202,317	$ 36,371,915	$ 1,830,402	5.0%
Operating Expenses	28,673,677	41,242,028	(12,568,351)	-30.5%
Operating Income (Loss)	9,528,640	(4,870,113)	14,398,753	-295.7%
Nonoperating Revenues (Expenses), Net	988,414	1,246,764	(258,350)	-20.7%
Change in Net Position	10,517,054	(3,623,349)	14,140,403	-390.3%
Net Position - Beginning of Year	(148,281)	3,475,068	(3,623,349)	-104.3%
NET POSITION (DEFICIT) - END OF YEAR	$ 10,368,773	$ (148,281)	$ 10,517,054	-7092.7%

Operating revenues primarily consist of mandatory energy efficiency charges ($4,941,535) and energy efficiency reconciliation factor charges ($31,011,781). The increase in operating revenues primarily reflects energy efficiency funds collected in advance of energy efficiency projects and their related expenses.

Approximately 85% (or $24,462,651) of the Compact's operating expenses relate directly to energy efficiency programs. The primary decrease in operating expenses is a result of the decreased participation in the energy efficiency program during 2016.

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, 261 Whites Path, Unit 4, South Yarmouth, Massachusetts, 02630.

CAPE LIGHT COMPACT
STATEMENT OF NET POSITION
DECEMBER 31, 2016

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 15,090,272
Receivables, Net of Allowance for Uncollectible Amounts:	
Energy Efficiency	328,971
Energy Efficiency Reconciliation Factor	2,050,475
Mil-Adder	75,853
Green Program	23,042
Intergovernmental (RGGI)	196,628
Other	99,551
Prepaid Expenses	57,044
Total Current Assets	17,921,836
Noncurrent Assets:	
Capital Assets, Net of Accumulated Depreciation	610,096
Total Assets	18,531,932
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Expenses	4,220,193
Accrued Contracted Labor Payable	25,919
Accrued Contracted Labor - Compensated Absences	8,123
Total Current Liabilities	4,254,235
Noncurrent Liabilities:	
Accrued Contracted Labor - Compensated Absences	73,108
Accrued Long-Term Liabilities - OPEB (Note 6)	747,225
Accrued Long-Term Liabilities - Pension 4(Note 6)	3,088,591
Total Noncurrent Liabilities	3,908,924
Total Liabilities	8,163,159
NET POSITION	
Net Investment in Capital Assets	610,096
Unrestricted	9,758,677
Total Net Position	$ 10,368,773

See accompanying Notes to Financial Statements.

CAPE LIGHT COMPACT
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
YEAR ENDED DECEMBER 31, 2016

OPERATING REVENUES	
Energy Efficiency	$ 4,941,535
Energy Efficiency Reconciliation Factor	31,011,781
Mil-adder	913,650
Green Program	67,540
Intergovernmental (RGGI)	1,267,449
Other	362
Total Operating Revenues	38,202,317
OPERATING EXPENSES	
Contracted Labor (Note 2j)	2,557,584
Energy Efficiency Programs:	
Residential Programs	14,565,409
Low Income Programs	2,602,716
Commercial and Industrial Programs	6,959,623
Other Programs	334,903
Legal	757,448
Other Professional Services	149,702
Marketing	169,280
Other Operating	498,417
Depreciation and Amortization	78,595
Total Operating Expenses	28,673,677
Operating Income	9,528,640
NONOPERATING REVENUES	
Forward Capacity Market	1,102,350
Renewable Energy Certificates, Net	(137,131)
Investment Income	23,195
Total Nonoperating Revenues	988,414
CHANGE IN NET POSITION	10,517,054
Net Position - Beginning of Year	(148,281)
NET POSITION - END OF YEAR	$ 10,368,773

See accompanying Notes to Financial Statements.

CAPE LIGHT COMPACT
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers and Users	$ 39,031,510
Payments to Vendors and Customers	(26,896,441)
Payments for Contracted Labor	(1,879,101)
Net Cash Provided by Operating Activities	10,255,968
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from Sales of Renewable Energy Certificates	6,967,257
Purchase of Renewable Energy Certificates	(7,133,982)
Proceeds from Forward Capacity Market	1,069,022
Net Cash Provided by Noncapital Financing Activities	902,297
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of Capital Assets	(164,319)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	16,954
NET CHANGE IN CASH AND CASH EQUIVALENTS	11,010,900
Cash and Cash Equivalents - Beginning of Year	4,079,372
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 15,090,272
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES	
Operating Income	$ 9,528,640
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Changes in Assets and Liabilities not Requiring Current Cash Flows:	
Depreciation	78,595
Accrued Long-Term Liabilities	727,181
Effect of Changes in Operating Assets and Liabilities:	
Accounts Receivable	829,193
Warrants Payable and Accrued Expenses	(858,943)
Accrued Contracted Labor	8,193
Accured Contracted Labor - Compensated Absences	(56,891)
Total Adjustments	727,328
NET CASH FROM OPERATING ACTIVITIES	$ 10,255,968

See accompanying 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 (County) that are administered by the Compact. Such grants are included as governmental funds in the County's annual financial statement audit.

Subsequent Event

Effective July 1, 2017, the Cape Light Compact reorganized and reconstituted itself as a joint powers entity pursuant to G.L. c. 40, §4A ½ .

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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2016, all amounts are considered 100% collectible.

D. *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:

Asset Type	Estimated Useful Life (in Years)
Vehicles	5
Software*	6

* Term of contract

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. *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.

F. *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).

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.

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.

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 7, 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	$ 13,283,831
Power Supply Reserve	671,472
Operating	790,224
Green Program	224,745
OPEB Reserve Fund	120,000
Total	$ 15,090,272

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated:				
Construction in Progress (Software)	$ 524,372	$ 78,189	$ (602,561)	$ -
Capital Assets Being Depreciated:				
Software	-	688,691	-	688,691
Vehicle	23,319	-	-	23,319
Total Capital Assets Being Depreciated	23,319	688,691	-	712,010
Accumulated Depreciation:				
Software	-	(78,595)	-	(78,595)
Vehicles	(23,319)	-	-	(23,319)
Total Accumulated Depreciation	(23,319)	(78,595)	-	(101,914)
Total Capital Assets Being Depreciated, Net	-	610,096	-	610,096
Total Capital Assets	$ 524,372	$ 688,285	$ (602,561)	$ 610,096

NOTE 5 LONG-TERM OBLIGATIONS

The following represents a summary of changes that occurred in long-term obligations during the year ended December 31, 2016:

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Accrued Long-Term Liabilities (Note 6)	$ 3,108,635	$ 727,181	$ -	$ 3,835,816	$ -
Accrued Contracted Labor - Compensated Absences	138,122	-	(56,891)	81,231	8,123
Total	$ 3,246,757	$ 727,181	$ (56,891)	$ 3,917,047	$ 8,123

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 2016 amount charged to the Compact totaled $53,849 and is reported as contracted labor expense in these financial statements. The accumulated long-term liability at December 31, 2016 totaled $747,225.

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 2016 amount charged to the Compact totaled $673,332 and is reported as contracted labor expense in these financial statements. The accumulated long-term liability reported at December 31, 2016 totaled $3,088,591.

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 $49,000 for these services for the year ended December 31, 2016.

During 2015, the Compact began renting office space from the County, for which the Compact paid approximately $80,000 for Rent and $38,000 for custodial services for the year ended December 31, 2016. 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. Purchases for the year ended December 31, 2016 totaled approximately $41,000.

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. 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:

Calendar Year	Payment
2017	$ 7,324
2018	1,220

Lease expenses for the year ended December 31, 2016 totaled $6,978 and are reported as other operating expenses.

NOTE 9 COMMITMENTS

REC Purchases

At December 31, 2016, 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 totals approximately $2,900,000.

REC Sales

At December 31, 2016, 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 total approximately $2,900,000.

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, 2016

	Energy Efficiency	Power Supply Reserve	OPEB Reserve Fund	Operating	Green Program	Total
ASSETS						
Current Assets:						
Cash and Cash Equivalents	$ 13,283,831	$ 671,472	$ 120,000	$ 790,224	$ 224,745	$ 15,090,272
Receivables, Net of Allowance for Uncollectible Amounts:						
Energy Efficiency	328,971	-	-	-	-	328,971
Energy Efficiency Reconciliation Factor	2,050,475	-	-	-	-	2,050,475
Mil-Adder	-	75,853	-	-	-	75,853
Green Program	-	-	-	-	23,042	23,042
Intergovernmental (RGGI)	196,628	-	-	-	-	196,628
Other	98,376	1,175	-	-	-	99,551
Prepaid Expenses	-	57,044	-	-	-	57,044
Total Current Assets	15,958,281	805,544	120,000	790,224	247,787	17,921,836
Noncurrent Assets:						
Capital Assets Not Being Depreciated	610,096	-	-	-	-	610,096
Total Assets	16,568,377	805,544	120,000	790,224	247,787	18,531,932
LIABILITIES						
Current Liabilities:						
Accounts Payable and Accrued Expenses	4,174,413	-	-	45,780	-	4,220,193
Accrued Contracted Labor Payable	22,096	-	-	3,823	-	25,919
Accrued Contracted Labor - Compensated Absences	5,868	-	-	2,255	-	8,123
Total Current Liabilities	4,202,377	-	-	51,858	-	4,254,235
Noncurrent Liabilities:						
Accrued Contracted Labor - Compensated Absences	52,809	-		20,299	-	73,108
Accrued Long-Term Liabilities	635,356	-		111,869	-	747,225
Accrued Long-Term Liabilities	2,531,883	-		556,708	-	3,088,591
Total Noncurrent Liabilities	3,220,048	-	-	688,876	-	3,908,924
Total Liabilities	7,422,425	-	-	740,734	-	8,163,159
NET POSITION						
Net Investment in Capital Assets	610,096	-	-	-	-	610,096
Unrestricted	8,535,856	805,544	120,000	49,490	247,787	9,758,677
Total Net Position	$ 9,145,952	$ 805,544	$ 120,000	$ 49,490	$ 247,787	$ 10,368,773

CAPE LIGHT COMPACT
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION BY PROGRAM
YEAR ENDED DECEMBER 31, 2016

	Energy Efficiency	Power Supply Reserve	OPEB Reserve Fund	Operating	Green Program	Total
OPERATING REVENUES						
Energy Efficiency	$ 4,941,535	$ -	$ -	$ -	$ -	$ 4,941,535
Energy Efficiency Reconciliation Factor	31,011,781	-	-	-	-	31,011,781
Mil-Adder	-	913,650	-	-	-	913,650
Green Program	-	-	-	-	67,540	67,540
Intergovernmental (RGGI)	1,267,449	-	-	-	-	1,267,449
Other	362	-	-	-	-	362
Total Operating Revenues	37,221,127	913,650	-	-	67,540	38,202,317
OPERATING EXPENSES						
Contracted Labor	2,207,773	-	-	349,811	-	2,557,584
Energy Efficiency Programs:						
Residential Programs	14,565,409	-		-	-	14,565,409
Low Income Programs	2,602,716	-		-	-	2,602,716
Commercial and Industrial Programs	6,959,623	-		-	-	6,959,623
Other Programs	334,903	-		-	-	334,903
Legal	527,022	-		230,426	-	757,448
Other Professional Services	42,441	-		107,261	-	149,702
Marketing	118,474	-		50,806	-	169,280
Other Operating	349,176	-		149,241	-	498,417
Depreciation and Amortization	78,595	-		-	-	78,595
Total Operating Expenses	27,786,132	-	-	887,545	-	28,673,677
Operating Income (Loss)	9,434,995	913,650	-	(887,545)	67,540	9,528,640
NONOPERATING REVENUES (EXPENSES)						
Forward Capacity Market	1,102,350	-		-	-	1,102,350
Renewable Energy Certificates	-	(90,775)		-	(46,356)	(137,131)
Investment Income	17,663	5,532		-	-	23,195
Total Nonoperating Revenues (Expenses), Net	1,120,013	(85,243)	-	-	(46,356)	988,414
Income (Loss) Before Transfers	10,555,008	828,407	-	(887,545)	21,184	10,517,054
TRANSFERS						
Transfers In	-	-	120,000	892,347	-	1,012,347
Transfers Out	(120,000)	(892,347)	-	-	-	(1,012,347)
Total Transfers	(120,000)	(892,347)	120,000	892,347	-	-
CHANGE IN NET POSITION	10,435,008	(63,940)	120,000	4,802	21,184	10,517,054
Net Position (Deficit) - Beginning of Year	(1,289,056)	869,484	-	44,688	226,603	(148,281)
NET POSITION - END OF YEAR	$ 9,145,952	$ 805,544	$ 120,000	$ 49,490	$ 247,787	$ 10,368,773

CAPE LIGHT COMPACT
RECONCILIATION OF AUDITED ENERGY EFFICIENCY GAAP EXPENSES TO DEPARTMENT OF PUBLIC UTILITIES (DPU) REPORT
YEAR ENDED DECEMBER 31, 2016

Energy Efficiency Operating Fund Expenses Reported on 2016 Combining Statement of Revenues, Expenses and Change in Net Position (Page 20)	$ 27,786,132
Reconciling items:	
To Record Net Change in Accrued Expenses	(39,619)
To Record Net Change in Accrued Contracted Labor	(6,960)
To Record Net Change in Accrued Long-Term Liabilities	(621,550)
To Record Net Change in Accrued Contracted Labor - Compensated Absences	49,714
Expenses Capitalized for Financial Reporting Purposes	164,319
Amortization of Capitalized Expenses	(78,595)
Total Reconciling Items	(532,691)
2016 Energy Efficiency Expenses Reported on the 2016 Annual Report	$ 27,253,441

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