

**AUDIT, COMPLIANCE AND GOVERNANCE COMMITTEE OF THE
CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY
Minutes – Regular Meeting
Friday, October 4, 2013**

A regular meeting of the Audit, Compliance and Governance Committee (“Audit Committee”) of the Board of Directors of the **Clean Energy Finance and Investment Authority (the “Authority”)** was held on October 4, 2013, at the office of CEFIA, 845 Brook Street, Rocky Hill, CT.

1. **Call to Order**: Matthew Ranelli, Chairperson of the Audit Committee, called the meeting to order at 1:05 p.m. Audit Committee members participating: Matthew Ranelli, and John Harrity.

Absent: Patricia Wrice.

Staff Attending: George Bellas, Brian Farnen, Bryan Garcia, Bert Hunter, Shelly Mondo, and Phil Siuta.

Others Attending: Bill Sawicki, Marcum; John Schuyler, Marcum; and Gary Smith, Marcum.

2. **Public Comments**: There were no public comments.

3. **Approval of Minutes**:

Mr. Ranelli asked the Audit Committee members to consider the minutes from the June 5, 2013 meeting. Mr. Siuta noted the need to amend the resolution on page 6 in the first whereas clause in the minutes to indicate that in accordance with Article V, Section 5.3.1(i) of the “Bylaws” rather than “Operating Procedures” . . .

Upon a motion made by Mr. Harrity, seconded by Mr. Ranelli, the Audit Committee members voted unanimously in favor of adopting the minutes from the June 5, 2013 meeting as amended.

4. **Review and Recommendation of FY2013 Draft CEFIA Audited Financial Statements**:

Mr. Bellas introduced Ms. Schuyler, Mr. Smith and Mr. Sawicki. Mr. Sawicki provided an overview of Marcum’s “unmodified opinion” of CEFIA’s financial statements. He stated that the audit was conducted under auditing standards generally accepted in the United State of America and Government Auditing Standards issued by the Comptroller General of the United States. Mr. Sawicki stated that the audit includes reporting on internal control over financial reporting and on compliance and other matters required under Government Auditing Standards (“GAS”) and Federal OMB Circular A-133. He

indicated that all audits require the auditor to gain an understanding of the internal controls in order to plan the audit procedure; and under GAS, the auditor is required to explicitly report on whether or not there were significant deficiencies or material weaknesses found in internal controls over financial reporting or in compliance by the entity over grants, contracts, laws, regulations or agreements that could materially impact its financial statements.

Mr. Sawicki explained Marcum's responsibilities and the items required to be communicated with the members of governance. He indicated that there were no issues with accounting estimates, no significant audit adjustments, no disagreements with management, no known consultations with other auditors, no difficulties relating to the performance of the audits, no material errors or fraud or significant deficiencies in internal controls, no relationships between representatives of Marcum and CEFIA that could bear on the independence of the audit and no major issues discussed with management prior to retention.

Mr. Sawicki described the areas of the audit that are still open. Mr. Bellas stated that the only entry left that has to be updated is for the Renewable Energy Certificates ("RECs") which are anticipated to be immaterial and require an adjustment of approximately \$100,000 charged to profit and loss.

Mr. Bellas went through the financial statements. A discussion ensued on Management's Discussion and Analysis ("MD&A") Mr. Schuyler noted that Marcum does not opine on the MD&A, and the MD&A can be used to provide more explanation about the numbers in the financial statements.

Mr. Garcia expressed his concern that the financial statements don't truly reflect the decisions made by the CEFIA Board of Directors with respect to funding commitments and allocations of resources. A discussion ensued on how to more clearly show CEFIA's net position after taking into consideration Board commitments. Mr. Sawicki explained several options, and there was general agreement that cash on hand can be more clearly explained in the MD&A and that a parenthetical note can be included in the financial statements under cash to indicate the amount that has been designated by the Board for specific purposes. In response to a question, Mr. Sawicki explained that the financial statements are as of June 30, 2013. However, if there is a subsequent event, the information can be included (i.e. designating an additional \$20,000,000 for the C-PACE funding warehouse after June 30, 2013). Mr. Bellas will work with Mr. Garcia, Mr. Hunter and representatives from Marcum on the appropriate language and information to include.

Questions were asked, and Mr. Sawicki indicated that factual information about the resources used to attract private capital could be included.

A discussion ensued on the Solar Lease 2 Program. Mr. Hunter described the ownership and operational structure of the limited liability corporation and questioned the recognition of some of the expenses. Staff questioned whether the consolidated

financial statements should include or reflect the Solar Lease 2 Program in consolidation with the rest of CEFIA's activities or, due to CEFIA's one percent (1%) ownership of the special purpose entity, whether such ownership should be reflected using the equity method of accounting for investments which would, in turn, impact the accounting of certain other transactions related to the Solar Lease 2 Program. This issue will be discussed further with Mr. Hunter, Mr. Bellas and representatives from Marcum.

Mr. Garcia raised questions around custodial credit risk, and there was general agreement to revise Note 3 to provide a better explanation. Note 4 will also be revised to indicate that CEFIA no longer supports emerging technology. Staff noted that given the overwhelming proportion of CEFIA's cash balances are held in the State of Connecticut Treasurer's "AAA-rated" Short Term Investment Fund ("STIF"), CEFIA does not have a formal policy with respect to deposits with financial institutions. Notwithstanding the fact that, as may be required for operational or transactional purposes, Staff places non-STIF balances with financially secure commercial banks, the Committee recommended Staff to work with Marcum to draft language regarding a formal CEFIA deposit policy going forward.

The Audit Committee members discussed the recommendation to have someone assist Mr. Bellas with the financial statements given the increased complexities with the financial statements. Mr. Bellas will report back to the Audit Committee members at the next meeting with a recommendation. There was general agreement that the goal is to have the appropriate controls in place and to be transparent.

Representatives from Marcum suggested that the Audit Committee and/or Board consider a Comprehensive Annual Financial Report ("CAFR") for the future.

Upon a motion made by Mr. Harrity, seconded by Mr. Ranelli, the Audit Committee members voted unanimously in favor of adopting the following resolution recommending approval of the Audited Financial Statements and Federal Single Audit for CEFIA for fiscal year ending June 30, 2013, subject to staff following up and making the appropriate adjustments as follows:

- **disclosure of Board commitments,**
- **the accounting treatment of the Solar Lease 2 program,**
- **addressing custodial risk in Note 3,**
- **changing the language in Note 4,**
- **other grammatical errors and items as discussed.**

WHEREAS, Article V, Section 5.3.1(i) of the Clean Energy Finance and Investment Authority ("CEFIA") Bylaws requires that the Audit, Compliance and Governance Committee (the "Audit Committee") meet with the auditors to review the annual audit and formulation of an appropriate report and recommendations to the Board with respect to the audit report;

NOW, therefore, be it:

RESOLVED, that the Audit Committee hereby recommends to the Board of Directors of CEFIA for approval the Audited Financial Statements and the Federal Single Audit Report of CEFIA for the fiscal year ending June 30, 2013 (Attachment A) contingent upon Marcum LLP and CEFIA staff addressing the open items set forth in the directives from the October 4, 2013 Audit Committee Meeting.

5. CEFIA Board of Directors Recruitment Update:

Mr. Garcia reviewed the terms and appointers for the members of the Board, including the ex-officio members. He indicated that staff is working on the reappointment for Reed Hundt and filling the vacant positions.

6. Legislative Update:

Attorney Farnen provided an update on legislation, noting that in the last session the C-PACE program was expanded to include district heating and cooling systems. He mentioned that CEFIA will seek to include a broader definition of “non-permanently fixed” equipment, including microgrids and other community energy systems. Attorney Farnen talked about benchmarking and disclosure and mentioned that discussions continue regarding building disclosure requirements in an effort to consider how and to what extent CEFIA may participate in any legislative initiatives in this regard.

7. Adjournment: Upon a motion made by Mr. Harrity, seconded by Mr. Ranelli, the Audit Committee members voted unanimously in favor of adjourning the October 4, 2013 meeting at 2:25 p.m.

Respectfully submitted,

Matthew Ranelli, Chairperson of Audit
Committee