

KENTUCKY MUNICIPAL ENERGY AGENCY

Memorandum

To: Executive Committee

From: Terrance Naulty, Treasurer

Date: January 22, 2016

Subject: Accounting Services for KyMEA

As KyMEA begins its financial functions in February it is important that we start off on the right foot. Our By-laws require the Agency to have an independent financial audit performed each year. While financial activities in during the first six months of 2016 are anticipated to be limited to receipt of member contributions and payment of expenses, primarily to our consultants, legal counsel and for fees required by transmission owners pursuant to their Open Access Transmission Tariffs (OATT), we must recognize that longer term our financial activities will be much more complex. I believe it is prudent to ensure that we are using industry best practices from the start to ensure we have a clean audit each year and to avoid incremental accounting system costs as the Agency begins its power purchasing and supply functions.

Administration of our accounts from day one will include accounting for each member's contributions and their share of expenses. As such, all our accounting entries in the general ledger will need to have an entry for each member. Processing of invoices from our service providers and other suppliers will need to be handled promptly to ensure that the Agency and its members are not paying late fees. With no KyMEA staff at this point in time and all our Board members having full-time jobs as General Managers of their respective organizations, it would be inequitable to have a single member of the board take care of all financial activities personally. As Treasurer for the Agency, I recognize that I have overall responsibility for the Agency's financial functions.

One key decision that the Board needs to make is the selection of an enterprise financial management system to ensure compliance with Generally Accepted Accounting Principles (GAAP) and Government Accounting Standard Board (GASB) requirements. For the Agency there are really two choices available. First is what I would consider an interim solution which is to use a standard accounting and book-keeping commercial software. The most common system in use is Microsoft Quick Books. My research has indicated that we could purchase the software for \$78.95 per month which includes online payroll application. This system can be configured to either run on a hard drive, server or in the cloud. While the capabilities of Quick Books are sufficient to meet our near term needs, I do not recommend this as the final system for the Agency due to the large number of hourly and daily energy and capacity transactions with Regional Transmission Operators (RTOs) and bilateral counterparties that must be done electronically. I am not aware of any Quick Book installations

and configurations that have the capability to meet the RTO specifications. If this approach is selected, it would clearly be an interim fix until a staff is hired and a more robust and permanent enterprise financial and risk management system is selected and configured. OUM accounting staff can provide all necessary accounting services to the Agency at a cost of \$1000 per month were the Agency to select Quick Books as its system of record.

The second option is to use a commercially available, fully supported enterprise financial and risk management system designed for electric utility applications. At OMU we purchased and installed Microsoft GP Dynamics several years ago that is a comprehensive system that is a true enterprise system. My Information Technology manager has priced the purchase and configuration of this system for KyMEA at a cost of \$2,500 for setup (configuring general ledger accounts and installation of the software on OMU servers) and \$2,748 per year per named user. OMU IT staff can configure the G/L accounting structure for KyMEA and support the system to meet our needs. The use of this system would enable KyMEA to leverage the accounting staff of OMU at a fraction of the cost of even a part-time book keeper and provide the reporting deemed necessary by board. To keep ongoing costs to a minimum, I recommend that this software be housed on OMU servers where it can be held with state of the art cyber security protocols and be maintained and protected in the same manner that OMU uses for all our data. To the extent necessary, our system provides secure access to all users on a real-time basis where-ever they are. OUM accounting staff can provide accounting services to the Agency at a cost of \$800 per month if the Agency selects Microsoft GP Dynamics as its system of record.

To summarize, the two options I recommend for consideration are as follows:

	Microsoft Quick Books	Microsoft GP Dynamics
Annual Software Cost	\$947.40	
Annual License & Maint. Cost		\$2,748 per user
Set-up Cost (one time)	\$1,800	\$2,500
Annual OMU Administration	\$12,000	\$9,600
Annual Cost*	\$12,947.40	\$15,096
One Time Cost	\$1,800	\$2,500
First Year Cost*	\$14,747	\$17,596

*Assumes two users – one Administrator and one Clerk

I recommend that we select the Microsoft GP Dynamics option because that system will meet all future needs of the Agency and we will not incur additional set-up and licensing costs once the agency is staffed. Also, all financial data, including all historical data, can simply be ported over to the stand-alone system of the Agency once it is appropriate. Most importantly, this approach does not require any KyMEA board member to allocate significant time to day to day administration of accounts payable, writing checks, managing member account assets and liabilities, etc. Further, the use of OMU accounting staff is not contingent on my continuation as Treasurer for the Agency. OMU provides annual tax accounting services to the Kentucky Municipal Utility Association and support as requested and we would approach the provision of these services in the same manner.

Please let me know if you have any questions or comments.