ecomaine

Memorandum

DATE: January 4, 2013

TO: Chairman and Members of the Board

FROM: Kevin H. Roche, General Manager

SUBJECT: **Agenda for the Audit Committee Meeting**

There is an **ecomaine** **Audit Committee Meeting** scheduled for **Thursday, January 10, 2013 at 3:00PM** at the Waste-to-Energy Facility. The agenda for this meeting is as follows:

1. Approval of the September 20, 2012, Audit Committee Meeting Minutes ***(Attachment A)***

2. Runyon Kersteen Ouellette (RKO) Management Letter – Other Matters ***(Attachment B)*** *(Note: RKO stated that during the audit, they noted four matters that "may represent opportunities for strengthening internal controls and operating efficiency"):*
   - Consolidation of Capital Asset Accounts – General Ledger
   - Establish a Capital Asset Capitalization Policy
   - 403(b) Retirement Plan
   - Use of Debit Cards

3. Future Meetings:
   - Full Board Meeting: January 10th (Thursday) @ 4:00PM.
   - Recycling Committee Meeting: January 24th (Thursday) @ 4:00PM.
   - Finance Committee Meeting: January 29th (**Tuesday**) @ 4:00PM.
   - Executive Committee Meeting: February 21st (Thursday) @ 4:00PM.
   - Recycling Committee Meeting: February 28th (Thursday) @ 4:00PM.
   - eco-excellence Awards: March 12th (Tuesday) @ 10:30AM.
   - Full Board Meeting: March 21st (Thursday) @ 4:00PM.
   - Recycling Committee Meeting: March 28th (Thursday) @ ***3:00PM***.
   - Finance Committee Meeting/Budget Workshop: March 28th (Thursday) @ 4:00PM.
   - Full Board Meeting: April 11th (Thursday) @ 4:00PM.
   - Recycling Committee Meeting: April 25th (Thursday) @ 4:00PM.
   - Executive Committee Meeting: May 16th (Thursday) @ 4:00PM.
   - Finance Committee Meeting: May 21st (**Tuesday**) @ 4:00PM.
   - Recycling Committee Meeting: May 23rd (Thursday) @ 4:00PM.
   - Annual Meeting: June 13th (Thursday) @ ***11:30AM***.

The Board of Directors may wish to go into Executive Session for any of the above items under Section 405 of Title 1 of the Maine Revised Statutes (per the following legislative website: http://janus.state.me.us/legis/statutes/1/title1ch13sec0.html.)

Attachment A

ecomaine

Owner Communities
Bridgton
Cape Elizabeth
Casco
Cumberland
Falmouth
Freeport
Gorham
Gray
Harrison
Hollis
Limington
Lyman
North Yarmouth
Ogunquit
Portland
Pownal
Scarborough
South Portland
Waterboro
Windham
Yarmouth

Associate Members
Baldwin
Hiram
Naples
Parsonsfield
Porter
Saco
Standish

Contract Members
Andover
Cornish
Harpswell
Livermore Falls
Manchester
Monmouth
Old Orchard Beach
Poland
Readfield
Sanford
Wayne

DATE: September 24, 2012

TO: Chair and Members of the Board

FROM: Kevin H. Roche, General Manager

SUBJECT: Minutes of the 9/20/12 Audit Committee Meeting

There was an **ecomaine** Audit Committee Meeting on Thursday, September 20, 2012, at the Waste-to-Energy facility at 2:00PM.

There were three items on the Agenda:

1. Approval of the March 22, 2012 Audit Committee Meeting minutes
2. Review of the draft audit report for FY12 by Kathy Tyson & Peter Way of Runyon Kersteen Ouellette
3. Future Meetings

Item #1 – Approval of the March 22, 2012 Audit Committee Meeting Minutes

Mr. Bobinsky moved to approve the minutes of the March 22, 2012 Audit Committee Meeting. The motion was seconded by Mr. Sherman and passed unanimously.

Item #2 – Review of the draft audit report for FY 12 by Kathy Tyson & Peter Way of Runyon Kersteen Ouellette

Runyon Kersteen Ouellette (RKO) gave a presentation on the Audit. Mr. Bobinsky moved to approve the Audit and recommend passage to the ecomaine Board. The motion was seconded by Ms. Boudreau and passed unanimously.

Ms. Boudreau made a motion to adjourn the meeting. The motion was seconded by Mr. Bobinsky and all were in favor.

PRESENT:	**ABSENT:**
M. Bobinsky	R. Ahlquist
L. Boudreau	R. Fitzcharles
G. Foster	D. Morton
S. McGinty	
D. Sherman	

Other attendees:
K. Tyson, P. Way – Runyon Kersteen Ouellette

Staff: A. Birt and K. Roche.

ecomaine
Schedule of Comments

OTHER MATTERS

Consolidation of Capital Asset Accounts - General Ledger

We commend **ecomaine** for their significant efforts to establish and maintain detailed property records, including related accumulated depreciation for the relevant assets. However, we also noted that the client general ledger contains approximately 135 separate capital asset accounts. We thus continue to recommend that consideration be given to consolidating such asset accounts, perhaps into similar groupings as reflected on the financial statements. Such an endeavor will provide a general ledger trial balance that is less wieldy and thus easier to review and analyze.

Management's Response: *Management agrees with this recommendation and in June established this as a goal for FY 13 for the Finance Department.*

Management Update*: staff is currently addressing the recording of fixed assets with the following goals in mind:*

- *To minimize the number of accounts in the General Ledger by placing the detail in subsidiary ledgers*
- *To provide better tracking and improve the quality of information regarding all fixed assets*
- *To provide a clear path for retiring assets*
- *To better track capital project expenses that result in fixed assets*
- *To provide more accurate depreciation accrual information, on a monthly basis*

Steps we have taken to achieve these goals include a review of all current fixed assets and working with our accounting software vendor to set up the fixed asset and projects modules to allow us to utilize our accounting software, Microsoft Great Plains, to manage and track fixed assets and capital projects as well as depreciation accruals moving forward. It is our plan that this process will be fundamentally complete by June 2013.

Establish a Capital Asset Capitalization Policy

During the course of our engagement we noted that **ecomaine** does not have a set policy for capitalization of capital assets. Such a policy will ensure the consistent treatment of property additions and repair and maintenance expenditures. We recommend that management establish a policy whereby all property purchases exceeding a specified dollar amount and having a useful life of one year or more are capitalized. Given the significance of such outlays by **ecomaine**, and the considerable judgment oftentimes required to discern between the nature of the disbursement as to whether it is capital in nature, we feel that the establishment of clearly defined guidelines as to which types of acquisitions to capitalize vs. expense immediately would also be of value. **ecomaine** should document the capitalization policy and communicate it to those who record such transactions to ensure the policy is consistently applied.

Management's Response: *Management agrees that this is a desirable practice and has been moving in the direction of consistent proper treatment over the last several years. We agree documentation would be of benefit to* ***ecomaine*** *and its staff.*

Management Update: *A draft policy (copy attached) has been developed and we have received comments from RKO. We are in the process of reviewing the two years (FY 12 and FY 13) of Capital Projects following the proposed guide lines to determine the impact. The intent is to implement with the FY 14 Budget process.*

OTHER MATTERS, CONTINUED

Use of Debit Cards

During our discussions with the Director of Finance and Administration we noted that **ecomaine** currently utilizes debit cards to allow several specified employees to purchase items. Debit cards give the Organization a convenient way to pay for items without needing to carry cash or write checks. Debit cards work like credit cards; however, debit cards are linked to a checking account. Although such cards are convenient, they generally do not provide the same level of fraud protection as do credit cards, which typically offer some protection from fraud or theft. Thus, we recommend that management consider replacing **ecomaine's** debit cards with purchasing cards. Such cards provide a mechanism to transact low dollar purchases of goods and services at a significantly lower cost than traditional methods. Any use of these cards should be subject to a variety of controls, to include specific limitations and prompt review.

Management's Response: ***ecomaine*** *management agrees with this and plans to do so in FY 13.*

Management Update: *We have developed a draft P Card policy / procedure but in internal discussions have determined that a more comprehensive review of the ecomaine purchasing process (including Accounts Payable) might provide additional benefits and so will incorporate the P Card proposal in that effort. The goal is to seek proposals from several firms and complete a review (report and recommendations) by June 2013 with implementation to follow by December 2013.*

403(b) Retirement Plan

During the year ended June 30, 2012 **ecomaine** adopted a restated 403(b) retirement plan for its employees to replace the plan established in 1991. The restated plan represented the accumulation of several years' efforts by management to address the new rules governing such plans effective January 1, 2009.

Prior to 2009 all 403(b) plans were generally exempt from ERISA's reporting, disclosure and audit requirements. Those plans covered by ERISA are now subject to the same annual Form 5500 reporting and audit requirements as 401(k) plans, along with considerable regulatory compliance.

In our discussions with management we are encouraged at the level of understanding and the efforts ecomaine has made to provide a retirement plan that operates in the best interest of its employees. It is our understanding that the plan does not meet the participant number that would make the plan subject to an annual audit; however, we wish to remind management that neither the absence of an audit requirement nor the hiring of an administrator or other professionals alleviates the organization from its fiduciary obligations in regards to the plan. We therefore want to emphasize the importance of the establishment and regular monitoring of policies to ensure the propriety of plan operations.

Management's Response: *Management agrees with these thoughts. We have worked closely with Council and Investment Management Consulting Group to put these changes in place with the goals of lower participant expenses, better investment options, improved employee education, and to remain in compliance with all regs and rules. Further we have established an employee investment committee to work with Investment Management Consulting Group in selecting funds for inclusion and have several policies in draft form.*

Management Update: *As noted above we are aware of the impact of the ERISA changes and are working to stay on top of them. Please see the attached for more details.*

Ecomaine Finance & Administration
Policies and Procedures
Fixed Assets (Plant Property & Equipment)

Definitions

From an accounting point of view anything that is capable of being owned or controlled by ecomaine as a result of past events that is held to have positive future economic value is considered an asset. There are various types and classes of assets such as Tangible, Intangible, Current Assets, Fixed Assets, etc.

This document is intended to document ecomaine's policy regarding Fixed Assets (also known as PP&E or Plant, Property & Equipment). Fixed Assets are for continued long term use by ecomaine to address customer needs, for administrative purposes or for the maintenance or repair of other PP&E. Examples might include land, buildings, furniture, tools, IT equipment, etc.

The proper classification of an expenditure as a Fixed Asset or Current Period Expense is not always simple. Some terminology and guidelines that might help in this effort:

- **Fixed Asset –** life in excess of a year, benefit to ecomaine beyond one year, ecomaine maintains ownership, material addition to existing assets, expenditure extends the life or materially upgrades the asset, increases efficiency, lowers operating costs, or expands production.

- **Current Period Expense –** benefit of expenditure generally provided in current fiscal period, does not materially extend the life or add to the value of our assets, maintain in sound state, repair, consumable, routine, recurring, overhaul, replacement part, painting the interior or exterior, parking lot repairs.

- **Minimum Capital Value** - in the interest of minimizing the bookkeeping effort all items with total Historical Cost of less than $5,000 will be expensed. A single chair would be expensed while spending $10,000 on furniture would be capital.

Fixed Asset Cost (Historical Cost)

The cost of a fixed asset includes all amounts incurred to acquire the asset and any amounts that can be directly attributable to bring the asset into working condition. These costs might include purchase price, broker fees, legal fees, engineering fees, delivery costs, taxes, import fees, site preparation, installation and assembly, normal start up costs, salaries, wages & benefits, other professional fees, & interest (see below) incurred during construction.

At the time of acquisition if a portion of the asset is not intended to be used in the business its cost and any cost to dispose of it (net of any proceeds) are to be included as part of the cost of the asset intended to be used.

Fixed Asset costs do not include General and Administration costs, initial operating losses, or expenditures that are carried out simply to maintain existing performances which are more properly classified as Current Period Expenses.

Expenditures on a fixed asset may cross fiscal or calendar years. Once an asset has been acquired and placed in service future expenditures will be added to the cost of the asset provided they meet the definition above.

The cost of an item made up of significant components with different lives is to be allocated to the components where practical.

Significant events (e.g. technology, physical damage, etc) may generate the need to revisit the net carrying value of an asset. The book value of an asset will be reduced when there is a material shortfall between the market value of the asset and the net book value.

In Service Date

An asset may not be 100% complete but when it is substantially complete and major portions are ready for use or in service they will be placed in service for record keeping purposes and depreciation will begin in that month.

Asset Lives

Each asset (or component) will be assigned an estimated economic life which may be different from the physical life with input from the area manager, consideration of past practice and the guidelines noted below. The economic life will be a reasonable estimate of the time from the in service date until ecomaine plans to remove the asset from service (due to of physical, technological, economics, legal or other factors).

Land	Non Depreciable - typically
Bale fill/Ashfill	15 to 20 years
Buildings	10 to 45 years
Equipment	5 to 30 years
Vehicles	5 to 7 years

Significant events (e.g. technology, physical damage, etc) may also cause ecomaine to review and shorten the remaining life being used to depreciate the asset thereby accelerating its depreciation.

Residual (Salvage) Value

At the end of its economic life the asset will be removed from service and disposed of. Any receipt from the disposal in excess of the cost to dispose of the asset is its salvage value. Input from the area manager will be sought but it is not always easy to estimate a residual value and generally speaking we will assume a zero salvage value.

If there are significant asset removal / site restoration costs net of any recoveries we may need to accrue the liability and exclude from depreciation (e.g. Close / Post Close costs associated with the landfill).

Depreciation

Each period ecomaine will charge to Current Period Expense a reasonable estimate of the value used in that period for its fixed assets (depreciation).

The Fixed Asset Cost less the Residual or Salvage Value will be the amount to be depreciated over the economic life. As noted above depreciation will begin the month the asset goes in service and will be done using straight line depreciation for book purposes.

Expenditures that are made after the asset goes in service that are part of completing the project (e.g. punch list items) will use the same in service date as the main assert to begin depreciation.

Expenditures associated with a particular asset in future years that are capital in nature will be assigned an in service date and life and will be depreciated over that life.

Capitalized Interest

This is the interest used to finance the construction of a long term asset and will only be address if we have long duration projects (in excess of 24 calendar months) or larger projects with longer construction periods (cost in excess of $1 million with a construction period in excess of 12 calendar months).

Capital Lease

A lease is a financing mechanism and if it is capital in nature it will be treated as such. If any one of the following criteria is met the lease is a capital lease, otherwise it is an operating lease and lease payments are expensed each month:

- **Ownership** – will ownership of the asset transfer to the lessee by the end of the lease period or will the lessee be able to purchase the item at below market value at the end of the lease?
- **Lease Term –** will the lease extend over at least 75% of the useful life of the asset and is the lease non cancellable during that time?
- **Lease Value** - the Present Value of the lease payments is at least 90% of the fair value of the asset at the lease inception.

With a capital lease the Present Value of all lease payments will be added to the historical costs of ecomaine's assets and depreciation will be calculated using straight line depreciation over the life of the lease.

Retirement

Generally speaking historical costs for individual assets or portions thereof are very difficult to determine. When an asset is removed from service and its historical cost is known its historical cost and associated depreciation will be removed from the ecomaine PP&E accounts. Gains, losses and trade in values will be recognized at the time of disposal.

Retirement Plan of ecomaine – Overview of Responsibilities

- Under regulations issued by the US Treasury Department the 403(b) program offered by ecomaine became subject to the Employee Retirement Income Security Act of 1974 as amended (ERISA) beginning in January 2009 making significant changes to our responsibilities. Some items that need to be considered include

  - **Fiduciary Responsibility** – we have a fiduciary responsibility to operate the plan for the <u>exclusive benefit of the participants,</u> acting as a prudent person would in like circumstances with care, skill, and diligence. This means we need to understand plan documents and requirements, and to obtain outside support as necessary. We must adhere to the plan documents, amending the plan documents as necessary to remain in compliance with laws, pay only reasonable plan expenses from plan funds, prudently select and monitor investment options including default options, address filing requirements, comply with ERISA participant disclosure requirements, avoid prohibited transactions and maintain appropriate insurance coverage (Errors & Omissions on administration, Fraud).

  - **Written Plan documents –** addressing conditions for eligibility, benefits, contribution limits, time and form of distribution, along with other data including who is responsible for program compliance. There are withdrawal restrictions, non discrimination testing, universal availability requirements, deposit requirements, post severance contributions, excess contributions, loan policies, QDRO rules, information sharing agreements, etc.

  - **Filing, Audit Requirements and Participant Reporting**– With less than 100 participants we are required to file a short form 5500 (several pages) each year but are exempt from the external audit. The 5500 provides general information about the plan including sponsor, number of participants, financial information, compliance questions, etc. Participants (including those that have left ecomaine) must receive, at minimum, quarterly statements, Annual Summary Plan Descriptions (SPD's), Fee Disclosures Statements, etc. As we start 2013 we are now looking at the compliance testing and 5500 filing related to Calendar year 2012.

- **Changes to the 403(b) Program** – over some time, as part of addressing these regulations that now apply to ecomaine, we reviewed the existing retirement plan platform (a group annuity based product – the "old" platform) and what might be available that would be a better fit for the ecomaine employees. Working with a board subcommittee, several options were reviewed and ultimately in 2012 we added an open architecture registered mutual fund platform (the "new" platform) thru our provider, MetLife. The new platform offers what we believe to be better investment options, lower fees, no surrender charges and greater flexibility for the employees and ecomaine, while the old platform offered some higher fixed rate options but also higher fees. We offered education sessions to the employees and left them with the ability to choose from either option. Certain employees chose to remain on the old platform, others moved entirely to the new platform and still others participate in both – decision made based on their needs and plan designs.

- **Those involved** in addressing these ongoing responsibilities:
  - **ecomaine** - Plan Sponsor and Plan Administrator (Arthur Birt) – ultimately responsible for fiduciary compliance of plan, employee communication and hiring of outside resources
  - **MetLife** – maintains plan documents, participant statements, employee communications, administrative, recordkeeping and related services, compliance testing, ERISA reporting, custodian of the annuity based products
  - **Reliance Trust** – custodian of the registered mutual fund products (thru MetLife)
  - **Wakelin, Hallock, & O'Donovan** – ERISA counsel, legal guidance on developing plan documents and implementation
  - **Investment Management & Consulting Group (IMCG)** – investment managers (select and monitor mutual fund options), provide employee education, act as fiduciaries for investments
  - **Investment Committee** – Plan Administrator, IMCG, and several volunteer employees (Missi Labbe, Tom Raymond, Tony Dicentes) who meet quarterly, monitor the performance of the Investment Manager, adopt an investment policy, review investment selections, provide employee education sessions. On December 21st the Investment committee sponsored a 90- minute employee education session during which IMCG reviewed 1) Risk and Investing, 2) Met's online Web site, and 3) Plan Expenses. The next meeting of the investment Committee is scheduled for late January to review Q4 results, the investment policy, and additional detail on plan expenses