

ecomaine

Memorandum

DATE: September 14, 2017

TO: Chair and Members of the Board

FROM: Kevin H. Roche, CEO

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

There is a meeting of the **ecomaine Audit Committee** scheduled for September 21, 2017 @ **3:00 PM**. The agenda for this meeting is as follows:

1. Approval of Minutes (**Attachment A**)
2. **Presentation** - Draft Audit Report FY 17 Amy Chasse & Roger Lebreux Runyon, Kersteen & Ouellette (RKO) (**Attachment B**)
3. Discussion – Selection of Auditors for FY 18 (**Attachment C**)
4. Other:

Future Meetings:

Audit Committee	September 21, 2017 @ 3PM	Executive Committee	February 15, 2018 @ 4PM
Executive Committee	September 21, 2017 @ 4PM	Recycling Committee	March 1, 2018 @ 4PM
Full Board Meeting	October 19, 2017@ 4PM	Full Board Meeting	March 15, 2018 @ 4PM
Recycling Committee	November 9, 2017 @ 4PM	Finance/Budget Workshop	March 22, 2018 @ 4PM
Finance Committee	November 16, 2017 @ 3PM	Audit Committee	April 26, 2018 @ 3PM
Executive Committee	November 16, 2017 @ 4PM	Full Board Meeting	April 26, 2018 @ 4PM
Executive Committee	December 21, 2017 @ 4PM	Finance Committee	May 17, 2018 @ 3PM
Finance Committee	January 18, 2018 @ 3PM	Executive Committee	May 17, 2018 @ 4PM
Full Board Meeting	January 18, 2018 @ 4PM	Recycling Committee	May 24, 2018 @ 4PM
Recycling Committee	January 25, 2018 @ 4PM	Annual Board Meeting	June 14, 2018 @ 11:30AM



Memorandum

DATE: May 26, 2017
TO: Chairman and Members of the Board
FROM: Kevin H. Roche, CEO/General Manager
SUBJECT: Audit Committee Minutes – April 27, 2017

There was an **Audit Committee Meeting** held on the date noted above. The meeting was called to order by Erik Street, Chairman @ 3:03PM.

Item #1: - Minutes:

Linda Boudreau motioned to accept the minutes as written. The motion was seconded by Dave Morton. All in favor

Item #2: - Presentation RKO – Amy Chasse, CPA:

Amy Chasse reviewed the duties and responsibilities of the Auditors, Management and the Committee. Discussion.

- Preliminary work will begin in June
- Audit is scheduled for August 8 through August 13
- Statement will be reviewed in September with the committee

Amy Chasse reviewed the engagement letter with the committee and the original was endorsed by Erik Street, Chairman.

Linda Boudreau motioned to adjourn the meeting. The motion was seconded by Dave Morton. All in favor.

Present:

Linda Boudreau, Chris Branch, David Morton, Mike Shaw & Erik Street

Staff:

Arthur Birt, Kevin Roche

Guest:

Amy Chasse, RKO.

ecomaine

Financial Statements

June 30, 2017 and 2016

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Independent Auditor's Report

Board of Directors
ecomaine

Report on the Financial Statements

We have audited the accompanying statements of net position of **ecomaine** as of June 30, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise **ecomaine's** basic financial statements.

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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 **ecomaine**, as of June 30, 2017 and 2016, and the changes in financial position and its cash flows for the years 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 the management's discussion and analysis on pages 1 through 5 and the schedule of funding progress on page 18 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 by 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the management's discussion and analysis or schedule of funding progress because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise **ecomaine's** basic financial statements. Schedule 1 is presented for purposes of additional analysis and is not a required part of the financial statements. Schedule 1 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the procedures performed as described above, schedule 1 is fairly stated, in all material respects, in relation to the financial statements as a whole.

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Management's Discussion and Analysis
Fiscal Year Ended June 30, 2017

Using this Annual Report

This discussion and analysis of **ecomaine's** financial performance provides an overall review of our financial activities for the year ended June 30, 2017. It consists of a series of financial statements and notes to those statements that are prepared and organized so the reader can understand **ecomaine** as an entire operating entity as well as providing a detailed look at our specific financial conditions. Readers should also review the financial statements and the related notes to enhance their understanding of **ecomaine's** financial performance.

The statement of net position and the statement of revenues, expenses, and changes in net position provide information about the activities of **ecomaine** as a whole and present a longer-term view of our finances. They include all assets and liabilities using the accrual basis of accounting, similar to the accounting method used by the private sector. The basis for this accounting takes into account all of the current year's revenues and expenses regardless of when the cash was received or paid.

These two statements report **ecomaine's** net position and changes in such net position. This change in position is important because it tells the reader whether the financial position of the Organization has improved or diminished. However, in evaluating the overall position of **ecomaine**, non-financial information such as the condition of **ecomaine's** capital assets will also need to be evaluated.

Financial Highlights

Comparing FY 17 Actual to FY 16 Actual

FY 17 Revenue less Expenses (change in net position) was a gain of \$3.1 million compared to the FY 16 loss of \$1.1 million reflecting favorable revenues, total operating costs and strong financial markets.

- *FY 17 revenues (\$19.9 million) were \$1.3 million above FY 16 Revenues (\$18.6 million) primarily as a result of stronger recycle markets offset in part with lower power revenues representing a more normal power production year and lower market rates for the power sold.*
 - ✓ Inbound recycle volume totaled 38,638 tons in FY 17 down about 6% from FY 16 (41,011 tons) while the market value for outbound recycle material averaged just under \$96 per ton (\$62.45 per ton in FY 16) reflecting a strong recycling market. As a result recycling revenues were up \$1.3 million in FY 17 over FY 16 or 53%.
 - ✓ Total solid waste volume received by ecomaine was up about 2% totaling 179,939 tons in FY 17 compared with 176,361 tons on FY 16. There was an increase in commercial volume partially offset by a tactical effort to lower spot tons. Tipping fees overall averaged just under \$68 per ton compared to \$67 per ton in FY 16. As a result tipping fees for solid waste totaled \$12.2 million in FY 17 compared to \$11.8 million in FY 16.
 - ✓ In FY 17 ecomaine sold 86,573 MWH's of electricity into the New England power grid which was down 7% from FY 16 (the record year for ecomaine). The market value of the power averaged \$42.91 per MWH which was down 5% from FY 16 (\$45.09/MWH). As a result revenue from power sales totaled \$3.7 million in FY 17 compared to \$4.2 million in FY 16.

ecomaine
Management's Discussion and Analysis, Continued

- *Total operating expenses (\$18.1 million) were \$1.8 million favorable to FY 16 expenses (\$19.8 million) primarily reflecting a favorable adjustment to the Landfill Closure and Post Closure Costs.*
 - ✓ As a result of recently completed engineering studies there has been a material change from the total liability for Landfill Closure / Post Closure Costs that was reported as of June 30, 2016 (\$16.7 million) to \$14.6 million as of June 30, 2017. Determining the remaining landfill capacity and thus useful life is a function of land issues (settlement, etc.), technology, screening, and recovery of metals, measured volumes in and the space these volumes will finally occupy and these recent studies show that the landfill life (capacity) required adjustment.
 - ✓ Partially offsetting this favorable adjustment were higher departmental operating costs totaling \$16.0 million in FY 17 (\$.7 million above FY 16 levels of \$15.3 million) reflecting higher operating costs for payroll, boiler cold outages, the food waste program, and landfill expansions.
- *Non-Operating Income & (Expense) totaled \$1.3 million in FY 17 compared with \$.1 million in FY 16 primarily a reflection of the recent strong financial market's impact on our cash reserve funds.*

Cash balances on hand (including Investment Reserves) totaled \$30.9 million at year end FY 17 increasing by \$2.3 million.

- The cash generated by Operations in FY 17 totaling \$4.2 million and was \$1.6 million greater than in FY 16 primarily as a result of favorable overall revenues.
- Also on the positive side was the impact of the strong financial markets adding \$1 million more to cash balances than we saw in FY 16.
- Partially offsetting these items was a \$1 million increase in capital spending (totaling \$3.1 million) over FY 16 reflecting the replacement of a crane in the Waste to Energy facility.

The total "Net Position" for ecomaine increased from \$43.5 million at the end of FY 16 to \$46.6 million at the end of FY 17.

- *Total Assets for ecomaine increased by \$1.5 million to \$64 million from the FY 16 total of \$62.5 million.*
 - ✓ Current assets increased to \$11.4 million from the \$10.8 million held at the end of FY 16 reflecting increases in cash & cash equivalents of \$.3 million, \$.2 million in accounts receivable, and \$.2 million in spare parts inventory, offset in part by a reduction in prepaid expenses of \$.2 million.
 - ✓ Capital assets net of depreciation are down \$1.0 million to \$28 million reflecting the impact of depreciation (totaling \$4.2 million) although capital spending totaled \$3.1 million in FY 17.
 - ✓ Our cash reserves totaled \$24.6 million at the end of FY 17 and were up \$2 million over FY 16 year end reflecting the addition of \$850,000 to the discretionary Land Fill Reserve (as approved by the board in October) along with the impact of the strong financial market during FY 17.
- *Total Liabilities for ecomaine dropped from \$19 million at the end of FY 16 to \$17.5 million at the end of FY 17.*

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Management's Discussion and Analysis, Continued

- ✓ Current Liabilities totaled \$2.3 million at the end of FY 17 up from \$1.7 million at the end of FY 16 reflecting primarily an overall increase in Accounts Payable and Accrued Expenses totaling \$.5 million.
- ✓ Long term liabilities are down \$2.1 million primarily as a result of the adjustment of the accrued Landfill Closure / Post Closure Costs as noted above.

Comparing FY 17 Actual to FY 17 Budget

FY 17 Revenue less Expenses was a gain of \$3.1 million compared to the FY 17 budgeted loss of \$3.4 million reflecting favorable revenues, total operating costs and strong financial markets.

- *FY 17 revenues (\$19.9 million) were \$2.0 million above FY 17 budgeted revenues (\$17.9 million) primarily as a result of stronger recycling markets and above budget commercial solid waste volume.*
 - ✓ Inbound recycling volume totaled 38,638 tons in FY 17 down about 6% from the FY 17 budget (41,160 tons) while the market value for outbound recyclable material averaged just under \$96 per ton compared to \$62.45 per ton in the budget reflecting a strong recycling market. As a result recycling revenues were up \$1.3 million over the FY 17 budget or 50%.
 - ✓ Total solid waste volume received by ecomaine was up about 4% over budget totaling 179,939 tons in FY 17 compared with 172,771 tons included in the FY 17 Budget. All solid waste categories saw increases with commercial volume (4,910 tons) being the most significant (up 7%). Tipping fees overall averaged just under \$68 per ton compared to \$66.48 per ton in FY 17 budget (up 2%). As a result tipping fees for solid waste totaled \$12.2 million in FY 17 compared to \$11.5 million in FY 17 budget.
 - ✓ In FY 17 ecomaine sold 86,573 MWH's of electricity into the New England power grid which was down less than 1% from the FY 17 budget while the market value of the power averaged \$42.91 per MWH which was essentially flat to the FY 17 budget. As a result, revenue from power sales totaled \$3.7 million in FY 17 which was essentially flat to the FY 17 budget.
- *Total operating expenses (\$18.1 million) were \$3.2 million favorable to the FY 17 budgeted expenses (\$21.3 million) primarily reflecting a favorable variance in the Landfill Closure and Post Closure Costs.*
 - ✓ As a result of recently completed engineering studies there has been a material change from the total liability for Landfill Closure / Post Closure Costs that was reported as of June 30, 2016 (\$16.7 million) to \$14.6 million as of June 30, 2017. Determining the remaining landfill capacity and thus useful life is a function of land issues (settlement, etc.), technology, measured volumes in and the space these volumes will finally occupy and these recent studies show that the landfill life (capacity) required adjustment.
 - ✓ In addition departmental operating expenses totaled \$16.0 million down \$.6 million from the FY 17 budgeted departmental expenses of \$16.6 million. Waste to Energy operating costs were favorable \$.5 million (reflecting lower workers compensation premiums and fewer temporary workers) while Administrative costs were favorable \$.2 million (lower legal fees, public relations, and business insurance premiums). Recycling Operating costs were favorable \$.1 million (reflecting lower maintenance costs partially offset by the higher costs for recycle materials), while Landfill costs were \$.3 million unfavorable reflecting fill extension work and higher temporary driver costs. Contingency was \$.2 million favorable.

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Management's Discussion and Analysis, Continued

- ✓ Depreciation was favorable \$0.1 million reflecting below budget capital spending and timing on that spending.
- *Non-Operating Income & (Expense) was \$1.3 million favorable in FY 17 compared to budget primary as a result of the recent strong financial market's impact on our cash reserve funds.*

Cash balances on hand (including Investment Reserves) increased in FY 17 by \$2.3 million compared with an FY 17 budgeted decrease in cash of \$2.1 million.

- *The cash generated by Operations in FY 17 totaling \$4.2 million and was \$3.0 million greater than in the FY 17 budget primarily as a result of overall favorable revenues and lower operating costs.*
- *Also on the positive side was the impact of the strong financial markets adding \$1.2 million more to cash balances than budgeted in FY 17.*
- *Capital expenditures were below budget by \$0.3 million reflecting a delay in the completion of several projects.*

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Management's Discussion and Analysis, Continued

The statements of net position look at **ecomaine** as a whole. Table 1 below is a summary of **ecomaine's** net position for 2017 with comparative numbers for 2016.

Details for Table 1 can be found on the Statements of Net Position on page 8 in the financial statements.

Table 1
Net Position

	<u>2017</u>	<u>2016</u>
ASSETS		
Current and other	\$ 12,676,655	\$ 13,774,081
Capital assets	28,037,761	29,039,060
Investment Reserves	<u>23,325,817</u>	<u>19,697,661</u>
Total assets	<u>64,040,233</u>	<u>62,510,802</u>
LIABILITIES		
Current liabilities	2,319,808	1,736,841
Other liabilities	<u>15,135,110</u>	<u>17,257,346</u>
Total liabilities	<u>17,454,918</u>	<u>18,994,187</u>
NET POSITION		
Invested in capital assets, net of related debt	28,037,761	29,039,060
Unrestricted	<u>18,547,554</u>	<u>14,477,555</u>
Total net position	\$ <u>46,585,315</u>	\$ <u>43,516,615</u>

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Management's Discussion and Analysis, Continued

Details for Table 2 can be found in the Statements of Revenues, Expenses, and Changes in Net Position on page 9 of the financial statements.

Table 2
Changes in Net Position FY 17 compared to FY 16

	<u>2017</u>	<u>2016</u>	<u>Increase (decrease)</u>
REVENUES			
Operating revenues	\$ 19,883,404	\$ 18,619,303	\$ 1,264,101
Total revenues	19,883,404	18,619,303	1,264,101
OPERATING EXPENSES			
Administration	2,518,887	2,522,222	(3,335)
Waste to Energy operations	9,371,777	8,946,000	425,777
Recycling operations	2,203,746	2,173,789	29,957
Landfill operations	1,931,544	1,641,948	289,596
Landfill closure and Postclosure care costs	(2,182,480)	295,483	(2,477,963)
Post-retirement benefit	60,244	70,458	(10,214)
Depreciation and amortization	4,177,307	4,201,984	(24,677)
Total operating expenses	18,081,025	19,851,884	(1,770,859)
Non-operating revenues (expenses):			
Interest income	281,162	208,463	72,699
Gain (loss) on investment	917,499	(41,844)	959,343
Gain (loss) on disposition of assets	52,325	(65,385)	117,710
All other	15,335	7,200	8,135
Net non-operating revenues (expenses)	1,266,321	108,434	1,157,887
Increase (decrease) in net position	\$ 3,068,700	\$ (1,124,147)	\$ 4,192,847

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Management's Discussion and Analysis, Continued

Capital Expenditures and Asset Values

Table 3
Capital Assets at June 30
(Net of depreciation)

	<u>2017</u>	<u>2016</u>
Land at WTE facility	\$ 2,015,201	\$ 2,015,201
Vehicles	758,351	779,208
Office equipment	186,308	162,219
Recycling facility and equipment	1,989,027	2,438,497
Balefill/ashfill/leachate site	3,828,748	4,592,374
Waste-to-energy facility	<u>19,260,126</u>	<u>19,051,561</u>
Total capital assets	\$ <u>28,037,761</u>	\$ <u>29,039,060</u>

Request for Information

This financial report is designed to provide our members, customers, investors and creditors with a general overview of **ecomaine's** finances and to show **ecomaine's** accountability for the money it receives. If you have any questions about this report or need additional information, contact Arthur P. Birt, Director of Finance and Administration, at (207) 523-3107.

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Statements of Net Position
June 30, 2017 and 2016

	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,223,377	\$ 5,914,305
Accounts receivable, net	2,135,332	1,885,906
Inventory	2,808,335	2,641,991
Prepaid expenses	197,485	405,802
Total current assets	11,364,529	10,848,004
Capital assets, net	28,037,761	29,039,060
Reserves:		
Cash and cash equivalents - reserves	1,312,126	2,926,077
Investment - reserves	23,325,817	19,697,661
Total reserves	24,637,943	22,623,738
Total assets	\$ 64,040,233	\$ 62,510,802
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 1,161,369	\$ 565,208
Accrued expenses	165,317	270,515
Accrued salaries and compensated absences	993,122	901,118
Total current liabilities	2,319,808	1,736,841
Post-retirement benefit liability	570,596	510,352
Accrued landfill closure and postclosure care liabilities	14,564,514	16,746,994
Total liabilities	\$ 17,454,918	\$ 18,994,187
NET POSITION		
Invested in capital assets, net of related debt	28,037,761	29,039,060
Unrestricted	18,547,554	14,477,555
Total net position	\$ 46,585,315	\$ 43,516,615

See accompanying notes to financial statements on pages 11-19.

ecomaine
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2017 and 2016

	2017	2016
Operating revenues:		
Tipping fees	\$ 4,894,205	\$ 4,829,015
Electrical generating revenues	3,715,051	4,182,191
Commercial tipping fees and spot market waste	7,336,602	6,991,984
Recycling tipping fees	29,296	140,644
Sales of recycled goods	3,806,555	2,369,969
Other operating income	101,695	105,500
Total operating revenues	19,883,404	18,619,303
Operating expenses:		
Administrative expenses	2,518,887	2,522,222
Waste-to-energy operating expenses	9,371,777	8,946,000
Recycling operating expenses	2,203,746	2,173,789
Landfill/ashfill operating expenses	1,931,544	1,641,948
Landfill closure and postclosure care costs	(2,182,480)	295,483
Post-retirement benefits	60,244	70,458
Total operating expenses other than depreciation	13,903,718	15,649,900
Net operating income before depreciation	5,979,686	2,969,403
Depreciation	4,177,307	4,201,984
Net operating income (loss)	1,802,379	(1,232,581)
Non-operating revenues (expenses):		
Interest and dividend income	281,162	208,463
Miscellaneous receipts	15,335	7,200
Gain (loss) on investments	917,499	(41,844)
Gain (loss) on disposition of assets	52,325	(65,385)
Net non-operating revenue (expenses)	1,266,321	108,434
Change in net positions	3,068,700	(1,124,147)
Total net position, beginning of year	43,516,615	44,640,762
Total net position, end of year	\$ 46,585,315	\$ 43,516,615

See accompanying notes to financial statements on pages 11-19.

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Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Receipts from assessments and tipping fees	\$ 12,010,677	\$ 12,018,906
Receipts from electrical generating revenues	3,715,051	4,182,191
Receipts from other sources	3,908,250	2,475,469
Payments to employees	(7,129,760)	(7,141,692)
Payments to suppliers	(8,255,919)	(8,946,106)
Net cash and cash equivalents provided by operating activities	4,248,299	2,588,768
Cash flows from capital and related financing activities:		
Purchases of property, plant and equipment	(3,176,008)	(2,162,288)
Net cash and cash equivalents used in capital and related financing activities	(3,176,008)	(2,162,288)
Cash flows from investing activities:		
Purchase of investments	(3,628,156)	(4,149,746)
Gain (loss) on investments	917,499	(41,844)
Interest income	281,162	208,463
Sale of other assets	52,325	1,434,615
Net cash and cash equivalents used in investing activities	(2,377,170)	(2,548,512)
Net decrease in cash	(1,304,879)	(2,122,032)
Cash and cash equivalents balance, beginning of year	8,840,382	10,962,414
Cash and cash equivalents balance, end of year	\$ 7,535,503	\$ 8,840,382
Less cash and cash equivalents - reserves	(1,312,126)	(2,926,077)
Cash and cash equivalents	\$ 6,223,377	\$ 5,914,305
Reconciliation of net operating loss to net cash and cash equivalents provided by operating activities:		
Net operating income (loss)	\$ 1,802,379	\$ (1,232,581)
Adjustments to reconcile net operating income (loss) to net cash provided by operating activities:		
Depreciation	4,177,307	4,201,984
Purchase discounts	15,335	7,200
(Increase) decrease in assets:		
Accounts receivable	(249,426)	57,263
Inventory	(166,344)	(154,236)
Prepaid expenses	208,317	(215,476)
Increase (decrease) in liabilities:		
Accounts payable	596,161	(461,876)
Accrued salaries and compensated absences	92,004	(79,268)
Accrued expenses	(105,198)	99,817
Post-retirement benefit liability	60,244	70,458
Accrued landfill closure and postclosure care liabilities	(2,182,480)	295,483
Net cash provided by operating activities	\$ 4,248,299	\$ 2,588,768

See accompanying notes to financial statements on pages 11-19.

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Notes to Financial Statements

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PROCEDURES

Reporting Entity - ecomaine was incorporated during the fiscal year ended June 30, 2006 under the laws of the State of Maine. **ecomaine** is a non-profit solid waste management corporation serving 59 municipalities in southern Maine and New Hampshire. Owned and controlled by 20 of these municipalities at June 30, 2017, **ecomaine** creates electricity through its processing of waste. **ecomaine** also operates an extensive recycling program.

Measurement Focus and Basis of Accounting - The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses recorded when a liability is incurred, regardless of the timing of the related cash flows.

The Organization distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the principal ongoing operations of **ecomaine**. The principal operating revenues of **ecomaine** are tipping fees, electric energy sales, and the sale of recycled goods. Operating expenses include the cost of operating the facility, recycling, landfill, closure, postclosure and administrative expenses. All revenues and expenses not meeting this determination are reported as nonoperating revenues and expenses.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash Equivalents - **ecomaine** considers all highly liquid instruments (primarily money market funds and other U.S. Treasury obligations) with original maturities of three months or less to be cash equivalents.

Accounts Receivable - **ecomaine** provides credit to users of their facility, including municipalities and private waste transporters, substantially all of whom are located in southern Maine. BP Energy Company, a purchaser of **ecomaine's** electrical output, is also afforded credit. Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. The allowance for doubtful accounts was \$29,581 and \$29,646 at June 30, 2017 and 2016, respectively. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a reduction in trade accounts receivable.

Inventory - Inventory is comprised of consumable items used in production and spare parts. Inventory is stated at the lower of cost or market determined on the first-in, first-out basis.

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Notes to Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PROCEDURES, CONTINUED

Capital Assets - Capital assets are recorded at cost. All costs incurred for construction, additions, and improvements to the facility, including interest during construction, are capitalized.

Depreciation has been provided over the estimated useful lives of the assets using the straight-line method, as follows:

Equipment	5 - 30 years
Vehicles	5 - 7 years
Ashfill/balefill	15 - 20 years
Recycling plant	25 years
Waste-to-energy facility	20 - 45 years

Income Taxes - The Organization is exempt from federal and state income taxes under Section 501 (c)(3) of the Internal Revenue Code, and therefore no liability or provision for income taxes has been recorded.

DEPOSITS AND INVESTMENTS

A. Deposits

Custodial Credit Risk - Deposits: Custodial credit risk is the risk that in the event of a bank failure, **ecomaine's** deposits may not be returned to it. As of June 30, 2017, **ecomaine** reported deposits of \$6,223,377 with a bank balance of \$6,295,998. As of June 30, 2016, **ecomaine** reported deposits of \$5,914,305 with a bank balance of \$6,450,987. At both June 30, 2017 and 2016, none of **ecomaine's** bank balances were exposed to custodial credit risk. The balances at June 30, 2017 and 2016 were covered by the F.D.I.C. or collateralized by a Stand-by Letter of Credit issued by the Federal Home Loan Bank of Pittsburgh in the amount of \$6,500,000 and \$7,000,000, respectively.

B. Investments

ecomaine categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

At June 30, 2017 **ecomaine** had the following investments and maturities:

	<u>Fair Value</u>	<u>Less than 1 year</u>	<u>1-5 years</u>	<u>More than 5 years</u>	<u>Level 1 inputs</u>
Certificates of Deposit	\$ 2,083,774	\$ 749,326	\$ 1,334,448	-	\$ 2,083,774
U.S. Government Securities	12,208,719	6,054,454	6,154,265	-	12,208,719
Equities/stock	6,836,060	Not applicable		-	6,836,060
Mutual funds	609,764	Not applicable		-	609,764
Money Market	1,587,500	Not applicable		-	1,587,500
Total Investments	\$ 23,325,817	\$ 6,803,780	\$ 7,488,713	-	\$ 23,325,817

ecomaine
Notes to Financial Statements, Continued

DEPOSITS AND INVESTMENTS, CONTINUED

ecomaine's policy is that all funds will be invested in accordance with Maine State law while the principal objectives in investing any **ecomaine** funds are safety, liquidity, and returns.

Cash and Investment Reserves - **ecomaine's** Board of Directors approved the establishment of cash and investment reserves, with the knowledge that general economic conditions and other needs may impact both the timing of the funding and the usage of such reserves in a manner not originally intended. Such reserves consist of the following:

Operating Cash Reserve - The funds are intended to provide for routine operating cash and financial security in the event of extraordinary events that cause either a significant decrease in operating revenues or a significant increase in operating expenses.

Required landfill Closure/Post Closure Reserve - The funds deposited in the required landfill closure reserve shall be used for funding the landfill's closure/post closure costs as required by Section 8 of the Interlocal Solid Waste Agreement dated December 1, 2005.

Discretionary Landfill Closure/Post Closure Reserve - To be used to provide periodic funding for the landfill closure and post closure care costs during the remaining useful life of the landfill and following closure.

Short-Term Capital Reserve - The funds are intended to provide for routine capital projects in the event of unanticipated circumstances.

Long-Term Capital Reserve - The funds are intended to provide for large new capital projects which have not been provided for in the annual capital plan.

Recycling Revenue and Cost Sharing Reserve - The funds deposited in the account shall be used to provide relief to owner communities in the event of weak recycling markets.

	<u>2017</u>	<u>2016</u>
Operating Cash Reserve	\$ 8,290,518	\$ 8,249,690
Landfill Closure Reserve - Required	301,736	300,941
Landfill Closure Reserve - Discretionary	7,712,419	6,214,445
Long-Term Capital Reserve	4,520,183	4,057,653
Short-Term Capital Reserve	3,310,239	3,298,493
Recycling Revenue and Cost Sharing Reserve	502,848	502,516
<u>Total reserve</u>	<u>\$ 24,637,943</u>	<u>\$ 22,623,738</u>

Custodial Credit Risk - investments: For investments, custodial credit risk is the risk that, in the event of failure of the counterparty, **ecomaine** will not be able to recover the value of its investments that are in the possession of an outside party. **ecomaine** has the following policies for custodial credit risk.

ecomaine
Notes to Financial Statements, Continued

DEPOSITS AND INVESTMENTS, CONTINUED

Authorized Securities and Transactions for All Investments Favoring Lower Risk and Higher Liquidity:

The investments of these funds will be in demand accounts and time certificates of deposits, U.S. Treasury obligations, federal instrumentality securities, and money market mutual funds. They are all to be guaranteed by the federal government or one of its agencies backed by the federal government. The demand accounts and time certificates of deposit are to be provided by institutions insured by the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Share Insurance Fund (NCUSIF), or the successors to these federal agencies.

Authorized Securities and Transactions for Investments Favoring Reduced Liquidity, and Greater Returns:

The investments in these funds is to be in individual equities, equity mutual funds, bond mutual funds, or other investments that 1) may risk loss of principal, and 2) are subject to Maine law and the Prudent Investor Rule. No single fixed income security will comprise more than 10% of the total value of each of the reserves, unless fully backed by the federal government or its agencies and instrumentalities.

Interest Rate Risk - investments: **ecomaine** does have a policy related to investment rate risk. This policy details that the investment and cash management portfolio be designed to attain a market value rate of return throughout budgetary and economic cycles, taking into account prevailing market conditions, risk constraints for eligible securities and cash flow requirements. Unless matched to a specific cash flow, **ecomaine** is not allowed to directly invest in securities maturing more than three years from the date of purchase.

Credit Risk - investments: Maine statutes authorize **ecomaine** to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements and certain corporate stocks and bonds. **ecomaine** does have a formal policy related to credit risk as is detailed above. At June 30, 2017, **ecomaine's** investments were rated as follows by Standard & Poor's.

Credit Risk Rating:

<u>U.S. Government Securities with AA+ Ratings</u>	<u>\$ 12,208,719</u>
<u>Total</u>	<u>\$ 12,208,719</u>

The remainder of **ecomaine's** investments are not rated.

ecomaine
Notes to Financial Statements, Continued

CAPITAL ASSETS

Capital assets at June 30, 2017 and 2016 consisted of the following:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Capital assets, not being depreciated:				
Land-waste-to-energy/ashfill	\$ 2,015,201	\$ -	\$ -	\$ 2,015,201
Total capital assets, not being depreciated	2,015,201	-	-	2,015,201
Capital assets being depreciated:				
Vehicles	1,720,374	222,342	143,630	1,799,086
Office equipment	437,929	87,307	-	525,236
Recycling facility and equipment	13,647,763	46,411	-	13,694,174
Balefill/ashfill/leachate site	19,542,028	12,711	13,739	19,541,000
Waste-to-energy facility	101,467,839	2,820,976	-	104,288,815
Total capital assets being depreciated	136,815,933	3,189,747	157,369	139,848,311
Less accumulated depreciation:				
Vehicles	(941,166)	(243,199)	(143,630)	(1,040,735)
Office equipment	(275,710)	(63,218)	-	(338,928)
Recycling facility and equipment	(11,209,266)	(495,881)	-	(11,705,147)
Balefill/ashfill/leachate site	(14,949,654)	(762,598)	-	(15,712,252)
Waste-to-energy facility	(82,416,278)	(2,612,411)	-	(85,028,689)
Total accumulated depreciation	(109,792,074)	(4,177,307)	(143,630)	(113,825,751)
Total capital assets being depreciated, net	27,023,859	(987,560)	13,739	26,022,560
Total capital assets	\$ 29,039,060	\$ (987,560)	\$ 13,739	\$ 28,037,761

ecomaine
Notes to Financial Statements, Continued

NET ASSETS INVESTED IN CAPITAL ASSETS NET OF RELATED DEBT

Net Assets - Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds and capital leases payable. **ecomaine's** net assets invested in capital assets, net of related debt, were calculated as follows at June 30:

	<u>2017</u>	<u>2016</u>
Capital assets	\$ 141,863,512	\$ 138,831,134
Accumulated depreciation	(113,825,751)	(109,792,074)
Total invested in capital assets net of related debt	\$ 28,037,761	\$ 29,039,060

POWER PURCHASE AGREEMENTS

During the fiscal years ended June 30, 2017 and 2016, **ecomaine's** electric energy sales were governed by a Power Purchase Agreement with an outside third party for sale of its power at contracted rates. The prior agreement expired January 31, 2017; the current agreement commenced February 1, 2017 and expires January 31, 2018. At June 30, 2017 and 2016, electrical generating revenues amounted to \$3,715,051 and \$4,182,191, respectively.

RETIREMENT PLANS

Nonunion - All non-union employees are covered by a defined contribution plan ("Retirement Plan of **ecomaine**") after their probationary period is completed. Employees are immediately vested in their own contributions as well as in **ecomaine's** contributions. **ecomaine** contributed 8% in 2017 and 2016 of the covered employees' gross pay on covered wages of \$2,076,242 and \$2,035,364, respectively. Pension expense amounted to \$166,099 and \$164,520 for the years ended June 30, 2017 and 2016, respectively.

Union - In accordance with an agreement with its Union, **ecomaine** contributes to the Union's Pension Plan. The contributions equal 5.25% of compensation received for hours worked by each eligible plan participant. Pension expense amounted to \$132,038 and \$145,211 for the years ended June 30, 2017 and 2016, respectively, on covered wages of \$2,515,005 and \$2,781,359, respectively. The Pension Fund is a defined benefit pension program that provides retirement benefits to eligible plan participants. The net pension liability, deferred inflows or deferred outflows, as of June 30, 2017, have not been recorded in the financial statements due to materiality. The net pension liability, deferred inflows, deferred outflows, required disclosures and required supplementary information will be evaluated annually to determine if recording the net pension liability and related pension expense as well as the required disclosures is necessary.

Other Plans - In addition to the above plan, a second defined contribution plan was established in the fiscal year ended June 30, 2007 to provide retirement contributions in excess of 8% to specified employees. Such pension expense amounted to \$21,125 and \$17,180 on covered wages of \$176,425 and \$171,796 for the years ended June 30, 2017 and 2016, respectively.

Social Security - **ecomaine** participates in the Social Security retirement program. **ecomaine's** contributions to Social Security were \$395,995 and \$396,474 for the years ended June 30, 2017 and 2016, respectively.

ecomaine
Notes to Financial Statements, Continued

CLOSURE AND POSTCLOSURE CARE COSTS

State and Federal laws and regulations require **ecomaine** to place a final cover on its balefill and ashfill sites when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the dates that the landfills stop accepting waste, **ecomaine** reports a portion of these closure and postclosure costs as an operating expense in each year based on landfill capacity used as of each balance sheet date. **ecomaine** will recognize the remaining estimated cost of closure and postclosure care for the ashfill site as the remaining estimated capacity is filled.

Actual costs may be higher due to inflation, changes in technology, or changes in regulations. **ecomaine** anticipates financing closure costs by funding and using reserves and/or the issuing of bonds at the time of closure. A summary of estimated landfill closure and postclosure care costs is as follows:

	<u>2017</u>	<u>2016</u>
Total estimated future landfill closure and postclosure care costs	\$ 22,466,181	\$ 22,216,761
Estimated capacity used	64.83%	75.38%
Estimated gross landfill closure and postclosure care costs - end of year	14,564,514*	16,746,994
Amounts actually expended	N/A	N/A
Estimated liability for landfill closure and postclosure care costs - end of year	14,564,514	16,746,994
Estimated remaining landfill closure and postclosure care costs to be recognized	\$ 7,901,667	\$ 5,469,767

*Determining the remaining capacity of the ecomaine landfill and thus its useful life is a function of land issues (e.g. settlement), technology, screening, and recovery of metal, measured volumes in and the space these volumes will finally occupy. During FY17 a new estimate was prepared on the remaining available space in the ecomaine landfill site and this study indicated that the landfill life is longer than previously anticipated. To account for this increase in useful life, ecomaine reevaluated the landfill liability as of June 30, 2017 resulting in a \$2,182,480 decrease in the landfill liability as of June 30, 2017. As indicated in the above table the total closure and post closure care costs remain relatively consistent with the prior year and thus the only difference is the length of time (landfill life) over which these costs will be amortized.

OTHER POSTEMPLOYMENT BENEFITS

Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, requires that the long-term cost of retirement health care and obligations for other postemployment benefits (OPEB) be determined on an actuarial basis and reported similar to pension plans.

ecomaine is a member of the Maine Municipal Employees Health Trust. The Health Trust contracted with an outside consultant to assist in the determination and valuation of **ecomaine's** OPEB liability under GASB Statement No. 45. An OPEB liability actuarial valuation was completed by the consultants in June 2009, in September 2011, in August of 2014, and in August of 2017.

ecomaine
Notes to Financial Statements, Continued

OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

Plan Descriptions - **ecomaine** sponsors a post retirement benefit plan providing health insurance to retiring employees through the Maine Municipal Employees Trust. Employees over the age of 55 with 5 years of continuous service are allowed to participate in the plan and are responsible for 100% of the premium.

Funding Policy and Annual OPEB Cost - GASB Statement No. 45 does not mandate the prefunding of postemployment benefits liability. **ecomaine** currently plans to fund these benefits on a pay-as-you-go basis. No assets have been segregated and restricted to provide postemployment benefits. The annual required contribution (ARC), an actuarial determined rate, represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize unfunded actuarial liabilities over a period not to exceed thirty years.

The following table represents the OPEB costs for the year and the annual required contribution:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Normal cost	\$ 35,914	\$ 44,304	\$ 44,304
Amortization of unfunded	38,777	36,217	36,217
Adjustment to ARC	(29,504)	(25,430)	(21,250)
Interest	21,886	19,184	16,293
Annual required contribution	\$ 67,073	\$ 74,275	\$ 75,564

Funding Status and Funding Progress - **ecomaine's** annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ending June 30 was as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual required contribution	\$ 76,170	\$ 74,275	\$ 75,564
Actual contribution	-	-	-
Percent contributed	0.00%	0.00%	0.00%
Actuarial accrued liability	697,352	651,316	651,316
Plan assets	-	-	-
Unfunded actuarial accrued liability	697,352	651,316	651,316
Covered payroll	\$ 5,082,621	\$ 5,129,258	\$ 5,044,484
Unfunded actuarial accrued liability as a percentage of covered payroll	13.72%	12.70%	12.91%

Net OPEB Obligation - The net OPEB obligation was calculated as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
OPEB liability, July 1	\$ 510,186	\$ 439,728	\$ 367,454
Annual OPEB Cost	67,073	74,275	75,564
Less: Implicit contributions	(6,663)	(3,817)	(3,290)
OPEB liability, June 30	\$ 570,596	\$ 510,186	\$ 439,728

ecomaine
Notes to Financial Statements, Continued

OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

The post-retirement benefit liability at June 30, 2017 and 2016 was \$570,596 and \$510,352, resulting in an excess of \$0 and \$166, respectively.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information (all years from last three valuations) that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions - Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between **ecomaine** and plan members at that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of plan assets. Significant methods and assumptions were as follows:

Actuarial valuation date	01/01/17
Actuarial cost method	Entry Age Normal
Amortization method	Level dollar open
Remaining amortization period	30 years

Actuarial assumptions:	
Investment rate of return	4.0%
Projected salary increases	27.75%
Healthcare inflation rate	4.0%

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress

Retiree Healthcare Plan							
Fiscal year	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AL) – Entry Age (b)	Unfunded AL (UAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a) / c]
2011	01/01/11	\$ -	\$ 553,647	\$ 553,647	0.00%	\$ 4,436,838	12.50%
2012	01/01/11	-	553,647	553,647	0.00%	4,524,794	12.20%
2013	01/01/11	-	553,647	553,647	0.00%	4,733,894	11.70%
2014	01/01/14	-	651,316	651,316	0.00%	4,875,911	13.40%
2015	01/01/14	-	651,316	651,316	0.00%	5,044,484	12.91%
2016	01/01/14	-	651,316	651,316	0.00%	5,129,258	12.70%
2017	01/01/17	-	697,352	697,352	0.00%	5,082,621	13.72%

ecomaine
Budget to Actual
Year Ended June 30, 2017

	Actual	Budget	Variance	Change
Operating revenues:				
Owners tipping fees	\$ 3,554,488	\$ 3,510,242	\$ 44,246	1.3%
Associate and contract tipping fees	1,339,717	1,255,806	83,911	6.7%
Commercial tipping fees	5,649,092	5,127,039	522,053	10.2%
Spot market tipping fees	1,687,510	1,593,144	94,366	5.9%
Electrical generating revenues	3,715,051	3,729,700	(14,649)	-0.4%
Sales of recycled goods	3,806,555	2,378,560	1,427,995	60.0%
Recycling tipping fees	29,296	163,356	(134,060)	-82.1%
Other operating income	101,695	98,717	2,978	3.0%
Total operating revenues	19,883,404	17,856,564	2,026,840	11.4%
Operating expenses:				
Administrative expenses	2,518,887	2,701,649	182,762	6.8%
Waste-to-energy operating expenses	9,371,777	9,829,923	458,146	4.7%
Recycling operating expenses	2,203,746	2,276,510	72,764	3.2%
Landfill/ashfill operating expenses	1,931,544	1,618,116	(313,428)	-19.4%
Contingency	-	200,000	200,000	n/a
Landfill closure and postclosure care costs	(2,182,480)	260,000	2,442,480	939.4%
Post-retirement benefit	60,244	75,000	14,756	19.7%
Total operating expenses	13,903,718	16,961,198	3,057,480	18.0%
Net operating income other than depreciation and amortization	5,979,686	895,366	5,084,320	567.8%
Depreciation	4,177,307	4,300,000	122,693	2.9%
Net operating income	1,802,379	(3,404,634)	5,207,013	-152.9%
Non-operating income (expense):				
Interest income	322,482	15,000	307,482	2049.9%
Miscellaneous receipts	15,335	-	15,335	n/a
Investment expense	(41,320)	-	(41,320)	n/a
Gain (loss) on investments	917,499	-	917,499	n/a
Gain (loss) on disposition of assets	52,325	-	52,325	n/a
Net non-operating	1,266,321	15,000	1,251,321	20
Total revenues less expenses	\$ 3,068,700	\$ (3,389,634)	\$ 6,458,334	-190.5%

To the management of
ecomaine

In planning and performing our audit of the financial statements of **ecomaine** as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered **ecomaine's** internal control over financial reporting (internal control) as a basis for designing auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **ecomaine's** internal control. Accordingly, we do not express an opinion on the effectiveness of **ecomaine's** internal control.

However, during our audit, we noted two matters that may represent an opportunity for strengthening internal controls and operating efficiency, which we have reported as "Other Matters" in the attached schedule of comments. **ecomaine's** responses to these recommendations are also described in the accompanying schedule; we did not audit such responses and, accordingly, we express no opinion on them. This letter does not affect our report dated _____ on the financial statements of **ecomaine**.

We will review the status of these comments during our next audit engagement. We have already discussed these suggestions with management, and we will be pleased to discuss it in further detail at your convenience, to perform any additional studies of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of management and others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.

Runyon Kersteen Ouellette

ecomaine
Schedule of Comments, continued

OTHER MATTERS

Capital Expenditures in the Fixed Assets Subsidiary Ledger

While performing our audit procedures of capital assets, we noted several instances where the capital assets recorded in the general ledger did not agree to what was recorded in the subsidiary ledger. This was a result of the subsidiary ledger, not communicating well with the general ledger, due to limited functionality. It was also difficult to obtain updated depreciation reports within the live subsidiary ledger after the close of the fiscal year. Such reports needed to be obtained in the “test company”, which was closed on June 30, 2017. This becomes a cumbersome process. We recommend that management discuss with its software vendor, better options available to integrate fixed assets into the general ledger which will enable the assets to be easily tracked while potentially eliminating the cumbersome reconciliation process that takes place at each audit period.

Management’s Response: Management agrees that, at the current time, there is limited functionality with the fixed asset sub ledger. We will work with Tidestone (software vendor) to determine what, if anything, can be done to resolve these issues.

Routine General Ledger Review

To ensure the accuracy of recorded transactions, periodic reviews and/or reconciliations of general ledger balances must be performed. Such procedures were not routinely performed during the year. We believe that the following procedures should be performed on a monthly basis.

- Reconciliation of bank statements and general ledger.
- Analysis of balances of the various accrued expense accounts.
- Analytical review of each revenue account to identify misclassifications or errors.
- Analytical review of expenditures to identify misclassifications or errors.

A monthly check off sheet controlled by the finance manager would be a good means of ensuring that each of these procedures is performed on schedule each month.

Management’s Response: We understand and agree with the comments relating to the General Ledger review. We have started putting in place some of the recommendations (monthly check off sheet for tracking account reconciliations) and are developing a plan involving operations to get a better picture of accrued expenses and proper expenditure classifications.

- **How long has RKO been performing the Audit?**
 - I have found most all of the audit reports going back to 1982 and with the exception of 1982 which was done by Peat Marwick it looks to me like all other years have been audited by RKO
- **Fees & Costs**
 - The last time we went out with an RFP was in 2012. We had 3 organizations decline to participate and 5 organizations that submitted proposals with annual fees ranging from \$18,000 to \$32,000. The Audit Committee interviewed the three low bidders and chose to remain with RKO for a three year period. Our annual fees dropped to \$21,000 for the FY 12 Audit,
 - Since that RFP was done the Audit Committee has, after some discussion, annually approved remaining with RKO and agreed on fees for FY 17 totaling \$22,000.
 - There is a cost involved in developing & issuing an RFP – Staff time and some audit committee time,
 - If we do this and remain with RKO -- at some point other organizations will lose interest
 - Will the price go much lower with an RFP? What's a fair price for the work involved?
 - RKO has stated that they will keep fees flat for the FY 18 Audit,
- **New eyes**
 - Focus on different areas and look at things differently – that's can be good and bad,
 - I believe this is the 5th year that Roger Lebreux (Partner) has been on the account and he has brought a different prospective to the audit,
 - Amy Chasse has worked on our audit for several years and was recently promoted to Partner. She brings good common sense and new faces with her as part of the effort,
 - Several times over the last 7 years we have asked RKO to focus on specific areas – Scale house software (new – lot of changes), Recycle Revenue (were controls adequate), Accounts Payable (people changes), Payroll (new staff, outsourcing, bi weekly), – they have done it with no additional charge and do a good job for us – they know ecomaine and possible issues.
 - Bringing **all new eyes** on board has a price as well – they will not “know ecomaine” our history, our people (not just finance but ops as well), our systems & controls, etc. They will expect different things from staff this can be good and bad It does mean a lot of staff time involved in education for the new team as well as ecomaine staff learning about the new audit team. Time that might be better used elsewhere.
 - A new firm doesn't mean you will get “good eyes” – do they really understand ecomaine and do they have some “common sense”. I have been involved in replacing an audit team because they did not have any “common sense”.
 - Governmental Accounting knowledge – good portion of RKO cliental is governmental based – Roger raised the issue of GASB 68 – Pension accounting other firms may not be as knowledgeable in this area.
 - Timing of service – reports ready in October (and could be sooner) – I have heard of some towns not getting final reports until 9 months into the next year.