



Financial Statements

June 30, 2018 and 2017

ecomaine
Financial Statements
For the Years Ended June 30, 2018 and 2017

Table of contents

Page(s)

Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-8
Basic Financial Statements:	
Statements of Net Position	9
Statements of Revenues, Expenses, and Changes in Net Position	10
Statements of Cash Flows	11
Notes to Financial Statements	12-22
Required Supplementary Information	23
Notes to Required Supplementary Information	24

Schedule

Supplemental Schedules:		
Budget to Actual	1	25

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, 2018 and 2017, 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, 2018 and 2017, 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.

Change in Accounting Principle

As discussed in the notes to the basic financial statements, in 2018 **ecomaine** adopted new accounting guidance, *GASBS No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

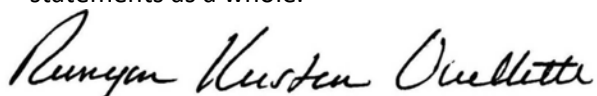
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 and the schedule of changes in **ecomaine's** total health plan OPEB liability and related ratios on page 23, 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 information 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 basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the procedures performed as described above, schedule 1 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



November 16, 2018
South Portland, Maine

Management's Discussion and Analysis
Fiscal Year Ended June 30, 2018

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, 2018. 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, deferred outflows of resources, 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 18 Actual to FY 17 Actual

FY 18 Revenue less Expenses (change in net position) was a loss of \$1.2 million compared to the FY 17 gain of \$3.1 million reflecting favorable revenues, total operating costs, and strong financial markets.

- *FY 18 revenues (\$18.8 million) were \$1.1 million down from FY 17 Revenues (\$19.9 million) primarily as a result of weak revenue per ton in the recycle markets. This decline was offset in part with higher power revenues representing a lower power production year and higher market rates for the power sold.*
 - ✓ Inbound recycle volume totaled 38,861 tons in FY 18 up about 1% from FY 17, which was 38,638 tons, while the market value for outbound recycle material averaged just under \$63 per ton reflecting a weak recycling market. As a result, recycling revenues were down \$1.4 million in FY 18 from FY 17 or -36.5%.
 - ✓ Total solid waste volume received by ecomaine was down about 2.3% totaling 175,898 tons in FY 18 compared with 179,939 tons on FY 17. There was a slight increase in commercial volume but offset by a 32% decrease in spot tons. Tipping fees overall averaged \$68 per ton compared to \$67 per ton in FY 17. As a result, tipping fees for solid waste totaled \$12.0 million in FY 18 compared to \$12.2 million in FY 17.
 - ✓ In FY 18, ecomaine sold 84,544 MWH's of electricity into the New England power grid which was down 2.3% from FY 17. The market value of the power averaged \$49.96 per MWH which was up 16.2% from FY 17 (\$42.91/MWH). As a result, revenue from power sales totaled \$4.2 million in FY 18 compared to \$3.7 million in FY 17.

Management's Discussion and Analysis, Continued

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- *Total operating expenses (\$21.4 million) were \$3.3 million unfavorable to FY 17 expenses (\$18.1 million) primarily due to the \$2.2 million favorable adjustment made in FY 17 for the Landfill Closure and Post Closure Costs. The remaining \$1.1 million unfavorable variance reflects higher temporary labor expenses for recycling, spare parts, food waste processing, vehicle maintenance and various other operating expenses that were planned in FY 18.*
 - *Non-operating Revenue (Expense) totaled \$1.3 million in both FY 18 and FY 17 primarily a reflection of the recent strong financial market's impact on our cash reserve funds.*

Cash balances on hand (including Investment Reserves) totaled \$30.3 million at year end FY 18 increasing by \$.5 million from FY 17.

- *The cash generated by Operations in FY 18 totaling \$2.3 million was \$1.9 million lower than in FY 17 primarily as a result of favorable overall revenues in FY 17.*
- *On the positive side was the impact of the strong financial markets adding \$1.3 million, which was slightly higher than we saw in FY 17.*
- *Partially offsetting these items was a \$.9 million increase in capital spending (totaling \$4.1 million) over FY 17, which included the scale house replacement and the beginning of the rebuilding of the plates and electrodes in the Waste to Energy facility.*

The total Net Position for ecomaine decreased from \$46.4 million at the end of FY 17 to \$45.2 million at the end of FY 18.

- *Total Assets for ecomaine decreased by \$1.1 million to \$62.9 million from the FY 17 total of \$64 million.*
 - ✓ *Current assets decreased to \$8.3 million from the \$11.4 million held at the end of FY 17 reflecting decreases in cash & cash equivalents of \$2.6 million and \$.4 million in accounts receivable.*
 - ✓ *Capital assets net of depreciation are down \$.2 million to \$27.8 million reflecting the impact of depreciation (totaling \$4.3 million) with total capital spending of \$4.1 million in FY 18.*
 - ✓ *Our cash reserves totaled \$26.7 million at the end of FY 18 and were up \$2.1 million over FY 17 year end reflecting the addition of \$.85 million to the discretionary Land Fill Reserve (as approved by the board in October) along with the impact of the strong financial market during FY 18.*
- *Total Liabilities for ecomaine increased from \$17.6 million at the end of FY 17 to \$17.7 million at the end of FY 18.*

Management's Discussion and Analysis, Continued

- ✓ Current Liabilities totaled \$2.1 million at the end of FY 18 down from \$2.3 million at the end of FY 17 reflecting primarily an overall decrease in Accounts Payable and Accrued Expenses totaling \$.2 million.
- ✓ Long-term liabilities are up \$0.3 million primarily as a result of the increase of \$.25 million for accrued landfill closing and \$50 thousand for the additional other Post-Employment Benefit due to change from GASB 45 to GASB 75.

Comparing FY 18 Actual to FY 18 Budget

FY 18 Revenue less Expenses was a loss of \$2.6 million compared to the FY 18 budgeted loss of \$3.8 million reflecting favorable revenues, total operating costs and strong financial markets.

- *FY 18 revenues (\$18.8 million) were \$.8 million above FY 18 budgeted revenues (\$18 million) primarily as a result of stronger recycling markets and above budget commercial solid waste volume.*
 - ✓ Inbound recycling volume totaled 38,861 tons in FY 18 down about 1.8% from the FY 18 budget (39,565 tons) while the market value for outbound recyclable material averaged just under \$63 per ton compared to \$70 per ton in the budget reflecting a weak recycling market. As a result, recycling revenues were down \$.3 million from the FY 18 budget or 12%.
 - ✓ Total solid waste volume received by ecomaine was up about 2% over budget totaling 175,898 tons in FY 18 compared with 172,449 tons included in the FY 18 Budget. All solid waste categories saw increases with commercial volume (81,449 tons) being the most significant (up 8.5%). Tipping fees overall averaged just over \$68 per ton compared to \$66 per ton in FY 18 budget (up 1.8%). As a result, tipping fees for solid waste totaled \$12 million in FY 18 compared to \$11 million in FY 18 budget.
 - ✓ In FY 18, ecomaine sold 84,544 MWH's of electricity into the New England power grid which was down less than 2% from the FY 18 budget while the market value of the power averaged \$50 per MWH which was up 17% compared to the FY 18 budget. As a result, revenue from power sales totaled \$4.3 million in FY 18 which was 15% up from the FY 18 budget.
- *Total operating expenses (\$21.4 million) were \$.4 million favorable to the FY 18 budgeted expenses (\$21.8 million) primarily reflecting a favorable variance in Waste to Energy operation along with a budgeted contingency for unexpected items.*
 - ✓ In addition, departmental operating expenses totaled \$16.8 million, down \$.1 million from the FY 18 budgeted departmental expenses of \$16.9 million. Waste to Energy operating costs were favorable \$.3 million while Administrative costs, Recycling Operating and Landfill costs were \$.2 million unfavorable reflecting close to budget operations.
 - ✓ Depreciation was near budget for FY 2018.
- *Non-Operating Revenue (Expense) was \$1.3 million favorable in FY 18 compared to budget primarily as a result of the recent strong financial market's impact on our cash reserve funds.*

Cash balances on hand (including Investment Reserves) decreased in FY 18 by \$.5 million compared with an FY 18 budgeted decrease in cash of \$6.2 million.

Management’s Discussion and Analysis, Continued

- *The cash generated by Operations in FY 18 totaling \$2.2 million and was \$1.2 million greater than in the FY 18 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 18.*
- *Capital expenditures were below budget by \$.5 million reflecting a delay in the completion of several projects.*

The statements of net position look at **ecomaine** as a whole. Table 1 below is a summary of **ecomaine's** net position for 2018 with comparative numbers for 2017.

Details for Table 1 can be found on the [Statements of Net Position](#) on page 9 in the financial statements.

Table 1
Net Position

	<u>2018</u>	Restated <u>2017</u>
ASSETS		
Current and other	\$ 8,529,767	12,676,655
Capital assets, net	27,818,784	28,037,761
Investment Reserves	<u>26,550,883</u>	<u>23,325,817</u>
Total assets	<u>\$ 62,899,434</u>	<u>64,040,233</u>
LIABILITIES		
Current liabilities	2,120,340	2,319,808
Other liabilities	<u>15,599,633</u>	<u>15,295,661</u>
Total liabilities	<u>\$ 17,719,973</u>	<u>17,615,469</u>
DEFERRED INFLOWS OF RESOURCES - OPEB	<u>\$ 6,487</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	27,818,784	28,037,761
Unrestricted	<u>17,354,190</u>	<u>18,387,003</u>
Total net position	<u>\$ 45,172,974</u>	<u>46,424,764</u>

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 10 of the financial statements.

Table 2
Changes in Net Position FY 18 compared to FY 17

	<u>2018</u>	<u>2017</u>	<u>Increase (decrease)</u>
REVENUES			
Operating revenues	\$ 18,812,174	\$ 19,883,404	\$ (1,071,230)
Total revenues	<u>18,812,174</u>	<u>19,883,404</u>	<u>(1,071,230)</u>
OPERATING EXPENSES			
Administration	2,740,466	2,518,887	221,579
Waste-to-Energy operations	9,717,360	9,371,777	345,583
Recycling operations	2,490,994	2,203,746	287,248
Landfill operations	1,794,473	1,931,544	(137,071)
Landfill closure and Postclosure care costs	254,884	(2,182,480)	2,437,364
Post-retirement benefit	55,575	60,244	(4,669)
Depreciation	<u>4,316,892</u>	<u>4,177,307</u>	<u>139,585</u>
Total operating expenses	21,370,644	18,081,025	3,289,619
Non-operating revenues:			
Interest income	370,923	281,162	89,761
Gain on investments	883,729	917,499	(33,770)
Gain on disposition of assets	37,160	52,325	(15,165)
All other	<u>14,868</u>	<u>15,335</u>	<u>(467)</u>
Net non-operating revenues	<u>1,306,680</u>	<u>1,266,321</u>	<u>40,359</u>
Increase (decrease) in net position	<u>\$ (1,251,790)</u>	<u>\$ 3,068,700</u>	<u>\$ (4,320,490)</u>

Capital Expenditures and Asset Values

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

	<u>2018</u>	<u>2017</u>
Land at WTE facility	\$ 2,015,201	\$ 2,015,201
Vehicles	1,185,636	758,351
Office equipment	244,385	186,308
Recycling facility and equipment	1,550,654	1,989,027
Balefill/ashfill/leachate site	3,433,412	3,828,748
Waste-to-energy facility	<u>19,389,496</u>	<u>19,260,126</u>
Total capital assets	\$ <u>27,818,784</u>	\$ <u>28,037,761</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 Don Hebert, Director of Finance and Administration, at (207) 523-3107.

ecomaine
Statements of Net Position
June 30, 2018 and 2017

	2018	Restated 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,641,942	\$ 6,223,377
Accounts receivable, net	1,702,101	2,135,332
Inventory	2,801,314	2,808,335
Prepaid expenses	241,659	197,485
Total current assets	8,387,016	11,364,529
Noncurrent assets:		
Capital assets, net	27,818,784	28,037,761
Reserves:		
Cash and cash equivalents - reserves	142,751	1,312,126
Investment - reserves	26,550,883	23,325,817
Total reserves	26,693,634	24,637,943
Total noncurrent assets	54,512,418	52,675,704
Total assets	\$ 62,899,434	\$ 64,040,233
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 836,621	\$ 1,161,369
Accrued expenses	266,971	165,317
Accrued salaries and compensated absences	1,016,748	993,122
Total current liabilities	2,120,340	2,319,808
Noncurrent liabilities:		
Other post-employment benefit liability	780,235	731,147
Accrued landfill closure and postclosure care liabilities	14,819,398	14,564,514
Total noncurrent liabilities	15,599,633	15,295,661
Total liabilities	\$ 17,719,973	\$ 17,615,469
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to OPEB	6,487	-
Total deferred inflows of resources	\$ 6,487	\$ -
NET POSITION		
Net investment in capital assets	27,818,784	28,037,761
Unrestricted	17,354,190	18,387,003
Total net position	\$ 45,172,974	\$ 46,424,764

See accompanying notes to financial statements.

ecomaine
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2018 and 2017

	2018	2017
Operating revenues:		
Tipping fees	\$ 5,209,629	\$ 4,894,205
Electrical generating revenues	4,257,098	3,715,051
Commercial tipping fees and spot market waste	6,806,892	7,336,602
Recycling tipping fees	269,741	29,296
Sales of recycled goods	2,165,413	3,806,555
Other operating income	103,401	101,695
Total operating revenues	18,812,174	19,883,404
Operating expenses:		
Administrative expenses	2,740,466	2,518,887
Waste-to-energy operating expenses	9,717,360	9,371,777
Recycling operating expenses	2,490,994	2,203,746
Landfill/ashfill operating expenses	1,794,473	1,931,544
Landfill closure and postclosure care costs (change in life)	254,884	(2,182,480)
Other post-employment benefits	55,575	60,244
Total operating expenses other than depreciation	17,053,752	13,903,718
Net operating income before depreciation	1,758,422	5,979,686
Depreciation	4,316,892	4,177,307
Net operating income (loss)	(2,558,470)	1,802,379
Non-operating revenues:		
Interest and dividend income	370,923	281,162
Miscellaneous receipts	14,868	15,335
Gain on investments	883,729	917,499
Gain on disposition of assets	37,160	52,325
Net non-operating revenue	1,306,680	1,266,321
Change in net position	(1,251,790)	3,068,700
Total net position, beginning of year, restated	46,424,764	43,356,064
Total net position, end of year	\$ 45,172,974	\$ 46,424,764

See accompanying notes to financial statements.

ecomaine
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Receipts from assessments and tipping fees	\$ 12,719,493	\$ 12,010,677
Receipts from electrical generating revenues	4,257,098	3,715,051
Receipts from other sources	2,268,814	3,908,250
Payments to employees	(7,442,292)	(7,129,760)
Payments to suppliers	(9,522,754)	(8,255,919)
Net cash and cash equivalents provided by operating activities	2,280,359	4,248,299
Cash flows from capital and related financing activities:		
Purchases of property, plant and equipment	(4,097,915)	(3,176,008)
Sale of other assets	37,160	52,325
Net cash and cash equivalents used in capital and related financing activities	(4,060,755)	(3,123,683)
Cash flows from investing activities:		
Purchase of investments	(3,225,066)	(3,628,156)
Gain (loss) on investments	883,729	917,499
Interest income	370,923	281,162
Net cash and cash equivalents used in investing activities	(1,970,414)	(2,429,495)
Net decrease in cash	(3,750,810)	(1,304,879)
Cash and cash equivalents balance, beginning of year	7,535,503	8,840,382
Cash and cash equivalents balance, end of year	\$ 3,784,693	\$ 7,535,503
Less cash and cash equivalents - reserves	(142,751)	(1,312,126)
Cash and cash equivalents	\$ 3,641,942	\$ 6,223,377
Reconciliation of net operating income (loss) to net cash and cash equivalents provided by operating activities:		
Net operating income (loss)	\$ (2,558,470)	\$ 1,802,379
Adjustments to reconcile net operating income (loss) to net cash provided by operating activities:		
Depreciation	4,316,892	4,177,307
Purchase discounts	14,868	15,335
(Increase) decrease in assets:		
Accounts receivable	433,231	(249,426)
Inventory	7,021	(166,344)
Prepaid expenses	(44,174)	208,317
Increase (decrease) in liabilities:		
Accounts payable	(324,748)	596,161
Accrued salaries and compensated absences	23,626	92,004
Accrued expenses	101,654	(105,198)
Other post-employment benefits liability	49,088	60,244
Accrued landfill closure and postclosure care liabilities	254,884	(2,182,480)
Deferred inflows of resources	6,487	-
Net cash provided by operating activities	\$ 2,280,359	\$ 4,248,299

See accompanying notes to financial statements.

ecomaine
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 21 of these municipalities at June 30, 2018, **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. Exelon Generation Company, purchasers of **ecomaine's** electrical output, are 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 at June 30, 2018 and 2017, 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.

ecomaine
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 of more than \$5,000 and an estimated useful life of more than one year are capitalized. Donated capital assets are reported at their estimated acquisition cost at the date of donation. To costs for normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not 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

Deferred Inflows and Outflows of Resources - In addition to assets and liabilities, the statement of net position will sometimes report separate sections for deferred outflows of resources and deferred inflows of resources. These separate financial statement elements, deferred outflows of resources and deferred inflows of resources, represent a consumption or acquisition of net position that applies to a future period(s) and therefore will not be recognized as an outflow of resources (expense) or inflow of resources (revenue) until that time. **ecomaine** has deferred outflows and inflows that relate to the other post-employment benefit liability, which include **ecomaine's** contributions subsequent to the measurement date, which is recognized as a reduction of the net other post-employment benefit liability in the subsequent year. They also include changes in assumptions, differences between expected and actual experience, and changes in proportion and differences between **ecomaine** contributions and proportionate share of contributions, which are deferred and amortized over the average expected remaining service lives of active and inactive members in the plan. They also include the net difference between projected and actual earnings on plan investments, which is deferred and amortized over a five-year period.

Compensated Absences - Under terms of personnel policies and union negotiated contracts, employees are granted vacation and sick and service time in varying amounts and are, in some cases, entitled to payment for unused vacation or sick and service payment upon termination or retirement. Compensated absences are accrued when incurred.

Net Position Flow Assumption - Although not a formal policy, when both restricted and unrestricted resources are available for use, it is **ecomaine's** intent to use restricted resources first, then unrestricted resources as they are needed.

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.

ecomaine
Notes to Financial Statements, continued

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, 2018, **ecomaine** reported deposits of \$3,641,942 with a bank balance of \$3,765,105. As of June 30, 2017, **ecomaine** reported deposits of \$6,223,377 with a bank balance of \$6,295,998. At both June 30, 2018 and 2017, none of **ecomaine's** bank balances were exposed to custodial credit risk. The balances at June 30, 2018 and 2017 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 \$3,750,000 and \$6,500,000, 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, 2018, **ecomaine** had the following investments and maturities:

	<u>Fair Value</u>	<u>Less than 1 year</u>	<u>1-5 years</u>	<u>Level 1 inputs</u>
Certificates of Deposit	\$ 2,115,335	596,400	1,518,936	2,115,335
U.S. Government Securities	12,902,703	2,213,721	10,688,982	12,902,703
Equities/stock	8,702,169	Not Applicable		8,702,169
Mutual funds	664,340	Not Applicable		664,340
Money Market	2,166,336	Not Applicable		2,166,336
Total Investments	\$ 26,550,883	2,810,121	12,207,918	26,550,883

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>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. This account was closed in November, 2017 and the funds were transferred to the Landfill Closure Reserve.

	<u>2018</u>	<u>2017</u>
Operating Cash Reserve	\$8,301,636	8,290,518
Landfill Closure Reserve - Required	301,753	301,736
Landfill Closure Reserve - Discretionary	9,789,027	7,712,419
Long-term Capital Reserve	4,984,354	4,520,183
Short-term Capital Reserve	3,316,864	3,310,239
<u>Recycling Revenue and Cost Sharing Reserve</u>	-	<u>502,848</u>
<u>Total reserve</u>	<u>\$26,693,634</u>	<u>24,637,943</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, 2018, **ecomaine's** investments were rated as follows by Standard & Poor's.

Credit Risk Rating:

<u>U.S. Government Securities with AA+ Ratings</u>	<u>\$ 12,902,703</u>
Total	\$ 12,902,703

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

ecomaine
Notes to Financial Statements, continued

CAPITAL ASSETS

Capital assets at June 30, 2018 and 2017 consisted of the following:

	<u>Balance</u> <u>June 30, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2018</u>
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	1,922,432	773,070	(208,727)	2,486,775
Office equipment	525,236	156,365	-	681,601
Recycling facility and equipment	13,694,174	107,473	-	13,801,647
Balefill/ashfill/leachate site	19,343,952	278,678	-	19,622,630
Waste-to-energy facility	104,362,517	2,857,166	-	107,219,683
Total capital assets being depreciated	139,848,311	4,172,752	(208,727)	143,812,336
Less accumulated depreciation:				
Vehicles	(1,164,081)	(270,948)	133,890	(1,301,139)
Office equipment	(338,928)	(98,288)	-	(437,216)
Recycling facility and equipment	(11,705,147)	(545,846)	-	(12,250,993)
Balefill/ashfill/leachate site	(15,515,204)	(674,014)	-	(16,189,218)
Waste-to-energy facility	(85,102,391)	(2,727,796)	-	(87,830,187)
Total accumulated depreciation	(113,825,751)	(4,316,892)	133,890	(118,008,753)
Total capital assets being depreciated, net	26,022,560	(144,140)	(74,837)	25,803,583
Total capital assets	\$ 28,037,761	(144,140)	(74,837)	27,818,784

NET INVESTMENT IN CAPITAL ASSETS

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

	<u>2018</u>	<u>2017</u>
Capital assets	\$ 145,827,537	141,863,512
Accumulated depreciation	(118,008,753)	(113,825,751)
Total net investment in capital assets	\$ 27,818,784	28,037,761

ecomaine
Notes to Financial Statements, continued

LONG-TERM LIABILITIES

Long-term Debt - The following is a summary of long-term debt transactions of **ecomaine** for the year ended June 30, 2018:

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	Ending <u>balance</u>	Due within <u>one year</u>
Business-type activities:					
Other post-employment benefit liability	\$ 731,147	49,088	-	780,235	-
Accrued landfill closure liability	14,564,514	254,884	-	14,819,398	-
Total Business-type long-term liabilities	\$ 15,295,661	303,972	-	15,599,633	-

POWER PURCHASE AGREEMENTS

During the fiscal years ended June 30, 2018 and 2017, **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, 2018; the current agreement commenced February 1, 2018 and expires January 31, 2019. At June 30, 2018 and 2017, electrical generating revenues amounted to \$4,257,098 and \$3,715,051, 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. The contribution percentage changed in 2018 due to combining the 403(b) retirement plan with the "other" plan noted below. For the years ended June 30, 2018 and 2017 the covered payroll totaled \$2,178,287 and \$2,076,242, respectively. Contribution expense amounted to \$196,571 and \$166,099 for the years ended June 30, 2018 and 2017, 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 \$139,921 and \$132,038 for the years ended June 30, 2018 and 2017, respectively, on covered payroll of \$2,665,162 and \$2,515,005, 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 of resources, as of June 30, 2018, have not been recorded as they are immaterial to the financial statements. The net pension liability, deferred inflows and deferred outflows of resources, 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 contribution expense amounted to \$21,125, for the year ended June 30, 2017. On April 1, 2018, this plan was merged into the 457(b) plan which covers the non-union retirement plan. The contribution is included in the non-union retirement plan noted above.

ecomaine
Notes to Financial Statements, continued

RETIREMENT PLANS, CONTINUED

Social Security - **ecomaine** participates in the Social Security retirement program. **ecomaine's** contributions to Social Security were \$411,500 and \$395,995 for the years ended June 30, 2018 and 2017, respectively.

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>2018</u>	<u>2017</u>
Total estimated future landfill closure and postclosure care costs	\$ 22,466,181	22,466,181
<u>Estimated capacity used</u>	<u>65.96%</u>	<u>64.83%</u>
Estimated gross landfill closure and postclosure care costs - end of year	14,819,398	14,564,514*
<u>Amounts actually expended</u>	<u>N/A</u>	<u>N/A</u>
Estimated liability for landfill closure and postclosure care costs - end of year	<u>14,819,398</u>	<u>14,564,514</u>
Estimated remaining landfill closure and postclosure care costs to be recognized	<u>\$ 7,646,783</u>	<u>7,901,667</u>

*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 (currently at 27.5 years) 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.

ecomaine
Notes to Financial Statements, continued

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

General Information about the OPEB Plan

Plan Description - ecomaine sponsors a post-employment benefit plan providing health insurance to retiring employees. The plan is a single-employer defined benefit OPEB plan administered by the Maine Municipal Employees Health Trust (MMEHT). The ecomaine Board of Directors has the authority to establish and amend the benefit terms and financing requirements. No assets are accumulated in a trust that meets the criteria of paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Benefits Provided - MMEHT provides healthcare and life insurance benefits for retirees and their dependents. ecomaine employees over the age of 55 with 5 years of continuous service are allowed to participate in the plan. Retirees that are designated in a plan pay 100% of the single coverage premium and 100% of the family coverage premium. For those ecomaine employees eligible for Medicare (post-65 Retiree Plan), the plan is offered in conjunction with Medicare Parts A and B and the Companion Plan B.

Employees Covered by Benefit Terms - At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	2
Active employees	67
Total	<u>69</u>

Total OPEB Liability

Ecomaine's total OPEB liability of \$780,235 was measured as of January 1, 2018, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs - The total OPEB liability in the January 1, 2018 actuarial valuation was determined using the following assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3.00% per year
Salary increases	2.75% per year
Discount rate	3.44%
Healthcare cost trend rates	8.27% for 2018, decreasing 0.28% per year
Retirees' share of the benefit related costs	100% of projected health insurance premiums

The discount rate was based upon high quality AA/Aa or higher bond yields in effect for 20 years, tax-exempt general obligation municipal bonds using the Bond Buyer 20-Bond GO Index.

Mortality rates were based on the RP2014 Total Dataset Healthy Annuitant Mortality Table, for males and females.

The actuarial assumptions used in the January 1, 2018 valuation were based on the results of an actuarial experience study for the period June 30, 2012 through June 30, 2015.

ecomaine
Notes to Financial Statements, continued

OTHER POSTEMPLOYMENT BENEFITS (OPEB), CONTINUED

Changes in the Total OPEB Liability

		Total OPEB Liability
Balance at June 30, 2017	\$	731,147
Changes for the year:		
Service cost		37,707
Interest		28,877
Differences between expected and actual experience		(5,591)
Changes in assumptions or other inputs		(1,977)
Benefit payments		(9,928)
Net changes		<u>49,088</u>
Balance at June 30, 2018	\$	<u>780,235</u>

Change in assumptions reflects a change in the discount rate from 3.78% to 3.44% and also a change in valuation method from Projected Unit Credit to the Entry Age Normal funding method.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate - The following presents ecomaine's total OPEB liability calculated using the discount rate of 3.44%, as well as what ecomaine's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower (2.44%) or 1 percentage-point higher (4.44%) than the current rate:

		1% Decrease (2.44%)	Discount Rate (3.44%)	1% Increase (4.44%)
Total OPEB liability	\$	<u>897,350</u>	780,235	<u>683,855</u>

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates - The following presents ecomaine's total OPEB liability calculated using the healthcare cost trend rates of 8.27% decreasing 0.28% per year, as well as what ecomaine's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage-point lower (7.27% decreasing 0.28% per year) or 1 percentage-point higher (9.27% decreasing 0.28% per year) than the current healthcare cost trend rates:

		1% Decrease	Healthcare Cost Trend Rate	1% Increase
Total OPEB liability	\$	<u>676,955</u>	780,235	<u>908,020</u>

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, ecomaine recognized OPEB expense of \$55,575. At June 30, 2018, ecomaine reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

ecomaine
Notes to Financial Statements, continued

OTHER POSTEMPLOYMENT BENEFITS (OPEB), CONTINUED

		Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$	-	4,792
Changes of assumption or other inputs		-	1,695
Total	\$	-	6,487

\$0 is reported as deferred outflows of resources related to OPEB resulting from **ecomaine** contributions subsequent to the measurement date and will be recognized as a reduction of the OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:	
2019	\$ (1,081)
2020	(1,081)
2021	(1,081)
2022	(1,081)
2023	(1,081)
Thereafter	(1,082)

NEW PRONOUNCEMENT AND RESTATEMENTS OF NET POSITION

For the fiscal year ended June 30, 2018, **ecomaine** has elected to implement Statement No. 75 of the Governmental Accounting Standards Board – *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, an amendment of GASB Statement No. 45. As a result of implementing GASB Statement No. 75, **ecomaine** has restated beginning net position in the statements of net position to account for the addition of **ecomaine's** proportionate share of the net OPEB liability, which effectively decreased **ecomaine's** net position as of July 1, 2017 by \$160,551.

ecomaine
Required Supplementary Information

Schedule of Changes in ecomaine's Total Health Plan OPEB Liability and Related Ratios
Last 10 Fiscal Years*

	<u>2018</u>
Total OPEB Liability	
Service cost	\$ 37,707
Interest	28,877
Differences between expected and actual experience	(5,591)
Changes of assumptions or other inputs	(1,977)
Benefit payments	<u>(9,928)</u>
Net change in total OPEB liability	49,088
Total OPEB liability - beginning	<u>731,147</u>
Total OPEB liability - ending	\$ <u>780,235</u>
Covered-employee payroll	\$ 5,229,408
Total Health Plan OPEB liability as a percentage of covered-employee payroll	14.92%

**Only one year of information available.*

ecomaine
Notes to Required Supplementary Information

Total OPEB Liability

Changes of Benefit Terms - None

Changes of Assumptions - Changes of assumptions and other inputs reflects the changes in the discount rate each period. The following are the discount rates used in each period:

Fiscal Year	Discount Rate
2018	3.44%
2017	3.78%

Additionally, the valuation method was changed from the Projected Unit Credit funding method in 2017 to the Entry Age Normal funding method in 2018.

ecomaine
Budget to Actual
Year Ended June 30, 2018

	Actual	Budget	Variance	Change
Operating revenues:				
Owners tipping fees	\$ 3,610,889	\$ 3,502,251	\$ 108,638	3.1%
Associate and contract tipping fees	1,598,740	1,306,950	291,790	22.3%
Commercial tipping fees	5,636,624	5,104,070	532,554	10.4%
Spot market tipping fees	1,170,268	1,549,553	(379,285)	-24.5%
Electrical generating revenues	4,257,098	3,695,607	561,491	15.2%
Sales of recycled goods	2,165,413	2,668,678	(503,265)	-18.9%
Recycling tipping fees	269,741	104,908	164,833	157.1%
Other operating income	103,401	101,955	1,446	1.4%
Total operating revenues	18,812,174	18,033,972	778,202	4.3%
Operating expenses:				
Administrative expenses	2,740,466	2,702,056	(38,410)	-1.4%
Waste-to-energy operating expenses	9,717,360	9,994,480	277,120	2.8%
Recycling operating expenses	2,490,994	2,422,718	(68,276)	-2.8%
Landfill/ashfill operating expenses	1,794,473	1,750,172	(44,301)	-2.5%
Contingency	-	200,000	200,000	n/a
Landfill closure and postclosure care costs (change in life)	254,884	300,000	45,116	15.0%
Post-retirement benefit	55,575	85,000	29,425	34.6%
Total operating expenses	17,053,752	17,454,426	400,674	2.3%
Net operating income other than depreciation and amortization	1,758,422	579,546	1,178,876	203.4%
Depreciation	4,316,892	4,348,113	31,221	0.7%
Net operating loss	(2,558,470)	(3,768,567)	1,210,097	-32.1%
Non-operating income (expense):				
Interest income	422,680	33,820	388,860	1149.8%
Miscellaneous receipts	14,868	-	14,868	n/a
Investment expense	(51,757)	-	(51,757)	n/a
Gain (loss) on investments	883,729	-	883,729	n/a
Gain (loss) on disposition of assets	37,160	-	37,160	n/a
Net non-operating income (expense)	1,306,680	33,820	1,272,860	11
Total revenues less expenses	\$ (1,251,790)	\$ (3,734,747)	\$ 2,482,957	-66.5%