# ecomaine

## Financial Statements

## June 30, 2017 and 2016

**ecomaine**
**Financial Statements**
**For the Years Ended 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 3 through 9 and the schedule of funding progress on page 22 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.

September 26, 2017
South Portland, Maine

## 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.

- *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 $16.7 million total liability for Landfill Closure / Post Closure Costs that was reported as of June 30, 2016 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 Revenue (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.*

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**

| | 2017 | 2016 | Increase (decrease) |
|---|---|---|---|
| **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 | 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 investments | 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 |

**Capital Expenditures and Asset Values**

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

| | | 2017 | | 2016 |
|---|---|---|---|---|
| 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 | | 19,260,126 | | 19,051,561 |
| Total capital assets | $ | 28,037,761 | $ | 29,039,060 |

**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.

**ecomaine**
**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.*

**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 (change in life) | (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.*

**ecomaine**
**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 income (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.*

## 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 (February 1, 2016 to January 31, 2017) and Exelon Generation Company (February 1, 2017 to January 31, 2018), 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 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.

## 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:

| | Fair Value | Less than 1 year | 1-5 years | More than 5 years | Level 1 inputs |
|---|---|---|---|---|---|
| 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** |

DEPOSITS AND INVESTMENTS, CONTINUED

At June 30, 2016 **ecomaine** had the following investments and maturities:

| | Fair Value | Less than 1 year | 1-5 years | More than 5 years | Level 1 inputs |
|---|---|---|---|---|---|
| Certificates of Deposit | $ 2,258,999 | $ 755,251 | $ 1,503,748 | - | $ 2,258,999 |
| U.S. Government Securities | 12,597,642 | 4,029,102 | 8,568,540 | - | 12,597,642 |
| Equities/stock | 4,710,641 | Not applicable | | - | 4,710,641 |
| Mutual funds | 130,379 | Not applicable | | - | 130,379 |
| **Total Investments** | **$ 19,697,661** | **$ 4,784,353** | **$ 10,072,288** | **-** | **$ 19,697,661** |

**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.

DEPOSITS AND INVESTMENTS, CONTINUED

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.

| | 2017 | 2016 |
|---|---|---|
| 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 |
| **Total reserve** | **$ 24,637,943** | **$ 22,623,738** |

*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.

**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.

## DEPOSITS AND INVESTMENTS, CONTINUED

*Credit Risk Rating:*

| | |
|---|---|
| U.S. Government Securities with AA+ Ratings | $ 12,208,719 |
| **Total** | **$ 12,208,719** |

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

## 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** |

## 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:

| | 2017 | 2016 |
|---|---|---|
| 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. Contribution 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 contribution 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.

## 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:

| | 2017 | 2016 |
|---|---|---|
| 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 lanfill 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.

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:

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| 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 years ended June 30 were as follows:

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Annual required contribution | $ 67,073 | $ 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:

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| 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 |

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 | 2.75% |
| Healthcare inflation rate | 4.0% |

## 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% |

Schedule 1

**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 (change in life) | (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%** |