

MUNICIPAL REVIEW COMMITTEE, INC.
FINANCIAL STATEMENTS
For the Year Ended December 31, 2016

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Independent Auditors' Report

To the Board of the
Municipal Review Committee, Inc.

We have audited the accompanying financial statements of the governmental activities and each major fund of Municipal Review Committee, Inc., (MRC) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise MRC's basic financial statements as listed in the table of contents.

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 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 opinions on these financial statements based on our audit. We did not audit the financial statements of Penobscot Energy Recovery Company (PERC), which represents 9.0%, 9.2%, and 11.8%, respectively, of the total assets, net position, and total additions of the fiduciary fund, the Joint Venture of the Charter Municipalities of Municipal Review Committee, Inc. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for PERC, is based solely on the report of the other auditors. We conducted our audit 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 of 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 examining 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 opinions.

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Municipal Review Committee, Inc., as of December 31, 2016, and the respective changes in financial position, for the year 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 15 be presented to supplement the basic financial statements. Such information, although not 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 for 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 audit 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 audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise MRC's basic financial statements. The Schedule of Equity Charter Member Net position is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.


Loiselle, Goodwin & Hinds

July 28, 2017
Bangor, Maine

MUNICIPAL REVIEW COMMITTEE, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF THE FINANCIAL STATEMENTS FOR CALENDAR YEAR 2016

This report provides a discussion and analysis of the financial performance of the Municipal Review Committee, Inc. (MRC) and the Joint Venture of the Charter Municipalities of the Municipal Review Committee, Inc. (Joint Venture), for the calendar year ended December 31, 2016. Please review it in conjunction with the financial statements and associated notes that follow this section.

1.0 Financial Highlights

Municipal Review Committee, Inc.

- Received \$290,373 in total revenue in 2016, compared to \$294,181 in total revenue in 2015. Dues from members amounted to \$219,373 in 2016, compared to \$224,367 in 2015.
- Total expenses in 2016 were \$765,825, compared to \$753,102 in 2015.

Joint Venture

- Distributed \$2.867 million to Charter Municipalities, thereby achieving the target values for per-ton waste disposal costs of \$59 per ton in the first half of calendar year 2016 and \$63 per ton in the last half of calendar year 2016.
- Represented the Equity Charter Municipalities regarding their ownership interest in the PERC partnership at 25.5214 percent of the limited partnership shares (which constitute 90% of the total shares of the PERC partnership.)
- Received \$1.078 million in Performance Credits and Net Cash Flow in the period from September 1, 2016 to December 31, 2016. These payments represent approximately 20 percent of the \$5.4 million in guaranteed payments to be received from PERC by March 31, 2018.
- Received from PERC the Consent Payment of \$600,000.
- Maintained a balance of \$26.161 million in the Tip Fee Stabilization Fund as of the end of 2016 and managed the investment of the fund balance. The MRC remains positioned to utilize the Tip Fee Stabilization Fund to stabilize tipping fees through and beyond the expiration of existing business arrangements for waste disposal in 2018. Note that the share of the Tip Fee Stabilization Fund allocated to Departing Municipalities is scheduled to be liquidated and paid out to those Departing Municipalities after their departure from the MRC and the Joint Venture effective as of March 31, 2018.
- Maintained the balance in the MRC Operating Budget Stabilization Fund at \$192,918 by the end of 2016 and managed the investment of the fund balance. The MRC Operating Budget Stabilization Fund provides supplemental support to the MRC's budget for administration of the Joint Venture, which budget is managed separately, and serves as a source of funds to stabilize dues assessments. Funds withdrawn from the MRC Operating Budget Stabilization Fund in 2016 were utilized to prepare for successor business arrangements after March 31, 2018, including the resolution of issues in litigation and the development, execution and implementation of the Settlement Agreement. Note that the share of the MRC Operating Budget Stabilization Fund allocated to Departing Municipalities is scheduled to be paid out to those Departing Municipalities after their departure from the MRC and the Joint Venture effective as of March 31, 2018.
- Invested \$1,620,173 during 2016 in costs associated with development and construction of the first phase of infrastructure at a site in Hampden for a waste processing facility to be available to accept deliveries of waste from Joining Members by April 1, 2018. The asset value of the investment, as well as the expenditures, were allocated among only those Equity Charter Municipalities that are Joining Members, with no impact on the position of the Equity Charter Municipalities that are Departing Municipalities.

- Entered into a Put Option agreement with PERC to purchase back all of the Equity Charter Municipality ownership interest in the PERC Partnership for \$1.500 million.
- Held a total Net Position for the benefit of the Charter Municipalities of \$31.416 million at the close of 2016, including \$1.500 million in value of the Equity Charter Municipality share of the PERC facility, \$1.732 million for the Hampden site improvements valued at cost, and \$26.808 million in cash and investments, less \$658,519 in distributions payable to the Charter Municipalities as of the end of 2016.

2.0 Overview of the Financial Statements

The basic financial statements are presented herein in a format that is consistent with the requirements of the Governmental Accounting Standards Board.

Municipal Review Committee, Inc.

The financial statements present the following two different views of MRC:

1. The Government Fund Balance Sheet / Statement of Net Position (Balance Sheet) identifies and presents values for the General Fund assets and liabilities of MRC as of the end of the calendar year. The Balance Sheet also identifies and presents adjustments for assets that are not currently available for application to expenditures, and identifies and presents net position after application of the adjustments between the two formats.

The key General Fund assets shown on the Balance Sheet include the following:

- Cash, which is held in a checking account at Key Bank.
- Membership Fees Receivable, which refers to the dues members owe MRC based on tons of municipal solid waste delivered to PERC.
- Other Receivables from Bangor Hydro and PERC, with which MRC has agreements with for providing various services.

The Balance Sheet presents prepaid insurance and options to purchase land as adjustments, as they are assets that are not currently available for use to meet expenditures.

The fund balance presented on the Balance Sheet is unassigned. It has not been restricted, committed, or assigned.

The net position presented on the Balance Sheet includes the value of prepaid insurance and options to purchase land that are not currently available for use to meet expenditures, i.e., available within 60 days of year end.

2. The Statement of Governmental Fund Revenue, Expenditures and Changes in Fund Balances / Statement of Activities (Income Statement) identifies and presents revenues and expenditures/ expenses over the course of calendar year 2016. The Income Statement also identifies and presents the changes in the fund balance and net position over the course of 2016.

The General Fund revenues shown on the Income Statement include the following:

- Membership Fees.
- Revenue from the PERC Monitoring Agreement.
- Reimbursements of expenses and interest income.

The Income Statement presents as adjustments to expenditures the change in prepaid insurance, acquisition and depreciation of capital assets, and change in accrued vacation for the year.

Joint Venture

1. The Statement of Fiduciary Net Position (Balance Sheet) identifies and presents values for the Fiduciary Fund assets and liabilities of the Joint Venture as of the end of the calendar year.

The Fiduciary Fund assets shown on the Balance Sheet include the following:

- The Custody Account, which is invested in a U.S. government money market account held by Bangor Savings Bank.
- The Tip Fee Stabilization Fund and the MRC Operating Budget Stabilization Fund, which are invested in a set of federal agency bonds and certificates of deposit having varying maturity dates, and which are managed by an investment advisor, Peoples United Bank, in accordance with investment policies approved by the MRC Board. The MRC has had its investment advisor reduce the durations of these investments, and has allowed carrying of additional cash balances, to ensure that pay-outs to Departing Municipalities can be made as required in 2018.
- The value of improvements to the Hampden Site held for the benefit of the Equity Charter Municipalities that are Joining Members, which is valued based on costs incurred to date for investment in such improvements.
- The Equity Charter Municipality investment in PERC, which has been accounted for using the equity investment method. However, the carrying value of PERC has been discounted to reflect the total value that the PERC Partnership will pay to purchase this interest in PERC, \$1,500,000, and the Debt Service Reserve Fund, \$1,333,333, which is scheduled to be released to MRC upon retirement of PERC's outstanding debt.

The liability shown on the Balance Sheet is the tipping fee rebates payable to the Charter Municipalities in the first quarter of 2017 based on tipping fees paid for the fourth quarter of 2016. Net position is comprised of the carrying value of all assets held by the Joint Venture in excess of the tipping fee rebates payable.

2. The Statement of Changes in Fiduciary Net Position (Income Statement) identifies and presents increases and decreases in fiduciary net position over the course of calendar year 2016.

The Fiduciary Fund additions shown on the Income Statement include the following:

- Performance Credits as a result of PERC operations that were distributed to MRC on behalf of the Charter Municipalities.
- Settlement Agreement Consent Payment received in exchange for canceling an option to acquire an additional investment in the PERC limited partnership.
- Partnership earnings as a result of a part ownership of PERC, of which some (Net Cash Flow) was distributed to MRC on behalf of the Equity Charter Municipalities.
- Interest income and changes in investment fund values.

The Fiduciary Fund deductions include the following:

- Distributions to the Charter Municipalities, paid quarterly.
- Transfers from the Operating Budget Stabilization Fund to the MRC operating fund used by the MRC for dues stabilization and for expenses associated with planning for succession to the existing arrangements that expire on March 31, 2018, including the costs of litigation and of achieving the Settlement Agreement. The MRC made such transfers in 2016 in the amount of \$673,612.
- Transfers from the Tip Fee Stabilization Fund to the MRC operating fund used by the MRC for certain costs of litigation. The MRC made such a transfer in 2016 in the amount of \$136,052.

3.0 Analysis of Overall Financial Position and Results of Operations

Municipal Review Committee, Inc.

MRC's net position increased \$121,680 or 45.77% in 2016. The following table summarizes this change.

	<u>Governmental Activities</u>		<u>Total %</u>
	<u>2016</u>	<u>2015, As Restated</u>	<u>Change</u>
Cash	\$ 854,969	-	na
Membership Fees Receivable	54,859	\$ 56,209	(2.40)%
Options to Purchase Land	52,000	125,000	(58.40)%
Hampden Site Development Costs	-	212,532	(100.00)%
Other Assets	<u>30,746</u>	<u>30,614</u>	0.43%
Total Assets	992,574	424,355	133.90%
Current Liabilities	<u>605,070</u>	<u>158,531</u>	281.67%
<i>Net Position:</i>			
Invested in Capital Assets	52,000	337,824	(84.61)%
Unrestricted	<u>335,504</u>	<u>(72,000)</u>	na
Total Net Position	<u>\$ 387,504</u>	<u>\$ 265,824</u>	45.77%

MRC's changes in net position are summarized in the following table.

	<u>Governmental Activities</u>		<u>Total %</u>
	<u>2016</u>	<u>2015, As Restated</u>	<u>Change</u>
Membership Fees	\$ 219,373	\$ 224,367	(2.23)%
Other Revenue	<u>71,000</u>	<u>69,814</u>	1.70%
Total Revenues	290,373	294,181	(1.29)%
Total Expenses	(765,825)	(753,102)	1.69%
Transfers from Fiduciary Fund	809,664	676,400	19.70%
Transfer to Fiduciary Fund	<u>(212,532)</u>	<u>-</u>	na
Change in Net Position	121,680	217,479	(44.05)%
Beginning Net Position	<u>265,824</u>	<u>48,345</u>	
Ending Net Position	<u>\$ 387,504</u>	<u>\$ 265,824</u>	

Joint Venture

The Joint Venture's net position decreased from \$36.78 million to \$31.42 million, or 14.59%, in 2016. The following table summarizes these changes.

	<u>Fiduciary Activities</u>		<u>Total %</u>
	<u>2016</u>	<u>2015</u>	<u>Change</u>
Cash and Investments	\$26,808,030	\$27,897,817	(7.33)%
Consent Payment	600,000	-	na
Investment in PERC	2,833,333	9,678,083	(70.72)%
Advance Receivable from MRC	100,660	-	na
Investment in Hampden Site	<u>1,732,046</u>	<u>-</u>	na
Total Assets	32,074,069	37,575,900	(14.64)%
Tipping Fee Rebates Payable	<u>658,519</u>	<u>795,183</u>	(17.19)%
Total Net Position	<u>\$31,415,550</u>	<u>\$36,780,717</u>	(14.59)%

The Joint Venture's changes in net position are summarized in the following table.

	Fiduciary Activities		Total %
	2016	2015	Change
PERC Performance Credits	\$ 3,139,125	\$ 5,221,329	(39.88)%
Consent Payment	600,000	-	na
Share of PERC's Net Income	481,432	690,071	(30.23)%
Transfer from MRC	212,532	-	na
Investment Income	<u>257,907</u>	<u>184,850</u>	39.52%
Total Additions	4,690,996	6,096,250	(23.05)%
 Tipping Fee Rebates	 \$ 2,729,985	 \$ 3,549,341	 (23.08)%
Discount in Investment in PERC	6,516,514	-	na
Transfers to MRC	<u>809,664</u>	<u>676,400</u>	19.70%
Total Deductions	<u>10,056,163</u>	<u>4,225,741</u>	138.03%
Change in Net Position	(5,365,167)	1,870,509	na
Beginning Net Position	<u>36,780,717</u>	<u>34,910,208</u>	
Ending Net Position	<u>\$31,415,550</u>	<u>\$36,780,717</u>	

The MRC has sought to distribute sufficient cash on a quarterly basis to the Charter Municipalities in order to reduce their net cost for disposal of waste at the PERC facility to a pre-determined system-wide average per-ton net cost known as the "target value." At its October 2010 meeting, the MRC Board of Directors voted to adopt a Target Value Step Increase Implementation Plan (the "Plan") to implement an increase in target values on an annual basis through the first quarter of calendar year 2018. The intent of these increases is to avoid a spike in disposal costs and to prepare the Charter Municipalities for post-2018 disposal costs. The Plan establishes increased target values for the Equity Charter Municipalities as follows:

\$46 per ton as of July 1, 2011
 \$48 per ton as of July 1, 2012
 \$51 per ton as of July 1, 2013
 \$55 per ton as of July 1, 2014
 \$59 per ton as of July 1, 2015
 \$63 per ton as of July 1, 2016
 \$67 per ton as of July 1, 2017

The target value for the New Charter Municipalities was set at \$54 per ton through July 1, 2014, then set at \$55 per ton for the remainder of 2014. From 2015 and thereafter, the target values for the New Charter Municipalities are the same as the target values for the Equity Charter Municipalities per the scheduled set forth above.

In the first two quarters of calendar year 2016, the target value was \$59 per ton for all Charter Municipalities. In the last two quarters of calendar year 2016, the target value was \$63 per ton for all Charter Municipalities. The MRC distributed sufficient cash in each of the four quarters of 2016 to achieve the target values as shown in the following table:

<i>Quarter</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
Tip fee, prior quarter	\$76.80	\$76.50	\$77.00	\$79.00
Distributions to Charter Municipalities	\$17.80	\$17.50	\$14.00	\$16.00
Net disposal cost for Charter Municipalities	\$59.00	\$59.00	\$63.00	\$63.00

All values are in system-weighted dollars per ton.

At the end of 2016, the balance in the Tip Fee Stabilization Fund was \$26.161 million. With this balance, accounting for anticipated Performance Credits and PERC partnership distributions (assuming that the PERC facility will continue to perform through March 31, 2018, as it has in the past few years), and assuming that any reconciliation payment made for any shortfalls in guaranteed payments under the Settlement Agreement will be made on a timely basis, as of the end of 2016 the MRC continues to

project that the Charter Municipalities would have sufficient resources to achieve the projected target values through the scheduled termination of the waste disposal agreements on March 31, 2018.

Funds in reserve on March 31, 2018, will be allocated to each Equity Charter Municipality. Equity Charter Municipalities that are Joining Members will have their allocated shares credited towards uses as set forth in the Joinder Agreements. Equity Charter Municipalities that are Departing Municipalities will receive their allocated shares as cash distributions in 2018.

4.0 Significant Transactions

The MRC managed the following transactions on a routine basis during the year:

- Receipt of Performance Credits from PERC monthly.
- Receipt of partnership distributions from PERC (Net Cash Flow) monthly.
- Distribution of cash to Charter Municipalities to achieve the target values on a quarterly basis.
- Transfer of funds from the Custody Account to the Tip Fee Stabilization Fund in the first and third quarters of 2016.
- Transfer of funds to the MRC Operating Account from the Tip Fee Stabilization Fund in the third quarter of 2016 to cover expenses associated with the Settlement Agreement incurred on behalf of all Charter Municipalities.
- Transfer of funds to the MRC Operating Account from the Tip Fee Stabilization Fund in the fourth quarter of 2016 to cover expenses associated with the Hampden site improvements incurred only on behalf of Equity Charter Municipalities that are Joining Members.
- Transfer of funds to the MRC Operating Account from the MRC Operating Budget Stabilization Fund in each of the first three quarters of 2016 for dues stabilization and for expenses associated with planning for succession to the existing arrangements that expire on March 31, 2018, including the costs of litigation and of achieving the Settlement Agreement.

5.0 Capital Assets and Debt Administration

The MRC had no outstanding debt in 2016.

The MRC no longer receives payments of principal and interest on the Promissory Note from Bangor Hydro as had been the case in 2008 and previous years. Bangor Hydro made the last payment of principal and interest on the Note in May 2008.

In the fourth quarter of 2016, the MRC invested \$1,620,173 to construct the first phase of improvements to the Hampden Site held jointly for the benefit of the Equity Charter Municipalities that are Joining Members.

6.0 Economic Factors and Significant Foreseeable Future Conditions

As a result of the Settlement Agreement reached with PERC, which provides for guaranteed payments of Performance Credits and Net Cash Flow in the total amount of \$5.4 million over the period from September 1, 2016 through March 31, 2018, the MRC has reduced significantly its direct exposure to potential adverse financial impacts of economic factors and significant foreseeable future conditions through 2018. Although economic factors and significant future conditions might affect the financial performance of the PERC facility and the Performance Credits and Net Cash Flow that would be paid to the MRC monthly, the Settlement Agreement provides that any remaining balance of the total of such payments through March 31, 2018, that is less than \$5.4 million would be paid as a reconciliation payment on such date.

Thus, the financial position of the MRC is exposed to potential adverse financial impacts of economic factors and significant foreseeable future conditions through March 31, 2018, only to the extent that such factors and conditions might prevent PERC and its private partners (USAE and PHI) from meeting their obligation to make the reconciliation payment. Such exposure is ultimately driven by the creditworthiness of USAE and PHI, which is not evaluated in this discussion and analysis.

The MRC is no longer purposed to make judgments regarding the availability of the PERC facility to accept waste or generate economic returns to public owners after the scheduled termination of the existing waste disposal arrangements March 31, 2018.

Nonetheless, the MRC notes the following significant foreseeable future conditions with the potential to affect payment of Performance Credits and Net Cash Flow in 2017 through March 31, 2018 (and thus affecting the magnitude of any reconciliation payment that might be payable under the Settlement Agreement):

- Facility Maintenance Costs. The Facility Operator, acting for PERC, LP, is planning to incur major maintenance expenditures for the PERC Facility to ensure that operations continue through March 31, 2018. Implementation of capital and maintenance investments in the Facility's major processing and production systems will continue to be an integral factor in maintaining its economic performance. The costs of such investments required to sustain economic performance have increased in recent years. There is no assurance that the level of future investment in capital and major maintenance projects at the Facility as required to maintain current levels of performance will not exceed projections in the coming years, or that performance will be maintained at current levels.

As a facility with a nameplate generating capacity of more than 20 MW, the PERC Facility is required to comply with new requirements for the reliability and security of the regional electric grid as overseen by the Northeast Power Coordinating Council (NPCC), the North American Electricity Reliability Corporation (NERC) and other related organizations of applicable jurisdiction. These requirements, which can require changes to physical plant and software as well as development and documentation of operating procedures, continue to evolve and expand. There is no assurance regarding the nature of the full set of NPCC and NERC requirements that the Facility might be required to implement, nor is there assurance regarding the cost and impact on performance of satisfying such requirements.

- Waste availability. Quantities of MSW available to the PERC facility have declined in recent years for many reasons, including the lingering effects of the economic downturn; waste reduction or diversion through pay-as-you-throw and similar programs; and increased recycling resulting from new single-stream programs. There is no assurance that MSW from the commercial and spot market arrangements will continue to be available to PERC in the future in the same quantities as it was acquired in the past, nor is there assurance that the quantities of MSW delivered by the Charter Municipalities, which include significant amounts of MSW originating from commercial sources within their borders and delivered to the account of the municipalities, will not decline from delivery levels in prior years. The MRC is no longer exposed to penalties for shortfalls in delivery of waste as compared to levels guaranteed in the waste disposal agreements, because the Settlement Agreement relinquishes claims to payment of shortfall penalties and states that no further delivery shortfall penalties will be charged in future years. Nonetheless, there is no assurance that the Charter Municipalities will not be exposed to reduced payments of Performance Credits and distributions of cash from the PERC Partnership due to reduced economic performance at PERC because of declines in waste deliveries.
- Competition with other disposal facilities. PERC actively competes with other disposal facilities to acquire municipal solid waste as needed to allow the facility to operate at capacity. Competing disposal facilities include two other operating municipal waste combustion facilities in Maine;

operating landfills that are permitted to accept MSW in Maine; and facilities that are located outside of Maine. Because of competition for the available MSW, there is no certainty that the PERC facility will not face shortfalls in the availability of MSW as required to operate at full capacity. Failure of PERC to attract sufficient MSW to allow the facility to operate at capacity, or loss of significant quantities of MSW to competing disposal facilities, could have a significant adverse impact on the economic performance of PERC in 2017 and thereafter, and could adversely affect the payment of Performance Credits and Net Cash Flow through 2018.

- Environmental regulation. Many aspects of the operation of the Facility are subject to stringent regulation by the Maine Department of Environmental Protection (the Maine DEP) and by other federal, state and local agencies. Thus, there is always a risk that changes in applicable law, regulations or regulatory policies, and enforcement practices will have an adverse impact on the Facility's performance or the economics of continuing Facility operation. The Facility works diligently to comply with all applicable environmental laws, regulations, permits and policies. In addition, the MRC works jointly with PERC on an ongoing basis to monitor potential changes in applicable laws, regulations, permits and policies to identify initiatives that might have an adverse impact on the Facility and to ensure that such impacts are recognized and given due consideration. Nevertheless, there is no assurance that the Facility's economic performance will not be adversely affected in the future by changes in applicable law, regulation, regulatory policy or enforcement practices.

The products of combustion at the Facility that are emitted to the atmosphere include, among other things, carbon dioxide, which is considered a contributor to global warming and, pursuant to a 2009 ruling of the U.S. Environmental Protection Agency, is also considered a regulated pollutant. The contributions to global warming of the Facility's emissions of carbon dioxide are more than offset by two factors of its operation. First, the Facility combusts municipal solid waste that, had it been deposited in a landfill, might have caused emissions to the atmosphere of methane and other greenhouse gases with a greater overall contribution to global warming than what was emitted from the Facility. Second, the Facility generates electricity from the combustion of waste that displaces a like amount of electricity that might have been generated from combustion of fossil fuels at facilities with emissions that contribute proportionately more to global warming than the Facility. Nonetheless, both the U.S. Congress and the U.S. Environmental Protection Agency have considered new measures to control carbon dioxide emissions and global warming that might have an adverse impact on Facility financial performance. There is no assurance as to what the nature or magnitude of such impacts might be.

7.0 Business Arrangements After Termination of the Waste Disposal Agreements

In 2016, the MRC and the Charter Municipalities achieved significant milestones in resolving next steps for the Joint Venture for the period after the existing waste disposal agreements and associated arrangements terminate, which is scheduled for March 31, 2018. In 2016, each of the Charter Municipalities decided whether to (i) enter into a long-term agreement (the Joinder Agreement) with the MRC in a timely fashion for delivery of waste to a processing facility being developed in Hampden, Maine, starting as of April 1, 2018, thereby becoming a Joining Member; or (ii) not enter into a Joinder Agreement in a timely fashion, thereby departing from MRC membership and the Joint Venture and becoming a Departing Municipality. Of the 133 Charter Municipalities and the 187 municipalities they represent:

- 80 individual municipalities and seven public waste management districts or regional entities became Joining Members. Together, these Joining Members represent 115 Maine municipalities.
- 26 individual municipalities or groups, representing 72 Maine municipalities, became Departing Municipalities.

In addition, in 2016, the MRC entered into a Settlement Agreement with the PERC Partnership and its private partners, USA Energy Group, LLC (USAE), and PERC Holdings, LLC. (PHI). The Settlement Agreement ended litigation that had been docketed as Civil Action Docket No, CV-2015-22; provided a guaranteed payment of a total amount of Performance Credits and Net Cash Flow over the remaining term of the waste disposal agreements; and provided a defined process and fixed price for PERC to repurchase the ownership interests held by the Equity Charter Municipalities in the PERC Partnership. The Settlement Agreement also provided for an amendment to the PERC Partnership Agreement to resolve the position of the public and private partners in PERC after the Waste Disposal Agreements are scheduled to terminate. In particular, the Settlement Agreement provided the following:

- The MRC share of Performance Credits and Net Cash Flow payments received for the benefit of the Charter Municipalities shall be at the guaranteed amount of \$5.4 million beginning on September 1, 2016, and extending through March 31, 2018, to be paid as part of the monthly waterfall payments, with any remaining balance due to be paid no later than March 31, 2018.
- The Equity Charter Municipalities each received an option (the Put Option) to sell their ownership interests back to PERC effective March 31, 2018, at a fixed price, the aggregate total of which is \$1.5 million for all Equity Charter Municipalities.
- The MRC received a Consent Payment of \$600,000 as part of the overall settlement, which included MRC consent to replace an existing purchase option with the Put Option and related business arrangements.

As described previously, the MRC has sponsored development of a new waste processing facility that is intended to be available to accept MSW from Joining Members as of April 1, 2018. To this end, the MRC has performed the following:

- o Issued a Request for Expressions of Interest (RFEI) to solicit responses from vendors that might design, develop, finance, construct and operate a facility to accept and process MSW into marketable products starting on April 1, 2018.
- o Reviewed and evaluated 15 proposals from vendors that responded to the RFEI.
- o Selected as most advantageous a developer of an emerging technology, Fiberight, Inc. (Fiberight), that would own and manage design, permitting, financing, construction and operation of the new facility on a site to be secured by the MRC.
- o Acquired an option to purchase a suitable site for development of the Facility in Hampden, Maine.
- o Entered into a Development Agreement dated February 4, 2015, with Fiberight regarding the development of a facility on the Hampden site.
- o Worked with Fiberight to submit applications to the Maine Department of Environmental Protection for an air emissions license and a solid waste facility license for the facility being developed at the Hampden site.
- o Entered into a Waste Disposal Agreement with Waste Management Disposal Services of Maine, Inc. dba Crossroads Landfill (Crossroads Landfill), dated August 24, 2015, for disposal of solid waste residuals from the Fiberight facility, as well as MSW that the Fiberight facility cannot accept for processing after April 1, 2018.
- o Negotiated a Master Waste Supply Agreement and a Site Lease with Fiberight regarding development and construction of the facility at the Hampden site by April 1, 2018; commitments to deliver MSW to the facility as of April 1, 2018 and thereafter; operation of the facility to accept delivered MSW; and related business arrangements.
- o Negotiated Joinder Agreements that have been executed by 80 individual municipalities and seven public waste management districts or regional entities that represent 115 Maine municipalities.
- o Negotiated and executed the Settlement Agreement regarding payments of Performance Credits and Net Cash Flow through March 31, 2018; the Put Option; and other matters.

- o Allocated \$5.0 million of funds from Joining Members that are Equity Charter Municipalities to purchase and improve the Hampden site. Began construction of the first phase of improvements to the site.
- o Determined that remaining funds held by Joining Members would be used to support the anticipated MSW processing and disposal arrangements going forward, and that remaining funds held by Departing Municipalities would be returned to them.

The MRC's expenses to support such development prior to June 30, 2016, were funded by reserves held in the MRC Operating Budget Stabilization-Fund in accordance with the permitted uses of such funds. Subsequent expenses are being funded through the balances of only Joining Members. At this time, the effort for development of the Fiberight facility in Hampden remains on schedule and the MRC remains confident that such facility will be available to accept and process MSW when and as needed. If the availability of the Fiberight facility is delayed or limited, MSW from those entities that have signed Joinder Agreements would be directed to the Crossroads Landfill under the terms of the Waste Disposal Agreement between the MRC and the Crossroads Landfill.

The MRC will continue to support the obligations of its member municipalities to manage their MSW through delivery to the PERC Facility through and into 2018 in accordance with the existing Waste Disposal Agreements. The MRC will continue to support the obligations of the Joining Members after the Waste Disposal Agreements terminate through the term of the Joinder Agreements. Regarding the Departing Municipalities, after March 31, 2018, the MRC will complete the process for returning assets and distributing cash to the Departing Municipalities in accordance with applicable agreements and the Joint Venture. After such process is complete, the MRC would have no further obligation to support solid waste management activities of the Departing Municipalities.

As 2018 approaches, although a Settlement Agreement is in place, additional disagreements might occur regarding interpretation of the Settlement Agreement or other issues related to the PERC Partnership or continued operations or wind-up of affairs after 2018. There is no assurance as to what the nature or magnitude of the impacts might be of such disagreements on the economic performance of the PERC Facility, or how such results might affect future cash flows from the PERC Partnership or to the MRC.

8.0 Components of Equity Charter Municipality Net Position as of December 31, 2016

The MRC appreciates that certain Equity Charter Municipalities have, in the past, incorporated into their own financial statements the value of their allocated share of the assets managed by the MRC for all the Equity Charter Municipalities. In the past, such allocated shares have been reported in the form of a single value for each Equity Charter Municipality. Given the proximity of 2018 and the assurances of the Settlement Agreement in reducing uncertainty regarding total cash flows through 2018, the MRC believes that such allocated shares ought to be unbundled to distinguish between (a) the values of the cash reserves being held by the MRC in the name of each Equity Charter Municipality; and (b) the value of the ownership shares in the PERC facility for each Equity Charter Municipality, based on the Put Option.

The MRC has also received numerous inquiries regarding the allocation among the Equity Charter Municipalities of the funds being held in the Debt Service Reserve Fund and that are scheduled to be released to the MRC in 2018 upon retirement of PERC's outstanding debt. Such funds are not included in these financial statements as a separate asset, inasmuch as these funds are included on PERC's books and included in the carrying value of the PERC Partnership. The MRC Board had previously voted to allocate such funds among the Equity Charter Municipalities in proportion to the actual share of total tons delivered by the Equity Charter Municipalities to the PERC facility over the period of the most recent re-financing (that is, from July 1, 1998, through December 31, 2017).

To address both these issues, included in these records is a table, which sets forth, for each Equity Charter Municipality, the allocated shares of each of the reserve funds held on its behalf by the MRC, as well as the allocation to each Equity Charter Municipality of the value of the Put Option.

Also included in the table is a tabulation of the share of the Debt Service Reserve Fund allocable to each Equity Charter Municipality as of December 31, 2016. Although these data are interim values, they provide a reasonable indication of the magnitude of the final allocation that will be determined early in 2018, when all data necessary to make the final allocation will become available.

9.0 *Contact Information*

More information on MRC and the Joint Venture may be obtained at MRC's administrative office, 395 State Street, Ellsworth, ME 04605.

Table of Equity Charter Municipality Net Position as of December 31, 2016
Based on account balances as of December 31, 2016 and PERC LP value from Put Option
(Investment in the Hampden Site and related infrastructure valued at cost and allocated among Joining Members only)

		Tip Fee	Operating Budget		Tipping Fee	Investment in	Advance to	Put Option	Debt Service	
	Custody	Stabilization	Stabilization	Consent	Rebates	Hampden Site	General	Value to Sell	Reserve	Total
	Account	Account	Account	Payment	Payable	Valued at Cost	Fund	Investment in PERC	Fund	
Albion	2,983	133,681	1,072	3,583	(3,933)	15,280	888	6,771	7,967	168,292
Alton	1,059	50,931	386	1,322	(1,450)	5,821	338	3,161	2,635	64,202
Atkinson	452	18,124	136	560	(615)	2,072	120	982	1,006	22,838
Baileyville	6,067	293,386	1,869	5,629	(6,178)	-	-	11,059	14,342	326,174
Bangor	90,914	4,264,419	33,856	113,090	(124,120)	487,415	28,327	254,149	236,986	5,385,036
Bar Harbor	6,045	851,907	6,000	17,947	(19,698)	97,371	5,659	49,881	40,334	1,055,447
Blue Hill/Surry	11,325	599,651	4,316	15,613	(17,136)	68,539	3,983	31,001	31,487	748,779
Boothbay RRDD	6,486	760,799	5,611	15,520	(17,034)	86,958	5,054	42,450	38,038	943,882
Bradley	2,137	71,190	552	2,222	(2,439)	8,137	473	4,013	4,042	90,327
Brewer	14,552	1,074,114	8,577	21,762	(23,885)	122,769	7,135	75,601	52,725	1,353,350
Brooks	1,889	45,801	339	2,035	(2,234)	5,235	304	2,114	2,865	58,349
Brownville	1,698	105,159	866	2,328	(2,555)	12,019	699	6,772	5,530	132,516
Bucksport	1,736	309,585	2,607	4,062	(4,458)	35,385	2,056	23,892	15,084	389,949
Burnham	2,212	99,071	687	2,638	(2,895)	-	-	4,866	5,039	111,618
Carmel	4,410	153,687	1,178	4,988	(5,474)	17,567	1,021	7,867	8,978	194,221
Central Penobscot	9,557	308,880	2,265	9,635	(10,575)	35,304	2,052	13,141	18,359	388,618
China	2,998	263,611	2,223	4,765	(5,230)	30,130	1,751	17,166	13,978	331,392
Clifton	1,296	53,246	420	1,656	(1,818)	6,086	354	2,790	3,266	67,296
Clinton	3,075	375,089	2,734	5,886	(6,460)	-	-	22,989	18,060	421,373
Dedham	795	63,403	497	1,260	(1,382)	7,247	421	3,840	3,330	79,410
Dover-Foxcroft	7,732	321,361	2,415	9,654	(10,596)	36,731	2,135	17,427	17,796	404,655
Eddington	2,671	130,139	1,056	3,279	(3,598)	14,875	864	8,171	7,338	164,794
Enfield	2,378	128,396	904	2,663	(2,923)	-	-	6,863	6,375	144,656
Fairfield	11,789	532,774	3,499	11,719	(12,862)	-	-	24,012	28,717	599,648
Glenburn	8,805	318,658	2,170	9,209	(10,107)	-	-	14,696	17,130	360,561
Gouldsboro	810	129,872	945	1,768	(1,941)	-	-	7,331	5,712	144,498
Greenbush	2,209	93,344	667	2,466	(2,706)	-	-	4,752	4,869	105,601
Guilford	4,258	191,452	1,495	4,981	(5,467)	21,882	1,272	12,437	10,245	242,555
Hampden	11,838	517,337	3,851	14,479	(15,891)	59,130	3,436	29,839	27,308	651,328
Hancock	722	89,898	641	1,349	(1,481)	-	-	5,303	4,044	100,476
Hermon	14,366	522,899	3,518	15,362	(16,860)	-	-	24,184	27,027	590,496
Holden	3,594	141,877	1,039	4,041	(4,435)	16,216	942	8,084	7,439	178,798
Jackson	863	22,435	156	881	(967)	-	-	951	1,300	25,619
Lamoine	1,646	98,006	671	2,202	(2,417)	-	-	4,879	4,723	109,710
Lee	1,891	60,537	451	1,829	(2,007)	6,919	402	3,557	3,318	76,897
Levant	3,996	135,381	1,006	4,228	(4,641)	15,473	899	7,643	7,549	171,535
Lincoln	8,578	598,695	4,381	12,531	(13,753)	-	-	35,238	29,117	674,787
Lucerne	776	39,717	305	1,031	(1,131)	4,539	264	1,965	2,311	49,776
Mariaville	581	20,908	163	658	(722)	2,389	139	1,126	1,189	26,431
Mars Hill	4,011	156,249	1,149	3,492	(3,833)	-	-	8,880	7,799	177,747
Mattawamkeag	785	57,597	456	1,316	(1,445)	6,583	383	3,743	2,935	72,353
Midcoast SWD	17,297	1,230,988	8,360	24,284	(26,652)	-	-	72,443	55,086	1,381,806
Mid-Maine SWD	14,101	641,162	4,978	16,676	(18,302)	73,283	4,259	42,863	33,890	812,910
Milford	2,886	179,543	1,304	3,704	(4,066)	-	-	10,519	8,579	202,470
Millinocket	5,514	433,002	3,270	9,186	(10,081)	49,492	2,876	27,395	21,681	542,334
Milo	4,590	198,330	1,481	5,626	(6,174)	22,669	1,317	11,560	10,649	250,048
Monson	577	34,855	253	746	(819)	3,984	232	1,909	1,792	43,529
Mt. Desert/EMR	10,725	1,035,543	7,717	21,178	(23,243)	118,361	6,879	56,439	52,212	1,285,810
Newburg	1,615	90,296	677	2,227	(2,444)	-	-	4,721	5,292	102,384
Old Town	7,562	708,544	5,428	13,036	(14,307)	-	-	45,410	34,277	799,950
Orland	666	57,469	483	1,083	(1,188)	-	-	4,672	2,646	65,830
Orono	14,024	613,992	4,590	16,640	(18,262)	70,178	4,078	38,919	31,293	775,451
Otis	319	28,991	234	625	(686)	3,314	193	1,962	1,510	36,462
Palmyra	3,494	108,908	840	3,561	(3,908)	12,448	723	5,622	6,802	138,490
Parkman	751	29,717	215	864	(948)	3,396	197	1,511	1,604	37,307
Penobscot Co	2,627	140,872	979	3,255	(3,572)	-	-	7,813	6,726	158,700
Pleasant River SWD	513	172,343	1,716	1,743	(1,913)	19,698	1,145	11,840	10,028	217,113
Plymouth	1,775	83,364	615	2,134	(2,342)	-	-	4,474	4,342	94,362
Reed Pt	362	15,566	106	377	(414)	-	-	855	735	17,587
Rockland	14,888	900,905	6,515	20,241	(22,215)	-	-	49,990	44,366	1,014,690
Sangerville	2,208	83,330	629	2,659	(2,918)	9,524	554	4,155	4,780	104,920
Searsport	2,497	186,598	1,238	3,624	(3,977)	-	-	12,198	7,745	209,923
Stetson	1,899	80,929	598	2,126	(2,333)	-	-	3,208	4,607	91,034

Table of Equity Charter Municipality Net Position as of December 31, 2016										
Based on account balances as of December 31, 2016 and PERC LP value from Put Option										
(Investment in the Hampden Site and related infrastructure valued at cost and allocated among Joining Members only)										
		Operating						Put Option		
	Custody	Tip Fee	Budget		Tipping Fee	Investment in	Advance to	Value to Sell	Debt Service	
	Account	Stabilization	Stabilization	Consent	Rebates	Hampden Site	General	Investment	Reserve	Total
	Account	Account	Account	Payment	Payable	Valued at Cost	Fund	in PERC	Fund	
Steuben	2,310	86,452	637	2,798	(3,071)	9,881	574	4,498	4,736	108,816
Stonington	3,198	171,990	1,098	4,958	(5,442)	-	-	7,599	8,371	191,772
Thomaston Group	13,277	641,495	4,496	15,763	(17,301)	-	-	32,383	32,535	722,649
Thorndike	531	41,809	355	564	(619)	4,779	278	2,546	2,255	52,497
Troy	428	30,219	259	651	(715)	3,454	201	1,982	1,663	38,142
Union River SWD	1,238	52,778	411	1,512	(1,659)	6,033	351	2,874	3,021	66,558
Unity	3,131	126,211	954	3,458	(3,795)	14,426	838	6,649	7,200	159,072
Vassalboro	3,849	215,406	1,711	5,018	(5,508)	24,620	1,431	13,514	11,695	271,737
Veazie	1,954	120,469	853	2,639	(2,896)	-	-	6,829	5,658	135,506
Verona	987	48,589	344	1,216	(1,335)	-	-	2,619	2,451	54,871
Waldoboro Group	7,005	476,226	3,623	9,155	(10,047)	54,432	3,163	27,696	25,169	596,421
Waterville	15,052	1,643,976	10,443	23,197	(25,459)	-	-	89,137	72,157	1,828,503
Winslow	12,230	563,803	3,753	13,352	(14,654)	-	-	27,590	26,558	632,632
West Gardiner	2,622	188,838	1,317	3,331	(3,655)	-	-	10,924	8,392	211,768
Winthrop	9,769	493,882	3,309	11,155	(12,243)	-	-	27,096	22,538	555,506
Total	454,456	26,160,656	192,918	600,000	(658,519)	1,732,046	100,660	1,500,000	1,333,333	31,415,550

MUNICIPAL REVIEW COMMITTEE, INC.
GOVERNMENTAL FUND BALANCE SHEET / STATEMENT OF NET POSITION
DECEMBER 31, 2016

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS			
Cash - Checking Account	\$ 854,969	-	\$ 854,969
Membership Fees Receivable	54,859	-	54,859
Accounts Receivable - Bangor Hydro	14,805	-	14,805
Reimbursements Receivable - PERC	2,850	-	2,850
Prepaid Insurance	-	\$ 13,091	13,091
Capital Assets:			
Options to Purchase Land	<u>-</u>	<u>52,000</u>	<u>52,000</u>
 Total Assets	 <u>\$ 927,483</u>	 <u>65,091</u>	 <u>992,574</u>
 LIABILITIES			
Accounts Payable	\$ 490,032	-	490,032
Accrued Payroll	5,780	-	5,780
Advance from Fiduciary Fund	100,660	-	100,660
Accrued Vacation	<u>-</u>	<u>8,598</u>	<u>8,598</u>
Total Liabilities	<u>596,472</u>	<u>8,598</u>	<u>605,070</u>
 FUND BALANCES / NET POSITION			
<i>Fund Balances:</i>			
Unassigned	<u>331,011</u>	<u>(331,011)</u>	<u>-</u>
 Total Liabilities and Fund Balances	 <u>\$ 927,483</u>		
 <i>Net Position:</i>			
Invested in Capital Assets		52,000	52,000
Unrestricted		<u>335,504</u>	<u>335,504</u>
 Total Net Position		 <u>\$ 387,504</u>	 <u>\$ 387,504</u>

MUNICIPAL REVIEW COMMITTEE, INC.
STATEMENT OF GOVERNMENTAL FUND REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCES / STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
REVENUE			
Membership Fees	\$ 219,373	-	\$ 219,373
PERC Monitoring Agreement	58,984	-	58,984
Reimbursements for PERC Oversight Committee Expenses	11,400	-	11,400
Interest Income	616	-	616
Total Revenue	<u>290,373</u>	<u>-</u>	<u>290,373</u>
EXPENDITURES / EXPENSES			
<i>Current:</i>			
Payroll Costs	152,569	\$ (3,419)	149,150
Consulting - Resource Management	74,684	-	74,684
Legal Fees	61,557	-	61,557
Joint Legislative Advocacy and Communications	48,417	-	48,417
Administrative and Miscellaneous	21,087	292	21,379
Insurance	12,569	38	12,607
Audit Fee	12,000	-	12,000
Bookkeeping Service	6,597	-	6,597
Occupancy	6,550	-	6,550
Fiberight Project and Post-2018 Planning:			
Legal Fees	224,156	-	224,156
Communications	75,728	-	75,728
Planning Contingency	-	73,000	73,000
Total Expenditures / Expenses	<u>695,914</u>	<u>69,911</u>	<u>765,825</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES BEFORE OTHER FINANCING SOURCES AND USES	(405,541)	405,541	-
OTHER FINANCING SOURCES AND USES			
Transfers from the MRC Operating Budget Stabilization Fund of the Joint Venture of the Charter Municipalities of MRC	673,612	(673,612)	-
Transfers from the Tip Fee Stabilization Fund of Joint Venture of the Charter Municipalities of MRC	136,052	(136,052)	-
Total Other Financing Sources	<u>809,664</u>	<u>(809,664)</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	404,123	(404,123)	-
TRANSFERS FROM FIDUCIARY FUND	-	597,132	597,132
CHANGE IN NET POSITION	-	\$ 121,680	121,680
FUND BALANCE / NET POSITION, As Restated - January 1, 2016	<u>(73,112)</u>		<u>265,824</u>
FUND BALANCE / NET POSITION - December 31, 2016	<u>\$ 331,011</u>		<u>\$ 387,504</u>

**MUNICIPAL REVIEW COMMITTEE, INC.
STATEMENT OF FIDUCIARY NET POSITION
JOINT VENTURE OF THE CHARTER MUNICIPALITIES
OF MUNICIPAL REVIEW COMMITTEE, INC.
DECEMBER 31, 2016**

	<u>Fiduciary Fund</u>
ASSETS	
<i>Custody Account:</i>	
Government Obligations Money Market Fund	\$ 454,456
<i>Tip Fee Stabilization Fund:</i>	
Certificates of Deposit	\$ 9,468,045
Government Obligations Money Market Fund	2,245,764
U.S. Treasury Bill	898,918
U.S. Government Agency Bonds	8,682,399
U.S. Treasury Notes	4,817,535
Accrued Investment Income	<u>47,995</u>
Total Tip Fee Stabilization Fund	26,160,656
<i>MRC Operating Budget Stabilization Fund:</i>	
Government Obligations Money Market Fund	17,202
U.S. Government Agency Bond	<u>175,716</u>
Total MRC Operating Budget Stabilization Fund	192,918
Settlement Agreement Consent Payment, held in escrow	600,000
Advance to General Fund	100,660
Investment in PERC, net of valuation discount	2,833,333
Investment in Hampden Site	<u>1,732,046</u>
Total Assets	<u>32,074,069</u>
LIABILITIES	
Tipping Fee Rebates Payable	<u>658,519</u>
NET POSITION	
Held for the Benefit of the Equity Charter Municipalities of Municipal Review Committee, Inc.	<u>\$ 31,415,550</u>

**MUNICIPAL REVIEW COMMITTEE, INC
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
JOINT VENTURE OF THE CHARTER MUNICIPALITIES
OF MUNICIPAL REVIEW COMMITTEE, INC.
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Fiduciary <u>Fund</u>
ADDITIONS	
PERC Performance Credits	\$ 3,139,125
Settlement Agreement Consent Payment	600,000
Interest and Dividend Income	216,794
Net Earnings from Investment in PERC	481,432
Transfer of Hampden Site Costs from General Fund	212,532
Appreciation (Depreciation) of Investments	<u>41,113</u>
Total Additions	<u>4,690,996</u>
DEDUCTIONS	
Valuation Discount of Investment in PERC	6,516,514
Rebates of Tipping Fees	2,729,985
MRC Operating Budget Stabilization Fund Transfer to General Fund	673,612
MRC Tip Fee Stabilization Fund Transfer to General Fund	<u>136,052</u>
Total Deductions	<u>10,056,163</u>
CHANGE IN NET POSITION	(5,365,167)
NET POSITION - January 1, 2016	<u>36,780,717</u>
NET POSITION - December 31, 2016	<u>\$ 31,415,550</u>

**MUNICIPAL REVIEW COMMITTEE, INC.
NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Municipal Review Committee, Inc. (MRC) was organized as a nonprofit corporation in 1991 to better ensure the continuing availability to its members of long-term, reliable, safe, and environmentally sound methods of solid waste disposal at a stable and reasonable cost. It was formed by municipalities with waste disposal agreements with Penobscot Energy Recovery Company Limited Partnership (PERC). Its members (also known as Charter Municipalities) include counties, refuse disposal districts, public waste disposal corporations, municipalities, and other quasi-municipal entities. Only municipalities within the State of Maine may be eligible for membership upon execution of a waste-disposal agreement with MRC.

MRC's Board of Directors is elected by the Charter Municipalities, and must be persons who, at the time of their election, are either elected or appointed officials, employees, or legal residents of the Charter Municipalities. As of December 31, 2016, MRC's membership was made up of 86 "Equity" Charter Municipalities and 47 "New" Charter Municipalities.

MRC's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for governmental nonprofit entities through its pronouncements (Statements and Interpretations). The more significant accounting policies, established in GAAP and used by the Reporting Entity, are discussed below.

A. Financial Reporting Entity

The financial reporting entity is comprised of the following:

Primary Government	Municipal Review Committee, Inc.
Fiduciary Component Unit	Joint Venture of the Charter Municipalities of Municipal Review Committee, Inc.

These financial statements present the activities of MRC (the primary government) and its component unit. As defined by GASB Statement No. 14, component units are legally separate entities that are included in the primary government's reporting entity because of the significance of their operating or financial relationships with the primary government. However, as the relationship between MRC and its component unit is fiduciary in nature, the component unit's activities are reported in a fiduciary fund and are not blended with the activities of the primary government.

Municipal Review Committee, Inc.

MRC acts as a liaison for and as a representative of its members with PERC and Emera Maine, f.k.a. Bangor Hydro-Electric Company (Bangor Hydro). In performing this function, MRC:

- Reviews PERC's monthly and annual financial performance and operating reports.
- Reviews PERC's quarterly tipping fee adjustments.
- Reviews and oversees the projected and documented utilization of the Capital Maintenance and Reserve Account (CMRA) monies.
- Reviews and verifies PERC's calculation of cash and performance credits to be provided to MRC's members and PERC.

MUNICIPAL REVIEW COMMITTEE, INC. NOTES TO FINANCIAL STATEMENTS

- Reviews PERC's compliance with performance standards.
- Participates in the Oversight Committee of the PERC Partnership.
- Enforces the priority lien MRC's members have on the CMRA monies in the event of termination of PERC's operations.
- Identifies alternative waste disposal options that may be implemented following termination of the members' waste disposal agreements with PERC, including, but not limited to, developing, financing, and/or operating a new integrated solid waste disposal facility to serve the Charter Municipalities.
- For members who elected as of September 30, 1998, to become "Equity" Charter Municipalities:
 1. Purchases, sells, and otherwise deals with limited partnership interests in PERC on behalf of those members, as well as the Net Cash Flow from the ownership of PERC; and
 2. Receives, holds, exchanges, sells, exercises, or otherwise administers and deals with warrants for one million shares of common stock of Bangor Hydro.

Joint Venture of the Charter Municipalities of Municipal Review Committee, Inc.

The Joint Venture of the Charter Municipalities of Municipal Review Committee, Inc. (Joint Venture) is an organization that resulted from a contractual arrangement among certain members of MRC (known as Equity Charter Municipalities), PERC, and Bangor Hydro. It was formed to pool resources of the Equity Charter Municipalities for the long-term goal of handling the disposal of their present and projected volumes of nonhazardous municipal solid waste at a stable and reasonable cost. Those resources are administered by MRC. New members (known as New Charter Municipalities) do not have an ongoing financial interest in the Joint Venture and do not participate in the purchase of a limited partnership interest in PERC.

In 1998, the waste disposal agreements of the Equity Charter Municipalities were amended and restated, and extended to 2018, as part of a settlement that involved the refinancing of PERC's outstanding debt and the renegotiation of a power purchase agreement between PERC and Bangor Hydro, which purchases the electrical output of PERC's waste-to-energy facility ("Facility.") In exchange for certain guarantees, the Equity Charter Municipalities negotiated to receive the following:

Performance Credits from Facility operations. The Charter Municipalities are entitled to receive one-third of the Net Distributable Cash generated from the operation of the Facility, which is known as Performance Credits. Through September 2000, 15% of the Performance Credits were required to be deposited into a restricted cash account, which could only be used for acquisitions of PERC. The Performance Credits are now being directed to the Joint Venture without any requirement for deposit into a restricted account.

Warrants to purchase 1,000,000 shares of Bangor Hydro. The Equity Charter Municipalities received warrants to purchase Bangor Hydro common stock at a price of \$7.00 per share. During the year ended December 31, 2001, the then remaining unexercised 700,900 warrants were exchanged for a \$13,667,550 promissory note from Bangor Hydro.

Bangor Hydro \$2,000,000 reserve. The Equity Charter Municipalities were entitled to receive \$2,000,000 from Bangor Hydro over a four-year period. This cash was deposited into a restricted cash account, which could only be used for acquisitions of PERC.

**MUNICIPAL REVIEW COMMITTEE, INC.
NOTES TO FINANCIAL STATEMENTS**

One-third of \$10,000,000 in reserves. The Charter Municipalities are entitled to receive one-third of three reserves upon PERC's repayment of its outstanding debt. These reserves were held as collateral for the bondholders. The debt was refinanced during the year ended December 31, 2012, and the requirement for PERC to maintain \$10,000,000 in the reserve accounts was reduced to \$2,000,000. MRC has received one-third of the released funds.

The waste disposal agreements of the Equity Charter Municipalities provide that the interests acquired in PERC be allocated among themselves based on their respective shares of cumulative Performance Credits and other cash flows and reserves. To facilitate this allocation, MRC allocates resources among the municipalities on the basis of actual tons of acceptable waste delivered to PERC each quarter.

In an effort to stabilize the net cost of the disposal of the Charter Municipalities' solid waste, rebates of tipping fees are paid to the Charter Municipalities on a system-wide average basis to offset the difference between the tipping fee paid and the applicable target price.

B. Basis of Presentation

Government-Wide Financial Statements

The government-wide financial statements (i.e., statement of net position and the statement of activities) display information about the reporting entity as a whole. They include all funds of the reporting entity except fiduciary funds. The governmental activities are financed by administrative fees paid by members and operating transfers from the Joint Venture.

Fund Financial Statements

The fund financial statements of the reporting entity are organized into funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. The funds have been organized into two categories: governmental and fiduciary.

Governmental. The General Fund is the Entity's only governmental fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Fiduciary. Fiduciary funds are used to account for assets held for the benefit of other parties that generally cannot be used to finance the governmental entity's own operations.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The accounting objective is the determination of operating income, changes in net position, and financial position. All assets and liabilities (whether current or noncurrent) are reported.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are generally

**MUNICIPAL REVIEW COMMITTEE, INC.
NOTES TO FINANCIAL STATEMENTS**

recorded as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Entity considers revenues to be available if they are to be collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting.

The accounting objective of governmental funds is the presentation of the sources, uses, and balances of the Entity's expendable financial resources and related liabilities. The revenues associated with the current fiscal period and susceptible to accrual are the membership fees, PERC monitoring agreement, and reimbursements. All other governmental fund revenues are considered measurable and available only when the Entity receives cash.

The fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. The accounting objective is the measurement of the changes in net position and financial position. All assets and liabilities (whether current or noncurrent) are reported.

D. Assets, Liabilities, and Equity

Membership Fees Receivable. Annually, the Board of Directors determines an administrative fee necessary to support the Organization's oversight duties. Each member pays its proportionate share based upon waste tonnage delivered to PERC. Membership Fees Receivable represents uncollateralized amounts due from members for the administrative fees.

Accounts Receivable – Bangor Hydro. During the year ended December 31, 1998, MRC completed negotiations to restructure the contractual relationships among MRC, its members, Bangor Hydro, and PERC through March 31, 2018. The agreement requires Bangor Hydro to pay MRC \$10,000 each calendar quarter to cover costs associated with monitoring PERC's operations. This amount is adjusted once each year to reflect changes in the Consumer Price Index.

Capital Assets. Capital assets purchased or acquired with an original cost of \$2,500 or more are reported at historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets that have been placed in service is provided on the straight-line basis over the following estimated useful lives:

Website development costs

5 years

The Entity has also made deposits on land and has incurred costs for site development that have not yet been placed in service. These capital assets are not being depreciated.

Advance to/from Other Funds. This is an asset or liability account that is used to record long-term loans between funds within the same reporting entity.

Custody Account. The Custody Account is the operating cash account of the Joint Venture. All deposits made to and held in this account are invested in a Government Obligations Money Market Fund.

**MUNICIPAL REVIEW COMMITTEE, INC.
NOTES TO FINANCIAL STATEMENTS**

Tip Fee Stabilization Fund. In 2001, the Board of MRC voted to set aside a portion of the Performance Credits received each quarter into an investment account for future distributions to Charter Municipalities. In 2003, the Board voted to temporarily suspend additional purchases of PERC and to transfer to this Fund amounts in the Custody Account when they exceed a certain minimum balance. The investments in this account are carried at fair value based on quoted market prices.

MRC Operating Budget Stabilization Fund. In 2004, the Board of MRC voted to establish this investment account from certain funds that the Joint Venture had received from the general partner of PERC. These investments may be used to provide MRC with funds each year through March 31, 2018, for balancing its annual operating budget in the event of contingencies. The investments in this account are carried at fair value based on quoted market prices.

Net Position. Equity in government-wide financial statements is classified as net position. Net position is further classified as invested in capital assets, restricted, and unrestricted. Capital assets are assets that are associated with governmental activities and arise from expenditures of governmental fund resources. Restricted net position consists of net assets with constraints placed upon their use either by (1) external groups such as creditors or the laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.

Equity in fiduciary fund financial statements is also classified as net position. These net position is not divided into the three categories used in government-wide financial statements. It simply reports the difference between the fund's assets and liabilities, and are shown as "net position held for the benefit of the Equity Charter Municipalities of Municipal Review Committee, Inc."

Fund Balance. Governmental fund equity is classified as fund balance. The fund balance is further classified as restricted, committed, assigned, or unassigned. Restricted funds consist of amounts that are legally restricted by external parties or laws for a specific purpose. Committed funds consist of amounts that can only be used for a specific purpose pursuant to constraints imposed by the Board. Assigned funds represent tentative plans for future use.

2. DEPOSITS AND INVESTMENTS

a. Custodial Credit Risk—Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Entity does not have a deposit policy for custodial credit risk. As of December 31, 2016, \$863,374 of the Entity's deposits of \$10,412,363 held in banks was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	<u>\$863,374</u>
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The Entity has not experienced any losses in the past. Management believes it is not exposed to any significant risk on its uninsured and uncollateralized cash deposits.

**MUNICIPAL REVIEW COMMITTEE, INC.
NOTES TO FINANCIAL STATEMENTS**

b. Credit Risk, Concentration of Credit Risk, and Interest Rate Risk—Investments

The following schedule summarizes the Fiduciary Fund's investments at December 31, 2016:

		Investment Maturities (in Years)			Weighted Average Maturity
	Market Value	Less Than 1	1-5	6-10	
U.S. Treasury Notes and Bill	\$ 5,716,453	\$1,900,008	\$3,816,445	-	1.02 years
U.S. Government Agency Bonds:					
Federal Home Loan Bank	7,108,935	3,031,600	4,077,335	-	1.09 years
Federal Farm Credit Bank	1,749,180	1,251,065	498,115	-	0.61 years
Total Bonds	8,858,115	4,282,665	4,575,450	-	1.00 years
Mutual Funds:					
Government Obligations Tax-Managed Fund	454,456	454,456	-	-	40 days
Government Cash Management Fund	2,262,966	2,262,966	-	-	17 days
Total Mutual Funds					
Totals	<u>\$17,291,990</u>	<u>\$8,900,095</u>	<u>\$8,391,895</u>	<u>\$ -</u>	

Maine statutes authorize the Entity to invest its municipal revenues in all obligations of the U.S. government and its instrumentalities, in U.S. agencies within the three highest ratings issued by nationally recognized statistical rating organizations, in repurchase agreements secured by U.S. obligations, and in shares of registered mutual fund companies that invest in U.S. obligations. The Entity invests only in instruments allowed under Maine Law; however, it does not invest in any subordinated debt.

Credit Risk. Credit risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to fulfill its obligations. The Entity's investments in the bonds of U.S. Agencies were all rated Aaa, AAA, and AAA by Moody's Investors Service, Standard & Poor's, and Fitch Ratings, respectively. The money market mutual fund was rated Aaa-mf and AAAM by Moody's Investors Service and Standard & Poor's, respectively.

Concentration of Credit Risk. Concentration of credit risk exists when the investments in any one issuer exceed 5% of total investments. However, no concentration of credit is deemed to exist for investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds. MRC does not have a policy for managing its concentration of credit risk. The investment in bonds issued by Federal Home Loan Bank and Federal Farm Credit Bank amount to 41.11% and 10.12%, respectively, of total investments.

Interest Rate Risk. Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. In accordance with its investment policy, the Entity limits the weighted average maturity of its investment portfolio to within two years of the duration of a benchmark based on blended values of the Barclay's Agency 1-3 Year Index and the Barclay's U.S. Government Intermediate Bond Index.

**MUNICIPAL REVIEW COMMITTEE, INC.
NOTES TO FINANCIAL STATEMENTS**

3. INVESTMENT IN PERC

The Entity accounts for its investment in PERC under the equity method, that is, at cost adjusted periodically by the Entity's share of PERC's earnings or losses as reported in its audited financial statements, and increased by contributions made and decreased by the distributions received. During the year ended December 31, 2016, the Entity received a distribution of \$809,669 and no contributions were made. The difference between the cost of the investment in the PERC partnership and the underlying equity in the partnership's capital when acquired, approximately \$1,000,000, has been accounted for as goodwill not subject to amortization.

However, during December 2016, MRC and the private partners of the PERC partnership entered into a settlement agreement to, among other provisions, require PERC to purchase the Entity's investment in PERC at a fixed price of \$1,500,000. This price is in addition to the \$1,333,333 of debt reserve funds expected to be distributed from PERC to MRC during 2017. Thus, the difference between the value of the investment in PERC under the equity method of accounting and these expected distributions from PERC of \$2,833,333 is being accounted for as a discount in valuation, and is reported as a deduction in the statement of changes in fiduciary net position.

The Investment in PERC is summarized as follows:

Investment in PERC under the equity method of accounting	\$9,349,847
Valuation Discount of Investment in PERC	<u>6,516,514</u>
Investment in PERC, net of valuation discount	<u>\$2,833,333</u>

The ownership interests of the partners of PERC at December 31, 2016, are as follows:

	<u>General Partners</u>	<u>Limited Partners</u>
USA Energy Group, LLC	10.0%	42.7%
Equity Charter Municipalities of MRC	-	23.0%
PERC Holdings, LLC	<u>-</u>	<u>24.3%</u>
Total	<u>10.0%</u>	<u>90.0%</u>

Summarized financial information of PERC at December 31, 2016, and for the year then ended, is as follows:

ASSETS

Cash and cash equivalents	\$ 7,139,316
Accounts receivable, prepaid expenses, and other assets	4,238,062
Restricted funds	3,083,981
Property, plant, and equipment, net of accumulated depreciation	<u>24,354,895</u>
Total assets	<u>\$38,816,254</u>

LIABILITIES AND PARTNERS' CAPITAL

Accounts payable, accrued expenses, and other liabilities	\$ 3,818,232
Note payable	<u>1,730,615</u>
Total liabilities	5,548,847
Partners' capital	<u>33,267,407</u>
Total liabilities and partners' capital	<u>\$38,816,254</u>

**MUNICIPAL REVIEW COMMITTEE, INC.
NOTES TO FINANCIAL STATEMENTS**

STATEMENT OF INCOME

Revenues	\$38,730,498
Operating expenses	<u>36,054,199</u>
Operating income before interest and other financing costs	2,240,061
Interest and other financing costs	<u>149,802</u>
Net income	<u>\$ 2,090,259</u>

4. CAPITAL ASSETS

A summary of changes in capital assets follows:

	Balance January 1	Increases	Decreases	Balance December 31
Governmental Activities				
<i>Capital assets not being depreciated:</i>				
Options to Purchase Land	\$125,000	-	\$ 73,000	\$ 52,000
Hampden Site Development Costs	<u>212,532</u>	<u>-</u>	<u>212,532</u>	<u>-</u>
Total capital assets not being depreciated	337,532	-	285,532	52,000
<i>Capital assets being depreciated:</i>				
Website development costs	2,921	-	-	2,921
<i>Less accumulated depreciation for:</i>				
Website development costs	<u>2,629</u>	<u>\$ 292</u>	<u>-</u>	<u>2,921</u>
Net capital assets being depreciated	<u>292</u>	<u>(292)</u>	<u>-</u>	<u>-</u>
Governmental Activities – Capital Assets, net	<u>\$337,824</u>	<u>\$ (292)</u>	<u>\$285,532</u>	<u>\$ 52,000</u>

5. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of the differences between the governmental fund balance sheet and the statement of net position—governmental activities

Fund Balance—Governmental Fund	\$331,011
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements.	52,000
Some assets, including prepaid expenses in the governmental activities, are not financial resources and therefore are not reported in the fund financial statements.	13,091
Some liabilities, including accrued vacation, are not payable in the current period and therefore are not reported in the fund financial statements.	<u>(8,598)</u>
Net Position of Governmental Activities	<u>\$387,504</u>

**MUNICIPAL REVIEW COMMITTEE, INC.
NOTES TO FINANCIAL STATEMENTS**

B. Explanation of the differences between the statement of revenues, expenditures, and changes in fund balances—governmental fund and the government-wide statement of activities

Net Change in Fund Balance—Governmental Fund	\$ 404,123
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is either transferred to another fund, written off, or allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which transfers (\$212,532), write-offs (\$73,000), and depreciation expense (\$292) exceeds capital outlays (\$0).	(285,824)
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Governmental funds report the payment of insurance the earlier of when expended or when the current financial resources are available and payments are due. However, in the statement of activities, these payments are reported as expense in the period to which they relate.	156
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Some expenses, such as accrued vacation, reported in the statement of activities, do not require the use of current financial resources and therefore are not reported in the fund financial statements.	3,225
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Change in Net Position of Governmental Activities	<u>\$ 121,680</u>
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6. OPTIONS TO PURCHASE LAND

As part of its post-2018 planning initiative, the Entity has acquired options to purchase tracts of land in Greenbush, Argyle, and Hampden, Maine. The options allow the Entity to purchase land at predetermined amounts during two or three successive one-year terms, provided that additional option consideration is paid. The option price and any additional consideration may be applied toward the purchase price of each tract of land.

Final approval was received for the Hampden site, and those options are expected to be exercised. The remaining options for land in Greenbush and Argyle will not be renewed, are considered to have no future value, and have been written off to expense in the year ended December 31, 2016.

7. SCHEDULE OF EQUITY CHARTER MUNICIPALITY NET POSITION

A considerable portion of the Joint Venture's cash inflows have been allocated among the Equity Charter Municipalities on the basis of actual tons of acceptable waste delivered to PERC each quarter. Each individual acquisition of PERC has been allocated among the Equity Charter Municipalities based on the allocation for the calendar quarter each purchase was made. The distributions of PERC's earnings are allocated among the municipalities based on each municipality's respective ownership of PERC at the time of the distributions.

Some of the Joint Venture's assets have not been allocated among its members yet, such as the undistributed profits of PERC. These assets will be allocated in the calendar quarter that they are converted to cash. Or, as in the case of the Debt Service Reserve Fund included in the carrying value of PERC, these funds will be allocated based on the total tons delivered by each Equity Charter Municipality from July 1, 1998, through December 31, 2017. However, for purposes of this schedule, the allocation of these assets has been estimated based on the cumulative allocations of the

**MUNICIPAL REVIEW COMMITTEE, INC.
NOTES TO FINANCIAL STATEMENTS**

allocated assets. The actual amount of the allocations that will be made in the future may be different than that presented here.

8. POST-2018 PLANNING INITIATIVE

During the year ended December 31, 2015, MRC entered into a development agreement with Fiberight, LLC, to consider a venture whereby Fiberight would develop a solid waste processing facility to handle the waste disposal needs of the Charter Municipalities. The objective of this plan was to replace the PERC facility by April 1, 2018, when the current waste disposal agreements with PERC expire. MRC would choose a site and develop the infrastructure for the facility. The site would then be leased to Fiberight, and Fiberight would build and operate its facility.

During the year ended December 31, 2016, 115 municipalities (known as Joining Members), of the total 187 Maine municipalities that make up the Charter Municipalities, entered into long-term agreements (known as Joinder Agreements) to deliver municipal solid waste to a waste processing facility using Fiberight's proprietary technology in Hampden, Maine. The Joining Members would use their share of the fiduciary fund's net position to finance the development of the Hampden site, estimated to have a cost of about \$5,000,000, and to fund reserves for various purposes.

The 72 Departing Municipalities would receive their share of the fiduciary fund's net position in accordance with applicable agreements. They would no longer participate in the Joint Venture or the solid waste managing activities of MRC.

9. SETTLEMENT AGREEMENT

In December 2016, the Entity entered into an agreement with the private partners of PERC to settle some issues related to the existing waste disposal agreements that are scheduled to expire on March 31, 2018. The parties reached an agreement on the following provisions:

Performance Credits and Net Cash Flow. The Joint Venture will receive a minimum of \$5.4 million in total Performance Credits and Net Cash Flow from PERC from September 1, 2016, through March 31, 2018. As of December 31, 2016, \$1,078,021 had been collected.

Consent Payment. The Entity received \$600,000 for the removal of the option to acquire further interests in PERC in 2018. An option to sell the interest held in the PERC partnership was granted.

Option to sell partnership interests. The Equity Charter Municipalities shall each have the option to require PERC to purchase their limited partnership interests at a pro rata share of \$1.5 million for all such interests. For those Equity Charter Municipalities that do not elect to exercise their options, PERC may buy back their interests at an agreed-upon price or at fair market value based on an appraisal process.

Release of reserve funds. The general partner of PERC shall assist MRC in securing the withdrawal of \$1.333 million from the Debt Service Reserve Fund as soon as possible.

**MUNICIPAL REVIEW COMMITTEE, INC.
NOTES TO FINANCIAL STATEMENTS**

10. INCOME TAXES

MRC is tax-exempt under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), and is classified by the Internal Revenue Service (IRS) as other than a private foundation. However, the Internal Revenue Code may subject an organization to tax on unrelated business taxable income. It is Management's opinion that the Organization had no unrelated business taxable income during the year ended December 31, 2016.

The Organization is required to file Form 990 (Return of Organization Exempt from Income Tax), which is generally subject to examination by the IRS and state authorities up to three years from the due date. Forms 990 for 2013 through 2015 were open to examination as of December 31, 2016.

11. RETIREMENT PLAN

MRC has sponsored a SIMPLE IRA plan for its employee and matches 100% of the employee's deferred compensation up to 3% of the employee's compensation. The expense for the year ended December 31, 2016, was \$2,811.

12. CONSTRUCTION CONTRACT

During the year ended December 31, 2016, MRC entered into a contract to begin developing a site in Hampden, Maine. The construction contract includes an interim access road and partial utility construction for the future Fiberight solid waste processing facility. The total contract price is \$1,153,658. As of December 31, 2016, \$912,472 of work had been incurred under the contract, and \$241,186 still was remaining to be performed.

13. INSURANCE

The Organization is exposed to a variety of risks in the ordinary course of its daily activities. Some of these risks include workers' compensation, legal, and fiduciary liabilities. MRC has purchased commercial insurance policies to cover potential claims.

14. PRIOR-PERIOD ADJUSTMENT

During the year ended December 31, 2016, it was discovered that \$10,032 and \$16,354 of legal fees that had been incurred under a contract in 2014 and 2015, respectively, had not been accrued as liabilities and expensed in those years. Thus, the change in net position for 2014 and 2015 should have been \$10,032 and \$16,354 lower, respectively, than what had been previously reported. The fund balance and net position as of January 1, 2016, have each been restated to reflect a decrease of \$26,386 from these fees incurred in prior years.

15. SUBSEQUENT EVENTS

Subsequent to year end, the Board of MRC voted to exercise the options to purchase the land in Hampden for the future Fiberight solid waste processing facility. Also, a construction contract has been signed to complete the construction of the infrastructure for the Hampden site.

MUNICIPAL REVIEW COMMITTEE, INC.
SCHEDULE OF EQUITY CHARTER MUNICIPALITY NET POSITION
DECEMBER 31, 2016

	Cash and Investment Accounts Less <u>Payables</u>	Investment in and Advance for <u>Hampden Site</u>	Investment in PERC	<u>Net Position</u>
Albion	\$ 137,387	\$ 16,168	\$ 14,738	\$ 168,292
Alton	52,247	6,159	5,796	64,202
Atkinson	18,657	2,192	1,988	22,838
Baileyville	300,773	-	25,401	326,174
Bangor	4,378,159	515,742	491,135	5,385,036
Bar Harbor	862,202	103,030	90,215	1,055,447
Blue Hill/Surry	613,769	72,522	62,488	748,779
Boothbay RRDD	771,382	92,011	80,488	943,882
Bradley	73,662	8,609	8,055	90,327
Brewer	1,095,120	129,904	128,326	1,353,350
Brooks	47,830	5,539	4,979	58,349
Brownville	107,496	12,718	12,302	132,516
Bucksport	313,532	37,441	38,976	389,949
Burnham	101,713	-	9,905	111,618
Carmel	158,789	18,588	16,845	194,221
Central Penobscot	319,762	37,356	31,500	388,618
China	268,367	31,881	31,144	331,392
Clifton	54,800	6,440	6,056	67,296
Clinton	380,324	-	41,049	421,373
Dedham	64,572	7,668	7,170	79,410
Dover-Foxcroft	330,566	38,865	35,223	404,655
Eddington	133,546	15,739	15,509	164,794
Enfield	131,418	-	13,238	144,656
Fairfield	546,919	-	52,729	599,648
Glenburn	328,735	-	31,826	360,561
Gouldsboro	131,455	-	13,043	144,498
Greenbush	95,980	-	9,621	105,601
Guilford	196,719	23,154	22,682	242,555
Hampden	531,614	62,567	57,147	651,328
Hancock	91,129	-	9,347	100,476
Hermon	539,285	-	51,211	590,496
Holden	146,116	17,159	15,523	178,798
Jackson	23,368	-	2,251	25,619
Lamoine	100,108	-	9,602	109,710
Lee	62,701	7,321	6,875	76,897
Levant	139,971	16,373	15,192	171,535
Lincoln	610,432	-	64,355	674,787
Lucerne	40,697	4,803	4,276	49,776
Mariaville	21,588	2,528	2,315	26,431
Mars Hill	161,068	-	16,679	177,747

The Net Position is not available for immediate withdrawal due to various restrictions, designations, and other limitations on their withdrawal, direction, and application. Please refer to the Management's Discussion and Analysis and the accompanying notes for additional information.

MUNICIPAL REVIEW COMMITTEE, INC.
SCHEDULE OF EQUITY CHARTER MUNICIPALITY NET POSITION
DECEMBER 31, 2016

	Cash and Investment Accounts Less <u>Payables</u>	Investment in and Advance for <u>Hampden Site</u>	Investment in PERC	<u>Net Position</u>
Mattawamkeag	\$ 58,710	\$ 6,966	\$ 6,678	\$ 72,353
Midcoast SWD	1,254,277	-	127,529	1,381,806
Mid-Maine SWD	658,615	77,542	76,753	812,910
Milford	183,372	-	19,098	202,470
Millinocket	440,890	52,368	49,076	542,334
Milo	203,852	23,987	22,209	250,048
Monson	35,612	4,216	3,701	43,529
Mt. Desert/EMR	1,051,919	125,240	108,651	1,285,810
Newburg	92,371	-	10,013	102,384
Old Town	720,263	-	79,687	799,950
Orland	58,512	-	7,318	65,830
Orono	630,983	74,256	70,212	775,451
Otis	29,483	3,507	3,472	36,462
Palmyra	112,895	13,171	12,424	138,490
Parkman	30,599	3,594	3,115	37,307
Penobscot Co.	144,161	-	14,539	158,700
Pleasant River SWD	174,402	20,843	21,868	217,113
Plymouth	85,546	-	8,816	94,362
Reed Plantation	15,997	-	1,590	17,587
Rockland	920,334	-	94,356	1,014,690
Sangerville	85,908	10,078	8,935	104,920
Searsport	189,980	-	19,943	209,923
Stetson	83,219	-	7,815	91,034
Steuben	89,126	10,455	9,234	108,816
Stonington	175,802	-	15,970	191,772
Thomaston Group	657,731	-	64,918	722,649
Thorndike	42,640	5,056	4,801	52,497
Troy	30,843	3,655	3,645	38,142
Union River SWD	54,280	6,383	5,895	66,558
Unity	129,959	15,264	13,849	159,072
Vassalboro	220,477	26,051	25,209	271,737
Veazie	123,019	-	12,487	135,506
Verona	49,801	-	5,070	54,871
Waldoboro Group	485,961	57,595	52,865	596,421
Waterville	1,667,209	-	161,294	1,828,503
Winslow	578,484	-	54,148	632,632
West Gardiner	192,452	-	19,316	211,768
Winthrop	505,872	-	49,634	555,506
Total	\$ 26,749,511	\$ 1,832,706	\$ 2,833,333	\$ 31,415,550

The Net Position is not available for immediate withdrawal due to various restrictions, designations, and other limitations on their withdrawal, direction, and application. Please refer to the Management's Discussion and Analysis and the accompanying notes for additional information.