

**THE ENVIRONMENTAL COUNCIL OF THE
STATES, INC. AND AFFILIATE**

**Consolidated Financial Statements Together with
Reports of Independent Public Accountants**

For the Years Ended September 30, 2017 and 2016



S B & C O M P A N Y, L L C
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SEPTEMBER 30, 2017 AND 2016

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of
The Environmental Council of the States, Inc. and Affiliate

Report on the Financial Statements

We have audited the accompanying consolidated statements of financial position of the Environmental Council of the States, Inc. and Affiliate (the Council), as of September 30, 2017 and 2016, the related consolidated statements of activities and change in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Council as of September 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of Federal awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, the combining statement of financial position and combining statement of activities and change in net assets are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statement of financial position, combining statement of activities and change in net assets, and the schedule of expenditures of Federal awards are fairly stated in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2018, on our consideration of the Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Council's internal control over financial reporting and compliance.

Washington, DC
June 18, 2018

A handwritten signature in black ink that reads "SB & Company, LLC".

THE ENVIRONMENTAL COUNCIL OF THE STATES, INC. AND AFFILIATE

**Consolidated Statements of Financial Position
As of September 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 1,381,669	\$ 1,037,555
Investments	820,107	454,477
Grants and contributions receivable	719,183	878,178
Other assets	76,226	57,803
Property and equipment, net	-	341
Total Assets	\$ 2,997,185	\$ 2,428,354
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 292,385	\$ 306,847
Accrued benefits	90,932	76,512
Advances on grants and contracts	31,676	1,402
Advances on meeting registration	117,263	22,308
Deferred membership revenue	13,000	26,000
Deferred rent	25,498	38,825
Total Liabilities	570,754	471,894
Net Assets		
Unrestricted	2,426,431	1,956,460
Total Liabilities and Net Assets	\$ 2,997,185	\$ 2,428,354

The accompanying notes are an integral part of these consolidated financial statements.

THE ENVIRONMENTAL COUNCIL OF THE STATES, INC. AND AFFILIATE

**Consolidated Statements of Activities and Change in Net Assets
For the Years Ended September 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
CHANGE IN UNRESTRICTED NET ASSETS		
Revenue and Support		
Federal grants and contracts	\$ 3,171,755	\$ 2,907,285
Non-Federal grants and contracts	54,809	-
State assessment dues	655,983	567,150
Sponsors and other contributions	476,053	467,925
ITRC-IAP-membership	497,026	453,063
Meeting registrations	410,473	617,703
Sublease rental income	12,358	15,119
Interest and other income	41,944	28,246
Total Revenue and Support	<u>5,320,401</u>	<u>5,056,491</u>
Expenses		
Program Services		
ITRC	1,936,221	2,178,179
EN program	1,110,422	794,077
TRI - non grant	-	926
NH Grant - passthrough grant	61,158	10,113
Membership services	673,599	651,405
OMNIBUS	274,293	167,598
Federal facilities forum	172,431	144,022
STEP	88,143	115,901
Shale Gas Caucus	14,231	22,175
Other	6,183	-
Total Program Services	<u>4,336,681</u>	<u>4,084,396</u>
Supporting Services		
Administrative services	513,749	510,809
Total Expenses	<u>4,850,430</u>	<u>4,595,205</u>
Change in Unrestricted Net Assets	<u>469,971</u>	<u>461,286</u>
Net assets, beginning of year	1,956,460	1,495,174
Net Assets, End of Year	<u>\$ 2,426,431</u>	<u>\$ 1,956,460</u>

The accompanying notes are an integral part of these consolidated financial statements.

THE ENVIRONMENTAL COUNCIL OF THE STATES, INC. AND AFFILIATE

**Consolidated Statements of Cash Flows
For the Years Ended September 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 469,971	\$ 461,286
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	341	3,343
Unrealized gain, net	(30,963)	(10,830)
Changes in non-cash operating assets and liabilities:		
Grants and contributions receivable	158,995	66,793
Other assets	(18,423)	39,271
Accounts payable and accrued expense	(14,462)	(167,014)
Accrued benefits	14,420	(6,611)
Advances on grants and contracts	30,274	-
Advances on meeting registration	94,955	(157,398)
Deferred membership revenue	(13,000)	6,000
Deferred rent	(13,327)	(9,246)
Net Cash from Operating Activities	<u>678,781</u>	<u>225,594</u>
Cash Flows from Investing Activities		
Purchases of investments	<u>(334,667)</u>	<u>(13,847)</u>
Net change in cash and cash equivalents	344,114	211,747
Cash and cash equivalents, beginning of year	<u>1,037,555</u>	<u>825,808</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,381,669</u>	<u>\$ 1,037,555</u>

The accompanying notes are an integral part of these consolidated financial statements.

THE ENVIRONMENTAL COUNCIL OF THE STATES, INC. AND AFFILIATE

Notes to the Consolidated Financial Statements September 30, 2017 and 2016

1. BACKGROUND OF THE ORGANIZATION

The Environmental Council of the States, Inc. (ECOS) is a non-profit, non-partisan organization comprised of environmental secretaries, commissioners, and directors responsible for administering air, water, waste, pollution prevention, and cleanup programs in the states, territories and the District of the Columbia. The mission of ECOS is to improve the environment of the United States by providing for the exchange of ideas, views and experiences among the states, fostering cooperation and coordination in environmental management, and articulating state positions to Congress and the Environmental Protection Agency (EPA) on environmental issues.

In 1997, the Environmental Research Institute of the States, Inc. (ERIS) was incorporated as a non-profit corporation in the District of Columbia. ERIS was established as an arm of ECOS for the purpose of accepting funds to conduct educational and research activities. Unlike ECOS, whose members are the environmental officers of the 50 states and the territories, ERIS is not a membership organization. ERIS has ongoing projects, all of which are educational in nature or involve research.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying consolidated financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

New Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* and ASU No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments*, that provide updated guidance on the reporting model for not-for-profits and the statement of cash flows. These standards are effective for periods beginning after December 15, 2017 and December 15, 2018, respectively. Management is evaluating the effects of these pronouncements on the financial statements, and will implement these pronouncements by their effective dates. Management does not believe the adoption of these pronouncements will have a material effect on the financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, that creates a singular reporting model for leases. This standard will require the entities to record changes to its statement of financial position to reflect balances for current leases that are not shown in the statement of financial position. This standard will be effective for periods beginning after December 15, 2019.

THE ENVIRONMENTAL COUNCIL OF THE STATES, INC. AND AFFILIATE

Notes to the Consolidated Financial Statements September 30, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Pronouncements (continued)

In September 2017, the FASB issued ASU No. 2017-13, *Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842)*, that provides clarification on certain topics related to these topics. These standards are effective when the related previous amended standards become effective. Management does not believe the adoption of these pronouncements will have a material effect on the financial statements.

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 requires all entities to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the entity expects to be entitled in exchange for those goods or services. Five key steps will be required to assess revenue recognition along with enhanced disclosures. The FASB recently issued ASU 2015-14 to defer the effective date of its revenue recognition standard by one year. Based on the deferral of the effective date, the ASU would not be effective for the Council until June 30, 2019. Management is currently evaluating the effect that the provisions of ASU 2014-09 will have on the financial statements.

Principles of Consolidation

The consolidated financial statements have been prepared on the accrual basis of accounting and include the accounts of ECOS and ERIS, collectively referred to as the Council. ECOS and ERIS have been consolidated as required under accounting principles generally accepted in the United States of America due to the presence of common control. All significant inter-company balances and transactions have been eliminated in the consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires the Council's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the consolidated financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include amounts invested in short-term investments with original maturities of 90 days or less. Cash equivalents as of September 30, 2017 and 2016, consisted of money market funds.

THE ENVIRONMENTAL COUNCIL OF THE STATES, INC. AND AFFILIATE

Notes to the Consolidated Financial Statements September 30, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements

U.S. GAAP establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under U.S. GAAP are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Council has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Financial instruments consist of cash equivalents, investments, receivables and payables. The carrying value of the Council's financial instruments in the accompanying consolidated statements of financial position approximated their respective estimated fair values as of September 30, 2017 and 2016, because of the short-term nature of these investments. Fair values are estimated based on current market rates, prices or liquidation value.

THE ENVIRONMENTAL COUNCIL OF THE STATES, INC. AND AFFILIATE

Notes to the Consolidated Financial Statements September 30, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Grants and Contributions Receivable

Grants and contributions receivable consist of amounts due for costs under reimbursable Federal grants, which are stated at their net realizable value, and unconditional promises to give, which are recorded as receivables when the promise is made. Grants and contributions receivable as of September 30, 2017 and 2016, were deemed to be fully collectible by management, thus no allowance for doubtful accounts was recorded.

Property and Equipment, Net

Furniture and equipment are carried at cost and depreciated over their estimated useful lives, which range from five to seven years. Leasehold improvements are recorded at cost and amortized over the remaining term of the lease. Major additions, replacements, and betterments with costs greater than \$5,000, with an expected useful life greater than one year are capitalized. Maintenance and repairs that do not improve or extend the lives of the respective assets are charged to expense as incurred.

Net Assets

Unrestricted net assets represent resources available to support the Council's operations.

Temporarily restricted net assets represent contributions that are limited in use by the Council, in accordance with donor-imposed stipulations. These stipulations may expire with time or may be satisfied and removed by actions of the Council that are in accordance with the terms of the contribution. If a donor restriction is met in the same reporting period in which the contribution is received, the contribution (to the extent that the restrictions have been met) is reported as unrestricted net assets. There were no temporarily restricted net assets as of September 30, 2017 and 2016.

Permanently restricted net assets represent contributions and other assets to be held as investments in perpetuity, as directed by the original donor. There were no permanently restricted net assets as of September 30, 2017 and 2016.

Revenue Recognition

Unconditional grants and contracts are recognized as revenue and support as allowable costs are incurred, in accordance with the grant terms. Revenue recognized on these grants and contracts for which billings have not been presented to or collected from the awarding agency is included in grants and contributions receivable in the accompanying consolidated statements of financial position. Amounts received in advance are recorded as advances on grants and contracts in the accompanying consolidated statements of financial position.

THE ENVIRONMENTAL COUNCIL OF THE STATES, INC. AND AFFILIATE

Notes to the Consolidated Financial Statements September 30, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

Meeting registration is recognized as revenue in the applicable fiscal period when the meeting is held. Membership dues are on a fiscal year basis and dues received in advance of the membership period are recorded as deferred membership revenue. State assessments are recognized as revenue when payments are received.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying consolidated statements of activities and change in net assets. Accordingly, certain costs have been allocated among the programs and supporting services that benefit from those costs. General and administrative expenses include those expenses that are not directly identified with any other specific function but provide for the overall support and direction of the Council

Income Taxes

The Council is a nonprofit organization exempt from Federal income tax under Section 501(c)(6) (ECOS) and 501(c)(3) (ERIS) of the Internal Revenue Code and is recognized as such by the Internal Revenue Service.

Accounting principles generally accepted in the United States of America provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition of tax positions taken or expected to be taken in a tax return. The Council performed an evaluation of uncertain tax positions as of September 30, 2017, and determined that there were no matters that would require recognition in the consolidated financial statements or, which may have any effect on its tax-exempt status. As of September 30, 2017, the statute of limitations for fiscal years 2014 through 2017 remains open with the U.S. Federal jurisdiction or the various states and local jurisdictions in which the Council files tax returns. It is the Council's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense.

Subsequent Events

The Council evaluated the accompanying consolidated financial statements for subsequent events and transactions as of June 18, 2018, the date these consolidated financial statements were available for issue, and has determined that no material subsequent events have occurred that affect the information presented in the accompanying consolidated financial statements or require additional disclosure.

THE ENVIRONMENTAL COUNCIL OF THE STATES, INC. AND AFFILIATE

Notes to the Consolidated Financial Statements September 30, 2017 and 2016

3. INVESTMENTS

The following is a description of the valuation methodologies used for investments measured at fair value. There have been no changes in the methodologies used as of September 30, 2017 and 2016.

Money market funds, exchange traded, equity, international, allocation funds, and fixed income funds: Valued at the closing price reported on the active market on which the individual securities are traded.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Council believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth by level, the fair value hierarchy of the Council's investments at fair value as of:

	Investments at Fair Value as of September 30, 2017			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 16,227	\$ -	\$ -	\$ 16,227
Exchange traded funds				
Healthcare	12,180	-	-	12,180
Technology	16,569	-	-	16,569
Equity mutual funds				
Large-cap growth	23,931	-	-	23,931
Large-cap value	205,031	-	-	205,031
Mid-cap value	10,171	-	-	10,171
Small-cap blend	23,480	-	-	23,480
Small-cap growth	8,415	-	-	8,415
Market neutral	29,454	-	-	29,454
Diversified emerging markets	9,757	-	-	9,757
Conservative Allocation	29,687	-	-	29,687
International				
Foreign large-cap blend	13,826	-	-	13,826
Large-cap value	21,575	-	-	21,575
Europe stock	14,409	-	-	14,409
Fixed income mutual funds				
Short-term bond	107,903	-	-	107,903
Long-term bond	195,454	-	-	195,454
Allocation Funds				
Domestic	52,584	-	-	52,584
Global	29,454	-	-	29,454
Total	\$ 820,107	\$ -	\$ -	\$ 820,107

THE ENVIRONMENTAL COUNCIL OF THE STATES, INC. AND AFFILIATE

**Notes to the Consolidated Financial Statements
September 30, 2017 and 2016**

3. INVESTMENTS (CONTINUED)

	Investments at Fair Value as of September 30, 2016			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 6,036	\$ -	\$ -	\$ 6,036
Exchange traded funds				
Healthcare	7,302	-	-	7,302
Technology	12,128	-	-	12,128
Equity mutual funds				
Large-cap growth	32,759	-	-	32,759
Large-cap value	33,135	-	-	33,135
Mid-cap growth	27,842	-	-	27,842
Mid-cap value	6,697	-	-	6,697
Small-cap blend	8,472	-	-	8,472
Small-cap growth	5,733	-	-	5,733
Small-cap value	6,818	-	-	6,818
International				
Large-cap value	19,860	-	-	19,860
Fixed income mutual funds				
Short-term bond	118,056	-	-	118,056
Long-term bond	118,258	-	-	118,258
Allocation Funds				
Domestic	25,349	-	-	25,349
Global	26,032	-	-	26,032
Total	\$ 454,477	\$ -	\$ -	\$ 454,477

Investments, at cost, consisted of the following as of September 30, 2017 and 2016:

	2017	
	Cost	Fair Value
Money market funds	\$ 16,227	\$ 16,227
Exchange traded funds	24,896	28,749
Equity mutual funds	324,796	339,926
International	51,042	49,810
Fixed income mutual funds	303,080	303,357
Allocation funds	81,001	82,038
Total	\$ 801,042	\$ 820,107

THE ENVIRONMENTAL COUNCIL OF THE STATES, INC. AND AFFILIATE

**Notes to the Consolidated Financial Statements
September 30, 2017 and 2016**

3. INVESTMENTS (continued)

	2016	
	Cost	Fair Value
Money market funds	\$ 6,036	\$ 6,036
Exchange traded funds	17,788	19,430
Equity mutual funds	126,326	121,456
International	23,281	19,860
Fixed income mutual funds	235,853	236,314
Allocation funds	55,556	51,381
Total	\$ 464,840	\$ 454,477

For the years ended September 30, 2017 and 2016, investment income consisted of the following:

	2017	2016
Interest and dividends	\$ 12,667	\$ 13,847
Unrealized gains, net	30,963	10,830
Total	\$ 43,630	\$ 24,677

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of September 30, 2017 and 2016:

	2017	2016	Estimated Useful Life
Furniture and equipment	\$ 98,491	\$ 98,491	5-7 years
Leasehold improvements	72,391	72,391	5-7 years
Total	170,882	170,882	
Less: accumulated depreciation	170,882	170,541	
Property and Equipment, Net	\$ -	\$ 341	

Depreciation expense for the years ended September 30, 2017 and 2016, was \$341 and \$3,343, respectively.

THE ENVIRONMENTAL COUNCIL OF THE STATES, INC. AND AFFILIATE

Notes to the Consolidated Financial Statements September 30, 2017 and 2016

5. CONCENTRATIONS OF RISK

Revenue Concentration

The Council receives a substantial portion of its revenue as grants from agencies of the Federal government, which provide continuing support for ongoing operations. If a significant reduction in this revenue should occur, it may have an effect on the Council's programs. During the years ended September 30, 2017 and 2016, the Council earned revenue of \$3,171,755 and \$2,907,285, respectively, from Federal government agencies, which was 60% and 57%, respectively, of the total revenue and support. These amounts are reflected in Federal grants and contracts in the accompanying consolidated statements of activities and change in net assets.

6. COMMITMENTS AND CONTINGENCIES

Operating Lease

The Council leases office space in Washington, D.C under a non-cancelable operating lease agreement which expires on January 31, 2019. The lease requires monthly lease payments, increasing 2.5% per annum on a cumulative and compounding basis, plus the lessee's prorated share of real estate taxes and building operating expenses. During the years ended September 30, 2017 and 2016, the Council incurred rent expense of \$181,087 and \$207,209, respectively.

The future minimum lease payments required under the lease as of September 30, 2017, were as follows:

<u>Years Ending September 30,</u>	<u>Amounts</u>
2018	\$ 204,612
2019	68,760
Total	<u><u>\$ 273,372</u></u>

This lease did not require lease payments for the first two months. The Council is recognizing the rent payments for the lease on a straight-line basis over the life of the lease. As of September 30, 2017 and 2016, this difference was \$25,498, and \$38,825, respectively, which is recorded as deferred rent in the accompanying consolidated statements of financial position.

THE ENVIRONMENTAL COUNCIL OF THE STATES, INC. AND AFFILIATE

Notes to the Consolidated Financial Statements September 30, 2017 and 2016

6. COMMITMENTS AND CONTINGENCIES (continued)

Sublease

The Council subleases a portion of its office space under a cancelable month to month lease agreements. The sublease rental income was \$12,358 and \$15,119, for the years ended September 30, 2017 and 2016, respectively.

Contingencies

The Council receives most of its funding from Federal grants. Revenue from such grants is recognized only to the extent of actual expenses incurred in compliance with those grants.

Reimbursed costs under the grant awards are subject to final determination of allowability by the government agency. Until such audits have been completed and final settlement reached, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

7. RETIREMENT PLAN

The Council sponsors a 401(k) plan for eligible employees. An employee is eligible for the plan upon the start of employment. A contributing participant may elect under a salary reduction agreement to have his or her compensation reduced and deferred up to \$18,000 in 2017. The Council matches the contribution by an amount equal to the sum of 200% of the employee's contribution but not to exceed 6% of the employee's salary. No match occurs until an employee has been with the organization for at least a year.

Vesting in the Council's portion of the participant's account begins at the end of the second year at a rate of 20% per year. The Council's contributions amounted to \$101,567 and \$83,589, for the years ended September 30, 2017 and 2016, respectively.

SUPPLEMENTAL INFORMATION

THE ENVIRONMENTAL COUNCIL OF THE STATES, INC. AND AFFILIATE

**Combining Statement of Financial Position
As of September 30, 2017**

	<u>ECOS</u>	<u>ERIS</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 587,885	\$ 793,784	\$ 1,381,669
Investments	820,107	-	820,107
Grants and contributions receivable	384,912	334,271	719,183
Other assets	38,639	37,587	76,226
Due from/(to)	113,017	(113,017)	-
Total Assets	<u>\$ 1,944,560</u>	<u>\$ 1,052,625</u>	<u>\$ 2,997,185</u>
LIABILITIES AND NET ASSETS			
Liabilities			
Accounts payable and accrued expenses	\$ 177,954	\$ 114,431	\$ 292,385
Accrued benefits	90,932	-	90,932
Advances on grants and contracts	23,413	8,263	31,676
Advances on meeting registration	-	117,263	117,263
Deferred revenue	13,000	-	13,000
Deferred rent	25,498	-	25,498
Total Liabilities	<u>330,797</u>	<u>239,957</u>	<u>570,754</u>
Net Assets			
Unrestricted	1,613,763	812,668	2,426,431
Total Liabilities and Net Assets	<u>\$ 1,944,560</u>	<u>\$ 1,052,625</u>	<u>\$ 2,997,185</u>

THE ENVIRONMENTAL COUNCIL OF THE STATES, INC. AND AFFILIATE

**Combining Statement of Activities and Change in Net Assets
For the Year Ended September 30, 2017**

	<u>ECOS</u>	<u>ERIS</u>	<u>Total</u>
CHANGE IN UNRESTRICTED NET ASSETS			
Revenue and Support			
Federal grants and contracts	\$ 1,786,657	\$ 1,385,098	\$ 3,171,755
Non-Federal grants and contracts	54,809	-	54,809
State assessment dues	655,983	-	655,983
Sponsors and contributions	236,000	240,053	476,053
IIRC-IAP-membership	-	497,026	497,026
Meeting registrations	350,710	59,763	410,473
Sublease rental income	12,358	-	12,358
Interest and other income	37,950	3,994	41,944
Total Revenue and Support	<u>3,134,467</u>	<u>2,185,934</u>	<u>5,320,401</u>
Expenses			
Program Services			
IIRC	-	1,936,221	1,936,221
EN program	1,110,422	-	1,110,422
NH Grant - passthrough grant	61,158	-	61,158
Membership services	673,599	-	673,599
OMNIBUS	274,293	-	274,293
Federal facilities forum	172,431	-	172,431
STEP	88,143	-	88,143
Shale Gas Caucus	14,231	-	14,231
Other	6,183	-	6,183
Total Program Services	<u>2,400,460</u>	<u>1,936,221</u>	<u>4,336,681</u>
Supporting Services			
Administrative services	374,361	139,388	513,749
Total Expenses	<u>2,774,821</u>	<u>2,075,609</u>	<u>4,850,430</u>
Change in Unrestricted Net Assets	359,646	110,325	469,971
Net assets, beginning of year	1,254,117	702,343	1,956,460
Net Assets, End of Year	<u>\$ 1,613,763</u>	<u>\$ 812,668</u>	<u>\$ 2,426,431</u>



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**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors of
The Environmental Council of the States, Inc. and Affiliate

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of The Environmental Council of the States, Inc. and Affiliate (the Council), which comprise the consolidated statement of financial position as of September 30, 2017, the related consolidated statements of activities and change in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements and have issued our report thereon dated June 18, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Council's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Council’s consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Council’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Council’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Washington, DC
June 18, 2018

A handwritten signature in black ink that reads "SB & Company, LLC". The signature is written in a cursive, flowing style.



S B & C O M P A N Y, L L C
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**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

To the Board of Directors of
The Environmental Council of the States, Inc. and Affiliate

Report on Compliance for Each Major Federal Program

We have audited The Environmental Council of the State, Inc. and Affiliate's (the Council) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on the Council's major Federal program for the year ended September 30, 2017. The Council's major Federal program is identified in the summary of independent public accountants' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Council's major Federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Council's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the Council's major Federal program. However, our audit does not provide a legal determination of the Council's compliance.



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Opinion on Major Federal Program

In our opinion, the Council complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major Federal program for the year ended September 30, 2017.

Report on Internal Control Over Compliance

Management of the Council is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Council's internal control over compliance with the types of requirements that could have a direct and material effect on its major Federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major Federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Washington, DC
June 18, 2018

THE ENVIRONMENTAL COUNCIL OF THE STATES, INC. AND AFFILIATE

**Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2017**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant Number	Federal Expenditures	Amount Passed through to Subrecipients
U.S. Department of Defense:				
Interstate Technology and Regulatory Council (ITRC)	12.630	W912DY-14-2-0500	\$ 690,319	\$ -
U.S. Environmental Protection Agency:				
Environmental Information Exchange Network Grant Program and Related Assistance- 2014	66.608	OS-83560001	1,241,966	-
Omnibus	66.610	X5-83596001	343,128	-
U.S. Environmental Protection Agency-ITRC	66.813	RT-83577001	219,508	-
Total Environmental Protection Agency			<u>1,804,602</u>	<u>-</u>
U.S. Department of Energy:				
Federal Facilities Forum	81.250	DE-EM0004027	194,012	-
ITRC Work Group	81.502	DE-EM0001400	360,884	-
ITRC - Advanced Research and Project Agency	81.135	DE-AR0000727	121,938	-
Total Department of Energy			<u>676,834</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 3,171,755</u>	<u>\$ -</u>

The accompanying notes are an integral part of this schedule.

THE ENVIRONMENTAL COUNCIL OF THE STATES, INC. AND AFFILIATE

Notes to the Schedule of Expenditures of Federal Awards For the Year Ended September 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

All Federal grant operations of The Environmental Council of the States, Inc. and Affiliate (the Council) are included in the scope of Title 2 U.S. Code of Federal Regulations part 200, *Uniform Administration Requirement, Cost Principles, and Audit Requirements for Federal Awards* (the Single Audit). The Single Audit was performed in accordance with the provisions of the OMB Compliance Supplement (the Compliance Supplement). Compliance testing of all requirements, as described in the Compliance Supplement, was performed for the major grant program noted below. We have evaluated the Federal financial assistance programs of the Council for the year ended September 30, 2017, and have selected a major program for testing to ensure coverage of at least 20% of Federally granted funds. Our actual coverage was 22%. The major program tested is listed below.

Expenditures reported on the schedule of expenditures of Federal awards are reported on the accrual basis of accounting. Such expenditures are recognized following, the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Council has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

<u>Major Program</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
Interstate Technology and Regulatory Council (ITRC)	12.630	\$ 690,319

2. BASIS OF PRESENTATION

The accompanying Schedule includes the Federal award activity of the Council and is presented on the accrual basis of accounting.

THE ENVIRONMENTAL COUNCIL OF THE STATES, INC. AND AFFILIATE

**Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2017**

Section I – Summary of Independent Public Accountants’ Results

Financial Statements

Type of Report of Independent Public Accountants issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses:	None Reported
Noncompliance material to the financial statements?	No

Federal Awards

Type of Report of Independent Public Accountants issued on compliance for major programs:	Unmodified
Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses:	None Reported
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance?	No

Identification of Major Program:

Major Program	CFDA Number	Federal Expenditures
Interstate Technology and Regulatory Council (ITRC)	12.630	\$ 690,319
Does the Council qualify as a low risk auditee?		Yes
Threshold for distinguishing between Type A and B programs		\$ 750,000

THE ENVIRONMENTAL COUNCIL OF THE STATES, INC. AND AFFILIATE

**Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2017**

Section II - Financial Statement Findings

None noted.

Section III - Award Findings

None noted.

THE ENVIRONMENTAL COUNCIL OF THE STATES, INC. AND AFFILIATE

**Schedule of Prior Year Findings and Questioned Costs
For the Year Ended September 30, 2017**

There are no prior year findings in the September 30, 2016 single audit report.