

ecomaine

Financial Statements

June 30, 2010 and 2009

Runyon

CERTIFIED PUBLIC ACCOUNTANTS

Kersteen

AND BUSINESS CONSULTANTS

Ouellette

*Runyon
Kersteen
Ouellette* 



Certified Public Accountants and Business Consultants

Independent Auditor's Report

Board of Directors
ecomaine

We have audited the accompanying statements of net assets of **ecomaine** as of June 30, 2010 and 2009, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of **ecomaine's** management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **ecomaine**, as of June 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 1 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting by placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response 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 management's discussion and analysis and budgetary comparison information on pages 1 through 6 because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Board of Directors
ecomaine

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. Schedules 1 and 2 are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in cursive script, reading "Remya Kristen Ouellette".

September 29, 2010
South Portland, Maine

ecomaine
Management's Discussion and Analysis
Fiscal Year Ended 2010

This discussion and analysis of **ecomaine's** financial performance provides an overall review of **ecomaine's** financial activities for the year ended June 30, 2010. The intent of this discussion and analysis is to look at **ecomaine's** financial performance as a whole. Readers should also review the financial statements to enhance their understanding of **ecomaine's** financial performance.

Financial Highlights

The fiscal year ended June 30, 2010 was an encouraging year for **ecomaine**. The financial results reflect positive results in many areas compared to budget. Albeit the 2010 budget was established during a period of uncertainty in the general economy and, specifically, to our Waste-to-Energy and recycling markets. However, through the combination of partial recovery of the markets and managing our operations we produced operating income of \$10.3 million or \$2.1 million higher than 2009. On July 1, 2009 **ecomaine** made scheduled principal payments amounting to \$8.1 million on its long-term debt and on July 1, 2010, additional payments totaling \$10.45 million were made. During fiscal 2010, the company obtained a term loan of \$750,000 to meet short term financing needs. This loan was fully repaid in August 2010. **ecomaine** plans to continue its aggressive loan repayment schedule and extinguishment of the remaining bond debt on July 1, 2014.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are prepared and organized so the reader can understand **ecomaine** as a financial whole or as an entire operating entity. The statements then proceed to provide an increasingly detailed look at our specific financial conditions.

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

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

ecomaine receives fees from its customers for certain services. They also receive revenue for generating electricity and selling recyclable material. In the statements of net assets and statements of revenues, expenses, and changes in net assets, all of these activities are reported as business-type activities.

ecomaine
Management's Discussion and Analysis, Continued

ecomaine as a Whole

The Statements of Net Assets looks at **ecomaine** as a whole. Table 1 below is a summary of **ecomaine's** net assets for 2010 with comparative numbers for 2009.

Table 1
Net Assets

	2010	2009
Assets		
Current and other	\$ 29,602,367	24,751,260
Capital assets	<u>34,270,893</u>	<u>36,857,170</u>
 Total Assets	 <u><u>63,873,260</u></u>	 <u><u>61,608,430</u></u>
Liabilities		
Current liabilities	1,899,550	1,740,874
Long-term debt outstanding		
Due within One Year	10,450,000	8,135,000
Due in More than One Year	11,940,000	21,749,222
Other liabilities	<u>16,731,035</u>	<u>16,509,524</u>
 Total Liabilities	 <u><u>41,020,585</u></u>	 <u><u>48,134,620</u></u>
Net Assets		
Invested in Capital Assets, net of related debt	10,301,202	5,216,714
Restricted	3,291,617	3,295,971
Unrestricted	<u>9,259,856</u>	<u>4,961,125</u>
 Total Net Assets	 <u><u>\$ 22,852,675</u></u>	 <u><u>13,473,810</u></u>

Details for Table 1 can be found on the Statements of Net Assets on page 7 in the financial statements.

Assets:

The \$2.3 million increase in total assets was mainly due to an increase in cash and cash equivalents of \$4.6 million and an increase in account receivable of \$300,000. This was offset by a decrease in capital assets, net of depreciation of \$2.6 million. The decrease in capital assets was due to the purchase of property, plant, and equipment of \$1.3 million offset with depreciation expense of \$3.9 million.

Liabilities:

Total liabilities decreased by \$7.2 million during the period. The decrease was caused chiefly by the repayment of bond debt of \$8.1 million offset by the new term loan of \$750,000. Landfill closure and postclosure liability increased by \$300,000 during the year to reflect additional capacity used at the landfill.

ecomaine
Management's Discussion and Analysis, Continued

Table 2
Changes in Net Assets

	2010	2009	Increase (decrease)
Revenues			
Operating Revenues	\$ 28,572,251	26,476,009	2,096,242
Non-operating Revenues:			
Interest income	65,667	203,637	(137,970)
Total Revenues	28,637,918	26,679,646	1,958,272
Operating Expenses			
Facility Operations	8,468,831	8,440,743	28,088
Landfill Operations	1,532,135	1,690,169	(158,034)
Recycling Operations	1,637,156	1,508,877	128,279
Landfill Closure and			
Postclosure care costs	304,370	188,841	115,529
Administration	2,436,755	2,392,696	44,059
Depreciation and Amortization	3,886,599	4,014,904	(128,305)
Nonoperating Expenses:			
Interest	891,965	1,448,289	(556,324)
All Other	101,242	120,117	(18,875)
Total Expenses	19,259,053	19,804,636	(545,583)
 Increase in Net Assets	 \$ 9,378,865	 6,875,010	 2,503,855

Details for Table 2 can be found in the Statements of Revenues, Expenses, and Changes in Net Assets on page 8 of the financial statements.

Operating Revenues

Operating revenues for 2010 increased by \$2.1 million, or 7.9%, compared to the prior year. Commercial and spot market tipping fees increased by \$900,000 while municipal tipping fees decreased by \$400,000. Electrical generating revenue increased by \$900,000 due to increased operating utilization and sales of recycled goods increased by \$700,000 from the rebound in those markets.

Operating expenses increased by \$200,000, or 1.1%, compared to 2009. Slight increases in expenses were experienced in administrative, facility operating, and recycling operating areas while landfill operating expenses decreased slightly. Additionally, the landfill closure and postclosure care costs increased by \$100,000.

Details for the below analysis can be found in the Budget to Actual schedule on page 23 of the notes to the financial statements.

ecomaine
Management's Discussion and Analysis, Continued

Analysis of Fiscal Year 2010 Actual Results Compared to Budget

Operating Revenues

Operating revenue was favorable to budget by \$4.1 million. Owners, commercial, and spot tipping fees were collectively \$1.4 million favorable to budget due to actual tonnage being higher than planned. Electrical revenue was \$900,000 higher than budget due to better availability and steam flow. Kilowatt hours budgeted were 77.4 million and the actual output was 89.1 kilowatt hours. Revenue from sales of recyclables was positive to budget by \$1.8 million due to the recovery in those markets. During the year we experienced increased demand and material prices higher than what was anticipated.

Operating Expenses

Operating expenses were favorable to budget by \$22,000 highlighted in the following areas.

Administrative expenses were favorable by \$26,000. Favorable variances occurred in insurance (\$62,000), computer maintenance (\$46,000) and environmental management (\$58,000). Unfavorable variances were experienced in consulting (\$71,000) and legal (\$71,000) due to work associated with changing our bond trustee during the year. Host community expense was favorable to budget (\$40,000) due to no increase in the assessment from the prior year.

Facility operating expenses were favorable to budget by \$85,000. Favorable variances also occurred in gas and electric (\$285,000) and waste disposal (\$51,000). Unfavorable expenses occurred in replacement spare parts (\$71,000), shutdown labor (\$124,000), and chemicals (\$55,000).

Recycling operating expenses were unfavorable to budget by \$112,000. A favorable variance occurred in temporary labor (\$110,000) due to less than anticipated labor costs. Unfavorable variances were recorded in replacement spare parts (\$127,000), facility costs (\$63,000), purchases of recyclables (\$30,000) and baling wire (\$24,000).

Unfavorable budget results occurred in landfill operating expenses (\$47,000). A large unfavorable variance in water and sewer expense (\$135,000) was partially offset by positive variances in force main costs (\$40,000) and geo-membrane (\$80,000). In addition, the landfill gas project had costs that were not budgeted (\$11,000) however grant funds were received and recorded as revenue.

The budgeted contingency expense (\$375,000) was not spent.

Depreciation and amortization expense was positive to budget due to lower than anticipated capital expenditures during the year.

Non-operating Income (Expense)

Interest income was unfavorable to budget (\$127,000) due to continued lower interest rates on cash investments. Conversely, interest expense was lower than budgeted due lower interest rates on the variable rate debt creating a positive budget variance (\$653,000).

ecomaine
Management's Discussion and Analysis, Continued

Total Revenue less Expenses

Results for 2010 were favorable by \$6.1 million. Excluding depreciation expense, which is a non-cash item, the results for ecomaine were favorable to budget by \$4.6 million. We budgeted conservatively for 2010 due to the uncertainty in the markets and continuing trends of lower tonnages, however, the markets rebounded and tonnage decreased compared to 2009 but were greater than the amounts budgeted.

Capital Assets

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

	2010	2009
Land - waste-to-energy facility	\$ 1,475,061	1,475,061
Vehicles	250,144	221,853
Office furniture and equipment	59,432	85,332
Recycling facility and equipment	3,150,177	2,996,569
Balefill/ashfill/leachate site	5,576,586	5,988,779
Baler	999,039	1,177,145
Waste-to-energy facility	<u>22,760,454</u>	<u>24,912,431</u>
Total Capital Assets	<u>\$ 34,270,893</u>	<u>36,857,170</u>

Capital additions for 2010 were \$1.3 million compared to \$2.4 million in 2009. Additions for 2010 decreased due to a few large projects being moved to 2011. Construction of the scrubber shell (\$400,000) and the boiler refractory (\$200,000) were two of the largest projects that were delayed.

ecomaine
Management's Discussion and Analysis, Continued

Debt

Table 4
Outstanding Debt at Year-End

	2010	2009
Variable Rate Demand Bonds	\$ 16,465,000	24,600,000
Fixed Rate Serial Bonds	5,175,000	5,175,000
Term Note	<u>750,000</u>	<u>-</u>
Total Debt	\$ <u>22,390,000</u>	<u>29,775,000</u>

During the fiscal year ended June 30, 2010, \$8.1 million worth of bonds were paid off.

Current Financial Activities and Economic Factors Including Next Year's Budget

In the FY '11 Budget, the tipping fee was maintained at \$88 per ton for all commercial and residential trash and the annual assessment to Corporate members is to remain at FY '10 levels.

Request for Information

This financial report is designed to provide our members, customers, investors and creditors with a general overview of ecomaine's finances and to show ecomaine's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Director of Finance and Administration at (207) 773-1738.

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Statements of Net Assets
June 30, 2010 and 2009

	2010	2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 8,360,035	6,010,052
Cash and equivalents held by trustee for current obligations	11,323,863	9,122,907
Accounts receivable, net	2,260,088	1,993,634
Inventory	1,847,574	1,854,425
Prepaid expenses	289,190	244,271
Total current assets	24,080,750	19,225,289
Capital assets, net	34,270,893	36,857,170
Restricted cash, equivalents, and investments:		
Debt service reserve fund	3,291,617	3,291,443
Construction funds	-	4,528
Total restricted cash, equivalents, and investments	3,291,617	3,295,971
Other assets:		
Idle asset - Gorham property	2,230,000	2,230,000
Total other assets	2,230,000	2,230,000
Total assets	\$ 63,873,260	61,608,430
LIABILITIES		
Current liabilities:		
Current installments of long-term debt	10,450,000	8,135,000
Current installments of capital leases	180,620	173,062
Accounts payable	675,603	395,861
Accrued expenses	473,779	589,495
Accrued salaries and compensated absences	569,548	582,456
Total current liabilities	12,349,550	9,875,874
Post-retirement benefit liability	193,462	92,220
Long-term debt, less current installments	11,940,000	21,749,222
Capital leases, less current installments	1,399,071	1,583,172
Accrued landfill closure and postclosure care liabilities	15,138,502	14,834,132
Total liabilities	\$ 41,020,585	48,134,620
NET ASSETS		
Invested in capital assets, net of related debt	10,301,202	5,216,714
Restricted - debt service reserve	3,291,617	3,291,443
Restricted - construction funds	-	4,528
Unrestricted	9,259,856	4,961,125
Total net assets	\$ 22,852,675	13,473,810

See accompanying notes to financial statements on pages 10-21.

ecomaine
Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended June 30, 2010 and 2009

	2010	2009
Operating revenues:		
Municipal assessments and tipping fees	\$ 10,094,707	10,466,602
Electrical generating revenues	6,941,594	6,250,476
Commercial tipping fees and spot market waste	8,244,566	7,317,587
Gorham property assessments	138,284	141,722
Sales of recycled goods	2,783,735	2,034,325
Other operating income	369,365	265,297
Total operating revenues	28,572,251	26,476,009
Operating expenses:		
Administrative expenses	2,436,755	2,392,696
Facility operating expenses	8,468,831	8,440,743
Recycling operating expenses	1,637,156	1,508,877
Landfill/ashfill operating expenses	1,532,135	1,690,169
Landfill closure and postclosure care costs	304,370	188,841
Total operating expenses other than depreciation and amortization	14,379,247	14,221,326
Net operating income before depreciation and amortization	14,193,004	12,254,683
Depreciation	3,886,599	3,996,436
Amortization of debt issue and restructuring costs	-	18,468
Net operating income	10,306,405	8,239,779
Non-operating revenues (expenses):		
Interest income	65,667	203,637
Interest expense	(891,965)	(1,448,289)
Post-retirement benefit	(101,242)	(92,220)
Contingency expense	-	(27,897)
Net non-operating expenses	(927,540)	(1,364,769)
Change in net assets	9,378,865	6,875,010
Total net assets, beginning of year	13,473,810	6,598,800
Total net assets, end of year	\$ 22,852,675	13,473,810

See accompanying notes to financial statements on pages 10-21.

ecomaine
Statements of Cash Flows
Years Ended June 30, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Receipts from assessments and tipping fees	\$ 18,007,760	17,799,172
Receipts from electrical generating revenues	6,909,659	6,267,383
Receipts from other sources	3,291,384	2,441,344
Payments to employees	(6,601,840)	(6,487,451)
Payments to suppliers	(3,006,250)	(4,067,716)
Contractual payments	(4,141,027)	(4,774,021)
Net cash and cash equivalents provided by operating activities	14,459,686	11,178,711
Cash flows from capital and related financing activities:		
Payments of interest	(1,007,681)	(1,646,999)
Repayment of long-term debt	(8,420,765)	(10,598,990)
Proceeds from long-term debt	750,000	-
Net cash and cash equivalents used in capital and related financing activities	(8,678,446)	(12,245,989)
Cash flows from investing activities:		
Receipts of interest	65,667	203,637
Purchases of property, plant and equipment	(1,300,322)	(2,433,830)
Net cash and cash equivalents used in investing activities	(1,234,655)	(2,230,193)
Net increase (decrease) in cash	4,546,585	(3,297,471)
Cash and cash equivalents balance, beginning of year	18,428,930	21,726,401
Cash and cash equivalents balance, end of year	\$ 22,975,515	18,428,930
Reconciliation of net operating income to net cash and cash equivalents provided by operating activities:		
Net operating income	\$ 10,306,405	8,239,779
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation and amortization	3,886,599	4,014,904
Contingency expense	-	(27,897)
(Increase) decrease in assets:		
Accounts receivable	(266,454)	31,892
Inventory	6,851	(119,801)
Prepaid expenses	(44,919)	(18,520)
Increase (decrease) in liabilities:		
Accounts payable	279,742	(1,225,668)
Accrued salaries and compensated absences	(12,908)	95,181
Accrued landfill closure and postclosure care liabilities	304,370	188,841
Net cash provided by operating activities	\$ 14,459,686	11,178,711

See accompanying notes to financial statements on pages 10-21.

ecomaine
Notes to Financial Statements

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PROCEDURES

Reporting Entity - ecomaine was incorporated during the fiscal year ended June 30, 2006 under the laws of the State of Maine. **ecomaine** is a non-profit solid waste management corporation serving 39 municipalities in Cumberland, Oxford, and York counties in Maine. Owned and controlled by 21 of these municipalities, **ecomaine** creates electricity through its processing of waste. **ecomaine** also operates an extensive recycling program.

Method of Accounting - ecomaine uses the accrual method of accounting where assets are recorded during the period in which they are earned and liabilities are recorded during the period in which they are incurred. In accordance with Government Accounting Standards Board (GASB) Statement No. 20, **ecomaine** follows the pronouncements of the Financial Accounting Standards Board (FASB) issued before November 30, 1989 except where those pronouncements conflict with GASB pronouncements.

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

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

Accounts Receivable - ecomaine provides credit to users of their facility, including municipalities and private waste transporters, substantially all of whom are located in southern Maine. Macquarie Group, LLC f/k/a Integrys Energy Services, Inc., a purchaser of **ecomaine's** electrical outlet, is also afforded credit. Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. The allowance for doubtful accounts was \$31,866 and \$25,000 at June 30, 2010 and 2009, respectively. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable.

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

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

ecomaine
Notes to Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PROCEDURES, CONTINUED

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

Equipment	5 - 10 years
Vehicles	5 years
Ashfill/balefill	15 years
Recycling plant	25 years
Waste-to-energy facility	20 - 45 years

Income Taxes - The Organization is exempt from federal and state income taxes under Section 501 (c)(3) of the Internal Revenue Code, and therefore no liability or provision for income taxes has been recorded. As a governmental entity pursuant to Section 115(1), ecomaine is not required to file IRS Form 990, Return of Organization Exempt from Income Tax, on an annual basis.

Reclassifications - Certain prior year balances have been reclassified to correspond to the current year's presentation. Such reclassifications had no effect on the results of operations as previously reported.

CASH, EQUIVALENTS, AND INVESTMENTS HELD BY TRUSTEE

Under the terms of a Trust Indenture, U.S. Bank, acting as Trustee, holds unexpended bond proceeds and operating funds in certain funds and accounts as specified in the bond series indenture. At June 30, 2010 and 2009, such amounts held by the Trustee consisted of money market funds. The fair value approximates the carrying value at June 30, 2010 and 2009.

	<u>2010</u>	<u>2009</u>
For current obligations:		
Bond fund	\$ 11,240,146	9,039,194
Arbitrage rebate fund	83,717	83,713
	11,323,863	9,122,907
For long-term obligations:		
Debt service reserve fund	3,291,617	3,291,443
Construction funds	-	4,528
Totals	\$ 14,615,480	12,418,878

DEPOSITS

Custodial Credit Risk - Deposits: Custodial credit risk is the risk that in the event of a bank failure, ecomaine's deposits may not be returned to it. ecomaine does not have a deposit policy for custodial credit risk. As of June 30, 2010, ecomaine reported deposits of \$8,360,035 with a bank balance of \$8,800,810. Of ecomaine's bank balance of \$8,800,810, \$-0- was exposed to custodial credit risk. The entire balance was covered by the F.D.I.C. or by additional insurance purchased on behalf of ecomaine by the respective banking institutions.

ecomaine
Notes to Financial Statements, Continued

INVESTMENTS

ecomaine's policy is to invest all available funds at the highest possible rates, in conformance with legal and administrative guidelines, while avoiding unreasonable risk. The funds are invested in liquid investments with maturities planned to coincide with ecomaine's cash needs during the year.

At June 30, 2010, all of ecomaine's investments were held in money market funds. These funds invest exclusively in short-term U.S. Treasury Obligations and repurchase agreements secured by U.S. Treasury Obligations. Money Market Funds are not considered securities and are exempt from credit risk disclosure requirements.

CAPITAL ASSETS

Capital assets at June 30, 2010 and 2009 consisted of the following:

	Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010
Capital assets, not being depreciated:				
Land - waste-to-energy/ashfill	\$ 1,475,061	-	-	1,475,061
 Total capital assets, not being depreciated	 1,475,061	 -	 -	 1,475,061
Capital assets being depreciated:				
Vehicles	577,260	82,700	-	659,960
Office equipment	129,035	11,623	-	140,658
Recycling facility and equipment	5,030,596	63,814	-	5,094,410
Balefill/ashfill/leachate site	16,961,969	-	-	16,961,969
Baler	4,452,616	-	-	4,452,616
Waste-to-energy facility	90,667,702	1,142,185	-	91,809,887
 Total capital assets being depreciated	 117,819,178	 1,300,322	 -	 119,119,500
Less accumulated depreciation:				
Vehicles	(355,407)	(54,409)	-	(409,816)
Office equipment	(43,703)	(37,523)	-	(81,226)
Recycling facility and equipment	(2,034,027)	89,794	-	(1,944,233)
Balefill/ashfill/leachate site	(10,973,190)	(412,193)	-	(11,385,383)
Baler	(3,275,471)	(178,106)	-	(3,453,577)
Waste-to-energy facility	(65,755,271)	(3,294,162)	-	(69,049,433)
 Total accumulated depreciation	 (82,437,069)	 (3,886,599)	 -	 (86,323,668)
 Total capital assets	 \$ 36,857,170	 (2,586,277)	 -	 34,270,893

ecomaine
Notes to Financial Statements, Continued

POWER PURCHASE AGREEMENTS

During the fiscal years ended June 30, 2010 and 2009, **ecomaine's** electric energy sales were governed by a Power Purchase Agreement with an outside third party for sale of its power at contracted rates. The prior agreement expired January 31, 2008; the current agreement commenced February 1, 2008 and expires January 31, 2011. At June 30, 2010 and 2009, electrical generating revenues amounted to \$6,941,594 and \$6,250,476, respectively.

LONG-TERM DEBT

ecomaine has issued several separate series of tax exempt and taxable bonds and notes, the activity for which consisted of the following:

	Balance <u>June 30, 2009</u>	<u>Additions</u>	<u>Paydowns</u>	Balance <u>June 30, 2010</u>	Amounts due in <u>one year</u>
Series N (\$2,480,000 authorized, variable rate demand bonds, weekly variable interest rate, taxable, issued September 1993, maturing July 1, 2014)	\$ 1,610,000	-	(240,000)	1,370,000	250,000
Series R (\$21,735,000 authorized, variable rate demand bonds, taxable, issued April 2001, maturing July 1, 2012)	6,750,000	-	(1,350,000)	5,400,000	1,700,000
Series S (\$6,750,000 authorized, serial bonds, varying interest rates, 4.45% in the fiscal year ended June 30, 2010, taxable, issued June 2003, maturing July 1, 2012)	5,175,000	-	-	5,175,000	1,650,000
Series T (\$19,055,000 authorized, serial bonds, 3% - 5% in 2010, taxable, issued June 2005, maturing July 1, 2010)	8,105,000	-	(3,960,000)	4,145,000	4,145,000
Series U (\$15,205,000 authorized, serial bonds, 3.25% - 5% in 2010, issued June 2005, maturing July 1, 2011)	8,135,000	-	(2,585,000)	5,550,000	2,705,000
Term note (\$750,000, interest only payments through July 31, 2011, principal and interest payments thereafter based on amortization of 27 months, until October 31, 2013, when remaining unpaid balance will be due in full). Interest rate is equal to 1.75% above the LIBOR, adjusted monthly (2.10% at June 30, 2010), secured by the deposit accounts of ecomaine .	-	750,000	-	750,000	-
	29,775,000	750,000	(8,135,000)	22,390,000	10,450,000
Unamortized premium on bonds	297,022	-	(297,022)	-	-
Unamortized deferred amount on refinancing bonds	(187,800)	-	187,800	-	-
Long-term debt	\$ 29,884,222	750,000	(8,244,222)	22,390,000	10,450,000

ecomaine
Notes to Financial Statements, Continued

LONG TERM DEBT, CONTINUED

The obligations of **ecomaine** to pay the principal and interest on each series of bonds are payable from, and secured by, system revenues, including amounts payable under the Waste Handling Agreements, the Interlocal Agreement, and the Power Purchase Agreement. The bonds of each series are also secured by funds held under the Trust Indenture, including amounts deposited in the debt service reserve fund and including investment earnings on all such funds. The bonds of each series are special revenue obligations of **ecomaine**, payable solely from the sources described in the offering statement. The bonds do not constitute a debt or liability within the meaning of any constitutional or statutory provision of, or a pledge of the full faith and credit of: the State of Maine; Cumberland County, Maine; York County, Maine; or any political subdivision of the State of Maine.

ecomaine has no taxing power. However, pursuant to the Waste Handling Agreements, the participating municipalities are obligated severally to deliver certain of the solid waste produced within each such participating municipality to **ecomaine** for processing and to make service payments and pay tipping fees for such processing in amounts which, when added to other available monies, will at least equal required debt service on the bonds of each series. The obligations of the participating municipalities under the Waste Handling Agreements are secured by the full faith and credit of the participating municipalities subject to certain limitations.

Under an indenture agreement, the following funds and accounts have been established and are currently held by the Trustee: a reserve fund; a principal account; an interest account; a restricted account; a redemption account; a debt service reserve fund; a construction fund; a fee disbursement fund; a fixed rate conversion fund; a rebate fund; and a rebate escrow fund.

Debt service requirements for all outstanding debt are as follows:

	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2011	\$ 900,775	10,450,000	11,350,775
2012	421,804	6,931,582	7,353,386
2013	93,053	4,310,135	4,403,188
2014	24,496	398,283	422,779
2015	-	300,000	300,000
Totals	\$ 1,440,128	22,390,000	23,830,128

LINE OF CREDIT

On April 13, 2010, **ecomaine** negotiated an available working line of credit in the amount of \$3,000,000 with a financial institution. Interest only payments are due monthly at variable rates which equal 1.75% above the LIBOR, adjusted monthly (2.10% at June 30, 2010); monthly principal and interest payments shall begin on April 12, 2012 or sooner if **ecomaine** should default. The working line of credit is secured by all the rates, fees, assessments or other amounts received by **ecomaine**. As of June 30, 2010, there was no outstanding balance on the line.

ecomaine
Notes to Financial Statements, Continued

CAPITAL LEASES

Capital leases consisted of the following at June 30:

	<u>2010</u>	<u>2009</u>
\$1,700,000 of equipment, net book value of \$1,657,500, due in annual payments of \$209,042, including interest of 6.37% per annum, with a final payment in March 2019, secured by the equipment	\$ 1,387,821	1,498,558
\$176,234 of equipment, net book value of \$164,485, due in monthly payments of \$4,126, including interest of 5.95% per annum, with a final payment in May 2013, secured by the equipment	129,002	172,966
\$93,900 of equipment, net book value of \$87,640, due in monthly payments of \$2,194, including interest of 6.00% per annum, with a final payment in January 2013, secured by the equipment	62,868	84,710
	1,579,691	1,756,234
<u>Less current portion</u>	<u>180,620</u>	<u>173,062</u>
Totals	<u>\$ 1,399,071</u>	<u>1,583,172</u>

The capitalized lease obligation at June 30, 2010 represents the present value of the future minimum payments as follows:

2011	\$ 280,759
2012	284,887
2013	269,785
2014	209,042
2015	209,042
Thereafter	836,169
Total minimum payments	2,089,684
<u>Less amount representing interest</u>	<u>(509,993)</u>
<u>Present value of minimum lease payments</u>	<u>\$ 1,579,691</u>

ARBITRAGE REBATE

Under income tax regulations, **ecomaine** is obligated to rebate to the United States certain arbitrage amounts. Calculation of such arbitrage rebate amounts is required on the fifth anniversary of the bond issues. During prior years, amounts were placed in a Rebate Fund held by the Trustee based on income tax regulations then in effect. The penalty payment for the fiscal years ended June 30, 2010 and 2009 was \$ -0- in both years. **ecomaine** has set aside \$83,713 and \$83,466 as of June 30, 2010 and 2009, respectively, in an arbitrage rebate fund.

ecomaine
Notes to Financial Statements, Continued

DEBT SERVICE RESERVE

Under the terms of the indenture, the debt service reserve fund is required to be funded at \$3,000,000. Funds deposited in the debt service reserve fund shall be used for the payment of principal and interest on all bonds to the extent necessary if amounts from other sources are insufficient for such purpose. At June 30, 2010 and 2009, the debt service reserve fund aggregated \$3,291,617 and \$3,291,443, respectively.

RETIREMENT PLANS

Nonunion - All non-union employees are covered by a defined contribution plan after their probationary period is completed. **ecomaine** contributed 8% in 2010 and 2009 of the covered employees' gross pay on covered wages of \$1,651,385 and \$1,654,602, respectively. Pension expense amounted to \$132,111 and \$132,368 for the years ended June 30, 2010 and 2009, respectively.

Union - In accordance with an agreement with its Union, **ecomaine** contributes to the Union's Pension Plan. The contributions equal 5.25% of compensation received for hours worked by each eligible plan participant. Pension expense amounted to \$140,828 and \$135,893 for the years ended June 30, 2010 and 2009, respectively, on covered wages of \$2,682,591 and \$2,588,433, respectively. The Pension Fund is a defined contribution pension program that provides retirement and certain ancillary benefits to eligible plan participants.

Other Plans - In addition to the above plan, a second defined contribution was established in the fiscal year ended June 30, 2007 to provide retirement contributions in excess of 8% to specified employees. Such pension expense amounted to \$2,870 and \$2,869 on covered wages of \$143,619 and \$143,450 for the years ended June 30, 2010 and 2009, respectively.

Social Security - **ecomaine** participates in the Social Security retirement program. **ecomaine's** contributions to Social Security were \$337,810 and \$323,798 for the years ended June 30, 2010 and 2009, respectively.

ecomaine
Notes to Financial Statements, Continued

UNRESTRICTED NET ASSETS

Unrestricted net assets consisted of the following at June 30:

	<u>2010</u>	<u>2009</u>
Designated for:		
Capital replacement	\$ 1,672,592	1,158,761
Long-term maintenance fees	-	500,000
Landfill expansion	-	129,969
Regulatory penalties	-	84,082
Debt stabilization	-	1,777,654
Electrical revenue	-	484,589
Bond interest	-	428,709
Tipping fees	-	3,091,372
Total designated	1,672,592	7,655,136
Undesignated	7,587,264	(2,694,011)
Total unrestricted	\$ 9,259,856	4,961,125

Capital Replacement - The funds are intended to be used to repair, replace, or upgrade parts of the facility that may experience premature wear or damage.

Long-term Maintenance Fees - Prior to 1990 **ecomaine** charged various amounts on a per ton basis for the purpose of establishing a fund for future long-term maintenance costs at the balefill location. Commencing in 1990, specific per ton fees were no longer incorporated in the rate structure.

Landfill Expansion - This balance was created in response to **ecomaine's** decision subsequent to fiscal 2005 to expand the landfill site. Funds were set aside primarily to meet fiscal 2007 costs related to increasing the landfill's capacity.

Regulatory Penalties - This reserve was designated to receive funds in order to fulfill any future liabilities assessed by government regulatory agencies.

Debt Stabilization - This balance was established as a result of the June 2005 debt refinancing. Funds will be set aside in years in which debt obligations have been reduced, so that the resulting reserves will lessen or eliminate the need for increased revenues in years in which obligations will be greater.

Electrical Revenue - This balance was created to provide a hedge against the inability to produce power or unexpected decreases in the rate for which **ecomaine** can sell their power.

Bond Interest - This balance was created to provide a hedge against unexpected/unbudgeted increases in the variable rate bond rates.

Tipping Fees - This balance was created to provide a hedge against the impact on the tip fees of the diversion of large amounts of MSW to other facilities.

ecomaine
Notes to Financial Statements, Continued

NET ASSETS INVESTED IN CAPITAL ASSETS NET OF RELATED DEBT

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

	<u>2010</u>	<u>2009</u>
Capital assets	\$ 120,594,561	119,294,239
Accumulated depreciation	(86,323,668)	(82,437,069)
Bonds payable	(22,390,000)	(29,884,222)
Capital leases	(1,579,691)	(1,756,234)
Total invested in capital assets net of related debt	\$ 10,301,202	5,216,714

IDLE ASSET - GORHAM PROPERTY

In June 1993, the Material Recovery Facility Board voted not to proceed as planned with the development of the demolition debris and recycling facility project on the ecomaine approved site in Gorham, Maine. Therefore, the costs associated with the development of the facility, aggregating \$8,079,467, were reported as an idle asset. ecomaine continued to hold the property and the associated improvements. Permitting for the facility expired at June 30, 1997 and the reported costs of this property were written down to its estimated fair market value of \$4,000,000 - resulting in an unrealized loss of \$4,079,467.

During the fiscal year ended June 30, 2005, as ecomaine continued to evaluate various options for the property, the facility engaged an outside appraiser to conduct an updated appraisal of the aforementioned site. With a valuation date of June 1, 2005 the property was appraised at \$2,230,000, resulting in an unrealized loss of \$1,770,000. At that time, the Board met and decided not to take any action on the property.

As of the report date, no decision has been made as to the eventual use of the property.

ecomaine
Notes to Financial Statements, Continued

CLOSURE AND POSTCLOSURE CARE COSTS

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

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

	<u>2010</u>	<u>2009</u>
Total estimated future landfill closure and postclosure care costs	\$ 22,216,763	22,216,763
Estimated capacity used	68.14%	66.77%
Estimated gross landfill closure and postclosure care costs - end of year	15,138,502	14,834,132
Amounts actually expended	N/A	N/A
Estimated liability for landfill closure and postclosure care costs - end of year	15,138,502	14,834,132
Estimated remaining landfill closure and postclosure care costs to be recognized	\$ 7,078,261	7,382,631

OPERATING LEASES

ecomaine leases office equipment under the terms of operating leases expiring through 2013. Future minimum payments under the leases are as follows:

2011	\$ 5,303
2012	5,793
2013	4,694

Rent expense paid under these operating leases totaled \$6,493 and \$6,492 for the years ended June 30, 2010 and 2009, respectively.

ecomaine
Notes to Financial Statements, Continued

OTHER POSTEMPLOYMENT BENEFITS

The Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was implemented, as required, by **ecomaine** for the fiscal year ended June 30, 2009. This pronouncement requires that the long-term cost of retirement health care and obligations for other postemployment benefits (OPEB) be determined on an actuarial basis and reported similar to pension plans.

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

Plan Descriptions - In addition to providing pension benefits, **ecomaine** provides health care benefits for certain retired employees. Eligibility to receive health care benefits follows the same requirements as MainePERS. Eligible retirees are required to pay 100% of the health insurance premiums to receive health benefit coverage.

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

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

Normal cost	\$ 58,877
Amortization of unfunded	36,868
Interest	<u>5,497</u>
Annual required contribution	\$ 101,242

Funding Status and Funding Progress - **ecomaine's** annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ending June 30, 2010 was as follows:

Annual required contribution	\$ 101,242
Actual contribution	-
Percent contributed	0.00%
 Actuarial accrued liability	 \$ 567,125
Plan assets	<u>-</u>
Unfunded actuarial accrued liability	\$ 567,125
Covered payroll	4,497,961
Unfunded actuarial accrued liability as a percentage of covered payroll	12.00%

ecomaine
Notes to Financial Statements, Continued

OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

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

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

Actuarial valuation date	1/1/09
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	30 years

Actuarial assumptions:

Investment rate of return	4.0%
Projected salary increases	N/A
Healthcare inflation rate	4.0% - 9.6%

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress

Retiree Healthcare Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a) / c]
12/31/08	\$ -	\$567,125	\$567,125	0.00%	\$4,497,961	12.00%

ecomaine
Schedule of Municipal Assessments and Tipping Fees
Years Ended June 30, 2010 and 2009

	2010	2009
<u>Members</u>		
Bridgton	\$ 205,264	208,024
Casco	75,965	73,771
Cumberland	167,794	179,392
Cape Elizabeth	265,435	265,673
Falmouth	204,171	208,330
Freeport	163,972	163,749
Gorham	176,394	169,284
Gray	206,496	197,903
Harrison	91,982	91,563
Hollis	116,273	131,153
Limington	151,241	143,530
Lyman	97,299	102,740
Ogunquit	53,782	55,140
Pownal	28,289	27,841
Portland	887,677	883,635
North Yarmouth	98,265	103,244
Scarborough	508,747	515,805
South Portland	582,174	568,131
Waterboro	181,408	177,544
Windham	181,474	175,226
Yarmouth	234,556	237,023
Total members' assessments	4,678,658	4,678,701
Associate members tip fees	870,587	864,095
Municipal tipping fees	4,545,462	4,923,806
Total municipal assessments and tipping fees	\$ 10,094,707	10,466,602

See independent accountant's report.

ecomaine
Budget to Actual
Year Ended June 30, 2010

	Actual	Budget	Variance	Change
Operating revenues:				
Municipal assessments	\$ 4,678,658	4,678,654	4	0.0%
Owners tipping fees	4,513,718	4,497,768	15,950	0.4%
Associate tipping fees	870,587	829,645	40,942	4.9%
Commercial tipping fees	5,219,023	4,535,608	683,415	15.1%
Spot market tipping fees	3,025,543	2,356,063	669,480	28.4%
Electrical generating revenues	6,941,594	6,082,941	858,653	14.1%
Sales of recycled goods	2,783,735	1,000,000	1,783,735	178.4%
Recycling tipping fees	31,744	100,000	(68,256)	-68.3%
Gorham property assessments	138,284	110,000	28,284	25.7%
Other operating income	369,365	325,000	44,365	13.7%
Total operating revenues	28,572,251	24,515,679	4,056,572	16.5%
Operating expenses:				
Administrative expenses	2,436,755	2,463,231	(26,476)	-1.1%
Waste-to-energy operating expenses	8,468,831	8,553,469	(84,638)	-1.0%
Recycling operating expenses	1,637,156	1,525,182	111,974	7.3%
Landfill/ashfill operating expenses	1,532,135	1,484,751	47,384	3.2%
Contingency	-	375,000	(375,000)	n/a
Landfill closure and postclosure care costs	304,370	-	304,370	n/a
Post-retirement benefit	-	-	-	n/a
Total operating expenses	14,379,247	14,401,633	(22,386)	-0.2%
Net operating income other than depreciation and amortization	14,193,004	10,114,046	4,078,958	40.3%
Depreciation and amortization	3,886,599	5,400,000	(1,513,401)	-28.0%
Net operating income	10,306,405	4,714,046	(5,592,359)	-118.6%
Non-operating income (expense):				
Interest income	65,667	192,500	(126,833)	-65.9%
Interest expense	(891,965)	(1,544,900)	652,935	-42.3%
Post-retirement benefit	(101,242)	-	(101,242)	n/a
Net non-operating	(927,540)	(1,352,400)	424,860	-31.4%
Total revenues less expenses	\$ 9,378,865	3,361,646	6,017,219	179.0%

See independent accountant's report.