ecomaine

Financial Statements

June 30, 2012 and 2011

Independent Auditor's Report

Board of Directors
ecomaine

We have audited the accompanying statements of net assets of **ecomaine** as of June 30, 2012 and 2011, 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, 2012 and 2011, 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 on pages 1 through 6 and the schedule of funding progress on page 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting by placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the management's discussion and analysis or schedule of funding progress because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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.

Runyon Kersteen Ouellette

September 20, 2012
South Portland, Maine

This discussion and analysis of **ecomaine's** financial performance provides an overall review of **ecomaine's** financial activities for the year ended June 30, 2012 with the intent of looking at **ecomaine's** financial performance as a whole. Readers should also review the financial statements and the related notes to enhance their understanding of **ecomaine's** financial performance.

Financial Highlights

Fiscal 2012 was another good year financially for **ecomaine** continuing the trend that has been underway for some time. Revenues less expenses for the fiscal year ending June 30, 2012 totaled $6.7 million and were $1.3 million below FY 2011's level of just under $8 million but $1.4 million above the FY 12 budget. Cash generated from operations in 2012 totaled $11.3 million down from last year's level of $13.7 million, but ahead of the $9.5 million budgeted for FY 12. Scheduled principal payments on our bonds during in FY 12 totaled $6.6 million and in April, the board approved paying off all remaining debt. As a result, 32 days after FY 12 year end **ecomaine** made the final payments on its long term bonds. During 2012, we invested $2.6 million in capital improvements or about twice the FY 11 level. As discussed below even with the decline in our power markets and the apparent softening of the recycle market our continued overall strong financial performance has allowed the Board of Directors to reduce assessments in order to provide financial relief to the member communities.

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 statement of net assets and the statement 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 from selling electricity and recyclable material. In the statement of net assets and statement of revenues, expenses, and changes in net assets, all of these activities are reported as business-type activities.

ecomaine as a whole

The statements of net assets look at **ecomaine** as a whole. Table 1 below is a summary of **ecomaine's** net assets for 2012 with comparative numbers for 2011.

Table 1
Net Assets

	2012	2011
ASSETS		
Current and other	$ 30,075,350	27,999,846
Capital assets	30,416,351	31,637,148
Total assets	60,491,701	59,636,994
LIABILITIES		
Current liabilities	2,405,010	1,907,447
Long-term debt outstanding		
Due within one year	4,560,000	6,630,000
Due in more than one year	-	4,560,000
Other liabilities	15,988,724	15,711,408
Total liabillities	22,953,734	28,808,855
NET ASSETS		
Invested in capital assets, net of related debt	25,856,351	20,447,148
Restricted	1,800,195	3,291,997
Unrestricted	9,881,421	7,088,994
Total net assets	$ 37,537,967	30,828,139

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

Assets

The $.9 million increase in total assets reflects a $2 million increase in cash partially offset by a reduction in capital assets, net of depreciation, of $1.2 million.

Liabilities

Total liabilities decreased by $5.3 million during the year as a result of $6.6 million in bond principal payments offset in part by an increase of $.3 million in the landfill closure and postclosure liability as a result of capacity utilization in 2012, and a $.5 million increase in accounts payable at year end.

Table 2
Changes in Net Assets

	2012	2011	Increase (decrease)
REVENUES			
Operating revenues	$ 25,355,077	27,736,255	(2,381,178)
Non-operating revenues:			
Interest income	54,698	41,984	12,714
Total revenues	25,409,775	27,778,239	(2,368,464)
OPERATING EXPENSES			
Administration	2,432,537	2,394,160	38,377
Facility operations	8,693,408	8,791,874	(98,466)
Recycling operations	1,779,621	1,735,334	44,287
Landfill operations	1,603,147	1,533,680	69,467
Landfill closure and Postclosure care costs	277,316	278,202	(886)
Post-retirement benefit	-	101,242	(101,242)
Depreciation and amortization	3,807,890	3,918,179	(110,289)
Total operating expenses	18,593,919	18,752,671	(158,752)
Nonoperating (expenses) / income:			
Interest	(112,684)	(428,832)	(316,148)
Unrealized loss on idle asset	-	(730,000)	(730,000)
All other	6,656	108,728	(102,072)
Total expenses	18,699,947	19,802,775	(1,102,828)
Increase in net assets	$ 6,709,828	7,975,464	(1,265,636)

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

Total operating revenues for 2012 decreased by $2.4 million or 8.5%, compared to the prior year with revenues from the sale of electricity down by $2.1 million as the very competitive market conditions for power continues. Revenue from power sales totaled $3.7 million in FY 12 down over 53% from our peak just two years ago and the average market value of power sold in FY 12 was $43.74 per MWH as compared to an average of $67 per MWH just one year ago. The **ecomaine** Board of Directors reduced assessments for FY 12 by 5.5% from FY 11 and they have approved an additional reduction of $1 million (22.5%) annually beginning in FY 13. Overall MSW tipping fees in FY 12 were flat to FY 11 and in FY 12, we began to see what maybe a softening of the recycle market from FY 11 when revenues peaked at $3.9 million declining to $3.7 million in FY 12.

Total Expenses

Total operating expenses increased by $.2 million or .8% when compared to 2011. Landfill operating costs were up 4.6% ($70,000 - higher water treatment costs), recycle operating costs were up 2.6% ($44,000 - facility maintenance) and administrative costs were up 1.6% ($38,000 - increased public relations efforts). Operating costs for the WTE facility were down 1.1% ($98,000 - lower gas costs). Non cash costs including post retirement benefits and depreciation were each favorable $100,000. Non-operating expenses were favorable $1 million reflecting the FY 11 unrealized loss ($.7 million) associated with the write down of the Gorham property to market value and lower interest expense ($.3 million) as a result of principal payments and lower interest rates.

Details for the analysis below can be found in the Budget to Actual schedule on page 21.

Analysis of Fiscal Year 2012 Actual Results Compared to Budget

Total Revenue less Expenses

Revenue less Expenses for 2012 totaled $6.7 million and was favorable to budget by $1.4 million. The budget was developed in a somewhat conservative manner due to the uncertainty in the markets and continuing trends of lower MSW tonnages.

Operating Revenues

Operating revenue of $25.4 million was favorable to budget by $.9 million or 3.8%. Revenue from the sale of recyclable material continued strong for most of FY 12 and was positive to budget by $.7 million reflecting favorable pricing although inbound volume was 6.6% (2,490 tons) below budget. As the year progressed, the market began to soften and in the end, our recycle revenue averaged $107 per inbound ton, which was down 3.8% from FY11. Inbound recycle tonnage totaled 34,924 tons and for the first time since 2003 was down slightly from the prior year. Overall MSW tipping fee revenue was $.3 million favorable to budget with spot market experiencing favorable rates and commercial markets experiencing stronger volume. Electrical revenue was 3.8% ($.1 million) unfavorable to budget reflecting favorable generation (84,762 MWH's sold vs. 79,053 budgeted) that was more than offset by lower sales values due to soft market conditions ($43.74 per MWH vs. $48.74 budget and $67.00 last year).

Operating Expenses

Operating expenses were favorable to budget by $.1 million or .9% overall as follows:

Operating costs for the Waste to Energy Facility were favorable finishing the year $211,000 (2.4%) under budget. Favorable variances included natural gas (pricing and usage), health insurance and workers compensation (favorable premium increases), and overtime (favorable boiler uptime). Unfavorable variances included shutdown labor and temporary help (effort to increase boiler uptime, interns), and chemicals (pricing and timing). Administrative expenses were favorable by $36,000 (1.5%) primarily as a result of timing on the organics recovery feasibility study.

Recycling operating expenses were unfavorable to budget by $18,000 (1%). Favorable variances in purchased recycle material (softening market) and gas and electric (market rates) were more than offset by unfavorable facilities maintenance. The landfill area was unfavorable to budget by $17,000 (1.1%) with unfavorable variances in water and sewer (wet year) and vehicle maintenance (loader) offset in part with favorable variances in Geomembrane and rental equipment both related to the accelerated Landfill Expansion Project.

The budgeted contingency expense ($.2 million) was not spent.

Depreciation and amortization expense was $.3 million favorable as a result of below budget capital expenditures during the year and older equipment becoming fully depreciated.

Landfill closure and post closure non-cash costs were $278,000 unfavorable as a result of not being budgeted.

Capital Assets

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

		2012	2011
Land-waste-to-energy facility	$	1,475,061	1,475,061
Vehicles		95,685	179,232
Office furniture and equipment		65,377	45,866
Recycling facility and equipment		2,979,232	3,016,591
Balefill/ashfill/leachate site		5,583,905	5,993,016
Waste-to-energy facility		20,217,091	20,927,382
Total capital assets	$	30,416,351	31,637,148

Capital additions for 2012 totaled $2.6 million (budget was $3.3 million) which included projects for boiler tubes and water walls (below budget), 480 volt switch gear replacement, upgrades to the administration building and the start of phase two of the landfill expansion.

Debt

Table 4
Outstanding Debt at Year-End

	2012	2011
Variable rate demand bonds	$ 2,760,000	4,820,000
Fixed rate serial bonds	1,800,000	6,370,000
Total debt	$ 4,560,000	11,190,000

During the fiscal year ended June 30, 2012, principal payments totaling $6,630,000 were made.

Current Financial Activities and Economic Factors Included in the FY 2013 Budget

In our budget process for FY 13 we anticipated a 22.5% reduction in owner member assessments providing additional relief for the owners, a continued softening of the recycle market from its peak levels lowering total recycle revenues by about $.6 million from the 2012 forecast, and continued pressure on rates in the power market which will lower overall electricity market revenues for **ecomaine** about $.5 million from FY 12 forecasted levels. Cash generated by operations was budgeted at $7.7 million for FY 13 with debt services expected to total $4.0 million and capital spending projected at $5.5 million.

Request for Information

This financial report is designed to provide our members, customers, investors and creditors with a general overview of **ecomaine's** finances and to show **ecomaine's** accountability for the money it receives. If you have any questions about this report or need additional information, contact Arthur P. Birt, Director of Finance and Administration, at (207) 523-3107.

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Statements of Net Assets
June 30, 2012 and 2011

		2012	2011
ASSETS			
Current assets:			
Cash and cash equivalents	$	19,181,650	11,800,843
Cash and equivalents held by trustee for current obligations		2,947,086	6,875,254
Accounts receivable, net		2,274,343	2,316,902
Inventory		2,128,395	2,028,525
Prepaid expenses		243,681	186,325
Total current assets		26,775,155	23,207,849
Capital assets, net		30,416,351	31,637,148
Restricted cash, equivalents, and investments:			
Debt service reserve fund		1,800,195	3,291,997
Total restricted cash, equivalents, and investments		1,800,195	3,291,997
Other assets:			
Idle asset - Gorham property		1,500,000	1,500,000
Total other assets		1,500,000	1,500,000
Total assets	**$**	**60,491,701**	**59,636,994**
LIABILITIES			
Current liabilities:			
Current installments of long-term debt	$	4,560,000	6,630,000
Accounts payable		1,492,836	941,443
Accrued expenses		82,189	191,762
Accrued salaries and compensated absences		829,985	774,242
Total current liabilities		6,965,010	8,537,447
Post-retirement benefit liability		294,704	294,704
Long-term debt, less current installments		-	4,560,000
Accrued landfill closure and postclosure care liabilities		15,694,020	15,416,704
Total liabilities	**$**	**22,953,734**	**28,808,855**
NET ASSETS			
Invested in capital assets, net of related debt		25,856,351	20,447,148
Restricted - debt service reserve		1,800,195	3,291,997
Unrestricted		9,881,421	7,088,994
Total net assets	**$**	**37,537,967**	**30,828,139**

See accompanying notes to financial statements on pages 10-19.

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Statements of Revenues, Expenses, and Changes in Net Assets

Years Ended June 30, 2012 and 2011

		2012	2011
Operating revenues:			
Municipal assessments and tipping fees	$	9,588,832	9,838,762
Electrical generating revenues		3,707,430	5,788,360
Commercial tipping fees and spot market waste		7,916,180	7,810,631
Contract member tipping fees		162,285	125,914
Recycling tipping fees		42,343	27,023
Gorham property assessments		157,384	139,430
Sales of recycled goods		3,694,277	3,920,243
Other operating income		86,346	85,892
Total operating revenues		25,355,077	27,736,255
Operating expenses:			
Administrative expenses		2,432,537	2,394,160
Facility operating expenses		8,693,408	8,791,874
Recycling operating expenses		1,779,621	1,735,334
Landfill/ashfill operating expenses		1,603,147	1,533,680
Post-retirement benefit		-	101,242
Landfill closure and postclosure care costs		277,316	278,202
Total operating expenses other than depreciation and amortization		14,786,029	14,834,492
Net operating income before depreciation and amortization		10,569,048	12,901,763
Depreciation		3,807,890	3,918,179
Net operating income		6,761,158	8,983,584
Non-operating revenues (expenses):			
Interest income		54,698	41,984
Interest expense		(112,684)	(428,832)
Miscellaneous receipts		6,656	108,728
Unrealized loss on idle asset		-	(730,000)
Net non-operating expenses		(51,330)	(1,008,120)
Change in net assets		6,709,828	7,975,464
Total net assets, beginning of year		30,828,139	22,852,675
Total net assets, end of year	$	**37,537,967**	**30,828,139**

See accompanying notes to financial statements on pages 10-19.

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Statements of Cash Flows

Years Ended June 30, 2012 and 2011

		2012	2011
Cash flows from operating activities:			
Receipts from assessments and tipping fees	$	17,634,670	17,551,748
Receipts from electrical generating revenues		3,824,959	5,964,132
Receipts from other sources		3,897,011	4,198,501
Payments to employees		(7,029,426)	(6,532,018)
Payments to suppliers		(3,596,501)	(3,856,032)
Contractual payments		(3,385,223)	(3,600,762)
Net cash and cash equivalents provided by operating activities		11,345,490	13,725,569
Cash flows from capital and related financing activities:			
Payments of interest		(222,257)	(710,849)
Repayment of long-term debt		(6,630,000)	(12,779,691)
Net cash and cash equivalents used in capital and related financing activities		(6,852,257)	(13,490,540)
Cash flows from investing activities:			
Receipts of interest		54,698	41,984
Purchases of property, plant and equipment		(2,587,094)	(1,284,434)
Net cash and cash equivalents used in investing activities		(2,532,396)	(1,242,450)
Net increase (decrease) in cash		1,960,837	(1,007,421)
Components of changes in cash balances:			
Cash and equivalents		7,380,807	3,440,808
Cash and equivalents held by trustee - current		(3,928,168)	(4,448,609)
Net change in current cash balances		3,452,639	(1,007,801)
Cash and equivalents held by trustee - non-current		(1,491,802)	380
Net increase (decrease) in cash		1,960,837	(1,007,421)
Cash and cash equivalents balance, beginning of year		21,968,094	22,975,515
Cash and cash equivalents balance, end of year	**$**	**23,928,931**	**21,968,094**
Reconciliation of net operating income to net cash and cash equivalents provided by operating activities:			
Net operating income	$	6,761,158	8,983,584
Adjustments to reconcile net operating income to net cash provided by operating activities:			
Depreciation and amortization		3,807,890	3,918,179
(Increase) decrease in assets:			
Accounts receivable		42,559	(56,814)
Inventory		(93,213)	(72,223)
Prepaid expenses		(57,356)	102,865
Increase in liabilities:			
Accounts payable		551,393	265,840
Accrued salaries and compensated absences		55,743	204,694
Post-retirement benefit liability		-	101,242
Accrued landfill closure and postclosure care liabilities		277,316	278,202
Net cash provided by operating activities	**$**	**11,345,490**	**13,725,569**

See accompanying notes to financial statements on pages 10-19.

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 46 municipalities in southern Maine and New Hampshire. 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.

The Organization distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the principal ongoing operations of ecomaine. The principal operating revenues of ecomaine are assessments, tipping fees, receipts from the sale of spot market waste, electric energy sales, and the sale of recycled goods. Operating expenses include the cost of operating the facility, recycling, landfill, closure, postclosure and administrative expenses. All revenues and expenses not meeting this determination are reported as nonoperating revenues and expenses.

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

Cash Equivalents - **ecomaine** considers all highly liquid instruments (primarily money market funds and other U.S. Treasury obligations) with 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. Constellation Energy Commodities Group, 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 $31,877 at June 30, 2012 and 2011, respectively. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a reduction in trade accounts receivable.

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

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.

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** has been informed by the Internal Revenue Service that it is required to file IRS Form 990, Return of Organization Exempt from Income Tax, on an annual basis, and is currently awaiting resolution of the filing issue.

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.

DEPOSITS AND INVESTMENTS

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, 2012, **ecomaine** reported deposits of $19,181,650 with a bank balance of $19,251,776. As of June 30, 2011, **ecomaine** reported deposits of $11,800,843 with a bank balance of $12,438,056. At both June 30, 2012 and 2011, none of **ecomaine's** bank balances were exposed to custodial credit risk. The balances were covered by the F.D.I.C. or by additional insurance purchased on behalf of **ecomaine** by the respective banking institutions.

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, 2012, 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.

DEPOSITS AND INVESTMENTS, CONTINUED

Cash, Equivalents, and Investments Held By Trustee: Under the terms of a Trust Indenture, Huntington 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, 2012 and 2011, such amounts held by the Trustee consisted of money market funds. The fair value approximates the carrying value at June 30, 2012 and 2011.

	2012	2011
For current obligations:		
Bond fund	$2,863,350	6,791,527
Arbitrage rebate fund	83,736	83,727
	2,947,086	6,875,254
For long-term obligations:		
Debt service reserve fund	1,800,195	3,291,997
Totals	**$ 4,747,281**	**10,167,251**

Debt Service Reserve: 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, 2012 and 2011, the debt service reserve fund aggregated $1,800,195 and $3,291,997, respectively.

Other Cash Reserves: During the fiscal year ended June 30, 2012 ecomaine's Board of Directors approved the establishment of cash reserves, with the knowledge that general economic conditions and other needs may impact both the timing of the funding and the usage of such reserves in a manner not originally intended. These reserves at June 30, 2012 have been included in cash and cash equivalents and are as follows:

Landfill Closure and Postclosure Care Cost Reserve - The reserve is intended to fund the landfill closure and postclosure care costs during the remaining useful life of the landfill. The balance at June 30, 2012 is $850,256.

Short-Term Capital Reserve - The funds are intended to provide for routine capital projects in the event of unanticipated circumstances. The balance at June 30, 2012 is $3,250,977.

Long-Term Capital Reserve - The funds are intended to provide for large new capital projects which have not been provided for in the annual capital plan. The balance at June 30, 2012 is $4,001,202.

Operating Cash Balance Reserve - The funds are intended to provide for routine operating cash and financial security in the event of extraordinary events that cause either a significant decrease in operating revenues or a significant increase in operating expenses. The balance at June 30, 2012 is $7,502,254.

CAPITAL ASSETS

Capital assets at June 30, 2012 and 2011 consisted of the following:

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
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	672,094	-	-	672,094
Office equipment	171,462	45,045	-	216,507
Recycling facility and equipment	5,233,182	181,331	-	5,414,513
Balefill/ashfill/leachate site	16,961,969	131,624	-	17,093,593
Baler	4,452,616	-	-	4,452,616
Waste-to-energy facility	92,912,611	2,229,093	-	95,141,704
Total capital assets being depreciated	120,403,934	2,587,093	-	122,991,027
Less accumulated depreciation:				
Vehicles	(492,862)	(83,547)	-	(576,409)
Office equipment	(125,596)	(25,534)	-	(151,130)
Recycling facility and equipment	(2,216,591)	(218,690)	-	(2,435,281)
Balefill/ashfill/leachate site	(11,789,484)	(362,630)	-	(12,152,114)
Baler	(3,632,085)	(178,105)	-	(3,810,190)
Waste-to-energy facility	(71,985,229)	(2,939,384)	-	(74,924,613)
Total accumulated depreciation	(90,241,847)	(3,807,890)	-	(94,049,737)
Total capital assets being depreciated, net	30,162,087	(1,220,797)	-	28,941,290
Total capital assets	**$ 31,637,148**	**(1,220,797)**	-	**30,416,351**

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 June 30, 2011	Additions	Paydowns	Balance June 30, 2012	Amounts due in one year
Series N ($2,480,000 authorized, variable rate demand bonds, weekly variable interest rate, taxable, issued September 1993, maturing July 1, 2014, paid off early in August, 2012)	$ 1,120,000	-	(260,000)	860,000	860,000
Series R ($21,735,000 authorized, variable rate demand bonds, taxable, issued April 2001, maturing July 1, 2012)	3,700,000	-	(1,800,000)	1,900,000	1,900,000
Series S ($6,750,000 authorized, serial bonds, fixed annual interest rates, 4.45% in the fiscal year ended June 30, 2012, non-taxable, issued June 2003, maturing July 1, 2012)	3,525,000	-	(1,725,000)	1,800,000	1,800,000
Series U ($15,205,000 authorized, serial bonds, fixed annual interest rates, 4% in 2012, issued June 2005, maturing July 1, 2011)	2,845,000	-	(2,845,000)	-	-
Long-term debt	$ 11,190,000	-	(6,630,000)	4,560,000	4,560,000

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 general revenue account; several principal accounts; several interest accounts; a debt service reserve fund; and a global rebate fund.

LONG TERM DEBT, CONTINUED

Debt service requirements for all outstanding debt for the year ended June 30, 2013 are $43,681 interest and $4,560,000 principal, respectively.

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:

	2012	2011
Capital assets	$ 124,466,088	121,878,995
Accumulated depreciation	(94,049,737)	(90,241,847)
Bonds payable	(4,560,000)	(11,190,000)
Total invested in capital assets net of related debt	**$ 25,856,351**	**20,447,148**

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.

During the fiscal year ended June 30, 2011, ecomaine requested an Opinion of Value on the property. The facility engaged an outside commercial real estate firm to prepare such report. Upon completion of the report, the property was valued at approximately $1,300,000 to $1,600,000. At June 30, 2011, the facility recorded an unrealized loss of $730,000 to bring the asset to an estimated fair value of $1,500,000.

During the fiscal year ended June 30, 2012, no changes were reported on the fair value. As of the report date, no decision has been made as to the eventual use of the property.

POWER PURCHASE AGREEMENTS

During the fiscal years ended June 30, 2012 and 2011, **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, 2012; the current agreement commenced February 1, 2012 and expires January 31, 2013. At June 30, 2012 and 2011, electrical generating revenues amounted to $3,707,430 and $5,788,360, respectively.

ARBITRAGE REBATE

Under income tax regulations, **ecomaine** is obligated to rebate to the United States certain arbitrage amounts. 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, 2012 and 2011 was $0 in both years. **ecomaine** has set aside $83,736 and $83,727 as of June 30, 2012 and 2011, respectively, in an arbitrage rebate fund.

RETIREMENT PLANS

Nonunion - All non-union employees are covered by a defined contribution plan after their probationary period is completed. **ecomaine** contributed 8% in 2012 and 2011 of the covered employees' gross pay on covered wages of $1,691,804 and $1,619,679, respectively. Pension expense amounted to $135,345 and $129,573 for the years ended June 30, 2012 and 2011, 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 $144,332 and $140,083 for the years ended June 30, 2012 and 2011, respectively, on covered wages of $2,749,186 and $2,668,278, 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 $3,165 and $2,988 on covered wages of $158,220 and $149,390 for the years ended June 30, 2012 and 2011, respectively.

Social Security - **ecomaine** participates in the Social Security retirement program. **ecomaine's** contributions to Social Security were $342,014 and $326,564 for the years ended June 30, 2012 and 2011, respectively.

CLOSURE AND POSTCLOSURE CARE COSTS

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

CLOSURE AND POSTCLOSURE CARE COSTS, CONTINUED

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:

	2012	2011
Total estimated future landfill closure and postclosure care costs	$22,216,761	22,216,761
Estimated capacity used	70.64%	69.39%
Estimated gross landfill closure and postclosure care costs - end of year	15,694,020	15,416,704
Amounts actually expended	N/A	N/A
Estimated liability for landfill closure and postclosure care costs - end of year	15,694,020	15,416,704
Estimated remaining landfill closure and postclosure care costs to be recognized	$ 6,522,741	6,800,057

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 and again in September 2011.

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.

OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

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

	2012	2011	2010
Normal cost	$ 34,608	34,608	31,614
Amortization of unfunded	30,786	30,786	18,920
Adjustment to ARC	(9,661)	(5,910)	(2,981)
Interest	7,977	5,383	3,084
Annual required contribution	$ 63,710	64,867	50,637

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 was as follows:

	2012	2011	2010
Annual required contribution	$ 63,710	64,867	50,637
Actual contribution	-	-	-
Percent contributed	0.00%	0.00%	0.00%
Actuarial accrued liability	553,647	553,647	340,262
Plan assets	-	-	-
Unfunded actuarial accrued liability	553,647	553,647	340,262
Covered payroll	$ 4,524,794	4,436,838	4,445,697
Unfunded actuarial accrued liability as a percentage of covered payroll	12.24%	12.47%	7.60%

Net OPEB Obligation – The net OPEB obligation was calculated as follows:

	2012	2011	2010
OPEB liability, July 1	$ 167,060	102,193	51,556
Annual required contribution	63,710	64,867	50,637
Less: Actual contributions	-	-	-
OPEB liability, June 30	$ 230,770	167,060	102,193

The post-retirement benefit liability at June 30, 2012 is $294,704, resulting in an excess of $63,934.

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.

OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

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	1/1/11
Actuarial cost method	Projected unit credit cost method
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

Fiscal year	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]
2009	1/1/09	$ -	$ 340,262	$ 340,262	0.00%	$ 4,497,961	7.60%
2010	1/1/09	-	340,262	340,262	0.00%	4,445,697	7.60%
2011	1/1/11	-	553,647	553,647	0.00%	4,436,838	12.47%
2012	1/1/11	-	553,647	553,647	0.00%	4,524,794	12.24%

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Schedule of Municipal Assessments and Tipping Fees

Years Ended June 30, 2012 and 2011

		2012	2011
Members			
Bridgton	$	195,760	205,264
Casco		74,085	75,965
Cumberland		149,244	167,794
Cape Elizabeth		248,891	265,435
Falmouth		190,875	204,171
Freeport		157,494	163,972
Gorham		173,944	176,394
Gray		205,356	206,496
Harrison		87,335	91,982
Hollis		100,517	116,273
Limington		145,602	151,241
Lyman		86,942	97,299
Ogunquit		51,625	53,778
Pownal		25,404	28,289
Portland		851,728	887,676
North Yarmouth		84,567	98,265
Scarborough		475,250	508,747
South Portland		565,700	582,174
Waterboro		174,203	181,408
Windham		178,682	181,474
Yarmouth		218,905	234,556
Total members' assessments		4,442,109	4,678,653
Associate members tip fees		885,599	863,637
Municipal tipping fees		4,261,124	4,296,472
Total municipal assessments and tipping fees	$	**9,588,832**	**9,838,762**

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Budget to Actual
Year Ended June 30, 2012

		Actual	Budget	Variance	Change
Operating revenues:					
Municipal assessments	$	4,442,109	4,442,109	-	0.0%
Owners tipping fees		4,261,124	4,241,327	19,797	0.5%
Associate tipping fees		885,599	922,674	(37,075)	-4.0%
Commercial tipping fees		5,824,620	5,734,443	90,177	1.6%
Spot market tipping fees		2,253,845	2,039,016	214,829	10.5%
Electrical generating revenues		3,707,430	3,853,136	(145,706)	-3.8%
Sales of recycled goods		3,694,277	3,000,229	694,048	23.1%
Recycling tipping fees		42,343	13,000	29,343	225.7%
Gorham property assessments		157,384	100,000	57,384	57.4%
Other operating income		86,346	84,360	1,986	2.4%
Total operating revenues		25,355,077	24,430,294	924,783	3.8%
Operating expenses:					
Administrative expenses		2,432,537	2,468,976	36,439	1.5%
Waste-to-energy operating expenses		8,693,408	8,904,928	211,520	2.4%
Recycling operating expenses		1,779,621	1,761,687	(17,934)	-1.0%
Landfill/ashfill operating expenses		1,603,147	1,585,899	(17,248)	-1.1%
Contingency		-	196,000	196,000	n/a
Landfill closure and postclosure care costs		277,316	-	(277,316)	n/a
Post-retirement benefit		-	-	-	n/a
Total operating expenses		14,786,029	14,917,490	131,461	0.9%
Net operating income other than depreciation and amortization		10,569,048	9,512,804	1,056,244	11.1%
Depreciation and amortization		3,807,890	4,100,000	292,110	7.1%
Net operating income		6,761,158	5,412,804	1,348,354	24.9%
Non-operating income (expense):					
Interest income		54,698	18,600	36,098	194.1%
Interest expense		(112,684)	(135,760)	23,076	-17.0%
Miscellaneous receipts		6,656	-	6,656	n/a
Net non-operating		(51,330)	(117,160)	65,830	-56.2%
Total revenues less expenses	**$**	**6,709,828**	**5,295,644**	**1,414,184**	**26.7%**

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