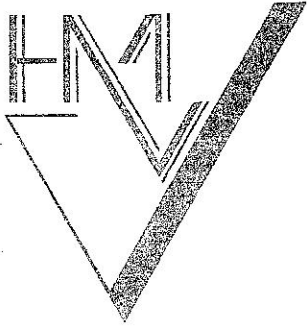


**VEAZIE SEWER DISTRICT
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
MAY 31, 2004 AND 2003
WITH INDEPENDENT AUDITORS' REPORT**



HORTON, McFARLAND & VEYSEY

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INDEPENDENT AUDITORS' REPORT

November 10, 2004

Board of Trustees
Veazie Sewer District
Veazie, Maine

We have audited the accompanying balance sheets of Veazie Sewer District as at May 31, 2004 and 2003, and the related statements of income and cash flows for the years then ended. These financial statements are the responsibility of 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 audits 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 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 Veazie Sewer District as at May 31, 2004 and 2003, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Horton, McFarland & Veysey

**VEAZIE SEWER DISTRICT
BALANCE SHEETS
MAY 31, 2004 AND 2003**

ASSETS

	2004	2003
Current Assets:		
Cash on Hand	70	689
Cash Checking	35,214	51,716
Cash Savings	29,003	47,965
Cash Money Market	182,513	146,664
Cash Escrow Accounts	22,311	39,197
Accounts Receivable	36,699	46,592
	<u>305,810</u>	<u>332,823</u>
Reserve Fund - Savings	<u>112,993</u>	<u>112,494</u>
Utility Plant and Equipment		
Sewers and Treatment Plant	6,401,295	6,389,609
Less: Accumulated Depreciation	<u>1,727,319</u>	<u>1,557,181</u>
	<u>4,673,976</u>	<u>4,832,428</u>
Total Assets	<u>5,092,779</u>	<u>5,277,745</u>

LIABILITIES AND EQUITY CAPITAL

Current Liabilities:		
Accounts Payable	5,118	6,864
Payroll Taxes	692	2,009
Retainage Payable		25,154
Bonds Payable - Current Portion	95,000	90,000
Accrued Interest	18,616	7,010
	<u>119,426</u>	<u>131,037</u>
Bonds Payable	1,760,000	1,850,000
Less: Current Portion	<u>95,000</u>	<u>90,000</u>
	<u>1,665,000</u>	<u>1,760,000</u>
Retained Earnings:		
Unappropriated	143,490	168,393
Appropriated	250,887	235,887
Invested in Plant - Net of Debt	<u>2,913,976</u>	<u>2,982,428</u>
	<u>3,308,353</u>	<u>3,386,708</u>
Total Liabilities and Equity Capital	<u>5,092,779</u>	<u>5,277,745</u>

See accompanying notes and accountants' report.



VEAZIE SEWER DISTRICT
STATEMENTS OF INCOME
FOR THE YEARS ENDED MAY 31, 2004 AND 2003

	2004	2003
Revenues:		
Town of Veazie Appropriation	100,000	100,000
User Fees	261,869	254,815
Other Fees	16,790	6,240
User Late Charges	3,429	4,169
Interest Income	1,787	2,711
Miscellaneous Sales	4,420	
	<u>388,295</u>	<u>367,935</u>
Expenses:		
Salaries	99,136	78,399
Trustees Fees	800	1,300
Health and Dental Insurance	35,471	28,048
Retirement	1,160	960
Payroll Taxes	7,806	6,021
Utilities	40,070	34,029
Supplies	12,868	6,233
Maintenance and Repairs	12,490	7,918
Vehicle Expense	1,491	1,097
Insurance	10,027	12,344
Office Supplies and Expense	4,538	4,126
Telephone	2,522	2,362
Licenses	2,564	2,179
Legal and Audit	8,782	7,268
Bad Debts		4,018
Engineering	9,420	5,234
Other	3,227	4,845
Interest	44,140	55,529
Depreciation	170,138	168,955
	<u>466,650</u>	<u>430,865</u>
Net Income (Loss)	<u>(78,355)</u>	<u>(62,930)</u>

See accompanying notes and accountants' report



VEAZIE SEWER DISTRICT
STATEMENT OF CHANGES IN EQUITY CAPITAL
FOR THE YEARS ENDED MAY 31, 2004 AND 2003

	<i>Unappropriated</i>	<i>Appropriated</i>	<i>Invested in Plant</i>
Balance, May 31, 2002	241,524	217,887	2,995,318
Net Income (Loss) for the Year Ended May 31, 2003	(62,930)		
Appropriated To Reserves			
Truck	(5,000)	5,000	
Equipment	(10,000)	10,000	
Sewers	(30,000)	30,000	
Sludge Removal	(10,000)	10,000	
Computer	(1,000)	1,000	
Sick Time Buy Back	(1,000)	1,000	
Expenditures			
Withdrawn for Equipment	39,000	(39,000)	
Adjustment of Prior Receivables	(5,091)		
Allocation of Debt	(90,000)		90,000
Plant additions Net of Debt	(66,065)		66,065
Depreciation Provision	168,955		(168,955)
Balance May 31, 2003	168,393	235,887	2,982,428
Net Income (Loss) for the Year Ended May 31, 2004	(78,355)		
Appropriated To Reserves			
Truck	(5,000)	5,000	
Equipment	(10,000)	10,000	
Sludge Removal	(10,000)	10,000	
Withdrawn for Equipment	10,000	(10,000)	
Debt Retired	(90,000)		90,000
Plant Additions	(11,686)		11,686
Depreciation Provision	170,138		(170,138)
Balance May 31, 2004	143,490	250,887	2,913,976

See accompanying notes and accountants' report.



VEAZIE SEWER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MAY 31, 2004 AND 2003

	2004	2003
Operating Activities:		
Net Loss for the Year	(78,355)	(62,930)
Adjustments:		
Depreciation Provision	<u>170,138</u>	<u>168,955</u>
	91,783	106,025
 Decrease in Accounts Receivable	9,893	7,876
Decrease in Payables and Accruals	<u>(16,611)</u>	<u>(26,298)</u>
 Cash Provided by Operating Activities	85,065	87,603
 Investing Activities:		
Additions to Plant and Equipment	(11,686)	(66,065)
 Financing Activities:		
Bonds (Paid)	<u>(90,000)</u>	<u>(90,000)</u>
 Net Change in Cash	(16,621)	(68,462)
 Cash at Beginning of Year	<u>398,725</u>	<u>467,187</u>
 Cash at End of Year	<u>382,104</u>	<u>398,725</u>
 Supplemental Cash Disclosure		
Cash Paid for Interest	<u>48,977</u>	<u>53,128</u>

See accompanying notes and accountants' report.



**VEAZIE SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2004**

Note 1: Summary of Significant Accounting Policies

Business Activity

Veazie Sewer District furnishes sewerage collection and treatment services in the Town of Veazie. Its accounting policies conform to generally accepted accounting principles as applicable to quasi-municipal units, which utilize the accrual basis of accounting.

Property and Equipment

The District follows the policy of charging to operating expenses annual amounts of depreciation, which allocate the cost of property, plant and equipment over their estimated useful lives. The District uses the straight-line method for computing depreciation. The ranges of the estimated useful lives used are for five to fifty years.

Property and equipment are capitalized at cost. Items, which do not extend the useful lives of the assets, are charged to repairs and maintenance expense in the year incurred.

Income Tax Status

The District is exempt from federal and state income tax as a quasi-municipality.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2: Accounts Receivable

Accounts receivables are due from customers for sewer service. All accounts receivable are deemed collectible and therefore no allowance for doubtful accounts is established.

Note 3: Construction Program

The District was engaged in a plant upgrade project at May 31, 2004, for which \$1,655,846 had been booked at that date. Financing was secured with the Maine Municipal Bond Bank State Revolving Loan Fund, \$1,660,000, of which \$4,154 was held by the bank in escrow at May 31, 2004.

NOTE 4: Long Term Debt

Maine Municipal Bond Bank in the amount of \$180,000 is to be paid over a period of three years. Interest is due and payable on a semi-annual basis, at rates that range from 5.9% to 6.6% on the unpaid balance. Principal payments are due annually on October 25 as follows:

2004	55,000
2005	60,000
2006	65,000



**VEAZIE SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2004**

NOTE 4: Long Term Debt (Continued)

Maine Municipal Bond Bank in the amount of \$1,580,000 is to be paid over a remaining period of eighteen years. Interest is due and payable on a semi-annual basis at 2.056% on the unpaid balance. Principal payments are due annually on October 1 as follows:

2004	40,000
2005	40,000
2006	40,000
2007	81,894
2008	83,876

Increasing amounts from \$85,906 in 2009 to \$114,456 in 2021 will be due thereafter.

