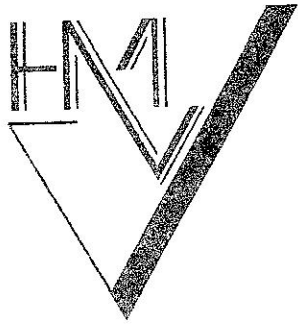


**VEAZIE SEWER DISTRICT
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
MAY 31, 2010 AND 2009
WITH INDEPENDENT AUDITORS' REPORT
AND
MANAGEMENT'S DISCUSSION AND ANALYSIS**



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INDEPENDENT AUDITORS' REPORT

September 21, 2010

Board of Trustees
Veazie Sewer District
Veazie, Maine

We have audited the accompanying balance sheets of Veazie Sewer District as at May 31, 2010 and 2009, 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, 2010 and 2009, 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.

The attached Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Horton, McFarland & Veysey

**VEAZIE SEWER DISTRICT
BALANCE SHEETS
MAY 31, 2010 AND 2009**

| ASSETS | | 2010 | Restated 2009 |
|---------------------------------------|--|------------------|--------------------------|
| Current Assets: | | | |
| Cash on Hand | | 115 | 83 |
| Cash Checking | | 30,561 | 31,815 |
| Cash Savings | | 314 | 9,548 |
| Cash Money Market | | 113,515 | 135,585 |
| Accounts Receivable -Customer | | 12,592 | 18,427 |
| | | <u>157,097</u> | <u>195,458</u> |
| Reserve Fund - Savings | | <u>65,456</u> | <u>75,907</u> |
| Utility Plant and Equipment | | | |
| Sewers and Treatment Plant | | 6,796,890 | 6,615,612 |
| Less: Accumulated Depreciation | | <u>2,773,741</u> | <u>2,485,104</u> |
| | | <u>4,023,149</u> | <u>4,130,508</u> |
| Total Assets | | <u>4,245,702</u> | <u>4,401,873</u> |
| LIABILITIES AND EQUITY CAPITAL | | | |
| Current Liabilities: | | | |
| Accounts Payable | | 10,961 | 3,785 |
| Payroll Taxes | | 2,397 | 1,906 |
| Bonds Payable - Current Portion | | 87,985 | 85,906 |
| Accrued Interest | | 4,643 | 6,652 |
| Accrued Sick Time | | 23,067 | 17,985 |
| | | <u>129,053</u> | <u>116,234</u> |
| Bonds Payable | | 1,208,324 | 1,294,230 |
| Less: Current Portion | | <u>87,985</u> | <u>85,906</u> |
| | | <u>1,120,339</u> | <u>1,208,324</u> |
| Retained Earnings: | | | |
| Unappropriated | | (145,932) | (62,080) |
| Appropriated | | 327,417 | 303,117 |
| Invested in Plant - Net of Debt | | <u>2,814,825</u> | <u>2,836,278</u> |
| | | <u>2,996,310</u> | <u>3,077,315</u> |
| Total Liabilities and Equity Capital | | <u>4,245,702</u> | <u>4,401,873</u> |



See accompanying notes and accountants' report.

VEAZIE SEWER DISTRICT
STATEMENTS OF INCOME
FOR THE YEARS ENDED MAY 31, 2010 AND 2009

| | 2010 | Restated 2009 |
|------------------------------|-----------------|--------------------------|
| Revenues: | | |
| Town of Veazie Appropriation | 140,000 | 140,000 |
| User Fees | 275,496 | 277,222 |
| Connection Fees | 1,500 | 1,500 |
| User Late Charges | 1,092 | 1,128 |
| Interest Income | 531 | 1,188 |
| Foreclosure Proceeds | - | 77,000 |
| | <u>418,619</u> | <u>498,038</u> |
| Expenses: | | |
| Salaries | 156,305 | 142,559 |
| Trustees Fees | 1,300 | 1,300 |
| Health and Dental Insurance | 66,087 | 69,367 |
| Retirement | 2,495 | 2,110 |
| Payroll Taxes | 12,082 | 11,074 |
| Utilities | 39,001 | 47,037 |
| Supplies | 5,824 | 6,161 |
| Maintenance and Repairs | 12,286 | 14,162 |
| Vehicle Expense | 2,336 | 2,515 |
| Insurance | 10,560 | 10,939 |
| Office Supplies and Expense | 3,431 | 3,144 |
| Telephone | 2,950 | 2,512 |
| Licenses | 2,312 | 1,667 |
| Legal and Audit | 3,447 | 2,963 |
| Engineering | - | 237 |
| Other | 4,219 | 4,946 |
| Interest | 25,391 | 31,072 |
| Depreciation | 165,710 | 165,082 |
| | <u>515,736</u> | <u>518,847</u> |
| Net Income (Loss) | <u>(97,117)</u> | <u>(20,809)</u> |



See accompanying notes and accountants' report

VEAZIE SEWER DISTRICT
STATEMENT OF CHANGES IN EQUITY CAPITAL
FOR THE YEARS ENDED MAY 31, 2010 AND 2009

| | <i>Unappropriated</i> | <i>Appropriated</i> | <i>Invested in Plant</i> |
|--|-----------------------|---------------------|------------------------------|
| Restated 2009 | | | |
| Balance May 31, 2008 | <u>(78,761)</u> | <u>270,817</u> | <u>2,904,051</u> |
| Net Income (Loss) for the Year Ended May 31, 2009 | (20,809) | | |
| Appropriated To Reserves | (32,300) | 32,300 | |
| Contributions in Aid | 2,017 | | |
| Debt Retired | (83,876) | | 83,876 |
| Plant Additions | (13,433) | | 13,433 |
| Depreciation Provision | <u>165,082</u> | | <u>(165,082)</u> |
| Balance May 31, 2009 | <u>(62,080)</u> | <u>303,117</u> | <u>2,836,278</u> |
| Net Income (Loss) for the Year Ended May 31, 2010 | (97,117) | | |
| Appropriated To Reserves | (24,300) | 24,300 | |
| Debt Retired | (85,906) | | 85,906 |
| Plant Additions | (42,239) | | 42,239 |
| Depreciation Provision | 165,710 | | (165,710) |
| Depreciation Adjustment | | | <u>16,112</u> |
| Balance May 31, 2010 | <u>(145,932)</u> | <u>327,417</u> | <u>2,814,825</u> |



See accompanying notes and accountants' report.

**VEAZIE SEWER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MAY 31, 2010 AND 2009**

| | 2010 | Restated 2009 |
|---|------------------|--------------------------|
| Cash Flows from Operating Activities | | |
| Receipts from Customers and Users | 282,831 | 283,787 |
| Payments to Suppliers | (155,581) | (170,359) |
| Payments to Employees | (156,305) | (142,559) |
| Net Cash Provided by Operating Activities | <u>(29,055)</u> | <u>(29,131)</u> |
| Cash Flows from Noncapital Financing Activities | | |
| Investment Income | 1,623 | 2,316 |
| Assessments | 140,000 | 140,000 |
| Foreclosure Proceeds | - | 77,000 |
| Net Cash Provided by Noncapital Financing Activities | <u>141,623</u> | <u>219,316</u> |
| Cash Flows from Capital and Related Financing Activities | | |
| Purchase of Capital Assets | (42,239) | (13,433) |
| Interest Payments on Long-term Debt | (27,400) | (29,143) |
| Principal Payments on Long-term Debt | (85,906) | (83,876) |
| Construction Receipts | - | 2,017 |
| Net Cash Used in Capital and Related Financing Activities | <u>(155,545)</u> | <u>(124,435)</u> |
| Net (Decrease) Increase in Cash | (42,977) | 65,750 |
| Cash at Beginning of Year | <u>252,938</u> | <u>187,188</u> |
| Cash at End of Year | <u>209,961</u> | <u>252,938</u> |
| Reconciliation of Operating Income to Net Cash | | |
| Provided by Operating Activities: | | |
| Operating Income (Loss) | (71,726) | 10,263 |
| Adjustments to Reconcile Operating Income to | | |
| Net Cash Provided by Operating Activities: | | |
| Depreciation | 165,710 | 165,082 |
| Change in Operating Assets and Liabilities: | | |
| (Increase) Decrease in Accounts Receivable | 5,835 | 5,065 |
| (Decrease) Increase in Payables | 12,749 | 9,775 |
| Net Cash Provided by Operating and | <u>112,568</u> | <u>190,185</u> |
| Non Capital Financing Activities | | |



See accompanying notes and accountants' report.

**VEAZIE SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2010 AND 2009**

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 affect 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: Accrued Sick Leave

The District's personnel policy allows employees to accrue sick leave at a rate of 1 1/4 eight hour days per month up to 120 days or 960 hours. The District will buy back sick time accrued at employees' current rate of pay at the time of separation based on the number of years of service as shown below:

| Years of Service | Accrued Hour/Days to be paid |
|------------------|---------------------------------|
| 5 | 1/4 - 25% |
| 10 | 1/2 - 50% |
| 15 | 3/4 - 75% |
| 20 | All - 100% |

The accrued sick time liability at May 31, 2010 and May 31, 2009 were \$23,067 and \$17,985.



VEAZIE SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2010 AND 2009

NOTE 4: Long Term Debt

Maine Municipal Bond Bank in the amount of \$1,208,324 is to be paid over a remaining period of twelve years. Interest is due and payable on a semi-annual basis at 2.056% on the unpaid balance. Principal plus interest payments are due as follows:

| | Principal | Interest | Total |
|------------|------------------|----------------|------------------|
| 2011 | 87,985 | 25,618 | 113,603 |
| 2012 | 90,114 | 23,791 | 113,905 |
| 2013 | 92,295 | 21,921 | 114,216 |
| 2014 | 94,528 | 20,005 | 114,533 |
| 2015 | 96,816 | 18,043 | 114,859 |
| Thereafter | <u>746,586</u> | <u>67,219</u> | <u>813,805</u> |
| | <u>1,208,324</u> | <u>176,597</u> | <u>1,384,921</u> |

NOTE 5: Prior Period Adjustment

A prior period adjustment totaling \$10,550 in 2008 consists of recognizing the accrued sick leave of the District. This adjustment is reflected on the statement of changes in Equity Capital in the May 31, 2008 unappreciated balance.

