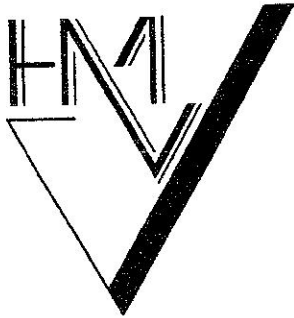


**VEAZIE SEWER DISTRICT  
FINANCIAL STATEMENTS  
MAY 31, 2011 AND 2010  
WITH INDEPENDENT AUDITORS' REPORT  
AND  
MANAGEMENT'S DISCUSSION AND ANALYSIS**



**HORTON, McFARLAND & VEYSEY, LLC**

CERTIFIED PUBLIC ACCOUNTANTS

P.O. BOX 543  
ELLSWORTH, MAINE 04605

207-667-5529 • 1-800-499-9108 • FAX 207-667-9915

*M.R. Horton, Jr., CPA  
James E. McFarland, CPA  
Floyd S. Veysey, CPA  
(1948 - 2006)*

*Amy J. Billings, CPA  
Annette L. Gould, CPA  
Ellen Cleveland, CPA  
Ruth W. Wilbur, EA*

***Independent Auditors' Report***

September 9, 2011

Board of Trustees  
Veazie Sewer District  
Veazie, Maine

We have audited the balance sheets of the Veazie Sewer District as of May 31, 2011 and 2010, and the related statements of revenues, expenses and changes in fund net assets and cash flows for the years then ended. These financial statements are the responsibility of the District'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 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 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 Veazie Sewer District as of May 31, 2011 and 2010, 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 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 for 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Veazie Sewer District's financial statements as a whole. The accompanying supplemental information presented as Schedule 1 is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying supplemental information presented as Schedule 1 is the responsibility of management and was derived from and relate 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.

*Horton, McFarland & Veysey*



**VEAZIE SEWER DISTRICT  
BALANCE SHEETS - PROPRIETARY FUNDS  
AT MAY 31,**

	<b>2011</b>	<b>Restated 2010</b>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents:		
Undesignated	126,058	144,505
Board Designated	25,546	65,456
Accounts Receivable	21,731	12,592
Prepayments	2,203	-
<b>Total Current Assets</b>	<b>175,538</b>	<b>222,553</b>
Noncurrent Assets:		
Property, Plant and Equipment:		
Utility Plant	6,803,802	6,796,890
Less: Accumulated Depreciation	2,928,446	2,773,741
<b>Total Property, Plant and Equipment</b>	<b>3,875,356</b>	<b>4,023,149</b>
Deferred Charges:		
Rate Case Costs	1,427	-
<b>Total Deferred Charges</b>	<b>1,427</b>	<b>-</b>
<b>Total Noncurrent Assets</b>	<b>3,876,783</b>	<b>4,023,149</b>
<b>Total Assets</b>	<b>4,052,321</b>	<b>4,245,702</b>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities:		
Accounts Payable	6,864	10,961
Payroll Taxes Payable	5,797	2,397
Accrued Interest	4,347	4,643
Accrued Benefits	43,306	37,021
Current Portion of Long-Term Debt	90,114	87,985
<b>Total Current Liabilities</b>	<b>150,428</b>	<b>143,007</b>
Noncurrent Liabilities:		
Long-Term Debt	1,030,225	1,120,339
<b>Total Noncurrent Liabilities</b>	<b>1,030,225</b>	<b>1,120,339</b>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	2,755,017	2,814,825
Unrestricted:		
Undesignated	(245,066)	(159,886)
Board Designated	361,717	327,417
<b>Total Net Assets</b>	<b>2,871,668</b>	<b>2,982,356</b>
<b>Total Liabilities and Net Assets</b>	<b>4,052,321</b>	<b>4,245,702</b>



*The notes to the financial statements are an integral part of this statement.*  
HORTON, MCFARLAND & VEYSEY, LLC • CERTIFIED PUBLIC ACCOUNTANTS • ELLSWORTH, MAINE 04605

**VEAZIE SEWER DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUNDS**  
**YEARS ENDED MAY 31,**

	<b>2011</b>	<b>Restated 2010</b>
Operating Revenues:		
Town of Veazie Appropriation	140,000	140,000
User Fees	287,389	275,496
Connection Fees	-	1,500
User Late Charges	1,358	1,092
Total Operating Revenues	<u>428,747</u>	<u>418,088</u>
Operating Expenses:		
Salaries and Wages	170,380	156,305
Trustees Fees	1,300	1,300
Employee Benefits	71,690	70,089
Payroll Taxes	15,617	12,082
Utilities	36,766	39,001
Supplies	8,783	5,824
Maintenance and Repairs	11,845	9,107
Vehicle Expense	3,281	2,336
Insurance	11,063	13,739
Office Supplies and Expense	3,843	3,431
Telephone	3,046	2,950
Licenses	2,341	2,312
Legal and Audit	6,170	3,447
Other	4,303	4,219
Depreciation	163,948	165,710
Total Operating Expenses	<u>514,376</u>	<u>491,852</u>
Net Operating Income	<u>(85,629)</u>	<u>(73,764)</u>
Non-Operating Revenues (Expenses):		
Interest Income	263	531
Interest Expense	(25,322)	(25,391)
Total Non-Operating Revenues (Expenses)	<u>(25,059)</u>	<u>(24,860)</u>
Change in Net Assets	(110,688)	(98,624)
Net Assets - Beginning of Year (Restated)	<u>2,982,356</u>	<u>3,080,980</u>
Net Assets - End of Year	<u><u>2,871,668</u></u>	<u><u>2,982,356</u></u>



*The notes to the financial statements are an integral part of this statement.*

HORTON, McFARLAND & VEYSEY, LLC • CERTIFIED PUBLIC ACCOUNTANTS • ELLSWORTH, MAINE 04605

**VEAZIE SEWER DISTRICT**  
**STATEMENTS OF CASH FLOWS - PROPRIETARY FUNDS**  
**YEARS ENDED MAY 31,**

	<b>2011</b>	<b>Restated 2010</b>
Cash Flows from Operating Activities:		
Receipts from Customers and Users	419,608	423,923
Payments to Suppliers	(176,790)	(154,281)
Payments to Employees	(171,680)	(157,605)
Net Cash Flows from Operating Activities	<u>71,138</u>	<u>112,037</u>
Cash Flows from Capital and Related Financing Activities:		
Purchase of Capital Assets	(16,155)	(42,239)
Interest Payments on Long-Term Debt	(25,618)	(27,400)
Principal Payments on Long-Term Debt	(87,985)	(85,906)
Net Cash Flows from Capital and Related Financing Activities	<u>(129,758)</u>	<u>(155,545)</u>
Cash Flows from Investing Activities:		
Investment Income	<u>263</u>	<u>531</u>
Net Cash Flows from Investing Activities:	<u>263</u>	<u>531</u>
Net (Decrease) Increase in Cash	(58,357)	(42,977)
Cash at Beginning of Year	<u>209,961</u>	<u>252,938</u>
Cash at End of Year	<u><u>151,604</u></u>	<u><u>209,961</u></u>
Reconciliation of Operating Income to Net Cash Flows from Operating Activities:		
Operating Income (Loss)	(85,629)	(73,764)
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:		
Depreciation Expense	163,948	165,710
Change in Operating Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(9,139)	5,835
(Increase) Decrease in Prepayments	(2,203)	-
(Increase) Decrease in Deferred Charges	(1,427)	-
(Decrease) Increase in Accounts Payable	(4,097)	7,176
(Decrease) Increase in Payroll Taxes Payable	3,400	491
(Decrease) Increase in Accrued Benefits	6,285	6,589
Net Cash Flows from Operating Activities	<u><u>71,138</u></u>	<u><u>112,037</u></u>



*The notes to the financial statements are an integral part of this statement.*

HORTON, McFARLAND & VEYSEY, LLC • CERTIFIED PUBLIC ACCOUNTANTS • ELLSWORTH, MAINE 04605

**VEAZIE SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2011 AND 2010**

**NOTE 1: Summary of Significant Accounting Policies**

**Business Activity**

Veazie Sewer District (the 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, Plant 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, ranging from five to fifty years. The District uses the straight-line method for computing depreciation. Property and equipment are stated at original cost. Items, which do not extend the useful lives of the assets, are charged to repairs and maintenance expense in the year incurred.

**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 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.

**Accounts Receivable**

Accounts receivables are stated at net realizable value. Uncollectible accounts are written off in the year in which they are determined to be uncollectible.

**Deferred Rate Case Costs**

Deferred rate case costs totaling \$2,140 are being amortized over a three year period ending in 2013. The amount amortized in the fiscal years ending May 31, 2011 and 2010 was \$713 and \$-0-, respectively.

**Cash and Cash Equivalents**

For purposes of these statements, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents, all cash is covered by FDIC insurance at May 31, 2011 and 2010. At May 31, 2011 and 2010, cash totaling \$25,546 and \$65,456, respectively, was designated by the Board as shown below.

	2011	2010
Plant Replacement	13,683	13,652
Truck Replacement	4,505	19,484
Sludge Removal	<u>7,358</u>	<u>32,320</u>
	<u>25,546</u>	<u>65,456</u>

**Income Taxes**

The District qualifies as a tax-exempt organization under the provisions of the Internal Revenue Code and, accordingly, its revenue is not subject to any state or federal income taxes.



**NOTE 1: Summary of Significant Accounting Policies**

**Measurement Focus, Basis of Accounting and Basis of Presentation**

The District uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain functions and activities. A fund is a separate accounting entity with a self-balancing set of accounts.

Proprietary funds are accounted for on the flow of economic resource measurement. Accordingly, revenues are recorded when earned and expenses are recorded when incurred. The District prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America for proprietary funds, which are similar to those for private business enterprises. In accordance with Government Accounting Standards Board (GASB) Statement No. 20, the District follows the pronouncements of the Financial Accounting Standards Board (FASB) issued before November 30, 1989 except where those pronouncements conflict with GASB pronouncements. The District has the option but has elected not to follow subsequent private-sector guidance. Proprietary funds distinguish operating revenues and expenses from non-operating activity. Operating revenues arise from providing goods or services to outside parties for a fee. Revenues and expenses that are not derived directly from operations are reported as non-operating revenues and expenses. Proprietary funds used by the District include enterprise funds described below.

Enterprise funds are required to be used to account for operations for which a fee is charged to external users for good or services and the activity (a) is financed with debt that is solely secured by a pledge of net revenues, (b) has third party reimbursements that the cost of providing services, including capital costs be recovered with fees and charges or (c) established fees and charges based on a pricing policy designed to cover similar costs.

**NOTE 2: Long-Term Debt**

Long-term bonds outstanding are as follows at May 31:

	2011	2010
Bonds payable to Maine Municipal Bond Bank. Maturing in 2021, interest rate of 2.056%.	<u>1,120,339</u>	<u>1,208,324</u>
Total Outstanding Bonds	1,120,339	1,308,324
Less: Current Portion	<u>90,114</u>	<u>87,985</u>
Total Long-Term Debt	<u>1,030,225</u>	<u>1,120,339</u>

Future maturities of long-term debt will be as follows:

	Principal	Interest	Total
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
2016	99,159	16,034	115,193
2017 – 2021	<u>647,427</u>	<u>51,186</u>	<u>698,613</u>
	<u>1,120,339</u>	<u>150,980</u>	<u>1,271,319</u>





**VEAZIE SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2011 AND 2010**

**NOTE 3: Net Assets**

Net assets compromise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following components: invested in capital assets, net of related debt and unrestricted net assets. Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds and adding back any unspent bond proceeds. The District invested in capital assets, net of related debt was calculated as follows at May 31:

	2011	2010
Total Property, Plant and Equipment	3,875,356	4,023,149
Long-Term Debt, Including Current Portion	<u>(1,120,339)</u>	<u>(1,208,324)</u>
Total Invested in Capital Assets, Net of Related Debt	<u>2,755,017</u>	<u>2,814,825</u>

Unrestricted consists of all other net assets not included in the above category. Unrestricted net assets totaling \$361,717 and \$327,417 have been designated by the Board of Trustees for the following:

	2011	2010
Truck Replacement	26,620	24,320
Plant Replacement	72,375	62,375
Collection System Improvement	174,122	164,122
Sludge Removal	75,000	65,000
Computer Replacement	6,600	5,600
Sick Time Buy Back	<u>7,000</u>	<u>6,000</u>
	<u>361,717</u>	<u>327,417</u>

**NOTE 4: Utility Plant**

Capital asset costs, additions and disposals are as follows for the year ended May 31:

	2010			2011
	Balance	Additions	Disposals	Balance
Land	29,552			29,552
Garage Building	13,729			13,729
Pump Station	4,702,837			4,702,837
Plant Equipment	108,437	14,388	9,243	113,582
Collection System Equipment	24,598	565		25,163
Collection System	1,768,563			1,768,563
Office Equipment	18,073	1,202		19,275
Vehicles	36,684			36,684
Lab Equipment	94,417			94,417
Gross Utility Plant	6,796,890	16,155	9,243	6,803,802
Less: Accumulated Depreciation	2,773,741	163,948	9,243	2,928,446
Net Utility Plant	<u>4,023,149</u>	<u>(147,793)</u>	<u>-</u>	<u>3,875,356</u>



**VEAZIE SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2011 AND 2010**

**NOTE 5: Retirement Plan**

The District will make a 100% matching contributions to the IRA of any regular full-time employee who provides proof of an employee contribution to his/her IRA of at least 3% of compensation in a year. The maximum match by the District will be 5% of compensation. Total expense related to the employee retirement benefit was \$2,920 and \$2,495 at May 31, 2011 and 2010, respectively.

**NOTE 6: Compensated Absences**

The District reports compensated absences in accordance with the provisions of GASB Statement No. 16 "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The accrued vacation liability at May 31, 2011 and 2010 was \$14,680 and \$13,954, respectively.

The District's personnel policy allows employees to accrue sick leave at a rate of 1.25 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, 2011 and May 31, 2010 was \$28,626 and \$23,067, respectively.

The accrued benefit liability shown in the financial statements at May 31, 2011 and 2010 is broken down as follows:

	2011	2010
Accrued Vacation	14,680	13,954
Accrued Sick Time	<u>28,626</u>	<u>23,067</u>
	<u>43,306</u>	<u>37,021</u>

**NOTE 7: Subsequent Events**

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through September 9, 2011, the date the financial statements were available to be issued.

**NOTE 8: Restatement**

A prior period adjustment totaling \$13,954 consists of recognizing the accrued vacation of the District at May 31, 2010. The affect of this adjustment was decreasing net assets by \$13,954 at May 31, 2010. The May 31, 2010 employee benefits expense was increased by \$1,507 to properly account for the change in the liability during the fiscal year ending May 31, 2010.

