

**VEAZIE SEWER DISTRICT
FINANCIAL STATEMENTS
MAY 31, 2012 AND 2011
WITH INDEPENDENT AUDITORS' REPORT
AND
MANAGEMENT'S DISCUSSION AND ANALYSIS**

VEAZIE SEWER DISTRICT

34 HOBSON AVENUE

VEAZIE, MAINE 04401

942-1536

Management's Discussion and Analysis May 31, 2012

Introduction of the Financial Statements

Veazie Sewer District's (the District) basic financial statements include the:

- Balance Sheet
- Statement of Revenues, Expenses and Changes in Fund Net Assets
- Statement of Cash Flows
- Notes to the Financial Statements

Comparison of Financial Statements for Current and Prior Years

Balance Sheets

	2012	2011
Total Assets	3,875,049	4,052,321
Total Liabilities	1,097,805	1,180,653
Total Net Asset	2,777,244	2,871,668

Statements of Revenues, Expenses and Changes in Fund Net Assets

	2012	2011
Operating Revenues	474,843	428,747
Operating Expenses	(545,943)	(514,376)
Non-Operating Revenues (Expenses)	(23,324)	(25,059)
Change in Net Assets	<u>(94,424)</u>	<u>(110,688)</u>

Overall Financial Position and Results of Operations

As of May 31, 2012, the District had \$3,875,049 in assets and \$1,097,805 in liabilities. The District had operating revenues of \$474,843 during the year ending December 31, 2011 and had a cash balance of \$112,135.

Significant Transactions

The Veazie Sewer District is responsible for the sanitary sewer collection system as well as the treatment facility. The District received and treated a daily flow of 220,000 gallons of wastewater and met current water quality standards by removing over 90% of the pollutants during 2011.

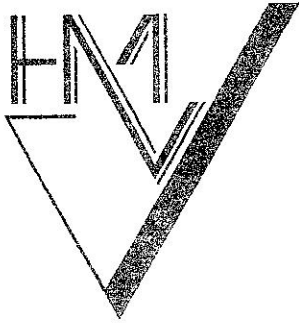
After 10 years without a rate increase, the Trustees voted to increase rates. The increase is \$0.69 per 100 cubic foot of water used, or approximately \$11.00 per quarter for the average user. The sewer bill is based on your water bill. For example, if you are billed for 1,200 cubic feet of water, you are billed for 1,200 cubic feet of wastewater. The Trustees also voted to raise the assessment to the Town by \$20,000.00, then at the annual meeting they voted to reduce the assessment to \$10,000.00 due to budget issues facing the town.

The District staff continues to be proactive in maintaining the appearance and longevity of the equipment and facilities in which our community has invested. This year, the District replaced the shingles on the garage. Facility staff completed this project using facility equipment, which saved money over hiring a contractor. The barge built by District staff was utilized to pull all of the diffusers for cleaning, inspection and to make any repairs. A few clamps and a number of the rubbers on the diffusers were in need of replacement. By cleaning any scale and slime layer from the diffusers, the blowers don't have to work as hard to move air through the diffusers, so the lagoons receive better mixing, a better air/oxygen transfer rate to the microorganisms, less wear on the blowers and we use less power. The diffusers were last cleaned five years ago.

After seven years of being a Trustee with three of them as the Chair, Steve Theborge decided not to run for another term and Robert Tomilson was elected as a Trustee for a three-year term.

Request For Information

Questions about the District's finances and activities may be directed to Gary Brooks, Superintendent, Veazie Sewer District, 34 Hobson Avenue, Veazie, ME 04401.



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Independent Auditors' Report

July 26, 2012

Board of Trustees
Veazie Sewer District
Veazie, Maine

We have audited the balance sheets of the Veazie Sewer District as of May 31, 2012 and 2011, 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, 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 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,**

ASSETS	2012	2011
Current Assets:		
Cash and Cash Equivalents	112,135	151,604
Accounts Receivable	26,656	21,731
Prepaid Insurance	2,322	2,203
Total Current Assets	<u>141,113</u>	<u>175,538</u>
Non-Current Assets:		
Property, Plant and Equipment:		
Utility Plant	6,803,802	6,803,802
Less: Accumulated Depreciation	<u>3,090,181</u>	<u>2,928,446</u>
Total Property, Plant and Equipment	3,713,621	3,875,356
Deferred Charges	<u>20,315</u>	<u>1,427</u>
Total Non-Current Assets	<u>3,733,936</u>	<u>3,876,783</u>
Total Assets	<u><u>3,875,049</u></u>	<u><u>4,052,321</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts Payable	11,613	12,661
Accrued Interest	4,045	4,347
Accrued Benefits	51,922	43,306
Current Portion of Long-Term Debt	<u>92,295</u>	<u>90,114</u>
Total Current Liabilities	<u>159,875</u>	<u>150,428</u>
Non-Current Liabilities:		
Long-Term Debt	<u>937,930</u>	<u>1,030,225</u>
Total Non-Current Liabilities	<u>937,930</u>	<u>1,030,225</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	2,683,396	2,755,017
Unrestricted:		
Undesignated	(292,169)	(245,066)
Board Designated	<u>386,017</u>	<u>361,717</u>
Total Net Assets	<u>2,777,244</u>	<u>2,871,668</u>
Total Liabilities and Net Assets	<u><u>3,875,049</u></u>	<u><u>4,052,321</u></u>

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

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

	2012	2011
Operating Revenues:		
Town of Veazie Appropriation	150,000	140,000
User Fees	323,128	287,389
User Late Charges	1,715	1,358
Total Operating Revenues	<u>474,843</u>	<u>428,747</u>
Operating Expenses:		
Salaries and Wages	181,594	170,380
Trustees Fees	1,300	1,300
Employee Benefits	78,055	71,690
Payroll Taxes	14,041	15,617
Utilities	40,036	36,766
Supplies	5,753	8,783
Maintenance and Repairs	18,201	11,845
Vehicle Expense	3,021	3,281
Insurance	13,413	11,063
Office Supplies and Expense	3,393	3,843
Telephone	2,753	3,046
Licenses	2,335	2,341
Legal and Audit	17,211	6,170
Other	3,102	4,303
Depreciation	161,735	163,948
Total Operating Expenses	<u>545,943</u>	<u>514,376</u>
Net Operating Income	<u>(71,100)</u>	<u>(85,629)</u>
Non-Operating Revenues (Expenses):		
Interest Income	165	263
Interest Expense	<u>(23,489)</u>	<u>(25,322)</u>
Total Non-Operating Revenues (Expenses)	<u>(23,324)</u>	<u>(25,059)</u>
Change in Net Assets	(94,424)	(110,688)
Net Assets - Beginning of Year (Restated)	<u>2,871,668</u>	<u>2,982,356</u>
Net Assets - End of Year	<u><u>2,777,244</u></u>	<u><u>2,871,668</u></u>

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

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

	2012	2011
Cash Flows from Operating Activities:		
Receipts from Customers and Users	469,918	419,608
Payments to Suppliers	(212,753)	(176,790)
Payments to Employees	(182,894)	(171,680)
Net Cash Flows from Operating Activities	<u>74,271</u>	<u>71,138</u>
Cash Flows from Capital and Related Financing Activities:		
Purchase of Capital Assets	-	(16,155)
Interest Payments on Long-Term Debt	(23,791)	(25,618)
Principal Payments on Long-Term Debt	(90,114)	(87,985)
Net Cash Flows from Capital and Related Financing Activities	<u>(113,905)</u>	<u>(129,758)</u>
Cash Flows from Investing Activities:		
Investment Income	<u>165</u>	<u>263</u>
Net Cash Flows from Investing Activities:	<u>165</u>	<u>263</u>
Net Increase (Decrease) in Cash	(39,469)	(58,357)
Cash at Beginning of Year	<u>151,604</u>	<u>209,961</u>
Cash at End of Year	<u><u>112,135</u></u>	<u><u>151,604</u></u>
Reconciliation of Operating Income to Net Cash Flows from Operating Activities:		
Operating Income (Loss)	(71,100)	(85,629)
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:		
Depreciation Expense	161,735	163,948
Change in Operating Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(4,925)	(9,139)
(Increase) Decrease in Prepaid Insurance	(119)	(2,203)
(Increase) Decrease in Deferred Charges	(18,888)	(1,427)
(Decrease) Increase in Accounts Payable	(1,048)	(697)
(Decrease) Increase in Accrued Benefits	8,616	6,285
Net Cash Flows from Operating Activities	<u><u>74,271</u></u>	<u><u>71,138</u></u>

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

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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.

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.

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, 2012 and 2011.

Accounts Receivable

Accounts receivables are stated at net realizable value. No provision has been made for possible uncollectible accounts. Uncollectible accounts are written off in the year in which they are determined to be uncollectible.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation has been provided on a basis considered adequate to amortize the cost of depreciable assets over their estimated useful lives on the straight-line method at rates from 2% to 20%.

Deferred Charges

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, 2012 and 2011 was \$713. Legal fees related to a foreclosure totaling \$19,601 are being deferred until a settlement is reach or the properties are sold (See Note 7). These amounts, net of amortization, were as follows at May 31:

	2012	2011
Rate Case	714	1,427
Legal Fees	19,601	-0-
	<u>20,315</u>	<u>1,427</u>

**VEAZIE SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2012 AND 2011**

Note 1: Summary of Significant Accounting Policies (Continued)

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.

Basis of Accounting

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. Proprietary funds are accounted for on the flow of economic resource measurement. Accordingly, revenues are recorded when earned and expenses are recorded when incurred. In accordance with Governmental 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.

Note 2: Utility Plant

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

	2011		2012
	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	113,582		113,582
Collection System Equipment	25,163		25,163
Collection System	1,768,563		1,768,563
Office Equipment	19,275		19,275
Vehicles	36,684		36,684
Lab Equipment	94,417		94,417
Gross Utility Plant	6,803,802		6,803,802
Less: Accumulated Depreciation	2,928,446	161,735	3,090,181
Net Utility Plant	3,875,356	(161,735)	3,713,621



**VEAZIE SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2012 AND 2011**

Note 3: Long-Term Debt

Long-term bonds and related terms are as follows at May 31:

	2012	2011
Bond payable to Maine Municipal Bond Bank, Maturing in October 2021. Interest rate of 2.056%.	1,030,225	1,120,339
Less: Current Portion	<u>92,295</u>	<u>90,114</u>
Total Long-Term Debt	<u>937,930</u>	<u>1,030,225</u>

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

	Principal	Interest	Total
2013	92,295	21,921	114,216
2014	94,528	20,005	114,533
2015	96,816	18,042	114,858
2016	99,159	16,034	115,193
2017	101,559	13,975	115,534
2018	104,016	11,866	115,882
2019	106,533	9,707	116,240
2020	109,111	7,495	116,606
2021	111,752	5,230	116,982
2022	114,456	2,912	117,368
	<u>1,030,225</u>	<u>127,187</u>	<u>1,157,412</u>

Note 4: 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 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 Hours To Be Paid
5	25%
10	50%
15	75%
20	100%



**VEAZIE SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2012 AND 2011**

Note 4: Compensated Absences (Continued)

The accrued benefit liability shown in the financial statements at May 31, 2012 and 2011 is as follows:

	2012	2011
Accrued Vacation	15,419	14,680
Accrued Sick Time	<u>36,503</u>	<u>28,626</u>
	<u>51,922</u>	<u>43,306</u>

Note 5: 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:

	2012	2011
Total Property, Plant and Equipment	3,713,621	3,875,356
Long-Term Debt, Including Current Portion	<u>(1,030,225)</u>	<u>(1,120,339)</u>
Invested in Capital Assets, Net of Related Debt	<u>2,683,396</u>	<u>2,755,017</u>

Unrestricted consists of all other net assets not included in the above category. Unrestricted net assets totaling \$386,017 and \$361,717, respectively, have been designated by the Board of Trustees for the following:

	2012	2011
Truck Replacement	28,920	26,620
Plant Replacement	82,375	72,375
Collection System Improvement	174,122	174,122
Sludge Removal	85,000	75,000
Computer Replacement	7,600	6,600
Sick Time Buy Back	<u>8,000</u>	<u>7,000</u>
	<u>386,017</u>	<u>361,717</u>

Note 6: 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 \$3,380 and \$2,920 at May 31, 2012 and 2011, respectively.



**VEAZIE SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2012 AND 2011**

Note 7: Legal Matters

In October 2011, the District took possession of three properties through foreclosure proceedings. While trying to file a forceable entry and detainer against the previous owners, a complaint was filed against the District in Superior Court. The District is currently going through legal proceedings regarding the complaint. The matter is expected to be decided in the next fiscal year. In the financial statements, the value of the properties has not been recorded and the legal costs related to the foreclosure proceedings totaling \$19,601 have been deferred (See Note 1).

Note 8: Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through July 26, 2012, the date the financial statements were available to be issued.



**VEAZIE SEWER DISTRICT
STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED MAY 31,**

SCHEDULE 1

	<i>Undesignated</i>	<i>Board Designated</i>	<i>Invested in Capital Assets</i>
Balance May 31, 2010	<u>(159,886)</u>	<u>327,417</u>	<u>2,814,825</u>
Change in Nets Assets for the Year Ended May 31, 2011	(110,688)		
Appropriated To Reserves	(34,300)	34,300	
Debt Retired	(87,985)		87,985
Utility Plant Additions	(16,155)		16,155
Depreciation Provision	<u>163,948</u>	<u></u>	<u>(163,948)</u>
Balance May 31, 2011	<u>(245,066)</u>	<u>361,717</u>	<u>2,755,017</u>
Change in Nets Assets for the Year Ended May 31, 2012	(94,424)		
Appropriated To Reserves	(24,300)	24,300	
Debt Retired	(90,114)		90,114
Utility Plant Additions	-		-
Depreciation Provision	<u>161,735</u>	<u></u>	<u>(161,735)</u>
Balance May 31, 2012	<u><u>(292,169)</u></u>	<u><u>386,017</u></u>	<u><u>2,683,396</u></u>

See accompanying independent auditors' report.

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