

**VEAZIE SEWER DISTRICT
FINANCIAL STATEMENTS
MAY 31, 2015
WITH INDEPENDENT AUDITORS' REPORT
AND
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**VEAZIE SEWER DISTRICT
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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Veazie Sewer District
Veazie, Maine

We have audited the accompanying statement of net position, statement of revenues, expenses and changes in fund net position, and statement of cash flows of the Veazie Sewer District as of and for the year ended May 31, 2015, and the related notes to the financial statements, which collectively comprise the Veazie Sewer District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Veazie Sewer District as of May 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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.

Horton, McFarland & Veysey, LLC

Horton, McFarland & Veysey, LLC

Ellsworth, Maine

September 6, 2015



**Veazie Sewer District
Management's Discussion and Analysis
May 31, 2015 and 2014**

Introduction of the Financial Statements

The Veazie Sewer District (the District) furnishes sewerage collection and treatment services in the Town of Veazie. The District's basic financial statements include the:

- Statements of Net Position
- Statements of Revenues, Expenses and Changes in Fund Net Position
- Statements of Cash Flows
- Notes to the Financial Statements

The statement of net position presents the financial position of the District by providing information about the nature and amount of resources and obligations at year-end. The statement of revenues, expenses and changes in fund net position presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. The statement of cash flows presents the amount of cash and cash equivalents generated and used during the fiscal year. The notes to the financial statements present required disclosures and other information that are essential to a full understanding of the material provided in the statements.

Comparison of Financial Statements for Current and Prior Years

Statements of Net Position

	2015	2014
Current Assets	206,052	158,579
Capital Assets, Net	3,253,834	3,409,089
Other Assets	1,998	1,984
Total Assets	<u>3,461,884</u>	<u>3,569,652</u>
Current Liabilities	146,362	154,305
Non-Current Liabilities	652,313	748,570
Total Liabilities	<u>798,675</u>	<u>902,875</u>
Net Position:		
Net Investment in Capital Assets	2,507,248	2,565,687
Unrestricted	155,961	101,090
Total Net Position	<u>2,663,209</u>	<u>2,666,777</u>
Total Liabilities and Net Position	<u>3,461,884</u>	<u>3,569,652</u>

Comparison of Financial Statements for Current and Prior Years (Continued)

Statements of Revenues, Expenses and Changes in Fund Net Position

	2015	2014
Operating Revenues	465,460	483,917
Non-Operating Revenues	36	13
Total Revenues	<u>465,496</u>	<u>483,930</u>
Operating Expenses	451,347	450,974
Non-Operating Expenses	17,717	19,687
Total Expenses	<u>469,064</u>	<u>470,661</u>
Change in Net Position	(3,568)	13,269
Net Position – Beginning of Year	<u>2,666,777</u>	<u>2,653,508</u>
Net Position – End of Year	<u>2,663,209</u>	<u>2,666,777</u>

Overall Financial Position and Results of Operations

To analyze the change in the District's overall financial position and results of operations in the past year, we have focused on two elements: revenue stability and financial ratios.

Revenue Stability:

Sewer rates are set to maintain operations, pay debt service and fund reserve accounts. The District's primary sources of operating revenues are an assessment to the Town of Veazie, user usage fees and debt service and capital fees. Overall, operating revenues decreased \$18,457 or 3.81%. Approximately 21% of total operating revenues are generated from the assessment to the Town of Veazie.

Financial Ratios:

Two of the key financial ratios for analyzing the District's financial position are the current ratio and the coverage ratio. The current ratio measures an entity's ability to meet short-term obligations. The coverage ratio shows an entity's ability to meet debt service payments. During fiscal year 2015, the current ratio increased from 1.03 to 1.41. During fiscal year 2015, the coverage ratio decreased from 1.68 to 1.56.

Current Ratio

	2015	2014
Current Assets	206,052	158,579
Current Liabilities	146,362	154,305
Current Ratio	1.41	1.03

Overall Financial Position and Results of Operations (Continued)

Financial Ratios (Continued):

Coverage Ratio

	2015	2014
Operating Revenues	465,460	483,917
Non-Operating Revenues	36	13
Total Revenues	<u>465,496</u>	<u>483,930</u>
Operating Expenses	451,347	450,974
Depreciation Expenses	<u>(164,639)</u>	<u>(160,029)</u>
	<u>286,708</u>	<u>290,945</u>
Net Available for Debt Service	<u>178,788</u>	<u>192,985</u>
Principal Payments	96,816	94,528
Interest Payments	18,043	20,005
Total Debt Service Payments	<u>114,859</u>	<u>114,533</u>
Coverage Ratio	<u>1.56</u>	<u>1.68</u>

Significant Transactions and Changes

The District continues to move towards significantly improved financial stability from the low point experienced two years ago. The District has begun the process of rebuilding reserve funds that were depleted for operating expenses.

The District also had 100% of its required capital bond payment in dedicated reserves prior to the payment due date. This is the second year in a row the District has been able to make its debt service payment on time.

The District continues to make efforts to reduce the cost of operation of the facility. This past year the District operated with two full time employees and part time help as needed for a total personnel requirement of 2.5 full time employees. Employee benefit coverage was adjusted this year to bring the District's insurance coverage more in line with the private sector. This reduced employee benefit costs from \$78,055 per year in 2012 to \$30,000 per year in the fiscal year 2016 budget.

It is the goal of the District to work toward reducing and eventually eliminating the assessment on local property taxes. The reduction of the property tax assessment continues to happen. The previously undefined tax assessment was at \$150,000 per year and was reduced in fiscal year 2014 to \$110,000. In fiscal year 2015, the assessment was further reduced to \$96,500. The assessment for fiscal year 2016 will be \$74,000.

Budgetary Highlights

The District is not legally required to adopt budgetary accounting and reporting; however, an annual budget is prepared by management and approved by the Board of Trustees. There were no significant variations between original and final budget amounts. Overall, the District operated within 4% of its total budgeted revenue amount for fiscal year 2015. The only significant variation between final budget amounts and actual results for operating expenses in fiscal year 2015 was bad debt expense being under-budget by \$25,000.

Capital Assets and Long-Term Debt

The only major capital asset additions in fiscal year 2015 were collection system equipment totaling \$3,906 and office equipment totaling \$5,478. Long-term debt outstanding at May 31, 2015 is \$746,586. Debt retired in fiscal year 2015 totaled \$96,816. No new debt was issued in fiscal year 2015. There are no unfinished commitments for capital expenditures at May 31, 2015 or any debt limitations that may affect future financing. There were no changes in credit ratings in fiscal year 2015.

Next Year's Operations

In fiscal year 2016, the District will be contracting with Maine Rural Water Association to complete an income survey and the District will be investigating the feasibility of refinancing its existing bond in order to reduce its annual debt service expenses. There are no significant capital projects planned for fiscal year 2016.

Request For Information

Questions about the District's finances and activities may be directed to Dana McLaughlin, Superintendent, 34 Hobson Avenue, Veazie, Maine 04401. Phone: 207-942-1536.

**VEAZIE SEWER DISTRICT
STATEMENTS OF NET POSITION - PROPRIETARY FUNDS
AT MAY 31, 2015**

ASSETS

Current Assets:	
Cash - Unrestricted	50,590
Cash - Board Designated	139,383
Accounts Receivable	14,150
Prepaid Insurance	1,929
Total Current Assets	<u>206,052</u>
Non-Current Assets:	
Property, Plant and Equipment:	
Utility Plant	6,796,357
Less: Accumulated Depreciation	<u>3,542,523</u>
Total Property, Plant and Equipment	3,253,834
Customer Escrow Funds	1,998
Total Non-Current Assets	<u>3,255,832</u>
Total Assets	<u><u>3,461,884</u></u>

LIABILITIES AND NET POSITION

Current Liabilities:	
Accounts Payable	12,797
Accrued Interest	3,092
Accrued Benefits	31,314
Current Portion of Long-Term Debt	99,159
Total Current Liabilities	<u>146,362</u>
Non-Current Liabilities:	
Customer Escrow Liability	1,998
Compensated Absences	2,888
Long-Term Debt	647,427
Total Non-Current Liabilities	<u>652,313</u>
Total Liabilities	<u>798,675</u>
Net Position:	
Net Investment in Capital Assets	2,507,248
Unrestricted	155,961
Total Net Position	<u>2,663,209</u>
Total Liabilities and Net Position	<u><u>3,461,884</u></u>

See independent auditors' report and accompanying notes to the financial statements.



**VEAZIE SEWER DISTRICT
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION -
 PROPRIETARY FUNDS
 YEAR ENDED MAY 31, 2015**

Operating Revenues:	
Town of Veazie Assessment	96,500
User Usage Fees	210,930
Debt Service and Capital Reserve Fees	151,782
User Late Charges and Fees	6,248
Total Operating Revenues	<u>465,460</u>
Operating Expenses:	
Salaries and Wages	104,156
Employee Benefits	27,106
Payroll Taxes	8,465
Utilities	43,186
Supplies	9,667
Maintenance and Repairs	22,296
Lab Expense	7,279
Insurance	14,821
Office Supplies and Expense	9,956
Licenses	2,620
Legal Services	7,216
Accounting Services	5,425
Other Services	20,534
All Other	3,981
Depreciation	164,639
Total Operating Expenses	<u>451,347</u>
Net Operating Income	<u>14,113</u>
Non-Operating Revenues (Expenses):	
Interest Income	36
Interest Expense	(17,717)
Total Non-Operating Revenues (Expenses)	<u>(17,681)</u>
Change in Net Position	(3,568)
Net Position - Beginning of Year	<u>2,666,777</u>
Net Position - End of Year	<u>2,663,209</u>

See independent auditors' report and accompanying notes to the financial statements.



**VEAZIE SEWER DISTRICT
STATEMENTS OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED MAY 31, 2015**

Cash Flows from Operating Activities:	
Receipts from Customers and Users	472,815
Payments to Suppliers	(162,887)
Payments to Employees	(130,585)
Net Cash Flows from Operating Activities	<u>179,343</u>
Cash Flows from Capital and Related Financing Activities:	
Purchase of Capital Assets	(9,384)
Interest Payments on Long-Term Debt	(18,043)
Principal Payments on Long-Term Debt	(96,816)
Net Cash Flows from Capital and Related Financing Activities	<u>(124,243)</u>
Cash Flows from Investing Activities:	
Investment Income	36
Net Cash Flows from Investing Activities:	<u>36</u>
Net Increase (Decrease) in Cash and Cash Equivalents	55,136
Cash and Cash Equivalents at Beginning of Year	<u>134,837</u>
Cash and Cash Equivalents at End of Year	<u>189,973</u>
Components of Cash:	
Unrestricted	50,590
Board Designated	139,383
	<u>189,973</u>
Reconciliation of Operating Income to Net Cash Flows from Operating Activities:	
Operating Income (Loss)	14,113
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:	
Depreciation Expense	164,639
Change in Operating Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	7,355
(Increase) Decrease in Prepaid Insurance	308
(Increase) Decrease in Customer Escrow Funds	(14)
(Decrease) Increase in Accounts Payable	(7,749)
(Decrease) Increase in Accrued Benefits	(2,211)
(Decrease) Increase in Compensated Absences	2,888
(Decrease) Increase in Customer Escrow Liability	14
Net Cash Flows from Operating Activities	<u>179,343</u>

See independent auditors' report and accompanying notes to the financial statements.



Note 1: Summary of Significant Accounting Policies

The Veazie Sewer District's (the District) financial statements include the operations for which the Board of Trustees exercises oversight responsibility. Oversight responsibility is demonstrated by financial interdependency, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

Business Activity

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. The major sources of revenue are user usage fees, user debt service and capital fees and an assessment to the Town of Veazie. There are no component units or fiduciary funds included in the District. Revenue is recognized when earned.

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.

Restricted Resources

The District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net positions are available.

Deposits and Investments

Maine Statutes authorize investments in obligations of the U.S. Treasury and U.S Agencies, repurchase agreements, corporate stocks and bonds within statutory limits, obligations of financial institutions and mutual funds. The District has not formally adopted deposit and investment policies that limit the District's allowable deposits or investments and address the specific types of risk to which the District is exposed beyond Maine Statutes.

Cash, Cash Equivalents and Custodial Credit Risk

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. The District does not have policies for bank balances not covered by depository insurance known as custodial credit risk. All cash is covered by FDIC insurance at May 31, 2015. All cash is considered available for current use at May 31, 2015. Cash totaling \$139,383 has been designated by the Board of Trustees at May 31, 2015 for debt service payments and capital asset replacements.



Note 1: Summary of Significant Accounting Policies (Continued)

Accounts Receivable

Accounts receivable are stated at net realizable value. Uncollectible accounts are written off in the year in which they are deemed to be uncollectible. No allowance for doubtful accounts has been recorded in the financial statements.

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%. Annual rates in use are as follows:

Buildings and Pump Station	2.5% - 3.3%
Collection System	2.0%
Vehicles	10.0% - 20.0%
General Equipment	10.0% - 20.0%

Land costs are not being depreciated because they have indefinite useful lives.

Capitalization Policy

Expenditures that materially increase values, change capacities, or extend useful lives are capitalized. The amounts charged to utility plant accounts represent all reasonable and necessary costs, including labor, materials, overhead, equipment charges and interest costs incurred. Routine maintenance and repairs are expended as incurred. The District does not have a policy setting a minimum capitalization threshold for amount or lives for reporting capital assets.

Measurement Focus, Basis of Accounting and Basis of Presentation

The District follows Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement provides specific guidance as to which FASB and AICPA pronouncement provisions should be applied to state and local governments. 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. 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 1: Summary of Significant Accounting Policies (Continued)

Compensated Absences

The District reports compensated absences in accordance with the provisions of GASB Statement No. 16 *Accounting for Compensated Absences*. A liability for compensated absences attributable to services already rendered and not contingent on a specific event that is outside the control of the employer and employee is accrued as employees earn the rights to the benefits. The District's personnel policy allows employees to carry unused vacation time to a maximum of 30 days or 240 hours. Employees also accrue sick leave at a rate of 1.25 eight hour days per month up to 120 days or 960 hours. The District's old policy allowed accrued sick time to be bought back at the employee's current rate of pay at the time of separation based on the number of years of service. This policy was changed and employees will no longer receive payment for accumulated sick time at separation. One employee was grandfathered under the old policy and is currently eligible to have a portion of accumulated sick leave paid out at the time of separation.

Typically, accrued vacation is shown as a currently liability and the accrued sick time as a non-current liability. In 2013 an employee was separated from the District but was not paid accrued sick time because of a cash shortfall. The District expects to pay this employee in fiscal year 2016 and therefore the employee's sick time is shown as a current liability. The accrued benefit liability, shown as a current liability, at May 31, 2015 was \$31,314. The compensated absences liability, shown as a non-current liability, was \$2,888 at May 31, 2015.

Taxes

As a quasi-municipal entity, the District is not subject to Federal and State income taxes, accordingly it is not necessary to consider the effects of any uncertain tax positions.

The District is subject to federal and state payroll taxes and is required to file the appropriate tax returns. Management believes that all required returns have been properly filed as of May 31, 2015. No examinations have been conducted by the federal or state taxing authorities and no correspondence has been received from these authorities.

Budget

The District is not legally required to present budgetary comparison information as required supplementary information.

Recent Accounting Pronouncements

In June 2012, the GASB issued GASB Statement No. 68, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 27*. This statement improves accounting and financial reporting by state and local governments for pensions. The new statement is effective for periods beginning after June 15, 2014. The District is currently assessing the impact of this statement of its financial statements.



**VEAZIE SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2015**

Note 2: Utility Plant

Capital asset costs, additions and disposals are as follows for the year ended May 31, 2015:

	Beginning Balance	Additions	Disposals	Ending Balance
Land	29,552			29,552
Garage Building	13,729			13,729
Pump Station	4,702,837			4,702,837
Plant Equipment	116,955		3,197	113,758
Collection System Equipment	26,947	3,906		30,853
Collection System	1,768,563			1,768,563
Office Equipment	17,425	5,478	13,873	9,030
Vehicles	36,684			36,684
Lab Equipment	91,351			91,351
Gross Utility Plant	6,804,043	9,384	17,070	6,796,357
Less: Accumulated Depreciation	3,394,954	164,639	17,070	3,542,523
Net Utility Plant	3,409,089	(155,255)	-0-	3,253,834

Note 3: Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The District purchases commercial insurance for the risks of losses to which it is exposed. There have been no significant reductions in the commercial coverage from the prior year. The District is not aware of any material actual or potential claim liabilities which should be recorded at May 31, 2015.

Note 4: Major Customer

The District derived approximately 21% of its operating revenues from the Town of Veazie from an assessment for the year ended May 31, 2015.

Note 5: Board Designated Cash

Cash totaling \$139,383 has been designated by the Board of Trustees at May 31, 2015. Activity for the designated funds is as follows at May 31, 2015:

	Beginning Balance	Increases	Decreases	Ending Balance
Debt Service Payments	88,295	86,655	114,858	60,092
Capital Asset Replacements	29,304	73,335	23,348	79,291
Sick Time Buy Back	3,140	-0-	3,140	-0-
	120,739	159,990	141,346	139,383



Note 6: Net Position

Net position comprises the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following components: net investment in capital assets and unrestricted. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets and adding back unspent bond proceeds. The District's net investment in capital assets was calculated as follows at May 31:

Total Property, Plant and Equipment	3,253,834
Long-Term Debt, Including Current Portion	<u>(746,586)</u>
Net Investment in Capital Assets	<u>2,507,248</u>

Unrestricted consists of all other net position not included in the above category. Included in unrestricted net position are board designated funds for debt service payments and capital asset replacements totaling \$139,383 at May 31, 2015.

Note 7: Long-Term Debt

Long-term bonds and related terms are as follows at May 31, 2015:

	Beginning Balance	Increases	Decreases	Ending Balance
Bond payable to Maine Municipal Bond Bank, maturing in 2021. Interest rate of 2.056%.	843,402	-0-	96,816	746,586
Less: Current Portion	<u>96,816</u>			<u>99,159</u>
Total Long-Term Debt	<u>746,586</u>			<u>647,427</u>

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

	Principal	Interest	Total
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>746,586</u>	<u>67,219</u>	<u>813,805</u>



Note 8: Customer Escrow

In October 2011, the District took possession of three properties through foreclosure proceedings. In fiscal year 2013 the foreclosed properties were turned over to the previous owners when the District received payments for the outstanding debts owed. As part of the transaction, the previous owners were required to pay the District \$1,984 to be held in escrow to be used if the owners do not keep their sewer bill current. The interest income earned on the funds increases the escrow. These funds are shown as a non-current asset titled customer escrow funds and a non-current liability titled customer escrow liability.

Note 9: Retirement Plan

The District will make a 100% matching contribution to the IRA of any regular full-time and regular part-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 as approved by the Board of Trustees. Total expense related to the defined contribution plan was \$2,330 for fiscal year ending May 31, 2015. Employee contributions totaled \$2,330 in fiscal year ending May 31, 2015. The Board of Trustees have authority over plan provisions, requirements and amendments.

Note 10: Commitments

In 2015, the District entered into an agreement with Maine Rural Water Association for services related to a Community Development Block Grant (CDBG) income survey. The agreement states that the fee for these services will not exceed \$2,500.

Note 11: Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through September 6, 2015, the date the financial statements were available to be issued.

