

**VEAZIE SEWER DISTRICT
FINANCIAL STATEMENTS
MAY 31, 2013 AND 2012
WITH INDEPENDENT AUDITORS' REPORT
AND
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**VEAZIE SEWER DISTRICT
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MAY 31, 2013 AND 2012**

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Veazie Sewer District
Veazie, Maine

We have audited the accompanying statements of net position, statements of revenues, expenses and changes in fund net position and statements of cash flows of the Veazie Sewer District as of and for the years ended May 31, 2013 and 2012, which collectively comprise the District's basic financial statements and the related notes to the 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 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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, 2013 and 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

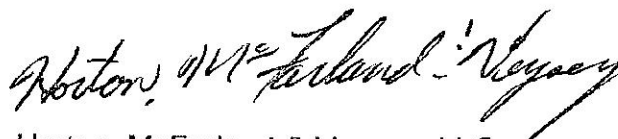
Other-Matters

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.

Other Information

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, LLC
Ellsworth, Maine
August 30, 2013



**Veazie Sewer District
Management's Discussion and Analysis
May 31, 2013 and 2012**

Introduction of the Financial Statements

The Veazie Sewer District's (the District) 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

	2013	2012
Current Assets	94,777	141,113
Capital Assets, Net	3,557,185	3,713,621
Other Assets	1,984	20,315
Total Assets	<u>3,653,946</u>	<u>3,875,049</u>
Current Liabilities	152,360	123,372
Non-Current Liabilities	848,078	974,433
Total Liabilities	<u>1,000,438</u>	<u>1,097,805</u>
Net Position:		
Net Investment in Capital Assets	2,619,254	2,683,396
Unrestricted	34,254	93,848
Total Net Position	<u>2,653,508</u>	<u>2,777,244</u>

Statements of Revenues, Expenses and Changes in Fund Net Position

	2013	2012
Operating Revenues	495,570	474,843
Non-Operating Revenues	109	165
Total Revenues	<u>495,679</u>	<u>475,008</u>
Operating Expenses	593,058	545,943
Non-Operating Expenses	26,357	23,489
Total Expenses	<u>619,415</u>	<u>569,432</u>
Change in Net Position	(123,736)	(94,424)
Net Position – Beginning of Year	<u>2,777,244</u>	<u>2,871,668</u>
Net Position – End of Year	<u>2,653,508</u>	<u>2,777,244</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 and pay debt service. The District's primary sources of operating revenues are an assessment to the Town of Veazie, user usage fees and debt service fees. Overall, operating revenues increased \$20,727 or 4.37%. Approximately 30% 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 2013, the current ratio decreased from 1.14 to 0.62. During 2012, the coverage ratio decreased from 0.80 to 0.53.

Current Ratio

	2013	2012
Current Assets	94,777	141,113
Current Liabilities	152,360	123,372
Current Ratio	0.62	1.14

Coverage Ratio

	2013	2012
Operating Revenues	495,570	474,843
Non-Operating Revenues	109	165
Total Revenues	<u>495,679</u>	<u>475,008</u>
Operating Expenses	593,058	545,943
Depreciation	(160,570)	(161,735)
Expenses	<u>432,488</u>	<u>384,208</u>
Net Available for Debt Service	<u>63,191</u>	<u>90,800</u>
Principal Payments	92,295	90,114
Interest Payments	26,668	23,791
Total Debt Service Payments	<u>118,963</u>	<u>113,905</u>
Coverage Ratio	0.53	0.80

Significant Transactions and Changes

The District has had a very active year. The June election replaced retiring District Chair Esther Bushway by electing Jim Parker of Silver Ridge. The District wants to acknowledge and thank Esther for her service to the District. Trustee Gary Brown resigned from the Board and the Town Council appointed Norman Webb to serve the rest of his term. We want to thank Gary for his service and welcome Norman to the Board.

The Superintendent, Assistant Operator, and Bookkeeper resigned and left the District. The remaining employee, Dana McLaughlin, has assumed the operation of the plant with contract assistance from the engineering and operations firm Woodard & Curran, original designer of the plant. Woodard & Curran has helped oversee the plant operations and served as a licensed operator for the facility. They assisted the District in reclassifying the plant so it could be run by a Grade II operator. Dana has a Grade II license and has worked at the plant for the past 12 years. Woodard & Curran also completed a manpower assessment for the plant and recommends the plant staff consist of an operator, assistant operator, and part time employee or contractor to complete bookkeeping tasks, thus reducing the overall manpower requirement and reducing labor costs.

The District negotiated with the Maine Bond Bank to revise its payment schedule to help overcome a cash shortfall. In February, the District adopted a revised rate structure aimed at restoring the necessary reserve accounts and cash reserves needed for the District to meet its financial obligations. The goal of the revised rates is to restore the financial stability of the District as soon as possible and then reduce the assessment to the Town for operating funds, thereby helping reduce the Town's tax burden.

The District has also approved and presented to the Legislature Charter changes to address the District's expansion outside its original boundaries due to residential growth in Town and changes to make the District's election process so the annual election occurs on the same date as Town elections. This will provide a better and more convenient opportunity for those wishing to vote. The changes were approved by the voters of the District and are also supported by the Veazie Town Council.

During this year the District had its first safety inspection since the plant was built 23 years ago. The inspection by the Maine Department of Labor went well and there are no outstanding issues.

The District joined the Water and Wastewater Agency Response Network which allows the District to offer and accept mutual aid in response to natural and man made interruptions in service.

There have been no unusual operational issues this year and the plant is performing well. As always, there are routine maintenance issues which are addressed as they occur. Some of the solutions to these issues have improved the overall discharge quality. District staff has also been working with Department of Environmental Protection staff to map the flow patterns of the plant with the goal of further improving the plant's operational efficiencies. In order to reduce electrical costs, equipment is being evaluated which may help reduce power consumption during certain operational periods.

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. Significant variations between final budget amounts and actual budget results for operating expenses in 2013 were:

1. Salaries being under-budget \$64,602.
2. Benefits being under-budget \$47,128.
3. Maintenance and repairs being under-budget \$14,713.
4. Legal being over-budget \$66,114.
5. Engineering being over-budget \$83,483.

Capital Assets and Long-Term Debt

There were no major capital asset additions in 2013. Long-term debt outstanding at May 31, 2013 is \$937,931. Debt retired in 2013 totaled \$92,295. No new debt was issued in 2013. There are no unfinished commitments for capital expenditures at May 31, 2013 or any debt limitations that may affect future financing. There were no changes in credit ratings in 2013.

Next Year's Operations

The District and its employees will continue working to improve the discharge quality while reducing the expense of operation. There are no plans for major capital projects in fiscal year 2014.

Other Matters

Deferred Compensation Retirement Agreement

The District had a Deferred Compensation Retirement Agreement dated April 14, 1989 with its former Superintendent. Under the terms of the agreement, the former Superintendent deferred a portion of his compensation and the District matched his deferral up to a maximum contribution of 5% of compensation. The deferred and matching funds were deposited into a trust account to which the District is the trustee. This deferred compensation plan was created in accordance with Internal Revenue Code Section 457 and permitted the former Superintendent to defer a portion of his salary until future years. The deferred compensation was not available to the former Superintendent until termination. As of May 31, 2013, the trust account was invested in cash, deposit and money market funds with Morgan Stanley and had a fair value of \$85,766. The District has no liability for losses under the plan but does have the usual fiduciary responsibilities of a plan sponsor. The assets and liabilities of the plan are not reflected in the financial statements of the District as required by the agreement.

With regard to the trust account, there is no record of the required annual notification by the former Superintendent for the amount he proposed to contribute the ensuing year and thereby defining the annual contribution for the District as required by the contract. There are no records in the District books of funds deposited into the account by the former Superintendent or by the District. Additionally, there was no record on the books of the District reflecting the annual balance in the fund as required by the contract. Because of these things, the District is currently evaluating the status of the trust account to determine the amount to be paid to its former Superintendent.

Reserve Funds

In 2013 the Board of Trustees undesignated all previously designated funds as part of its plan to overcome a cash shortfall. Additionally, the Trustees implemented a new policy to account for use of the District's reserve funds. These actions were undertaken by the Trustees because designated funds totaled \$386,017 at May 31, 2012; however, the District had only \$112,135 of total funds available at May 31, 2012. The designated reserve funds had been used by previous management to supplement the operating expenses of the District. Board of Trustee meeting minutes do not record or show any Board of Trustee votes or approval to use these undesignated reserve funds. Meeting minutes do not show any record of previous management informing the Board of Trustees that these funds were needed to be used, were going to be used or were used. Funds appear to have been used without the knowledge and approval of the Board of Trustees.

Once the District's cash flow position improves, the Trustees will begin to designate surplus funds to the reserve accounts.

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,**

ASSETS	2013	2012
Current Assets:		
Cash	60,147	112,135
Accounts Receivable	32,779	26,656
Prepaid Insurance	1,851	2,322
Total Current Assets	<u>94,777</u>	<u>141,113</u>
Non-Current Assets:		
Property, Plant and Equipment:		
Utility Plant	6,803,809	6,803,802
Less: Accumulated Depreciation	<u>3,246,624</u>	<u>3,090,181</u>
Total Property, Plant and Equipment	3,557,185	3,713,621
Customer Escrow Funds	1,984	-
Other Assets	-	20,315
Total Non-Current Assets	<u>3,559,169</u>	<u>3,733,936</u>
Total Assets	<u><u>3,653,946</u></u>	<u><u>3,875,049</u></u>
LIABILITIES AND NET POSITION		
Current Liabilities:		
Accounts Payable	13,882	11,613
Accrued Interest	3,735	4,045
Accrued Benefits	40,215	15,419
Current Portion of Long-Term Debt	<u>94,528</u>	<u>92,295</u>
Total Current Liabilities	<u>152,360</u>	<u>123,372</u>
Non-Current Liabilities:		
Long-Term Debt	843,403	937,930
Compensated Absences	2,691	36,503
Customer Escrow Liability	<u>1,984</u>	<u>-</u>
Total Non-Current Liabilities	<u>848,078</u>	<u>974,433</u>
Net Position:		
Net Investment in Capital Assets	2,619,254	2,683,396
Unrestricted:		
Undesignated	34,254	(292,169)
Board Designated	-	386,017
Total Net Position	<u>2,653,508</u>	<u>2,777,244</u>
Total Liabilities and Net Position	<u><u>3,653,946</u></u>	<u><u>3,875,049</u></u>

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



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

	2013	2012
Operating Revenues:		
Town of Veazie Assessment	150,000	150,000
User Usage Fees	208,240	229,785
Debt Service Fee	99,670	93,150
Capital Reserve Fee	9,670	-
User Late Charges and Fees	2,990	1,908
Other Income	25,000	-
Total Operating Revenues	<u>495,570</u>	<u>474,843</u>
Operating Expenses:		
Salaries and Wages	120,111	181,594
Trustees Fees	-	1,300
Employee Benefits	28,245	78,055
Payroll Taxes	9,494	14,041
Utilities	44,980	42,789
Supplies	7,627	5,753
Maintenance and Repairs	18,897	21,223
Lab Expense	5,507	2,314
Insurance	12,280	11,098
Office Supplies and Expense	4,453	3,393
Licenses	3,022	2,335
Legal Services	76,114	14,586
Accounting Services	12,279	2,625
Engineering Services	85,483	220
All Other	3,996	2,882
Depreciation	160,570	161,735
Total Operating Expenses	<u>593,058</u>	<u>545,943</u>
Net Operating Income	<u>(97,488)</u>	<u>(71,100)</u>
Non-Operating Revenues (Expenses):		
Interest Income	109	165
Interest Expense	<u>(26,357)</u>	<u>(23,489)</u>
Total Non-Operating Revenues (Expenses)	<u>(26,248)</u>	<u>(23,324)</u>
Change in Net Position	(123,736)	(94,424)
Net Position - Beginning of Year	<u>2,777,244</u>	<u>2,871,668</u>
Net Position - End of Year	<u>2,653,508</u>	<u>2,777,244</u>

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



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

	2013	2012
Cash Flows from Operating Activities:		
Receipts from Customers and Users	489,447	469,918
Payments to Suppliers	(261,077)	(143,314)
Payments to Employees	(157,370)	(252,333)
Net Cash Flows from Operating Activities	<u>71,000</u>	<u>74,271</u>
Cash Flows from Capital and Related Financing Activities:		
Purchase of Capital Assets	(4,134)	-
Interest Payments on Long-Term Debt	(26,668)	(23,791)
Principal Payments on Long-Term Debt	(92,295)	(90,114)
Net Cash Flows from Capital and Related Financing Activities	<u>(123,097)</u>	<u>(113,905)</u>
Cash Flows from Investing Activities:		
Investment Income	<u>109</u>	<u>165</u>
Net Cash Flows from Investing Activities:	<u>109</u>	<u>165</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(51,988)	(39,469)
Cash and Cash Equivalents at Beginning of Year	<u>112,135</u>	<u>151,604</u>
Cash and Cash Equivalents at End of Year	<u><u>60,147</u></u>	<u><u>112,135</u></u>
Reconciliation of Operating Income to Net Cash Flows from Operating Activities:		
Operating Income (Loss)	(97,488)	(71,100)
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:		
Depreciation Expense	160,570	161,735
Change in Operating Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(6,123)	(4,925)
(Increase) Decrease in Prepaid Insurance	471	(119)
(Increase) Decrease in Customer Escrow Funds	(1,984)	-
(Increase) Decrease in Other Assets	20,315	(18,888)
(Decrease) Increase in Accounts Payable	2,269	(1,048)
(Decrease) Increase in Accrued Benefits	24,798	739
(Decrease) Increase in Compensated Absences	(33,812)	7,877
(Decrease) Increase in Customer Escrow Liability	<u>1,984</u>	<u>-</u>
Net Cash Flows from Operating Activities	<u><u>71,000</u></u>	<u><u>74,271</u></u>

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



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 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 billed to customers.

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, 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, 2013 and 2012. All cash is considered available for current use at May 31, 2013 and 2012.

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.

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.

Note 1: Summary of Significant Accounting Policies (Continued)

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%. 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 expensed as incurred. The District does not have a policy setting a minimum capitalization threshold for amount or lives for reporting capital assets.

Other Assets

Deferred rate case costs totaling \$2,140 are being amortized on the straight-line method over a three year period ending in 2013. The amount amortized in the fiscal years ending May 31, 2013 and 2012 was \$714 and \$713, respectively. Legal fees related to a foreclosure totaling \$19,601 were being deferred until a settlement is reached or the properties are sold (See Note 9). In 2013, a settlement was reached and the costs were expensed. These amounts, net of amortization, were as follows at May 31:

	2013	2012
Rate Case	-0-	714
Legal Fees	-0-	19,601
	<u>-0-</u>	<u>20,315</u>

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.

Note 1: Summary of Significant Accounting Policies (Continued)

Compensated Absences

The District reports compensated absences in accordance with the provisions of Governmental Accounting Standards Board (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 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%

Typically, accrued vacation is shown as a currently liability and the accrued sick time as a non-current liability. In 2013, three employees separated from the District but were not paid accrued sick time because of a cash shortfall. The District expects to pay these employees in fiscal year 2014 and therefore their sick time is shown as a currently liability. The accrued benefit liability, shown as a current liability, at May 31, 2013 and 2012 was \$40,215 and \$15,419, respectively. The compensated absences liability, shown as a non-current liability, was \$2,691 and \$36,503, respectively, at May 31, 2013 and 2012.

Measurement Focus, Basis of Accounting and Basis of Presentation

The District follows 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.

**VEAZIE SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2013 AND 2012**

Note 1: Summary of Significant Accounting Policies (Continued)

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, 2013. 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 required to present budgetary comparison information as required supplementary information.

Note 2: 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, 2013 and 2012.

Note 3: Utility Plant

Capital asset costs, additions and disposals are as follows for the year ended May 31, 2012:

	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	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, 2013 AND 2012

Note 3: Utility Plant (Continued)

Capital asset costs, additions and disposals are as follows for the year ended May 31, 2013:

	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	113,582		1,360	112,222
Collection System Equipment	25,163	1,784		26,947
Collection System	1,768,563			1,768,563
Office Equipment	19,275	2,350	2,767	18,858
Vehicles	36,684			36,684
Lab Equipment	94,417			94,417
Gross Utility Plant	6,803,802	4,134	4,127	6,803,809
Less: Accumulated Depreciation	3,090,181	160,570	4,127	3,246,624
Net Utility Plant	3,713,621	(156,436)	-0-	3,557,185

Note 4: Long-Term Debt

Long-term bonds and related terms are as follows at May 31, 2012:

	Beginning Balance	Increases	Decreases	Ending Balance
Bond payable to Maine Municipal Bond Bank, maturing in 2021. Interest rate of 2.056%.	1,120,339	-0-	90,114	1,030,225
Less: Current Portion	90,114			92,295
Total Long-Term Debt	1,030,225			937,930

Long-term bonds and related terms are as follows at May 31, 2013:

	Beginning Balance	Increases	Decreases	Ending Balance
Bond payable to Maine Municipal Bond Bank, maturing in 2021. Interest rate of 2.056%.	1,030,225	-0-	92,294	937,931
Less: Current Portion	92,295			94,528
Total Long-Term Debt	937,930			843,403



**VEAZIE SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2013 AND 2012**

Note 4: Long-Term Debt (Continued)

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

	Principal	Interest	Total
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	109,112	7,495	116,607
2021	111,752	5,230	116,982
2022	114,456	2,912	117,368
	<u>937,931</u>	<u>105,266</u>	<u>1,043,197</u>

Note 5: Major Customer

The District derived approximately 30% and 32% of its operating revenues from the Town of Veazie from an assessment for the years ended May 31, 2013 and 2012, respectively.

Note 6: Long-Term Liabilities

Long-term liabilities are as follows at May 31:

	2012 Balance	Increases	Decreases	2013 Balance
Long-Term Debt	937,930	-0-	94,527	843,403
Compensated Absences	36,503	-0-	33,812	2,691
Customer Escrow Liabilities	-0-	1,984	-0-	1,984

Note 7: 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.



**VEAZIE SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2013 AND 2012**

Note 7: Net Position (Continued)

The District's net investment in capital assets was calculated as follows at May 31:

	2013	2012
Total Property, Plant and Equipment	3,557,185	3,713,621
Long-Term Debt, Including Current Portion	<u>(937,931)</u>	<u>(1,030,225)</u>
Net Investment in Capital Assets	<u>2,619,254</u>	<u>2,683,396</u>

Unrestricted consists of all other net position not included in the above category. Unrestricted net position totaling \$0 and \$386,017, respectively, has been designated by the Board of Trustees for the following at May 31:

	2013	2012
Truck Replacement	-0-	28,920
Plant Replacement	-0-	82,375
Collection System Improvement	-0-	174,122
Sludge Removal	-0-	85,000
Computer Replacement	-0-	7,600
Sick Time Buy Back	-0-	8,000
	<u>-0-</u>	<u>386,017</u>

In 2013 the Board of Trustees undesignated all previously designated funds as part of its plan to overcome a cash shortfall.

Note 8: Commitments

In 2013 the District entered into an agreement with Woodard & Curran to provide operations and maintenance support on an as-needed basis. The amount paid to Woodard and Curran in fiscal year 2013 was \$80,512.

Note 9: 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 worked through legal proceedings regarding the complaint and the matter was settled in fiscal year 2013. The foreclosed properties were turned over to the previous owners and the District received payments for outstanding debts owed totaling \$3,016 and reimbursement of attorney fees totaling \$25,000. As part of the settlement, 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. These funds are shown as a non-current asset titled customer escrow funds and a non-current liability titled customer escrow liability.

Note 10: Retirement Plan

The District will make a 100% matching contributions 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. Total expense related to the defined contribution plan was \$1,985 and \$3,380 at May 31, 2013 and 2012, respectively. Employee contributions totaled \$3,620 and \$2,545, respectively, during 2013 and 2012.

The District had a Deferred Compensation Retirement Agreement dated April 14, 1989 with its former Superintendent. Under the terms of the agreement, the former Superintendent deferred a portion of his compensation and the District matched his deferral up to a maximum contribution of 5% of compensation. The deferred and matching funds were deposited into a trust account to which the District is the trustee. This deferred compensation plan was created in accordance with Internal Revenue Code Section 457 and permitted the former Superintendent to defer a portion of his salary until future years. The deferred compensation was not available to the former Superintendent until termination. As of May 31, 2013, the trust account was invested in cash, deposit and money market funds with Morgan Stanley and had a fair value of \$85,766. The District has no liability for losses under the plan but does have the usual fiduciary responsibilities of a plan sponsor. The assets and liabilities of the plan are not reflected in the financial statements of the District. The District is currently evaluating the status of the trust account to determine the amount to be paid to its former Superintendent.

Note 11: Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through August 30, 2013, the date the financial statements were available to be issued.



**VEAZIE SEWER DISTRICT
SCHEDULE OF CHANGES IN NET POSITION
YEARS ENDED MAY 31,**

SCHEDULE 1

	<i>Undesignated</i>	<i>Board Designated</i>	<i>Net Investment In Capital Assets</i>
Balance May 31, 2011	<u>(245,066)</u>	<u>361,717</u>	<u>2,755,017</u>
Change in Nets Position 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>(292,169)</u>	<u>386,017</u>	<u>2,683,396</u>
Change in Nets Position for the Year Ended May 31, 2013	(123,736)		
Appropriated To Reserves	(3,000)	3,000	
Undesignated From Reserves	389,017	(389,017)	
Debt Retired	(92,294)		92,294
Utility Plant Additions	(4,134)		4,134
Depreciation Provision	<u>160,570</u>	<u></u>	<u>(160,570)</u>
Balance May 31, 2013	<u><u>34,254</u></u>	<u><u>-</u></u>	<u><u>2,619,254</u></u>

See accompanying independent auditors' report.

