

**SCHOOL ADMINISTRATIVE
UNIT NO. 41**

**FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES**

JUNE 30, 2005

SCHOOL ADMINISTRATIVE UNIT NO. 41

FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES

JUNE 30, 2005

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INDEPENDENT AUDITOR'S REPORT

To the Members of the School Board
School Administrative Unit No. 41
Hollis, New Hampshire

We have audited the accompanying financial statements of the School Administrative Unit No. 41, as of and for the year ended June 30, 2005, as shown on pages 2 through 4. These financial statements are the responsibility of the School Administrative Unit's management. 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 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 audit provides a reasonable basis for our opinion.

Management has chosen not to implement Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Therefore, these financial statements are presented following the principles that were in effect prior to GASB Statement No. 34. Management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities and business-type activities. Also, the financial statements do not contain any information on capital assets because the government has not maintained historical cost records of such assets. Management has not presented a management's discussion and analysis as required. The amounts that should be reported in the missing statements and required supplementary information; and the effects of reclassifying and properly reporting the information presented are not reasonably determined.

In our opinion, because of the effects of the matters discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the School Administrative Unit No. 41 as of June 30, 2005, or the changes in its financial position, for the year then ended.

Our audit was made for the purpose of forming opinions on the financial statements of the School Administrative Unit No. 41 taken as a whole. The individual fund statements are presented for purposes of additional analysis and are not a required part of the financial statements of the School Administrative Unit No. 41. For reasons stated in the third paragraph of this report, we expressed an opinion that the financial statements of the School Administrative Unit No. 41 do not fairly present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America. Therefore, we do not express an opinion on the accompanying individual fund statements.

August 2, 2005

*Plodzik & Sanderson
Professional Association*

FINANCIAL STATEMENTS

EXHIBIT A
SCHOOL ADMINISTRATIVE UNIT NO. 41
Balance Sheet - General Fund
June 30, 2005

ASSETS

Cash and cash equivalents \$ 36,148

LIABILITIES AND EQUITY

Liabilities:

 Accounts payable \$ 2,838

Equity:

 Fund balance:

 Reserved for encumbrances 18,722

 Unreserved:

 Undesignated 14,588

 Total equity 33,310

 Total liabilities and equity \$ 36,148

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

EXHIBIT B
SCHOOL ADMINISTRATIVE UNIT NO. 41
Statement of Revenues, Expenditures and Changes in Fund Balance - General Fund
For the Fiscal Year Ended June 30, 2005

Revenues:		
School districts' assessments		\$ 935,965
Other local		<u>25,547</u>
Total revenues		<u>961,512</u>
Expenditures:		
Current:		
Instruction		117,572
Support services:		
Instructional staff		84,443
Executive administration		300,214
Business		199,981
Operation and maintenance of plant		20,555
Other		195,537
Non-instructional services		<u>71,711</u>
Total expenditures		<u>990,013</u>
Net change in fund balance		(28,501)
Fund balance, beginning		<u>61,811</u>
Fund balance, ending		<u>\$ 33,310</u>

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

EXHIBIT C
SCHOOL ADMINISTRATIVE UNIT NO. 41
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis) - General Fund
For the Fiscal Year Ended June 30, 2005

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues			
School districts' assessments	\$ 935,965	\$ 935,965	\$
Other local	<u>25,300</u>	<u>25,547</u>	<u>247</u>
Total revenues	<u>961,265</u>	<u>961,512</u>	<u>247</u>
Expenditures:			
Current:			
Instruction	121,154	117,572	3,582
Support services			
Instructional staff	87,386	84,443	2,943
Executive administration	252,285	262,714	(10,429)
Business	202,948	199,981	2,967
Operation and maintenance of plant	24,683	23,829	854
Other	198,387	195,537	2,850
Non-instructional services	<u>74,422</u>	<u>71,711</u>	<u>2,711</u>
Total expenditures	<u>961,265</u>	<u>955,787</u>	<u>5,478</u>
Net change in fund balance	<u>\$ -0-</u>	5,725	<u>\$ 5,725</u>
Unreserved fund balance, beginning		<u>8,863</u>	
Unreserved fund balance, ending		<u>\$ 14,588</u>	

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

SCHOOL ADMINISTRATIVE UNIT NO. 41

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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SCHOOL ADMINISTRATIVE UNIT NO. 41

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The more significant of the government's accounting policies are described below.

1-A Reporting Entity

The School Administrative Unit No. 41 is incorporated in accordance with RSA 186:11-1, and is maintained to provide centralized administrative services for the Brookline, Hollis, and Hollis-Brookline Cooperative School Districts.

The School Administrative Unit is governed by an elected board. The reporting entity is comprised of the primary government and any other organizations that are included to ensure that the financial statements are not misleading.

Component units are legally separate organizations for which the School Administrative Unit is financially accountable. The School Administrative Unit is financially accountable for an organization if the School Administrative Unit appoints a voting majority of the organization's governing board, and (1) the School Administrative Unit is able to significantly influence the programs or services performed or provided by the organization; or (2) the School Administrative Unit is legally entitled to or can otherwise access the organization's resources; the School Administrative Unit is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School Administrative Unit is obligated for the debt of the organization. Based on the foregoing criteria, no other organizations are included in the School Administrative Unit's financial reporting entity.

1-B Basis of Presentation

The accounts of the School Administrative Unit are organized in a fund. The operations of the fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, as appropriate. The following fund type is used by the School Administrative Unit:

Governmental Fund Type

General Fund - The general fund is the general operating fund of the school administrative unit. All general assessment revenues and other receipts are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges, and the capital improvement costs.

1-C Measurement Focus/Basis of Accounting

Governmental funds use the modified accrual basis of accounting. Under this method, revenues are recognized in the accounting period in which they become both available and measurable (flow of current financial resources measurement focus). Most miscellaneous revenues are recorded when received in cash. General assessments, intergovernmental revenues, charges for services, and investment earnings are recorded when earned (when they are measurable and available). Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except expenditures for prepayments, debt service and other long-term obligations, which are recognized when due.

1-D Assets, Liabilities and Fund Equity

1-D-1 Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the School Administrative Unit.

New Hampshire statutes require that the School Administrative Unit treasurer have custody of all moneys belonging to the School Administrative Unit and pay out the same only upon orders of the School Administrative Unit board. The treasurer shall deposit all moneys in participation units in the public deposit investment pool established pursuant to N.H. RSA 383:22 or in solvent banks in the state. Funds may be deposited in banks outside the state if such banks pledge or deliver to a third party custodial bank or the Federal Reserve Bank, collateral security for such deposits, United States government or government agency obligations, or obligations of the State of New Hampshire in value at least equal to the amount of the deposit in each case.

1-D-2 Compensated Absences

Employees are entitled to certain compensated absences based on their length of employment. Compensated absences accumulate and are recorded as expenditures when they are paid.

SCHOOL ADMINISTRATIVE UNIT NO. 41

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

1-D-3 Accrued Liabilities and Long-Term Obligations

All payables and accrued liabilities are reported in the financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of these funds. However, claims and judgements, and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are "due for payment" during the current year.

1-D-4 Fund Equity

Generally, fund balance represents the difference between the current assets and current liabilities. The School Administrative Unit reserves those portions of fund balance that are legally segregated for a specific future use or that do not represent available, spendable resources, and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund balance that is available for appropriation in future periods.

The following reserve is used by the School Administrative Unit:

Reserve for Encumbrances - is used to account for open purchase orders, contracts and other commitments at year-end for which goods and services have not been received.

1-D-5 Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

1-D-6 Memorandum Only - Total Columns

Total columns on the financial statements are captioned as "memorandum only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations or cash flows in accordance with U.S. generally accepted accounting principles.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

2-A Budgetary Information

General governmental revenues and expenditures accounted for in budgetary funds are controlled by a formal integrated budgetary accounting system in accordance with various legal requirements which govern the School Administrative Unit's operations. The School Administrative Unit adopts an annual budget in accordance with local ordinances for the general fund. Except as reconciled below, the budget was adopted on a basis consistent with U.S. generally accepted accounting principles.

Encumbrance accounting, under which purchase orders, contracts, and continuing appropriations (certain projects and specific items not fully expended at year-end) are recognized, is employed in the governmental funds. Encumbrances are not the equivalent of expenditures and are therefore reported as part of the fund balance at June 30, and are carried forward to supplement appropriations of the subsequent year.

State statutes require balanced budgets, but provide for the use of beginning, unreserved fund balance to achieve that end. In fiscal year 2005, none of the beginning balance was used for this purpose.

2-B Budgetary Basis Reconciliation

Amounts recorded as budgetary expenditures in the Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund (Exhibit C) are presented on the basis budgeted by the School Administrative Unit. The amounts differ from those reported in the Statement of Revenues, Expenditures and Changes in Fund Balance - General Fund (Exhibit B) as shown on the following page:

SCHOOL ADMINISTRATIVE UNIT NO. 41

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

Expenditures and other financing uses	
Per Exhibit C (budgetary basis)	\$ 955,787
Adjustment:	
Basis difference:	
Encumbrances, beginning	52,948
Encumbrances, ending	<u>(18,722)</u>
Per Exhibit B	<u>\$ 990,013</u>

2-C New Reporting Standard

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. This statement establishes new financial reporting requirements for all state and local governments. When implemented, it requires new information and restructures much of the information that governments have presented in the past. Comparability with reports issued in all prior years will be affected. The School Administrative Unit was required to implement this standard for the year ended June 30, 2004, but has not done so.

NOTE 3 - CASH AND CASH EQUIVALENTS

All bank deposits as of June 30, 2005, were insured by the Federal Deposit Insurance Corporation (FDIC).

NOTE 4 - OTHER MATTERS

4-A Pensions

Plan Description and Provisions

The School Administrative Unit participates in the New Hampshire Retirement System (The System) which is the administrator of a cost-sharing multiple-employer contributory pension plan and trust established in 1967 by RSA 100-A:2 and is qualified as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. The plan is a contributory, defined benefit plan providing service, disability, death and vested retirement benefits to members and their beneficiaries. Provisions for benefits and contributions are established and can be amended by the New Hampshire State Legislature. The System issues a publicly available financial report that may be obtained by writing the New Hampshire Retirement System, 4 Chenell Drive, Concord, NH 03301.

Description of Funding Policy

The System is financed by contributions from both the employees and the School Administrative Unit. Member contribution rates are established and may be amended by the State legislature while employer contribution rates are set by the System trustees based on an actuarial valuation. All employees are required to contribute 5% of earnable compensation. For the fiscal year 2005, the School Administrative Unit contributed 5.90% for employees. The contribution requirements for the School Administrative Unit for the fiscal years 2003, 2004, and 2005 were \$19,112, \$32,809, and \$37,784, respectively, which were paid in full in each year.

4-B Risk Management

The School Administrative Unit is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. During fiscal year 2005, the school administrative unit was a member of The New Hampshire Public Risk Management Exchange (Primex) Workers' Compensation and Property/Liability Programs, which are pooled risk management programs under RSAs 5-B and 281-A. The workers' compensation and employer's liability policy provides statutory coverage for workers' compensation and up to \$2,000,000 of employer's liability coverage. Primex retained \$500,000 of each workers' compensation and liability loss, and \$200,000 of each property loss. The combined liability package includes coverage for property, auto, liability, errors and omissions, crime, and boiler and machinery. The membership and coverage run from July 1 through June 30. The estimated net contribution from the School Administrative Unit No. 41 billed and paid for the year ended June 30, 2005 was \$1,927 for workers' compensation. Property/liability coverage was provided through the agreements with the member districts. The member participation agreements permit Primex to make additional assessments to members, should there be a deficiency in contributions for any member year, not to exceed the member's annual contribution. At this time, Primex foresees no likelihood of any additional assessment for this or any prior year.

SUPPLEMENTAL SCHEDULES

SCHEDULE A-1
SCHOOL ADMINISTRATIVE UNIT NO. 41
General Fund
Statement of Estimated and Actual Revenues (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2005

	<u>Estimated</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
School districts' assessments:			
Current appropriation	<u>\$ 935,965</u>	<u>\$ 935,965</u>	<u>\$</u>
Other local sources:			
Earnings on investments		297	297
Miscellaneous	<u>25,300</u>	<u>25,250</u>	<u>(50)</u>
Total from other local sources	<u>25,300</u>	<u>25,547</u>	<u>247</u>
Total revenues	<u>\$ 961,265</u>	<u>\$ 961,512</u>	<u>\$ 247</u>

See Independent Auditor's Report, page 1.

SCHEDULE A-2
SCHOOL ADMINISTRATIVE UNIT NO. 41
General Fund
Statement of Appropriations, Expenditures and Encumbrances (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2005

	Encumbered From <u>2003-2004</u>	Appropriations <u>2004-2005</u>	Expenditures Net of <u>Refunds</u>	Encumbered To <u>2005-2006</u>	Variance Positive (Negative)
Current:					
Instruction:					
Special programs	\$ _____	\$ 121,154	117,572	_____	3,582
Support services:					
Instructional staff		87,386	84,443		2,943
Executive administration:					
SAU management services	37,500	252,285	300,214		(10,429)
Business	9,000	202,948	199,981	9,000	2,967
Operation and maintenance of plant	6,448	24,683	20,555	9,722	854
Other		<u>198,387</u>	<u>195,537</u>		<u>2,850</u>
Total support services	<u>52,948</u>	<u>765,689</u>	<u>800,730</u>	<u>18,722</u>	<u>(815)</u>
Non-instructional services		<u>74,422</u>	<u>71,711</u>		<u>2,711</u>
Total appropriations, expenditures and encumbrances	<u>\$ 52,948</u>	<u>\$ 961,265</u>	<u>\$ 990,013</u>	<u>\$ 18,722</u>	<u>\$ 5,478</u>

See Independent Auditor's Report, page 1.

SCHEDULE A-3
SCHOOL ADMINISTRATIVE UNIT NO. 41
General Fund
Statement of Changes in Unreserved - Undesignated Fund Balance (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2005

Unreserved, undesignated fund balance, beginning		\$ 8,863
Change:		
2004-2005 Budget summary		
Revenue surplus (Schedule A-1)	\$ 247	
Unexpended balance of appropriations (Schedule A-2)	<u>5,478</u>	
2004-2005 budget surplus		<u>5,725</u>
Unreserved, undesignated fund balance, ending		<u>\$ 14,588</u>



PLODZIK & SANDERSON

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INDEPENDENT AUDITOR'S COMMUNICATION OF REPORTABLE CONDITIONS AND OTHER MATTERS

To the Members of the School Administrative Unit Board
School Administrative Unit No. 41
Hollis, New Hampshire

In planning and performing our audit of the School Administrative Unit No. 41 for the year ended June 30, 2005, we considered the School Administrative Unit's internal control structure in order to determine the scope of our auditing procedures for the purpose of expressing our opinions on the financial statements. Our review of these systems was not intended to provide assurance on the internal control structure and should not be relied on for that purpose.

Under the standards established by the American Institute of Certified Public Accountants, reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the school administrative unit's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities caused by error or fraud, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might constitute reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above.

We noted no material weaknesses, but we do feel it necessary to discuss the following:

New Reporting Standard

During June of 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. This statement drastically changes the way in which financial statements are prepared and requires additional information to be reported in order for the financial statements to be in compliance with accounting principles generally accepted in the United States of America. Statement No. 34 took effect for the School Administrative Unit No. 41 for the fiscal year ended June 30, 2004.

The School Administrative Unit has not implemented GASB Statement No. 34, but has presented the financial statements following the format that was in effect prior to GASB Statement No. 34. While we have conducted our audit following generally accepted auditing standards as we have in past years, we have again issued an adverse opinion because the financial statements are not presented following the model established by Statement No. 34. As described more fully in our audit opinion, the financial statements are missing several required statements and supplementary information, and the format presented does not follow Statement No. 34. The opinion does not mean to imply that the figures presented are incorrect, but that they are not presented in accordance with generally accepted accounting principles.

This report is intended solely for the information and use of management, the school administrative unit board, and others within the administration. This restriction is not intended to limit distribution of this report, which is a matter of public record.

August 2, 2005

*Plodzik & Sanderson
Professional Association*