

**SCHOOL ADMINISTRATIVE
UNIT NO. 41**

**FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES**

JUNE 30, 2004

SCHOOL ADMINISTRATIVE UNIT NO. 41

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INDEPENDENT AUDITOR'S REPORT

To the Members of the School Administrative Unit 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, 2004 as shown on pages 2 through 4. These financial statements are the responsibility of the School Administrative Unit No. 41'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 opinions.

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. The financial statements presented do not contain separate statements for governmental, proprietary, and fiduciary fund types, if applicable, nor are major and non-major funds, separately identified and classified. 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 would 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, 2004, or the changes in its financial position or its cash flows, where applicable, for the year then ended.

*Plodzik & Sanderson
Professional Association*

August 6, 2004

FINANCIAL STATEMENTS

EXHIBIT A
SCHOOL ADMINISTRATIVE UNIT NO. 41
Combined Balance Sheet
All Governmental Fund Types
June 30, 2004

<u>ASSETS</u>	<u>General</u>	<u>Special Revenue</u>	<u>Total (Memorandum Only)</u>
Cash and Cash Equivalents	\$ 60,506	\$	\$ 60,506
Intergovernmental Receivable	14,073	896	14,969
Interfund Receivable	29		29
Prepaid Items	<u>390</u>	<u> </u>	<u>390</u>
TOTAL ASSETS	<u>\$ 74,998</u>	<u>\$ 896</u>	<u>\$ 75,894</u>
<u>LIABILITIES AND EQUITY</u>			
<u>Liabilities</u>			
Accounts Payable	\$ 7,599	\$	\$ 7,599
Accrued Payroll and Benefits	5,588		5,588
Intergovernmental Payable		867	867
Interfund Payable		<u>29</u>	<u>29</u>
Total Liabilities	<u>13,187</u>	<u>896</u>	<u>14,083</u>
<u>Equity</u>			
<u>Fund Balances</u>			
Reserved For Encumbrances	52,948		52,948
<u>Unreserved</u>			
Undesignated	<u>8,863</u>		<u>8,863</u>
Total Equity	<u>61,811</u>	<u> </u>	<u>61,811</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 74,998</u>	<u>\$ 896</u>	<u>\$ 75,894</u>

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

EXHIBIT B
SCHOOL ADMINISTRATIVE UNIT NO. 41
Combined Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Fund Types
For the Fiscal Year Ended June 30, 2004

	<u>General</u>	<u>Special Revenue</u>	<u>Total (Memorandum Only)</u>
<u>Revenues</u>			
School District Assessment	\$ 867,233	\$	\$ 867,233
Other Local	26,467		26,467
State		11,666	11,666
Federal		<u>5,633</u>	<u>5,633</u>
<u>Total Revenues</u>	<u>893,700</u>	<u>17,299</u>	<u>910,999</u>
<u>Expenditures</u>			
<u>Current</u>			
Instruction	108,840	17,299	126,139
<u>Support Services</u>			
Instructional Staff	81,709		81,709
Executive Administration	228,317		228,317
Business	189,344		189,344
Operation and Maintenance of Plant	21,026		21,026
Other	178,102		178,102
Non-Instructional Services	<u>71,611</u>		<u>71,611</u>
<u>Total Expenditures</u>	<u>878,949</u>	<u>17,299</u>	<u>896,248</u>
<u>Excess of Revenues Over Expenditures</u>	14,751		14,751
<u>Fund Balances - July 1</u>	<u>47,060</u>		<u>47,060</u>
<u>Fund Balances - June 30</u>	<u>\$ 61,811</u>	<u>\$ -0-</u>	<u>\$ 61,811</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 (Budgetary Basis)
General Fund
For the Fiscal Year Ended June 30, 2004

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<u>Revenues</u>			
School District Assessment	\$ 867,233	\$ 867,233	\$
Other Local	<u>25,300</u>	<u>26,467</u>	<u>1,167</u>
<u>Total Revenues</u>	<u>892,533</u>	<u>893,700</u>	<u>1,167</u>
 <u>Expenditures</u>			
<u>Current</u>			
Instruction	104,515	108,840	(4,325)
<u>Support Services</u>			
Instructional Staff	78,675	81,709	(3,034)
Executive Administration	216,838	229,191	(12,353)
Business	192,477	198,344	(5,867)
Operation and Maintenance of Plant	24,353	24,274	79
Other	208,695	178,102	30,593
Non-Instructional Services	<u>66,980</u>	<u>71,611</u>	<u>(4,631)</u>
<u>Total Expenditures</u>	<u>892,533</u>	<u>892,071</u>	<u>462</u>
 <u>Excess of Revenues Over Expenditures</u>	 <u>\$ -0-</u>	 1,629	 <u>\$ 1,629</u>
 <u>Unreserved Fund Balance - July 1</u>		 <u>7,234</u>	
 <u>Unreserved Fund Balance - June 30</u>		 <u>\$ 8,863</u>	

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

SCHOOL ADMINISTRATIVE UNIT NO. 41

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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SCHOOL ADMINISTRATIVE UNIT NO. 41

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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-I, and is maintained to provide centralized administrative services for the Brookline, Hollis and Hollis-Brookline Cooperative School Districts. The School Administrative Unit No. 41 is governed by an elected board. As required by U.S. generally accepted accounting principles, these financial statements present the School Administrative Unit No. 41 (primary government). Component units are organizations for which the primary government is financially accountable or for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. 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 on the basis of funds and an account group, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, as appropriate. The various funds are grouped by type in the financial statements. The following fund types and account group are used by the School Administrative Unit:

Governmental Fund Types

General Fund - The General Fund is the general operating fund of the School Administrative Unit. All general tax revenues and other receipts that are not allocated by law or contractual agreement to another fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges, and the capital improvement costs that are not paid through other funds.

Special Revenue Fund - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trust or major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

Account Group

Account groups are not "funds." They are concerned only with the measurement of financial position. They are not involved with the measurement of results of operations. The School Administrative Unit uses the following account group:

General Fixed Assets Account Group - General fixed assets have been acquired for general governmental purposes and have been recorded as expenditures in the applicable fund. The School Administrative Unit does not maintain a record of its general fixed assets valued at historical cost and, accordingly, a statement of general fixed assets is not included in this financial report.

SCHOOL ADMINISTRATIVE UNIT NO. 41

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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 taxes, 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 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.

1-D-2 Receivables

Certain grants received from other governments require that eligible expenditures be made in order to earn the grant. Revenue for these grants is recorded for the period in which eligible expenditures are made, resulting in receivables being recorded.

1-D-3 Interfund Balances

The School District maintains the cash of both funds in one pooled cash account. The interfund receivable and payable arise when one fund is overdrawn, effectively borrowing monies from the other fund.

1-D-4 Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

1-D-5 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.

1-D-6 Accrued Liabilities

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

1-D-7 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.

SCHOOL ADMINISTRATIVE UNIT NO. 41

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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-8 Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles, 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-9 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. Interfund eliminations have not been made in the aggregation of this data.

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 state law for the General Fund. Except as reconciled on the following page, budgets are 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.

2-B Budget/GAAP Reconciliation

Amounts recorded as budgetary revenues and expenditures in the Statement of Revenues, Expenditures and Changes in Fund Balances - 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 Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types (Exhibit B) as follows:

	<u>General Fund</u>
<u>Expenditures</u>	
Per Exhibit C (Budgetary Basis)	\$ 892,071
<u>Adjustments</u>	
<u>Basis Difference</u>	
Encumbrances - June 30, 2003	39,826
Encumbrances - June 30, 2004	<u>(52,948)</u>
Per Exhibit B (GAAP Basis)	<u>\$ 878,949</u>

SCHOOL ADMINISTRATIVE UNIT NO. 41
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

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 is required to implement this standard for the year ending June 30, 2004, but has not done so.

NOTE 3 - DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

3-A Cash and Cash Equivalents

All bank deposits as of June 30, 2004, were insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized with securities held by the School Administrative Unit or its agent in the School Administrative Unit's name.

3-B Receivables

Receivables at June 30, 2004 consisted of intergovernmental receivables arising from grants.

Receivables are recorded on the School Administrative Unit's financial statements to the extent that the amounts are determined to be material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and collectibility.

3-C Interfund Balances

Interfund balances at June 30, 2004 consist of an overdraft in the pooled cash.

3-D Intergovernmental Payable

The amount due to other governments at June 30, 2004 (\$867) consists of unexpended funds due back to the Federal government.

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.

SCHOOL ADMINISTRATIVE UNIT NO. 41

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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 2004, the School Administrative Unit contributed 5.90% for employees. The contribution requirements for the School Administrative Unit No. 41 for the fiscal years 2002, 2003, and 2004 were \$18,206, \$19,112, and \$32,809, 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 2004, 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 membership and coverage run from July 1 through June 30. The estimated net contribution from the School Administrative Unit billed and paid for the year ended June 30, 2004 was \$1,565 for workers' compensation. Property/liability coverage was provided through the agreements of 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.

4-C Contingent Liabilities

Grants

Amounts received or receivable from grantor agencies are subject to audit and adjustment by such grantor agencies, principally the Federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time although the School Administrative Unit expects such amounts, if any, to be immaterial.

SUPPLEMENTAL SCHEDULES

SCHEDULE A-1
School Administrative Unit No. 41
General Fund
Statement of Estimated and Actual Revenues
For the Fiscal Year Ended June 30, 2004

<u>REVENUES</u>	<u>Estimated</u>	<u>Actual</u>	<u>Over (Under) Estimate</u>
<u>School District Assessment</u>			
Current Appropriation	\$ 867,233	\$ 867,233	\$ _____
 <u>Other Local Sources</u>			
Earnings on Investments	300	142	(158)
Miscellaneous	<u>25,000</u>	<u>26,325</u>	<u>1,325</u>
Total From Other Local Sources	<u>25,300</u>	<u>26,467</u>	<u>1,167</u>
 <u>Total Revenues</u>	 <u>\$ 892,533</u>	 <u>\$ 893,700</u>	 <u>\$ 1,167</u>

See Independent Auditor's Report, page 1.

SCHEDULE A-2
School Administrative Unit No. 41
General Fund
Statement of Appropriations, Expenditures and Encumbrances
For the Fiscal Year Ended June 30, 2004

	Encumbered From <u>2002-2003</u>	Appropriations <u>2003-2004</u>	Expenditures Net of <u>Refunds</u>	Encumbered To <u>2004-2005</u>	(Over) Under <u>Budget</u>
<u>Current</u>					
<u>Instruction</u>					
Special Programs	\$ _____	\$ 104,515	\$ 108,840	\$ _____	\$ (4,325)
<u>Support Services</u>					
Instructional Staff		78,675	81,709		(3,034)
SAU Management Services	36,626	216,838	228,317	37,500	(12,353)
Business		192,477	189,344	9,000	(5,867)
Operation and Maintenance of Plant	3,200	24,353	21,026	6,448	79
Other		<u>208,695</u>	<u>178,102</u>		<u>30,593</u>
Total Support Services	<u>39,826</u>	<u>721,038</u>	<u>698,498</u>	<u>52,948</u>	<u>9,418</u>
<u>Non-Instructional Services</u>	_____	66,980	71,611	_____	(4,631)
<u>Total Appropriations</u>					
<u>Expenditures and Encumbrances</u>	<u>\$ 39,826</u>	<u>\$ 892,533</u>	<u>\$ 878,949</u>	<u>\$ 52,948</u>	<u>\$ 462</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
For the Fiscal Year Ended June 30, 2004

<u>Unreserved, Undesignated Fund Balance - July 1</u>		\$ 7,234
<u>Addition</u>		
<u>2003-2004 Budget Summary</u>		
Revenue Surplus (Schedule A-1)	\$ 1,167	
Unexpended Balance of Appropriations (Schedule A-2)	<u>462</u>	
2003-2004 Budget Surplus		<u>1,629</u>
<u>Unreserved, Undesignated Fund Balance - June 30</u>		<u>\$ 8,863</u>

See Independent Auditor's Report, page 1.



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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, 2004, 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 general purpose 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, 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.

During the course of our review of internal controls, no material weaknesses in the School Administrative Unit's accounting systems and records were identified.

As a result of our audit, we 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 issued an adverse opinion this year 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.

*School Administrative Unit No. 41
Independent Auditor's Communication of Reportable Conditions and Other Matters*

We recommend that the School Administrative Unit No. 41 take action to implement GASB Statement No. 34 as required by accounting principles generally accepted in the United States of America.

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

August 6, 2004

*Plodzik & Sanderson
Professional Association*