

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2010**

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

JUNE 30, 2010

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NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA

JUNE 30, 2010

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INDEPENDENT AUDITOR'S REPORT

Board of School Directors
Northeastern School District
Manchester, PA 17368

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Northeastern School District, as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Northeastern School District'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Northeastern School District, as of June 30, 2010, and the respective changes in financial position, and, where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2010 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 16 and 47 through 48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the school district's financial statements as a whole. The combining and individual fund schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) Circular A-133, *"Audits of States, Local Governments, and Nonprofit Organizations"*, and is also not a required part of the financial statements. The combining and individual fund schedules, and the schedule of expenditures of federal awards are the responsibility of management and were 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 basic financial statements taken as a whole.

Columbia, Pennsylvania
December 9, 2010

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**STATEMENT OF NET ASSETS
JUNE 30, 2010**

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 5,178,677	\$ 207,691	\$ 5,386,368
Investments	51,021	--	51,021
Taxes Receivable, Net	1,885,278	--	1,885,278
Interfund Balances	(1,501)	1,501	--
Due from Other Governments	1,414,185	38,191	1,452,376
Other Receivables	45,201	1,346	46,547
Inventories	--	42,401	42,401
Other Deposits	5,070	--	5,070
Total Current Assets	8,577,931	291,130	8,869,061
Noncurrent Assets:			
Land and Land Improvements (Net of Accumulated Depreciation)	9,363,842	--	9,363,842
Building and Building Improvements (Net of Accumulated Depreciation)	73,515,600	--	73,515,600
Furniture and Equipment (Net of Accumulated Depreciation)	1,522,055	5,057	1,527,112
Infrastructure (Net of Accumulated Depreciation)	758,760	--	758,760
Textbooks and Library Books (Net of Accumulated Depreciation)	361,921	--	361,921
Vehicles (Net of Accumulated Depreciation)	64,737	--	64,737
Construction Work in Progress	1,695,797	--	1,695,797
Bond Issuance Costs (Net of Accumulated Amortization)	609,681	--	609,681
Total Noncurrent Assets	87,892,393	5,057	87,897,450
TOTAL ASSETS	\$ 96,470,324	\$ 296,187	\$ 96,766,511

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**STATEMENT OF NET ASSETS
JUNE 30, 2010**

	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ 627,197	\$ 1,074	\$ 628,271
Retainages Payable	5,902	--	5,902
Current Portion of Long-Term Debt	3,465,000	--	3,465,000
Current Portion of Compensated Absences	77,439	--	77,439
Accrued Salaries and Benefits	450,417	--	450,417
Payroll Deductions and Withholdings	453,322	--	453,322
Deferred Revenues	41,855	21,016	62,871
Other Current Liabilities	903,104	--	903,104
Total Current Liabilities	6,024,236	22,090	6,046,326
Noncurrent Liabilities:			
Bonds and Notes Payable	79,156,136	--	79,156,136
Bond Discounts (Net of Accumulated Amortization)	197,526	--	197,526
Long-Term Portion of Compensated Absences	1,501,716	--	1,501,716
Deferred Charges, Advanced Refund	(252,118)	--	(252,118)
Other Post-Employment Benefits	219,118	--	219,118
Total Noncurrent Liabilities	80,822,378	--	80,822,378
TOTAL LIABILITIES	86,846,614	22,090	86,868,704
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	7,706,763	5,057	7,711,820
Restricted	6,294	--	6,294
Unrestricted	1,910,653	269,040	2,179,693
TOTAL NET ASSETS	9,623,710	274,097	9,897,807
TOTAL LIABILITIES AND NET ASSETS	\$ 96,470,324	\$ 296,187	\$ 96,766,511

The accompanying notes are an integral part of these financial statements.

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Governmental Activities:							
Regular Instruction	\$ 22,607,698	\$ 80,587	\$ 3,048,596	\$ --	\$ (19,478,515)	\$ --	\$ (19,478,515)
Special Instruction	7,729,112	--	3,231,031	--	(4,498,081)	--	(4,498,081)
Vocational Instruction	2,355,915	--	52,290	--	(2,303,625)	--	(2,303,625)
Other Instructional Programs	366,310	--	44,083	--	(322,227)	--	(322,227)
Higher Education	9,411	--	9,411	--	--	--	--
Pupil Personnel	1,620,381	--	73,390	--	(1,546,991)	--	(1,546,991)
Instructional Staff	2,961,943	--	209,176	--	(2,752,767)	--	(2,752,767)
Administration	2,722,894	--	176,079	--	(2,546,815)	--	(2,546,815)
Pupil Health	527,775	--	90,416	--	(437,359)	--	(437,359)
Business Services	684,187	--	22,731	--	(661,456)	--	(661,456)
Operation of Plant and Maintenance Services	4,012,523	11,824	84,501	--	(3,916,198)	--	(3,916,198)
Student Transportation Services	2,015,890	--	947,864	--	(1,068,026)	--	(1,068,026)
Central Support Services	38	--	--	--	(38)	--	(38)
Other Support Services	26,676	--	--	--	(26,676)	--	(26,676)
Student Activities	641,647	63,604	25,040	--	(553,003)	--	(553,003)
Community Services	174,826	--	7,243	--	(167,583)	--	(167,583)
Interest on Long-Term Debt	<u>3,910,745</u>	--	--	<u>1,992,359</u>	<u>(1,918,386)</u>	--	<u>(1,918,386)</u>
Total Governmental Activities	52,367,971	156,015	8,021,851	1,992,359	(42,197,746)	--	(42,197,746)
Business-Type Activities:							
Child Nutrition Services	<u>1,914,724</u>	<u>907,699</u>	<u>964,620</u>	--	--	<u>(42,405)</u>	<u>(42,405)</u>
Total Primary Government	<u>\$ 54,282,695</u>	<u>\$ 1,063,714</u>	<u>\$ 8,986,471</u>	<u>\$ 1,992,359</u>	<u>(42,197,746)</u>	<u>(42,405)</u>	<u>(42,240,151)</u>
General Revenues:							
Property Taxes, Levied for General Purposes, Net					27,238,546	--	27,238,546
Public Utility Realty and Earned Income Taxes Levied for Specific Purposes, Net					2,815,015	--	2,815,015
Grants, Subsidies, and Contributions Not Restricted					10,755,249	--	10,755,249
Investment Earnings					62,232	512	62,744
Contributions					194,490	--	194,490
Miscellaneous Income					<u>34,640</u>	<u>993</u>	<u>35,633</u>
Total General Revenues					<u>41,100,172</u>	<u>1,505</u>	<u>41,101,677</u>
Transfers					(73,608)	73,608	--
Change in Net Assets					(1,171,182)	32,708	(1,138,474)
Net Assets – July 1, 2009					<u>10,794,892</u>	<u>241,389</u>	<u>11,036,281</u>
Net Assets – June 30, 2010					<u>\$ 9,623,710</u>	<u>\$ 274,097</u>	<u>\$ 9,897,807</u>

The accompanying notes are an integral part of these financial statements.

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010**

	Major Funds			Nonmajor Funds	Total Governmental Funds
	General Fund	Bond Construction Fund	Capital Reserve Fund		
ASSETS					
Cash and Cash Equivalents	\$ 2,257,110	\$ 1,505,943	\$ 1,394,114	\$ 21,510	\$ 5,178,677
Investments	--	--	--	51,021	51,021
Taxes Receivable (Net)	1,885,278	--	--	--	1,885,278
Due from Other Governments	1,414,185	--	--	--	1,414,185
Due from Other Funds	--	16,979	--	--	16,979
Other Receivables	45,201	--	--	--	45,201
Escrow Deposits	--	5,070	--	--	5,070
	\$ 5,601,774	\$ 1,527,992	\$ 1,394,114	\$ 72,531	\$ 8,596,411
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts Payable	\$ 343,156	\$ 283,172	\$ --	\$ 795	\$ 627,123
Retainages Payable	--	5,902	--	--	5,902
Accrued Salaries and Benefits	450,417	--	--	--	450,417
Payroll Deductions and Withholdings	453,322	--	--	--	453,322
Due to Other Funds	18,554	--	--	--	18,554
Deferred Revenues	1,524,137	--	--	--	1,524,137
	2,789,586	289,074	--	795	3,079,455
FUND BALANCES					
Reserve for:					
Capital Purposes	--	1,238,918	1,394,114	--	2,633,032
Athletic Purposes	--	--	--	65,442	65,442
Debt Service	--	--	--	6,294	6,294
Unreserved - Undesignated	2,497,188	--	--	--	2,497,188
Unreserved - Designated	315,000	--	--	--	315,000
	2,812,188	1,238,918	1,394,114	71,736	5,516,956
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,601,774	\$ 1,527,992	\$ 1,394,114	\$ 72,531	\$ 8,596,411

The accompanying notes are an integral part of these financial statements.

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010**

Total Fund Balances – Governmental Funds		\$ 5,516,956
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital Assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$118,695,667 , and the accumulated depreciation is \$31,412,955 .		87,282,712
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period’s expenditures, and therefore are deferred in the funds.		1,482,282
Bond issuance costs, amounts of bond discounts and deferred charges from advance refundings are reported in the governmental funds when debt is issued. The Statement of Net Assets reports these items as assets or liabilities with amortization over the life of each item. Bond issuance costs totaled \$869,238 with related accumulated amortization of \$259,557 . Bond discounts/ (premiums) totaled \$(102,318) with related accumulated amortization of \$95,208 . deferred charges-advanced refunding totaled \$488,026 with accumulated amortization of \$235,908 .		664,273
Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
Bonds/notes payable	(82,621,136)	
Accrued interest on the bonds/notes	(903,104)	
Compensated absences	(1,579,155)	
Other Post-Employment Benefits	<u>(219,118)</u>	<u>(85,322,513)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES		<u>\$ 9,623,710</u>

The accompanying notes are an integral part of these financial statements.

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010**

	Major Funds			Nonmajor Funds	Total Governmental Funds
	General Fund	Bond Construction Fund	Capital Reserve Fund		
REVENUES					
Local Sources					
Real Estate Taxes and Penalties	\$ 27,178,550	\$ --	\$ --	\$ --	\$ 27,178,550
Other Taxes	2,815,015	--	--	--	2,815,015
Interest	47,839	6,533	2,545	5,315	62,232
Revenue from Intermediate Sources	1,290,347	--	--	--	1,290,347
Tuition	80,587	--	--	--	80,587
Revenue from Student Activities	--	--	--	63,604	63,604
Other Revenue	57,567	175,000	--	--	232,567
Refund of Prior Year's Expenditures	9,656	361	--	--	10,017
Total Local Sources	31,479,561	181,894	2,545	68,919	31,732,919
State Sources	17,529,459	--	--	--	17,529,459
Federal Sources	1,949,653	--	--	--	1,949,653
TOTAL REVENUES	50,958,673	181,894	2,545	68,919	51,212,031
EXPENDITURES					
Current					
Instruction	30,945,787	51,009	--	--	30,996,796
Support Services	13,678,131	324,431	30,583	107,840	14,140,985
Operation of Noninstructional Services	632,895	9,460	--	129,046	771,401
Total Current	45,256,813	384,900	30,583	236,886	45,909,182
Capital Outlay					
Facilities Acquisition, Construction and Improvement Services	--	737,725	97,044	--	834,769
Total Capital Outlay	--	737,725	97,044	--	834,769
Debt Service					
Principal	3,340,000	--	--	--	3,340,000
Interest and Fiscal Charges	3,385,193	--	--	4,350	3,389,543
Total Debt Service	6,725,193	--	--	4,350	6,729,543
Refund of Prior Year's Receipts	350	--	--	--	350
TOTAL EXPENDITURES	51,982,356	1,122,625	127,627	241,236	53,473,844
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,023,683)	(940,731)	(125,082)	(172,317)	(2,261,813)
OTHER FINANCING SOURCES (USES)					
Bond Proceeds	--	--	--	7,115,000	7,115,000
Refunded Bonds	--	--	--	(6,935,000)	(6,935,000)
Discount on Refunded Bonds	--	--	--	(93,308)	(93,308)
Premiums on Refunded Bonds	--	--	--	23,036	23,036
Interfund Transfers	(131,608)	--	--	58,000	(73,608)
TOTAL OTHER FINANCING SOURCES (USES)	(131,608)	--	--	167,728	36,120
Net Change in Fund Balances	(1,155,291)	(940,731)	(125,082)	(4,589)	(2,225,693)
Fund Balance – July 1, 2009	3,967,479	2,179,649	1,519,196	76,325	7,742,649
Fund Balance – June 30, 2010	\$ 2,812,188	\$ 1,238,918	\$ 1,394,114	\$ 71,736	\$ 5,516,956

The accompanying notes are an integral part of these financial statements.

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**RECONCILIATION OF THE GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010**

Total net change in fund balance – governmental funds \$ (2,225,693)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeds capital outlays in the period. Depreciation expense \$ (2,895,911)

Capital outlays 1,222,626 (1,673,285)

The net effect of other miscellaneous transactions involving capital assets is to decrease net assets. (1,280)

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred tax revenues decreased by this amount this year. 59,996

Repayment of bond principal and capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 10,275,000

Accretion on capital appreciation bonds do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (499,494)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:
Net increase in compensated absences 109,409

Some expenditures reported in the governmental funds do not require the use of current financial resources, however, the cost of other post-employment benefits is recorded as a noncurrent liability as required by GASB Statement No. 45. (100,768)

The issuance of general obligation bonds provides current financial resources to governmental funds, but has no affect on net assets. Also, governmental funds report issuance costs, bond discounts and similar items when debt is first issued; whereas, these items are deferred and amortized in the Statement of Activities.

Issuance of general obligation bonds	\$ (7,115,000)	
Bond Issuance Costs	107,840	
Amortization of issuance costs	(111,877)	
Bond discounts (premiums)	70,272	
Amortization of bond discounts (premiums)	(44,594)	
Amortization – deferred charges	<u>(43,372)</u>	(7,136,731)

OTHER

Net change in accrued interest expense on bonds payable 21,664

Change in net assets of governmental activities **\$ (1,171,182)**

The accompanying notes are an integral part of these financial statements.

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2010**

	<u>Child Nutrition Services</u>
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 207,691
Due from Other Governments	38,191
Other Receivables	1,346
Due from Other Funds	1,501
Inventories	<u>42,401</u>
Total Current Assets	<u>291,130</u>
Noncurrent Assets	
Machinery and Equipment (Net of Accumulated Depreciation)	<u>5,057</u>
Total Noncurrent Assets	<u>5,057</u>
TOTAL ASSETS	<u>\$ 296,187</u>
LIABILITIES	
Current Liabilities	
Accounts Payable	\$ 1,074
Deferred Revenue	<u>21,016</u>
Total Current Liabilities	<u>22,090</u>
TOTAL LIABILITIES	<u>22,090</u>
NET ASSETS	
Investment in Capital Assets, Net of Related Debt	5,057
Unrestricted	<u>269,040</u>
TOTAL NET ASSETS	<u>274,097</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 296,187</u>

The accompanying notes are an integral part of these financial statements.

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Child Nutrition Services</u>
OPERATING REVENUES	
Food Service Revenue	
Lunch and Breakfast Sales	\$ 873,891
Special Function Revenue	33,808
Miscellaneous Income	<u>993</u>
TOTAL OPERATING REVENUES	<u>908,692</u>
OPERATING EXPENSES	
Salaries	651,700
Employee Benefits	260,586
Purchased Professional and Technical Services	15,792
Other Purchased Service	23,833
Supplies	960,572
Dues and Fees	1,105
Depreciation	<u>1,136</u>
TOTAL OPERATING EXPENSES	<u>1,914,724</u>
OPERATING INCOME/(LOSS)	<u>(1,006,032)</u>
NONOPERATING REVENUES	
State Sources	127,062
Federal Sources	837,558
Interest Income	512
Transfer In	<u>73,608</u>
TOTAL NONOPERATING REVENUES	<u>1,038,740</u>
CHANGE IN NET ASSETS	32,708
TOTAL NET ASSETS – JULY 1, 2009	<u>241,389</u>
TOTAL NET ASSETS – JUNE 30, 2010	<u>\$ 274,097</u>

The accompanying notes are an integral part of these financial statements.

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Child Nutrition Services</u>
Cash Flows from Operating Activities	
Cash Received from Users	\$ 909,111
Cash Payments to Employees for Services	(912,119)
Cash Payments to Suppliers for Goods and Services	<u>(888,721)</u>
Net Cash (Used for) Operating Activities	<u>(891,729)</u>
Cash Flows from Noncapital Financing Activities	
State Sources	126,235
Federal Sources	714,625
Transfer In	<u>65,581</u>
Net Cash Provided by Noncapital Financing Activities	<u>906,441</u>
Cash Flows from Capital and Related Financing Activities	
Payments for Capital Assets	<u>(4,585)</u>
Net Cash (Used for) Capital and Related Financing Activities	<u>(4,585)</u>
Cash Flows from Investing Activities	
Interest Income	<u>512</u>
Net Cash Provided by Investing Activities	<u>512</u>
Net Increase in Cash and Cash Equivalents	10,639
Cash and Cash Equivalents Beginning of Year	<u>197,052</u>
Cash and Cash Equivalents End of Year	<u><u>\$ 207,691</u></u>
 Reconciliation of Operating Income to Net Cash Provided by (Used for) Operating Activities	
Operating Income (Loss)	\$(1,006,032)
 Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities	
Depreciation	1,136
USDA Donated Commodities	114,219
(Increase) Decrease in Accounts Receivable	5,445
(Increase) Decrease in Inventories	(8,984)
Increase (Decrease) in Accounts Payable	597
Increase (Decrease) in Deferred Revenue	<u>1,890</u>
Total Adjustments	<u>114,303</u>
Net Cash (Used for) Operating Activities	<u><u>\$ (891,729)</u></u>
 Noncash Investing, Capital and Financing Activities	
USDA Donated Commodities	<u><u>\$ 114,219</u></u>

The accompanying notes are an integral part of these financial statements.

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2010**

	<u>Private Purpose Trust</u>	<u>Student Activities</u>
ASSETS		
Cash and Cash Equivalents	\$ 38,469	\$ 59,432
Investments	1,186,631	--
Due from Other Funds	74	--
Other Receivables	<u>11</u>	<u>--</u>
TOTAL ASSETS	<u>\$1,225,185</u>	<u>\$ 59,432</u>
LIABILITIES		
Due to Student Groups	\$ --	\$ 59,432
TOTAL LIABILITIES	<u>--</u>	<u>59,432</u>
NET ASSETS	<u>1,225,185</u>	<u>--</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$1,225,185</u>	<u>\$ 59,432</u>

The accompanying notes are an integral part of these financial statements.

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Private Purpose Trust</u>
ADDITIONS	
Earnings on Investments	\$ 10,861
Donations	<u>426,875</u>
TOTAL ADDITIONS	<u>437,736</u>
DEDUCTIONS	
Other Instructional Programs	635
Administrative Services	<u>2,522</u>
TOTAL DEDUCTIONS	<u>3,157</u>
CHANGE IN NET ASSETS	434,579
NET ASSETS – JULY 1, 2009	<u>790,606</u>
NET ASSETS – JUNE 30, 2010	<u>\$1,225,185</u>

The accompanying notes are an integral part of these financial statements.

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Northeastern School District operates five elementary schools, one middle school, and one senior high school in York County, Pennsylvania. The District operates under current standards prescribed by the Pennsylvania Department of Education in accordance with the Pennsylvania Public School Code of 1949, as amended. The School Code grants administrative authority to the District's nine board members who are elected locally.

The financial statements of Northeastern School District (the District) have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. The more significant of these accounting policies are as follows:

A. Reporting Entity

In evaluating the school as a reporting entity, management has addressed all potential component units which may or may not fall within the school's financial accountability. The criteria used to evaluate component units for possible inclusion as part of the school's reporting entity are financial accountability and the nature and significance of the relationship. This report presents the activities of Northeastern School District. The school district is not a component unit of another reporting entity.

The following joint ventures are not component units of Northeastern School District, and are not included in this report.

York County School of Technology (YCST) - is a separate legal entity. It was organized by the public school districts in York County to provide services in the county. Each of the public school districts appoints one board member to serve as a joint operating committee member for the YCST, and each has an ongoing financial responsibility to fund the YCST.

Lincoln Intermediate Unit #12 (LIU) - is a separate legal entity. It was organized by the school districts in York, Adams and Franklin counties to provide services to the districts. Each member school district appoints one member to serve on the Board of Directors of the LIU. Northeastern School District contracts with the LIU for special education services for its students.

York County High School - is a separate legal entity. It was organized by ten public school districts in York County to provide services in the county. Each of the public school districts appoints one member to serve on the joint operating committee. As a member district, Northeastern School District has an ongoing financial responsibility to fund the operations of the York County High School. As of July 1, 2009, the High School officially changed its name to the York Adams Academy.

York Adams Tax Bureau (the Bureau) - is a separate legal entity. The District participates with fourteen other school districts for the collection of earned income taxes. Each participating school district appoints one member to serve on the joint operating committee. The Bureau's operating expenditures are deducted from the distributions that are made periodically to the District. Local municipalities also share the Bureau's expenditures on the same basis as the school districts.

The Northeastern Bobcat Foundation - is a separate legal entity. It was established by the District in December 2007 to enhance and expand enrichment opportunities for all students of the Northeastern School District through community-wide participation and philanthropy. The Foundation is funded through gifts from individuals, area businesses, and other organizations.

The Northeastern School District Scholarship Foundation - is a separate legal entity. It was formed in 1995 for the purpose of expanding access to higher education for the District's students. The Foundation is the beneficiary of endowment funds of the York Foundation.

Complete financial statements for each of the entities described above can be obtained from each respective administrative office.

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting

The accounts of the school district are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent.

C. Basis of Presentation

Government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the school district. As a general rule the effect of interfund activity has been eliminated from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately in the government-wide financial statements from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents a comparison between direct expenses and program revenues for business-type activities and for each function of the District's governmental activities. Direct expenses are those that are clearly identifiable within a specific function or segment. Program revenues include charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment. In addition, program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund financial statements are also provided in the report for all of the governmental funds, proprietary funds, and the fiduciary funds of the school district. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the school district's enterprise fund are food service charges. Operating expenses for the school district's enterprise fund include food production costs, supplies, administrative costs, and depreciation on capital assets. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District reports the following major governmental funds:

The general fund is the District's primary operating fund. It accounts for all financial resources except those required to be in another fund.

The bond construction fund accounts for the financial resources used in the acquisition, construction and renovation of major capital facilities.

The capital reserve fund accounts for transfers from other funds and related investment earnings for capital outlays not accumulated for in another fund.

The District operates one enterprise fund, the child nutrition services fund. This fund accounts for the activities of the District's food service program.

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation (Continued)

The District accounts for assets held by the District in a trustee capacity in a private-purpose trust fund. These funds account for activities in the scholarship accounts. Scholarships are provided to particular students as prescribed by donor stipulations.

The District accounts for assets held as an agent for various student activities in an agency fund.

Additionally, the District reports the following nonmajor governmental funds:

The athletic fund accounts for gate receipts and other revenues from athletic events and all costs of the district's athletic program.

The debt service fund accounts for the accumulation of resources for, and the payment of, long term debt principal, interest and related costs.

D. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Net assets (total assets less total liabilities) are used as a practical measure of economic resources, and the operating statement includes all transactions and events that increased or decreased net assets. Depreciation is charged as expense against current operations and accumulated depreciation is reported on the statement of net assets.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers tax revenue to be available if collected within 60 days of the end of the fiscal period. Revenue from federal, state and other grants designated for payment of specific school district expenditures is recognized when the related expenditures are incurred. Accordingly, when such funds are received, they are recorded as deferred revenues until earned. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

E. Budgets and Budgetary Accounting

An operating budget is adopted prior to the beginning of each year for the General Fund on a modified accrual basis of accounting. The General Fund is the only fund for which a budget is legally required.

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgets and Budgetary Accounting (Continued)

The Pennsylvania School Code dictates specific procedures relative to adoption of the District's budget and reporting of its financial statements, specifically:

The school district, before levying annual school taxes, is required to prepare an operating budget for the succeeding fiscal year.

The school district is required to publish notice by advertisement, at least once in two newspapers of general circulation in the municipality in which it is located, and within fifteen days of final action, that the proposed budget has been prepared and is available for public inspection at the administrative office of the school district.

Notice that public hearings will be held on the proposed operating budget must be included in the advertisement. Such hearings are required to be scheduled at least ten days prior to when final action on adoption is taken by the board.

Legal budgetary control is maintained at the sub-function/major object level. The board of school directors may make transfers of funds appropriated to any particular item of expenditure by legislative action in accordance with the Pennsylvania School Code. Management may amend the budget at the sub-function/sub-object level without board approval. Appropriations lapse at the end of the fiscal period. Budgetary information reflected in the financial statements is presented at or below the level of budgetary control and includes the effect of approved budget amendments

In order to preserve a portion of an appropriation for which an expenditure has been committed by a purchase order, contract or other form of commitment, an encumbrance is recorded. Encumbrances outstanding at year end are reported in the fund financial statements as reservations of fund balances.

Included in the General Fund budget are program budgets as prescribed by the federal and state agencies funding the program. These budgets are approved on a program by program basis by the federal and state funding agencies.

F. Encumbrances

Encumbrances at year end are reported in the fund financial statements as reservations of fund balance since they do not constitute expenditures or liabilities, but serve as authorization for expenditures in the subsequent year. As of June 30, 2010, the district had no encumbrances.

G. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Inventories

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis, and are expensed when used.

I. Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items (consumption method) in both the government-wide and fund financial statements.

J. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the school district as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. In addition, capital assets purchased with long-term debt may be capitalized regardless of the thresholds established. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

All reported capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Building Improvements	15 to 40
Land Improvements	15
Furniture	10 to 20
Vehicles	10
Equipment	5 to 10
Textbooks	6
Library/Workbooks	15

Proprietary fund equipment purchases are capitalized in the proprietary fund at cost and depreciated on a straight-line basis over 12 years at the rate of 8.33% per year.

K. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type activity columns in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

M. Proprietary Fund FASB Usage

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed for proprietary activity financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

N. Cash, Cash Equivalents and Investments

Cash and cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and include investments with original maturities of three months or less.

All investments are stated at cost including accrued interest, which approximates fair value.

O. Date of Management's Review

Management has evaluated subsequent events through December 9, 2010, the date the financial statements were available to be issued.

NOTE 2 - EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUND STATEMENTS AND DISTRICT-WIDE STATEMENTS

Due to the differences in the measurement focus and basis of accounting used on the government fund statements and district-wide statements, certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items.

An explanation of differences between the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and the Statement of Activities are identified on page 23 of the report.

Capital related differences include non-facility related fixed asset purchases that are recorded as an expenditure in the functional categories listed under current expenditures in the government fund statements and capitalization and recording of depreciation expense in the statement of activities.

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

Under Section 440.1 of the Public School Code of 1949, as amended, the District is permitted to invest its monies as follows:

- Obligations of (1) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (2) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or (3) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.
- Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral as provided by law is pledged by the depository.

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and include investments with original maturities of three months or less. Cash and cash equivalents consist of demand deposits at various financial institutions, investments in overnight repurchase agreements, money market fund investments in Pennsylvania Local Government Investment Trust (PLGIT), and cash on hand of \$700. The fair values of deposits are equal to the cost of the deposits. The investments of the District consist of certificates of deposit as authorized by the Board. Investments are stated at cost including accrued interest, which approximates fair value.

Cash

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. As of June 30, 2010, \$3,945,059 of the District's bank balance of \$6,295,145 was exposed to custodial credit risk as:

Uninsured and uncollateralized	\$ --
Collateralized with securities held by the pledging financial institution	--
Uninsured and collateral held by the pledging bank's trust department not in the District's name	<u>3,945,059</u>
	<u>\$ 3,945,059</u>

Reconciliation to Financial Statements

Uninsured Amount Above	\$ 3,945,059
Plus: Insured Amount	524,246
Less: Outstanding Checks	(812,825)
Add: Deposits in Transit	<u>1,249</u>
Carrying Amount – Bank Balances	\$ 3,657,729
Plus: Petty Cash	700
Pooled Cash Equivalents - PLGIT	<u>1,825,840</u>
Total Cash per Financial Statements	<u>\$ 5,484,269</u>

As of October 3, 2008, the Federal Deposit Insurance Corporation (FDIC) insurance coverage increased to \$250,000, which will expire December 31, 2013. The FDIC also instituted the Transaction Account Guarantee (TAG) program to provide additional insured coverage on non-interest bearing accounts. Susquehanna Bank is participating in the TAG program through December 31, 2010.

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Concentration of Credit Risk

The District holds deposit accounts at various financial institutions. The total deposits of \$4,469,305 as of June 30, 2010 were invested in the various financial institutions as follows:

<u>Financial Institution</u>	<u>Deposit Amount</u>	<u>Concentration Percentage</u>
Sovereign Bank	\$ 3,570,835	79.93%
Susquehanna Bank	883,955	19.79%
Banks less than 5%	<u>12,816</u>	<u>.28%</u>
Subtotal	4,467,606	<u>100.00%</u>
 <u>Designated Depository Accounts:</u>		
Sovereign Bank – Bond Funds	<u>1,699</u>	
Total	<u>\$ 4,469,305</u>	

The District's investment policy states that when district funds are invested in any one issuer other than designated depository accounts, the amount of the investment shall be limited to 75 percent of total funds available for investment.

Investments

As of June 30, 2010, the District had the following investments:

<u>Investments</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Concentration Percentage</u>
Money Market – Sovereign Bank	N/A	\$1,185,631	95.80%
Certificates of Deposit – Sovereign Bank	18 Months	51,021	4.12%
Certificates of Deposit – M & T Bank	60 Months	<u>1,000</u>	<u>.08%</u>
		<u>\$1,237,652</u>	<u>100.00%</u>

Interest Rate Risk

In accordance with its investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio. An illustrative calculation of weighted average maturity for the District's investments is as follows:

<u>Investment</u>	<u>Maturity Date</u>	<u>Time to Maturity (Years)</u>	<u>Maturity Amount</u>	<u>Calculation</u>
Certificate of Deposit – Sovereign Bank	10/31/2010	.33	\$ 51,298	.324
*Certificate of Deposit – M & T Bank	7/3/2011	1.00	<u>1,000</u>	<u>.019</u>
			<u>\$ 52,298</u>	<u>.343</u>

*Calculated: 1.00 x (\$1,000)

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Credit Risk

The District's investment policy provides that any district investments in authorized instruments that are not backed by the full faith and credit of the federal or state government shall be limited to those with the highest two credit ratings available for such instruments by a recognized organization.

Concentration of Credit Risk

The District limits funds invested in any one issuer to no more than 75 percent of total investments outstanding.

Custodial Credit Risk – Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. As of June 30, 2010, \$1,000 of the District's total investments of \$1,237,652 were FDIC insured.

NOTE 4 - REAL ESTATE, PER CAPITA TAXES AND OCCUPATION TAXES, AND DEFERRED REVENUE

Based upon assessments provided by the County, the district levies property taxes. The taxes are collected by the six elected tax collectors from the six municipalities, which make up the school district. The school district tax rate for the year ended June 30, 2010 was 22.39 mills (\$22.39 per \$1,000 of assessed valuation) as levied by the Board of School Directors. The Board of School Directors also levied per capita and occupation taxes based on the census of residents in the school district. The per capita tax rate under Section 679 is \$5/person and under Act 511 is \$5/person. The occupation tax rate was \$10 per person. The schedule for real estate and per capita taxes levied for each fiscal year is as follows:

July 15	- Levy Date
July 16 – September 15	- 2% Discount Period
September 16 – November 15	- Face Payment Period
November 16 – December 31	- 10% Penalty Period
January 2	- Lien Date

The school district, in accordance with GAAP, recognized the delinquent and unpaid taxes receivable reduced by an allowance for uncollectible taxes as determined by the administration. A portion of the net amount estimated to be collectible which was measurable and available within 60 days was recognized as revenue, and the balance was deferred in the fund financial statements.

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 4 - REAL ESTATE, PER CAPITA TAXES AND OCCUPATION TAXES, AND DEFERRED REVENUE
(Continued)

The balances at June 30, 2010 are as follows:

	<u>Gross Taxes Receivable</u>	<u>Allowance for Uncollectible Taxes</u>	<u>Net Estimated to be Collectible</u>	<u>Tax Revenue Recognized</u>	<u>Deferred Taxes</u>
Real Estate	\$1,966,719	\$ 100,000	\$1,866,719	\$ 402,996	\$1,463,723
Per Capita	<u>30,932</u>	<u>12,373</u>	<u>18,559</u>	<u>--</u>	<u>18,559</u>
TOTAL	<u>\$1,997,651</u>	<u>\$ 112,373</u>	<u>\$1,885,278</u>	<u>\$ 402,996</u>	<u>\$1,482,282</u>

The deferred revenue balance in the General Fund in the fund financial statements of \$1,524,137 consists of the following:

Deferred Taxes	\$ 1,482,282
Federal Program Revenue	17,550
Local Program Revenue	<u>24,305</u>
TOTAL	<u>\$ 1,524,137</u>

NOTE 5 - DUE FROM OTHER GOVERNMENTS

Amounts due from other governments represent receivables for revenues earned by the school district. At June 30, 2010, the following amounts are due from other governmental units:

	<u>General Fund</u>	<u>Enterprise Fund</u>	<u>Total</u>
Federal (through the state)	\$ 150,055	\$ 34,152	\$ 184,207
State	1,150,977	4,039	1,155,016
Local	<u>113,153</u>	<u>--</u>	<u>113,153</u>
	<u>\$ 1,414,185</u>	<u>\$ 38,191</u>	<u>\$ 1,452,376</u>

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 6 - CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital Assets Not Being Depreciated				
Construction in Progress	\$ <u>32,926,897</u>	\$ <u>1,174,853</u>	\$ <u>32,405,953</u>	\$ <u>1,695,797</u>
Total Capital Assets, Not Being Appreciated	<u>32,926,897</u>	<u>1,174,853</u>	<u>32,405,953</u>	<u>1,695,797</u>
Capital Assets Being Depreciated				
Land and Land Improvements	\$ 7,361,145	\$ 4,191,647	\$ --	\$ 11,552,792
Buildings and Building Improvements	72,313,964	27,553,681	--	99,867,645
Equipment, Furniture and Fixtures	2,590,951	335,206	6,400	2,919,757
Infrastructure	407,973	366,693	--	774,666
Textbooks and Library Books	1,643,870	--	--	1,643,870
Vehicles	<u>234,641</u>	<u>6,499</u>	<u>--</u>	<u>241,140</u>
Total Capital Assets, Being Depreciated	<u>84,552,544</u>	<u>32,453,726</u>	<u>6,400</u>	<u>116,999,870</u>
Less Accumulated Depreciation For:				
Land and Land Improvements	1,819,748	369,202	--	2,188,950
Buildings and Building Improvements	24,172,058	2,179,987	--	26,352,045
Equipment, Furniture and Fixtures	1,161,202	241,620	5,120	1,397,702
Infrastructure	4,080	11,826	--	15,906
Textbooks and Library Books	1,201,175	80,774	--	1,281,949
Vehicles	<u>163,901</u>	<u>12,502</u>	<u>--</u>	<u>176,403</u>
Total Accumulated Depreciation	<u>28,522,164</u>	<u>2,895,911</u>	<u>5,120</u>	<u>31,412,955</u>
Total Capital Assets, Being Depreciated, Net	<u>56,030,380</u>	<u>29,557,815</u>	<u>1,280</u>	<u>85,586,915</u>
Governmental Activities, Capital Assets, Net	<u>\$ 88,957,277</u>	<u>\$ 30,732,668</u>	<u>\$ 32,407,233</u>	<u>\$ 87,282,712</u>
Business-Type Activities				
Capital Assets				
Equipment	\$ <u>331,647</u>	\$ <u>4,585</u>	\$ <u>3,160</u>	\$ <u>333,072</u>
Total Capital Assets	<u>331,647</u>	<u>4,585</u>	<u>3,160</u>	<u>333,072</u>
Less Accumulated Depreciation for:				
Equipment	<u>330,039</u>	<u>1,136</u>	<u>3,160</u>	<u>328,015</u>
Total Accumulated Depreciation	<u>330,039</u>	<u>1,136</u>	<u>3,160</u>	<u>328,015</u>
Business-Type Activities Capital Assets, Net	<u>\$ 1,608</u>	<u>\$ 3,449</u>	<u>\$ --</u>	<u>\$ 5,057</u>

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 6 - CHANGES IN CAPITAL ASSETS (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:

Instruction:		
Regular	\$	1,398,312
Special		477,345
Vocational		146,590
Other		22,622
Support Services:		
Pupil Personnel		100,059
Instructional Staff		200,868
Administration		172,607
Pupil Health		32,755
Business		42,402
Operation and Maintenance of Plant Services		249,795
Other Support Services		1,651
Operation of Noninstructional Services:		
Student Activities		40,088
Community Services		<u>10,817</u>
Total Depreciation Expense – Governmental Activities	\$	<u>2,895,911</u>

Business-Type Activities

Child Nutrition Services	\$	<u>1,136</u>
Total Depreciation expense – Business-Type Activities	\$	<u>1,136</u>

NOTE 7 - LONG-TERM DEBT

During the fiscal year ended June 30, 2010, long-term debt changed as follows:

	<u>Bonds Payable</u>	<u>Compensated Absences and Early Retirement Incentives</u>	<u>Total Long-Term Debt</u>
Beginning of Year	\$ 85,281,642	\$ 1,688,564	\$ 86,970,206
Bond Issue	7,115,000	--	7,115,000
Principal Retirement	(10,275,000)	--	(10,275,000)
Accretion on Capital Appreciation Bonds	499,494	--	499,494
Additions to Compensated Absences	--	10,937	10,937
Reductions in Compensated Absences	<u>--</u>	<u>(120,346)</u>	<u>(120,346)</u>
End of Year	<u>\$ 82,621,136</u>	<u>\$ 1,579,155</u>	<u>\$ 84,200,291</u>

The payments of long-term debt are to be funded by the General Fund and Debt Service Fund.

The school district does not currently have any long-term liabilities for business type activities.

Payments for compensated absences are funded by the general fund.

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 7 - LONG-TERM DEBT (Continued)

The future annual payments required to amortize all outstanding debt and obligations, except for the compensated absences, as of June 30, 2010, including total interest payments are as follows:

Year Ended June 30,	General Obligation Bonds		
	Interest	Principal	Total
2011	\$ 3,286,881	\$ 3,465,000	\$ 6,751,881
2012	3,230,115	3,715,000	6,945,115
2013	3,195,793	3,755,000	6,950,793
2014	3,171,590	3,740,000	6,911,590
2015	3,092,770	2,735,000	5,827,770
2016-2020	13,955,753	15,060,000	29,015,753
2021-2025	10,621,268	18,360,000	28,981,268
2026-2030	5,997,750	22,945,000	28,942,750
2031-2032	<u>722,249</u>	<u>9,860,000</u>	<u>10,582,249</u>
TOTAL	<u>\$ 47,274,169</u>	<u>\$ 83,635,000</u>	<u>\$ 130,909,169</u>

General Obligation Bonds/ Notes consist of the following as of:

June 30, 2010				
<u>Title of Issue</u>	<u>Original Issue Amount</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>	<u>Principal Balance Outstanding</u>
Series A of 2010	\$ 5,005,000	2.0% to 3.7%	September 1, 2021	\$ 5,005,000
Series B of 2010	2,110,000	.8% to 3.0%	September 1, 2016	2,110,000
Series of 2009	8,175,000	1.9% to 4.00%	May 1, 2024	7,905,000
Series of 2008	4,905,000	2.9% to 4.00%	February 15, 2015	3,610,000
Series A of 2007	13,000,000	4.0% to 5.0%	April 1, 2029	12,985,000
Series B of 2007	18,365,000	4.0% to 5.0%	April 1, 2032	18,350,000
Series of 2006	18,500,000	3.65% to 5.00%	March 1, 2026	18,485,000
Series A of 2003	3,005,000	1.1% to 3.00%	April 1, 2011	460,000
Series B of 2003	6,990,000	1.2% to 4.25%	April 1, 2025	6,675,000
Series B of 1992	1,226,684	6.75% to 6.8%	September 1, 2011	2,890,000*
Series D of 1992	3,891,428	6.0% to 6.35%	September 1, 2013	5,160,000*

*This series was issued as Capital Appreciation Bonds with original discounted principal amounting to \$1,226,684. These bonds mature at a range of \$645,000 to \$1,120,000 from September 1, 2009 to September 1, 2011 with a total maturity value of \$4,180,000.

**This series was issued as Capital Appreciation Bonds with original discounted principal amounting to \$3,891,428. These bonds mature at a range of \$965,000 to \$1,340,000 from September 1, 2006 to September 1, 2013 with a maturity value of \$8,060,000.

Bond Refunding

The District has refunded certain bond issues by establishing escrow accounts to pay off the bonds as they become due or callable. This action resulted in a defeasance of debt and these bonds are no longer reported in the financial statements of the District. The refunded bond issue, along with the amount outstanding at June 30, 2010, is detailed below:

Series B of 1992 (Partial)	\$ 2,890,000
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**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 7 - LONG-TERM DEBT (Continued)

Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits, and provide retirement incentives. Accumulated compensated absences recorded in the government-wide statements represent the District's commitment to fund those costs from future operations. A liability for these amounts is reported in governmental funds only if they have matured (e.g. as a result of employee resignations and retirements).

The balance of accrued compensated absences at June 30, 2010 is composed of the following:

Accrued Retirement Bonuses/Sick Pay	\$1,415,363
Accrued Vacation/Paid Leave	<u>163,792</u>
Total Accrued Compensated Absences	<u>\$1,579,155</u>

The amount of compensated absences estimated to be paid within the next fiscal year is \$77,439.

NOTE 8 - OPERATING LEASES

The District signed a lease rental agreement with the York County School of Technology Authority in which the District agreed to make payments of their pro-rated share of the Authority's debt service. The District's pro-rated share is calculated annually based on assessed market value. During the year ended June 30, 2010, the District paid \$193,827 in operating lease payments for its pro-rated share of the Authority's debt service.

In June 2007, the District entered into a lease agreement with Town & Country Leasing, LLC for the use of a 2007 Subaru Impreza, to be used in the Driver's Education Program. The term of the lease is for 48 months with a monthly payment amount of \$282. During the year ended June 30, 2010, the District paid \$3,384 in operating lease payments for the vehicle.

The future annual lease payments for the District's pro-rated share are as follows:

<u>Year Ended June 30,</u>	
2011	\$ 197,417
2012	193,994
2013	193,968
2014	194,050
2015	193,813
2016-2020	969,889
2021-2023	<u>581,830</u>
Total	<u>\$2,524,961</u>

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 9 - PENSION PLAN

Plan Description

School districts in the Commonwealth of Pennsylvania participate in the Public School Employees' Retirement System (PSERS), a governmental cost sharing multiple-employer defined benefit plan. PSERS provides retirement and disability, legislatively mandated ad hoc cost-of-living adjustments, and healthcare insurance premium assistance to qualifying annuitants. Authority is established by the Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended)(24 Pa. C.S. 8101-8535).

PSERS issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Diane J. Wert, Office of Financial Management, Public School Employees' Retirement System, P.O. Box 125, Harrisburg, PA 17108-0125. The report is also available on the PSERS website at www.psers.state.pa.us/publications/cafr/index.htm.

Contributions and Funding Policy

The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers, and the Commonwealth. Active members who joined the System prior to July 22, 1983, and who have had no break in their public school service contribute at 5.25 percent (Membership Class TC) or at 6.50 percent (Membership Class TD) of the member's qualifying compensation. Members who returned to public school service or joined the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25 percent (Membership Class TC) or at 7.50 percent (Membership Class TD) of the member's qualifying compensation. Members who joined the System after June 30, 2001 contribute at 7.50 percent (automatic Membership Class TD). For all new hires and for members who elected class TD membership, the higher contribution rates began with service rendered on or after January 1, 2002.

Contributions required of employers are based upon an actuarial valuation. For the fiscal year ended June 30, 2010, the rate of employer's contribution was 4.78 percent of covered payroll. The 4.78 percent rate is composed of a pension contribution rate of 4.00 percent for pension benefits and .78 for healthcare insurance premium assistance. Northeastern School District's contributions to PSERS for the years ending June 30, 2010, 2009, and 2008 were \$1,211,428, \$1,104,637 and, \$1,468,846, respectively.

NOTE 10 - POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Plan Description

The District has implemented Governmental Accounting Standards Board Statement No. 45, "Accounting and Financial Reporting by Employers for Post-employment Benefits other than Pensions" in fiscal year 2008-2009, for certain post-employment healthcare benefits and life insurance benefits provided by the District.

The District's post-employment healthcare plan is a single-employer defined benefit healthcare plan. The plan provides medical insurance benefits to eligible retirees and their spouses. The Board of School Directors has the authority to establish and amend benefit provisions through the collective bargaining process with members of the professional and support staff, an agreement with administrative employees, and individual employment contracts with certain employees. The plan does not issue any financial report and is not included in the report of any public employee retirement system or any other entity.

Funding Policy

The contribution requirements of plan members are established and may be amended by the Board of School Directors. The required contribution is based on projected pay-as-you-go financing requirements, with any additional amount to prefund as determined annually by the Board of School Directors.

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 10 - POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation

The District's annual other post-employment benefit cost (expense) is calculated based on the annual required contribution of the employer (ARC), and amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the plan.

Annual Required Contribution	\$ 267,626
Interest on Net OPEB Obligation	5,326
Adjustment to Annual Required Contribution	<u>(7,265)</u>
Annual OPEB Cost (Expense)	265,687
Contributions Made (estimated)	<u>(164,919)</u>
Increase in Net OPEB Obligation	100,768
Net OPEB Obligation – Beginning of Year	<u>118,350</u>
Net OPEB Obligation – End of Year	<u>\$ 219,118</u>

Funded Status and Funding Progress

As of January 1, 2008, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$2,082,125, and the actual value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,082,125. The covered payroll (annual payroll of active employees covered by the plan) was \$19,062,000, and the ratio of the UAAL to the covered payroll was 10.9 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employers and plan members to that point. The actual methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2008 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.50% investment rate of return and an annual healthcare cost trend of 8.5% in 2008, reduced by decrements to an ultimate rate of 5% in 2015 and later. The UAAL is being amortized based on the level dollar, 30 year open period. The remaining amortization period at June 30, 2010 was 28 years.

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 11 - CONTINGENT LIABILITIES

Grant Programs

The school district participates in federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The school district is potentially liable for any expenditures which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.

NOTE 12 - DUE TO/FROM OTHER FUNDS

Interfund receivable and payable balances as of June 30, 2010 are as follows:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ --	\$ 18,554
Bond Construction Fund	16,979	--
Child Nutrition Fund	1,501	--
Private Purpose Trust Fund	<u>74</u>	<u>--</u>
	<u>\$ 18,554</u>	<u>\$ 18,554</u>

Interfund Transfers:

	<u>Transfer to Other Funds</u>	<u>Transfer from Other Funds</u>
General Fund	\$ 131,608	\$ --
Athletic Fund	--	58,000
Cafeteria Fund	<u>--</u>	<u>73,608</u>
	<u>\$ 131,608</u>	<u>\$ 131,608</u>

The District typically transfers a budgeted dollar amount from the general fund to the athletic fund to assist the athletic fund in providing for the various sporting events and activities throughout the year. The District also transferred funds to the cafeteria fund to cover administrative salaries and benefits.

NOTE 13 - RISK MANAGEMENT

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District has purchased various insurance policies to safeguard its assets from risk of loss. Insurance coverage appears to be consistent with previous years. During the year ended June 30, 2010 and the two previous fiscal years, no settlements exceeded insurance coverage.

NOTE 14 - SELF INSURANCE

The District is a member of Lincoln Benefit Trust, a claims servicing pool which pays claims for health benefits submitted by the employees of its twenty participating local education agencies. Each district contributes amounts to the trust to cover annual claim and operating costs, and to fund reserves for future benefits. Additionally, each participating district in the trust remains responsible for the economic risk of providing benefits to its employees. Claims incurred between \$75,000 and \$150,000 are paid from the Trust Minipool. Claims incurred from \$150,000 to \$2,000,000 are paid from a stop-loss insurance policy purchased by the Trust through PA Trust. During the year ended June 30, 2010, the accrued and incurred claims of the District did not exceed its cumulative contributions.

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 14 - SELF INSURANCE (Continued)

The changes in net assets for the District's account in the Trust for the year ended June 30, 2010 are detailed below:

Net Assets – July 1, 2009 (restated)	\$ 856,926
Contributions	5,447,788
Interest Allocation	24,889
Claims Paid	(4,700,986)
Stop-loss Insurance	(164,983)
Other deductions	<u>(289,735)</u>
 Net Assets – June 30, 2010	 <u>\$ 1,173,899</u>

The Lincoln Benefit Trust had net assets of \$52,074,501 at June 30, 2010, and an increase in net assets of \$7,177,403 as of and for the year ended June 30, 2010. Financial statements of the trust are available at the District.

NOTE 15 - DEFERRED CHARGES, ADVANCED REFUNDINGS

In the event that advance refunding of debt results in a defeasance, full accrual basis of accounting requires that the amounts deposited in escrow in excess of the debt principal are to be amortized over the life of the old debt or the life of the new debt, whichever is shorter. The amortization of this charge will be recognized as a component of interest expense. The District currently has three bond refinancing charges that it is amortizing, utilizing the straight line method, with the longest to be amortized through 2016. Under the modified accrual basis of accounting, the amounts are recognized as debt service expenditures when paid to the escrow account and the debt is defeased. For the year ended June 30, 2010, the District amortized \$43,372 as a component of interest expense.

NOTE 16 - UNRESERVED – DESIGNATED FUND BALANCE

The fund balance designation in the general fund of \$315,000 represents amounts designated by management for potential appropriations in excess of anticipated revenues in future school years for retirement costs.

NOTE 17 - COMMITMENTS

As of June 30, 2010, the District was involved in several capital projects.

<u>Contractor Type/Project</u>	<u>Contracts Amounts</u>	<u>Amount Paid-to-Date</u>	<u>Accounts/ Retainage Payable</u>	<u>Commitments Outstanding</u>
Excavating	\$ 3,962,564	\$ 3,957,564	\$ 5,000	\$ --
Chiller Replacement	<u>23,584</u>	<u>--</u>	<u>9,020</u>	<u>14,564</u>
	<u>\$ 3,986,148</u>	<u>\$ 3,957,564</u>	<u>\$ 14,020</u>	<u>\$ 14,564</u>

NOTE 18 – SUBSEQUENT EVENTS

During July 2010, the District executed a Tax and Revenue Anticipation Note, Series of 2010 in the amount of \$2,000,000 with Susquehanna Bank. The District did not have to use these funds, and never drew down the money. However, the note will remain available for use through June 30, 2011.

During September 2010, the District issued General Obligation Bonds, Series of 2010, in the amount of \$6,930,000. The purpose of the bonds is to currently refund the District's General Obligation Bonds, Series B of 2003, and to pay the costs of issuing the Bonds.

REQUIRED SUPPLEMENTARY INFORMATION

OF

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

JUNE 30, 2010

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES -
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		(Negative)
REVENUES				
Local Revenues				
Real Estate Taxes and Penalties	\$ 28,677,029	\$ 28,677,029	\$ 27,178,550	\$ (1,498,479)
Other Taxes	2,840,000	2,840,000	2,815,015	(24,985)
Interest	157,000	157,000	47,839	(109,161)
Revenues from Intermediate Sources	680,000	680,000	1,290,347	610,347
Tuition	79,400	79,400	80,587	1,187
Other Revenue	145,940	145,940	57,567	(88,373)
Refund of Prior Year's Expenditures	--	--	9,656	9,656
Total Local Sources	32,579,369	32,579,369	31,479,561	(1,099,808)
State Program Revenues	18,235,779	18,235,779	17,529,459	(706,320)
Federal Program Revenues	1,897,852	1,897,852	1,949,653	51,801
TOTAL REVENUES	<u>52,713,000</u>	<u>52,713,000</u>	<u>50,958,673</u>	<u>(1,754,327)</u>
EXPENDITURES				
Current				
Regular Programs	22,493,929	23,039,320	21,156,178	1,883,142
Special Programs	6,838,199	6,840,001	7,233,554	(393,553)
Vocational Programs	2,235,587	2,237,689	2,203,842	33,847
Other Instructional Programs	360,807	365,909	342,803	23,106
Higher Education Programs	--	--	9,410	(9,410)
Support Services				
Pupil Personnel Services	1,353,659	1,354,651	1,516,261	(161,610)
Instructional Staff Services	3,406,502	3,155,061	2,754,205	400,856
Administrative Services	2,378,990	2,365,345	2,507,513	(142,168)
Pupil Health	372,743	372,741	493,718	(120,977)
Business Services	662,788	662,788	642,535	20,253
Operation and Maintenance of Plant Services	3,899,998	3,609,697	3,722,946	(113,249)
Student Transportation Services	2,189,432	2,189,432	2,015,890	173,542
Central Support Services	--	--	38	(38)
Other Support Services	25,000	25,000	25,025	(25)
Operation of Noninstructional Services				
Student Activities	588,623	588,623	598,018	(9,395)
Community Services	12,000	12,000	34,877	(22,877)
Debt Service				
Principal	3,340,000	3,340,000	3,340,000	--
Interest and Fiscal Charges	3,414,743	3,414,743	3,385,193	29,550
Refund of Prior Year's Receipts	--	--	350	(350)
TOTAL EXPENDITURES	<u>53,573,000</u>	<u>53,573,000</u>	<u>51,982,356</u>	<u>1,590,644</u>

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES -
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
EXCESS OF REVENUES OVER EXPENDITURES	<u>(860,000)</u>	<u>(860,000)</u>	<u>(1,023,683)</u>	<u>(163,683)</u>
OTHER FINANCING SOURCES (USES)				
Interfund Transfers	<u>(175,000)</u>	<u>(175,000)</u>	<u>(131,608)</u>	<u>43,392</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(175,000)</u>	<u>(175,000)</u>	<u>(131,608)</u>	<u>43,392</u>
Net Change in Fund Balances	(1,035,000)	(1,035,000)	(1,155,291)	(120,291)
Fund Balance – July, 2009	<u>3,967,479</u>	<u>3,967,479</u>	<u>3,967,479</u>	<u>--</u>
Fund Balance – June 30, 2010	<u>\$ 2,932,479</u>	<u>\$ 2,932,479</u>	<u>\$2,812,188</u>	<u>\$ (120,291)</u>

SUPPLEMENTARY INFORMATION
OF
NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA
JUNE 30, 2010

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**COMBINING BALANCE SHEET – BOND CONSTRUCTION FUNDS
JUNE 30, 2010**

	<u>Bond Construction Fund 31</u>	<u>Bond Construction Fund 32</u>	<u>Bond Construction Fund 33</u>	<u>Total Bond Construction Funds</u>
ASSETS				
Cash and Cash Equivalents	\$ --	\$ 1,699	\$ 1,504,244	\$ 1,505,943
Due from Other Funds	--	--	16,979	16,979
Escrow Deposits	<u>--</u>	<u>5,070</u>	<u>--</u>	<u>5,070</u>
TOTAL ASSETS	<u><u>\$ --</u></u>	<u><u>\$ 6,769</u></u>	<u><u>\$ 1,521,223</u></u>	<u><u>\$ 1,527,992</u></u>
 LIABILITIES AND FUND EQUITY				
LIABILITIES				
Accounts Payable	\$ --	\$ --	\$ 283,172	\$ 283,172
Retainage Payable	<u>--</u>	<u>--</u>	<u>5,902</u>	<u>5,902</u>
TOTAL LIABILITIES	<u>--</u>	<u>--</u>	<u>289,074</u>	<u>289,074</u>
 FUND EQUITY				
Reserved Fund Balance	<u>--</u>	<u>6,769</u>	<u>1,232,149</u>	<u>1,238,918</u>
TOTAL FUND EQUITY	<u>--</u>	<u>6,769</u>	<u>1,232,149</u>	<u>1,238,918</u>
 TOTAL LIABILITIES AND FUND EQUITY	 <u><u>\$ --</u></u>	 <u><u>\$ 6,769</u></u>	 <u><u>\$ 1,521,223</u></u>	 <u><u>\$ 1,527,992</u></u>

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND EQUITY – BOND CONSTRUCTION FUNDS
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Bond Construction Fund 31</u>	<u>Bond Construction Fund 32</u>	<u>Bond Construction Fund 33</u>	<u>Total Bond Construction Funds</u>
REVENUES				
Local Sources:				
Interest	\$ --	\$ 5	\$ 6,528	\$ 6,533
Refund of Prior Year Expenditures	--	--	361	361
Contributions	<u>--</u>	<u>--</u>	<u>175,000</u>	<u>175,000</u>
TOTAL REVENUES	<u>--</u>	<u>5</u>	<u>181,889</u>	<u>181,894</u>
EXPENDITURES				
Instruction	--	536	50,473	51,009
Support Services	--	290	324,141	324,431
Operation of Non-Instructional Services	--	--	9,460	9,460
Facilities Acquisition, Construction and Improvement Services	<u>--</u>	<u>--</u>	<u>737,725</u>	<u>737,725</u>
TOTAL EXPENDITURES	<u>--</u>	<u>826</u>	<u>1,121,799</u>	<u>1,122,625</u>
REVENUES OVER (UNDER) EXPENDITURES	--	(821)	(939,910)	(940,731)
OTHER FINANCING SOURCES (USES)				
Interfund Transfers	<u>(48)</u>	<u>--</u>	<u>48</u>	<u>--</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(48)</u>	<u>--</u>	<u>48</u>	<u>--</u>
NET CHANGES IN FUND BALANCES	(48)	(821)	(939,862)	(940,731)
FUND EQUITY – JULY 1, 2009	<u>48</u>	<u>7,590</u>	<u>2,172,011</u>	<u>2,179,649</u>
FUND EQUITY – JUNE 30, 2010	<u>\$ --</u>	<u>\$ 6,769</u>	<u>\$ 1,232,149</u>	<u>\$ 1,238,918</u>

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**COMBINING BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2010**

	Athletic Fund	Football Athletic Fund	Total Athletic Funds	Debt Service Fund	Total
ASSETS					
Cash and Cash Equivalents	\$ 3,622	\$ 11,594	\$ 15,216	\$ 6,294	\$ 21,510
Investments	--	51,021	51,021	--	51,021
Due from Other Funds	--	241	241	--	241
TOTAL ASSETS	\$ 3,622	\$ 62,856	\$ 66,478	\$ 6,294	\$ 72,772
 LIABILITIES AND FUND EQUITY					
LIABILITIES					
Accounts Payable	\$ 795	\$ --	\$ 795	\$ --	\$ 795
Due to Other Funds	241	--	241	--	241
TOTAL LIABILITIES	1,036	--	1,036	--	1,036
 FUND EQUITY					
Reserved Fund Balance	2,586	62,856	65,442	6,294	71,736
TOTAL FUND EQUITY	2,586	62,856	65,442	6,294	71,736
TOTAL LIABILITIES AND FUND EQUITY	\$ 3,622	\$ 62,856	\$ 66,478	\$ 6,294	\$ 72,772

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND EQUITY – NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010**

	Athletic Fund	Football Athletic Fund	Total Athletic Funds	Debt Service Fund	Total
REVENUES					
Local Sources					
Interest	\$ --	\$ 909	\$ 909	\$ 4,406	\$ 5,315
Revenue from Student Activities	<u>63,604</u>	<u>--</u>	<u>63,604</u>	<u>--</u>	<u>63,604</u>
TOTAL REVENUES	<u>63,604</u>	<u>909</u>	<u>64,513</u>	<u>4,406</u>	<u>68,919</u>
EXPENDITURES					
Current					
Support Services	--	--	--	107,840	107,840
Operation of Non-Instructional Services	<u>121,175</u>	<u>7,871</u>	<u>129,046</u>	<u>--</u>	<u>129,046</u>
Total Current	<u>121,175</u>	<u>7,871</u>	<u>129,046</u>	<u>107,840</u>	<u>236,886</u>
Debt Service					
Interest	<u>--</u>	<u>--</u>	<u>--</u>	<u>4,350</u>	<u>4,350</u>
Total Debt Service	<u>--</u>	<u>--</u>	<u>--</u>	<u>4,350</u>	<u>4,350</u>
TOTAL EXPENDITURES	<u>121,175</u>	<u>7,871</u>	<u>129,046</u>	<u>112,190</u>	<u>241,236</u>
REVENUES OVER (UNDER) EXPENDITURES	(57,571)	(6,962)	(64,533)	(107,784)	(172,317)
OTHER FINANCING SOURCES (USES)					
Bond Proceeds	--	--	--	7,115,000	7,115,000
Refunded Bonds	--	--	--	(6,935,000)	(6,935,000)
Discount on Refunded Bonds	--	--	--	(93,308)	(93,308)
Premiums on Refunded Bonds	--	--	--	23,036	23,036
Interfund Transfers	<u>58,000</u>	<u>--</u>	<u>58,000</u>	<u>--</u>	<u>58,000</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>58,000</u>	<u>--</u>	<u>58,000</u>	<u>109,728</u>	<u>167,728</u>
NET CHANGES IN FUND BALANCES	429	(6,962)	(6,533)	1,944	(4,589)
FUND EQUITY – JULY 1, 2009	<u>2,157</u>	<u>69,818</u>	<u>71,975</u>	<u>4,350</u>	<u>76,325</u>
FUND EQUITY – JUNE 30, 2010	<u>\$ 2,586</u>	<u>\$ 62,856</u>	<u>\$ 65,442</u>	<u>\$ 6,294</u>	<u>\$ 71,736</u>

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**COMBINING STATEMENT OF FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUST FUNDS
JUNE 30, 2010**

	<u>Zions View Trust Fun</u>	<u>Sutton Memorial Scholarship Fund</u>	<u>Glatfelter Scholarship</u>	<u>James P. Dietz Music Scholarship Fund</u>	<u>Jacqueline Sutton Memorial Scholarship</u>	<u>Total Private Purpose Trust Funds</u>
ASSETS						
Cash and Cash Equivalents	\$ 31,272	\$ 6,196	\$ --	\$ --	\$ 1,001	\$ 38,469
Investments	--	--	1,000	1,185,631	--	1,186,631
Due from Other Funds	--	--	74	--	--	74
Other Receivables	<u>--</u>	<u>--</u>	<u>11</u>	<u>--</u>	<u>--</u>	<u>11</u>
TOTAL ASSETS	<u>\$ 31,272</u>	<u>\$ 6,196</u>	<u>\$ 1,085</u>	<u>\$1,185,631</u>	<u>\$ 1,001</u>	<u>\$1,225,185</u>
LIABILITIES	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
NET ASSETS						
Held in Trust for:						
Scholarships	31,272	6,196	1,085	15,631	1,001	55,185
Endowments	<u>--</u>	<u>--</u>	<u>--</u>	<u>1,170,000</u>	<u>--</u>	<u>1,170,000</u>
TOTAL NET ASSETS	<u>31,272</u>	<u>6,196</u>	<u>1,085</u>	<u>1,185,631</u>	<u>1,001</u>	<u>1,225,185</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 31,272</u>	<u>\$ 6,196</u>	<u>\$ 1,085</u>	<u>\$1,185,631</u>	<u>\$ 1,001</u>	<u>\$1,225,185</u>

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Zions View Trust Fun</u>	<u>Sutton Memorial Scholarship Fund</u>	<u>Glatfelter Scholarship</u>	<u>James P. Dietz Music Scholarship Fund</u>	<u>Jacqueline Sutton Memorial Scholarship</u>	<u>Total Private Purpose Trust Funds</u>
ADDITIONS						
Earnings on Investments	\$ 74	\$ 5	\$ 43	\$ 10,738	\$ 1	\$ 10,861
Donations	<u>--</u>	<u>5,875</u>	<u>--</u>	<u>420,000</u>	<u>1,000</u>	<u>426,875</u>
TOTAL ADDITIONS	<u>74</u>	<u>5,880</u>	<u>43</u>	<u>430,738</u>	<u>1,001</u>	<u>437,736</u>
DEDUCTIONS						
Other Instructional Programs	635	--	--	--	--	635
Administrative Services	<u>22</u>	<u>2,500</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>2,522</u>
TOTAL DEDUCTIONS	<u>657</u>	<u>2,500</u>	<u>--</u>	<u>--</u>	<u>1,001</u>	<u>3,157</u>
CHANGE IN NET ASSETS	(583)	3,380	43	430,738	1,001	434,579
NET ASSETS – JULY 1, 2009	<u>31,855</u>	<u>2,816</u>	<u>1,042</u>	<u>754,893</u>	<u>--</u>	<u>790,606</u>
NET ASSETS – JUNE 30, 2010	<u>\$ 31,272</u>	<u>\$ 6,196</u>	<u>\$ 1,085</u>	<u>\$1,185,631</u>	<u>\$ 1,001</u>	<u>\$1,225,185</u>

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**SCHEDULE OF CHANGES IN CASH BALANCE – ACTIVITY FUNDS
JUNE 30, 2010**

	<u>Beginning Cash Balance July 1, 2009</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Ending Cash Balance June 30, 2010</u>
Northeastern Senior High School (Checking)	\$ 48,820	\$ 205,396	\$ 207,485	\$ 46,731
Northeastern Middle School (Checking)	5,171	19,670	20,139	4,702
Spring Forge Elementary School (Checking)	637	17,113	16,747	1,003
Shallow Brook Intermediate School (Checking)	<u>3,970</u>	<u>19,912</u>	<u>16,886</u>	<u>6,996</u>
	<u>\$ 58,598</u>	<u>\$ 262,091</u>	<u>\$ 261,257</u>	<u>\$ 59,432</u>

SINGLE AUDIT INFORMATION
OF
NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA
JUNE 30, 2010

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010**

Federal Grantor/Pass Through Grantor/Program Title	Source Code	Federal CFDA Number	Pass- Through Grantor's Number	Grant Period Beginning/ Ending Date	Total Program or Award Amount	Received for the Year	Accrued or (Deferred) Revenue at July 1, 2009	Revenue Recognized	Expenditures	Accrued or (Deferred) Revenue at June 30, 2010
U.S. DEPARTMENT OF EDUCATION										
Passed Through the Pennsylvania Department of Education:										
Title I - Improving Basic Education	I	84.010	013-09-0295	7/1/08-9/30/09	\$ 357,098	\$ 46,722	\$ 46,722	\$ --	\$ -- *	\$ --
Title I - Improving Basic Education	I	84.010	013-10-0295	7/1/09-9/30/10	416,744	362,164	--	416,744	416,744 *	54,580
Title I - School Improvement	I	84.010	042-10-0295	7/1/09-9/30/11	47,627	--	--	22,315	22,315 *	22,315
Title I - Academic Achievement	I	84.010	077-09-0295	7/1/08-9/30/09	3,000	--	(1,200)	1,200	1,200 *	--
Title I - Academic Achievement	I	84.010	077-10-0295	7/1/09-9/30/10	3,000	3,240	--	1,800	1,800 *	(1,440)
Title I - Recovery Act	I	84.389	127-10-0295-B	7/1/09-9/30/10	234,118	138,482	--	122,372	122,372 *	(16,110)
Title I - School Improvement - Recovery Act	I	84.389	134-09-0295	7/1/09-9/30/11	33,049	--	--	14,682	14,682 *	14,682
Total Title I Cluster						550,608	45,522	579,113	579,113	74,027
Title II - Improving Teacher Quality	I	84.367	020-10-0295	9/1/09-9/30/10	97,508	39,003	--	92,395	92,395	53,392
State Fiscal Stabilization Funds	I	84.394	126-10-0295	7/1/09-6/30/10	1,273,058	1,273,058	--	1,273,058	1,273,058 *	--
Passed Through Lincoln Intermediate Unit No. 12:										
IDEA Grant	I	84.027	062-100012	7/1/09-6/30/10	655,800	656,730	--	656,730	656,730 *	--
IDEA Grant - Recovery Act	I	84.391A	N/A	2/17/09-9/30/11	850,925	606,683	--	606,683	606,683 *	--
Total IDEA Cluster						1,263,413	--	1,263,413	1,263,413	--
Safe and Drug Free Schools	I	84.186	100-100812	7/1/09-9/30/10	1,934	1,934	--	1,934	1,934	--
TOTAL U. S. DEPARTMENT OF EDUCATION						3,128,016	45,522	3,209,913	3,209,913	127,419
U.S. DEPARTMENT OF HOMELAND SECURITY										
Passed through the Pennsylvania Emergency Management Agency:										
Public Assistance Grants	I	97.036	FEMA-1898- DR-PA-133- 027D8-00	2/10/10-2/12/10	N/A	5,086	--	5,086	5,086	--
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY						5,086	--	5,086	5,086	--

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010**

Federal Grantor/Pass Through Grantor/Program Title	Source Code	Federal CFDA Number	Pass- Through Grantor's Number	Grant Period Beginning/ Ending Date	Total Program or Award Amount	Received for the Year	Accrued or (Deferred) Revenue at July 1, 2009	Revenue Recognized	Expenditures	Accrued or (Deferred) Revenue at June 30, 2010
U. S. DEPARTMENT OF AGRICULTURE										
Passed Through the Pennsylvania Department of Education:										
National School Lunch Program	I	10.555	N/A	7/1/08-6/30/09	N/A	20,723	20,723	--	--	--
National School Lunch Program	I	10.555	N/A	7/1/09-6/30/10	N/A	562,069	--	589,811	589,811	27,742
School Breakfast Program	I	10.553	N/A	7/1/08-6/30/09	N/A	4,716	4,716	--	--	--
School Breakfast Program	I	10.553	N/A	7/1/09-6/30/10	N/A	127,118	--	133,528	133,528	6,410
Passed Through the Pennsylvania Department of Agriculture:										
Value of USDA Donated Commodities	I	10.555	N/A	7/1/09-6/30/10	N/A	<u>114,219</u>	<u>--</u>	<u>114,219</u>	<u>114,219</u>	<u>--</u>
Total Child Nutrition Cluster						<u>828,845</u>	<u>25,439</u>	<u>837,558</u>	<u>837,558</u>	<u>34,152</u>
TOTAL U. S. DEPARTMENT OF AGRICULTURE						<u>828,845</u>	<u>25,439</u>	<u>837,558</u>	<u>837,558</u>	<u>34,152</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS						<u>\$3,961,947</u>	<u>\$ 70,961</u>	<u>\$4,052,557</u>	<u>\$4,052,557</u>	<u>\$ 161,571</u>

▸ Programs Selected for Testing (25% Test) (Low Risk Entity)	
Title I Cluster	\$ 579,113
IDEA Cluster	1,263,413
State Fiscal Stabilization Funds	<u>1,273,058</u>
Total Selected	<u>\$3,115,584</u>

Total Selected	<u>3,115,584</u>
Total Expenditures of Federal Awards	4,052,557 = 76.88%

D - Direct Funding
I - Indirect Funding

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirement of OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*.

The accompanying notes are an integral part of these financial statements.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of School Directors
Northeastern School District
Manchester, Pennsylvania

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Northeastern School District as of and for the year ended June 30, 2010, which collectively comprise Northeastern School District's basic financial statements and have issued our report thereon dated December 9, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Northeastern School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Northeastern School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northeastern School District's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters which we have reported to the management of Northeastern School District, in a separate letter dated December 9, 2010.

This report is intended solely for the information and use of the school board, management, the Pennsylvania Department of Education and federal awarding agencies and pass-through entities and is not intended to be used and should not be used by anyone other than these specified parties.

Columbia, Pennsylvania
December 9, 2010

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of School Directors
Northeastern School District
Manchester, Pennsylvania

Compliance

We have audited the compliance of Northeastern School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. Northeastern School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Northeastern School District's management. Our responsibility is to express an opinion on Northeastern School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *"Audits of States, Local Governments, and Nonprofit Organizations"*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Northeastern School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Northeastern School District's compliance with those requirements.

In our opinion, Northeastern School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of Northeastern School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Northeastern School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Northeastern School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information of the school board, management, the Pennsylvania Department of Education and federal awarding agencies and pass-through entities and is not intended to be used and should not be used by anyone other than these specified parties.

Columbia, Pennsylvania
December 9, 2010

**NORTHEASTERN SCHOOL DISTRICT
MANCHESTER, PENNSYLVANIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

- Material weaknesses identified? _____ Yes _X_ No
- Significant deficiencies identified? _____ Yes _X_ None Reported
- Noncompliance material to financial statements noted? _____ Yes _X_ No

Federal Awards

Internal control over major programs:

- Material weaknesses identified? _____ Yes _X_ No
- Significant deficiencies identified? _____ Yes _X_ None Reported

Type of auditor’s report issued on compliance for major programs: Unqualified

- Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? _____ Yes _X_ No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.010/84.389	Title I Cluster
84.027/84.391A	IDEA Cluster
84.394	State Fiscal Stabilization Fund

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? _X_ Yes _____ No

Section II – Financial Statement Findings

There were no current year findings.

Section III – Federal Award Findings and Questioned Costs

There were no current year findings or questioned costs.