



**COMPREHENSIVE ANNUAL FINANCIAL REPORT OF
THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**
A Component Unit of the City of Newport News, Virginia

Fiscal Year ended June 30, 2016

(With Report of Independent Auditor)

THE SCHOOL BOARD OF THE CITY OF NEWPORT NEWS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
A COMPONENT UNIT OF THE CITY OF NEWPORT NEWS, VIRGINIA

Fiscal Year ended June 30, 2016

Prepared by:

BUSINESS OFFICE

Ashby Kilgore, EdD., Superintendent
Mary Lou Roaseau, CPA, Assistant Superintendent – Business and Support Services
Steven Kanehl, CPA, Accounting Supervisor
Kimberly Powell, MPA, Accounting Analyst

12465 Warwick Boulevard
Newport News, VA 23606

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS**

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INTRODUCTORY SECTION

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS**

Members of the School Board and School Board Officials

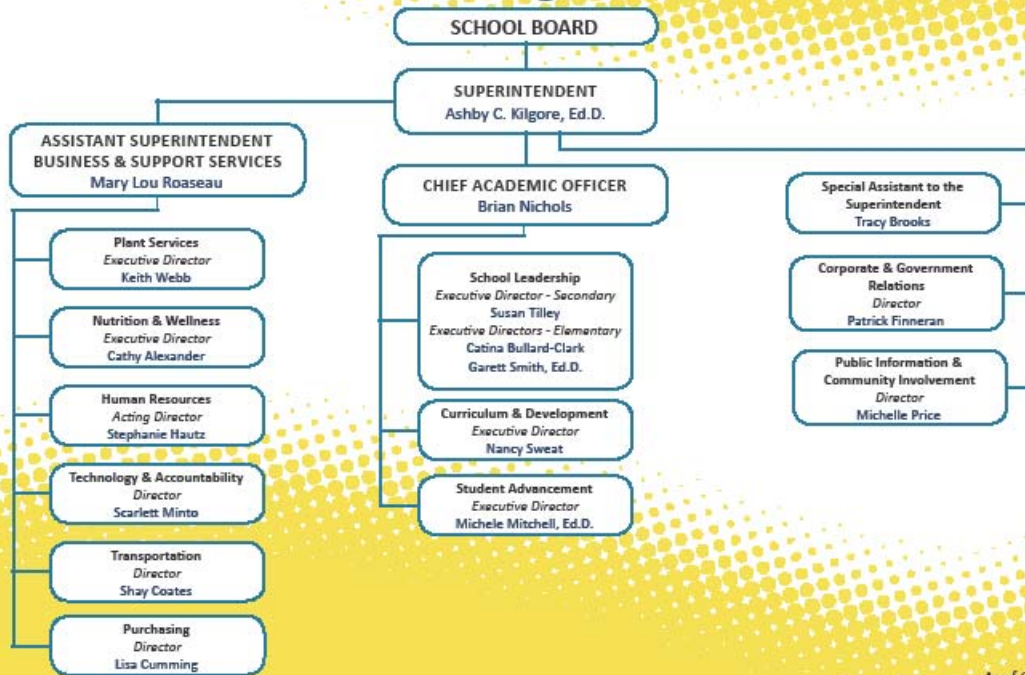
School Board

T. Jeff Stoghill	Chairman
Gary B. Hunter	Vice-Chairman
Carlton S. Ashby	Member
Douglas C. Brown	Member
John R. Eley, III	Member
Marvin L. Harris	Member
Shelley A. Simonds	Member

School Board Officials

Dr. Ashby Kilgore	Superintendent
Mary Lou Roaseau	Assistant Superintendent – Business and Support Services
Brian Nichols	Chief Academic Officer – Curriculum & Development
Cathy Alexander	Executive Director – Child Nutrition
Catina Bullard-Clark	Executive Director – Elementary School Leadership
Dr. Michele Mitchell	Executive Director – Student Advancement
Garett Smith	Executive Director – Elementary School Leadership
Nancy Sweat	Executive Director – Secondary Curriculum & Development
Susan Tilley	Executive Director – Secondary School Leadership
Keith Webb	Executive Director – Plant Services

Administrative Organization Chart



As of October 2016



Business Office

12465 Warwick Boulevard, Newport News, VA 23606-3041 • phone: 757-591-4511 • FAX: 757-595-2461

December 19, 2016

The Honorable Members of the School Board:

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the School Board of Newport News, Virginia (the School Board or Newport News Public Schools), for the fiscal year ended June 30, 2016. The School Board is responsible for the accuracy, completeness and fairness of the data presented. We believe that the data presented is accurate in all material respects and presents fairly the financial position and results of operations of the School Board's various funds.

Management is responsible for establishing and maintaining internal controls designed to ensure that the assets of the School Board are protected from loss, theft or misuse; and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP). Internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the valuation of costs and benefits requires estimates and judgments by management.

An annual audit of the books of accounts, financial records, and transactions of the School Board has been performed by Cherry Bekaert LLP, independent certified public accountants. The auditor's report, which includes their unmodified opinion on the basic financial statements of the School Board, is contained in this report.

Overview of the Report

We have divided the CAFR into four sections: introductory, financial, statistical, and compliance. The Introductory Section includes helpful information on the School Board's structure. The Financial Section includes the auditor's report, management's discussion and analysis, government-wide financial statements, governmental fund financial statements, note disclosures, required supplementary information and supplementary information. The Statistical Section is a compilation of tables that show multi-year financial, demographic, economic and operating information. The Compliance section demonstrates our compliance with the requirements associated with Federal grants.

The report covers financial transactions of all services provided by the School Board.

School Board profile

The School Board of the City of Newport News, Virginia (the School Board) was established in 1898 to provide educational opportunities to the residents of the City of Newport News, Virginia (the City or Newport News). The School Board is the elected body operating under the Constitution of Virginia and the *Code of Virginia*. The members of the School Board are elected by the citizens of the City to serve four-year terms. The School Board determines educational policy and employs a superintendent of schools to administer the public school system.

The School Board provides a full range of public educational services to approximately 29,200 students from grades pre-kindergarten through the 12th grade.

The School Board receives funding from taxes collected and allocated by the City and state in addition to federal aid. School construction projects are funded by general obligation bonds, operating cash transfers and State Literary Loans approved by the Newport News City Council (the Council). The School Board itself has no power to levy and collect taxes, or to increase the budget. The Council annually appropriates funds to the School Board for educational expenditures, levies taxes, and issues debt on behalf of the School Board. The legal liability for general obligation debt remains with the City. Because of the relationship with the City, the School Board is considered a component unit of the city government as defined by GAAP for governmental entities.

The School Board provides educational services in 42 separate school facilities plus alternative services at six additional sites. The School Board's buildings range in age from one year old (when the newly constructed Discovery STEM Academy was brought online in September 2016) to 97 years old, with the average age of all schools being 47 years old. Only a few schools have received extensive renovations throughout their life.

The basic financial statements and supplementary data in this report include all funds administered by the School Board in conjunction with its mission of providing elementary and secondary public education.

Factors Affecting Financial Condition

Local economy. The School Board's boundaries are co-terminus with the City. Huntington Ingalls Industries, Inc. is by far the largest employer and taxpayer of the City. Newport News also has a significant military presence, with numerous military installations located in or near the City. The City has a broad range of industrial parks and commercial centers supporting light industrial, research and technology, and commercial and retail operations. These include the Oakland Industrial Park, Carleton Farm Industrial Park, Patrick Henry CommerCenter, Oyster Point of Newport News, Copeland Industrial Park, and the Southeast Commerce Center. The City's newest development is Tech Center, a proposed corporate research center consisting of approximately 1.1 million square feet of office and lab space spread across 12 buildings with an estimated 5,500 employees. The presence of a research center next to Jefferson Lab would provide immediate opportunities for collaboration between Jefferson Lab scientists and the private sector. Completion of this development will require the relocation of the school division SCOT center. Other major companies that continue to expand their operations in Newport News include Liebherr Mining Equipment Company, Canon Virginia, Inc., Continental Automotive Systems, Brooks Crossing, and Ferguson Enterprises. The City is well situated to maintain a diversified economy.

Budgetary Controls. The School Board maintains extensive budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget. Activities of the General Fund are included in the annual appropriated budget approved by City Council.

The level of budgetary control (i.e., the level at which expenditures cannot legally exceed the appropriated amount) is the fund level. In addition, certain controls are exercised administratively on the General Fund, such as the number of full-time equivalent (FTE) authorized positions and expenditure budgets by departments and individual line items. The School Board also maintains an encumbrance accounting system. Budgets are adopted on a basis consistent with GAAP, except that encumbrances are included as budgetary expenditures and that net revenues and expenditures for the medical self-insurance program are excluded from the budget comparison.

Annual legal operating budgets are adopted for the Workers' Compensation Fund and Textbook Special Revenue Fund and are therefore included in the budget and actual comparisons. Program budgets for other special revenue funds are administratively approved on a basis consistent with the related grant applications. Project and program budgets are utilized in the Capital Projects Funds and certain Special Revenue Funds where appropriations remain open and carry over to succeeding years.

Financial Highlights. The School Board continues to be in sound financial condition as demonstrated by the financial statements and schedules included in this report. The School Board has operated within the resources available while achieving many of its program goals.

The School Board is expected to continue to experience limited growth in funding in the near future and enrollment is expected to decrease slightly. The FY2017 General Fund initially was slated to increase by \$11.4 million (3.9%) as compared to the FY2016 actual. The State was providing \$10.0 million (88%) of the increase with the City providing no new funding and the remaining increase provided by Federal and other revenue sources. However, soon after FY2017 began State revenues declined triggering a provision in the State appropriation act to rescind \$1.4 million of funding for FY2017. Furthermore, our enrollment in the fall of 2016 was lower than expected and it is anticipated that another \$2.1 million in State funds will not materialize as most State funding is based on enrollment. The forecast for FY2018 shows a great deal of uncertainty for all funding sources.

See the Management's Discussion and Analysis beginning on page 3 of the financial section of this report for an in-depth financial analysis.

Financial Resiliency. The School Board adopted a strategic plan to drive student success. Achieving the Academic Agenda for students requires a systemic, connected plan. To this end, the Board affirmed five strategic supports that are necessary to achieve student success. One of the supports is financial resiliency. Resilient school divisions evolve their planning process as needed to address new issues, keep up with best practices, and anticipate the changing needs of the organization created by economic conditions, community expectations, and state and federal regulations. NNPS will advance the Academic Agenda by aligning current and future resources with the district's mission through: long-range planning for operations and infrastructure; utilization of best business and operational practices; and community awareness of NNPS fiscal management.

Risk Management. The School Board's risk management program is designed to protect the investment of taxpayers by identifying and reducing risks that confront the School Board. Risk is managed with a combination of commercial insurance with small deductibles and self-insurance combined with reinsurance for large claims. Commercial insurance with small deductibles is maintained for general liability, property, and errors and omissions. The School Board participates with the City in a self-insurance program for vehicles (with re-insurance for claims over \$1 million). Self-insurance is maintained for employee health insurance (with reinsurance for individual claims over \$175 thousand) and workers' compensation (re-insurance contracted for claims over \$1 million effective July 1, 2016).

Accomplishments, Recognitions and Awards

School Accreditation. Twenty of our 38 schools are Fully Accredited by the Virginia Department of Education; one is Partially Accredited: Approaching Benchmark Pass Rate; 6 are Partially Accredited: Reconstituted Schools; 4 are Partially Accredited: Warned School, and 7 are denied accreditation. The number of fully accredited schools increased by five from the previous year.

The 2016-2017 accreditation ratings are based on the revised Standards of Accreditation adopted by the Virginia Board of Education in July 2016 and the new guidelines for the partially accredited ratings on October 22, 2015. The accreditation standards require all schools to meet certain achievement pass rates in four subject areas. In addition, high schools must meet a graduation and completion index.

To be Fully Accredited for the 2016-2017 school year at least 75% of students must pass SOL tests in English and at least 70% of students must pass SOL tests in math, history and science. High schools must also attain a point value of at least 85 based on the Graduation and Completion Index.

Schools that are within a two-point margin of the SOL pass rates for Full Accreditation are designated as Partially Accredited: Approaching Benchmark-Pass Rate: 73% of students must pass SOL tests in English and at least 68% of students must pass SOL tests in math, history and science.

Schools that fail to meet the requirements for full accreditation for four consecutive years and receive permission from the state Board of Education to reconstitute are designated as Partially Accredited: Reconstituted Schools.

Schools that are not within a narrow margin or making acceptable progress toward achieving full accreditation receive a rating of Partially Accredited: Warned School-Pass Rate.

Under the revised accreditation regulations, schools that have not been Fully Accredited for four consecutive years will still be denied accreditation and will be designated Accreditation Denied. Once a school has been denied accreditation, the school must reach the criteria required for a Fully Accredited school to move out of the denied accreditation status.

Accreditation ratings for the 2016-2017 school year are based on the achievement of students on the 2015-2016 administration of Standards of Learning tests.

More NNPS Students are Earning Diplomas. By keeping the focus on college and career readiness, NNPS' graduation rate has increased to 92.1% in 2016 from 72.9 % in 2008. During the same time, the dropout rate decreased to 2.4%. Newport News Public Schools' dropout prevention and recovery program provides an array of services to help students graduate on time (in four years).

NNPS Students are Making Progress on SOL Tests. Student achievement increased in all subject areas on Standards of Learning (SOL) tests administered during the 2015-2016 school year. Overall, student performance on mathematics tests increased by one percentage point. The mathematics pass rate increased from 71% to 72% when comparing 2015-2016 results to the previous year. Student performance on English/reading tests improved one percentage point when compared to the prior year and five percentage points from 2012-2013, when more challenging English/reading and writing SOL tests were introduced by the Virginia Department of Education. Division-wide performance in science improved by two percentage points from 2014-2015 to 76%. Student performance in history/social science tests improved by one percentage point to 82%, when compared to the 2014-2015 school year. Newport News Public Schools curriculum is aligned to the new SOL content, but NNPS educators go beyond teaching the minimum state standards. The NNPS curriculum combines the SOLs with the district's college, career and citizen-ready skills (information literacy, communication, critical thinking, problem-solving, creativity and innovation, initiative and self-direction, social responsibility and collaboration) to better prepare students for success as learners, future employee and contributing citizens.

NNPS Students are Preparing for Successful Futures. More high-school students are earning industry certifications, preparing them for future careers. In 2016, NNPS students earned 2,011 certifications, compared to 741 in 2011.

Ninety-one percent of high school students completed an honors, Advanced Placement or International Baccalaureate course.

Two hundred eighteen NNPS high school students who took Advanced Placement courses during the 2015-2016 school year have been named 2016 Advanced Placement (AP) Scholars by the College Board. Students earning this distinction took at least three AP course exams and scored a 3 or better (out of 5) on each exam.

2,022 students took 3,395 Advanced Placement courses during the 2015-2016 school year. Recognizing the benefits of AP coursework, NNPS encourages all students to prepare for and take at least one AP class. Studies show that AP courses move students towards a higher level of preparedness for success after high school. Students with qualifying grades may earn college credit. NNPS offers more Advanced Placement courses than any other school district or private school on the Virginia Peninsula.

Five high school students were recognized in the 2016 National Merit Scholarship Program. The privately-financed competition program evaluates scores and recognizes high performing students - those with the highest PSAT Index scores in critical reading, mathematics and writing skills qualify for recognition in the National Merit® Scholarship program.

Eighty percent of all secondary students participated in a club, activity or sport, connecting them to school through the school district's youth development program.

NNPS Has Qualified Educators. NNPS has 63 National Board Certified Teachers. National Board Certification is recognized nationally as a benchmark for teacher quality and is the highest credential in the profession. Over ninety-nine percent (99%) of NNPS teachers are designated as highly qualified by federal No Child Left Behind standards.

Awards. Deer Park Elementary School has been named a 2016 National Blue Ribbon School for its strong academic performance. The prestigious list includes the top-performing schools in the nation. Deer Park, an environmental science magnet school, is recognized in the Exemplary High Performing Schools category. During the past five school years, Deer Park students have exceeded state and federal benchmarks on all Virginia Standards of Learning tests. Student performance on state assessments is among the highest in Virginia in all subject areas.

Newport News Public Schools' SPARK initiative earned first place in the 2016 National School Boards Association's Magna Awards Program. The awards recognize school districts taking bold and innovative steps in educating students. SPARK, the Summer Program for Arts, Recreation and Knowledge, gives students hands-on academic learning and a variety of enrichment offerings.

Newport News Public Schools was awarded a \$2.7 million Virginia Extended School Year Grant to support afterschool, Saturday and summer learning opportunities for students. Funding provided by the grant established WE LEAP, the Wonderful Extended Learning, Enrichment and Advancement Program held at various elementary schools; and supports the expansion of SPARK.

Newport News Public Schools earned a 2016 Programs That Work Award from the Virginia Mathematics and Science Coalition for the elementary Engineering Design Challenges, quarterly events that challenge teams from each school to collaborate in rigorous, career-based competitions. Selected as one of 10 programs from across the state to receive the award in recognition of its impact on STEM education, the Engineering Design Challenges task students to design and build a piece of equipment that successfully completes the assigned mission. The challenges have a real world emphasis and include a partnership with a local business or organization and the school system.

Marshall Early Learning Center was named a 2016 Virginia Naturally School for its efforts in increasing student environmental awareness and stewardship. Marshall Early Learning Center is one of 66 schools in the state to earn recognition through the program administered by the Virginia Department of Game and Inland Fisheries and the state Department of Education.

Newport News Public Schools was selected to host the Virginia CyberCamp 2016 Program by the Virginia Department of Education (VDOE). The program is designed to increase student awareness of careers in cybersecurity. As one of 32 locations in the state, the school division received \$62,500 from the VDOE for the implementation of the camp. The Newport News CyberCamp was open to students in the computer systems strand in the Governor's STEM Academy at Heritage High School.

Newport News Public Schools partnered with the National Institute of Aerospace through a competitive NASA Science grant to support NASA's E-Clips program. NNPS students in the television production program work with NIA educators to produce short educational videos, which are added to the NASA's online resources. Newport News students serve as the pilot group to field test the new resources, and the NNPS Educator in Residence creates and facilitates professional development for teachers across the country.

Menchville and Woodside high schools were named Blue Star schools in recognition of its students successful performance on the 2015-2016 WISE Financial Literacy Certification Test. WISE, or Working in Support of Education, is an organization dedicated to providing educational support services and building financial literacy. To earn the Blue Star recognition, a school must achieve a 80% pass rate on the standardized financial literacy test and have either a majority of students in a particular grade level take the test or have the students who took the test achieve an average score of 85% or higher.

Two NNPS Odyssey of the Mind teams earned top honors at the state competition in April 2016 and advanced to the World Finals Competition at Iowa State University. The Woodside High School team earned first place in the Something Fishy problem and the Warwick High School team earned second place in the Furs, Fins, Feathers, and Friends problem.

Greenwood and Palmer elementary schools earned ENERGY STAR certification. ENERGY STAR certified buildings use 35 percent less energy and cause 35 percent fewer greenhouse gas emissions than similar buildings.

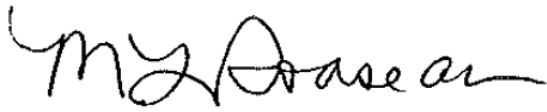
Newport News Public Schools has earned several awards in recognition of outstanding financial management and distinguished budget presentation. The school district earned its thirteenth consecutive Outstanding Achievement Award from the Government Finance Officers Association (GFOA) for our Comprehensive Annual Financial Report (CAFR) for the 2015 fiscal year. We also earned our sixth consecutive Certificate of Excellence for Financial Reporting Award from the Association of School Business Officials International (ASBO) for our CAFR. The School Board's comprehensive budget document earned its seventh consecutive GFOA Distinguished Budget Presentation Award for fiscal year 2015. In addition, the School Board's FY 2016 budget earned its sixth consecutive ASBO Meritorious Budget Award for excellence in budget presentation.

Acknowledgements

The preparation of the School Board's CAFR was accomplished with the dedicated services of personnel from the Accounting Office of the Business Department. This effort was led by Steven Kanehl, CPA, Accounting Supervisor, and supported by members of the Business Office.

Further appreciation is extended to each member of the School Board and the Superintendent for their interest and support in planning and conducting the financial operations of the School Board in a responsible manner.

Sincerely,

A handwritten signature in black ink, appearing to read "Mary Lou Roaseau". The signature is fluid and cursive, with the first name "Mary" and last name "Roaseau" clearly distinguishable.

Mary Lou Roaseau, CPA
Assistant Superintendent – Business and Support Services



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**School Board of the City
of Newport News, Virginia**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

A handwritten signature in black ink, reading "Jeffrey R. Egan". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Executive Director/CEO

Association of School Business Officials International



*The Certificate of Excellence in Financial Reporting Award
is presented to*

Newport News Public Schools

For Its Comprehensive Annual Financial Report (CAFR)

For the Fiscal Year Ended June 30, 2015

The CAFR has been reviewed and met or exceeded
ASBO International's Certificate of Excellence standards



Ron McCulley, CPPB, RSBO
President

John D. Musso, CAE, RSBA
Executive Director

FINANCIAL SECTION

Report of Independent Auditor

To the Honorable Members of the
School Board of the City of
Newport News, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the School Board of the City of Newport News, Virginia (the "School Board"), a component unit of the City of Newport News, Virginia, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Student Activity Funds, a fiduciary fund of the School Board, which represents 5% of the total assets of the aggregate remaining fund information. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Student Activity Funds, is based solely on the report of the other auditors. We conducted our audit 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 the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Student Activity Funds were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School Board of the City of Newport News, Virginia, as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison, pension and other postemployment benefits information and related notes on pages 3-10 and 61-68, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Board's basic financial statements. The Introductory Section, Supplementary Information, and Statistical Section, as listed in the Table of Contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance), and is also not a required part of the financial statements.

The Supplementary Information 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the Supplementary Information and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The Introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2016, on our consideration of the School Board's internal control over financial reporting and 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* in considering the School Board's internal control over financial reporting and compliance.



Richmond, Virginia
December 19, 2016

THE SCHOOL BOARD OF THE CITY OF NEWPORT NEWS, VIRGINIA

Management's Discussion and Analysis (Unaudited)

June 30, 2016

The following discussion and analysis of The School Board of the City of Newport News, Virginia's (the School Board) financial performance provides an overview of the School Board's financial activities as of and for the fiscal year ended June 30, 2016. The analysis focuses on the School Board's financial performance as a whole. Please read it in conjunction with the transmittal letter at the front of this report and the School Board's financial statements, which follow this section.

Financial Highlights for Fiscal Year (FY) 2016

The School Board, on a government-wide basis, had an increase in Net Position of \$2.8 million. As a result Net Position went from a negative \$265.0 million to a negative \$262.2 million.

Net investment in capital assets was increased by \$2.6 million to \$76.4 million primarily due to receiving back from the City the accounting book value (cost less accumulated depreciation) of Gildersleeve Middle School. Under the provisions of *Code of Virginia* 15.2-1800 (Assets Held Tenancy in Common), the City recorded Gildersleeve on their books as an asset until the general obligation bonds used to finance the construction of the school were repaid (The School Board is not permitted to issue General Obligation Bonds). Restricted Net Position was unchanged at \$5.1 million. Unrestricted Net Position increased by \$0.2 million.

The General Fund utilized all available resources to meet School Board needs and none was returned to the City.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the School Board's basic financial statements.

This Comprehensive Annual Financial Report consists of three sections: introductory, financial, and statistical. The financial section has four components – management's discussion and analysis (this section), the basic financial statements, required supplementary information, and supplementary information.

The School Board's financial statements consist of two kinds of statements that present different views of the School Board's financial activities.

- The Statement of Net Position and Statement of Activities provide information on a government-wide basis. These statements present an aggregate view of the School Board's finances providing both long-term and short-term information about the School Board's overall financial status.
- The fund financial statements focus on the individual parts of the School Board, reporting School Board operations with more information and detail than the government-wide statements.

Both perspectives (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison (e.g., year-to-year or government to government), and enhance the School Board's accountability. The notes to the financial statements explain some of the information in the statements and provide additional disclosures so that statement users have a complete picture of the School Board's financial activities and position. The required supplementary information further explains and supports the financial statements.

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Government-Wide Financial Statements

The government-wide financial statements report information about the School Board as a whole using accounting methods similar to those used by private-sector companies. An important question one could ask about the School Board's finances is, "Is the School Board as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities, which are the government-wide statements, report information about the School Board as a whole and its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School Board's Net Position and changes in them. The School Board's Net Position, which is the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources, is one way to measure the School Board's financial health. Over time, increases or decreases in the School Board's Net Position are indicators of whether or not its financial position is improving. Other factors will also need to be considered, such as the overall economy of the Commonwealth and the City, from which most of the School Board's resources are derived.

Fund Financial Statements

Traditional users of government financial statements will find the fund financial presentation more familiar. The focus is on the School Board's most significant fund, the General Fund. The Grant Fund and the General Obligation Bond Fund are also considered major funds. All of the School Board's other funds are considered non-major funds and are summarized into one total, but the details of each fund are also shown in the Supplementary Information section.

Financial Analysis of the School Board as a Whole

The School Board presents its financial statements in accordance with GAAP.

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The following table reflects the condensed Net Position of the School Board.

	FY 2016	FY 2015	Change
Current and other assets	\$ 80.2	\$ 91.8	\$ (11.6)
Capital assets, net	88.3	74.9	13.4
Total assets	<u>168.5</u>	<u>166.7</u>	<u>1.8</u>
Deferred outflows of resources	<u>29.4</u>	<u>29.3</u>	<u>0.1</u>
Other liabilities	\$ 36.9	\$ 34.7	\$ 2.2
Long-term liabilities	392.9	372.4	20.5
Total liabilities	<u>429.8</u>	<u>407.1</u>	<u>22.7</u>
Deferred inflows	\$ 30.3	\$ 53.9	\$ (23.6)
Total Deferred Inflows	<u>\$ 30.3</u>	<u>\$ 53.9</u>	<u>\$ (23.6)</u>
Net Position:			
Net investment in capital assets	\$ 76.4	\$ 73.8	\$ 2.6
Restricted	5.1	5.1	0.0
Unrestricted	(343.7)	(343.9)	0.2
Total Net Position	<u>\$ (262.2)</u>	<u>\$ (265.0)</u>	<u>\$ 2.8</u>

The School Board's total Net Position showed an increase of \$2.8 million increasing to a negative \$262.2 million. This was achieved through an increase in net investment in capital assets of \$2.6 million and an increase in unrestricted Net Position of \$0.2 million.

Current and other assets decreased by \$11.6 million. This was attributed primarily to the funds expended for the construction of the Discovery STEM school. Those funds were provided by the City in FY2015, but most of the construction was done in the current year.

Capital assets (net of depreciation) increased by \$13.4 million. This is the result of additions of \$11.1 million in construction in progress of energy performance contract improvement projects and receiving back from the City the book value of Gildersleeve Middle School. The City had held Gildersleeve until the general obligation bonded debt was repaid under the provisions of Assets Held Tenancy in Common.

Other liabilities increased by \$2.2 million, primarily due to payroll withholdings associated with an increased level of teacher deferred pay (reflecting a three percent pay increase) so those employees can receive paychecks during July and August even though they are not contractually performing duties during those two months.

Long-term liabilities increased by \$20.5 million due to \$10.4 million more due to the VRS pension teacher pool and facility notes payable of \$11.1 million for energy performance contract improvement projects.

Deferred inflows decreased by \$23.6 million due to changes from actuarial computations associated with the VRS and NNERF pension plans. Much of the change was due to the reduction of accumulated investment

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Management's Discussion and Analysis (Unaudited)

June 30, 2016

gains from prior years which were needed in FY2016 because actual gains were substantially below the expected rate of return.

The following table summarizes the changes in the School Board's Net Position:

Table 2
Changes in Net Position
(In millions)

	<u>FY 2016</u>	<u>FY 2015</u>	<u>Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 7.0	\$ 7.7	\$ (0.7)
Operating grants and contributions	62.9	62.7	0.2
Capital grants and contributions	0.9	1.3	(0.4)
General revenues:			
Local	99.9	126.1	(26.2)
State	147.2	146.8	0.4
Federal	2.4	1.2	1.2
Interest	0.1	0.1	-
Total revenues	<u>320.4</u>	<u>345.9</u>	<u>(25.5)</u>
Expenses:			
Academic services	223.9	226.9	(3.0)
Attendance and health	5.5	5.5	-
Transportation services	17.2	18.0	(0.8)
Operations and facilities	29.9	32.2	(2.3)
Child nutrition services	16.7	16.3	0.4
Technology services	14.8	13.3	1.5
Administration	9.5	9.7	(0.2)
Interest on capital debt	0.1	0.3	(0.2)
Total expenses	<u>317.6</u>	<u>322.2</u>	<u>(4.6)</u>
Change in net position	<u>2.8</u>	<u>23.7</u>	<u>(20.9)</u>
Beginning net position	<u>(265.0)</u>	<u>(288.7)</u>	<u>23.7</u>
Ending net position	<u>\$ (262.2)</u>	<u>\$ (265.0)</u>	<u>\$ 2.8</u>

For the fiscal year ended June 30, 2016, revenues from governmental activities (excluding charges for services and interest) totaled \$313.3 million. Commonwealth Standards of Quality (SOQ) Funds accounted for \$147.2 million (45.9%) of the School Board's resources. These funds are based on student membership counts. The SOQ funds were virtually unchanged, increasing by only \$0.4 million due to fewer enrolled students.

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Management's Discussion and Analysis (Unaudited)

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Local revenue from the City is shown net of the amount returned for debt service (to reflect bonded debt still outstanding and owed by the City for school capital assets). The detail is as follows:

Revenue to the General Fund	\$ 118,300,000
Less debt service returned to the City	(12,146,827)
Add Revenue General Capital Fund	2,000,000
Less net capital assets transferred tenancy-in-common	<u>(8,236,329)</u>
Net amount from City - Entity-wide statements	<u><u>\$ 99,916,844</u></u>

Revenue from the City in FY 2016 was \$99.9 million (31.1% of the total), a decrease of \$26.2 million. Of this amount, \$25.4 million was for capital projects in FY2015, primarily for the construction of Discovery STEM Academy.

Federal revenue increased by \$1.2 million to \$2.4 million (0.8% of the total) in FY2016 due to increased Impact Aid funding.

Operating grants, which were comprised of approximately 55% from Federal sources and 45% from Virginia sources, totaled \$62.9 million (19.6% of the total). This was an increase of \$0.2 million.

Capital grants, which was for technology, was \$0.9 million (0.3% of the total) and showed a decrease of \$0.4 million. This was due to the timing of purchases using those grants, not a decrease in the actual grants awarded.

Expenses for FY 2016 totaled \$317.6 million, a decrease of \$4.6 million (1.4%).

Academic services accounted for \$223.9 million (70.5%) of the School Board's total spending. A significant portion of this amount is for the salaries and benefits of teachers, teacher assistants and instructional administrators. All of decrease of \$3.0 million (1.2%) was due to changes in the pension actuarial computations. Expenses would have increased by \$7.8 million (3.4%) if not for the pension plan adjustment. The increase (excluding pension adjustment) was attributable primarily to teacher compensation increases.

Operations and facilities were the next highest cost category with a total of \$29.9 million (9.4% of the total). Much of these expenses relate to the operation (utilities and insurance), maintenance, and cleaning of our 42 regular schools, six alternative school sites, and administrative offices. This category showed a \$2.3 million (7.1%) decrease. A total of \$1.4 million of the \$2.3 million decrease was due to changes in the pension actuarial computations.

Transportation services is the third largest cost category, with expenses of \$17.2 million (5.4% of the total). This category decreased by \$0.8 million (4.4%) all of which was due to changes in the pension actuarial computations.

Child nutrition services is the fourth largest cost category, with expenses of \$16.7 million (5.3% of the total). This category showed an increase of \$0.4 million (2.5%), primarily due to expanded programs providing dinner and summer meals to students.

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

Management's Discussion and Analysis (Unaudited)

June 30, 2016

Capital Assets

At the end of FY 2016, the School Board had invested \$88.3 million in capital assets, which reflects historical cost of \$198.7 million and accumulated depreciation of \$110.4 million. In addition, the School Board and the City hold assets in-common (AHTIC) a net of \$144.9 million of capital assets, which are reflected in the financial statements of the City (historical cost of \$217.7 million net of accumulated depreciation of \$72.7 million). Most school buildings and improvements undertaken in the past 20 years, for which City bonded debt has been issued, are included therein. The City also has net bonded debt outstanding related to School Board projects of approximately the same net amount. The following table shows the capital assets recorded on the School Board's books at year end.

**Table 3
Capital Assets, Net
(In millions)**

	<u>FY 2016</u>	<u>FY 2015</u>	<u>Change</u>
Nondepreciable assets:			
Land	\$ 2.9	\$ 2.5	\$ 0.4
Construction in progress	14.2	3.2	11.0
Other capital assets:			
Buildings	59.4	50.6	8.8
Building improvements	56.2	53.2	3.0
Equipment and vehicles	66.0	64.6	1.4
Accumulated depreciation	<u>(110.4)</u>	<u>(99.2)</u>	<u>(11.2)</u>
Total	<u>\$ 88.3</u>	<u>\$ 74.9</u>	<u>\$ 13.4</u>

Construction in progress was increased by \$11.0 million due to the energy performance contract improvement projects. Buildings increased by \$8.8 million due to the transfer of Gildersleeve Middle School to the School Board under the provisions of AHTIC, as City bonded debt associated with the building construction has been paid off. Building improvements increased by \$3.0 million due to the HVAC replacement at Hidenwood Elementary. Accumulated depreciation increased by \$11.2 million. This was comprised of depreciation expense of \$9.8 million and \$4.0 million accumulated depreciation in the Gildersleeve transfer offset by retirements of \$2.6 million (primarily school buses). See Note 4 to the financial statements for additional information.

Long-Term Liabilities

The School Board cannot issue bonded debt. Accordingly, long-term liabilities of \$392.9 million as shown on Table 1 are related to capital leases on equipment, capital facility notes payable, compensated absences, workers' compensation claims payable (under our self-insurance program), other postemployment benefits and incurred but not reported claims under our self-insured employee health insurance program and pension obligations. During FY2016, long-term liabilities had a net increase of \$20.5 million primarily due to an increase in pension obligations of \$9.6 million and facility notes payable of \$11.1 million for energy performance contract improvement projects. See Note 6 in the notes to basic financial statements for additional information.

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

Management's Discussion and Analysis (Unaudited)

June 30, 2016

Financial Analysis of the School Board's Funds

For the fiscal year ended June 30, 2016, the governmental funds had a combined fund balance of \$40.9 million. This is a decrease of \$15.2 million as compared to June 30, 2015. The primary reason for the decrease was \$14.8 million expended for the construction of the Discovery STEM Academy. The City had provided these funds in FY2015.

General Fund Budgetary Highlights

Table 4
General Fund Budget to Actual Summary (non-GAAP basis)
Year ended June 30, 2016
(In millions)

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:				
State	\$ 171.4	\$ 171.4	\$ 170.1	\$ (1.3)
City	118.3	118.3	118.3	-
Federal	4.5	4.5	2.9	(1.6)
Other	<u>1.7</u>	<u>1.7</u>	<u>1.9</u>	<u>0.2</u>
Total revenues	<u>295.9</u>	<u>295.9</u>	<u>293.2</u>	<u>(2.7)</u>
Expenditures and transfers:				
Expenditures	284.4	284.4	281.4	3.0
Transfers	<u>11.5</u>	<u>11.5</u>	<u>11.9</u>	<u>(0.4)</u>
Total expenditures and transfers	<u>295.9</u>	<u>295.9</u>	<u>293.3</u>	<u>2.6</u>
Change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (0.1)</u>	<u>\$ (0.1)</u>

Revenues from the Commonwealth were \$1.3 million less than the budget due to a lower student enrollment than used for budget development purposes and lower sales tax revenue. Federal revenues were \$1.6 million less than the budget due to decreased Department of Defense and Impact Aid funds. The net revenue shortfall of \$2.7 million was covered by savings expenditures being \$2.6 million under budget and \$0.1 million from cancelled prior year purchase orders.

Economic Factors

The School Board is financially dependent upon the Commonwealth and City governments. Virginia funding is primarily dependent upon income and sales tax, both of which are expected to show very slow growth in the near term. The City is dependent upon property tax revenues, which are expected to be flat in the near term. FY2017 General Fund projected actual funding is expected to be relatively unchanged from FY2016 actual.

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

Management's Discussion and Analysis (Unaudited)

June 30, 2016

Contacting the School Board's Financial Management

This financial report is designed to provide our citizens, taxpayers, local business owners, parents and vendors with a general overview of the School Board's finances and to demonstrate the School Board's accountability for the money it receives. Questions concerning this report or requests for additional financial information should be directed to Mary Lou Roaseau, Assistant Superintendent – Business and Support Services, 12465 Warwick Boulevard, Newport News, Virginia 23606, telephone (757) 591-4511. In addition, there is much nonfinancial information on our schools, curriculum and programs on the School Board's website at www.sbo.nn.k12.va.us.

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BASIC FINANCIAL STATEMENTS

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

Statement of Net Position – Governmental Activities

June 30, 2016

Assets

Cash and temporary investments	\$ 46,203,771
Accounts receivable, net	2,435,283
Receivables from other governments:	
City of Newport News, Virginia	5,503,971
Federal:	
Department of Agriculture	984,841
Department of Education	4,886
Department of Defense	23,667
Commonwealth of Virginia:	
Department of Treasury – sales tax	5,172,222
Department of Education	3,713,205
Inventories, at cost	1,840,988
Prepaid expenses	13,288,644
Pension asset	1,014,889
Capital assets, non-depreciable	17,080,768
Capital assets, depreciable, net	<u>71,185,653</u>
Total assets	<u>168,452,788</u>

Deferred Outflows of Resources

Deferred NNERF experience loss	676,842
Deferred NNERF contribution	7,688,476
Deferred VRS contribution	<u>21,072,774</u>
Total deferred outflows of resources	<u>29,438,092</u>

Liabilities:

Accounts payable	9,118,799
Accrued liabilities	1,272,895
Payroll withholdings and accrued fringe benefits	26,431,857
Unearned revenues	63,600
Long-term liabilities:	
Due within one year	4,871,062
Due in more than one year	<u>388,069,193</u>
Total liabilities	<u>429,827,406</u>

Deferred inflows:

Deferred NNERF investment gain	5,975,911
Deferred VRS pension	22,872,811
Deferred grant proceeds	<u>1,413,860</u>
Total Deferred inflows	<u>30,262,582</u>

Net Position:

Net investment in capital assets	76,396,233
Restricted for:	
Child Nutrition Services	4,338,054
Capital Projects	712,968
Adult Education	53,180
Unrestricted (deficit)	<u>(343,699,543)</u>
Total Net Position	<u><u>\$(262,199,108)</u></u>

See accompanying notes to basic financial statements.

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

Statement of Activities – Governmental Activities

Year Ended June 30, 2016

		Program Revenues			Net (Expense)
		Charges for	Operating	Capital	Revenue and
	Expenses	Services	Grants and	Grants and	Changes in
			Contributions	Contributions	Net Position
Governmental activities:					
Academic services	\$ 223,914,542	\$ 1,043,101	\$ 47,770,051	\$ -	\$ (175,101,390)
Attendance and health services	5,516,924	-	3,837	-	(5,513,087)
Transportation services	17,178,198	-	-	-	(17,178,198)
Operations and facilities	29,940,440	443,071	-	-	(29,497,369)
Child nutrition services	16,719,938	2,959,508	15,119,459	-	1,359,029
Technology services	14,816,817	526,503	-	885,030	(13,405,284)
Administration	9,478,014	2,095,897	-	-	(7,382,117)
Interest on capital debt	40,858	-	-	-	(40,858)
Total governmental activities	<u>\$ 317,605,731</u>	<u>\$ 7,068,080</u>	<u>\$ 62,893,347</u>	<u>\$ 885,030</u>	<u>(246,759,274)</u>
General revenues:					
City of Newport News, Virginia					99,916,844
Commonwealth of Virginia					147,216,415
Federal government					2,380,330
Interest					<u>28,693</u>
Total general revenues					<u>249,542,282</u>
Change in net position					<u>2,783,008</u>
Net position at beginning of year					<u>(264,982,116)</u>
Net position at end of year					<u>\$ (262,199,108)</u>

See accompanying notes to basic financial statements.

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

Balance Sheet – Governmental Funds

June 30, 2016

	General Fund	Grant Fund	General Obligation Bond Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 32,558,461	\$ 1,696,106	\$ -	\$ 11,949,204	\$ 46,203,771
Accounts receivable, net	113,287	145,951	-	2,176,045	2,435,283
Receivables from other governments:					
City of Newport News	-	-	5,503,971	-	5,503,971
Federal:					
Department of Agriculture	-	-	-	984,841	984,841
Department of Education	-	4,886	-	-	4,886
Department of Defense	-	23,667	-	-	23,667
Commonwealth of Virginia:					
Department of Treasury – sales tax	5,172,222	-	-	-	5,172,222
Department of Education	-	3,713,205	-	-	3,713,205
Inventories, at cost	1,293,460	-	-	547,528	1,840,988
Due from other funds	3,980,000	-	-	-	3,980,000
Prepaid items	13,288,644	-	-	-	13,288,644
Total assets	<u>\$ 56,406,074</u>	<u>\$ 5,583,815</u>	<u>\$ 5,503,971</u>	<u>\$ 15,657,618</u>	<u>\$ 83,151,478</u>
Liabilities, Deferred Inflows of Resources and Fund Balances					
Liabilities:					
Accounts payable	\$ 3,291,332	\$ 189,955	\$ 2,122,514	\$ 3,514,998	\$ 9,118,799
Accrued liabilities	1,254,874	-	-	18,021	1,272,895
Payroll withholdings and accrued fringe benefits	26,431,857	-	-	-	26,431,857
Due to other funds	-	3,980,000	-	-	3,980,000
Unearned revenues	63,600	-	-	-	63,600
Total liabilities	<u>31,041,663</u>	<u>4,169,955</u>	<u>2,122,514</u>	<u>3,533,019</u>	<u>40,867,151</u>
Deferred inflows:					
Deferred grant proceeds	-	1,413,860	-	-	1,413,860
Total deferred inflows of resources	<u>-</u>	<u>1,413,860</u>	<u>-</u>	<u>-</u>	<u>1,413,860</u>
Fund balances:					
Nonspendable:					
Imprest funds	2,125	-	-	-	2,125
Inventories	1,293,460	-	-	547,528	1,840,988
Restricted:					
Adult education services	-	-	-	53,180	53,180
Capital projects	-	-	-	712,968	712,968
Child nutrition services	-	-	-	4,338,054	4,338,054
Committed:					
Workers' compensation	-	-	-	3,049,716	3,049,716
Textbooks	-	-	-	1,733,447	1,733,447
Assigned to:					
Adult education services	-	-	-	611,575	611,575
Child nutrition services	-	-	-	826,296	826,296
Contractual obligations	10,780,182	-	3,381,457	251,835	14,413,474
Health insurance	13,288,644	-	-	-	13,288,644
Total fund balances	<u>25,364,411</u>	<u>-</u>	<u>3,381,457</u>	<u>12,124,599</u>	<u>40,870,467</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 56,406,074</u>	<u>\$ 5,583,815</u>	<u>\$ 5,503,971</u>	<u>\$ 15,657,618</u>	<u>\$ 83,151,478</u>
Amounts reported for governmental activities in the Statement of Net Position are different because:					
Total fund balances reported in governmental funds					\$ 40,870,467
Capital assets used in governmental activities are not financial resources, and, therefore, are not reported in the funds					88,266,421
Pension assets used in governmental activities are not financial resources, and, therefore, are not reported in the funds					1,014,889
Deferred outflows used in governmental activities are not financial resources, and, therefore, are not reported in the funds					29,438,092
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds					(392,940,255)
Deferred pension inflows are not recognized in the current period and, therefore, are not reported in the funds					(28,848,722)
Net position of governmental activities					<u>\$ (262,199,108)</u>

See accompanying notes to basic financial statements.

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2016

	General Fund	Grant Fund	General Obligation Bond Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Intergovernmental:					
City of Newport News, Virginia	\$ 106,153,173	\$ 200,000		\$ 2,000,000	\$ 108,353,173
Commonwealth of Virginia	169,710,358	3,211,688	-	931,500	173,853,546
Federal government	2,863,241	20,917,644	-	14,645,658	38,426,543
Charges for services	1,910,826	-	-	5,157,254	7,068,080
Investment income	-	-	-	28,693	28,693
Miscellaneous	-	895,033	-	-	895,033
Total revenues	<u>280,637,598</u>	<u>25,224,365</u>	<u>-</u>	<u>22,763,105</u>	<u>328,625,068</u>
Expenditures:					
Current:					
Academic services	203,724,687	23,018,893	-	1,543,077	228,286,657
Attendance and health services	5,717,202	55,743	-	-	5,772,945
Transportation services	16,747,043	-	-	-	16,747,043
Operations and facilities	29,514,928	568,593	-	183,711	30,267,232
Child nutrition services	-	-	-	17,460,389	17,460,389
Technology services	14,755,849	899,758	-	-	15,655,607
Administration	7,443,757	701,199	-	1,595,512	9,740,468
Debt service:					
Principal	346,321	-	-	-	346,321
Interest and other charges	40,858	-	-	-	40,858
Capital outlay	<u>2,618,485</u>	<u>-</u>	<u>14,828,964</u>	<u>13,237,167</u>	<u>30,684,616</u>
Total expenditures	<u>280,909,130</u>	<u>25,244,186</u>	<u>14,828,964</u>	<u>34,019,856</u>	<u>355,002,136</u>
Deficiency of revenues under expenditures	<u>(271,532)</u>	<u>(19,821)</u>	<u>(14,828,964)</u>	<u>(11,256,751)</u>	<u>(26,377,068)</u>
Other financial sources (uses):					
Issuance of Facility Note		-	-	11,144,414	11,144,414
Transfers in		19,821	-	-	19,821
Transfers out	<u>(19,821)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(19,821)</u>
Total other financing sources (uses), net	<u>(19,821)</u>	<u>19,821</u>	<u>-</u>	<u>11,144,414</u>	<u>11,144,414</u>
Net change in fund balances	<u>(291,353)</u>	<u>-</u>	<u>(14,828,964)</u>	<u>(112,337)</u>	<u>(15,232,654)</u>
Fund balances at beginning of year	25,397,703	-	18,210,421	12,210,580	55,818,704
Increase in nonspendable inventory	258,061	-	-	26,356	284,417
Fund balances at end of year	<u>\$ 25,364,411</u>	<u>-</u>	<u>\$ 3,381,457</u>	<u>\$ 12,124,599</u>	<u>\$ 40,870,467</u>

See accompanying notes to basic financial statements.

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

**Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities**

Year Ended June 30, 2016

Net change in fund balances – total governmental funds \$ (15,232,654)

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay	\$ 30,684,616	
Items capitalized, but shown as expended	769,685	
Transfer from City, tenancy-in-common	5,601,181	
Transfer to City, tenancy-in-common	<u>(13,837,510)</u>	
Capital outlay, net	23,217,972	
Loss on disposal of capital assets	(41,015)	
Depreciation expense	<u>(9,840,833)</u>	13,336,124

Repayment of debt principal is an expenditure in the governmental funds, but does not affect the Statement of Activities. 346,321

Issuance of facility note is a financing source in the governmental funds, but does not affect the Statement of Activities. (11,144,414)

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. This year, compensated absences earned exceeded the amount used by \$224,825, workers' compensation claims incurred were more than the amount paid by \$138,468, health insurance claims incurred were more than the amount paid by \$166,000, other post employment benefits incurred were less than the amount paid by \$416,249, VRS teacher pool pension costs incurred were more than the amount paid by \$10,450,000 and City of Newport News pension costs incurred were less than the amount paid by \$844,434. (9,718,610)

Statement of Activities, pension asset increased, thus lowering pension costs 149,889

Statement of Activities, deferred outflows associated with pension plans increased but are not included in governmental funds 152,092

Statement of Activities, change in deferred inflows associated with pension plans decreased but are not included in governmental funds 24,609,843

Change in nonspendable inventory from governmental funds is included in expenses in the Statement of Activities. 284,417

Change in net position of governmental activities \$ 2,783,008

See accompanying notes to basic financial statements.

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

Statement of Fiduciary Net Position – Fiduciary Funds

June 30, 2016

	<u>OPEB Trust Fund</u>	<u>Agency Fund</u>
Assets:		
Cash and cash equivalents (note 2)	\$ -	\$ 1,599,737
Investments, at fair value:		
Money market trust	<u>18,536,899</u>	<u>-</u>
Total assets	<u>18,536,899</u>	<u>\$ 1,599,737</u>
Liabilities:		
Accounts payable	-	\$ 5,014
Due to students	<u>-</u>	<u>1,594,723</u>
Total liabilities	<u>-</u>	<u>\$ 1,599,737</u>
Net Position:		
Net position held in trust for other postemployment benefits	<u>\$18,536,899</u>	

See accompanying notes to basic financial statements.

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

Statement of Changes in Fiduciary Net Position – Fiduciary Fund

Year Ended June 30, 2016

	<u>OPEB Trust Fund</u>
Additions	
Contributions:	
Employer contributions	\$ 6,897,333
Plan member (retiree) contributions	<u>1,422,780</u>
Total contributions	<u>8,320,113</u>
Net investment income:	
Net depreciation in the fair value of investments	(27,726)
Interest and dividends	<u>3,882</u>
Total investment loss	<u>(23,844)</u>
Total additions	<u>8,296,269</u>
Deductions	
Benefits	6,220,113
Administrative expenses	<u>20,329</u>
Total deductions	<u>6,240,442</u>
Change in net position	2,055,827
Net position at beginning of year	<u>16,481,072</u>
Net position at end of year	<u><u>\$ 18,536,899</u></u>

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

Notes to Basic Financial Statements

June 30, 2016

(1) Summary of Significant Accounting Policies

Narrative Profile

The School Board of the City of Newport News, Virginia (the School Board) was established in 1898 to provide educational opportunities to the residents of the City of Newport News, Virginia (the City). The School Board is the elected body operating under the Constitution of Virginia and the *Code of Virginia*. The members of the School Board are elected by the citizens of the City to serve four-year terms. The School Board determines educational policy and employs a Superintendent of schools to administer the public school system.

(a) Financial Reporting Entity

The School Board receives funding from taxes collected and allocated by the City and the Commonwealth in addition to federal aid. School construction projects are funded by general obligation bonds and State Literary Loans approved by City Council (the Council). The School Board itself has no power to levy and collect taxes, or to increase its budget. The Council annually appropriates funds to the School Board for educational expenditures, levies taxes, and issues debt on behalf of the School Board. The legal liability for general obligation debt remains with the City. Because of the relationship with the City, the School Board is considered a component unit of the City Primary Government as defined by accounting principles generally accepted in the United States of America (GAAP) for governmental entities.

(b) Basis of Presentations

The School Board's financial statements consist of government-wide financial statements, including a Statement of Net Position and a Statement of Activities along with fund financial statements, which provide a more detailed level of financial information.

Government-Wide Financial Statements: The Statement of Net Position and the Statement of Activities display information about the School Board as a whole, except for fiduciary funds. These statements are reported on a full accrual basis of accounting and economic resources measurement focus, which incorporates long-term assets as well as long-term liabilities. Transfers are eliminated to avoid "doubling up" revenues and expenditures.

The Statement of Net Position presents the financial condition of the governmental activities of the School Board at year end. The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the School Board governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore are identifiable to a particular function. Expenses are grouped in the following categories: Academic services, Attendance and health services, Transportation services, Operation and facilities, Child nutrition services, Technology services, Administration, and Interest on capital debt.

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

Notes to Basic Financial Statements

June 30, 2016

Program revenues include charges paid by the recipient for the goods or services offered by the program or from grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Charges for services include adult education, summer school tuition and cafeteria sales. Revenues not classified as program revenues are presented as general revenues of the School Board. This includes funding provided by the Commonwealth of Virginia related to their adopted Standards of Quality (SOQ). SOQ funds take into account funding for all educationally related functions of the School Board and are based upon student enrollment and prevailing average costs throughout the Commonwealth. These revenues are reported as general revenues as the intricacies of the funding formula do not permit a breakdown by function. The comparison of direct expenses with program revenues identifies the extent to which the governmental function is self-financing or draws from the general revenues of the School Board. The School Board does not allocate indirect expenses. When both restricted and unrestricted resources are available for use, it is the School Board's policy to use restricted resources first.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Interfund services provided and used are not eliminated.

Fund Financial Statements: During the year, the School Board segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. The fund financial statements present financial information of the School Board at this more detailed level. The focus of governmental fund financial statements is on major funds, each displayed in a separate column. The School Board has identified the General Fund, the Grant Fund and the General Obligation Bond Fund as major.

The accounts of the School Board are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, deferred flows of resources and fund balance, revenues, and expenditures. The fund statements are presented on a current financial resources measurement focus and the modified accrual basis of accounting. The measurement focus is based upon the determination of changes in financial position, rather than upon net income determination. The acquisition, use and balances of the School Board's expendable financial resources and the related liabilities are accounted for through governmental funds.

The School Board reports the following major governmental funds:

General Fund – The General Fund is the general operating fund of the School Board. It accounts for all financial resources except those required to be accounted for in another fund. Revenues are primarily from intergovernmental revenues.

Grant Fund – The Grant Fund accounts for the proceeds of Federal and Virginia operating and capital grants which are received for a designated purpose.

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

Notes to Basic Financial Statements

June 30, 2016

General Obligation Bond Fund – This fund accounts for proceeds of general obligation bonds issued by the City to construct or purchase capital assets.

Additionally, the School Board reports the following governmental and fiduciary funds:

Special Revenue Funds – Special Revenue Funds account for revenue derived from specific revenue sources (other than major capital projects) that are restricted to expenditures for specified purposes. The School Board utilizes two special revenue funds - Workers' Compensation Fund and Textbook Fund.

Capital Projects Funds – Capital Projects Funds are used to account for financial resources received and used for the acquisition, construction, or improvement of capital facilities or maintenance of the school plant (other than those financed by the other funds).

Fiduciary Funds – Fiduciary Funds account for assets held by the School Board in a trustee capacity or as an agent for individuals, private organizations, and other governmental units. The School Board's fiduciary funds are presented in the Fund financial statements by type (OPEB or agency). Since by definition these assets are being held for the benefit of a third party (private parties or OPEB participants), and cannot be used to address activities or obligations of the School Board, these funds are not incorporated into the Government-wide statements. The following are the School Board's fiduciary funds:

Trust Fund – The Trust Fund consists of the School Board's postemployment benefit plan, an OPEB trust fund.

Agency Funds – Agency Funds are custodial in nature. Therefore, their assets equal their liabilities, the balances of which are reported in the Statement of Fiduciary Net Position. Agency Funds do not, however, present results of operations, and accordingly are not reported in the Statement of Changes in Fiduciary Net Position. The Agency Funds consist of the assets and liabilities of the School Activity Funds.

(c) Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting and economic resources measurement focus. Governmental funds and fiduciary funds use the modified accrual basis of accounting and the current financial resources measurement focus, except that the Agency fiduciary fund has no measurement focus. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of unearned revenues and deferred inflows, and

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

Notes to Basic Financial Statements

June 30, 2016

in the presentation of expenses versus expenditures. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Under the modified accrual basis of accounting, revenues are recorded when subject to accrual (i.e., both measurable and available). Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The School Board considers collections within 60 days of year-end as available. Sales tax revenue is accrued when the underlying sales transaction has taken place and is remitted to the School Board within 60 days of the sales transaction. Expenditures, other than those related to long-term obligations (e.g., principal and interest on long-term debt, compensated absences, retirement), which is recorded when due, are recorded when the related fund liability is incurred.

In applying the subject to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended for the specific purpose or project before any amounts will be paid to the School Board; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the accrual criteria are met.

Under the accrual basis of accounting, revenues are recognized when earned. Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Expenses are recognized at the time they are incurred.

(d) *Encumbrances*

The School Board employs encumbrance accounting under which obligations in the form of purchase orders, contracts and other commitments for the expenditure of funds are reported as “assigned to contractual obligations” as part of fund equity, since they constitute neither expenditures nor liabilities. Appropriations with outstanding commitments or encumbrances are carried into the following year. According to the City Code, unexpended, unencumbered appropriations lapse at the end of the year.

(e) *Cash and Temporary Investments*

Cash and temporary investments are pooled with the cash and investments of the City, except for \$250,000 held in escrow with our workers’ compensation third party administrator and petty cash of \$2,120. The School Board utilizes the pooled cash investment method wherein income from the investment of pooled cash is allocated to the various funds based on the percentage of cash and cash equivalents of each fund to the total pooled cash and cash equivalents. The cash in the Agency Fund represents the Student Activity Fund cash balances in the separate bank accounts maintained by the individual schools. The investments are maintained in the Virginia Association of Counties/Virginia Municipal

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League (VACO/VML) OPEB Pooled Trust Fund are valued using the Net Asset Value (NAV) per share, which is determined by dividing the total value of the Trust by the number of outstanding shares. The NAV per share changes with the value of the underlying investments in the OPEB Pooled Trust Fund. Generally, participants may redeem their investment at the end of a calendar quarter upon 90 days' written notice.

(f) *Receivables and Due from Other Governments*

Amounts due from the Commonwealth of Virginia consist primarily of May and June sales tax, receivables from Virginia entitlements and reimbursement of grants expenditures. Amounts due from the Federal government are for reimbursement of grants expenditures. Receivables consist primarily of amounts due from students and other customers of the School Board. All amounts should be collected within one year.

(g) *Inventories*

Inventories consist of consumable materials and supplies held for future consumption. Inventory is accounted for under the purchases method. Inventories are recorded as expenses when consumed on the government-wide financial statements and as expenditures when purchased on the fund financial statements. Quantities on hand at year-end are recorded on the Governmental Funds' Balance Sheet at cost on a first-in, first-out basis and classified as a non-spendable fund balance.

(h) *Prepaid Items*

A prepaid item of \$13,288,644 represents healthcare premiums paid in advance and on deposit with our third-party claims administrator. The School Board's healthcare program is self-insured (see Note 8 (a) for further information). Premiums paid in prior years have been more than actual claims and expenses. The premiums have been left on deposit to pay future healthcare premiums. The funds are accounted for on the consumption method.

(i) *Capital Assets*

General capital assets have been acquired for general school purposes. Capital outlays are recorded as expenditures in the governmental funds and as assets in the government-wide financial statements to the extent the School Board capitalization threshold is met.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated assets are recorded at estimated acquisition value on the date received. The capitalization threshold for equipment, improvements and buildings is \$5,000 with a useful life of at least five years. Land and textbooks are capitalized regardless of value. The School Board has no infrastructure assets.

Under Virginia law, certain property maintained by the School Board is subject to tenancy-in-common with the City, if the City incurred a financial obligation for the property which is payable over more than one fiscal year. The School Board and the City have agreed that such property will be carried on the City's financial statements until the outstanding debt is repaid,

**THE SCHOOL BOARD OF THE
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Notes to Basic Financial Statements

June 30, 2016

upon which time the book value of the assets in question will be transferred back to the School Board's books. At June 30, 2016, the City holds capital assets related to school property with a net book value of \$144,914,816.

Depreciation is recorded on general capital assets on a government-wide basis. All reported capital assets, except land and construction in progress, are depreciated. Depreciation is computed using the straight-line method with half-year convention over the following useful lives:

<u>Description</u>	<u>Estimated useful lives</u>
Buildings	60 years
Improvements	25 years
Machinery and equipment	5-20 years

(j) *Compensated Absences*

School Board employees are granted vacation and sick pay in varying amounts as services are provided. They may accumulate, subject to certain limitations, unused vacation leave, which upon retirement, termination or death, may be compensated for certain amounts at their then current rate of pay. Upon termination for reasons other than retirement, School Board employees are not paid for accumulated sick leave. Upon retirement, sick leave may be taken in cash at \$30 per day depending upon employment status (maximum payment of \$5,000) or exchanged for additional service credit towards retiree health insurance subsidy. A liability for these amounts is reported in governmental funds only if they are expected to be paid with currently expendable financial resources.

(k) *Fund Balance Items*

GAAP prescribes classifications of fund balance at the following levels of restriction:

Non-spendable items – This category includes the resources of imprest funds, inventories and prepaid property and liability insurance not available for appropriation.

Restricted items – This category includes resources restricted by the City Primary Government or grantor.

- The Adult Education special revenue fund has a restricted fund balance of \$53,180 representing the portion of the fund balance provided over the years from Federal grants restricted for the purpose of providing adult citizens of the community with educational services.
- The State Construction Capital Projects Fund has a fund balance of \$695,266, restricted by the Commonwealth to capital outlay and repayment of debt issued for capital outlay.

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Notes to Basic Financial Statements

June 30, 2016

- The General Capital Projects Fund has a fund balance of \$17,702 restricted by the City for capital outlay.
- The Child Nutrition Services special revenue fund has a restricted fund balance of \$4,338,054 representing the portion of the fund balance provided over the years from Federal and Virginia grants restricted for the purpose of providing students with nutritional meals.

Committed to items – This includes items committed to per the City Primary Government budget process. City Council makes an annual appropriation at the fund level. Should additional resources be needed during the year, the City Council would have to make a supplemental appropriation.

- The Workers' Compensation special revenue fund has a committed fund balance of \$3,049,716, which City Council appropriation commits to the use of these funds for workers' compensation for the School Board's self-insured workers' compensation plan.
- The Textbook special revenue fund has a committed fund balance of \$1,733,447, which City Council appropriation commits to the use of these funds for textbooks. The School Board intends to purchase textbooks in the upcoming years based upon a six-year replacement cycle for most subjects.

Assigned to items – Assigned items represents School Board management's intent to use certain resources for assigned purposes. The Superintendent is authorized by the School Board annually during the budget approval process to make the following assignments as of June 30, 2016.

- \$611,575 is assigned to provide adult education services in the community as represented in the Adult Education special revenue fund.
- \$826,296 is assigned to provide students attending the schools with a nutritious breakfast and lunch, meeting the regulations of the United States Department of Agriculture and the Commonwealth as represented in the Child Nutrition Services special revenue fund.
- \$14,413,474 is assigned to meet contractual obligations. The School Board has purchase orders outstanding with vendors in this amount and expects the vendors to deliver the goods and services in the upcoming fiscal year. The amounts are \$10,780,182 in the General Fund, \$3,381,457 in the General Obligation Bond Fund, \$16,981 in the Workers' Compensation special revenue fund, \$197,447 in the Textbook special revenue fund, and \$37,407 in the State Construction capital projects fund .

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

Notes to Basic Financial Statements

June 30, 2016

- \$13,288,644 is assigned to the employee self-insured health insurance plan. Funds equal to this amount are on deposit with our contracted health insurance provider and shown as a prepaid item in the asset section of the Balance Sheet.

Unassigned items – The School Board has no unassigned fund equity in governmental fund balances at June 30, 2016.

Resource flow assumption – The flow assumption between restricted and assigned to resources is a pro-rata base determined by the amount of funding provided by each source.

(l) Interfund Transactions

Transactions that constitute reimbursements to a fund for expenditures initially made from it, which are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed.

All interfund transactions, except interfund services provided and used, and reimbursements, are reported as transfers. Transfers are used to move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

All interfund balances, which are short-term in nature, result from the time lag between the dates that reimbursable expenditures occur and payments between funds are made.

(m) Deferred Inflows and Outflows

In addition to assets and liabilities, the financial statements will sometimes report separate sections for deferred outflows and deferred inflows of resources. Deferred outflows represent a consumption of net position and deferred inflows represent an acquisition of net position that applies to a future period. Deferred outflows will be recognized as an outflow of resources (expense/expenditure) and deferred inflows will be recognized as an inflow of resources (revenue) in those future periods.

Deferred outflows for pensions can result from changes in actuarial assumptions, pension investment returns that exceed projected earnings and pension contributions made subsequent to the measurement date. Changes in actuarial assumptions are deferred and amortized over the remaining service life of all participants and investment experience amounts are deferred and amortized over a closed five-year period.

Deferred inflows of resources, under the modified accrual basis of accounting, representing grants receivable not meeting revenue recognition yet, are reported in the governmental funds' Balance Sheet. Deferred inflows of resources may also be reported for amounts related to pensions in the government-wide Statement of Net Position, such as actuarial losses resulting from a difference in actual experience and actuarial assumptions. Changes in actuarial assumptions would be deferred and amortized over the remaining service life of all participants

**THE SCHOOL BOARD OF THE
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Notes to Basic Financial Statements

June 30, 2016

and deferred inflows resulting from pension investment returns lower than projected earnings are deferred and amortized over a closed five-year period.

(n) Pensions

For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Virginia Supplemental Retirement System (VRS) pension plan and the Newport News Employees' Retirement Fund (NNERF) and additions to/deductions from the plans' fiduciary net position have been determined on the same bases as they are reported by VRS and NNERF respectively. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(2) Cash and Cash Equivalents

All of the \$46,203,771 of School Board cash and cash equivalents (except for \$250,000 of funds in escrow with our workers' compensation third party administrator and \$2,120 of petty cash funds) are maintained on deposit with the Treasurer of the City. All of the funds are available for immediate School Board use. See the City's Comprehensive Annual Financial Report for additional details. A copy may be obtained from the City of Newport News, Virginia's Finance Department, 2400 Washington Avenue, Newport News, VA 23607.

(3) Due To/Due From and Transfers In and Out

Interfund receivables, payables and transfers as of and for the year ended June 30, 2016 are as follows:

<u>Funds</u>	<u>Due from other funds</u>	<u>Due to other funds</u>
General Fund	\$ 3,980,000	\$ -
Grant Fund	-	3,980,000
Total all funds	<u>\$ 3,980,000</u>	<u>\$ 3,980,000</u>

The amounts that are due to other funds are to provide for cash to pay for expenditures of the Grant Fund until such time as revenue is received in cash. Transfers were to provide matching grant funds.

**THE SCHOOL BOARD OF THE
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Notes to Basic Financial Statements

June 30, 2016

(4) Capital Assets, Net

A summary of changes in capital assets follows:

	Balance July 1, 2015	Increases	Decreases	Assets Held Tenancy In-Common	Balance June 30, 2016
Capital assets not being depreciated:					
Land	\$ 2,505,084	\$ -	\$ -	\$ 391,620	\$ 2,896,704
Construction in progress	3,219,584	13,007,480	2,043,000	-	14,184,064
Total capital assets not being depreciated	5,724,668	13,007,480	2,043,000	391,620	17,080,768
Other capital assets:					
Buildings	50,625,313	-	-	8,760,649	59,385,962
Improvements	53,192,358	2,568,001	-	427,100	56,187,459
Machinery and Equipment	64,603,595	4,084,310	2,649,519	-	66,038,386
Total other capital assets	168,421,266	6,652,311	2,649,519	9,187,749	181,611,807
Less accumulated depreciation for:					
Buildings	31,206,957	3,734,122	-	3,867,142	38,808,221
Improvements	22,400,959	1,904,842	-	111,046	24,416,847
Machinery and Equipment	45,607,721	4,201,869	2,608,504	-	47,201,086
Total accumulated depreciation	99,215,637	9,840,833	2,608,504	3,978,188	110,426,154
Other capital assets, net	69,205,629	(3,188,522)	41,015	5,209,561	71,185,653
Totals	<u>\$ 74,930,297</u>	<u>\$ 9,818,958</u>	<u>\$ 2,084,015</u>	<u>\$ 5,601,181</u>	<u>\$ 88,266,421</u>

The adjustment for Assets Held Tenancy in-Common is for a school building held on the books of the City until the bonded debt was repaid. This is permitted per the laws of the Commonwealth of Virginia. Once the debt is repaid, an accounting entry is made to move the building back to the School Board. All the while the School Board holds the deed to the property, retains full control and operates all programs at the property and insures the property.

Depreciation was charged to governmental functions as follows:

Academic services	\$ 6,836,565
Attendance and health services	28,462
Transportation services	1,273,172
Operations and facilities	1,195,162
Child nutrition services	146,332
Technology services	143,595
Administration	217,545
Total governmental activities depreciation expense	<u>\$ 9,840,833</u>

Loss on disposal of assets of \$41,015 is charged to the Academic services function.

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

Notes to Basic Financial Statements

June 30, 2016

Construction in progress is composed of the following at June 30, 2016:

	Project Authorization	Expended Through June 30, 2016	Balance of Authorization	Future Requirements
Total School projects	<u>\$ 42,096,222</u>	<u>\$ 28,671,021</u>	<u>\$ 13,425,201</u>	<u>\$ -</u>

Of the amount expended through June 30, 2016, \$15,500,360 relates to assets transferred to the City under the AHTIC provisions. The balance of authorization of \$13,425,201 includes \$9,346,788, which will be transferred to the City as AHTIC once completed.

(5) Leases

(a) Operating Leases

The School Board had three ongoing leased buildings in FY2016. Part of the leased space expires on June 30, 2028 and other leased space in that same building expires on June 30, 2030. One other lease expires on December 31, 2016 but the School Board did in September 2016 exercise its option to renew for one additional year. We also leased space for high school graduation ceremonies on a year-to-year basis. Total costs for such leases were approximately \$708,720 for the year ended June 30, 2016.

The future minimum lease payments for these leases are as follows:

<u>Year ending June 30:</u>	
2017	733,645
2018	694,136
2019	653,839
2020	658,673
2021	663,606
2022-2026	3,591,104
2027-2030	<u>2,063,054</u>
	<u>\$ 9,058,057</u>

(b) Capital Leases

The School Board has two lease agreements at June 30, 2016 for financing the acquisition of property and equipment.

The net book value of assets acquired through the two capital leases as of June 30, 2016 is as follows:

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Machinery and equipment	\$ 1,736,244
Less accumulated depreciation	<u>(1,083,603)</u>
	<u><u>\$ 652,637</u></u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2016, were as follows:

Year ending June 30:	
2017	\$ 387,179
2018	189,131
2019	149,521
2020	<u>37,380</u>
Total minimum lease payments	763,211
Less amounts representing interest	<u>(43,813)</u>
Present value of minimum capital lease payments	<u><u>\$ 19,398</u></u>

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2016 follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due Within One Year
Compensated absences	\$ 4,463,225	\$ 2,553,166	\$ 2,328,341	\$ 4,688,050	\$ 703,208
Workers' compensation claims	4,757,302	1,692,550	1,554,082	4,895,770	979,154
Capital leases payable	1,065,719	-	346,321	719,398	361,700
Capital facility notes payable	-	11,144,414	-	11,144,414	-
Other Post Employment Benefits	28,295,945	7,365,074	7,781,323	27,879,696	-
Incurred but not reported health claims	2,661,000	27,402,785	27,236,785	2,827,000	2,827,000
VRS teacher pool pension (GASB 68)	250,088,000	59,474,000	49,024,000	260,538,000	-
City of Newport News pension (GASB 68)	<u>81,092,361</u>	<u>5,998,822</u>	<u>6,843,256</u>	<u>80,247,927</u>	<u>-</u>
Totals	<u>\$ 372,423,552</u>	<u>\$ 115,630,811</u>	<u>\$ 95,114,108</u>	<u>\$ 392,940,255</u>	<u>\$ 4,871,062</u>

Incurred but not reported health claims represent an estimate of healthcare claims incurred by our employees as of June 30, 2016, but not yet paid by our third-party claims administrator. As we are self-insured for healthcare claims, we consider the entire amount as due within one year. In fact, the claims are paid in a matter of a few weeks after year end as the medical providers submit their claims to the third-party administrator.

Long-term liabilities are normally paid from the General Fund, including other postemployment benefits and pension obligations.

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The annual requirements to pay principal and interest at a rate of 2.65% on capital facility notes payable due to Banc of America Public Capital Corp. are as follows:

	<u>Principal</u>	<u>Interest</u>
FY2017	\$ -	\$ 402,436
FY2018	606,598	403,557
FY2019	654,145	387,476
FY2020	703,896	370,135
FY2021	755,938	351,475
FY2022 - FY2026	4,646,993	1,426,920
FY2027 - FY2031	6,347,442	724,703
FY2032	<u>1,507,815</u>	<u>39,972</u>
Totals	<u>\$ 15,222,827</u>	<u>\$ 4,106,674</u>

Capital facility notes payable provided financing for energy performance contract improvements. The project was still in progress at June 30, 2016. The amount shown as a liability at June 30, 2016 of \$11,144,414 will reach \$15,222,827 by June 30, 2017 (plus see note 12 for a subsequent event).

(7) Defined Benefit Retirement Plans and Other Post-Employment Benefits

(a) *Newport News Employees' Retirement Fund (NNERF)*

1. Plan Description

The NNERF is a cost-sharing multiple employer, defined benefit, public employee retirement system established and administered by the City to provide pension benefits for employees of the Primary Government, including the School Board. For those school teachers and administrative support personnel employed by the Newport News School Board, the City plan is a supplement to the Virginia Retirement System (VRS). The Plan has been closed to new School Board hires and rehires effective July 1, 2009 and since March 1, 2010 for the City. School Board employees whose primary pension benefit is through VRS, and thus receive only a supplemental benefit from NNERF, have had their supplemental benefit frozen as of December 31, 2012.

Full-time regular employees hired on or before July 1, 2009 for the School Board and March 1, 2010 for the City are members of this fund. NNERF benefits are available only to employees with five years' service. School VRS employees who did not have five years' service when the supplemental NNERF benefits were frozen at December 31, 2012 are not eligible for a supplemental benefit from NNERF. Employees hired after the above dates are in VRS, an agent multiple-employer defined benefit plan as

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discussed in note 7 (b). For the years ended June 30, 2016 and 2015, the total payroll of the City and the School Board was approximately \$362.5 million and \$353.0 million, respectively, with approximately \$113.3 million and \$118.6 million covered by NNERF.

At June 30, 2016, NNERF membership consisted of:

	Retirees and Beneficiaries	Vested Terminated or Frozen Employees	Active Employees Vested	Total
City general	1,265	793	924	2,982
City police and fire	845	277	706	1,828
Public utilities	265	105	216	586
School VRS	2,578	3,349	-	5,927
School Non-VRS	842	263	526	1,631
Total	<u>5,795</u>	<u>4,787</u>	<u>2,372</u>	<u>12,954</u>

NNERF provides retirement benefits as well as death and disability benefits. All benefits vest after five years of credited service. Employees who retire at or after age 60 (50 for police officers, firefighters and deputy sheriffs) with five years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2.0% of their average final compensation (AFC) for each year of credited service accumulated to February 28, 2010, 1.85% from March 1, 2010 through December 31, 2012 and 1.65% for each year of credited service after January 1, 2013. (For public safety employees the multiplier remains at 1.85% for time worked after January 1, 2013). AFC is defined as the average rate of salary received during the highest paid 36 consecutive months of credited service. Employees with 30 years (25 for police officers, firefighters and deputy sheriffs) credited service may retire at any age with full benefits. Employees (other than police officers, firefighters and deputy sheriffs) with 25 years of service may retire prior to age 60 and receive a reduced benefit. Members began contributing to the Pension Fund as of January 1, 2013 for City employees and July 1, 2013 for School employees. City employees in NNERF began to contribute 5% of their salary to the Plan as of January 1, 2013. School employees began contributing 2% of their pay effective July 1, 2013, and effective July 1, 2014 contribute 5% of pay.

Benefits and contribution provisions are established by City Ordinance and may be amended only by the City Council. An actuarial service is employed to advise the City Council and the Retirement Board of the contributions necessary to fund the benefits.

Employees with at least five years of credited service are eligible to purchase all or part of certain prior service credits, subject to Internal Revenue Service limits. The types of

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prior service eligible include time employed under other government programs and military service.

2. Contributions

Effective January 1, 2013 employee contributions to the Plan were made mandatory. Contributions totaling \$39,005,899 and \$6,188,546 were made by the employer and employees respectively to the Plan during the year ended June 30, 2016. The percentage of contributions to covered payroll for fiscal year 2016 was 39.9% and 33.5% for fiscal year 2015. The percentage of normal costs to covered payroll was 7.98% for each fiscal year ending June 30, 2016 and June 30, 2015.

3. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the School Board reported a liability of \$80,247,927 for its proportionate share of the Net Pension Liability, which was measured as of June 30, 2015 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The School Board's proportion of the Net Pension Liability was based on the School Board's actuarially determined employer contributions to the pension plan for the year ended June 30, 2015 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2015, the School Board's proportion was 20.3103% as compared to 22.8565% at June 30, 2014.

For the year ended June 30, 2016, the School Board recognized pension expense of (\$866,088). Since there was a change in proportionate share between June 30, 2014 and June 30, 2015, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2016, the School Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments.	\$ -	\$ 885,182
Change in proportion and differences between employer contributions and proportionate share of contributions	676,842	5,090,729
Contributions to the plan subsequent to the measurement date	7,688,476	-
Total	\$ 8,365,318	\$ 5,975,911

\$7,688,476 reported as deferred outflows of resources related to pensions resulting from the School Board's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	Deferred Inflows
2016	\$(5,207,317)
2017	(793,431)
2018	(793,431)
2019	<u>1,495,110</u>
	<u>(5,299,069)</u>

4. Actuarial Assumptions

The City's net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that dated.

The actuarial assumptions have been approved by the Pension Board of Trustees, upon the recommendations from the Plan actuary, based on the experience study of the period July 1, 2008 through June 30, 2012. The significant actuarial assumptions are shown below:

Actuarial valuation date	July 1, 2015
Actuarial cost method	Entry Age Normal
Amortization method	30-year level dollar, closed July 1, 2011
Asset valuation method	Five-Year smoothed market

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Actuarial assumptions:

Investment rate of return	7.50%
Rate of salary increases For the City:	
	2.00% for the next three years
	4.50% thereafter
For the Non-VRS Schools:	
	3.00% for the next two years
	2.00% for the third year
	4.50% thereafter
Cost of living adjustment	1.33%
Inflation	2.80%
Rate of Mortality	RP-2000 male and female mortality tables

The long-term expected rate of return on NNERF investments was determined using best-estimate ranges of expected future real rates of return (expected return, net of pension plan investment expense and inflation), developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 are summarized in the following table:

Asset Class	Long-Term Expected	
	Real Rate of Return	Target Allocation
Large Cap Equities	6.2%	24.0%
Mid Cap Equities	9.3%	14.0%
Small Cap Equities	5.8%	12.0%
International Equities	3.0%	12.0%
Emerging Markets	4.9%	4.0%
Real Estate	7.2%	4.0%
Private Equities	11.6%	6.0%
Timberland	4.8%	8.0%
Fixed Income (Bonds)	2.7%	15.0%
Cash	0.0%	1.0%
Total		<u>100.0%</u>

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5. Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate of 7.5 percent, as well as what the School Boards' net pension liability would be if it were calculated using a discount rate that is 1 percent point lower (6.50 percent) or 1 percent point higher (8.5 percent) than the current rate:

	1.00% Lower 6.50%	Current Discount Rate: 7.50%	1.00% Higher 8.50%
Proportionate share of the NNERF Net Pension Liability	\$108,939,970	\$80,247,927	\$56,125,907

6 Pension Plan Fiduciary Net Position

NNERF is a separate pension trust fund and is considered part of the City's financial reporting entity. The City issues a publicly available financial report that includes financial statements and required information for NNERF. That report may be obtained by writing to NNERF, 2400 Washington Avenue, Newport News, VA 23607.

(b) Virginia Retirement System:

1. Plan Description

All full-time, salaried permanent (professional) employees of the School Board are automatically covered by the VRS Teacher Retirement Plan, a cost-sharing multiple-employer defined benefit plan, upon employment. All full-time, salaried permanent (nonprofessional) employees of the School Board are automatically covered by the VRS Retirement Plan, an agent multiple-employer defined benefit plan, upon employment. Both plans are administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer are pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and, Hybrid. Each of these benefit structures has a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

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VRS issues a publicly available Comprehensive Annual Financial Report that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the report may be obtained from the VRS Web site at <http://www.varetire.org/Pdf/Publications/2014-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p>	<p>Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p>	<p>The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (See "Eligible Members")</p> <ul style="list-style-type: none"> • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment

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VRS PLAN 1	VRS PLAN 2	HYBRID RETIRMENT PLAN
		payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
<p><u>Eligible Members</u> Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p><u>Eligible Members</u> Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p><u>Eligible Members</u> Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • School division employees • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.
<u>Retirement Contributions</u>	<u>Retirement Contributions</u>	<u>Retirement Contributions</u>

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VRS PLAN 1	VRS PLAN 2	HYBRID RETIRMENT PLAN
<p>Members contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. The School Board elected to phase in the required 5% member contribution; all employees have paid the full 5% by July 1, 2014. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p>Same as VRS Plan 1.</p>	<p>A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>
<p><u>Creditable Service</u> Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It</p>	<p><u>Creditable Service</u> Same as Plan 1.</p>	<p><u>Creditable Service</u> Defined Benefit Component: Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A</p>

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VRS PLAN 1	VRS PLAN 2	HYBRID RETIRMENT PLAN
<p>also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>		<p>member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p>Defined Contributions Component: Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>
<p><u>Vesting</u> Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100%</p>	<p><u>Vesting</u> Same as Plan 1.</p>	<p><u>Vesting</u> Defined Benefit Component: Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid</p>

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VRS PLAN 1	VRS PLAN 2	HYBRID RETIRMENT PLAN
vested in the contributions that they make.		<p>Retirement Plan remain vested in the defined benefit component.</p> <p>Defined Contributions Component: Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may

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VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
		<p>withdraw 100% of employer contributions.</p> <p>Distribution is not required by law until age 70½.</p>
<p><u>Calculating the Benefit</u> The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> <p>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>	<p><u>Calculating the Benefit</u> See definition under Plan 1.</p>	<p><u>Calculating the Benefit</u> Defined Benefit Component: See definition under Plan 1.</p> <p><u>Defined Contribution Component:</u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>
<p><u>Average Final Compensation</u> A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p><u>Average Final Compensation</u> A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p><u>Average Final Compensation</u> Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p><u>Service Retirement Multiplier</u> The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for members is 1.70%.</p>	<p><u>Service Retirement Multiplier</u> Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. The retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p>	<p><u>Service Retirement Multiplier</u> Defined Benefit Component: The retirement multiplier for the defined benefit component is 1.00%.</p> <p>For members that opted into the Hybrid Retirement</p>

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VRS PLAN 1	VRS PLAN 2	HYBRID RETIRMENT PLAN
		Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. Defined Contribution Component: Not Applicable.
<u>Normal Retirement Age</u> Age 65.	<u>Normal Retirement Age</u> Normal Social Security retirement age.	<u>Normal Retirement Age</u> Defined Benefit Component: Same as Plan 2. Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.
<u>Earliest Unreduced Retirement Eligibility</u> Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.	<u>Earliest Unreduced Retirement Eligibility</u> Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.	<u>Earliest Unreduced Retirement Eligibility</u> Defined Benefit Component: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.

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VRS PLAN 1	VRS PLAN 2	HYBRID RETIRMENT PLAN
<p><u>Earliest Reduced Retirement Eligibility</u> Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p>	<p><u>Earliest Reduced Retirement Eligibility</u> Age 60 with at least five years (60 months) of creditable service.</p>	<p><u>Earliest Unreduced Retirement Eligibility</u> Defined Benefit Component: Age Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p> <p>Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p><u>Cost-of-Living Adjustment (COLA) in Retirement</u> The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who</p>	<p><u>Cost-of-Living Adjustment (COLA) in Retirement</u> The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><u>Eligibility:</u> Same as Plan 1</p>	<p><u>Cost-of-Living Adjustment (COLA) in Retirement</u> Defined Benefit Component: Same as Plan 2.</p> <p>Defined Contribution Component: Not applicable.</p> <p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p>

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VRS PLAN 1	VRS PLAN 2	HYBRID RETIRMENT PLAN
<p>have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p><u>Exceptions to COLA</u> <u>Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member Is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go 	<p><u>Exceptions to COLA</u> <u>Effective Dates:</u> Same as Plan 1</p>	<p><u>Exceptions to COLA</u> <u>Effective Dates:</u> Same as Plan 1 and Plan 2.</p>

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VRS PLAN 1	VRS PLAN 2	HYBRID RETIRMENT PLAN
into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.		
<p><u>Disability Coverage</u></p> <p>Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p><u>Disability Coverage</u></p> <p>Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p><u>Disability Coverage</u></p> <p>Employees of political subdivision and school divisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members, which the School Board has elected to provide.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>
<p><u>Purchase of Prior Service</u></p> <p>Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit.</p>	<p><u>Purchase of Prior Service</u></p> <p>Same as Plan 1.</p>	<p><u>Purchase of Prior Service Defined Benefit Component:</u></p> <p>Same as VRS Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> Hybrid Retirement Plan members are ineligible for ported service. The cost for purchasing

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VRS PLAN 1	VRS PLAN 2	HYBRID RETIRMENT PLAN
<p>Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</p>		<p>refunded service is the highest of 4% of creditable compensation or average final compensation.</p> <ul style="list-style-type: none"> Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one year period, the rate for most categories of service will change to actuarial cost. <p><u>Defined Contribution Component:</u> Not applicable.</p>

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2. Employees Covered by Benefit Terms – Nonprofessional

As of the June 30, 2015 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members:	
Members receiving benefits	1
Vested inactive members	1
Non-vested inactive members	169
Inactive members active elsewhere in VRS	<u>21</u>
Total inactive members	191
Active Members	<u>296</u>
Total covered employees	<u><u>488</u></u>

3. Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to the School Board by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

Professional

Each School Board's contractually required contribution rate for the year ended June 30, 2016 was 14.06% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarial rate for the Teacher Retirement Plan was 18.20%. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the *Code of Virginia*, as amended, the contributions were funded at 79.69% of the actuarial rate for the year ended June 30, 2016. Contributions to the pension plan from the School Board were \$20,744,442 and \$21,648,000 for the years ended June 30, 2016 and June 30, 2015, respectively.

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Nonprofessional

The political subdivision's contractually required contribution rate for the year ended June 30, 2016 was 4.46% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. Contributions to the pension plan from the School Board were \$328,332 and \$375,675 for the years ended June 30, 2016 and June 30, 2015, respectively.

4. Net Pension Liability

Professional

At June 30, 2016, the School Board reported a liability of \$260,538,000 for its proportionate share of the Net Pension Liability, which was measured as of June 30, 2015 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The School Board's proportion of the Net Pension Liability was based on the School Board's actuarially determined employer contributions to the pension plan for the year ended June 30, 2015 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2015, the School Board's proportion was 2.07000% as compared to 2.06946% at June 30, 2014.

Nonprofessional

The School Board net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

5. Actuarial Assumptions

The total pension liability for the Professional and Nonprofessional Plans were based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Inflation	2.5 percent
Salary increases, including Inflation	3.5 percent – 5.35%
Investment rate of return	7.0 Percent, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all

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of the VRS plans. This would provide an assumed investment return rate for GAAP purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates: 14 % of deaths are assumed to be service related

Largest 10 – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females were set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

All Others (Non 10 Largest) – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females were set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2009 through June 30, 2013. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

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All Others (Non 10 Largest) – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

6. Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class:	Target Allocation:	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long- Term Rate of Return:
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S Equity	16.50	6.28	1.04
Emerging Market Equity	6.00	10.00	0.60
Fixed Income	15.00	0.09	0.01
Emerging Debt	3.00	3.51	0.11
Rate Sensitive Credit	4.50	3.51	0.16
Non Rate Sensitive Credit	4.50	5.00	0.23
Convertibles	3.00	4.81	0.14
Public Real Estate	2.25	6.12	0.14
Private Real Estate	12.75	7.10	0.91
Private Equity	12.00	10.41	1.25
Cash	1.00	(1.50)	(0.02)
Total	<u>100.00%</u>		<u>5.83%</u>
Inflation			<u>2.50%</u>
* Expected arithmetic nominal return			<u>8.33%</u>

- * Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines

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significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the Political Subdivision Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the Long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

7. *Sensitivity of the Net Pension Liability to Changes in the Discount Rate*

The following presents the School Board's proportionate share (Professional) and the net pension liability (nonprofessional) using the discount rate of 7.00%, as well as what the School Board's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate.

		1.00% Lower 6.00%	Current Discount Rate: 7.00%	1.00% Higher 8.00%
Professional	Net Pension			
Liability		\$381,272,000	\$260,538,000	\$161,147,000
Nonprofessional	Net Pension			
Asset		\$(742,538)	\$(1,014,889)	\$(1,231,021)

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Changes in Net Pension Liability – Nonprofessional Plan

	Increase/(Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balance at 7/1/2014	\$ 1,104,388	\$ 1,969,802	\$ (865,414)
Changes for the Year:			
Service cost	487,107	-	487,107
Interest	76,377	-	76,377
Difference between expected and actual experience			
Contributions -- employer	(63,569)	-	(63,569)
Contributions -- employer	-	261,980	(261,980)
Contributions -- employee	-	284,255	(284,255)
Net investment income	-	104,055	(104,055)
Benefit payments including refunds of employee contributions	(26,584)	(26,584)	-
Administrative expense	-	(876)	876
Other changes	-	(24)	24
Net Changes	473,331	622,806	(149,475)
Balances at 6/30/2015	\$ 1,577,719	\$ 2,592,608	\$ (1,014,889)

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8. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Professional

For the year ended June 30, 2016, the School Board recognized pension expense of \$18,126,000. Since there was a change in proportionate share between June 30, 2014 and June 30, 2015, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2016, the School Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments.	\$ -	\$ 15,954,000
Change in proportion and differences between employer contributions and proportionate share of contributions	-	3,250,000
Change in expected versus actual experience		3,588,000
Contributions to the plan subsequent to the measurement date	20,744,442	-
Total	\$ 20,744,442	\$ 22,792,000

\$20,744,442 reported as deferred outflows of resources related to pensions resulting from the School Board's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Nonprofessional

For the year ended June 30, 2016, the School Board recognized pension expense of \$97,326. At June 30, 2016, the School Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 50,408
Net difference between projected and actual earnings on pension plan investments.	-	30,403
Contributions to the plan subsequent to the measurement date	328,332	-
Total	\$ 328,332	\$ 80,811

\$328,332 reported as deferred outflows of resources related to pensions resulting from the School Board's contributions subsequent to the measurement date will be recognized as a reduction/increase of the Net Pension Liability (Asset) in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	School Board (non-teacher) Plan	School Board Teacher Retirement Plan
2016	\$(26,761)	\$(8,019,000)
2017	(26,761)	(8,019,000)
2018	(26,763)	(8,019,000)
2019	(526)	1,697,000
2020	-	(371,000)
Thereafter	-	-

9. Pension Plan Fiduciary Net Position

Detailed information about the VRS Teacher Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2014 Comprehensive Annual Financial Report (CAFR). A copy of the 2014 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2014-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

(c) Other Postemployment Benefits (OPEB) Trust Funds

1. Plan Description

In FY 2000, an OPEB fund was established to accumulate assets to pay for other postemployment benefits. The fund was administered by the City to provide health,

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dental and life insurance benefits for City and School Board pre-65 retirees. During FY 2010, the School Board established a separate Trust Fund apart from the City and all assets belonging to the School Board were transferred to this new fund. The plan is a single-employer plan. Benefits and contribution provisions are established by the School Board and may be amended only by the School Board. An actuarial service is employed to advise the School Board of the contributions necessary to fund the benefits.

The School Board provides health and dental insurance for their pre-65 retirees under the school's group plans. The School Board annually determines the retiree's contribution to participate in the medical plans. The total contribution is based on the active premium rates except that employees retiring after July 1, 2011 have their group premiums based upon the health claim experience of just the retiree group. The amount contributed by the School Board is based on the retiree's years of service at retirement. Retirees with thirty years of service and who retired by July 1, 2011 will pay what an active employee would pay. Retirees after that date pay higher premiums commensurate with claims experience.

Approximately 230 School Board retirees are grandfathered to participate in the City OPEB Fund's sponsored life insurance coverage paid for by the School Board. The premiums are not material. These retirees have elected supplemental coverage under the City OPEB fund.

The OPEB Trust Fund does not issue a separate report.

2. Contributions Required and Contributions Made

OPEB funding policy provides for periodic employer contributions at actuarially determined rates that express, as percentages of annual covered payroll, contributions sufficient to accumulate sufficient assets to pay benefits when due. A level percentage of payroll with a 26-year amortization period is used for purposes of computing the minimum accrual in accordance with GAAP. The projected unit credit method is used for cost calculations.

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Contributions to normal costs totaling \$7.8 million were made during the year ended June 30, 2016. The School Board's annual OPEB cost for the current year and past two years are as follows (in millions):

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual Required Contribution	\$ 7.8	\$ 7.4	\$ 8.8
Interest on net OPEB obligation	2.1	2.1	2.2
Adjustment to ARC	<u>(2.5)</u>	<u>(2.5)</u>	<u>(2.5)</u>
Annual OPEB cost	7.4	7.0	8.5
Actual Contribution	<u>7.8</u>	<u>7.4</u>	<u>8.6</u>
Decrease in net OPEB obligation	(0.4)	(0.4)	(0.1)
Net OPEB obligation, beginning of year	<u>28.3</u>	<u>28.7</u>	<u>28.8</u>
Net OPEB obligation, end of year	<u>\$ 27.9</u>	<u>\$ 28.3</u>	<u>\$ 28.7</u>
Percentage of annual OPEB cost contributed	<u>105%</u>	<u>106%</u>	<u>101%</u>

3. Funding Status and Funding Progress

The funded status of the plan as of June 30, 2016, 2015 and 2014 was as follows:

(In millions)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarial value of assets	\$ 18.3	\$ 15.8	\$ 13.8
Actuarial Accrued Liability (AAL)	<u>99.0</u>	<u>93.0</u>	<u>104.3</u>
Unfunded AAL (UAAL)	<u>\$ 80.7</u>	<u>\$ 77.2</u>	<u>\$ 90.5</u>
Funded ratio	18.5%	17.0%	13.2%
Covered payroll	\$ 105.7	\$ 111.5	\$ 119.8
UAAL as a percentage of covered payroll	76.3%	69.2%	75.5%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. 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 to past expectations and new estimates are made about the future.

The required Schedule of Funding Progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial liability for benefits over time. Potential effects of legal and contractual limitations are not explicitly incorporated in benefits for financial reporting purposes.

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4. Actuarial Methods and Assumptions

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the city and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Actuarial valuation date	7/1/15
Actuarial cost method	Projected Unit Credit
Amortization method	Level Dollar Closed
Amortization period	25 years
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	NA
Healthcare inflation rate	5.00%
Inflation Rate	5.00%

(8) Self-Insurance

(a) Medical Benefits

The School Board is self-insured for its medical benefits through funding from the General Fund for employees up to \$175,000 per employee per year. Claims in excess of the limitation are covered by third-party insurance. Expenditures for “premiums” are charged to the fund to which the employees’ payroll expenditure is charged at amounts that approximate what third-party insurers would have charged. The insurance coverage is substantially the same as in prior fiscal years.

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Claims processing and payments for the medical claims are made through a third-party administrator. The School Board uses the information provided by the third-party administrator to aid in the determination of self-insurance liabilities. Amounts due in future years on claims as of June 30, 2016 are recognized as a long-term liability due within one year in the Statement of Net Position. Changes in the incurred but not reported amount during the fiscal years ended June 30, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Claims payable at beginning of year	\$ 2,661,000	\$ 2,792,000
Claims and changes in estimates	27,402,785	25,019,164
Claim payments	<u>(27,236,785)</u>	<u>(25,150,164)</u>
Claims payable at end of year	<u><u>\$ 2,827,000</u></u>	<u><u>\$ 2,661,000</u></u>

(b) Workers' Compensation

The School Board self-insures for workers' compensation through funding from the Workers' Compensation Special Revenue Fund. Expenditures are charged to the various departments at amounts that approximate what third-party insurers would have charged. Amounts due in future years on claims made as of June 30, 2016 are accounted for as long-term liabilities. These long-term liabilities include an estimate of claims that have been incurred but not reported. The following is a reconciliation of changes in workers' compensation claims payable for years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Claims payable at beginning of year	\$ 4,757,302	\$ 2,901,090
Claims and changes in estimates	1,692,550	3,526,298
Claim payments	<u>(1,554,082)</u>	<u>(1,670,086)</u>
Claims payable at end of year	<u><u>\$ 4,895,770</u></u>	<u><u>\$ 4,757,302</u></u>

(c) Other

The School Board insures for property losses with self-insured retention per occurrence of \$25,000 for basic and earthquakes and \$5,000 for floods and in-land marine. The School Board is self-insured for liability losses resulting from vehicular accidents of up to \$1,000,000 in conjunction with a fund established by the City of Newport News. Claims in excess of the self-insured retention limitation are covered by third-party insurance.

Included in the fund balance of the General Fund and the Workers' Compensation Fund of the School Board are assigned and restricted fund balances related to self-insurance activities.

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(9) Contingent Liabilities

(a) *Litigation*

The School Board is involved in several lawsuits arising in the ordinary course of operations. It is the opinion of School Board management, based on the advice of the School Board attorney, that any losses incurred as a result of claims existing as of June 30, 2016 will not be material to the financial statements.

(b) *Grants*

The School Board received grant funds, principally from the Commonwealth and Federal government, for instructional and various other programs. Expenditures from these grants are subject to audit by the grantor, and the School Board is contingently liable to refund amounts received in excess of allowable expenditures. In the opinion of the management of the School Board, any refunds that may be required as a result of expenditures disallowed by the grantors will not be material to the financial statements.

(10) Related Organizations

Not included in the School Board's financial statements are certain Parent-Teacher Associations (PTAs), Parent-Teacher-Student Associations (PTSAs) and athletic and band booster clubs. These organizations provide services to students and employees of the School Board, but are separate legal entities having sufficient autonomy in the management of their own affairs to distinguish them as separate from the administrative organization of the School Board. The School Board does not account for these entities as component units or joint ventures as these entities are not material to the School Board, it does not maintain an ongoing financial interest or have responsibility for these entities.

(11) Related-Party Transaction

The School Board operates by authority of the charter of the City, which provides annual appropriations to the School Board for operating the school system and is obligated for all bonded indebtedness issued to benefit the School Board. The City is also the custodian of the majority of the School Board's cash and temporary investments and also provides a defined benefit pension plan to employees hired before July 1, 2009. The City provides services to the School Board, primarily 800 megahertz radio repairs and radio purchases and services related to the vehicle self-insurance program, through the City's General Fund. The School Board is charged based on established fee schedules or a shared cost formula. The total value of the services provided by the City and reimbursed by the School Board during the year ended June 30, 2016 was \$204,743. The School Board provides fiber WAN services, fiber WAN installation and shared costs of a School Board building that houses City programs to the City during the year ended June 30, 2016 at charges of \$166,997. Amounts due to and due from the City for services are negligible and are generally settled on a monthly basis. The City provides school police resource officers at no charge to the School Board. The City Parks & Recreation Department provides services to children and citizens after regular school hours in School Board buildings at no rental charge to the City.

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At June 30, 2016, the City owed the School Board \$5,503,971 for capital projects funding.

The School Board has agreed to provide the City with annual payments of \$455,000 for the next ten years as cost sharing for the operation of An Achievable Dream Middle & High School.

(12) Subsequent Events

In August 2016 the School Board amended the facility notes payable agreement with Banc of America Public Capital Corp. to borrow an additional \$2,838,843 to provide funding for the installation of LED lighting upgrades in most School Board facilities. Payments will be made starting March 1, 2017 and continue until March 1, 2031. The interest rate is 2.04%. The initial payment in 2017 will be \$181,059 (principal and interest) and slowly escalate to a final payment of \$263,817 (principal and interest) in 2031.

REQUIRED SUPPLEMENTARY INFORMATION

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

Required Supplemental Information (Unaudited)

General Fund Year Ended June 30, 2016

Schedule of Revenues, Expenditures and Changes
in Fund Balance – Budget and Actual (Budget Basis)

	Original Budget	Amended Budget	Actual	Variance
Revenues:				
Intergovernmental:				
Commonwealth of Virginia:				
Standards of Quality funds	\$ 146,550,885	\$ 146,550,885	\$ 145,795,922	\$ (754,963)
Incentive funds	1,454,718	1,454,718	1,442,751	(11,967)
Categorical funds	159,312	159,312	174,135	14,823
Lottery funded programs	23,158,682	23,158,682	22,734,204	(424,478)
Other state agencies	20,000	20,000	2,967	(17,033)
City of Newport News	118,300,000	118,300,000	118,300,000	-
Federal government	4,491,500	4,491,500	2,863,241	(1,628,259)
Charges for services	1,737,500	1,737,500	1,910,826	173,326
Total revenues	295,872,597	295,872,597	293,224,046	(2,648,551)
Expenditures:				
Instructional services:				
Classroom instruction	116,068,796	113,460,206	111,527,512	1,932,694
Office of the principal	18,874,770	18,765,970	18,670,363	95,607
Special education	35,929,208	34,923,125	34,238,380	684,745
Career and technical	5,736,570	5,782,238	5,730,602	51,636
Talented and gifted	5,079,084	5,078,049	4,750,794	327,255
Athletics/Drivers' Education	2,524,672	2,480,672	2,460,315	20,357
Summer school	1,288,289	1,021,649	890,593	131,056
Pre school	6,636,285	6,663,385	5,957,185	706,200
Guidance and counseling	7,279,055	7,249,734	7,257,897	(8,163)
Improvement of instruction - staff	5,501,727	5,434,282	5,073,139	361,143
Media services	4,961,813	4,727,733	4,712,564	15,169
School social workers	70,408	70,408	67,188	3,220
Homebound	522,420	522,420	447,737	74,683
Instructional support-student leadership	1,335,493	1,320,143	890,178	429,965
Total academic services	211,808,590	207,500,014	202,674,447	4,825,567
Attendance and health services:				
Psychological services	1,584,820	1,584,820	1,491,659	93,161
Attendance	853,230	853,230	757,740	95,490
Health services	3,515,144	3,515,144	3,467,668	47,476
Total attendance and health services	5,953,194	5,953,194	5,717,067	236,127
Transportation services:				
Transportation administration	1,956,778	1,953,478	1,947,743	5,735
Vehicle operation services	11,616,045	11,400,698	10,818,620	582,078
Monitoring services	2,320,973	2,320,973	2,240,389	80,584
Vehicle maintenance services	2,350,926	2,351,632	2,347,380	4,252
Total transportation services	18,244,722	18,026,781	17,354,132	672,649

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

Required Supplemental Information (Unaudited)

General Fund Year Ended June 30, 2016

Schedule of Revenues, Expenditures and Changes
in Fund Balance – Budget and Actual (Budget Basis)

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Operations and Facilities:				
Security	2,864,179	2,864,179	2,864,030	149
Warehouse	236,490	236,490	245,924	(9,434)
Operations	984,279	979,116	1,019,954	(40,838)
Grounds services	936,299	910,187	930,415	(20,228)
Building services	22,252,436	24,918,100	25,940,491	(1,022,391)
Vehicle operation services	327,032	915,070	895,472	19,598
Facilities	477,500	1,048,400	1,153,313	(104,913)
Total operations and facilities	<u>28,078,215</u>	<u>31,871,542</u>	<u>33,049,599</u>	<u>(1,178,057)</u>
Technology services:				
Technology - classroom instruction	1,281,000	1,395,928	2,684,789	(1,288,861)
Technology - instructional support	6,334,552	6,586,366	6,627,472	(41,106)
Information technology	3,994,811	4,183,593	5,055,628	(872,035)
Technology - operations & maintenance	617,675	759,730	736,409	23,321
Total technology services	<u>12,228,038</u>	<u>12,925,617</u>	<u>15,104,298</u>	<u>(2,178,681)</u>
Administration:				
Information services	1,371,581	1,431,381	1,429,962	1,419
School Board	266,017	266,017	248,673	17,344
Superintendent's office	1,276,412	1,276,412	1,272,805	3,607
Human resources	2,420,698	2,457,698	2,162,910	294,788
Accountability	784,707	784,671	471,375	313,296
Business	1,464,008	1,474,008	1,417,398	56,610
Purchasing	484,596	484,596	458,919	25,677
Print shop	-	(71,153)	(18,434)	(52,719)
Total administration	<u>8,068,019</u>	<u>8,103,630</u>	<u>7,443,608</u>	<u>660,022</u>
Total expenditures	<u>284,380,778</u>	<u>284,380,778</u>	<u>281,343,151</u>	<u>3,037,627</u>
Other financing uses:				
Transfer to Textbook Fund	-	-	439,621	(439,621)
Transfer to City of Newport News – debt service	<u>11,491,819</u>	<u>11,491,819</u>	<u>11,491,819</u>	<u>-</u>
Total other financing uses	<u>11,491,819</u>	<u>11,491,819</u>	<u>11,931,440</u>	<u>(439,621)</u>
Total expenditures and other financing uses	<u>295,872,597</u>	<u>295,872,597</u>	<u>293,274,591</u>	<u>2,598,006</u>
Net change in fund balances	-	-	(50,545)	(50,545)
Fund balance at beginning of year	25,397,703	25,397,703	25,397,703	-
Less encumbrances outstanding at June 30, 2015 expended or canceled at June 30, 2016	7,495,314	(7,495,314)	(7,444,769)	50,545
Add encumbrances outstanding at June 30, 2016	10,780,182	10,780,182	10,780,182	-
Decrease in assigned for health self-insurance	(2,864,955)	(2,864,955)	(2,864,955)	-
Decrease for prepaid property and liability insurance	(711,016)	(711,016)	(711,016)	-
Decrease in nonspendable imprest fund	(250)	(250)	(250)	-
Increase in nonspendable inventories	258,061	258,061	258,061	-
Fund balance at end of year	<u>\$ 40,355,039</u>	<u>\$ 25,364,411</u>	<u>\$ 25,364,411</u>	<u>\$ -</u>

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

Required Supplementary Information (Unaudited)

Schedule of Funding Progress
For Other Postemployment Benefits

Year Ended June 30, 2016

(Amounts in millions)

Actuarial Valuation Date		Actuarial Value of Assets (a)		Actuarial Accrued Liability (AAL) (b)		Unfunded AAL (UAAL) (a-b)		Funded Ratio (a/b)		Covered Payroll (d)		UAAL as a Percentage of Covered Payroll ((b-a)/(d))
6/30/16	\$	18.3	\$	99.0	\$	(80.7)		18.5%	\$	105.7		76.3%
6/30/15		15.8		93.0		(77.2)		17.0%		111.5		69.2%
6/30/14		13.8		104.3		(90.5)		13.2%		119.8		75.5%
6/30/13		11.0		101.4		(90.4)		10.8%		128.6		70.3%
6/30/12		8.8		83.8		(75.0)		10.5%		136.7		54.9%
6/30/11		6.4		71.8		(65.4)		8.9%		147.0		44.5%
6/30/10		3.2		132.7		(129.5)		2.4%		158.2		81.9%
6/30/09		1.6		187.8		(186.2)		0.9%		181.0		102.9%
6/30/08		2.7		180.5		(177.8)		1.5%		184.2		96.5%

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

Required Supplementary Information (Unaudited)

Schedule of Changes in Net Pension Liability (Asset) and Related Ratios – School Board Nonprofessional Retirement Plan
For the Virginia Retirement System

Year Ended June 30

(Amounts in millions)

	<u>2015</u>	<u>2016</u>
Total Pension Liability		
Service cost	\$ 422,992	\$ 487,107
Interest	45,008	76,377
Benefit payments, including refunds of employee contributions	(13,178)	(26,584)
Difference between expected and actual experience	<u>(63,569)</u>	<u>(63,569)</u>
Net change in total pension liability	454,822	473,331
Total pension liability -- beginning	<u>649,566</u>	<u>1,104,388</u>
Total pension liability -- ending	<u><u>\$ 1,104,388</u></u>	<u><u>\$ 1,577,719</u></u>
 Plan fiduciary net position		
Contributions -- employer	\$ 375,675	\$ 261,980
Contributions -- employee	226,048	284,255
Net investment income	221,774	104,055
Benefit payments, including refunds of employee contributions	(13,178)	(26,584)
Administrative expense	(698)	(876)
Other	<u>12</u>	<u>(24)</u>
Net change in plan fiduciary net position	809,633	622,806
Plan fiduciary net position -- beginning	<u>1,160,169</u>	<u>1,969,802</u>
Plan fiduciary net position -- ending	<u><u>\$ 1,969,802</u></u>	<u><u>\$ 2,592,608</u></u>
 Total net pension asset -- beginning	\$ (510,603)	\$ (865,414)
Total net pension asset -- ending	<u><u>\$ (865,414)</u></u>	<u><u>\$ (1,014,889)</u></u>

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

Required Supplementary Information (Unaudited)

Schedule of Employers Proportionate Share of Net Pension Liability – School Board Teacher Retirement Plan for the Virginia Retirement System
(VRS) and the Newport News Employees Retirement Fund (NNERF)
Year Ended June 30

(Amounts in millions)

	VRS 2014	NNERF 2014	VRS 2015	NNERF 2015
Employers proportion of the net pension liability	2.06946%	22.85650%	2.07000%	19.71100%
Employer's proportionate share of the net pension liability	\$250,088,000	\$ 81,092,361	\$ 260,538,000	\$ 80,247,927
Employer's covered-employee payroll	\$145,324,977	\$123,600,000	\$ 155,708,543	\$ 118,600,000
Employer proportionate share of the net pension liability as a percentage of its covered-employee payroll	172.09%	65.61%	167.32%	67.66%
Plan fiduciary net position as a percentage of the total pension liability	70.88%	70.67%	70.68%	68.28%

Note: The amounts presented have a measurement date of the previous fiscal year.

Schedules are intended to show information for 10 years. Since 2015 is the first year of this presentation, only two years are shown.. Additional years will be included as they become available.

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

Required Supplementary Information (Unaudited)

Schedule of Changes in the School Board's (Non-Professional) Net Pension Liability and Related Ratios
For the Virginia Retirement System
Year Ended June 30

(Amounts in millions)

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
School Board (non-teacher) Pension Plan:					
2015	\$ 375,675	\$ 375,675	\$ -	\$ 4,102,012	9.16%
2016	\$ 328,332	\$ 328,332	-	6,499,789	5.05%
School Board Teacher Retirement Plan:					
2015	\$ 21,648,000	\$ 21,648,000	\$ -	\$ 145,324,977	14.90%
2016	20,744,442	20,744,442	-	155,708,543	13.32%
Newport News Employee Retirement Fund:					
2015	\$ 6,711,771	\$ 6,711,771	\$ -	\$ 123,600,000	5.43%
2016	7,688,476	7,688,476	-	\$ 118,600,000	6.48%

Schedules are intended to show information for 10 years.
Since 2015 is the first year of this presentation, only two
years are shown.. Additional years will be included as they
become available.

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2016

(1) Budgetary Data

The budgetary data reflected in the required supplementary information was established by the School Board using the following procedures:

- (i) On or before April 1, the School Board submits to the City Council of the City proposed operating budgets for the General Fund, the Workers' Compensation Special Revenue Fund and the Textbook Special Revenue Fund for the forthcoming fiscal year. The operating budgets include proposed expenditures and other financing uses and the means of financing them.
- (ii) A public hearing on the City budget, which includes the School Board, is held after a synopsis of the budget is published in a local newspaper of general circulation. An appropriation ordinance must be adopted by the City Council by May 15.
- (iii) The School Board and Superintendent may amend the budget or make transfers between functions and budgetary line items without City Council approval. However, the School Board may not make transfers or expend any sum of money in excess of City Council appropriations, at the fund level, without the consent of the City Council. The legal level of budgetary control for the General Fund, the Workers' Compensation non-major Special Revenue Fund and the Textbook non-major Special Revenue Fund is the fund level; however, management control is exercised over the budget at the budgetary line item level. Appropriations, except for encumbrances and reserved fund balances, lapse at year end.
- (iv) Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP), except for the following:
 - 1) encumbrances are included as budgetary expenditures;
 - 2) Capital lease other financing sources and the accompanying capital lease expenditures are not included as budgetary resources or expenditures;
 - 3) The net change for the prepaid medical self-insurance program is excluded from the budget comparison;
 - 4) Revenue from the City that is designated for debt service and returned to the City to pay debt service is included for budgetary purposes but excluded for GAAP purposes.
- (v) Annual legally adopted operating budgets are not adopted for any other Special Revenue Funds. The School Board adopts an annual, but not a legal, operating budget for the Child Nutrition Services Fund. Program budgets for the Grants Special Revenue Fund, the Adult Education Special Revenue Fund and the State Construction Capital Projects Fund are approved by executive departments on a basis consistent with the related grant applications. Project budgets are appropriated by City Council (on a project basis, not an annual basis) for the General Obligation Bond Fund and the General Capital Projects Fund whereby the budgets remain open and carry over to succeeding years until the project is complete.

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2016

(2) Intergovernmental Revenue – City of Newport News

A reconciliation of intergovernmental revenue follows:

City budget appropriations	\$ 118,300,000
Less amounts recorded by City	<u>(12,146,827)</u>
City revenue - GAAP basis	<u><u>\$ 106,153,173</u></u>

SUPPLEMENTARY INFORMATION

AGENCY FUND

Student Activity Funds – to account for the student activity monies maintained on behalf of the students by the school principals at each school.

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

Statement of Changes of Assets and Liabilities – Agency Fund

Year Ended June 30, 2016

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year
Asset:				
Cash and cash equivalents	<u>\$ 1,608,290</u>	<u>\$ 3,761,424</u>	<u>\$ 3,769,977</u>	<u>\$ 1,599,737</u>
Liabilities:				
Accounts payable	\$ 34,869	\$ 5,014	\$ 34,869	\$ 5,014
Due to students	<u>1,573,421</u>	<u>3,756,410</u>	<u>3,735,108</u>	<u>1,594,723</u>
Total liabilities	<u>\$ 1,608,290</u>	<u>\$ 3,761,424</u>	<u>\$ 3,769,977</u>	<u>\$ 1,599,737</u>

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA
NONMAJOR GOVERNMENTAL FUNDS**

June 30, 2016

Special Revenue Funds:

Workers' Compensation – to account for the School Board's payment of worker compensation claims. Funding is provided primarily by transfers in from funds for which employees are paid.

Textbook – to account for textbook purchases. Funding is provided primarily by the Commonwealth of Virginia along with a required match by the School Board.

Child Nutrition – to account for the operation of the School Board's food service operation, primarily for students.

Adult Education – to account for general adult education classes with an educational purpose devoted primarily to instruction.

Capital Projects Funds:

State Construction – The Commonwealth of Virginia provided grant funding to be used for construction/renovation of school buildings. The funding has stopped but the fund still exists until the remaining resources are expended.

General Capital – to account for capital project funding provided by the City of Newport News from operating cash used to purchase school buses.

Facility Notes – to account for capital project funding provided by financing arranged from facility notes payable to provide energy performance contract improvement projects.

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

Combining Balance Sheet

Other Nonmajor Governmental Funds

June 30, 2016

Assets	Special Revenue Funds				Capital Projects Funds			Total Other Nonmajor Governmental Funds
	Workers' Compensation	Textbooks	Child Nutrition	Adult Education	State Construction	General Capital	Facility Notes	
Cash and cash equivalents	\$ 3,177,892	\$ 2,701,674	\$ 4,696,095	\$ 622,149	\$ 733,692	\$ 17,702		\$ 11,949,204
Accounts receivable	-	-	-	58,827	-	-	2,117,218	2,176,045
Due from other governments:								
Federal - Department of Agriculture	-	-	984,841	-	-	-	-	984,841
Inventories, at cost	-	-	547,528	-	-	-	-	547,528
Total assets	<u>\$ 3,177,892</u>	<u>\$ 2,701,674</u>	<u>\$ 6,228,464</u>	<u>\$ 680,976</u>	<u>\$ 733,692</u>	<u>\$ 17,702</u>	<u>\$ 2,117,218</u>	<u>\$ 15,657,618</u>
Liabilities and Fund Balances								
Liabilities:								
Accounts payable	\$ 111,195	\$ 770,780	\$ 514,786	\$ -	\$ 1,019	\$ -	\$ 2,117,218	\$ 3,514,998
Accrued liabilities	-	-	1,800	16,221	-	-	-	18,021
Total liabilities	<u>111,195</u>	<u>770,780</u>	<u>516,586</u>	<u>16,221</u>	<u>1,019</u>	<u>-</u>	<u>2,117,218</u>	<u>3,533,019</u>
Fund balances:								
Nonspendable:								
Inventories	-	-	547,528	-	-	-	-	547,528
Restricted:								
Adult education services	-	-	-	53,180	-	-	-	53,180
Capital projects	-	-	-	-	695,266	17,702	-	712,968
Child nutrition services	-	-	4,338,054	-	-	-	-	4,338,054
Committed:								
Workers' compensation	3,049,716	-	-	-	-	-	-	3,049,716
Textbooks	-	1,733,447	-	-	-	-	-	1,733,447
Assigned to:								
Adult education services	-	-	-	611,575	-	-	-	611,575
Child nutrition services	-	-	826,296	-	-	-	-	826,296
Contractual obligations	16,981	197,447	-	-	37,407	-	-	251,835
Total fund balances	<u>3,066,697</u>	<u>1,930,894</u>	<u>5,711,878</u>	<u>664,755</u>	<u>732,673</u>	<u>17,702</u>	<u>-</u>	<u>12,124,599</u>
Total liabilities and fund balances	<u>\$ 3,177,892</u>	<u>\$ 2,701,674</u>	<u>\$ 6,228,464</u>	<u>\$ 680,976</u>	<u>\$ 733,692</u>	<u>\$ 17,702</u>	<u>\$ 2,117,218</u>	<u>\$ 15,657,618</u>

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

Combining Statement of Revenues, Expenditures and Changes in Fund Balance

Other Nonmajor Governmental Funds

Year Ended June 30, 2016

	Special Revenue Funds				Capital Project Funds			Total Other Nonmajor Governmental Funds
	Workers' Compensation	Textbook	Child Nutrition	Adult Education	State Construction	Operating Capital	Facility Notes	
Revenues:								
Intergovernmental:								
City of Newport News	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,000,000	\$ -	\$ 2,000,000
Commonwealth of Virginia	-	439,621	473,801	18,078	-	-	-	931,500
Federal government	-	-	14,645,658	-	-	-	-	14,645,658
Charges for services	2,001,936	-	2,959,508	195,810	-	-	-	5,157,254
Investment income	12,275	-	16,418	-	-	-	-	28,693
Total revenues	2,014,211	439,621	18,095,385	213,888	-	2,000,000	-	22,763,105
Current expenditures:								
Academic services	-	1,201,598	-	341,479	-	-	-	1,543,077
Operations and facilities	-	-	183,711	-	-	-	-	183,711
Child nutrition services	-	-	17,460,389	-	-	-	-	17,460,389
Administration	1,595,512	-	-	-	-	-	-	1,595,512
Capital outlay	-	-	-	-	105,265	1,987,488	11,144,414	13,237,167
Total expenditures	1,595,512	1,201,598	17,644,100	341,479	105,265	1,987,488	11,144,414	34,019,856
Excess (Deficiency) of revenues over (under) expenditures	418,699	(761,977)	451,285	(127,591)	(105,265)	12,512	(11,144,414)	(11,256,751)
Other financial sources:								
Proceeds of Facility Note	-	-	-	-	-	-	11,144,414	11,144,414
Total other financing sources	-	-	-	-	-	-	11,144,414	11,144,414
Net change in fund balances	418,699	(761,977)	451,285	(127,591)	(105,265)	12,512	-	(112,337)
Fund balances at beginning of year	2,647,998	2,692,871	5,234,237	792,346	837,938	5,190	-	12,210,580
Increase in nonspendable inventory	-	-	26,356	-	-	-	-	26,356
Fund balances at end of year	\$ 3,066,697	\$ 1,930,894	\$ 5,711,878	\$ 664,755	\$ 732,673	\$ 17,702	\$ -	\$ 12,124,599

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

Workers' Compensation Fund

Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budget Basis) (Unaudited)

Year Ended June 30, 2016

	Original Budget	Amended Budget	Actual	Variance
Revenues:				
Charges for services	\$ 1,775,000	\$ 1,775,000	\$ 2,001,936	\$ 226,936
Investment income	10,000	10,000	12,275	2,275
Total revenues	<u>1,785,000</u>	<u>1,785,000</u>	<u>2,014,211</u>	<u>229,211</u>
Expenditures:				
Administration				
Claims	1,865,000	1,865,000	1,452,447	412,553
Administrative	<u>95,000</u>	<u>95,000</u>	<u>96,431</u>	<u>(1,431)</u>
Total Administration	<u>1,960,000</u>	<u>1,960,000</u>	<u>1,548,878</u>	<u>411,122</u>
Total expenditures	<u>1,960,000</u>	<u>1,960,000</u>	<u>1,548,878</u>	<u>411,122</u>
Excess (deficiency) revenues (under) over expenditures	<u>(175,000)</u>	<u>(175,000)</u>	<u>465,333</u>	<u>640,333</u>
Net change in fund balances	(175,000)	(175,000)	465,333	640,333
Fund balance at beginning of year	2,647,998	2,647,998	2,647,998	-
Less encumbrances outstanding at June 30, 2015				
expended or canceled at June 30, 2016	-	-	(63,615)	(63,615)
Add encumbrances outstanding at June 30, 2016	<u>-</u>	<u>-</u>	<u>16,981</u>	<u>16,981</u>
Fund balance at end of year	<u>\$ 2,472,998</u>	<u>\$ 2,472,998</u>	<u>\$ 3,066,697</u>	<u>\$ 593,699</u>

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

Textbook Fund

Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budget Basis) (Unaudited)

Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:				
Total revenues	\$ -	\$ -	\$ 439,621	\$ 439,621
Expenditures:				
Academic services	1,219,219	1,219,219	1,219,219	-
Total expenditures	1,219,219	1,219,219	1,219,219	-
Excess (deficiency) revenues (under) over expenditures	(1,219,219)	(1,219,219)	(779,598)	439,621
Net change in fund balances	(1,219,219)	(1,219,219)	(779,598)	439,621
Fund balance at beginning of year	2,692,871	2,692,871	2,692,871	-
Less encumbrances outstanding at June 30, 2015				
expended or canceled at June 30, 2016	-	-	(179,826)	(179,826)
Add encumbrances outstanding at June 30, 2016	-	-	197,447	197,447
Fund balance at end of year	<u>\$ 1,473,652</u>	<u>\$ 1,473,652</u>	<u>\$ 1,930,894</u>	<u>\$ 457,242</u>

STATISTICAL SECTION

STATISTICAL SECTION

(Unaudited)

This part of the School Board's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

The School Board does not have the authority to levy taxes or to issue bonded debt in its name. Therefore, the following statistical tables dealing with these functions are omitted from this Comprehensive Annual Financial Report.

Schedule of Property Tax Levies and Collections

Schedule of Property Valuations – Assessed Valuations

Schedule of Property Tax Rates

Legal Debt Limit

Construction and Property Values and Bank Deposits

Contents

Page

Financial Trends

S-1

These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.

Revenue Capacity

The School Board does not have the ability to generate its own revenue, but instead receives revenue generated by the City of Newport News, the Commonwealth of Virginia and the Federal government.

Debt Capacity

S-7

The School Board cannot issue general obligation bonded debt. The debt for capital leases and facility notes payable is provided.

Demographic and Economic Information

S-8

The schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.

Operating Information

S-10

These schedules contain service and capital asset data to help the reader understand how the information of the government's financial report relates to the services the government provides and the activities it performs.

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

Table I

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

Net Position by Component

Last Ten Fiscal Years

(Accrual Basis of Accounting)

Fiscal Year

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Governmental activities:										
Net investment in capital assets	\$ 55,655,762	\$ 58,043,143	\$ 56,433,717	\$ 57,205,176	\$ 61,780,411	\$ 67,370,342	\$ 66,806,834	\$ 68,663,255	\$ 73,864,578	\$ 76,396,233
Restricted	-	-	-	-	5,483,662.00	4,218,225	4,293,830	4,962,729	5,064,397	5,104,202
Unrestricted	33,627,682	20,320,652	17,513,844	12,260,185	3,062,106	1,894,122	3,319,634	(1,086,939)	(343,911,091)	(343,699,543)
Total net position	\$ 89,283,444	\$ 78,363,795	\$ 73,947,561	\$ 69,465,361	\$ 70,326,179	\$ 73,482,689	\$ 74,420,298	\$ 72,539,045	\$ (264,982,116)	\$ (262,199,108)

NOTE - Implementation of GASB 68 and GASB 71 regarding pensions is the reason that unrestricted declined so significantly in FY2015.

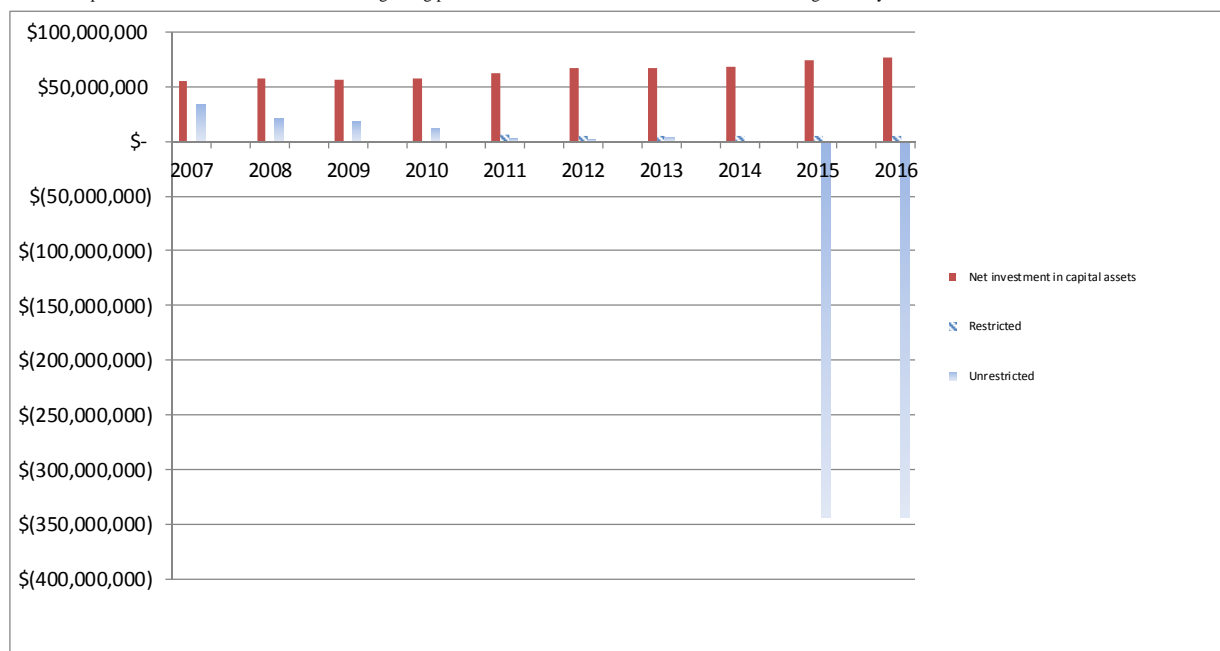


Table II

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

Expenses, Program Revenues and Net Expense/ (Revenue)

Last Ten Fiscal Years

(Accrual Basis of Accounting)

Fiscal Year

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Expenses										
Governmental activities:										
Academic services	\$ 233,361,627	\$ 249,356,000	\$ 252,927,122	\$ 240,751,459	\$ 230,788,505	\$ 227,368,609	\$ 224,047,407	\$ 220,242,178	\$ 226,919,153	\$ 223,914,542
Attendance and health services	-	-	-	-	-	-	5,410,181	5,370,389	5,477,238	5,516,924
Transportation services	16,452,839	18,436,799	19,258,223	18,284,090	17,460,802	18,703,166	18,732,095	17,760,521	18,060,597	17,178,198
Operations and facilities	29,730,401	34,236,753	36,894,552	29,659,712	33,490,915	34,635,744	31,507,246	32,334,959	32,217,732	29,940,440
Child nutrition services	13,433,566	14,677,570	15,180,605	13,987,487	13,766,336	14,079,191	15,155,813	15,045,887	16,318,436	16,719,938
Technology services	11,166,586	13,683,308	13,822,462	21,723,542	14,786,921	12,799,635	12,189,933	13,352,948	13,305,419	14,816,817
Administration	11,577,423	10,741,192	10,169,326	8,441,950	7,742,987	7,627,183	7,718,428	8,320,335	9,677,653	9,478,014
Interest on capital debt	1,795,325	1,754,471	846,193	1,363,623	639,293	503,181	387,257	282,261	258,111	40,858
Total expenses	317,517,767	342,886,093	349,098,483	334,211,863	318,675,759	315,716,709	315,148,360	312,709,478	322,234,339	317,605,731
Program Revenues										
Charges for services:										
Academic services	1,362,393	1,557,444	1,967,773	2,048,618	1,872,761	1,395,070	1,200,596	1,431,667	1,694,406	1,043,101
Operations and facilities	1,107,445	730,821	701,607	1,143,087	1,066,629	597,360	480,397	258,467	417,127	443,071
Child nutrition services	4,755,748	4,596,842	4,435,779	4,019,072	4,059,105	3,923,464	3,510,490	3,310,549	3,054,562	2,959,508
Technology services	-	-	241,547	247,226	265,388	192,388	180,020	169,063	106,760	526,503
Administration	-	-	-	-	-	-	1,007,426	857,254	2,446,135	2,095,897
Operating grants and contributions	53,970,556	55,365,851	59,273,209	67,739,489	68,789,246	70,250,802	68,549,968	62,988,257	62,730,008	62,893,347
Capital grants and contributions	3,506,696	5,150,813	3,083,590	1,918,742	5,687,811	2,537,511	867,746	858,967	1,308,589	885,030
Total program revenues	64,702,838	67,401,771	69,703,505	77,116,234	81,740,940	78,896,595	75,796,643	69,874,224	71,757,587	70,846,457
Net Expense/(Revenue)										
Total net expense	\$ 252,814,929	\$ 275,484,322	\$ 279,394,978	\$ 257,095,629	\$ 236,934,819	\$ 236,820,114	\$ 239,351,717	\$ 242,835,254	\$ 250,476,752	\$ 246,759,274

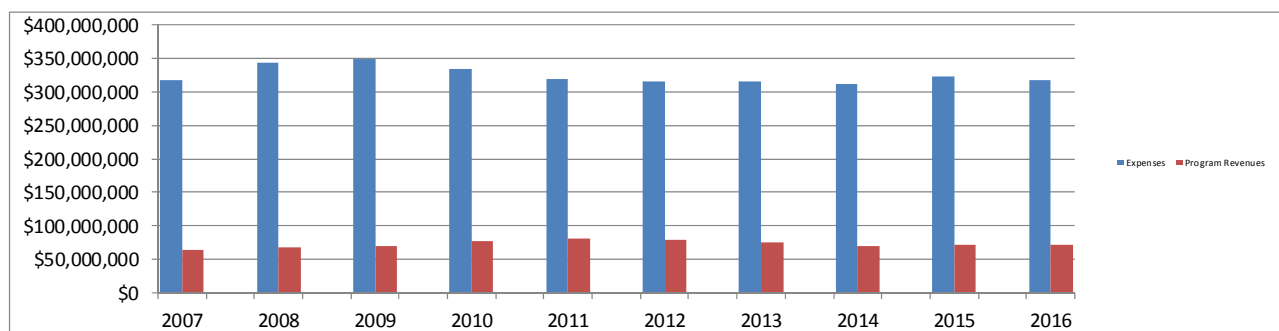


Table III

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

General Revenues and Total Changes in Net Position

Last Ten Fiscal Years

(Accrual Basis of Accounting)

Fiscal Year

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Net Expense										
Total net expense	\$ 252,814,929	\$ 275,484,322	\$ 279,394,978	\$ 257,095,629	\$ 236,934,819	\$ 236,820,114	\$ 239,351,717	\$ 242,835,254	\$ 250,476,752	\$ 246,759,274
General Revenues and Other Changes in Net Position										
Governmental activities:										
Grants not restricted to specific programs										
City of Newport News, Virginia	97,701,846	93,681,119	95,773,213	101,052,200	99,557,045	98,754,050	98,085,490	99,150,620	126,133,857	99,916,844
Commonwealth of Virginia	162,492,690	163,806,388	169,035,453	145,390,261	133,006,200	135,823,650	138,444,470	139,113,046	146,829,384	147,216,415
Federal government	3,326,582	5,681,596	7,443,349	6,148,525	5,216,293	5,380,140	3,740,091	2,672,988	1,173,182	2,380,330
Interest	172,616	179,679	56,401	22,443	16,099	18,784	19,275	17,347	15,432	28,693
Miscellaneous	409,740	1,215,891	-	-	-	-	-	-	-	-
Total general revenues	264,103,474	264,564,673	272,308,416	252,613,429	237,795,637	239,976,624	240,289,326	240,954,001	274,151,855	249,542,282
Change in Net Position	11,288,545	(10,919,649)	(7,086,562)	(4,482,200)	860,818	3,156,510	937,609	(1,881,253)	23,675,103	2,783,008
Net position at beginning of year	77,994,899	89,283,444	78,363,795	73,947,561	69,465,361	70,326,179	73,482,689	74,420,298	72,539,045	(264,982,116)
Prior period adjustment	-	-	-	2,670,328	-	-	-	-	(361,196,264)	-
Net position at end of year	\$ 89,283,444	\$ 78,363,795	\$ 71,277,233	\$ 72,135,689	\$ 70,326,179	\$ 73,482,689	\$ 74,420,298	\$ 72,539,045	\$ (264,982,116)	\$ (262,199,108)

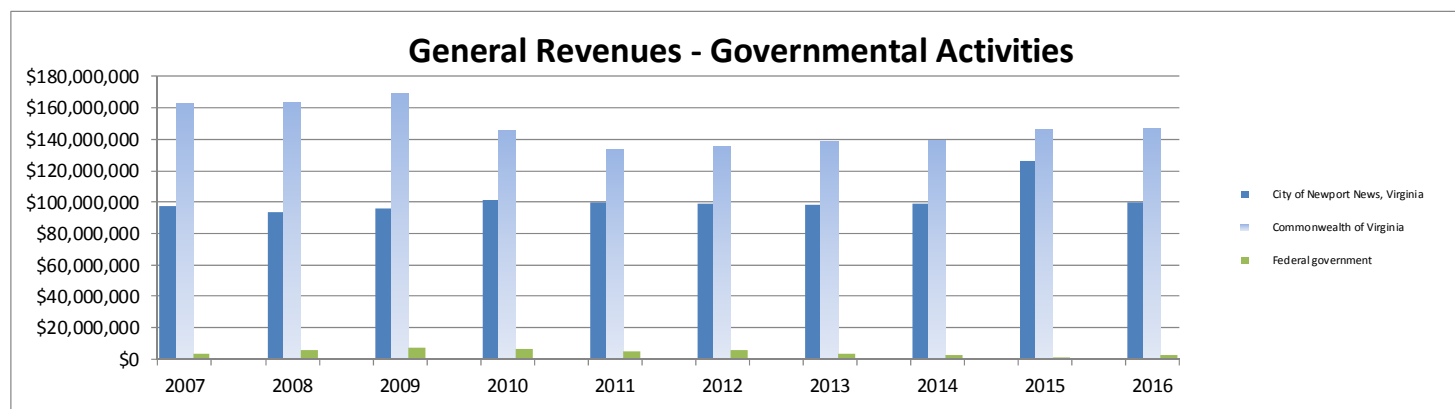


Table IV

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

Fund Balances – Governmental Funds

Last Ten Fiscal Years

(Modified Accrual Basis of Accounting)

Fiscal Year

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General Fund										
Reserved	\$ 24,214,767	\$ 26,751,505	\$ 33,179,119	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	4,819,439	7,373,979	8,982,912	-	-	-	-	-	-	-
Nonspendable	-	-	-	690,372	656,720	708,477	1,416,350	1,812,575	1,748,790	1,295,585
Assigned to	-	-	-	38,704,948	31,046,573	23,589,331	27,509,853	27,925,260	23,648,913	24,068,826
Unassigned	-	-	2,820,409	-	-	-	619,750	-	-	-
Total general fund	<u>\$ 29,034,206</u>	<u>\$ 34,125,484</u>	<u>\$ 44,982,440</u>	<u>\$ 39,395,320</u>	<u>\$ 31,703,293</u>	<u>\$ 24,297,808</u>	<u>\$ 29,545,953</u>	<u>\$ 29,737,835</u>	<u>\$ 25,397,703</u>	<u>\$ 25,364,411</u>
All Other Governmental Funds										
Reserved	\$ 3,739,314	\$ 8,555,882	\$ 3,673,127	\$ 2,572,199	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds	1,044,693	2,041,666	2,314,115	2,632,636	-	-	-	-	-	-
Capital project funds	(5,303,241)	1,347,479	2,907,202	2,358,745	-	-	-	-	-	-
Nonspendable	-	-	-	-	295,190	336,143	402,407	390,017	521,172	547,528
Restricted	-	-	-	-	1,871,770	4,218,225	4,293,830	4,962,729	5,064,397	5,104,202
Committed	-	-	-	-	-	6,050,353	4,850,125	5,393,249	5,097,426	4,783,163
Assigned to	-	-	-	-	7,282,680	2,440,928	5,881,305	2,038,882	19,738,006	5,071,163
Total all other governmental funds	<u>\$ (519,234)</u>	<u>\$ 11,945,027</u>	<u>\$ 8,894,444</u>	<u>\$ 7,563,580</u>	<u>\$ 9,449,640</u>	<u>\$ 13,045,649</u>	<u>\$ 15,427,667</u>	<u>\$ 12,784,877</u>	<u>\$ 30,421,001</u>	<u>\$ 15,506,056</u>

NOTE - GASB 54 was implemented in 2010. Except for the unassigned category, conversion of prior year data to new categories is not possible at this time.

Table V

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

Governmental Funds Revenues and Other Financing Sources

Last Ten Fiscal Years

(Modified Accrual Basis of Accounting)

(Amounts in Thousands)

Fiscal Year	City of Newport News	Commonwealth of Virginia	Federal Government	Other	Other Financing Sources	Total Revenues and Other Financing Sources
2007	\$ 104,647,395	\$ 187,784,047	\$ 35,512,477	\$ 7,807,942	\$ 3,068,814	\$ 338,820,675
2008	104,682,993	190,950,988	39,053,660	8,280,677	-	342,968,318
2009	102,196,055	197,538,187	41,006,149	7,694,372	972,182	349,406,945
2010	104,664,127	173,239,439	47,778,713	7,659,311	-	333,341,590
2011	104,112,311	160,146,070	52,480,818	7,352,644	-	324,091,843
2012	108,842,095	161,348,404	52,580,026	6,928,714	-	329,699,239
2013	105,888,340	165,372,234	46,216,240	6,412,005	1,072,755	324,961,574
2014	104,055,471	167,995,494	37,479,790	6,202,320	18,165	315,751,240
2015	127,074,351	174,050,882	37,375,412	8,349,290	663,485	347,513,420
2016	108,353,173	173,853,546	38,426,543	7,991,806	11,164,235	339,789,303

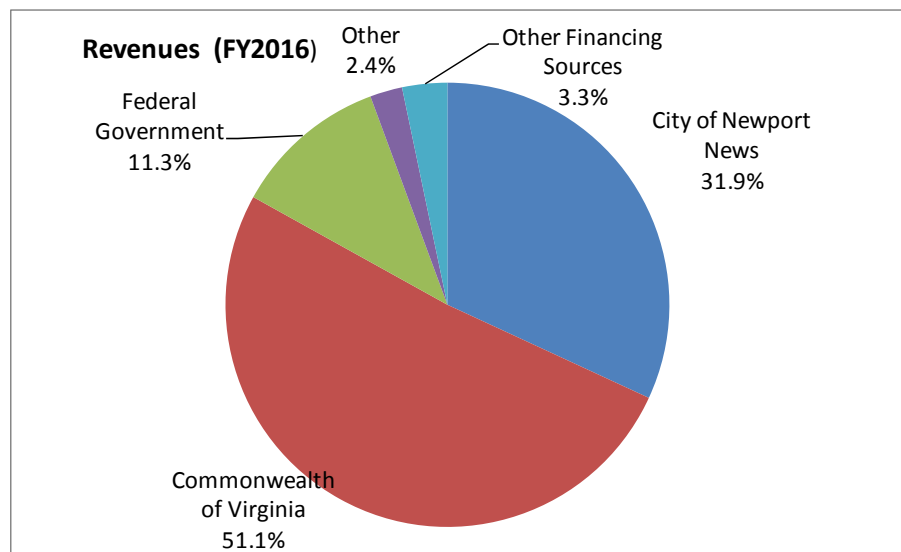


Table VII

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

Capital Leases and Facility Notes Payable Debt to Assessed Value of Taxable Property and Debt Per Capita of the City of Newport News, Virginia

Last Ten Fiscal Years
(Amounts in thousands except for population)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Revenues and other financing sources (Table V)	\$ 338,820,675	\$ 342,968,318	\$ 349,406,945	\$ 333,341,590	\$ 324,091,843	\$ 329,699,239	\$ 324,961,574	\$ 315,751,240	\$ 347,513,420	\$ 339,789,303
Academic services	\$ 229,919,650	\$ 236,249,151	\$ 238,023,334	\$ 234,743,753	\$ 227,559,797	\$ 227,559,797	\$ 221,425,243	\$ 219,338,755	\$ 226,859,864	\$ 228,286,657
Attendance and health services	-	-	-	-	-	-	\$ 5,429,791	5,426,772	5,582,154	5,772,945
Transportation services	14,922,008	16,185,859	16,806,995	16,706,999	17,575,505	17,575,505	17,520,252	16,900,789	17,141,068	16,747,043
Operations and facilities	28,770,938	28,570,237	33,654,510	27,690,322	33,658,928	33,658,928	30,366,533	31,502,312	31,474,496	30,267,232
Child nutrition services	13,354,072	13,916,630	13,486,037	13,231,220	14,217,246	14,217,246	15,237,387	15,127,188	16,617,410	17,460,389
Technology services	11,289,089	15,117,541	13,024,631	21,407,036	12,916,263	12,916,263	12,188,113	13,616,968	13,577,254	15,655,607
Administration	11,508,913	10,071,479	9,428,200	7,862,407	7,267,413	2,391,998	7,309,967	8,054,340	9,654,222	9,740,468
Capital outlay	8,504,309	15,284,734	13,339,928	10,091,413	13,967,918	13,967,918	11,142,657	5,450,745	9,316,121	30,684,616
Debt service										
Principal	3,383,209	4,122,193	2,616,893	2,750,273	3,352,473	3,352,473	2,631,723	2,803,222	3,888,129	346,321
Interest	1,829,826	1,754,471	846,193	1,363,623	503,181	503,181	387,257	282,261	258,111	40,858
Other financing uses	-	112,000	142,000	74,463	-	-	-	18,165	-	19,821
Total expenditures and other financing uses	\$ 323,482,014	\$ 341,384,295	\$ 341,368,721	\$ 335,921,509	\$ 331,018,724	\$ 326,143,309	\$ 323,638,923	\$ 318,521,517	\$ 334,368,829	\$ 355,021,957
Change in fund balance	\$ 15,338,661	\$ 1,584,023	\$ 8,038,224	\$ (2,579,919)	\$ (6,926,881)	\$ 3,555,930	\$ 1,322,651	\$ (2,770,277)	\$ 13,144,591	\$ (15,232,654)
Debt service as a percentage of noncapital expenditures	1.7%	1.8%	1.1%	1.3%	1.2%	1.2%	1.0%	1.0%	1.3%	0.1%

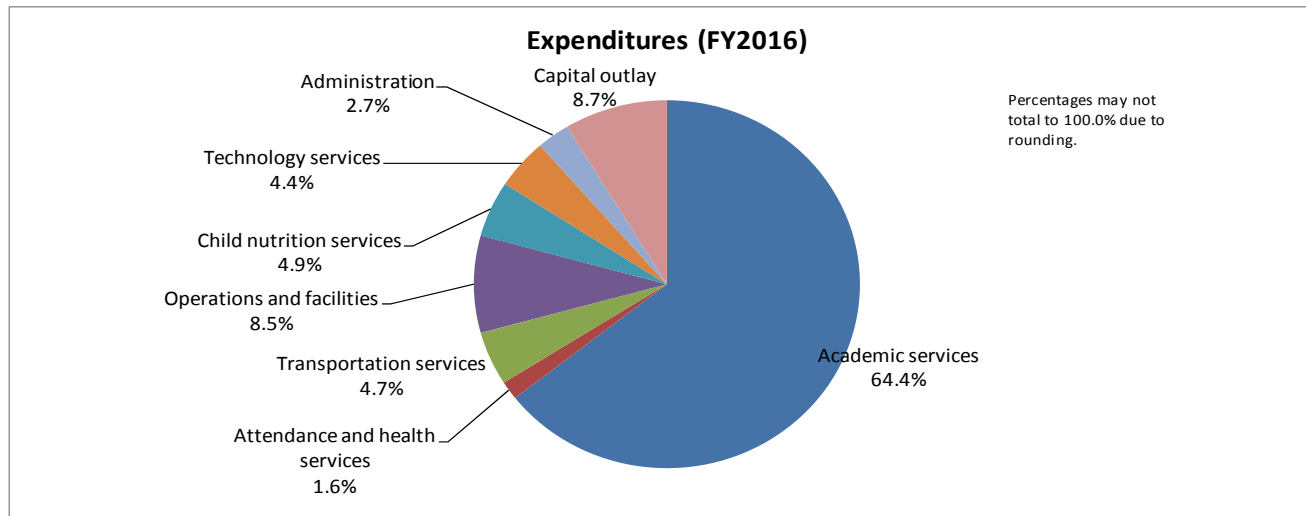


Table VII

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

Capital Leases and Facility Notes Payable Debt to Assessed Value of Taxable Property and Debt Per Capita of the City of Newport News, Virginia

Last Ten Fiscal Years

(Amounts in thousands except for population)

Fiscal year	(1) Population	(2) Assessed value of property	(3) Personal Income	Capital lease and facility notes payable debt	Ratio of debt to assessed value	Net debt per capita	Ratio of debt to personal income
2007	186,000	\$12,293,454	\$5,500,739	\$23,340	0.19%	\$125	0.42%
2008	187,200	14,286,003	5,941,588	19,217	0.13%	103	0.32%
2009	193,212	17,488,713	6,011,449	17,573	0.10%	91	0.29%
2010	193,172	18,048,533	5,946,073	14,822	0.08%	77	0.25%
2011	180,719	17,090,031	6,241,927	12,005	0.07%	66	0.19%
2012	180,719	16,878,501	6,672,878	8,653	0.05%	48	0.13%
2013	180,726	16,307,403	6,891,612	7,094	0.04%	39	0.10%
2014	182,020	16,207,738	7,045,829	4,290	0.03%	24	0.06%
2015	182,965	16,319,157	Not Available	1,066	0.01%	6	Not Available
2016	182,385	16,716,737	Not Available	11,863	0.07%	65	Not Available

Notes: (1) Source: 2006-2008 – City estimate; 2009-2016 – U. S. Bureau of Census

(2) Source - City of Newport News Office of the Treasurer and Commissioner of the Revenue

(3) Source: 2006-2014 Bureau of Economic Analysis, 2015-2016 data not yet available

NOTE - The School Board is not permitted to issue general obligation bonded debt

Table VIII

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

**Standards of Learning – Percentage of Students with a Passing Score – School Board and State
Last Four Fiscal Years**

Grade 3												
Test	School Board					State						
	2013	2014	2015	2016	Change	2013	2014	2015	2016	Change		
English: Reading	62	58	64	66	2	72	69	75	76	1		
Mathematics	49	60	66	66	-	65	67	74	77	3		
Grade 4												
Test	School Board					State						
	2013	2014	2015	2016	Change	2013	2014	2015	2016	Change		
English: Reading	59	58	71	69	(2)	70	70	77	77	-		
Mathematics	60	73	75	74	(1)	74	80	84	83	(1)		
Virginia Studies	80	76	82	78	(4)	87	85	87	87	-		
Grade 5												
Test	School Board					State						
	2013	2014	2015	2016	Change	2013	2014	2015	2016	Change		
English: Reading,	58	59	66	73	7	73	73	79	81	2		
Mathematics	56	62	72	70	(2)	69	73	79	79	-		
Science	67	59	69	74	5	75	73	79	81	2		
Grade 6												
Test	School Board					State						
	2013	2014	2015	2016	Change	2013	2014	2015	2016	Change		
English: Reading	64	60	62	64	2	73	73	76	77	1		
Mathematics	70	67	77	76	(1)	77	76	83	82	(1)		
Grade 7												
Test	School Board					State						
	2013	2014	2015	2016	Change	2013	2014	2015	2016	Change		
English: Reading	64	66	71	69	(2)	74	76	81	82	1		
Mathematics	43	38	53	47	(6)	61	65	73	72	(1)		
Grade 8												
Test	School Board					State						
	2013	2014	2015	2016	Change	2013	2014	2015	2016	Change		
English: Writing	58	60	61	60	(1)	70	70	72	71	(1)		
English: Reading,	59	57	61	61	-	71	70	75	75	-		
Mathematics	42	43	48	49	1	61	67	74	73	(1)		
Science	72	58	64	65	1	76	74	78	79	1		
Civics/Economics	81	75	77	78	1	85	83	86	87	1		
End of Course												
Test	School Board					State						
	2013	2014	2015	2016	Change	2013	2014	2015	2016	Change		
English: Writing	82	78	76	80	4	87	84	83	83	-		
English: Reading	85	88	83	85	2	89	90	89	89	-		
Algebra I	72	71	81	81	-	76	79	82	83	1		
Algebra II	59	67	77	91	14	76	82	87	89	2		
Geometry	63	68	74	75	1	76	77	80	80	-		
Earth science	75	72	78	78	-	83	83	83	84	1		
Biology	71	71	79	83	4	83	83	84	84	-		
Chemistry	76	82	87	88	1	86	87	88	88	-		
World History I	84	84	85	86	1	84	85	85	84	(1)		
World History II	82	85	87	89	2	85	86	87	86	(1)		
VA & U. S. History	77	79	80	82	2	86	87	87	86	(1)		
World Geography	76	77	82	80	(2)	86	86	86	86			

Source - Virginia Department of Education Division Report Card

Table VIII

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

Standards of Learning – Percentage of Students with a Passing Score – School Board and State
Last Four Fiscal Years

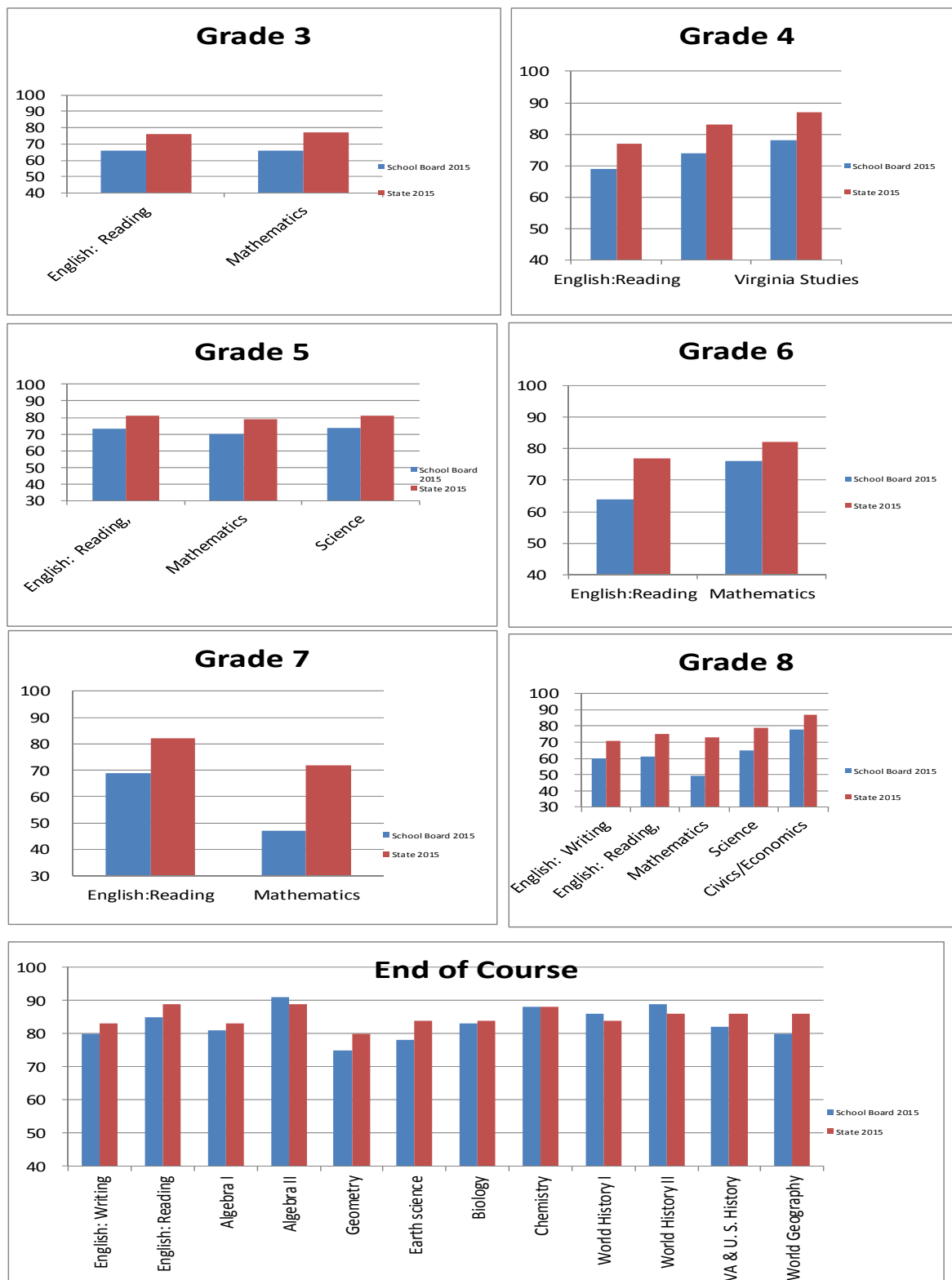


Table IX

THE SCHOOL BOARD OF THE CITY OF NEWPORT NEWS, VIRGINIA

Miscellaneous Statistics

June 30, 2016

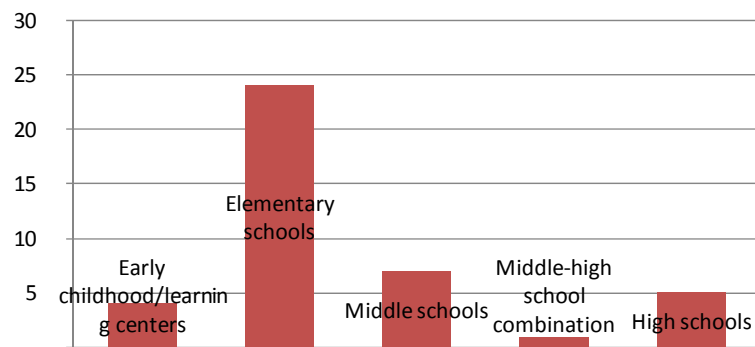
City of Newport News General Information

Date of incorporation (first Charter adopted):	January 16, 1896
Consolidation with Warwick City:	July 1, 1958
Form of government:	Council-Manager (seven member council)
Area – square miles:	69 square miles

The School Board of the City of Newport News

Number of schools:		Average daily students (FY2016):	
Early childhood/learning centers	4	Early childhood centers	1,419
Elementary schools	24	Elementary school	13,477
Middle schools	7	Middle school	5,926
Middle-high school combination	1	High school	7,850
High schools	5		
Total	<u>41</u>	Total	<u>28,672</u>

Number of Schools



Average Daily Students (FY2016)

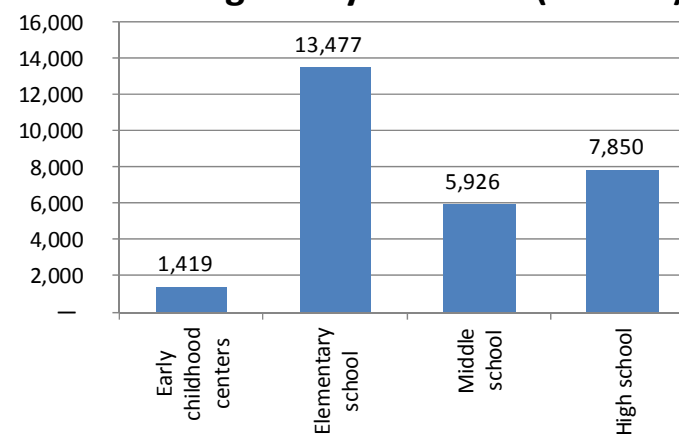


Table X

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

Demographic Statistics

Last Ten Fiscal Years

Fiscal Year	(1) Population	(2) Personal Income (In thousands)	(3) Per Capita Income	(4) School Enrollment	(5) Unemployment Rate (%)
2007	186,000	\$5,500,739	\$28,436	30,218	3.4%
2008	187,200	5,941,588	28,990	29,441	4.0%
2009	193,212	6,011,449	31,120	29,022	6.5%
2010	193,172	5,946,073	32,921	28,613	8.0%
2011	180,719	6,241,927	34,752	28,183	7.6%
2012	180,719	6,672,878	36,923	27,701	7.4%
2013	180,726	6,891,612	37,862	27,590	6.9%
2014	182,020	7,045,829	38,509	27,804	6.4%
2015	182,965	Not Available	Not Available	27,488	6.0%
2016	182,385	Not Available	Not Available	27,253	5.0%

Notes:

(1) Source: 2006-2008 - City estimate; 2009-2016 – U. S. Bureau of Census

(2) Source: 2006-2007 Virginia Employment Commission; 2008-2014 Bureau of Economic Accounts; 2015-2016 data not yet available.

(3) Source: 2006-2014 Bureau of Economic Analysis, 2015-2016 data not yet available

(4) City of Newport News School System - average ADM as of March 31st of each year
Early childhood enrollment is not included.

(5) 2006-2009 Virginia Employment Commission; 2010-2014 Virginia Workforce Connection; 2015-2016 Virginia Labor Market Information

Table XI

THE SCHOOL BOARD OF THE CITY OF NEWPORT NEWS, VIRGINIA

Capital Asset Information

Last Ten Fiscal Years

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Schools										
Elementary										
Buildings (Note 1)	26	26	26	26	25	24	24	24	24	24
Average age of buildings (Note 2)	43 years	44 years	45 years	46 years	47 years	48 years	49 years	50 years	51 years	52 years
Modular learning cottages	78	78	72	71	71	71	71	71	71	71
Square feet	1,630,000	1,630,000	1,630,000	1,630,000	1,560,400	1,534,997	1,534,997	1,534,997	1,534,997	1,534,997
Capacity (based on current program)	15,450	17,459	17,459	16,391	15,800	15,600	15,600	15,600	15,600	15,600
Enrollment (as of September 30)	14,033	13,645	13,746	13,862	13,728	13,686	13,597	13,664	13,664	13,519
Percent of capacity used	91%	78%	79%	85%	87%	88%	87%	88%	88%	87%
Middle										
Buildings (Note 1)	8	9	9	8	8	8	8	8	8	8
Average age of buildings (Note 2)	41 years	38 years	39 years	38 years	39 years	40 years	41 years	42 years	43 years	44 years
Modular learning cottages	19	19	19	14	14	14	14	14	14	14
Square feet	1,123,400	1,123,400	1,123,400	1,048,260	1,048,260	1,048,260	1,048,260	1,048,260	1,048,260	1,048,260
Capacity (based on current program)	9,073	8,084	8,084	7,484	7,484	7,484	7,484	7,484	7,484	7,484
Enrollment (as of September 30)	7,036	6,799	6,434	6,199	6,074	6,191	6,138	6,152	6,152	6,162
Percent of capacity used	78%	84%	80%	83%	81%	83%	82%	82%	82%	82%
High										
Buildings	5	6	6	6	6	6	6	6	6	6
Average age of buildings (Note 2)	28 years	24 years	25 years	26 years	27 years	28 years	29 years	30 years	31 years	32 years
Alternative high school facilities (leased)	2	2	2	2	2	2	2	2	2	2
Modular learning cottages	20	20	20	20	20	20	20	20	20	20
Square feet	1,195,000	1,223,000	1,223,000	1,223,000	1,223,000	1,223,000	1,223,000	1,223,000	1,223,000	1,223,000
Capacity (based on current program)	8,206	8,570	8,570	8,570	8,570	8,570	8,570	8,570	8,570	8,570
Enrollment (as of September 30)	9,620	9,441	9,328	8,988	8,621	8,139	7,963	7,963	7,963	7,540
Percent of capacity used	117%	110%	109%	105%	101%	95%	93%	93%	93%	88%
Early Childhood Centers										
Buildings	4	4	4	4	4	4	4	4	4	4
Average age of buildings (Note 2)	23 years	24 years	25 years	27 years	28 years	37 years	38 years	39 years	40 years	41 years
Square feet	112,700	112,700	112,700	181,000	181,000	206,403	206,403	206,403	206,403	206,403
Capacity (based on current program)	1,700	1,700	1,700	1,850	1,850	2,050	2,050	2,050	2,050	1,919
Enrollment (as of September 30)	1,684	1,668	1,790	1,813	1,607	1,637	1,632	1,456	1,456	1,504
Percent of capacity used	99%	98%	105%	98%	87%	80%	80%	71%	71%	78%
Administrative and Operations										
Buildings	6	6	6	6	6	6	6	6	6	6
Average age of buildings (Note 2)	32 years	33 years	34 years	35 years	36 years	37 years	38 years	39 years	40 years	41
Square feet	199,000	199,000	199,000	199,000	199,000	199,000	199,000	199,000	199,000	199,000
Transportation										
Buildings	1	1	1	1	1	1	1	1	1	1
Age of building	30 years	31 years	32 years	33 years	34 years	35 years	36 years	37 years	38 years	39 years
Square feet	26,500	26,500	26,500	26,500	26,500	26,500	26,500	26,500	26,500	26,500
Buses	405	412	372	368	361	375	386	365	356	335

Source: Newport News Public Schools insurance and facility department records

Notes: Note 1 - In FY2008 we added a middle-high school combination, although one physical building, we have treated it as separate buildings for the purposes of this statistical table.

Note 2 - Average age is based upon the year the building was first constructed.

In many cases, the buildings have received additions and/or extensive renovations, such as roof, window and HVAC replacements.

However, the following schools have received such an extensive renovation, that the age of the building is based upon the year of renovation, rather than the year of original construction:

An Achievable Dream Middle and High School, (2007 instead of 1951), Crittenden Middle School (1994 instead of 1949, and Washington Middle School (2006 instead of 1929)

Table XII

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

Operational Statistics

Last Ten Fiscal Years

	(1)	(2)	(2)	(3)
Fiscal Year	Cost per Student	Elementary Student/ Teacher Ratio	Secondary Student/ Teacher Ratio	Percentage of Students on Free/Reduced Lunch
2007	\$ 10,075	12.0	12.9	48.8%
2008	10,565	11.6	13.4	48.8%
2009	11,032	12.7	12.0	51.4%
2010	10,946	12.1	11.6	53.2%
2011	10,582	13.5	12.6	54.0%
2012	10,842	14.0	12.5	59.1%
2013	10,658	14.1	12.7	60.8%
2014	10,563	14.4	13.7	61.3%
2015	11,043	13.7	12.0	62.9%
2016	11,191	14.2	12.9	64.2%

Sources:

- (1) Cost per student based upon formula for operating costs per the Virginia Department of Education and published in table 15 of the Annual Superintendent's Report on their website. Starting with FY2012, pre-school students are included in the cost per student. (FY2016 data based on internal estimates and not yet verified and published by the State)
- (2) Student/teacher ratio includes all teachers (including resource and special education) and is published by the Virginia Department of Education on their website. (data for 2014 is estimated by School Board pending State publishing the data on their website)
- (3) Percentage of students on free/reduced lunch from Newport News Public Schools Child Nutrition Services Department.

Table XIII

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

Full Time Equivalent District Employees by Type – Last Ten Fiscal Years

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Supervisory:										
Principals	43	45	45	40	41	41	41	42	39	40
Assistant principals	76	76	74	74	68	72	72	76	77	77
Instructional administrative	75	69	74	64	59	59	58	56	59	60
Other administrative and professional	69	60	72	64	55	55	57	57	57	55
Instructional:										
Elementary classroom teachers	1,426	1,423	1,357	1,373	1,310	1,251	1,248	1,223	1,139	1,227
Secondary classroom teachers	809	812	802	840	795	771	738	693	801	734
Guidance counselors	84	87	92	99	91	91	95	95	95	95
Librarians	49	51	45	48	47	46	44	39	40	42
Technology	50	50	30	32	32	31	29	28	28	27
Other instructional	163	165	147	158	138	121	141	145	121	112
Social workers	18	20	18	18	18	16	16	14	13	13
Teacher assistants	498	483	526	533	521	500	478	452	431	415
Support Services:										
Psychologists	18	18	18	21	21	17	17	17	17	17
Instructional technical	14	15	30	55	40	36	40	38	41	40
Instructional clerical	228	231	238	223	219	192	186	180	180	179
Non-instructional technical	93	75	134	105	102	108	99	98	104	89
Non-instruction clerical	59	72	51	38	38	27	33	34	35	34
Nurses	56	56	53	55	52	51	53	52	52	56
Bus drivers	394	394	384	340	326	315	318	310	308	309
Bus assistants	98	98	100	92	91	90	97	96	113	99
Custodians	248	248	262	252	244	243	242	233	240	238
Child nutrition services	361	361	394	371	366	346	344	346	344	344
Security officers	65	68	66	65	65	63	64	62	61	64
Skilled trades	97	98	98	92	91	88	85	85	85	86
Other	86	83	3	2	2	2	2	14	16	16
Total	<u>5,177</u>	<u>5,158</u>	<u>5,113</u>	<u>5,053</u>	<u>4,832</u>	<u>4,632</u>	<u>4,597</u>	<u>4,485</u>	<u>4,496</u>	<u>4,467</u>

Source: Superintendent's annual financial report to the Commonwealth of Virginia.

Table XIV

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

Teacher Base Salaries

Last Ten Fiscal Years

Fiscal Year	Minimum Salary	Maximum Salary	Newport News Average Salary	Statewide Average Salary
2007	\$ 35,750	\$ 55,709	\$ 44,541	\$ 49,131
2008	37,350	57,630	45,277	50,511
2009	38,400	58,766	48,815	52,309
2010	38,400	58,766	45,657	51,887
2011	38,000	58,766	46,882	51,524
2012	38,205	56,761	48,228	52,096
2013	38,500	56,761	48,045	52,923
2014	39,500	57,879	49,540	53,756
2015	40,500	59,590	50,219	54,486
2016	41,500	59,884	51,153	Not Available

Sources: Minimum and Maximum salaries from Newport News Public Schools Budget Document, Appendix 2 for teachers with a Bachelors degree working standard 192-day contract. Newport News and Statewide average salary from Superintendent's annual financial report Table 19 as published by the Virginia Department of Education on their website, except FY2016 is from our submission to the State but not yet verified. FY2016 Statewide Average is not yet available.

Table XV

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

Principal Taxpayers of the City of Newport News

June 30, 2016 and Nine Years Prior

(Amounts in Thousands)

Taxpayer	2007 Taxes (1)	Percentage of Total Assessments	2016 Taxes (1)	Percentage of Total Assessments
Huntington Ingalls Incorporated	\$ 12,559	7.65%	\$ 20,622	8.03%
Virginia Electric & Power Company	1,328	0.81%	5,283	2.06%
Canon Virginia, Inc.	1,550	0.94%	4,925	1.92%
The Mariners' Museum (Riverside Hospital)	1,334	0.81%	2,791	1.09%
Verizon Virginia, Inc.	910	0.55%	2,216	0.86%
PR Patrick Henry, LLC	1,407	0.86%	1,810	0.71%
Continental Automotive Systems US, Inc.	-	-	1,731	0.67%
Virginia Natural Gas Inc	322	0.20%	1,393	0.54%
Dominion Terminal Associates	962	0.59%	1,238	0.48%
Kinder Morgan Operation LP "C"	348	0.21%	1,214	0.47%
Cox Communications Hampton Roads Inc	300	0.18%	911	0.35%
Inland Western Newport News	-	-	848	0.33%
Cellco Partnership	-	-	821	0.32%
Patrick Henry Hospital (Warwick Forest)	-	-	558	0.22%
Bottling Group LLC	-	-	544	0.21%
Oyster Point Residential LLC	-	-	512	0.20%
Ferguson Enterprises Corp	308	0.19%	485	0.19%
Meridian Parkside Apartments LLC	-	-	450	0.18%
Liebherr Mining & Construction Inc	-	-	449	0.17%
CSX Transportation	-	-	-	-
1552 LLC	-	-	405	0.16%
Radius Apartments	-	-	-	-
Harbours LLC	355	0.22%	-	-
Seimens - Bendix Automotive	1,511	0.92%	-	-
Shorewood Packaging Corp of Va	563	0.34%	-	-
Chesapeake Investors LLC	303	0.18%	-	-
Newport-Oxford Associates Ltd	399	0.24%	-	-
Mountain Ventures / Jefferson Value Assoc	687	0.42%	-	-
Newport News - Oyster Point Hotel LLC	373	0.23%	-	-
Hewlett Packard Financial Services Inc	366	0.22%	-	-
Inland Southeast Denbigh Village	-	0.00%	-	-
United Dominion Realty Trust	527	0.32%	-	-
	<u>\$ 26,412</u>	<u>16.08%</u>	<u>\$ 49,206</u>	<u>19.16%</u>

Note: (1) Includes real estate and personal property tax assessments for these taxpayers. Current taxpayer name used if different from 2007

Source: City of Newport News Real Estate Assessors Office and Office of the Commissioner of the Revenue

TABLE XVI

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

Principal Employers of the City of Newport News

June 30, 2016 and Nine Years Prior

Employer	2007 Employees	Percentage of Total City Employment	2016 Employees	Percentage of Total City Employment
Huntington Ingalls Industries, Inc.	10,000 - 25,000	19.43%	10,000 - 25,000	20.30%
Newport News Public Schools	1,000 - 5,000	3.33%	1,000 - 5,000	3.48%
Riverside Regional Medical Center	1,000 - 5,000	3.33%	1,000 - 5,000	3.48%
City of Newport News	1,000 - 5,000	3.33%	1,000 - 5,000	3.48%
U.S. Department of Defense	1,000 - 5,000	3.33%	1,000 - 5,000	3.48%
Ferguson Enterprises Inc.	1,000 - 5,000	3.33%	1,000 - 5,000	3.48%
Canon	500 - 999	0.83%	1,000 - 5,000	3.48%
U.S. Department of Army & Air Force	1,000 - 5,000	3.33%	1,000 - 5,000	3.48%
Christopher Newport University	1,000 - 5,000	3.33%	1,000 - 5,000	3.48%
WalMart	500 - 999	0.83%	1,000 - 5,000	3.48%
APAC Customer Services	500 - 999	0.83%	—	—
	18,500 - 62,997	45.23%	19,000 - 70,000	51.62%

Source: Virginia Employment Commission

COMPLIANCE SECTION

**Report of Independent Auditor 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***

To the Honorable Members of the
School Board of the City of Newport News, Virginia

We have audited, in accordance with the 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 the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the School Board of the City of Newport News, Virginia (the "School Board"), a component unit of the City of Newport News, Virginia, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School Board's basic financial statements and have issued our report thereon dated December 19, 2016. Our report includes a reference to other auditors who audited the financial statements of the Student Activity Funds, an agency fund of the School Board. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Student Activity Funds were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School Board's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the School Board's internal control.

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 and correct, 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School Board's financial statements are free from material misstatement, 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* or the *Specifications for Audits of Counties, Cities, and Towns*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School Board's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School Board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Cheryl Behrman CP". The signature is written in a cursive style.

Richmond, Virginia
December 19, 2016

**Report of Independent Auditor on Compliance
for Each Major Program and on Internal Controls
over Compliance Required by the Uniform Guidance**

The Honorable Members of the
School Board of the City of
Newport News, Virginia

Report on Compliance for Each Major Federal Program

We have audited the School Board of the City of Newport News, Virginia's (the "School Board") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the School Board's major federal program for the year ended June 30, 2016. The School Board's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of the School Board's major federal program based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 the School Board'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 on compliance for the major federal program. However, our audit does not provide a legal determination of the School Board's compliance.

Opinion on Each Major Federal Program

In our opinion, the School Board complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of the School Board is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School Board's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 the School Board'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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Cheryl Behrman CP". The signature is written in a cursive, flowing style.

Richmond, Virginia
December 19, 2016

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2016

<u>Grantor/Pass-through Grantor/Program Title/Grant Number</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
<u>Department of Agriculture</u>		
<u>Pass-through payments -</u>		
<u>Virginia Department of Agriculture:</u>		
School Lunch Program - Food Commodities	10.555	\$ 1,047,443
<u>Virginia Department of Education:</u>		
National School Lunch Program (10.555/2015, 10.555/2016)	10.555	8,382,432
Program 10.555 Total		9,429,875
School Breakfast Program (10.553/2015, 10.553/2016)	10.553	3,993,689
Total Child Nutrition Cluster		<u>13,423,564</u>
Fresh Fruits and Vegetables (10.582/2015, 10.582/2016)	10.582	288,660
<u>Virginia Department of Health:</u>		
Child and Adult Care Food Program (10.558/2016)	10.558	933,434
<u>Department of Defense</u>		
United States Army Robotics (W911NF-10-1-0021)	12.431	6,595
Invitational Grants for Military Connected Schools (HE1254-14-1-0043)	12.557	127,170
ROTC	12.357	331,901
<u>Department of Education</u>		
Impact Aid	84.041	2,380,330
<u>Pass-through payments -</u>		
<u>Virginia Department of Education:</u>		
Adult Education - Basic Grants	84.002	715,747
Total Adult Education		<u>715,747</u>
Title I Part A Grants to Local Educational Agencies (S010A090046, S010A100046, S010A110046)	84.010	8,842,729
Title I Part A School Improvement (S010A090046)	84.010	1,073,990
Total Title I, Part A Cluster		<u>9,916,719</u>
IDEA Part B Section 611 Special Education (H027A100107)	84.027	6,007,936
IDEA Part B Section 611 - Interpreter Training (H027A100107)	84.027	19,176
Program 84.027 Total		6,027,112
IDEA Part B Section 619 Special Education Preschool (H173A100112)	84.173	187,598
Total Special Education Cluster (IDEA)		<u>6,214,710</u>
Vocational Education - Perkins Secondary (V048A100046, V048A110046)	84.048	653,042
Title X McKinney-Vento Homeless	84.196	18,410
Title IV Part B 21 Century Community Learning (S287C140047)	84.287	1,277,854
Title IV Part A GEAR-UP	84.334	147,959
Title III Part A Language Acquisition Immigrant and Youth (S365A140046)	84.365	133,801
Title III Part A Language Acquisition State Grant (S365A100046, S365A140046)	84.365	19,548
Total English Language Acquisition Grant		<u>153,349</u>
Title II Part A Improving Teacher Quality (S367A090044, S367A100044)	84.367	1,682,410
Title I Part D	84.013	3679
<u>Pass-through Payments -</u>		
<u>Virginia Department of Social Services</u>		
Medicaid Assistance Program	93.778	151,010
		<u>\$ 38,426,543</u>

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2016

(1) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes federal grant activity of the School Board of the City of Newport News, Virginia (the School Board) and is presented on the modified accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

(2) Relationship to Basic Financial Statements

Federal expenditures are reported in the School Board's basic financial statements as follows:

	Federal Expenditures
General Fund	\$ 2,863,241
Grants Fund	20,917,644
Other Non-Major Special Revenue Funds	<u>14,645,658</u>
Total expenditures as shown on Schedule of Expenditures of Federal Awards	<u>\$38,426,543</u>

(3) Indirect Cost

The School Board did not use the 10% indirect cost rate, but rather used zero percent.

(4) Subrecipients

The School Board operates on a contractual basis with its grant partners and, therefore, does not have any sub-recipients.

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

Schedule of Findings and Questioned Costs

Year Ended June 30, 2016

Section I – Summary of Auditor’s Results

1. The type of report issued on the basic financial statements: **Unmodified opinion**
2. Significant deficiencies in internal control disclosed by the audit of the financial statements: **None reported**
3. Material weaknesses in internal control disclosed by the audit of financial statements: **No**
4. Noncompliance, which is material to the financial statements: **No**
5. Significant deficiencies in internal control over major program: **None Reported**
6. Material weaknesses in internal control over major program: **No**
7. The type of report issued on compliance for major program: **Unmodified opinion**
8. Any audit findings which are required to be reported in accordance with the Uniform Guidance: **No**
9. The program tested as major program was:

CFDA #10.553 and #10.555 – Child Nutrition Cluster

10. Dollar Threshold used to distinguish between Type A Programs and Type B Programs: **\$1,152,796**
11. Auditee qualified as a low-risk auditee under Section .530 of OMB Circular A-133: **Yes**

**Section II – Findings Relating to the Financial Statements Reported in Accordance with
Government Auditing Standards**

None

Section III – Findings and Questioned Costs Relating to Federal Awards

None

**Section IV – Findings and Questioned Costs Relating to Compliance with Commonwealth of
Virginia Laws, Regulations, Contracts, and Grants**

None

Section V – Resolution of Prior Year’s Findings

2015-001: Conflicts of Interest – Finding not repeated