

# ***New Horizons Regional Education Centers***

FINANCIAL REPORT

JUNE 30, 2015

## **NEW HORIZONS REGIONAL EDUCATION CENTERS**

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# *New Horizons Regional Education Centers*

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# NEW HORIZONS REGIONAL EDUCATION CENTERS

## Management's Discussion and Analysis

June 30, 2015

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The management of the New Horizons Regional Education Centers (NHREC) offer readers of our financial statements the following narrative overview and analysis of our financial activities for the year ended June 30, 2015.

### Financial Highlights

- NHREC's total operating revenues of \$15,585,057 exceeded total operating expenses of \$15,138,038 by \$447,019.
- These financial statements include the financial information of a component unit, New Horizons Educational Foundation, Inc., because there is a financial relationship between the Center and the component unit, as well as fiscal interdependence.
- New Horizons Educational Foundation, Inc., the component unit, created New Opportunity L.L.C., a wholly-owned Virginia limited company, to build and lease a 52,123 square foot education center to New Horizons Regional Education Centers. Financing for the facility was provided by an \$11,000,000 Tax-Exempt Revenue Bond issued by the Economic Development Authority of the City of Newport News and then purchased by PNC Bank. The proceeds were loaned to the L.L.C., evidenced by a note payable over fifteen years. On November 1, 2013 New Horizons Regional Education Centers deposited \$1,027,842 in a Debt Service Reserve Account to pay the final year balloon payment. Ownership of the facility will convey to New Horizons Regional Education Center Board of Trustees at the completion of the lease agreement.
- The new education center is designed to provide a quality therapeutic learning environment for up to two hundred students (200) from throughout the Peninsula enrolled in the New Horizons Center for Autism High School program and the Newport Academy program serving students K-12 with emotional disabilities. The facility will provide twenty-nine (29) fully equipped classrooms, a gym, cafeteria, medical center, vocational labs and therapy rooms. The building is scheduled to be opened and occupied by students in January, 2016.

### Overview of the Financial Statements

This report consists of government-wide financial statements, fund financial statements, notes to the financial statements and the required supplementary information. The first two statements are condensed and present a government-wide view of NHREC and the component unit's finances. Within this view, all NHRECs' and the component unit's operations are categorized and reported as governmental activities.

Governmental activities for NHREC include the operation of the Career & Technical Education, Special Education, Governor's School, Transition Services and Apprenticeship and Adult programs. Governmental activities for the component unit (New Horizons Foundation, Inc.) provides funding for scholarships and to NHREC for supplemental activities. These government-wide statements are designed to be more corporate-like in that assets are capitalized and depreciated, rather than expensed as in the fund statements.

(Continued)



# NEW HORIZONS REGIONAL EDUCATION CENTERS

## Management's Discussion and Analysis

June 30, 2015

### Basic Financial Statements

- The Statement of Net Position in the government-wide financial statements focuses on resources available for future operations. In simple terms, this statement presents a snapshot view of the assets of NHREC and the component unit, the liabilities they owe and the net difference. The net difference is further separated into amounts the Board designated for specific purposes and unrestricted amounts. The Statement of Activities focuses on the gross and net costs of NHREC and the component unit's programs. This statement summarizes and simplifies the user's analysis to determine the extent to which programs are self-supporting and/or subsidized by other revenues.
- Fund financial statements focus on the governmental funds by providing more detailed information about the major funds. The governmental fund statements do not capitalize assets, nor do they recognize notes payable. Capital assets and the payments on notes are expensed when purchased in the fund financial statements.
- The notes to the financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding NHREC and the component unit's financial condition.

The MD&A is intended to explain the significant changes in financial position and differences in operation between the current and prior years.

### **Statement of Net Position**

A condensed version of the Statement of Net Position at June 30, 2015, is as follows:

	Primary Government	Component Unit
Current and other assets	\$ 6,507,873	\$ 8,891,408
Capital assets	<u>5,985,132</u>	<u>3,428,461</u>
Total assets	12,493,005	12,319,869
Deferred outflow of resources	<u>1,128,060</u>	<u>-</u>
Total assets and deferred outflow of resources	<u>\$ 13,621,065</u>	<u>\$ 12,319,869</u>
Liabilities	\$ 13,957,429	\$ 12,201,530
Deferred inflow of resources	<u>2,081,411</u>	<u>-</u>
Total liabilities and deferred inflow of resources	<u>16,038,840</u>	<u>12,201,530</u>
Net assets:		
Invested in capital assets	5,872,275	-
Restricted	-	38,764
Unrestricted	<u>(8,290,050)</u>	<u>79,575</u>
Total net assets	<u>(2,417,775)</u>	<u>118,339</u>
Total liabilities and net assets	<u>\$ 13,621,065</u>	<u>\$ 12,319,869</u>

(Continued)

# NEW HORIZONS REGIONAL EDUCATION CENTERS

## Management's Discussion and Analysis

June 30, 2015

Primary Government - Current and other assets consist of cash in the bank, receivables due from school divisions and a related party, and a deposit on the special education facility. Liabilities consist of accounts payable, accrued leave, funds held for special projects, deferred inflows of resources and the current and long-term portions of the lease payable on York Middle School. Unrestricted net assets are funds available to expend for operations.

Component Unit - Current assets include both the operating cash and cash reserved for the debt reserve. Liabilities consist of accounts payable, and a rent deposit. Unrestricted net assets are funds available to expend for a future building.

### Statement of Activities

A condensed version of the Statement of Activities at June 30, 2015, is as follows:

	NHREC	Foundation
Program revenues:		
Operating grants and contributions	\$ 15,003,044	\$ 10,000
Charges for services	484,457	-
Interest income	4,726	15,159
Other income	92,830	70,837
Total program revenues	15,585,057	95,996
Program expenses	15,358,173	110,948
Increase (decrease) in net assets	\$ 226,884	\$ (14,952)

### Funding Sources

The Statement of Revenues, Expenditures and Change in Fund Balance -- General Fund -- shows the revenue funding sources by type and amount of funds received. Local funds received from the school divisions are follows:

Newport News	\$ 5,837,357	43.0%
Hampton	3,518,359	25.9%
York County	1,703,273	12.6%
Williamsburg/James City County	1,299,019	9.6%
Poquoson	551,102	4.1%
Gloucester	549,693	4.1%
Isle of Wight	100,320	0.7%
Total local funds revenue	\$ 13,559,123	100.00%

(Continued)

# NEW HORIZONS REGIONAL EDUCATION CENTERS

## Management's Discussion and Analysis

June 30, 2015

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### Capital Assets

At June 30, 2015, NHREC had \$16,610,761 invested in land, land improvements, building and building s long-term debt is related to improvements, furniture, equipment and vehicles and work in process (a 2% increase from FY 2014). The major capital asset additions included the following:

Building and building improvements:

- Security upgrades \$ 118,932

Furniture, equipment and vehicles:

- Rotary screw compressors 40,047
- EMS equipment 10,500
- Tire changer 7,946
- Server 5,206
- Pure Glass Still 5,407

Work in process:

- Machine lab renovation 48,584
- Autobody paint booth 83,605

### Long-Term Debt

NHREC's long-term debt is related to a note payable as well as compensated absences, net OPEB obligations and net pension liability as listed below:

Primary government:

Compensated absences	330,859
Net OPEB obligations	118,000
Net pension liability	<u>12,677,443</u>
Total	<u>\$ 13,126,302</u>

Foundation:

Note payable	<u>\$ 11,000,000</u>
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### Summary

The financial report reflects resources that were directed toward serving the needs of the Virginia Peninsula's school divisions by preparing students educationally, technically and socially, according to each student's needs to become productive citizens.



**Diane Y. Smith, CPA, PC**

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

The Board of Trustees and Superintendents  
New Horizons Regional Education Centers

### *Report on the Financial Statements*

We have audited the accompanying financial statements of the governmental activity, the aggregate discretely presented component unit, the major fund, and activity funds of New Horizons Regional Education Centers as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise New Horizons Regional Education Centers' 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 of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activity, the aggregate discretely presented component unit, the major fund, and activity funds of the New Horizons Regional Education Centers, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year ended, in conformity with accounting principles generally accepted in the United States of America.

## ***Emphasis of Matter***

As described in Note 1 to the financial statements, New Horizon Regional Education Centers adopted accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, GASB Statement 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date*, and GASB Statement No. 45, *Accounting and Financial Reporting for Employers for Postemployment Benefits Other Than Pensions* effective April 1, 2014. Our opinions are not modified with respect to this matter.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the required supplementary information other than management's discussion and analysis, as described in the table of contents, be presented to supplement the 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 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 Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2015, on our consideration of New Horizons Regional Education Centers' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 New Horizons Regional Education Centers' internal control over financial reporting and compliance.

*Diana Y. Smith, CPA, PC*

Newport News, Virginia

December 16, 2015

## **FINANCIAL STATEMENTS**

# NEW HORIZONS REGIONAL EDUCATION CENTERS

## Statement of Net Position

June 30, 2015

	Primary Government	Component Unit
	Governmental Activities	
<b>ASSETS</b>		
Cash	\$ 4,524,399	\$ 7,860,845
Cash - debt reserve	-	1,030,563
Accounts receivable	587,515	-
Due from related party	141,163	-
Prepaid expenses	196,322	-
Prepaid rent	1,027,842	-
Investments	30,632	-
Capital assets, net	<u>5,985,132</u>	<u>3,428,461</u>
Total assets	12,493,005	12,319,869
<b>DEFERRED OUTFLOW OF RESOURCES</b>		
Employer contributions subsequent to the measurement date	<u>1,128,060</u>	-
Total assets and deferred outflow of resources	<u>\$ 13,621,065</u>	<u>\$ 12,319,869</u>
<b>LIABILITIES</b>		
Accounts payable	\$ 681,277	\$ 32,425
Compensated absences	331,859	-
Funds held for designated projects	35,993	-
Due to related party	-	141,263
Rent deposit	-	1,027,842
Capital lease payable	112,857	-
Net pension liability	12,677,443	-
Net OPEB Obligation	118,000	-
Note payable		
Due in one year	-	410,648
Due in more than one year	<u>-</u>	<u>10,589,352</u>
Total liabilities	<u>13,957,429</u>	<u>12,201,530</u>
<b>DEFERRED INFLOW OF RESOURCES</b>		
Unearned revenues	16,411	-
Net difference between projected and actual earnings on pension plan investments	<u>2,065,000</u>	-
Total deferred inflow of resources	<u>2,081,411</u>	-
Total liabilities and deferred inflow of resources	<u>16,038,840</u>	<u>12,201,530</u>
<b>NET POSITION</b>		
Invested in capital assets, net of related debt	5,872,275	-
Restricted for:		
Other purposes	-	38,764
Unrestricted	<u>(8,290,050)</u>	<u>79,575</u>
Total net position	<u>(2,417,775)</u>	<u>118,339</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 13,621,065</u>	<u>\$ 12,319,869</u>

See accompanying notes.

# NEW HORIZONS REGIONAL EDUCATION CENTERS

## Statement of Activities

Year Ended June 30, 2015

	Program Revenues			Net Revenue (Expense) and Changes in Net Assets	Component Unit
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
<b>Governmental Activities</b>					
<i>Primary Government</i>					
Education	\$ 13,214,506	\$ 484,457	\$ 15,003,044	\$ 2,272,995	\$ -
General administration	1,288,863	-	-	(1,288,863)	-
Maintenance of buildings and grounds	854,804	-	-	(854,804)	-
Total governmental activities	\$ 15,358,173	\$ 484,457	\$ 15,003,044	\$ 129,328	-
<i>Component Unit</i>					
Foundation	\$ 110,948	\$ -	\$ 10,000	-	(100,948)
General Revenues:					
Investment earnings				4,726	15,159
Miscellaneous				92,830	70,837
Increase (decrease) in net position				226,884	(14,952)
<b>NET POSITION</b>					
Beginning, as originally stated				11,120,784	-
Restatement				(13,765,443)	-
Beginning, as restated				(2,644,659)	133,291
Ending				\$ (2,417,775)	\$ 118,339

See accompanying notes.



# NEW HORIZONS REGIONAL EDUCATION CENTERS

## Reconciliation of Total Governmental Fund Balance to Net Assets of Governmental Activities June 30, 2015

	Primary Government	Component Unit
	<u>Governmental Activities</u>	
<b>Total Governmental Fund Balance</b>	\$ (2,417,775)	\$ 118,338
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in the governmental activity are not financial resources and, therefore, not reported in the fund.	(5,985,132)	(3,428,461)
The net pension liability is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds	12,677,443	-
The OPEB liability is not due and payable in the current period and, therefore, are not reported in the governmental funds	118,000	-
Actual earnings on pension plan investments, changes in differences in proportion and differences between employer contributions, and proportionate share of contributions, and contributions subsequent to the measurement date are not reported in the governmental funds	936,940	-
Long-term liabilities, including capital leases payable, are not due and payable in the current period and are therefore not reported in the funds.	<u>112,857</u>	<u>11,000,000</u>
<b>Net position of governmental activities</b>	<u>\$ 5,442,333</u>	<u>\$ 7,689,877</u>

See accompanying notes.

# NEW HORIZONS REGIONAL EDUCATION CENTERS

## Balance Sheets - General Funds and Activity Funds

June 30, 2015

	Governmental Funds		Activity Funds	
	Primary Government	Component Unit	Butler Farm Road	Woodside Lane
<b>ASSETS</b>				
Cash on hand	\$ 2,020	\$ 8,891,407	\$ -	\$ -
Cash in bank	4,522,379	-	68,823	43,359
Total cash	4,524,399	8,891,407	68,823	43,359
Accounts receivable	587,515	-	3,798	9,681
Due from related party	141,163	-	-	-
Prepaid expenses	1,224,164	-	-	-
Investments	30,632	-	-	-
Total assets	<u>\$ 6,507,873</u>	<u>\$ 8,891,407</u>	<u>\$ 72,621</u>	<u>\$ 53,040</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 681,277	\$ 32,425	\$ -	\$ -
Accrued leave	331,859	-	-	-
Funds held for designated projects	35,993	-	-	-
Due to related party	-	141,263	-	-
Rent deposit	-	1,027,842	-	-
Deferred revenue	16,411	-	-	-
Total liabilities	<u>1,065,540</u>	<u>1,201,530</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES</b>				
Unrestricted				
Assigned	3,803,671	-	-	-
Unassigned	1,638,662	7,689,877	72,621	53,040
Total fund balances	<u>5,442,333</u>	<u>7,689,877</u>	<u>72,621</u>	<u>53,040</u>
Total liabilities and fund balances	<u>\$ 6,507,873</u>	<u>\$ 8,891,407</u>	<u>\$ 72,621</u>	<u>\$ 53,040</u>

See accompanying notes.

**NEW HORIZONS REGIONAL EDUCATION CENTERS**  
**Statement of Revenues, Expenditures and Change in Fund Balance -**  
**General Fund - Primary Government**  
**Year Ended June 30, 2015**

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	Original and Final Budget	Unrestricted	Over (Under) Budget
<b>REVENUES</b>			
Adult education tuition	\$ 405,972	\$ 484,457	\$ 78,485
Local funds:			
Career and technical	3,441,647	3,428,435	(13,212)
Special education	8,542,258	8,539,986	(2,272)
Governor's School	805,042	796,161	(8,881)
Additional positive support (APS)	660,000	661,152	1,152
Extended school year	120,000	133,389	13,389
Commonwealth of Virginia funds :			
Adult education	74,140	89,868	15,728
Career and technical	137,000	246,104	109,104
Governor's School	375,000	416,311	41,311
Other revenues	7,000	97,556	90,556
Grants and subcontracts	8,000	691,638	683,638
	<u>14,576,059</u>	<u>15,585,057</u>	<u>1,008,998</u>
Total revenues			
<b>EXPENDITURES</b>			
Adult education	480,112	461,820	(18,292)
Career and technical	3,082,565	3,305,382	222,817
Special education	7,015,527	6,582,866	(432,661)
Governor's School	1,050,340	1,104,074	53,734
Additional positive support (APS)	660,000	661,152	1,152
Extended school year	120,000	148,607	28,607
Grants and subcontracts	-	661,387	661,387
Administration	1,279,654	1,301,429	21,775
Facilities operation and maintenance	887,861	911,321	23,460
	<u>14,576,059</u>	<u>15,138,038</u>	<u>561,979</u>
Total expenditures			
Change in fund balance	<u>\$ -</u>	447,019	<u>\$ 447,019</u>
<b>FUND BALANCE</b>			
Beginning		<u>4,995,314</u>	
Ending		<u>\$ 5,442,333</u>	

See accompanying notes.

**NEW HORIZONS REGIONAL EDUCATION CENTERS**  
Statement of Revenues, Expenditures and Change in Fund Balance -  
General Fund - Component Unit  
Year Ended June 30, 2015

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	<u>Unrestricted</u>
<b>REVENUES</b>	
Grants	\$ 10,000
Scholarships	13,300
Honorariums	3,000
Golf Classic	45,451
Spring fundraiser	8,265
Miscellaneous	820
Interest	<u>15,159</u>
Total revenues	<u>95,995</u>
 <b>EXPENDITURES</b>	
Facilities operations	2,652,083
Scholarships	47,756
Honorariums	15,648
Student incentives	9,000
Grant expense	13,500
Golf classic	13,433
Transfers to NHREC	8,665
Office	1,196
Professional fees	<u>1,750</u>
Total expenditures	<u>2,763,031</u>
	<u>(2,667,036)</u>
 <b>OTHER FINANCING PROCEEDS (USES)</b>	
Issuance of debt	-
Debt issuance costs	<u>-</u>
	<u>-</u>
Change in fund balance	(2,667,036)
 <b>FUND BALANCE</b>	
Beginning	<u>10,356,913</u>
Ending	<u>\$ 7,689,877</u>

See accompanying notes.

**NEW HORIZONS REGIONAL EDUCATION CENTERS**  
Reconciliation of Statement of Revenues, Expenditures and Change in  
Fund Balance of Governmental Funds to the Statement of Activities  
Year Ended June 30, 2015

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	Primary Government	Component Unit
	Governmental	Activities
<b>Net change in fund balance</b>	\$ 447,019	\$ (2,667,036)
Amounts reported for governmental activities in the statement of net assets are different because:		
Government funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are allocated over the estimated lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(304,887)	2,652,084
The issuance of leases payable provides current financial resources to governmental funds, while the repayment of the principle of long-term leases consumes the current financial resources of governmental funds.	51,692	-
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:		
Pension costs	151,060	-
Other post employment benefits	(118,000)	-
<b>Change in net position of governmental activities</b>	<u>\$ 226,884</u>	<u>\$ (14,952)</u>

See accompanying notes.

# NEW HORIZONS REGIONAL EDUCATION CENTERS

## Statement of Revenues, Expenditures and Changes in Fund Balance - Activities Funds Year Ended June 30, 2015

	Butler Farm Road Funds	Woodside Lane Funds
<b>REVENUES</b>		
Vending commissions	\$ 15,907	\$ 5,496
General activities	99,157	105,943
Governor's School	18,619	-
Contributions	-	4,500
Interest	24	-
VICA	6,161	2,522
HOSA	2,517	644
FCCLA	662	1,367
Total revenues	143,047	120,472
<b>EXPENDITURES</b>		
General activities	50,208	32,510
Student activities	50,883	69,872
Governor's School	11,991	-
VICA	5,272	3,680
HOSA	1,030	765
FCCLA	348	692
Total expenditures	119,732	107,519
Changes in fund balances	23,315	12,953
<b>FUND BALANCES</b>		
Beginning	49,306	40,087
Ending	\$ 72,621	\$ 53,040

See accompanying notes.

# NEW HORIZONS REGIONAL EDUCATION CENTERS

## Notes to Financial Statements

June 30, 2015

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### NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

#### *Nature of Business*

New Horizons Regional Education Centers (NHREC) are a nonprofit, unincorporated association jointly operated by the School Boards of the following: City of Hampton, City of Newport News, York County, City of Williamsburg and James City County, City of Poquoson, Gloucester County, and Isle of Wight County, Virginia, pursuant to Title 22.1 Code of Virginia (1950), as amended.

NHREC offers programs in the areas of vocational, adult, and special education, as well as a variety of courses in the Governor's School for Science and Technology.

The Centers financial statements are prepared in accordance with generally accepted accounting principles generally accepted in the United States of America applicable to governmental units, as prescribed by the Governmental Accounting Standards Board (GASB). The Centers significant accounting and reporting policies are described below.

In fiscal year 2015, the Centers adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27 and GASB Statement No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date*. This statement recognizes the net pension liability, and, deferred outflows and inflows related to the net pension liability.

The Centers also adopted Statement No. 45, *Accounting for Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, which requires that these benefits be accounted for on an accrual basis, rather than on a pay as you go basis.

#### *The Financial Reporting Entity*

The financial reporting entity consists of the primary government, Newport News Regional Education Centers, and other organizations for which the nature and significance of their relationship with the Centers are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Based on the fact that fiscal interdependency exists and the financial benefit/burden relationship that exists between the Center and New Horizons Educational Foundation, Inc., management has included New Horizons Educational Foundation, Inc., an affiliated organization which provides funding to students for scholarships and to NHREC for supplemental activities, in these financial statements.

(Continued)

# NEW HORIZONS REGIONAL EDUCATION CENTERS

## Notes to Financial Statements

June 30, 2015

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### NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### *Basic of Presentation*

##### Government-wide Financial Statements

The basic financial statements consist of the government-wide statements of the primary government, NHREC, and its component unit, the New Horizons Foundation, Inc., and the fund financial statements, which provide a more detailed level of financial information. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB.

The government-wide financial statements include the statement of net position and the statement of activities for NHREC and its component unit. These statements are reflected on a full accrual basis of accounting and economic resources measurement focus, which incorporates long-term assets as well as long-term liabilities. Interfund transfers are eliminated to avoid a "doubling up" of revenues and expenditures. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The statement of net position presents the financial condition of the governmental type activities of the Centers at year-end. Program revenues include charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Direct expenses are those that are specifically associated with a specific function or segment. Expenses are grouped into the following categories: education, general administration and maintenance of buildings and grounds.

##### Fund Financial Statements

During the year, NHREC 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 are presented on a current financial resources measurement focus and the modified accrual basis of accounting. The acquisition, use and balances of the expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus is based upon the determination of changes in financial position, rather than upon net income determination.

Fund financial statements report information at the individual fund level. Each fund is considered to be a separate accounting entity. Both the primary government and the component unit report a governmental type (general) fund.

(Continued)



# NEW HORIZONS REGIONAL EDUCATION CENTERS

## Notes to Financial Statements

June 30, 2015

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### NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### *Governmental Fund Types*

Governmental funds are those through which most governmental functions of NHREC are financed. The acquisition, use and balances of expendable financial resources and related liabilities are accounted for through governmental funds. Measurement is focused on determining changes in financial position, rather than net income. Following are the NHREC's governmental fund types:

*General Fund* - The general fund is the primary operating fund of NHREC, the primary government, as well as the component unit, the Foundation. Revenues in the primary government are primarily derived from charges for services and contributions from other governmental units. Revenues in the component unit are generated from grants, scholarships and honorariums, and fundraisers.

*Activity Funds* - The New Horizons activity funds are used in recording receipts from student fees and fund-raising activities, vending machine commissions, travel and other advances reimbursed by the general fund, and other miscellaneous receipts. Disbursements consist primarily of purchases of materials for various student activities, travel, and other reimbursements and advances.

#### *Cash and Cash Equivalents*

Cash and cash equivalents include all cash on hand and in banks, certificates of deposit and highly liquid investments with maturities of three months or less.

#### *Investments*

Investments in marketable securities are stated at fair market value. Unrealized gains and losses on investments recorded at fair value are included in investment income; such amounts, if any, are immaterial.

#### *Receivables*

Accounts receivables consist of all revenues earned at year-end and not yet received. Uncollectible amounts are recognized as a reduction in the applicable revenue through the use of an allowance account or charged off at the time information becomes available which would indicate that the particular receivable is not collectible.

#### *Interfund Activity*

During the course of operations, transactions occur between individual funds. Those related to goods and services, and short-term interfund loans, are classified as "due from other funds" or "due to other funds" on the statement of net position.

(Continued)

# NEW HORIZONS REGIONAL EDUCATION CENTERS

## Notes to Financial Statements

June 30, 2015

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### NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### *Capital Assets*

Capital outlays are recorded as expenditures in the governmental funds and as assets in the government-wide financial statements to the extent the capitalization threshold is met.

In the government-wide financial statements, capital assets, which include land and land improvements, buildings and building improvements, furniture and equipment, are valued at historical cost or estimated historical cost if actual cost is unavailable. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized at the completion of construction projects. The capitalization policy stipulates a capitalization threshold of \$5,000.

Estimated useful lives for depreciable assets are as follows:

	Estimated Useful Life
Land improvements	15-30 years
Building and related improvements	15-40 years
Furniture and equipment	5-10 years

In the fund financial statements, capital assets used in governmental fund operations are recorded as capital outlay expenditures of the governmental fund types when purchased.

#### *Long-Term Debt*

In the government-wide financial statement, long-term debt is reported as a liability. Bond premiums and discounts, as well as prepaid bond insurance, are amortized over the term of the bond.

In the fund financial statements, long-term debt for governmental funds is not reported as a liability. Instead the debt proceeds, including bond premiums and discounts, are reported as other financing sources (uses) and payment of principal and interest, including debt issuance costs, are reported as expenditures.

#### *Compensated Absences*

GASB No. 16, *Accounting for Compensated Absences*, requires governments to accrue compensated absences if it is probable that the employer will compensate employees for benefits associated with the payment of compensated absences. Accrued leave for each employee is valued at the employee's current rate of pay.

(Continued)

# NEW HORIZONS REGIONAL EDUCATION CENTERS

## Notes to Financial Statements

June 30, 2015

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### NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### *Government-Wide Net Assets*

In the government-wide financial statements, equity is displayed in the following components:

*Invested in Capital Assets, Net of Related Debt* – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

*Restricted* – This consists of net position that is restricted by the Centers' creditors, by grantors and/or by other contributors.

*Unrestricted* – This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

#### *Governmental Fund Balances*

In the fund financial statements, fund balances for governmental funds are reported in classifications that comprise a hierarchy based primarily to the extent to which the Organization is bound to honor constraints on the specific purpose for which amounts in the funds can be spent. Fund balances are reported in the following components:

*Assigned* – This classification is amounts that are designated by the primary government or component unit to be used for specific purposes, but are neither restricted nor committed. The authority for assigning the fund balance is expressed by the Board of Directors.

*Unassigned* – This classification represents amounts that have not yet been restricted, committed or assigned to specific purposes within the General Fund.

The Board of Trustees of New Horizons Regional Education Centers approved a policy regarding net assets as follows:

At the end of the fiscal year, all excess revenue over expenditures shall be recorded as "Unrestricted Net Assets". The Board may commit a portion of the "Unrestricted Net Assets" to be used for Board approved construction, capital improvements or other uses.

#### *Deferred Outflows and Inflows of Resources*

Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as revenue until then.

(Continued)

# NEW HORIZONS REGIONAL EDUCATION CENTERS

## Notes to Financial Statements

June 30, 2015

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### NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Concluded)

#### *Use of Estimates*

NHREC has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Estimates are used primarily when accounting for grant receivables (due from/to other governments), depreciation, prepaid expenses and deferred revenues.

### NOTE 2. DEPOSITS AND INVESTMENTS

At June 30, 2015, the carrying amount of the NHREC's deposits was \$4,524,399 and the bank balance was \$4,774,131. The discretely presented component unit has a carrying amount of \$8,891,407 in deposits, which is equal to the bank balance. These deposits are secured by the FDIC limit of \$250,000.

The NHREC's investments in marketable securities are stated at fair market value and total \$30,632.

### NOTE 3. ACCOUNTS RECEIVABLE

As of June 30, 2015, accounts receivable were composed of the following:

Commonwealth of Virginia	\$	370,026
Greater Peninsula Workforce Development Consortium		96,887
Thomas Nelson Community College		87,089
City of Hampton Public Schools		3,136
City of Poquoson Public Schools		6,943
York County Public Schools		9,361
Williamsburg/JCC Public Schools		3,422
Other		<u>10,651</u>
	\$	<u>587,515</u>

# NEW HORIZONS REGIONAL EDUCATION CENTERS

## Notes to Financial Statements

June 30, 2015

### NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015, was as follows:

#### *New Horizons Regional Educational Centers:*

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Capital assets:				
Land	\$ 298,274	\$ -	\$ -	\$ 298,274
Land improvements	133,296	-	-	133,296
Building and building improvements	13,633,219	118,932	-	13,752,151
Furniture, equipment and vehicles	2,184,543	69,106	-	2,253,649
Work-in-process	41,202	132,189	-	173,391
Total capital assets not being depreciated	<u>16,290,534</u>	<u>320,227</u>	<u>-</u>	<u>16,610,761</u>
Less accumulated depreciation for:				
Land improvements	86,398	8,886	-	95,284
Building and building improvements	8,020,998	516,696	-	8,537,694
Furniture, equipment and vehicles	<u>1,893,119</u>	<u>99,532</u>	<u>-</u>	<u>1,992,651</u>
Total accumulated depreciation	<u>10,000,515</u>	<u>625,114</u>	<u>-</u>	<u>10,625,629</u>
Capital assets, net	<u>\$ 6,290,019</u>	<u>\$ (304,887)</u>	<u>\$ -</u>	<u>\$ 5,985,132</u>

Depreciation expense was charged to programs as follows:

General government administration	\$ 93,767
Maintenance of buildings and grounds	62,511
Education	<u>468,836</u>
Total depreciation expense	<u>\$ 625,114</u>

(Continued)

# NEW HORIZONS REGIONAL EDUCATION CENTERS

## Notes to Financial Statements

June 30, 2015

### NOTE 4. CAPITAL ASSETS (Concluded)

#### *New Horizons Education Foundation:*

Work-in-process	\$ 776,378	\$ 2,652,083	\$ -	\$ 3,428,461
Total capital assets not being depreciated	\$ 776,378	\$ 2,652,083	\$ -	\$ 3,428,461

Interest expense of \$329,007 was capitalized during the year ended June 30, 2015.

### NOTE 5. LONG-TERM LIABILITIES

A summary of changes in long-term obligations for governmental activities for the year ended June 30, 2015 follows:

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015
Compensated absences	\$ 362,654	\$ -	\$ 31,795	\$ 330,859
Net OPEB obligations	-	118,000	-	118,000
Net pension liability	13,765,443	977,000	2,065,000	12,677,443
	<u>\$ 14,128,097</u>	<u>\$ 1,095,000</u>	<u>\$ 2,096,795</u>	<u>\$ 13,126,302</u>

Long-term debt in the component unit consists of the following at June 30, 2015:

Note payable at PNC Bank, beginning December 2015, in monthly installments of \$85,654, including interest at 2.95%, due October 2028. Interest only is due through November 2015	<u>\$ 11,000,000</u>
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Maturities of long-term debt are as follows:

2016	\$ 410,648
2017	720,923
2018	742,784
2019	765,307
2020	787,866
Thereafter	<u>7,572,472</u>
	<u>\$ 11,000,000</u>

# NEW HORIZONS REGIONAL EDUCATION CENTERS

## Notes to Financial Statements

June 30, 2015

### NOTE 6. LOCAL FUNDS

Support by the participating localities during the year ended June 30, 2015, was as follows:

	Career and Technical	Special Education	Governor's School	Total
Newport News Public Schools	\$1,167,321	\$4,596,873	\$ 73,163	\$ 5,837,357
Hampton Public Schools	1,039,200	2,355,969	123,190	3,518,359
York County Public Schools	657,223	768,314	277,736	1,703,273
Williamsburg - James City County Public Schools	289,446	899,072	110,501	1,299,019
City of Poquoson Public Schools	158,976	328,661	63,465	551,102
Gloucester County Public Schools	116,269	385,638	47,786	549,693
Isle of Wight County Public Schools	-	-	100,320	100,320
	<u>\$3,428,435</u>	<u>\$9,334,527</u>	<u>\$ 796,161</u>	<u>\$13,559,123</u>

Special education revenue includes annual contribution, tuition, additional positive support payments, and extended school year payments.

### NOTE 7. LEASES – FACILITIES AND EQUIPMENT

NHREC has entered into operating lease agreements for classroom space in Newport News and York County, vehicles, and equipment. These agreements expire between November 2015 and January 2027. Rent expense for these leases for the year ended June 30, 2015, totaled \$283,259. Interest expense paid on operating leases was \$50,297 for the year ended June 30, 2015.

Future minimum lease commitments under these leases are as follows:

Year Ending June 30:	
2016	145,295
2017	108,563
2018	106,516
2019	105,872
2020	99,379
Thereafter	690,338
	<u>\$ 1,255,963</u>

In addition, NHREC has the following liability for the lease of modular classrooms, a capital asset, which is being expensed as it is paid. Future minimum lease payments are as follows:

Year Ending June 30:	
2016	54,795
2017	58,059
	<u>\$ 112,854</u>

(Continued)

# NEW HORIZONS REGIONAL EDUCATION CENTERS

## Notes to Financial Statements

June 30, 2015

### NOTE 7. LEASES – FACILITIES AND EQUIPMENT (Concluded)

The asset is included in building and building improvements at a cost of \$563,694 and accumulated depreciation of \$375,799. The current depreciation expense is \$37,580. Interest expense on the capital lease asset was \$7,816 for the year ended June 30, 2015.

### NOTE 8. FUND BALANCES

In the fund financial statements, fund balances for governmental funds are reported in classifications that comprise a hierarchy based primarily on the extent to which NHREC is bound to honor constraints on the specific purpose for which amounts in the funds can be spent. Fund balances are reported in three components as follows:

	Primary Government	Component Unit
Assigned for capital improvements - includes amounts donated by the local school systems for specific capital improvement projects	\$ 2,161,745	\$ -
Assigned for encumbrances which are amounts reserved for specific projects contracted for but not yet completed at year-end	90,102	-
Assigned funds set aside by the Board of Directors for various capital projects	1,551,824	-
Restricted for other purposes	-	38,764
Unassigned	<u>1,638,662</u>	<u>7,651,113</u>
	<u>\$ 5,442,333</u>	<u>\$ 7,689,877</u>

### NOTE 9. RELATED PARTY TRANSACTIONS

The component unit had monies due to the primary government of \$141,163 for environmental credits as well as payments for site work on the new building.

New Opportunity L.L.C., a single member L.L.C. of which New Horizons Educational Foundation, Inc. is the sole member (the L.L.C.), signed an \$11,000,000 promissory note to the Economic Development Authority of the City of Newport News (the Authority) in November 2013. The promissory note obligates the L.L.C. to pay the Authority all principal and interest due under the terms of the Authority's \$11,000,000 Tax-Exempt Revenue Bond, Series 2013. The Authority assigned this promissory note to PNC Bank, and all payments are therefore made to PNC Bank.

(Continued)



# NEW HORIZONS REGIONAL EDUCATION CENTERS

## Notes to Financial Statements

June 30, 2015

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### NOTE 9. RELATED PARTY TRANSACTIONS (Concluded)

New Horizons Regional Education Center Association (the Association) deposited \$1,027,842 in a debt service reserve Account at PNC Bank that will be used to cure any debt service payment deficiencies, and if none, to ultimately pay the final year of bond debt service payments. This amount is included in prepaid rent in the Statement of Net Assets.

Proceeds from this loan are being used to finance the construction of a special education facility to be leased by the Association (also known as New Horizons Regional Education Centers). Construction of the facility began during the year ended June 30, 2015, and has a planned completion date of January 2016. The facility is being built on the New Horizons Woodside Lane campus on land owned by the Association.

This land is leased to the L.L.C. for 30 years pursuant to a ground lease. The L.L.C. will use the loan proceeds to finance construction of the facility, which along with the land and existing facilities, will be leased back to the Association for 15 years (the term of the bond debt). Lease payments made by the Association to the L.L.C. will be equal to the debt service payments due on the loan. At the expiration of the 30 year ground lease, all property, including the new building, reverts back to the Association.

### NOTE 10. DEFINED BENEFIT PENSION PLAN

#### *Virginia Retirement System*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of NHREC's Professional and Nonprofessional Retirement Plans and the additions to/deductions from NHREC's Professional and Nonprofessional net fiduciary positions have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contribution) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

#### *Plan Description*

All full-time, salaried permanent professional employees are automatically covered by VRS Teacher Retirement Plan, a cost-sharing multiple-employer defined benefit plan, upon employment. All full-time, salaried permanent non-professional employees are automatically covered by the VRS Retirement Plan, an agent multiple-employer defined benefit plan, upon employment. 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.

(Continued)

# NEW HORIZONS REGIONAL EDUCATION CENTERS

## Notes to Financial Statements

June 30, 2015

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### NOTE 10. DEFINED BENEFIT PENSION PLAN (Continued)

Within the Plan, 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 defined below:

#### **VRS Plan 1 Retirement Plan Provisions**

**About Plan 1-** VRS 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.

**Eligible Members** - Employees are in VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

**Hybrid Opt-In Election** - VRS non-hazardous duty covered 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. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under VRS Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 1 or ORP.

**Retirement Contributions** - Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. 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.

**Creditable Service** - 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 also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

**Vesting** - 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.

(Continued)

# NEW HORIZONS REGIONAL EDUCATION CENTERS

## Notes to Financial Statements

June 30, 2015

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### NOTE 10. DEFINED BENEFIT PENSION PLAN (Continued)

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% vested in the contributions that they make.

***Calculating the Benefit*** - 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 retirement. 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.

***Average Final Compensation*** - A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.

***Service Retirement Multiplier*** - The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.7%.

***Normal Retirement Age*** - Age 65

***Earliest Unreduced Retirement Eligibility*** - Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least 5 years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.

***Earliest Reduced Eligibility*** - Members may retire with a reduced benefit as early as age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.

***Cost-of-Living Adjustment (COLA) in Retirement*** - 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%.

***Eligibility*** - 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. For members who retire with a reduced benefit and who 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.

***Exceptions to COLA Effective Dates*** - The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:

- The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
- The member retires on disability.

(Continued)

# NEW HORIZONS REGIONAL EDUCATION CENTERS

## Notes to Financial Statements

June 30, 2015

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### NOTE 10. DEFINED BENEFIT PENSION PLAN (Continued)

- 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 into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.

**Disability Coverage** - 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. The Virginia Sickness and Disability Program (VSDP) members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

**Purchase of Prior Service** - Members may be eligible to purchase 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. 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.

#### VRS Plan 2 Retirement Plan Provisions

**About Plan 2** - VRS 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 VRS 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.

**Eligible Members** - Employees are in VRS 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.

**Hybrid Opt-In Election** - Eligible 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. The Hybrid Retirement Plan's effective date for eligible VRS Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under VRS Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 2 or ORP.

(Continued)

# NEW HORIZONS REGIONAL EDUCATION CENTERS

## Notes to Financial Statements

June 30, 2015

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### NOTE 10. DEFINED BENEFIT PENSION PLAN (Continued)

**Retirement Contributions** - Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016.

**Creditable Service** - Same as VRS Plan 1.

**Vesting** - Same as VRS Plan 1.

**Calculating the benefit** - See Definition under VRS Plan 1

**Average Final Compensation** - A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.

**Service Retirement Multiplier** - Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.

**Normal Retirement Age** - Normal Social Security retirement age.

**Earliest Unreduced Retirement Eligibility - VRS** - Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.

**Earliest Reduced Retirement Eligibility - VRS** - Age 60 with at least five years (60 months) of creditable service.

**Cost-of-Living Adjustment (COLA) in Retirement** - 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%.

**Eligibility** - Same as VRS Plan 1.

**Exceptions to COLA Effective Dates** - Same as VRS Plan 1.

**Disability Coverage** - 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. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

**Purchase of Prior Service** - Same as VRS Plan 1.

(Continued)

# NEW HORIZONS REGIONAL EDUCATION CENTERS

## Notes to Financial Statements

June 30, 2015

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### NOTE 10. DEFINED BENEFIT PENSION PLAN (Continued)

#### Hybrid Retirement Plan Provisions

**About the Hybrid Retirement Plan** - 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 VRS Plan 1 and VRS Plan 2 members who were eligible and opted into the plan during a special election window. (See "Eligible Members")

- 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 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.

**Eligible Members** - Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:

- School division employees
- Members in VRS Plan 1 or VRS 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.

**Retirement Contributions** - 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.

#### **Creditable Service -**

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 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.

(Continued)



# NEW HORIZONS REGIONAL EDUCATION CENTERS

## Notes to Financial Statements

June 30, 2015

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### NOTE 10. DEFINED BENEFIT PENSION PLAN (Continued)

Defined Contributions Component: Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

#### ***Vesting -***

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. VRS Plan 1 or VRS Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

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. Members are always 100% vested in the contributions that they make. 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. 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 withdraw 100% of employer contributions. Distribution is not required by law until age 70 ½.

#### ***Calculating the Benefit -***

Defined Benefit Component: See definition under VRS Plan 1.

Defined Contribution Component: 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.

***Average Final Compensation*** - Same as VRS Plan 2. It is used in the retirement formula for the defined benefit component of the plan.

#### ***Service Retirement Multiplier -***

Defined Benefit Component: Retirement Multiplier is 1.0%. For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS 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: N/A.

#### ***Normal Retirement Age -***

Defined Benefit Component: Same as VRS Plan 2.

Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.

(Continued)

# NEW HORIZONS REGIONAL EDUCATION CENTERS

## Notes to Financial Statements

June 30, 2015

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### NOTE 10. DEFINED BENEFIT PENSION PLAN (Continued)

#### ***Earliest Unreduced Retirement Eligibility –***

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.

#### ***Earliest Reduced Retirement Eligibility -***

Defined Benefit Component: Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.

Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.

#### ***Cost-of-Living Adjustment (COLA) in Retirement -***

Defined Benefit Component: Same as VRS Plan 2.

Defined Contribution Component: Not applicable.

Eligibility: Same as VRS Plan 1 and VRS Plan 2.

Exceptions to COLA Effective Dates: Same as VRS Plan 1 and VRS Plan 2.

***Disability Coverage -*** Eligible school division (including VRS Plan 1 and VRS 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. Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one year waiting period before becoming eligible for non-work related disability benefits.

#### ***Purchase of Prior Service***

Defined Benefit Component: Same as VRS Plan 1, with the following exceptions:

- Hybrid Retirement Plan members are ineligible for ported service.
- The cost of purchasing refunded service is the higher of 4% of creditable compensation or average final compensation.
- 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.

Defined Contribution Component: Not applicable.

(Continued)



# NEW HORIZONS REGIONAL EDUCATION CENTERS

## Notes to Financial Statements

June 30, 2015

### NOTE 10. DEFINED BENEFIT PENSION PLAN (Continued)

**Employees covered by Benefit Terms** - As of the June 30, 2013 actuarial evaluation, the following employees were covered by the benefit terms of the pension plan:

Nonprofessional Employees (non-teacher):

Inactive members or their beneficiaries currently receiving benefits	6
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Inactive members:

Vested inactive members	1
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Non-vested inactive members	10
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Inactive members active elsewhere in VRS	3
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Total inactive members	20
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Active members	11
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Total covered employees	33
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**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 political subdivisions 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.

Each school division's contractually required contribution rate for the year ended June 30, 2015 was 14.50% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013. The actuarial rate for the Professional Plan (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 employees 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, 2015. Contributions to the pension plan from NHREC were \$1,096,229 and \$998,936 for the years ended June 30, 2015 and June 30, 2014, respectively.

In addition, for the Nonprofessional (non-teacher) employees, NHREC's contractually required contribution rate for the year ended June 30, 2015 was 13.60% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

(Continued)

# NEW HORIZONS REGIONAL EDUCATION CENTERS

## Notes to Financial Statements

June 30, 2015

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### NOTE 10. DEFINED BENEFIT PENSION PLAN (Continued)

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee s during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from NHREC were \$31,831 and \$38,136 for the years ended June 30, 2015 and June 30, 2014, respectively.

**Net Pension Liability** – At June 30, 2015, NHREC reported a net pension liability of \$12,411,000 for its proportionate share of the Net Pension Liability of the Teacher Retirement Plan (Professional). The Net Pension Liability was measured as of NHREC's net pension liability was measured as of June 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. NHREC's proportion of the Net Pension Liability was based on the actuarially determined employer contributions to the pension plan for the year ended June 30, 2014 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2014, NHREC's proportion was 0.10270% as compared to 0.10432% at June 30, 2013.

In addition, NHREC's net pension liability for Nonprofessional (non-teacher) Retirement Plan was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2013, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014. At June 30, 2014, NRECU reported a liability of \$266,443 for the Nonprofessional (non-teacher) Retirement Plan.

**Pension Expense** – For the year ended June 30, 2015, NHREC recognized pension expense of \$942,000 for the Teacher Retirement Plan (Professional). Since there was a change in proportionate share between June 30, 2013 and June 30, 2014, 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.

In addition, for the year ended June 30, 2015, NHRECU recognized pension expense of \$35,000 for the Nonprofessional (non-teacher) Retirement Plan.

**Deferred Outflows/Inflows of Resources** – At June 30, 2015, for the Teacher Retirement Plan (Professional), NHREC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

(Continued)

# NEW HORIZONS REGIONAL EDUCATION CENTERS

## Notes to Financial Statements

June 30, 2015

### NOTE 10. DEFINED BENEFIT PENSION PLAN (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resource
Net Difference between projected and actual earnings on pension plan investments	\$ -	\$ 1,842,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	183,000
Employer contributions subsequent to the Measurement date	<u>1,096,229</u>	<u>-</u>
Total	<u>\$ 1,096,229</u>	<u>\$ 2,025,000</u>

Deferred outflows of resources of \$1,096,229 related to pensions resulting from NHREC's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 3, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	Deferred Amounts
2016	\$ 500,000
2017	500,000
2018	500,000
2019	500,000
2020	<u>25,000</u>
	<u>\$ 2,025,000</u>

In addition, at June 30, 2015, for the Nonprofessional (non-teacher) Retirement Plan, NHREC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resource
Net Difference between projected and actual earnings on pension plan investments	\$ -	\$ 40,000
Employer contributions subsequent to the measurement date	<u>31,831</u>	<u>-</u>
Total	<u>\$ 31,831</u>	<u>\$ 40,000</u>

(Continued)

# NEW HORIZONS REGIONAL EDUCATION CENTERS

## Notes to Financial Statements

June 30, 2015

### NOTE 10. DEFINED BENEFIT PENSION PLAN (Continued)

Deferred outflows of resources of \$31,831 related to pensions resulting from NHREC's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	Deferred Amounts
2016	\$ 10,000
2017	10,000
2018	10,000
2019	10,000
	<u>\$ 40,000</u>

#### Actuarial Assumptions

##### *Professional/Teacher Retirement Plan*

The total pension liability for the VRS Teacher Retirement Plan was based on an actuarial valuation as of June 30, 2013, 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, 2014.

Inflation	2.5 percent
Salary increases, including inflation	3.5 percent – 5.95%
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 of the VRS plans. This would provide an assumed investment return rate for GASB 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:

##### Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 3 years and females were set back 5 years.

(Continued)

# NEW HORIZONS REGIONAL EDUCATION CENTERS

## Notes to Financial Statements

June 30, 2015

### NOTE 10. DEFINED BENEFIT PENSION PLAN (Continued)

#### Post Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females were set back 3 years.

#### Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 1 year, and no provision for future mortality improvement.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Update mortality table
- Adjustments to the rates of service retirement
- Decrease in rates of withdrawals for 3 through 9 years of service
- Decrease in rates of disability
- Reduce rates of salary increase by 0.25% per year

#### *Nonprofessional (non-teacher) Retirement Plan*

The total pension liability for Nonprofessional Retirement Plan (non-teacher) was based on an actuarial valuation as of June 30, 2013, 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, 2014.

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 of the VRS plans. This would provide an assumed investment return rate for GASB 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.

(Continued)

# NEW HORIZONS REGIONAL EDUCATION CENTERS

## Notes to Financial Statements

June 30, 2015

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### NOTE 10. DEFINED BENEFIT PENSION PLAN (Continued)

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

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-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set back 3 years and no provision for future mortality improvement.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Update mortality table
- Adjustments to the rates of service retirement
- Decrease in rates of withdrawals for 3 through 9 years of service
- Decrease in rates of disability
- Reduce rates of salary increase by 0.25% per year

***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.

(Continued)

# NEW HORIZONS REGIONAL EDUCATION CENTERS

## Notes to Financial Statements

June 30, 2015

### NOTE 10. DEFINED BENEFIT PENSION PLAN (Continued)

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 (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected 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>		5.83%
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 significantly and provides a median return of 7.44%, including expected inflation of 2.5%.

#### Discount Rate

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 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 School Division for the VRS Professional/Teacher Retirement Plan and Nonprofessional (non-teacher) Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly.

(Continued)



# NEW HORIZONS REGIONAL EDUCATION CENTERS

## Notes to Financial Statements

June 30, 2015

### NOTE 10. DEFINED BENEFIT PENSION PLAN (Continued)

From July 1, 2018 on, NHREC is 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.

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

The following presents NHREC's proportionate share of the net pension liability for the Professional/Teacher Retirement Plan using the discount rate of 7.00%, as well as what the 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:

	Decrease (6.00%)	Discount Rate (7.00%)	Increase (8.00%)
NHREC's Proportionate share Of the net pension liability For the VRS Teacher Retirement Plan	<u>\$ 18,224,000</u>	<u>\$ 12,411,000</u>	<u>\$ 7,625,000</u>

In addition, the following presents the net pension liability of the Nonprofessional (non-teacher) Retirement Plan using the discount rate of 7.00%, as well as what 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% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
NHREC's Proportionate share Of the net pension liability For the VRS Nonprofessional Retirement Plan	<u>\$ 378,000</u>	<u>\$ 266,000</u>	<u>\$ 173,000</u>

#### **Payables to the Pension Plan**

NHREC has a payable to the defined benefit pension plan in the amount of \$140,771 outstanding at the year ended June 30, 2015. This payable results from legally required contributions to the pension plan, and is included in accounts payable.

(Continued)



# NEW HORIZONS REGIONAL EDUCATION CENTERS

## Notes to Financial Statements

June 30, 2015

### NOTE 10. DEFINED BENEFIT PENSION PLAN (Concluded)

#### *Changes in Net Pension Liability – Nonprofessional (non-teacher) Retirement Plan*

Asset Class (Strategy)	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance – July 1	\$ 880,240	\$ 575,184	\$ 305,056
Changes for the fiscal year:			
Service cost	37,362	-	37,362
Interest	59,628	-	59,628
Contribution – employer	-	33,557	(33,557)
Contribution – employee	-	12,738	(12,738)
Net investment income	-	89,920	(89,920)
Benefit payments	(56,835)	(56,835)	-
Administrative expenses	-	(488)	488
Other changes	-	5	(5)
Balance – June 30	<u>\$ 920,395</u>	<u>\$ 654,081</u>	<u>\$ 266,314</u>

#### *Pension Plan Fiduciary Net Position – Teacher Retirement Plan*

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.

### NOTE 11. OTHER POSTEMPLOYMENT BENEFITS

#### *Plan Description*

In addition to the pension benefits described above, NHREC provides post-retirement health care benefits, as a single-employer plan, in accordance with organization policy, to all employees who retire from NHREC who had health coverage as an active employee, are eligible to retire under the Virginia Retirement System, and meet the following requirements:

- Age 55 with 5 Years of Vested Service with VRS
- Age 50 with 10 Years of Vested Service with VRS
- A minimum of 24 months of participation in the health care plan prior to retirement.

(Continued)

# NEW HORIZONS REGIONAL EDUCATION CENTERS

## Notes to Financial Statements

June 30, 2015

### NOTE 11. OTHER POSTEMPLOYMENT BENEFITS (Continued)

Retirees have the option of receiving payment of \$30.00 per day (up to 200 days) for unused sick leave accumulated OR use accumulated sick leave to purchase group health insurance that is offered through NHREC until the employee is eligible for Medicare. NHREC will pay the allowable percentage of its contribution until the retiree is eligible for Medicare. The retiree is required to pay the employee cost plus the unsubsidized percentage as well as any additional cost relating to having spouses or dependents covered in the plan. The following table describes the employer subsidy percentage based on sick days accrued:

<u>Number of Sick Leave Days Earned at NHREC</u>	<u>Amount NHREC Pays of Single Employee's Coverage Only</u>
1 – 49	0%
50 – 99	50%
100 – 149	65%
150 – 199	80%
200 or more	100%

#### *Funding Policy*

NHREC has not advance-funded or established a funding methodology for the annual Other Postemployment Benefit (OPEB) costs or the net OPEB obligation. For fiscal year 2014-2015 fiscal year, retirees received post-employment health benefits. NHREC provided required contributions of \$24,300 toward annual OPEB costs, comprised of benefit payments made on behalf of retirees for claims expenses, net of retiree contributions totaling \$2,000. Required contributions are based on projected pay-as-you-go financing.

#### *Annual OPEB Cost and Net OPEB Obligation*

The following table shows NHREC's annual OPEB cost for the year, the amount actuarially contributed to the plan, and changes in the net OPEB obligation for the year ended June 30, 2015:

Normal cost	\$ 120,000
Amortization of unfunded accrued liability	44,000
Interest	-
Annual required contribution	164,000
Interest on Net OPEB Obligation (NOO)	-
Amortization of NOO	-
Annual OPEB cost	164,000
Estimated contribution toward OPEB cost	(46,000)
Increase in NOO	118,000
NOO, Beginning	-
NOO, End of year	<u>\$ 118,000</u>

(Continued)

# NEW HORIZONS REGIONAL EDUCATION CENTERS

## Notes to Financial Statements

June 30, 2015

### NOTE 11. OTHER POSTEMPLOYMENT BENEFITS (Concluded)

NHREC's historic annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation is as follows:

<i>Three-Year Trend Information</i>			
Year Ended June 30,	AOC	Percentage AOC Contributed	NOO
2015	\$ 164,000	15%	\$ 118,000

#### *Funding Status and Funding Progress*

As of June 30, 2015, the actuarial accrued liability for benefits was \$1,216,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$1,216,000.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actual accrued liability for benefits.

#### *Actuarial Methods and Assumptions*

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing of costs between employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan member in the future.

Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the June 30, 2015 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 3.5% rate of return (discount rate) and an annual healthcare cost trend rate of 4.5%, grading to a rate of 4.0% over 70 years. The underlying inflation rate used was 2.4%. NHREC's unfunded actuarial accrued liabilities (UALL) are being amortized as a level percentage of projected payroll with assumed growth of 2.5% per year.

# NEW HORIZONS REGIONAL EDUCATION CENTERS

## Notes to Financial Statements

June 30, 2015

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### NOTE 12. RESTATEMENT

During the year ended June 30, 2015, NHREC implemented Government Accounting Standards Board (GASB) Statements No. 68, *Accounting and financial reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

Implementation of GASB Statement No. 68 established standards for recognizing net position liabilities, deferred outflows and inflows, and pension expense. This inclusion of the pension liability, as well as deferred inflow and deferred outflow. The total effect of the restatement for NHREC decreased net position by \$13,765,443.

Implementation of GASB 71 did not have any financial reporting on NRHEC.

	<u>Governmental Activities</u>
Net position as previously reported, June 30, 2014	\$ 11,120,784
GASB 68/71 restatement	<u>(13,765,443)</u>
Net position as restated, June 30, 2014	<u>\$ (2,644,659)</u>

### NOTE 13. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 16, 2015, the date on which the financial statements were available to be issued, and determined that no events have occurred since the balance sheet date that would have a material impact on the financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

**NEW HORIZONS REGIONAL EDUCATION CENTERS**  
**Schedule of Employer's Share of Net Pension Liability - Nonprofessional Employees**  
**Year Ended June 30, 2015**

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	2015
<b>Total Pension Liability</b>	
Service cost	\$ 37,362
Interest	59,628
Benefit payments	(56,835)
Refunds of contributions	<u>-</u>
Net change in total pension liability	40,155
Total pension liability - beginning	<u>880,240</u>
Total pension liability - ending	<u><u>\$ 920,395</u></u>
 <b>Plan Fiduciary Net Position</b>	
Contributions - employer	\$ 33,557
Contributions - Employee	12,738
Net investment income	89,920
Benefit payments	(56,835)
Administrative expenses	(488)
Other	<u>5</u>
Net change in plan fiduciary net position	78,897
Plan fiduciary net position - beginning	<u>575,184</u>
Plan fiduciary net position - ending	<u><u>\$ 654,081</u></u>
 <b>Net pension liability (asset)</b>	 <u><u>\$ 266,314</u></u>
 Plan fiduciary net position as a percentage of total pension liability	  <u>71.07%</u>
 Covered-employee payroll	 <u><u>\$ 255,252</u></u>
 Net pension liability as a percentage of covered employee payroll	  <u>104.33%</u>

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

See accompanying notes.

**NEW HORIZONS REGIONAL EDUCATION CENTERS**  
Schedule of Employer's Share of Net Pension Liability - Professional Employees  
Year Ended June 30, 2015

Date	Employer's Proportionate Share of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability	Employer's Covered Employee Payroll	Employer's Proportionate Share of the NPL as a % of its Covered Employee Payroll	Plan Fiduciary Net Position as a % of the Total Pension Liability
June 30, 2015	0.10270%	\$ 12,411,000	\$ 6,917,047	179.43%	70.88%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

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

**NEW HORIZONS REGIONAL EDUCATION CENTERS**  
**Schedule of Employer Contributions - Professional Employees**  
**Year Ended June 30, 2015**

Date	(a)	(b)	(c)	(d)	(e)
	Contractually Required Contributions	Contributions in Relation to Contractually Required Contributions	Contribution Deficiency (Excess) (a) - (b)	Employer's Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll (b)/(d)
June 30, 2015	\$ 1,002,972	\$ 1,096,229	\$ (93,257)	\$ 6,917,047	15.85%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

Changes of benefit terms -- There have been no significant changes to the System benefit provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component went into effect in FY 2014. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. The liabilities presented do not reflect the hybrid plan since it covers new members joining the System after the valuation date of June 30, 2013. Because this was a new benefit and the number of participants was small, the impact on the liabilities as of the measurement date of June 30, 2014 are minimal.

Changes of assumptions -- The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012

- \* Update mortality table
- \* Adjustments to the rates of service retirement
- \* Decrease in rates of withdrawals for 3 through 9 years of service
- \* Decrease in rates of disability
- \* Reduce rates of salary increase by 0.25% per year



**NEW HORIZONS REGIONAL EDUCATION CENTERS**  
**Schedule of Employer Contributions - Nonprofessional Employees**  
**Year Ended June 30, 2015**

(a)	(b)	(c)	(d)	(e)
Contractually Required Contributions	Contributions in Relation to Contractually Required Contributions	Contribution Deficiency (Excess) (a) - (b)	Employer's Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll (b)/(d)
Date				
June 30, 2015	\$ 34,714	\$ 31,831	\$ 2,883	12.47%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

Changes of benefit terms -- There have been no significant changes to the System benefit provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component went into effect in FY 2014. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. The liabilities presented do not reflect the hybrid plan since it covers new members joining the System after the valuation date of June 30, 2013. Because this was a new benefit and the number of participants was small, the impact on the liabilities as of the measurement date of June 30, 2014 are minimal.

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



**Diane Y. Smith, CPA, PC**

CERTIFIED PUBLIC ACCOUNTANTS

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

The Board of Trustees  
New Horizons Regional Education Centers

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activity, the component unit, the major funds, and the activity funds of New Horizons Regional Education Centers, as of and for the year ended June 30, 2015, which collectively comprise New Horizons Regional Education Centers' basic financial statements, and have issued our report thereon dated December 16, 2015.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered New Horizons Regional Education Centers' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of New Horizons Regional Education Centers' internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 over financial reporting 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 New Horizons Regional Education Centers' 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*.

## **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 organization'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 Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Diane G. Smith, CPA, PC*

Newport News, Virginia

December 16, 2015