



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

Fiscal Year ended June 30, 2013

(With Report of Independent Auditor)

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

Fiscal Year ended June 30, 2013

Prepared by:

BUSINESS OFFICE

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

12465 Warwick Boulevard
Newport News, VA 23606

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

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INTRODUCTORY SECTION

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

Members of the School Board and School Board Officials

School Board

Carlton Ashby	Chairman
Jeff Stodghill	Vice Chairman
Pricillia E. Burnett	Member
Everette “Teddy” Hicks, Sr.	Member
Debbie “Dee” Johnston	Member
Darian L. Scott	Member
Shelley A. Simonds	Member

School Board Officials

Dr. Ashby Kilgore	Superintendent
Mary Lou Roaseau	Assistant Superintendent – Business and Support Services
Brian Nichols	Chief Academic Officer – Curriculum & Development
Cathy Alexander	Executive Director – Child Nutrition
Catina Bullard-Clark	Executive Director – Elementary School Leadership
Dr. Daniel Curry-Corcoran	Executive Director – Accountability and Technology
Michael Evans	Executive Director – Secondary School Leadership
Frank Labrecque	Executive Director – Human Resources & Transportation
Terri McCaughan	Executive Director – Elementary Curriculum & Development
Michele Mitchell	Executive Director – Youth Development and Advancement
Garett Smith	Executive Director – Elementary School Leadership
Nancy Sweat	Executive Director – Secondary Curriculum & Development
Susan Tilley	Executive Director – Secondary School Leadership
Keith Webb	Executive Director – Plant Services



Business Office

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

November 26, 2013

The Honorable Members of the School Board:

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the School Board of Newport News, Virginia (the School Board or Newport News Public Schools), for the fiscal year ended June 30, 2013. The School Board is responsible for the accuracy, completeness and fairness of the data presented. We believe that the data presented is accurate in all material respects and presents fairly the financial position and results of operations of the School Board's various funds.

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

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

Overview of the Report

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

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

School Board profile

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

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

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

The School Board provides educational services in 41 separate school facilities plus alternative services at three additional non-owned sites. The School Board's buildings range in age from eight years old to 92 years old, with approximately two-thirds of all facilities being at least thirty years old. However, many schools have received extensive renovations throughout their life.

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

Factors Affecting Financial Condition

Local economy. The School Board's boundaries are co-terminus with the City. Huntington Ingalls Industries, Inc. is by far the largest employer and taxpayer of the City. Newport News also has a significant military presence, with numerous military installations located in or near the City. The City has a broad range of industrial parks and commercial centers supporting light industrial, research and technology and commercial and retail operations. These include the Oakland Industrial Park, Carleton Farm Industrial Park, Patrick Henry CommerCenter, Oyster Point of Newport News, Jefferson Center for Research and Technology, Copeland Industrial Park, and the Southeast Commerce Center. The City is well situated to maintain a diversified economy.

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

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

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

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

The School Board is expected to continue to experience virtually no change in funding in the near future, while enrollment is expected to decrease only slightly. FY2014 General Fund funding increased by \$4.1 million (1.5%) as compared to the FY2013 budget. The State is providing \$2.6 million (1.6%) more funding and the City is providing \$1.9 million (1.7%) more for the upcoming year. The forecast for FY2015 is not yet known. However, during FY2013 \$7.0 million in one-time Federal stimulus job funds were used to pay recurring payroll costs. Federal stimulus funds have now been used in their entirety.

Enrollment is expected to remain approximately the same or experience a small increase.

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

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

Risk Management. The School Board's risk management program is designed to protect the investment of taxpayers by identifying and reducing risks that confront the School Board. Risk is managed with a combination of commercial insurance with small deductibles and self-insurance combined with reinsurance for large claims. Commercial insurance with small deductibles is maintained for general liability, property, and errors and omissions. The School Board participates with the City in a self-insurance program for vehicles (with re-insurance for claims over \$1 million). Self-insurance is maintained for employee health insurance (with reinsurance for individual claims over \$175 thousand but the aggregate reinsurance for claims exceeding 110% of adjusted subscriber charges (maximum liability) has been dropped for FY2014 to save approximately \$0.6 million in reinsurance premiums) and workers' compensation (no re-insurance contracted for).

Accomplishments and Awards

School Accreditation. Accreditation standards require all schools to meet objectives for achievement in English, mathematics, history, and science. High schools must also meet a graduation and completion index. To be fully accredited for the 2013-2014 school-year, at least 70 percent of students must pass the SOL tests in math, history, and science and 75% in English. Schools could also earn full accreditation for meeting the benchmarks based on a three year average or through alternative benchmarks. High schools must also attain a point value of at least 85 based on the Graduation and Completion Index. School accreditation for the 2013-2014 school-year was based on the achievement of students on the 2012-2013 administration of Standards of Learning tests.

Twenty two of our forty schools were fully accredited by the State.

Recognition:

- Heritage High School was named a Governor's STEM Academy, the 17th program in the state to earn the distinction from the Virginia Board of Education. The new STEM (science, technology, engineering and mathematics) academy will focus on four program areas: architecture and engineering design, computer systems technology, electronics and engineering and modeling and simulation.
- Warwick High School was named a Governor's Health Sciences Academy. The academy offers two health-science career pathways: support services and therapeutic services.
- Menchville and Warwick were named to the *Washington Post* High School Challenge Index which measures rigor based on AP and IB exam participation.
- Heritage and Menchville High Schools are named Blue Star Schools for students' performance on the Working in Support of Education (WISE) Financial Literacy Certification Test. In order to win the designation, a school's students must have a 75 percent passing rate on the test with either a majority of students at a given grade level taking the test or an average score of 80 percent or higher by students who take the test.
- The Summer of Innovation/STEM Academy program held last summer earned a 2013 Excellence in Education Award from the Virginia Tech School of Education. Through a 21st Century federal grant, students in the STEM Academy participated in hands-on STEM activities under the guidance of NNPS teachers and volunteers from Newport News Shipbuilding, NASA, Jefferson Lab and Lowe's. The award will be presented to the Superintendent at the Virginia Association of School Superintendents' Spring Conference in May.
- Newport News Public Schools is certified as a 2012 Virginia School Boards Association Green Schools Division. NNPS is one of 32 school divisions in Virginia to be certified green; the district received a silver award. To earn the designation, NNPS was evaluated against 30 benchmarks for energy efficiency, waste management, green building and educational opportunities. The school district has implemented energy improvement

programs, launched recycling programs, integrated conservation into the curriculum and created outdoor classrooms.

- The school district continues its Dropout Prevention and Recovery program. Over 1,000 students who had dropped out have returned to earn a high school diploma or GED. Starting in middle school, intervention plans are implemented for youth who are at risk of dropping out, and the transition process for rising ninth graders was expanded.
- To provide additional class options, online courses are offered at all high schools. Students also have the option of receiving college credit through dual enrollment at Thomas Nelson Community College. Last year 1,340 students earned college credit.
- Newport News Public Schools has 60 National Board Certified Teachers. National Board Certification is recognized nationally as a benchmark for teacher quality and is the highest credential in the profession.
- Over ninety-nine percent (99%) of the School Board's teachers are designated as highly qualified by federal No Child Left Behind standards.
- Fifteen Newport News students were recognized in the 2013 National Merit and National Achievement Scholarship programs.
- Two thousand eight hundred twenty eight Advanced Placement Exams were administered to 1,720 students in May 2013.
- Two hundred twenty eight students were named 2012 Advanced Placement Scholars, Scholars with Honor, or Scholars with Distinction, qualifying them for potential college credit. To receive this distinction, a student must receive grades of three or higher (out of five) on at least three Advanced Placement exams. Ten students were named National AP Scholars. National AP Scholars receive an average score of at least four on all AP exams and scores of four or higher on at least eight AP exams.

Awards:

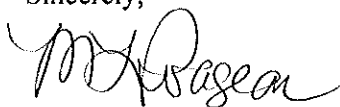
Newport News Public Schools has earned several awards in recognition of outstanding financial management and distinguished budget presentation. The school district earned its eleventh consecutive Outstanding Achievement Award from the Government Finance Officers Association (GFOA) for our Comprehensive Annual Financial Report (CAFR) for the 2012 fiscal year. We also earned our fourth consecutive Certificate of Excellence for Financial Reporting Award from the Association of School Business Officials International (ASBO) for our CAFR. The School Board's comprehensive budget document earned its fifth consecutive *GFOA* Distinguished Budget Presentation Award for fiscal year 2012. In addition, the School Board's FY 2013 budget earned its third consecutive ASBO Meritorious Budget Award for excellence in budget presentation.

Acknowledgements:

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

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

Sincerely,

A handwritten signature in cursive script, appearing to read "M. Roaseau".

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



Government Finance Officers Association

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

Presented to

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

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

A handwritten signature in black ink, reading "Jeffrey R. Egan". The signature is written in a cursive, flowing style.

Executive Director/CFO

Association of School Business Officials International



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

Newport News Public Schools

For Its Comprehensive Annual Financial Report (CAFR)

For the Fiscal Year Ended June 30, 2012

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



A handwritten signature in black ink, reading "Ron McCulley".

Ron McCulley, CPPB, RSBO
President

A handwritten signature in black ink, reading "John D. Musso".

John D. Musso, CAE, RSBA
Executive Director

FINANCIAL SECTION

Report of Independent Auditor

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the School Board of the City of Newport News, Virginia (the "School Board"), a component unit of the City of Newport News, Virginia as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Student Activity Funds, a fiduciary fund of the School Board, which represents 6% of the total assets of the aggregate remaining fund information. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as it relates to the amounts included for the Student Activity Funds, are based on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School Board of the City of Newport News, Virginia, as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

As discussed in Note 1 to the basic financial statements, the School Board adopted the provisions of Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective July 1, 2012. Our opinion is 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 required supplementary information on pages 3-11 and 43-49, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Board's basic financial statements. The Introductory Section, Supplementary Information, and Statistical Section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2013, on our consideration of the School Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Richmond, Virginia
November 26, 2013

THE SCHOOL BOARD OF THE CITY OF NEWPORT NEWS

Management's Discussion and Analysis (Unaudited)

June 30, 2013

The following discussion and analysis of The School Board of the City of Newport News, Virginia's (the School Board) financial performance provides an overview of the School Board's financial activities as of and for the fiscal year ended June 30, 2013. The analysis focuses on the School Board's financial performance as a whole. Please read it in conjunction with the transmittal letter at the front of this report and the School Board's financial statements, which follow this section.

Financial Highlights for Fiscal Year (FY) 2013

The School Board, on a government-wide basis, had an increase in Net Position of \$0.9 million to \$74.4 million.

Unrestricted Net Position increased by \$1.4 million. This was attributed to an increase in the prepaid health premiums held on account by our health insurance provider under the terms of our self-insured health insurance plan.

The General Fund utilized all available resources to meet School Board needs. However, the General Fund received revenue \$0.5 million in excess of the budget and combined with savings of \$0.1 million in cancelled prior year purchase orders, created a General Fund surplus of \$0.6 million. The School Board intends to ask City Council to authorize an appropriation for the School Board to expend these funds for educational purposes.

Overview of the Financial Statements

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

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

THE SCHOOL BOARD OF THE CITY OF NEWPORT NEWS

Management's Discussion and Analysis (Unaudited)

June 30, 2013

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

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

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

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

Management's Discussion and Analysis (Unaudited)

June 30, 2013

Financial Analysis of the School Board as a Whole

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

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

**Table 1
Net Position
(In millions)**

	FY 2013	FY 2012	Change
Current and other assets	\$ 75.7	\$ 73.7	\$ 2.0
Capital assets, net	73.9	76.0	(2.1)
Total assets	<u>\$ 149.6</u>	<u>\$ 149.7</u>	<u>\$ (0.1)</u>
Other liabilities	\$ 30.7	\$ 30.1	\$ 0.6
Long-term liabilities	44.5	46.1	(1.6)
Total liabilities	<u>\$ 75.2</u>	<u>\$ 76.2</u>	<u>\$ (1.0)</u>
Net Position:			
Net investment in capital assets	\$ 66.8	\$ 67.4	\$ (0.6)
Restricted	4.3	4.2	0.1
Unrestricted	3.3	1.9	1.4
Total Net Position	<u>\$ 74.4</u>	<u>\$ 73.5</u>	<u>\$ 0.9</u>

The School Board's total Net Position showed an increase of \$0.9 million (1.2%), increasing to \$74.4 million. This was achieved through a decrease in net investment in capital assets of \$0.6 million, an increase in restricted Net Position of \$0.1 million and an increase in unrestricted Net Position of \$1.4 million.

Current and other assets increased by \$2.0 million (2.7%). This was attributed primarily to an increase in the prepaid health insurance premiums held by our health insurance provider under the terms of our self-insured health insurance plan.

Capital assets (net of depreciation) decreased by \$2.1 million (2.8%). This is the result of additions of \$6.1 million less depreciation expense of \$7.1 million and less \$0.9 million loss on disposal of equipment (primarily copiers). The largest components in additions were \$1.9 million for expansion of the textbook inventory, \$1.1 million more for new copiers and \$1.0 million for the procurement of 11 school buses.

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

Management's Discussion and Analysis (Unaudited)

June 30, 2013

Other liabilities increased by \$0.6 million (2.0%), primarily due to more accounts payable at year-end in the General Obligation Bond Fund. The largest single item was for the work done on the Denbigh Early Childhood Center HVAC project.

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

**Table 2
Changes in Net Position**
(In millions)

	<u>FY 2013</u>	<u>FY 2012</u>	<u>Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 6.4	\$ 6.1	\$ 0.3
Operating grants and contributions	68.5	70.2	(1.7)
Capital grants and contributions	0.9	2.5	(1.6)
General revenues:			
Local	98.1	98.8	(0.7)
State	138.4	135.8	2.6
Federal	3.7	5.4	(1.7)
Interest	0.1	0.1	-
Total revenues	<u>316.1</u>	<u>318.9</u>	<u>(2.8)</u>
Expenses:			
Academic services	224.1	222.1	2.0
Attendance and health	5.4	5.3	0.1
Transportation services	18.7	18.7	-
Operations and facilities	31.5	34.6	(3.1)
Child nutrition services	15.2	14.1	1.1
Technology services	12.2	12.8	(0.6)
Administration	7.7	7.6	0.1
Interest on capital debt	0.4	0.5	(0.1)
Total expenses	<u>315.2</u>	<u>315.7</u>	<u>(0.5)</u>
Change in net position	<u>0.9</u>	<u>3.2</u>	<u>(2.3)</u>
Beginning net position	<u>73.5</u>	<u>70.3</u>	<u>3.2</u>
Ending net position	<u>\$ 74.4</u>	<u>\$ 73.5</u>	<u>\$ 0.9</u>

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For the fiscal year ended June 30, 2013, revenues from governmental activities (excluding charges for services and interest) totaled \$309.6 million. Commonwealth Standards of Quality (SOQ) Funds accounted for \$138.4 million (43.8%) of the School Board's resources. These funds are based on student membership counts. The SOQ funds increased by \$2.6 million (1.9%) over FY 2012 due to the Commonwealth contributing more for the cost of fringe benefits, primarily pension costs.

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

Revenue to the General Fund	\$ 113,400,000
Less debt service returned to the City	(13,473,927)
Add Revenue General Obligation Bond Fund	4,962,267
Add Revenue General Capital Fund	1,000,000
Less net capital assets transferred tenancy-in-common	<u>(7,802,850)</u>
Net amount from City - Entity-wide statements	<u><u>\$ 98,085,490</u></u>

Revenue from the City in FY 2013 was \$98.1 million (31.0% of the total), a decrease of \$0.7 million. However, the City did increase revenue to the General Fund by \$1.2 million during FY2013, but the other adjustments detailed above offset that to result in a \$0.7 million decrease.

Federal revenue decreased by \$1.7 million to \$3.7 million (1.2% of the total) in FY2013 due to lower Impact Aid funding.

Operating grants, which were comprised of approximately 62% from Federal sources and 38% from Virginia sources, totaled \$68.5 million (21.7% of the total). This category decreased by \$1.7 million (2.4%) due primarily to the phase out of Federal stimulus grants.

Capital grants and contributions decreased by \$1.6 million due to Federal stimulus funding being used in FY2012 to renovate middle and high school science labs.

Expenses for FY 2013 totaled \$315.2 million, a decrease of \$0.5 million (0.2%).

Academic services accounted for \$224.1 million (71.1%) of the School Board's total spending. A significant portion of this amount is for the salaries and benefits of teachers, teacher assistants and instructional administrators. This function increased by \$2.0 million (0.9%) mainly attributed to increases for fringe benefits, primarily health insurance and pensions.

Operations and facilities were the next highest cost category with a total of \$31.5 million (10.0% of the total). Much of these expenses relate to the operation (utilities and insurance), maintenance, and cleaning of our 44 regular schools, alternative school sites, and administrative offices. This category showed a \$3.1 million (9.0%) decrease due to building and facilities work undertaken and completed in FY2012. Among the largest projects were paving, asbestos testing and abatement, LED lighting replacement and locker replacement.

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Transportation services is the third largest cost category, with expenses of \$18.7 million (5.9% of the total). This category was unchanged from FY2012.

Child nutrition services is the fourth largest cost category, with expenses of \$15.2 million (4.8% of the total). This category showed an increase of \$1.1 million (7.8%) mostly related to increased health insurance and food costs.

Capital Assets

At the end of FY 2013, the School Board had invested \$73.9 million in capital assets, which reflects historical cost of \$164.4 million and accumulated depreciation of \$90.5 million. In addition, the School Board and the City hold assets in-common (AHTIC) a net of \$149.6 million of capital assets, which are reflected in the financial statements of the City (historical cost of \$212.3 million net of accumulated depreciation of \$62.7 million). Most school buildings and improvements undertaken in the past 20 years, for which City bonded debt has been issued, are included therein. The City has also net bonded debt outstanding related to School Board projects of approximately the same net amount. The following table shows the capital assets recorded on the School Board's books at year end.

Table 3
Capital Assets, Net
(In millions)

	<u>FY 2013</u>	<u>FY 2012</u>	<u>Change</u>
Nondepreciable assets:			
Land	\$ 2.5	\$ 2.5	\$ -
Construction in progress	-	0.1	(0.1)
Other capital assets:			
Buildings	46.8	46.8	-
Building improvements	51.5	50.9	0.6
Equipment and vehicles	63.6	60.9	2.7
Accumulated depreciation	<u>(90.5)</u>	<u>(85.2)</u>	<u>(5.3)</u>
Total	<u>\$ 73.9</u>	<u>\$ 76.0</u>	<u>\$ (2.1)</u>

Equipment and vehicles increased by \$2.7 million due to the procurement of 11 school buses. Accumulated depreciation increased by \$5.3 million, primarily due to depreciation expense of \$7.1 million offset by retirements of \$1.8 million. See note 4 to the financial statements for additional information.

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

Management's Discussion and Analysis (Unaudited)

June 30, 2013

Long-Term Liabilities

The School Board cannot issue bonded debt. Accordingly, long-term liabilities of \$44.5 million as shown on Table 1 are related to capital leases on equipment, capital facility notes payable, compensated absences, workers' compensation claims payable (under our self-insurance program), other postemployment benefits and incurred but not reported claims under our self-insured employee health insurance program. During FY2013, long-term liabilities had a net decrease of \$1.6 million due to 1) a new capital lease for copier equipment totaling \$1.1 million, 2) principal payments on capital facility notes payable and capital leases reduced debt by \$2.6 million and 3) changes to all other types of debt amounted to a decrease of \$0.1 million. See note 6 in the notes to basic financial statements for additional information.

Financial Analysis of the School Board's Funds

For the fiscal year ended June 30, 2013, the governmental funds had a combined fund balance of \$45.0 million. This is an increase of \$1.3 million as compared to June 30, 2012. The primary reason for the increase was additional revenue in the General Fund beyond the amount appropriated by City Council for which the School Board had no authority to spend. The School Board intends to seek authority from City Council in FY2014 to expend the funds for educational purposes. The General Fund prepaid item for the self-insured employee health insurance plan increased by \$3.0 million. However, the General Obligation Bond Fund decreased by \$3.6 million as renovations for HVAC and roof replacements were done in FY2013, but the School Board had received the revenue from the City in FY2012 (The City provides the revenue at the time the contract is awarded by the School Board and many of these projects were awarded in FY2012).

See pages 14 and 15 of the basic financial statements for additional detail.

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

Management's Discussion and Analysis (Unaudited)

June 30, 2013

General Fund Budgetary Highlights

Table 4
General Fund Budget to Actual Summary (non-GAAP basis)
Year ended June 30, 2013
(In millions)

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:				
State	\$ 161.2	\$ 161.2	\$ 161.8	\$ 0.6
City	113.4	113.4	113.4	-
Federal	4.8	4.8	4.5	(0.3)
Other	1.6	1.6	1.8	0.2
Total revenues	<u>281.0</u>	<u>281.0</u>	<u>281.5</u>	<u>0.5</u>
Expenditures and transfers:				
Expenditures	267.3	267.3	267.0	(0.3)
Transfers	13.7	13.7	14.0	0.3
Total expenditures and transfers	<u>281.0</u>	<u>281.0</u>	<u>281.0</u>	<u>-</u>
Change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 0.5</u>	<u>\$ 0.5</u>

In addition to the \$0.5 million fund balance explained in Table 4, the School Board saved \$0.1 million in prior year purchase orders (not part of the budget basis) to produce a total variance of \$0.6 million.

Revenues from the Commonwealth were \$0.6 million more than the budget due to a higher student enrollment than used for budget development purposes. Federal revenues were \$0.3 million less than the budget due to decreased Impact Aid funds. Other funds were \$0.2 million higher due to more revenue generated by sale of surplus equipment and charges to grants for indirect costs.

Expenditures were \$0.3 million less than budgeted primarily due to savings related to leaving many vacancies open during the year and savings in utility costs but this was offset by additional transfers to the Textbook Fund.

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

Management's Discussion and Analysis (Unaudited)

June 30, 2013

Economic Factors

The School Board is financially dependent upon the Commonwealth and City governments. Virginia funding is primarily dependent upon income and sales tax, both of which are expected to show very slow growth in the near term. The City is dependent upon property tax revenues, which are expected to be flat in the near term. FY2014 General Fund funding is expected to increase by \$4.1 million (1.5%) as compared to the FY2013 budget. The Commonwealth is providing \$2.6 million (1.6%) more funding and the City is providing \$1.9 million (1.7%) more for the upcoming year. However, Federal funding is decreased by \$0.3 million (6.3%) due to less Impact Aid and other revenues will decrease by \$0.1 million (6.3%).

Contacting the School Board's Financial Management

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

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BASIC FINANCIAL STATEMENTS

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

Statement of Net Position – Governmental Activities

June 30, 2013

Assets

Cash and temporary investments	\$ 41,213,340
Accounts receivable, net	278,203
Receivables from other governments:	
City of Newport News, Virginia	3,957,092
Federal:	
Department of Agriculture	501,276
Department of Education	264,140
Commonwealth of Virginia:	
Department of Treasury – sales tax	4,612,817
Department of Education	8,045,782
Inventories, at cost	1,085,800
Prepaid expenses	15,806,711
Capital assets, non-depreciable	2,505,084
Capital assets, depreciable, net	<u>71,395,335</u>
Total assets	<u>149,665,580</u>

Liabilities and Net Position

Liabilities:	
Accounts payable	3,225,376
Accrued liabilities	1,001,321
Payroll withholdings and accrued fringe benefits	25,955,181
Unearned revenues	609,663
Long-term liabilities:	
Due within one year	3,800,510
Due in more than one year	<u>40,653,231</u>
Total liabilities	<u>75,245,282</u>
Net Position:	
Net investment in capital assets	66,806,834
Restricted	4,293,830
Unrestricted	<u>3,319,634</u>
Total Net Position	<u><u>\$ 74,420,298</u></u>

See accompanying notes to basic financial statements.

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

Statement of Activities – Governmental Activities

Year Ended June 30, 2013

		Program Revenues			Net (Expense)
		Charges for	Operating	Capital	Revenue and
	Expenses	Services	Grants and	Grants and	Changes in
			Contributions	Contributions	Net Position
Governmental activities:					
Academic services	\$ 224,047,407	\$ 1,200,596	\$ 56,518,519	\$ -	\$ (166,328,292)
Attendance and health services	5,410,181	-	2,305	-	(5,407,876)
Transportation services	18,732,095	-	-	-	(18,732,095)
Operations and facilities	31,507,246	480,397	-	-	(31,026,849)
Child nutrition services	15,155,813	3,510,490	11,978,921	-	333,598
Technology services	12,189,933	180,020	50,223	867,746	(11,091,944)
Administration	7,718,428	1,007,426	-	-	(6,711,002)
Interest on capital debt	387,257	-	-	-	(387,257)
Total governmental activities	<u>\$ 315,148,360</u>	<u>\$ 6,378,929</u>	<u>\$ 68,549,968</u>	<u>\$ 867,746</u>	<u>(239,351,717)</u>
General revenues:					
City of Newport News, Virginia					98,085,490
Commonwealth of Virginia					138,444,470
Federal government					3,740,091
Interest					<u>19,275</u>
Total general revenues					<u>240,289,326</u>
Change in net position					<u>937,609</u>
Net position at beginning of year					<u>73,482,689</u>
Net position at end of year					<u>\$ 74,420,298</u>

See accompanying notes to basic financial statements.

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

Balance Sheet – Governmental Funds

June 30, 2013

	General Fund	Grant Fund	General Obligation Bond Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 28,884,206	\$ 295,486	\$ -	\$ 12,033,648	\$ 41,213,340
Accounts receivable, net	206,643	3,678	-	67,882	278,203
Receivables from other governments:					
City of Newport News	-	-	3,957,092	-	3,957,092
Federal:					
Department of Agriculture	-	-	-	501,276	501,276
Department of Education	-	264,140	-	-	264,140
Commonwealth of Virginia:					
Department of Treasury – sales tax	4,612,817	-	-	-	4,612,817
Department of Education	-	8,045,782	-	-	8,045,782
Inventories, at cost	683,393	-	-	402,407	1,085,800
Due from other funds	7,900,000	-	-	-	7,900,000
Prepaid items	15,806,711	-	-	-	15,806,711
Total assets	<u>\$ 58,093,770</u>	<u>\$ 8,609,086</u>	<u>\$ 3,957,092</u>	<u>\$ 13,005,213</u>	<u>\$ 83,665,161</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 1,426,552	\$ 264,186	\$ 1,301,040	\$ 233,598	\$ 3,225,376
Accrued liabilities	999,926	1,395	-	-	1,001,321
Payroll withholdings and accrued fringe benefits	25,955,181	-	-	-	25,955,181
Due to other funds	-	7,900,000	-	-	7,900,000
Unearned revenues	166,158	443,505	-	-	609,663
Total liabilities	<u>28,547,817</u>	<u>8,609,086</u>	<u>1,301,040</u>	<u>233,598</u>	<u>38,691,541</u>
Fund balances:					
Nonspendable:					
Imprest funds	2,375	-	-	-	2,375
Inventories	683,393	-	-	402,407	1,085,800
Prepaid property and liability insurance	730,582	-	-	-	730,582
Restricted:					
Adult education services	-	-	-	297,266	297,266
Capital projects	-	-	-	836,084	836,084
Child nutrition services	-	-	-	3,160,480	3,160,480
Committed:					
Workers' compensation	-	-	-	2,713,889	2,713,889
Textbooks	-	-	-	2,136,236	2,136,236
Assigned to:					
Adult education services	-	-	-	395,662	395,662
Child nutrition services	-	-	-	928,110	928,110
Contractual obligations	12,433,724	-	2,656,052	1,901,481	16,991,257
Health insurance	15,076,129	-	-	-	15,076,129
Unassigned:	619,750	-	-	-	619,750
Total fund balances	<u>29,545,953</u>	<u>-</u>	<u>2,656,052</u>	<u>12,771,615</u>	<u>44,973,620</u>
Total liabilities and fund balances	<u>\$ 58,093,770</u>	<u>\$ 8,609,086</u>	<u>\$ 3,957,092</u>	<u>\$ 13,005,213</u>	<u>\$ 83,665,161</u>
Amounts reported for governmental activities in the Statement of Net Position are different because:					
Total fund balances reported in governmental funds					\$ 44,973,620
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.					73,900,419
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.					(44,453,741)
Net position of governmental activities					<u>\$ 74,420,298</u>

See accompanying notes to basic financial statements.

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

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2013

	General Fund	Grant Fund	General Obligation Bond Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Intergovernmental:					
City of Newport News, Virginia	\$ 99,926,073	\$ -	\$ 4,962,267	\$ 1,000,000	\$ 105,888,340
Commonwealth of Virginia	160,341,090	2,948,655	-	2,082,489	165,372,234
Federal government	4,479,931	30,083,609	-	11,652,700	46,216,240
Charges for services	1,753,879	-	-	4,625,050	6,378,929
Investment income	-	-	-	19,275	19,275
Miscellaneous	-	13,801	-	-	13,801
Total revenues	<u>266,500,973</u>	<u>33,046,065</u>	<u>4,962,267</u>	<u>19,379,514</u>	<u>323,888,819</u>
Expenditures:					
Current:					
Academic services	187,731,469	31,329,017	-	2,364,757	221,425,243
Attendance and health services	5,372,723	57,068	-	-	5,429,791
Transportation services	17,520,252	-	-	-	17,520,252
Operations and facilities	29,648,831	547,768	-	169,934	30,366,533
Child nutrition services	-	-	-	15,237,387	15,237,387
Technology services	11,075,901	1,112,212	-	-	12,188,113
Administration	6,369,523	-	-	940,444	7,309,967
Debt service:					
Principal	2,631,723	-	-	-	2,631,723
Interest and other charges	387,257	-	-	-	387,257
Capital outlay	1,565,195	-	8,570,172	1,007,290	11,142,657
Total expenditures	<u>262,302,874</u>	<u>33,046,065</u>	<u>8,570,172</u>	<u>19,719,812</u>	<u>323,638,923</u>
Excess (deficiency) of revenues over (under) expenditures	<u>4,198,099</u>	<u>-</u>	<u>(3,607,905)</u>	<u>(340,298)</u>	<u>249,896</u>
Other financial sources:					
Proceeds of capital lease	1,072,755	-	-	-	1,072,755
Total other financing sources	<u>1,072,755</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,072,755</u>
Net change in fund balances	<u>5,270,854</u>	<u>-</u>	<u>(3,607,905)</u>	<u>(340,298)</u>	<u>1,322,651</u>
Fund balances at beginning of year	24,297,808	-	6,263,957	13,045,649	43,607,414
Increase (decrease) in nonspendable inventory	(22,709)	-	-	66,264	43,555
Fund balances at end of year	<u>\$ 29,545,953</u>	<u>\$ -</u>	<u>\$ 2,656,052</u>	<u>\$ 12,771,615</u>	<u>\$ 44,973,620</u>

See accompanying notes to basic financial statements.

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

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

Year Ended June 30, 2013

Net change in fund balances – total governmental funds	\$ 1,322,651
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Amounts reported for governmental activities in the Statement of Activities are different because:

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

Capital outlay	\$ 11,142,657	
Items capitalized, but shown as expended	2,552,055	
Transfer to City, tenancy-in-common	<u>(7,802,850)</u>	
Capital outlay, net	5,891,862	
Loss on disposal of capital assets	(896,282)	
Depreciation expense	<u>(7,118,056)</u>	(2,122,476)

Issuance of debt in the form of capital lease proceeds as an other financing source in the governmental funds, but does not affect the Statement of Activities	(1,072,755)
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Repayment of debt principal is an expenditure in the governmental funds, but does not affect the Statement of Activities.	2,631,723
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This year, compensated absences earned exceeded the amount used by \$279,145, workers' compensation claims incurred were less than the amount paid by \$150,000, health insurance claims incurred were less than the amount paid by \$39,000 and other post employment benefits incurred were less than the amount paid by \$225,056.	134,911
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Change in nonspendable inventory from governmental funds is included in expenses in the Statement of Activities.	<u>43,555</u>
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Change in net position of governmental activities	<u><u>\$ 937,609</u></u>
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See accompanying notes to basic financial statements.

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

Statement of Net Position – Fiduciary Funds

Year Ended June 30, 2013

	<u>OPEB Trust Fund</u>	<u>Agency Fund</u>
Asset:		
Cash and cash equivalents (note 2)	\$ -	\$ 1,516,755
Investments, at fair value:		
Money market trust	<u>10,803,531</u>	<u>-</u>
Total assets	<u>10,803,531</u>	<u>1,516,755</u>
Liabilities:		
Accounts payable	-	60,123
Due to students	<u>-</u>	<u>1,456,632</u>
Total liabilities	<u>-</u>	<u>1,516,755</u>
Net Position:		
Net position held in trust for other postemployment benefits	<u>10,803,531</u>	<u>-</u>
Total net position	<u>10,803,531</u>	<u>-</u>
Total liabilities and net position	<u>\$ 10,803,531</u>	<u>\$ 1,516,755</u>

See accompanying notes to basic financial statements.

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

Statement of Changes in Fiduciary Net Position – Fiduciary Funds

Year Ended June 30, 2013

	<u>OPEB Trust Fund</u>
Additions	
Contributions:	
Employer contributions	\$ 6,329,982
Plan member contributions	<u>1,404,188</u>
Total contributions	<u>7,734,170</u>
Net investment income:	
Net appreciation in the fair value of investments	874,004
Interest and dividends	<u>1,396</u>
Total investment income	<u>875,400</u>
Total additions	<u>8,609,570</u>
Deductions	
Benefits	6,234,170
Administrative expenses	<u>8,922</u>
Total deductions	<u>6,243,092</u>
Change in net position	2,366,478
Net position at beginning of year	<u>8,437,053</u>
Net position at end of year	<u><u>\$ 10,803,531</u></u>

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

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

Notes to Basic Financial Statements

June 30, 2013

(1) Summary of Significant Accounting Policies

Narrative Profile

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

(a) Financial Reporting Entity

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

(b) Basis of Presentations

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

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

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

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

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

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

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

The School Board reports the following major governmental funds:

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

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

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

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

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

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

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

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

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

(c) Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting and economic resources measurement focus. Governmental funds and fiduciary funds use the modified accrual basis of accounting and the current financial resources measurement focus, except that the Agency fiduciary fund has no measurement focus. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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Under the modified accrual basis of accounting, revenues are recorded when subject to accrual (i.e., both measurable and available). Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The School Board considers collections within 60 days of year end as available. Sales tax revenue is accrued when the underlying sales transaction has taken place and is remitted to the School Board within 60 days of the sales transaction. Federal Impact Aid revenue is recognized as earned based upon entitlements calculated using eligible student data and federally authorized payment provisions based upon the federal fiscal year with an allowance to recognize adjustments for prior years. Expenditures, other than those related to long-term obligations (e.g., principal and interest on long-term debt, compensated absences, retirement), which is recorded when due, are recorded when the related fund liability is incurred.

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

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

(d) *Encumbrances*

The School Board employs encumbrance accounting under which obligations in the form of purchase orders, contracts and other commitments for the expenditure of funds are reported as reservations of fund balances, since they do not constitute expenditures or liabilities. Appropriations with outstanding commitments or encumbrances are carried into the following year. According to the City Code, unexpended, unencumbered appropriations lapse at the end of the year.

(e) *Cash and Temporary Investments*

Cash and temporary investments are pooled with the cash and investments of the City, except for \$250,000 held in escrow with our workers' compensation third party administrator and petty cash of \$2,445. The School Board utilizes the pooled cash investment method wherein income from the investment of pooled cash is allocated to the various funds based on the percentage of cash and cash equivalents of each fund to the total pooled cash and cash equivalents. The cash in the Agency Fund represents the Student Activity Fund cash balances in the separate bank accounts maintained by the individual schools. The investments in the OPEB Trust Fund are valued at fair value and maintained in the Virginia Association of Counties/Virginia Municipal League (VACO/VML) OPEB Pooled Trust Fund.

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(f) *Receivables and Due from Other Governments*

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

(g) *Inventories*

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

(h) *Prepaid Items*

A prepaid item of \$15,076,129 represents healthcare premiums paid in advance and on deposit with our third-party claims administrator. The School Board's healthcare program is self-insured (see note 8 (a) for further information). Premiums paid in prior years have been more than actual claims and expenses. The premiums have been left on deposit to pay future healthcare premiums. The funds are accounted for on the consumption method.

Also shown as a prepaid item is \$730,582, which represents property and liability insurance premium cost for FY2014 paid in FY2013.

(i) *Capital Assets*

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

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

Under Virginia law, certain property maintained by the School Board is subject to tenancy-in-common with the City, if the City incurred a financial obligation for the property which is payable over more than one fiscal year. The School Board and the City have agreed that such property will be carried on the City's financial statements until the outstanding debt is repaid, upon which time the book value of the assets in question will be transferred back to the School Board's books. At June 30, 2013, the City holds capital assets related to school property with a net book value of \$149,629,507.

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

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

(j) *Compensated Absences*

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

Effective July 2, 2011, all subsequent retirees health insurance subsidy is based on years of service rather than sick leave balance.

(k) *Fund Balance Items*

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

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

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

- The Child Nutrition Services special revenue fund has a restricted fund balance of \$3,160,480 representing the portion of the fund balance provided over the years from Federal and Virginia grants restricted for the purpose of providing students with nutritional meals.
- The Adult Education special revenue fund has a restricted fund balance of \$297,266 representing the portion of the fund balance provided over the years from Federal grants restricted for the purpose of providing adult citizens of the community with educational services.

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- The State Construction capital projects fund has a fund balance of \$803,996, restricted by the Commonwealth to capital outlay and repayment of debt issued for capital outlay.
- The General Capital capital projects fund has a fund balance of \$32,088 restricted by the City for capital outlay.

Committed to items – This includes items committed to per the City Primary Government budget process.

- The Workers' Compensation special revenue fund has a committed fund balance of \$2,713,889, which City Council appropriation commits to the use of these funds for workers' compensation for the School Board's self-insured workers' compensation plan.
- The Textbook special revenue fund has a committed fund balance of \$2,136,236, which City Council appropriation commits to the use of these funds for textbooks. The School Board intends to purchase textbooks in the upcoming years based upon a six-year replacement cycle for most subjects.

Assigned to items – Assigned items represents management of the School Board's intent to use certain resources for assigned purposes. The Superintendent is authorized and has made the following assignments as of June 30, 2013.

- \$395,662 is assigned to provide adult education services in the community as represented in the Adult Education special revenue fund.
- \$928,110 is assigned to provide students attending the schools with a nutritious breakfast and lunch, meeting the regulations of the United States Department of Agriculture and the Commonwealth as represented in the Child Nutrition Services special revenue fund.
- \$16,991,257 is assigned to meet contractual obligations. The School Board has purchase orders outstanding with vendors in this amount and expects the vendors to deliver the goods and services in the upcoming fiscal year. The amounts are \$12,433,724 in the General Fund, \$2,656,052 in the General Obligation Bond Fund, \$4,088 in the Workers' Compensation special revenue fund, \$1,415,408 in the Textbook special revenue fund, \$185,145 in the Child Nutrition Services special revenue fund, \$2,300 in the Adult Education special revenue fund, \$293,552 in the State Construction capital projects fund and \$988 in the General Capital projects fund.
- \$15,076,129 is assigned to the employee self-insured health insurance plan. Funds equal to this amount are on deposit with our contracted health insurance provider and shown as a prepaid item in the asset section of the Balance Sheet.

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Unassigned items – Represents the remainder of the School Board's equity in governmental fund balances. The balance at June 30, 2013 is \$619,750 for the General Fund and zero for all funds.

(l) *Interfund Transactions*

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

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

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

(m) *Change in Accounting Principles*

Effective July 1, 2012, the School Board adopted the provisions of Governmental Accounting Standards Board GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (Statement No. 63). This implementation required the School Board to present a Statement of Net Position, replacing previously presented Statement of Net Assets, in the School Board's basic financial statements. The School Board's implementation also required the Statement of Net Position to present deferred outflows and inflows of resources in separate sections following total assets and total liabilities sections, respectively. In practice, Statement No. 63 only impacts activities related to derivative instruments or service concession arrangements. In the case of the School Board, the implementation of this standard was isolated to the presentation of the Statement of Net Position.

(2) *Cash and Cash Equivalents*

All of the \$41,213,340 of School Board cash and cash equivalents (except for \$250,000 of funds in escrow with our workers' compensation third party administrator and \$2,445 of petty cash funds) are maintained on deposit with the Treasurer of the City of Newport News. All of the funds are available for immediate School Board use. See the City's Comprehensive Annual Financial Report for additional details. A copy may be obtained from The City of Newport News, Finance Department, 2400 Washington Avenue, Newport News, VA 23607.

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

Interfund receivables, payables and transfers as of and for the year ended June 30, 2013 are as follows:

Funds	Due from other funds	Due to other funds
General Fund	\$ 7,900,000	\$ -
Grant Fund	-	7,900,000
Total all funds	<u>\$ 7,900,000</u>	<u>\$ 7,900,000</u>

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

(4) Capital Assets, Net

A summary of changes in capital assets follows:

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Capital assets not being depreciated:				
Land	\$ 2,505,084	\$ -	\$ -	\$ 2,505,084
Construction in progress	104,108	104,107	208,215	-
Total capital assets not being depreciated	<u>2,609,192</u>	<u>104,107</u>	<u>208,215</u>	<u>2,505,084</u>
Other capital assets:				
Buildings	46,849,002	-	-	46,849,002
Improvements	50,933,282	846,424	283,240	51,496,466
Machinery and equipment	60,875,560	5,149,546	2,454,001	63,571,105
Total other capital assets	<u>158,657,844</u>	<u>5,995,970</u>	<u>2,737,241</u>	<u>161,916,573</u>
Less accumulated depreciation for:				
Buildings	27,351,352	773,923	-	28,125,275
Improvements	16,945,872	2,075,539	283,240	18,738,171
Machinery and equipment	40,946,917	4,268,594	1,557,719	43,657,792
Total accumulated depreciation	<u>85,244,141</u>	<u>7,118,056</u>	<u>1,840,959</u>	<u>90,521,238</u>
Other capital assets, net	<u>73,413,703</u>	<u>(1,122,086)</u>	<u>896,282</u>	<u>71,395,335</u>
Totals	<u>\$ 76,022,895</u>	<u>\$ (1,017,979)</u>	<u>\$ 1,104,497</u>	<u>\$ 73,900,419</u>

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Depreciation was charged to governmental functions as follows:

Academic services	\$ 3,638,053
Attendance and health services	28,168
Transportation services	1,359,836
Operations and facilities	1,391,382
Child nutrition services	118,768
Technology services	109,066
Administration	472,783
Total governmental activities depreciation expense	<u>\$ 7,118,056</u>

Loss on disposal of assets of \$896,282 is charged to the Academic services function.

Construction in progress is composed of the following at June 30, 2013:

	Project	Expended Through	Balance of	Future
	Authorization	June 30, 2013	Authorization	Requirements
Total School projects	<u>\$ 9,075,199</u>	<u>\$ 1,786,026</u>	<u>\$ 7,289,173</u>	<u>\$ -</u>

All of the expended through June 30, 2013 (\$1,786,026) relates to assets transferred to the City under the AHTIC provisions. The balance of authorization of \$7,289,173 includes \$2,656,052 encumbered by existing purchase orders with vendors for projects in progress.

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(5) Leases

(a) Operating Leases

The School Board had three ongoing leased buildings in FY2013. One lease was terminated effective July 15, 2013 and additional space was leased via an amendment to one of the remaining two leases. An early termination penalty of \$214,891 was paid by the lessor of one of the remaining leases. Remaining leased is one building under a non-cancelable operating lease. Part of the leased space expires on June 30, 2028 and other leased space in that same building expires on June 30, 2030. One other lease is on a month-to-month operating lease. Total costs for such leases were approximately \$632,600 for the year ended June 30, 2013. The future minimum lease payments for these leases are as follows:

<u>Year ending June 30:</u>	
2014	\$ 426,982
2015	561,602
2016	565,704
2017	664,509
2018	666,776
2019-2023	3,496,981
2024-2028	3,746,285
2029-2030	588,464
	<u>\$ 10,717,303</u>

(b) Capital Leases

The School Board has two lease agreements for financing the acquisition of property and equipment, for which the leases qualify for capital lease for accounting; therefore, the transactions have been recorded at the present value of their future minimum lease payments as of the inception date.

The net book value of assets acquired through capital leases as of June 30, 2013 is as follows:

Machinery and equipment	\$ 2,045,567
Less accumulated depreciation	<u>(796,185)</u>
	<u>\$ 1,249,382</u>

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The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2013, were as follows:

Year ending June 30:	
2014	\$ 463,198
2015	237,658
2016	237,658
2017	237,658
2018	<u>39,610</u>
Total minimum lease payments	1,215,782
Less amounts representing interest	<u>(88,702)</u>
Present value of minimum capital lease payments	<u><u>\$ 1,127,080</u></u>

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2013 follows:

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2013</u>	<u>Due Within One Year</u>
Compensated absences	\$ 3,955,391	\$ 2,193,220	\$ 1,914,075	\$ 4,234,536	\$ 635,180
Workers' compensation claims	2,064,500	788,531	938,531	1,914,500	281,900
Capital leases payable	423,917	1,072,755	369,592	1,127,080	422,430
Capital facility notes payable	8,228,636	-	2,262,131	5,966,505	-
Other postemployment benefits	28,975,176	6,600,887	6,825,943	28,750,120	-
Incurred but not reported health claims	<u>2,500,000</u>	<u>26,623,085</u>	<u>26,662,085</u>	<u>2,461,000</u>	<u>2,461,000</u>
Totals	<u><u>\$ 46,147,620</u></u>	<u><u>\$ 37,278,478</u></u>	<u><u>\$ 38,972,357</u></u>	<u><u>\$ 44,453,741</u></u>	<u><u>\$ 3,800,510</u></u>

The capital facility notes payable provided financing for a fiber wide-area-network linking all School Board computers as well as a variety of energy conservation and water savings improvements including lighting fixture replacement, lighting controls, HVAC replacement and controls, roof replacements and plumbing fixture replacements.

Incurred but not reported health claims represent an estimate of healthcare claims incurred by our employees as of June 30, 2013, but not yet paid by our third-party claims administrator. As we are self-insured for healthcare claims, we consider the entire amount a current liability. In fact, the claims are paid in a matter of a few weeks after June 30, 2013 as the medical providers submit their claims to the third-party administrator.

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

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The annual requirements to pay principal and interest at a rate of 4.05% on capital notes payable due to PNC Equipment Finance (formerly National City Commercial Capital) at June 30, 2013 are as follows (note that the payment normally due in FY2014 was paid in June 2013):

	<u>Principal</u>	<u>Interest</u>
FY2014	\$ -	\$ -
FY2015	2,380,794	241,643
FY2016	2,395,930	145,221
FY2017	<u>1,189,781</u>	<u>48,186</u>
Totals	<u>\$ 5,966,505</u>	<u>\$ 435,050</u>

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

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

1. Plan Description

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

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

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Full-time regular employees hired on or before July 1, 2009 for the School Board and March 1, 2010 for the City are members of this fund. NNERF benefits are available only to employees with five years' service. School VRS employees who did not have five years' service when the supplemental NNERF benefits were frozen at December 31, 2012 are not eligible for a supplemental benefit from NNERF. Employees hired after the above dates are in VRS, a cost sharing and an agent multiple-employer defined benefit plan as discussed in note 7 (b). For the years ended June 30, 2013 and 2012, the total payroll of the City and the School Board was approximately \$357.6 million and \$338.3 million, respectively, with approximately \$129.9 million and \$248.5 million covered by NNERF. At June 30, 2013, NNERF membership consisted of:

	Retirees and Beneficiaries	Vested Terminated or Frozen Employees	Active Employees Vested	Active Employees Non-Vested	Total
City general	1,099	694	1,138	110	3,041
City police and fire	751	239	733	118	1,841
Public utilities	227	111	239	20	597
School VRS	2,355	3,658	-	-	6,013
School Non-VRS	759	268	642	61	1,730
Total	<u>5,191</u>	<u>4,970</u>	<u>2,752</u>	<u>309</u>	<u>13,222</u>

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

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

Employees with at least five years of credited service are eligible to purchase all or part of certain prior service credits, subject to Internal Revenue Service limits. The types of prior service eligible include time employed under other government programs and military service.

2. Concentrations

NNERF has no investments in any one organization representing 5% or more of net position available for benefits.

3. Contributions Required and Contributions Made

The Pension Fund is contributory for employees. The Plan engages an actuary to determine the Actuarially Recommendation Contribution, sometimes referred to as the Annual Required Contribution (ARC). However, the City has not contributed 100% of the ARC to the Fund since 2004. In 2010, the City established an eight-year funding program to begin fully funding the ARC by 2016. The City contributed 63% of the ARC in fiscal year 2013 and 28% in 2012, and has budgeted to contribute 73% of the ARC in fiscal year 2014.

Contributions for normal costs totaling \$33,968,281 were made by the employer during the year ended June 30, 2013. Contributions totaling \$3,065,051 were made by employees to the Pension Fund during the year ended June 30, 2013. The percentage of employer contributions to covered payroll was 28.5%. The percentage of normal costs to covered payroll was 8.11% for the fiscal year ending June 30, 2013.

Additional information as of the latest actuarial valuation follows:

Actuarial valuation date	7/1/13
Actuarial cost method	Entry age
Amortization method	Closed
Remaining amortization period	27 years
Asset valuation method	Five-year smoothed market

Actuarial assumptions:

Investment rate of return	7.5%
Rate of salary increases	Ultimate rate of 4.5%
Cost of living adjustment	1.9%
Inflation	2.8%

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

June 30, 2013

(000's omitted)

	2013	2012
Annual Required Contribution	\$ 56,839	\$ 55,011
Interest on net pension obligation	15,172	13,543
Adjustment to ARC	(16,691)	(14,749)
Annual pension cost	55,320	53,805
Contributions made	(33,968)	(32,786)
Increase in net pension obligation	21,352	21,019
Net pension obligation, beginning of year	195,769	174,750
Net pension obligation, end of year	\$ 217,121	\$ 195,769

4. Three-Year Trend Information

(000's omitted)

Fiscal year ended	Annual Pension Cost (APC)	Percentage of APC contributed	Net pension obligation
June 30, 2013	\$ 55,320	61.4%	\$ 217,121
June 30, 2012	53,805	60.9%	195,769
June 30, 2011	55,660	49.2%	174,750

The funded status of the plan (in millions) as of June 30, 2013 was as follows:

Actuarial valuation date	Actuarial value of assets	Actual accrued liability (AAL)	Overfunded (unfunded) accrued liability (AAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
June 30, 2013	\$ 744.4	\$ 1,179.8	\$ (435.4)	63.1%	\$ 129.9	-335.2%

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

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

June 30, 2013

(b) Virginia Retirement System:

1. Plan Description

The School Board contributes to the Virginia Retirement System (VRS or the System), which administers two plans - an agent single employer plan and a cost-sharing multiple-employer defined benefit pension plan.

VRS administers a single employer plan for all School Board non-professional employees hired on or after July 1, 2009. Those hired between July 1, 2009 and June 30, 2010 are under the provisions of Plan 1 described below and those hired on or after July 1, 2010 are under the provisions of Plan 2 described below.

All full-time eligible permanent employees of the School Board must participate in the VRS. Benefits vest after five years of service. Members earn one month of service credit for each month they are employed and their employer is paying into VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

VRS administers two defined benefit plans for local government employees – Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with an unreduced benefit as early as age 55 with at least 10 years of service credit or age 50 with at least five years of service credit.
- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation (AFC) multiplied by the member's total service credit. Under Plan 1, AFC is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, AFC is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier is 1.70%. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial-Lump-Sum Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with reduced benefits.

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Retirees are eligible for an annual cost-of-living adjustment (COLA) beginning in their second year of retirement. Under Plan 1, the COLA cannot exceed 5.00%, under Plan 2, COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained from the VRS Web site at www.varetire.org/Pdf/Publications/2011-annual-report.pdf or by writing the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

2. Funding Policy

Members of all plans are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5.00% of their annual reported compensation to the VRS. Employers that have paid the 5.00% for the member have until July 1, 2016 to phase-in transferring this contribution to the member. The School Board has assumed 4% of the contribution for employees for the year ending June 30, 2013 (dropping to 3% effective July 1, 2013). However, employees hired or rehired on or after July 1, 2010 and have no prior VRS credited service will be required to contribute the 5% member contribution. The School Board is required to contribute the remaining amounts necessary to fund their participation in the VRS using the actuarial bases specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The contribution rate for the fiscal year ended 2013 was 11.66% of covered annual payroll for the School Board for professional employees, not including the 5% contributed for members hired before July 1, 2010. The contribution rate for the single employer plan for non-professional employees was 8.17% not including the 5% contributed for members hired before July 1, 2010.

3. Annual Pension Cost

Cost Sharing Multiple-Employer Plan

For professional employees participating in the VRS cost-sharing multiple-employer plan, the School Board's contributions for the years ended June 30, 2013, 2012 and 2011 were \$20,396,339, \$16,804,356 and \$13,349,670, respectively, and were equal to the required contributions. The School Board's contribution rate applicable to professional employees for the fiscal year ended June 30, 2013 was 15.66 percent of the annual covered payroll. The School Board's contribution rate applicable to nonprofessional employees for the fiscal year ended June 30, 2013 was 12.17 percent of the annual covered payroll.

**THE SCHOOL BOARD OF THE
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June 30, 2013

Agent Single-Employer Plan

The annual required contributions for the single employer plan were determined as part of the June 30, 2012 actuarial valuation, the most recent actuarial valuation date. As of June 30, 2012 the actuarial value of the Plan assets was \$596,931. The Plan was 163 percent funded. The actuarial accrued liability for benefits was \$366,255, resulting in an overfunded actuarial liability (UAAL) of \$230,676. The covered payroll was \$2,812,157 and the ratio of the UAAL to the covered payroll was -8.2 percent. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The actuarial assumptions included (a) a rate of return on investment of 7.0% to 7.5% (b) projected annual cost-of-living adjustments of 2.50% and salary increases that range between 3.75% and 5.60% depending upon the member's service and classification. Liabilities were determined under the Entry Age Normal actuarial cost method. There is no unfunded actuarial accrued liability at June 30, 2012 but if there is one in the future it would be amortized as a level percentage of payroll on an open basis within a period of 20 years.

4. Employer Contributions:

Schedules of Funding Progress and Employer Contributions for both the agent multiple employer plan and the single employer plan are combined and are as follows:

Fiscal year ending	Annual Pension Cost (APC)	Percentage of APC contributed	Net pension obligation
June 30, 2013	\$ 25,624,173	100.0%	\$ -
June 30, 2012	17,536,019	100.0%	-
June 30, 2011	14,086,314	100.0%	-

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

June 30, 2013

(c) Other Postemployment Benefits (OPEB) Trust Funds

1. Plan Description

In FY 2000, an OPEB fund was established to accumulate assets to pay for other postemployment benefits. The fund was administered by the City to provide health, dental and life insurance benefits for City and School Board pre-65 retirees. During FY 2010, the School Board established a separate Trust Fund apart from the City and all assets belonging to the School Board were transferred to this new fund. The plan is a single-employer plan. Benefits and contribution provisions are established by the School Board and may be amended only by the School Board. An actuarial service is employed to advise the School Board of the contributions necessary to fund the benefits.

The School Board provides health and dental insurance for their pre-65 retirees under the school's group plans. The School Board annually determines the retiree's contribution to participate in the medical plans. The total contribution is based on the active premium rates. The retiree's portion of the active rate is based on the retiree's years of service at retirement. Retirees with maximum accumulated sick leave will pay what an active employee would pay. Retirees with minimal accumulations would pay most of the total active premium rate.

Approximately 484 School Board retirees are grandfathered to participate in the City OPEB Fund's sponsored life insurance coverage paid for by the School Board. The premiums are not material. These retirees have elected supplemental coverage under the City OPEB fund.

The OPEB Trust Fund does not issue a separate report.

2. Contributions Required and Contributions Made

OPEB funding policy provides for periodic employer contributions at actuarially determined rates that express, as percentages of annual covered payroll, contributions sufficient to accumulate sufficient assets to pay benefits when due. A level percentage of payroll with a 28-year amortization period is used for purposes of computing the minimum accrual in accordance with GAAP. The projected unit credit method is used for cost calculations.

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June 30, 2013

Contributions to normal costs totaling \$1.1 million were made during the year ended June 30, 2013. The School Board's annual OPEB cost for the current year and past two years are as follows:

(In millions)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Annual Required Contribution	\$ 8.7	\$ 7.4	\$ 7.1
Interest on net pension obligation	2.3	2.1	2.2
Adjustment to ARC	<u>(2.6)</u>	<u>(2.4)</u>	<u>(2.5)</u>
Annual pension cost	8.4	7.1	6.8
Actual Contribution	<u>8.6</u>	<u>5.9</u>	<u>7.6</u>
Increase (decrease) in net OPEB obligation	(0.2)	1.2	(0.8)
Net OPEB obligation, beginning of year	<u>29.0</u>	<u>27.8</u>	<u>28.6</u>
Net OPEB obligation, end of year	<u><u>\$ 28.8</u></u>	<u><u>\$ 29.0</u></u>	<u><u>\$ 27.8</u></u>

3. Funding Status and Funding Progress

The funded status of the plan as of June 30, 2013 was as follows:

(In millions)

	<u>2013</u>
Actuarial value of assets	\$ 11.0
Actuarial Accrued Liability (AAL)	<u>101.4</u>
Unfunded AAL (UAAL)	<u><u>\$ 90.4</u></u>
Funded ratio	10.8%
Covered payroll	\$ 128.6
UAAL as a percentage of covered payroll	70.3%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

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

**THE SCHOOL BOARD OF THE
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June 30, 2013

4. Actuarial Methods and Assumptions

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

Actuarial valuation date	7/1/12
Actuarial cost method	Projected Unit Credit
Amortization method	Level Dollar Closed
Amortization period	28 years
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	NA
Healthcare inflation rate	5.00%

(8) Self-Insurance

(a) Medical Benefits

The School Board is self-insured for its medical benefits through funding from the General Fund for employees up to \$175,000 per employee per year and 110% of adjusted subscriber charges (maximum liability) for the year (\$28,703,147 for 2013). Claims in excess of the limitation are covered by third-party insurance. Expenditures are charged to the fund to which the employees' payroll expenditure is charged at amounts that approximate what third-party insurers would have charged. The insurance coverage is substantially the same as in prior fiscal years.

Claims processing and payments for the medical claims are made through a third-party administrator. The settlement using reinsurance did not exceed insurance for fiscal years 2013 or 2012. The School Board uses the information provided by the third-party administrator to aid in the determination of self-insurance liabilities. Amounts due in future years on claims as of June 30, 2013 are recognized as a long-term liability due within one

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

June 30, 2013

year in the Statement of Net Position. Changes in the incurred but not reported amount during the fiscal years ended June 30, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Claims payable at beginning of year	\$ 2,500,001	\$ 2,771,701
Claims and changes in estimates	26,623,085	27,603,144
Claim payments	<u>(26,662,086)</u>	<u>(27,874,844)</u>
Claims payable at end of year	<u><u>\$ 2,461,000</u></u>	<u><u>\$ 2,500,001</u></u>

(b) Workers' Compensation

The School Board self-insures for workers' compensation through funding from the Workers' Compensation special revenue fund. Expenditures are charged to the various departments at amounts that approximate what third-party insurers would have charged. Amounts due in future years on claims made as of June 30, 2013 are accounted for as long-term liabilities. These long-term liabilities include an estimate of claims that have been incurred but not reported. The following is a reconciliation of changes in workers' compensation claims payable for years ended June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Claims payable at beginning of year	\$ 2,064,500	\$ 1,964,500
Claims and changes in estimates	788,531	814,428
Claim payments	<u>(938,531)</u>	<u>(714,428)</u>
Claims payable at end of year	<u><u>\$ 1,914,500</u></u>	<u><u>\$ 2,064,500</u></u>

(c) Other

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

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

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

Notes to Basic Financial Statements

June 30, 2013

(9) Contingent Liabilities

(a) *Litigation*

The School Board is involved in several lawsuits arising in the ordinary course of operations. It is the opinion of School Board management, based on the advice of the School Board attorney, that any losses incurred as a result of claims existing as of June 30, 2013 will not be material to the financial statements.

(b) *Grants*

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

(10) Related Organizations

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

(11) Related-Party Transaction

The School Board operates by authority of the charter of the City, which provides annual appropriations to the School Board for operating the school system and is obligated for all bonded indebtedness issued to benefit the School Board. The City is also the custodian of the majority of the School Board's cash and temporary investments and also provides a defined benefit pension plan to employees hired before July 1, 2009. The City provides services to the School Board, primarily 800 megahertz radio repairs and radio purchases and services related to the vehicle self-insurance program, through the City's General Fund. The School Board is charged based on established fee schedules or a shared cost formula. The City provides school police officers at no charge to the School Board. The total value of the services provided by the City and reimbursed by the School Board during the year ended June 30, 2013 was \$750,115. The School Board provides fiber WAN services, fiber WAN installation and shared costs of a School Board building that houses City programs to the City during the year ended June 30, 2013 at charges of \$216,234. Amounts due to and due from the City for services are negligible and are generally settled on a monthly basis. The City Parks & Recreation Department provides services to children and citizens after regular school hours in School Board buildings at no rental charge.

At June 30, 2013, the City owed the School Board \$3,957,092 for capital projects funding.

REQUIRED SUPPLEMENTARY INFORMATION

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

General Fund

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

Year Ended June 30, 2013

	Original Budget	Amended Budget	Actual	Variance
Revenues:				
Intergovernmental:				
Commonwealth of Virginia:				
Standards of Quality funds	\$ 137,629,566	\$ 137,629,566	\$ 138,444,470	\$ 814,904
Incentive funds	1,613,866	1,613,866	1,613,866	-
Categorical funds	85,892	85,892	131,550	45,658
Lottery funded programs	21,894,764	21,894,764	21,661,229	(233,535)
Other state agencies	20,000	20,000	13,979	(6,021)
City of Newport News	113,400,000	113,400,000	113,400,000	-
Federal government	4,791,582	4,791,582	4,479,931	(311,651)
Charges for services	1,605,500	1,605,500	1,753,879	148,379
Total revenues	281,041,170	281,041,170	281,498,904	457,734
Expenditures:				
Instructional services:				
Classroom instruction	103,430,307	101,381,856	100,286,576	1,095,280
Office of the principal	18,336,349	18,292,310	18,127,484	164,826
Special education	35,301,560	35,229,638	32,919,704	2,309,934
Career and technical	4,834,774	4,834,774	5,376,393	(541,619)
Talented and gifted	4,844,727	4,844,727	5,058,303	(213,576)
Athletics/Drivers' Education	2,331,926	2,331,745	2,315,772	15,973
Summer school	1,136,042	1,136,042	491,386	644,656
Pre school	6,276,614	6,292,147	6,284,346	7,801
Guidance and counseling	7,112,291	7,157,672	6,892,784	264,888
Improvement of instruction - staff	5,464,266	5,469,131	5,471,215	(2,084)
Media services	4,986,875	4,986,875	4,762,162	224,713
School social workers	1,447,863	1,447,863	1,360,725	87,138
Homebound	461,220	461,220	535,619	(74,399)
Instructional support -student leadership	1,281,606	1,270,700	1,179,645	91,055
Total academic services	197,246,420	195,136,700	191,062,114	4,074,586
Attendance and health services:				
Psychological services	1,602,669	1,602,669	1,511,739	90,930
Attendance	657,306	657,306	642,356	14,950
Health services	3,255,592	3,255,592	3,220,990	34,602
Total attendance and health services	5,515,567	5,515,567	5,375,085	140,482
Transportation services:				
Transportation administration	2,191,242	2,201,783	2,218,526	(16,743)
Vehicle operation services	12,285,655	12,305,590	11,603,462	702,128
Monitoring services	2,068,535	2,068,535	2,073,063	(4,528)
Vehicle maintenance services	2,080,045	2,075,415	2,104,438	(29,023)
Total transportation services	18,625,477	18,651,323	17,999,489	651,834

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

General Fund

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

Year Ended June 30, 2013

	Original	Amended		
	Budget	Budget	Actual	Variance
Operations and Facilities:				
Security	2,637,488	2,679,488	2,800,814	(121,326)
Warehouse	293,073	293,153	304,250	(11,097)
Operations	841,226	843,990	2,076,195	(1,232,205)
Grounds services	843,558	1,129,834	939,674	190,160
Building services	22,722,453	22,666,600	25,594,067	(2,927,467)
Vehicle operation services	317,619	317,619	407,734	(90,115)
Facilities	477,500	477,500	477,500	-
Total operations and facilities	28,132,917	28,408,184	32,600,234	(4,192,050)
Technology services:				
Technology - classroom instruction	79,000	108,427	107,647	780
Technology - instructional support	5,974,941	7,026,675	6,705,090	321,585
Information technology	3,807,483	4,613,250	5,863,532	(1,250,282)
Technology - operations & maintenance	887,422	824,443	734,847	89,596
Total technology services	10,748,846	12,572,795	13,411,116	(838,321)
Administration:				
Information services	1,179,406	1,182,083	1,238,350	(56,267)
School Board	263,708	263,708	232,855	30,853
Superintendent's office	1,127,012	1,127,012	1,035,840	91,172
Human resources	1,846,239	1,863,823	1,706,205	157,618
Accountability	850,681	811,935	811,231	704
Business	1,168,483	1,169,949	1,200,299	(30,350)
Purchasing	568,107	569,265	422,299	146,966
Print shop	76,879	77,398	(25,247)	102,645
Total administration	7,080,515	7,065,173	6,621,832	443,341
Total expenditures	267,349,742	267,349,742	267,069,870	279,872
Other financing sources:				
Transfer to Textbook Fund	1,133,692	1,133,692	1,524,004	(390,312)
Transfer to City of Newport News – debt service	12,557,736	12,557,736	12,447,296	110,440
Total other financing sources	13,691,428	13,691,428	13,971,300	(279,872)
Total expenditures and other financing sources	281,041,170	281,041,170	281,041,170	-
Net change in fund balances	-	-	457,734	457,734
Fund balance at beginning of year	24,297,808	24,297,808	24,297,808	-
Less encumbrances outstanding at June 30, 2012				
expended or canceled at June 30, 2013	(11,441,732)	(11,441,732)	(11,279,716)	162,016
Add encumbrances outstanding at June 30, 2013	12,433,724	12,433,724.00	12,433,724	-
Add other financing source, capital lease proceeds	-	-	1,072,755	1,072,755
Less capital outlay for capital lease	-	-	(1,072,755)	(1,072,755)
Increase in assigned for health self-insurance	2,928,530	2,928,530	2,928,530	-
Increase for prepaid property and liability insurance	730,582	730,582	730,582	-
Decrease in nonspendable inventories	(22,709)	(22,709)	(22,709)	-
Fund balance at end of year	\$ 28,926,203	\$ 28,926,203	\$ 29,545,953	\$ 619,750

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

Required Supplementary Information

Schedule of Funding Progress
For Other Postemployment Benefits (Unaudited)

Year Ended June 30, 2013

(Amounts in millions)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (a-b)	Funded Ratio (a/b)	Covered Payroll (d)	UAAL as a Percentage of Covered Payroll ((b-a)/(d))
6/30/13	\$ 11.0	\$ 101.4	\$ (90.4)	10.85%	\$ 128.6	70.3%
6/30/12	8.8	83.8	(75.0)	10.50%	136.7	54.9%
6/30/11	6.4	71.8	(65.4)	8.91%	147.0	44.5%
6/30/10	3.2	132.7	(129.5)	2.41%	158.2	81.9%
6/30/09	1.6	187.8	(186.2)	0.85%	181.0	102.9%
6/30/08	2.7	180.5	(177.8)	1.50%	184.2	96.5%

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

Required Supplementary Information

Schedule of Funding Progress

For the School Board's Single Employer Plan Administered by the Virginia Retirement System (Unaudited)

Year Ended June 30, 2013

(Amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (a-b)	Funded Ratio (a/b)	Covered Payroll (d)	UAAL as a Percentage of Covered Payroll ((b-a)/(d))
6/30/12	\$ 597	\$ 366	\$ 231	163.1%	\$ 2,812	-8.2%
6/30/11	285	210	75	135.7%	1,849	-4.1%
6/30/10	79	16	63	493.8%	983	-6.4%

Plan started July 1, 2009. June 30, 2012 is the most recent actuarial valuation done.

The following Schedule of Funding Progress is presented as unaudited required supplementary information applicable to the participation of the School Board's nonprofessional employees in the VRS agent multiple-employer defined benefit pension plan, as described in note 4(b) in the accompanying basic financial statements. GAAP requires presentation of this information in employer financial statements for the participation of employees in all agent multiple-employer plans, other than those using the aggregate actuarial cost method, (this plan uses the entry age normal actuarial cost method). This information is intended to help users assess the funded status of the plan and the progress made in accumulating sufficient assets to pay benefits when due.

GAAP does not require presentation of required supplementary information in employer financial statements for participation of employees in cost-sharing multiple-employer public employee retirement plans when the assets thereof are held by a third party, rather than by the employer in a fiduciary capacity. Accordingly, no required supplementary information is presented for the participation of the School Board's professional employees in the VRS cost-sharing multiple-employer plan, which is described in note 4 to the basic financial statements.

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

Required Supplementary Information

Schedule of Funding Progress

For the Newport News Employee's Retirement Fund (Unaudited)

Year Ended June 30, 2013

(Amounts in millions)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (a-b)	Funded Ratio (a/b)	Covered Payroll (d)	UAAL as a Percentage of Covered Payroll ((b-a)/(d))
6/30/13	\$ 744	\$ 1,180	\$ (436)	63.1%	\$ 130	335.2%
6/30/12	680	1,176	(496)	57.8%	249	199.2%
6/30/11	641	1,145	(504)	56.0%	262	192.4%

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2013

(1) Budgetary Data

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

- (i) On or before April 1, the School Board submits to the City Council of the City proposed operating budgets for the General Fund, the Workers' Compensation Special Revenue Fund and the Textbook Special Revenue Fund for the forthcoming fiscal year. The operating budgets include proposed expenditures and other financing uses and the means of financing them.
- (ii) A public hearing on the City budget, which includes the School Board, is held after a synopsis of the budget is published in a local newspaper of general circulation. An appropriation ordinance must be adopted by the City Council by May 15.
- (iii) The School Board and Superintendent may amend the budget or make transfers between functions and budgetary line items without City Council approval. However, the School Board may not make transfers or expend any sum of money in excess of City Council appropriations, at the fund level, without the consent of the City Council. The legal level of budgetary control for the General Fund, the Workers' Compensation non-major Special Revenue Fund and the Textbook non-major Special Revenue Fund is the fund level; however, management control is exercised over the budget at the budgetary line item level. Appropriations, except for encumbrances and reserved fund balances, lapse at year end.
- (iv) Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP), except for the following: 1. encumbrances are included as budgetary expenditures; 2. Capital lease other financing sources and the accompanying capital lease expenditures are not included as budgetary resources or expenditures; 3. The net change for the prepaid medical self-insurance program is excluded from the budget comparison; 4. Revenue from the City that is designated for debt service and returned to the City to pay debt service is included for budgetary purposes but excluded for GAAP purposes, and 5. Revenue from the Commonwealth of Virginia designated for textbooks and a corresponding transfer to the Textbook Special Revenue Fund is included in the General Fund for budgetary purposes but for GAAP purposes the revenue is shown directly in the Textbook Fund and any resulting transfer from the General Fund reduced by a like amount.
- (v) Annual legally adopted operating budgets are not adopted for any other Special Revenue Funds. The School Board adopts an annual, but not a legal, operating budget for the Child Nutrition Services Fund. Program budgets for the Grants Special Revenue Fund, the Adult Education Special Revenue Fund and the State Construction Capital Projects Fund are approved by executive departments on a basis consistent with the related grant applications. Project budgets are appropriated by City Council (on a project basis, not an annual basis) for the General Obligation Bond Fund and the General Capital Projects Fund whereby the budgets remain open and carry over to succeeding years until the project is complete.

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

June 30, 2013

(2) Intergovernmental Revenue – City of Newport News

A reconciliation of intergovernmental revenue follows:

City budget appropriations	\$ 113,400,000
Less amounts recorded by City	<u>(13,473,927)</u>
City revenue - GAAP basis	<u><u>\$ 99,926,073</u></u>

(3) Governmental Revenue – Commonwealth of Virginia

A reconciliation of revenue from the Commonwealth of Virginia reported on the budget basis to the GAAP basis.

Reported in the General Fund on the Budget Basis	\$ 161,865,094
Less amount for textbooks reported in the Textbook Fund for GAAP purposes	<u>(1,524,004)</u>
General Fund revenue from the Commonwealth of Virginia reported for GAAP	<u><u>\$ 160,341,090</u></u>

Reported in the Textbook Fund on the Budget Basis	\$ -
Add amount for textbooks reported in the Textbook Fund for GAAP purposes	<u>1,524,004</u>
Textbook Fund revenue from the Commonwealth of Virginia reported for GAAP	<u><u>\$ 1,524,004</u></u>

SUPPLEMENTARY INFORMATION

AGENCY FUND

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

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

Statement of Changes of Assets and Liabilities – Agency Fund

Year Ended June 30, 2013

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year
Asset:				
Cash and cash equivalents	\$ 1,462,007	\$ 3,506,440	\$ 3,451,692	\$ 1,516,755
Liabilities:				
Accounts payable	\$ 56,150	\$ 60,123	\$ 56,150	\$ 60,123
Due to students	1,405,857	3,446,317	3,395,542	1,456,632
Total liabilities	\$ 1,462,007	\$ 3,506,440	\$ 3,451,692	\$ 1,516,755

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

June 30, 2013

Special Revenue Funds:

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

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

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

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

Capital Projects Funds:

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

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

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

Combining Balance Sheet

Other Nonmajor Governmental Funds

June 30, 2013

	Special Revenue Funds				Capital Projects Funds		Total Other Nonmajor Governmental Funds
Assets	Workers' Compensation	Textbooks	Child Nutrition	Adult Education	State Construction	General Capital	
Cash and cash equivalents	\$ 2,751,529	\$ 3,571,771	\$ 3,887,864	\$ 691,860	\$ 1,097,548	\$ 33,076	\$ 12,033,648
Accounts receivable	61,074	-	-	6,808	-	-	67,882
Due from other governments:							
Federal - Department of Agriculture			501,276				501,276
Inventories, at cost	-	-	402,407	-	-	-	402,407
Total assets	\$ 2,812,603	\$ 3,571,771	\$ 4,791,547	\$ 698,668	\$ 1,097,548	\$ 33,076	\$ 13,005,213
Liabilities and Fund Balances							
Liabilities:							
Accounts payable	\$ 94,626	\$ 20,127	\$ 115,405	\$ 3,440	\$ -	\$ -	\$ 233,598
Total liabilities	94,626	20,127	115,405	3,440	-	-	233,598
Fund balances:							
Nonspendable:							
Inventories	-	-	402,407	-	-	-	402,407
Restricted:							
Adult education services	-	-	-	297,266	-	-	297,266
Capital projects	-	-	-	-	803,996	32,088	836,084
Child nutrition services	-	-	3,160,480	-	-	-	3,160,480
Committed:							
Workers' compensation	2,713,889	-	-	-	-	-	2,713,889
Textbooks	-	2,136,236	-	-	-	-	2,136,236
Assigned to:							
Adult education services	-	-	-	395,662	-	-	395,662
Child nutrition services	-	-	928,110	-	-	-	928,110
Contractual obligations	4,088	1,415,408	185,145	2,300	293,552	988	1,901,481
Total fund balances	2,717,977	3,551,644	4,676,142	695,228	1,097,548	33,076	12,771,615
Total liabilities and fund balances	\$ 2,812,603	\$ 3,571,771	\$ 4,791,547	\$ 698,668	\$ 1,097,548	\$ 33,076	\$ 13,005,213

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

Combining Statement of Revenues, Expenditures and Changes in Fund Balance

Other Nonmajor Governmental Funds

Year Ended June 30, 2013

	Special Revenue Funds				Capital Project Funds		Total Other Nonmajor Governmental Funds
	Workers' Compensation	Textbook	Child Nutrition	Adult Education	State Construction	Operating Capital	
Revenues:							
Intergovernmental:							
City of Newport News	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,000,000	\$ 1,000,000
Commonwealth of Virginia	-	1,524,004	326,221	232,264	-	-	2,082,489
Federal government	-	-	11,652,700	-	-	-	11,652,700
Charges for services	805,662	-	3,510,490	308,898	-	-	4,625,050
Investment income	8,982	-	10,293	-	-	-	19,275
Total revenues	<u>814,644</u>	<u>1,524,004</u>	<u>15,499,704</u>	<u>541,162</u>	<u>-</u>	<u>1,000,000</u>	<u>19,379,514</u>
Current expenditures:							
Academic services	-	1,879,321	-	485,436	-	-	2,364,757
Operations and facilities	-	-	169,934	-	-	-	169,934
Child nutrition services	-	-	15,237,387	-	-	-	15,237,387
Administration	940,444	-	-	-	-	-	940,444
Capital outlay	-	-	-	-	27,704	979,586	1,007,290
Total expenditures	<u>940,444</u>	<u>1,879,321</u>	<u>15,407,321</u>	<u>485,436</u>	<u>27,704</u>	<u>979,586</u>	<u>19,719,812</u>
Net change in fund balances	(125,800)	(355,317)	92,383	55,726	(27,704)	20,414	(340,298)
Fund balances at beginning of year	2,843,777	3,906,961	4,517,495	639,502	1,125,252	12,662	13,045,649
Increase in nonspendable inventory	-	-	66,264	-	-	-	66,264
Fund balances at end of year	<u>\$ 2,717,977</u>	<u>\$ 3,551,644</u>	<u>\$ 4,676,142</u>	<u>\$ 695,228</u>	<u>\$ 1,097,548</u>	<u>\$ 33,076</u>	<u>\$ 12,771,615</u>

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

Workers' Compensation Fund

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

Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:				
Charges for services	\$ 758,400	\$ 758,400	\$ 805,662	\$ 47,262
Investment income	25,000	25,000	8,982	(16,018)
Total revenues	<u>783,400</u>	<u>783,400</u>	<u>814,644</u>	<u>31,244</u>
Expenditures:				
Administration	<u>935,000</u>	<u>935,000</u>	<u>933,670</u>	<u>1,330</u>
Total expenditures	<u>935,000</u>	<u>935,000</u>	<u>933,670</u>	<u>1,330</u>
Excess (deficiency) revenues (under)/over expenditures	<u>(151,600)</u>	<u>(151,600)</u>	<u>(119,026)</u>	<u>32,574</u>
Net change in fund balances	(151,600)	(151,600)	(119,026)	32,574
Fund balance at beginning of year	2,843,777	2,843,777	2,843,777	-
Less encumbrances outstanding at June 30, 2012				
expended or canceled at June 30, 2013	-	-	(10,862)	(10,862)
Add encumbrances outstanding at June 30, 2013	<u>-</u>	<u>-</u>	<u>4,088</u>	<u>4,088</u>
Fund balance at end of year	<u><u>\$ (151,600)</u></u>	<u><u>\$ (151,600)</u></u>	<u><u>\$ 2,717,977</u></u>	<u><u>\$ 25,800</u></u>

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

Textbook Fund

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

Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:				
Total revenues	\$ -	\$ -	\$ -	\$ -
Expenditures:				
Academic services	2,800,000	2,800,000	2,605,206	194,794
Total expenditures	2,800,000	2,800,000	2,605,206	194,794
Excess (deficiency) revenues (under)/over expenditures	(2,800,000)	(2,800,000)	(2,605,206)	194,794
Other financing sources -				
Transfers in	1,133,692	1,133,692	1,524,004	390,312
Net change in fund balances	(1,666,308)	(1,666,308)	(1,081,202)	585,106
Fund balance at beginning of year	3,906,961	3,906,961	3,906,961	-
Less encumbrances outstanding at June 30, 2012				
expended or canceled at June 30, 2013	-	-	(689,523)	(689,523)
Add encumbrances outstanding at June 30, 2013	-	-	1,415,408	1,415,408
Fund balance at end of year	<u>\$ 2,240,653</u>	<u>\$ 2,240,653</u>	<u>\$ 3,551,644</u>	<u>\$ 1,310,991</u>

STATISTICAL SECTION

STATISTICAL SECTION

(Unaudited)

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

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

Schedule of Property Tax Levies and Collections

Schedule of Property Valuations – Assessed Valuations

Schedule of Property Tax Rates

Legal Debt Limit

Construction and Property Values and Bank Deposits

Contents

Page

Financial Trends

S-1

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

Revenue Capacity

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

Debt Capacity

S-7

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

Demographic and Economic Information

S-8

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

Operating Information

S-10

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

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

Table I

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

Net Position by Component

Last Ten Fiscal Years

(Accrual Basis of Accounting)

Fiscal Year

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Governmental activities										
Net investment in capital assets	\$ 63,352,661	\$ 62,882,021	\$ 62,872,389	\$ 55,655,762	\$ 58,043,143	\$ 56,433,717	\$ 57,205,176	\$ 61,780,411	\$ 67,370,342	\$ 66,806,834
Restricted	-	-	-	-	-	-	-	5,483,662	4,218,225	4,293,830
Unrestricted	9,026,271	17,557,851	15,122,510	33,627,682	20,320,652	17,513,844	12,260,185	3,062,106	1,894,122	3,319,634
Total primary government net position	<u>\$ 72,378,932</u>	<u>\$ 80,439,872</u>	<u>\$ 77,994,899</u>	<u>\$ 89,283,444</u>	<u>\$ 78,363,795</u>	<u>\$ 73,947,561</u>	<u>\$ 69,465,361</u>	<u>\$ 70,326,179</u>	<u>\$ 73,482,689</u>	<u>\$ 74,420,298</u>

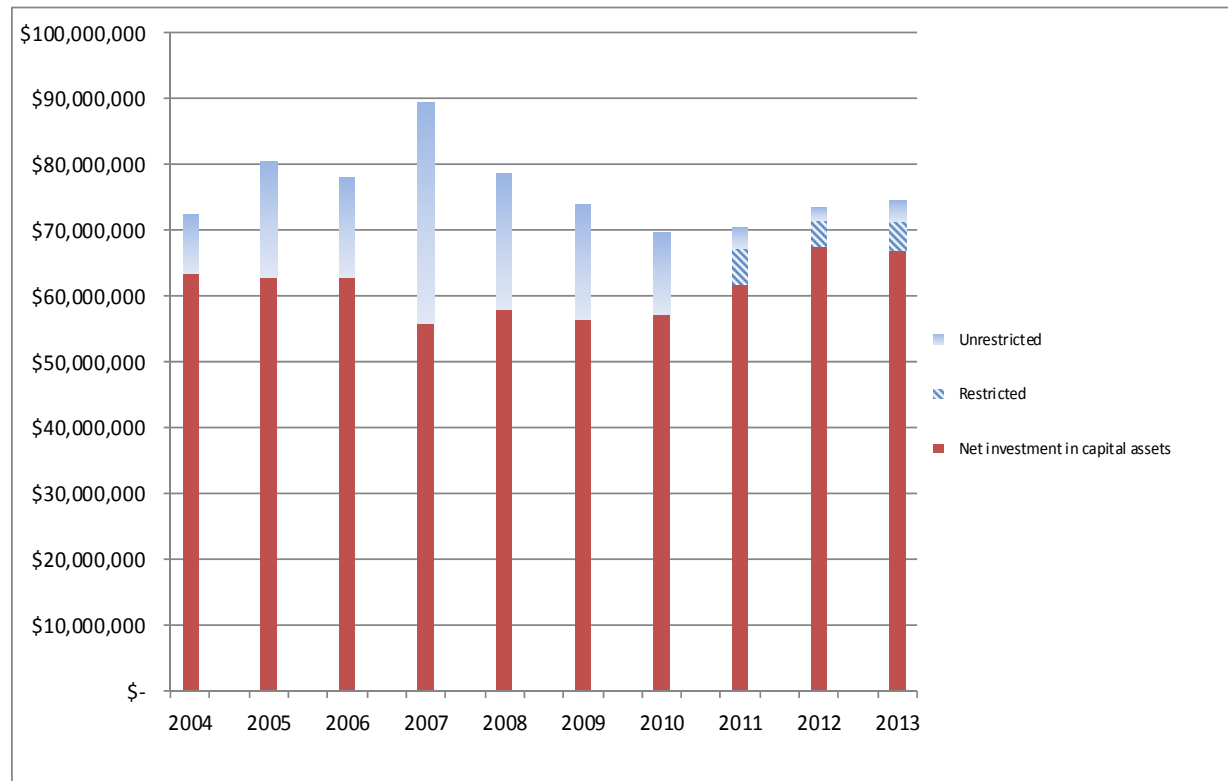


Table II

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

Expenses, Program Revenues and Net Expense/ (Revenue)

Last Ten Fiscal Years

(Accrual Basis of Accounting)

Fiscal Year

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Expenses										
Governmental activities:										
Academic services	\$ 199,192,874	\$ 212,060,368	\$ 221,222,204	\$ 233,361,627	\$ 249,356,000	\$ 252,927,122	\$ 240,751,459	\$ 230,788,505	\$ 227,368,609	\$ 224,047,407
Attendance and health services	-	-	-	-	-	-	-	-	-	5,410,181
Transportation services	13,570,012	14,976,768	15,875,203	16,452,839	18,436,799	19,258,223	18,284,090	17,460,802	18,703,166	18,732,095
Operations and facilities	26,100,723	28,087,367	29,105,006	29,730,401	34,236,753	36,894,552	29,659,712	33,490,915	34,635,744	31,507,246
Child nutrition services	11,950,822	12,618,956	13,364,923	13,433,566	14,677,570	15,180,605	13,987,487	13,766,336	14,079,191	15,155,813
Technology services	9,480,749	9,803,388	9,345,134	11,166,586	13,683,308	13,822,462	21,723,542	14,786,921	12,799,635	12,189,933
Administration	5,277,382	7,206,692	8,743,700	11,577,423	10,741,192	10,169,326	8,441,950	7,742,987	7,627,183	7,718,428
Interest on capital debt	180,227	548,331	208,861	1,795,325	1,754,471	846,193	1,363,623	639,293	503,181	387,257
Total expenses	265,752,789	285,301,870	297,865,031	317,517,767	342,886,093	349,098,483	334,211,863	318,675,759	315,716,709	315,148,360
Program Revenues										
Charges for services:										
Academic services	1,303,193	1,350,358	1,298,301	1,362,393	1,557,444	1,967,773	2,048,618	1,872,761	1,395,070	1,200,596
Operations and facilities	224,922	392,302	497,998	1,107,445	730,821	701,607	1,143,087	1,066,629	597,360	480,397
Child nutrition services	4,284,748	4,526,021	4,605,387	4,755,748	4,596,842	4,435,779	4,019,072	4,059,105	3,923,464	3,510,490
Technology services	-	-	-	-	-	241,547	247,226	265,388	192,388	180,020
Administration	-	-	-	-	-	-	-	-	-	1,007,426
Operating grants and contributions	45,732,547	52,405,547	55,052,021	53,970,556	55,365,851	59,273,209	67,739,489	68,789,246	70,250,802	68,549,968
Capital grants and contributions	1,207,002	3,088,078	2,859,275	3,506,696	5,150,813	3,083,590	1,918,742	5,687,811	2,537,511	867,746
Total program revenues	52,752,412	61,762,306	64,312,982	64,702,838	67,401,771	69,703,505	77,116,234	81,740,940	78,896,595	75,796,643
Net Expense/(Revenue)										
Total net expense	\$ 213,000,377	\$ 223,539,564	\$ 233,552,049	\$ 252,814,929	\$ 275,484,322	\$ 279,394,978	\$ 257,095,629	\$ 236,934,819	\$ 236,820,114	\$ 239,351,717

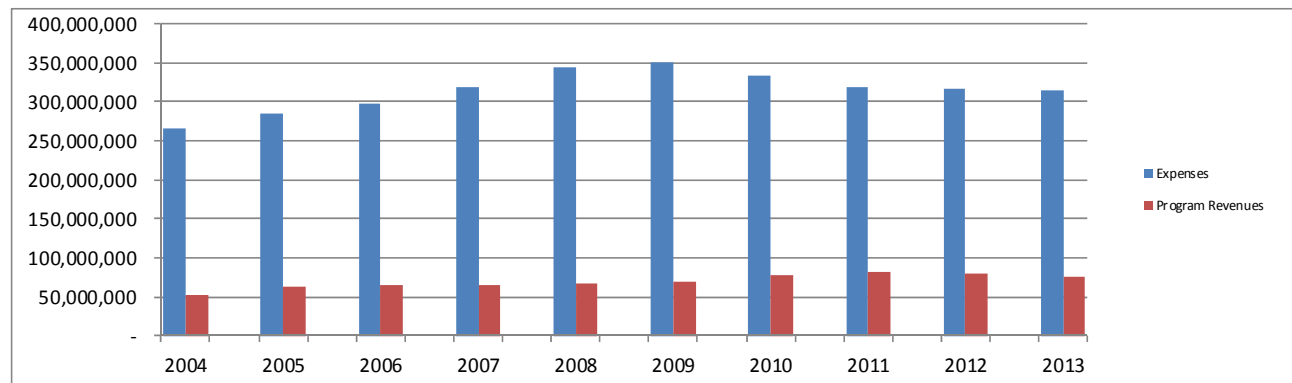


Table III

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

General Revenues and Total Changes in Net Position

Last Ten Fiscal Years

(Accrual Basis of Accounting)

Fiscal Year

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Net Expense										
Total net expense	\$213,000,377	\$223,539,564	\$ 233,552,049	\$ 252,814,929	\$275,484,322	\$ 279,394,978	\$ 257,095,629	\$ 236,934,819	\$ 236,820,114	\$239,351,717
General Revenues and Other										
Changes in Net Position										
Governmental activities:										
Grants not restricted to specific programs										
City of Newport News, Virginia	85,829,654	88,151,971	84,558,244	97,701,846	93,681,119	95,773,213	101,052,200	99,557,045	98,754,050	98,085,490
Commonwealth of Virginia	120,702,233	138,129,797	141,414,267	162,492,690	163,806,388	169,035,453	145,390,261	133,006,200	135,823,650	138,444,470
Federal government	5,041,864	5,235,651	4,561,386	3,326,582	5,681,596	7,443,349	6,148,525	5,216,293	5,380,140	3,740,091
Interest	93,396	83,085	97,051	172,616	179,679	56,401	22,443	16,099	18,784	19,275
Miscellaneous	901,909	-	476,128	409,740	1,215,891	-	-	-	-	-
Total general revenues	212,569,056	231,600,504	231,107,076	264,103,474	264,564,673	272,308,416	252,613,429	237,795,637	239,976,624	240,289,326
Change in Net Position	(431,321)	8,060,940	(2,444,973)	11,288,545	(10,919,649)	(7,086,562)	(4,482,200)	860,818	3,156,510	937,609
Net position at beginning of year	72,810,253	72,378,932	80,439,872	77,994,899	89,283,444	78,363,795	73,947,561	69,465,361	70,326,179	73,482,689
Prior period adjustment	-	-	-	-	-	-	2,670,328	-	-	-
Net position at end of year	\$ 72,378,932	\$ 80,439,872	\$ 77,994,899	\$ 89,283,444	\$ 78,363,795	\$ 71,277,233	\$ 72,135,689	\$ 70,326,179	\$ 73,482,689	\$ 74,420,298

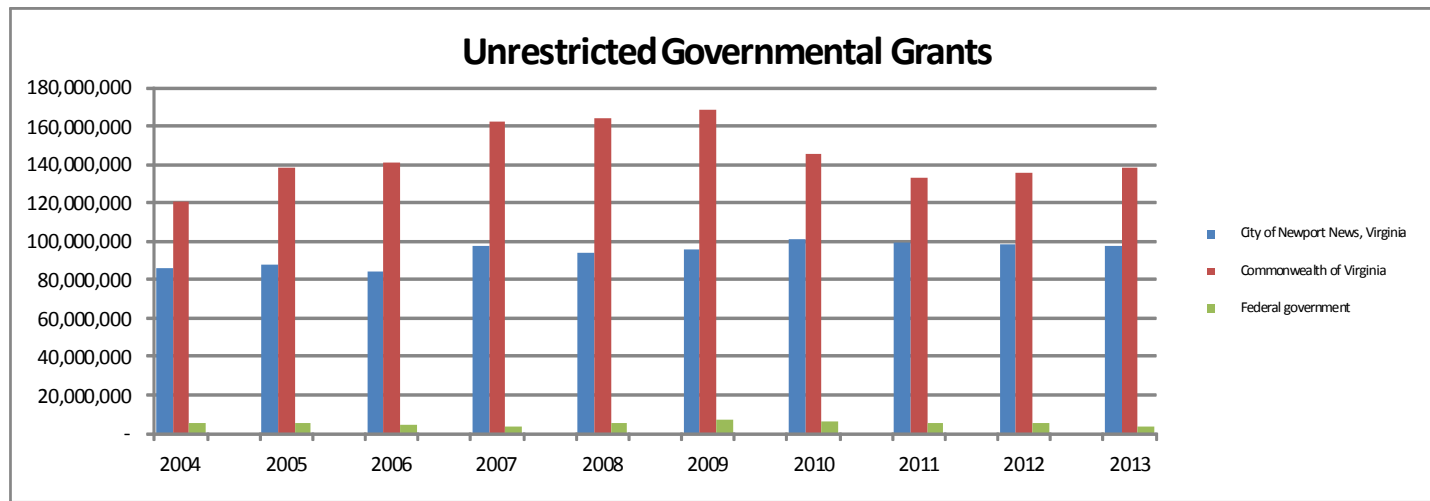


Table IV

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

Fund Balances – Governmental Funds

Last Ten Fiscal Years

(Modified Accrual Basis of Accounting)

Fiscal Year

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Fund										
Reserved	\$ 15,487,793	\$ 18,918,692	\$ 18,323,640	\$ 24,214,767	\$ 26,751,505	\$ 33,179,119	\$ -	\$ -	\$ -	\$ -
Unreserved	2,870,939	4,073,886	4,290,893	4,819,439	7,373,979	8,982,912	-	-	-	-
Nonspendable	-	-	-	-	-	-	690,372	656,720	708,477	1,416,350
Assigned to	-	-	-	-	-	-	38,704,948	31,046,573	23,589,331	27,509,853
Unassigned	-	-	-	-	-	2,820,409	-	-	-	619,750
Total general fund	<u>\$ 18,358,732</u>	<u>\$ 22,992,578</u>	<u>\$ 22,614,533</u>	<u>\$ 29,034,206</u>	<u>\$ 34,125,484</u>	<u>\$ 44,982,440</u>	<u>\$ 39,395,320</u>	<u>\$ 31,703,293</u>	<u>\$ 24,297,808</u>	<u>\$ 29,545,953</u>
All Other Governmental Funds										
Reserved	\$ 1,097,438	\$ 989,058	\$ 6,700,117	\$ 3,739,314	\$ 8,555,882	\$ 3,673,127	\$ 2,572,199	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special revenue	1,488,932	1,510,359	1,281,855	1,044,693	2,041,666	2,314,115	2,632,636	-	-	-
Capital project	(5,693,791)	(4,541,645)	(6,170,129)	(5,303,241)	1,347,479	2,907,202	2,358,745	-	-	-
Nonspendable	-	-	-	-	-	-	-	295,190	336,143	402,407
Restricted	-	-	-	-	-	-	-	1,871,770	4,218,225	4,293,830
Committed	-	-	-	-	-	-	-	-	6,050,353	4,850,125
Assigned to	-	-	-	-	-	-	-	7,282,680	2,440,928	5,881,305
Total all other gove	<u>\$ (3,107,421)</u>	<u>\$ (2,042,228)</u>	<u>\$ 1,811,843</u>	<u>\$ (519,234)</u>	<u>\$ 11,945,027</u>	<u>\$ 8,894,444</u>	<u>\$ 7,563,580</u>	<u>\$ 9,449,640</u>	<u>\$ 13,045,649</u>	<u>\$ 15,427,667</u>

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

Table V

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

Governmental Funds Revenues and Other Financing Sources

Last Ten Fiscal Years

(Modified Accrual Basis of Accounting)

(Amounts in Thousands)

Fiscal Year	City of Newport News	Commonwealth of Virginia	Federal Government	Other	Other Financing Sources	Total Revenues and Other Financing Sources
2004	\$ 85,829,654	\$ 140,022,626	\$ 32,661,020	\$ 6,808,168	\$ 10,142,199	\$ 275,463,667
2005	93,144,600	164,964,221	33,488,214	6,758,404	14,496,351	312,851,790
2006	88,432,275	168,557,037	35,329,912	6,974,865	-	299,294,089
2007	104,647,395	187,784,047	35,512,477	7,807,942	3,068,814	338,820,675
2008	104,682,993	190,950,988	39,053,660	8,280,677	-	342,968,318
2009	102,196,055	197,538,187	41,006,149	7,694,372	972,182	349,406,945
2010	104,664,127	173,239,439	47,778,713	7,659,311	-	333,341,590
2011	104,112,311	160,146,070	52,480,818	7,352,644	-	324,091,843
2012	108,842,095	161,348,404	52,580,026	6,928,714	-	329,699,239
2013	105,888,340	165,372,234	46,216,240	6,412,005	1,072,755	324,961,574
chart segment	1	2	3	4	5	

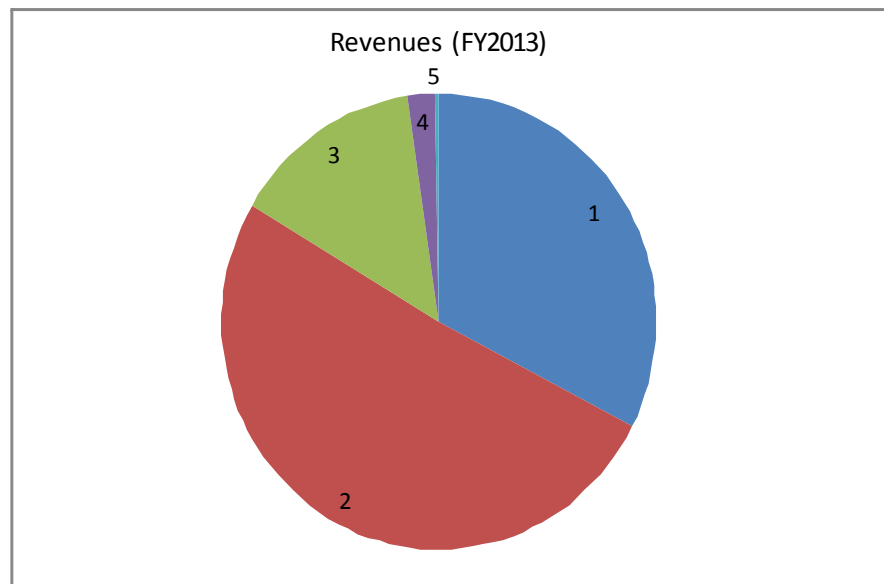


Table VI

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

Governmental Funds Expenditures, Other Financing Sources, Change in Fund Balance and Debt Service Ratio

Last Ten Fiscal Years

(Modified Accrual Basis of Accounting)

(Amounts in Thousands)

Fiscal Year

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Revenues and other financing sources (Table V)	\$ 275,463,667	\$ 312,851,790	\$ 299,294,089	\$ 338,820,675	\$ 342,968,318	\$ 349,406,945	\$ 333,341,590	\$ 329,699,239	\$ 329,699,239	\$ 324,961,574
Academic services	\$ 191,829,451	\$ 206,623,222	\$ 214,816,879	\$ 229,919,650	\$ 236,249,151	\$ 238,023,334	\$ 234,743,753	\$ 227,559,797	\$ 227,559,797	\$ 221,425,243
Attendance and health services	-	-	-	-	-	-	-	-	-	5,429,791
Transportation services	11,990,048	13,439,423	13,999,913	14,922,008	16,185,859	16,806,995	16,706,999	17,575,505	17,575,505	17,520,252
Operations and facilities	25,233,122	27,983,539	27,687,672	28,770,938	28,570,237	33,654,510	27,690,322	33,658,928	33,658,928	30,366,533
Child nutrition services	11,703,127	12,441,054	12,952,160	13,354,072	13,916,630	13,486,037	13,231,220	14,217,246	14,217,246	15,237,387
Technology services	9,306,605	11,055,093	11,043,512	11,289,089	15,117,541	13,024,631	21,407,036	12,916,263	12,916,263	12,188,113
Administration	4,725,916	7,055,428	8,453,924	11,508,913	10,071,479	9,428,200	7,862,407	7,267,413	7,267,413	7,309,967
Capital outlay	16,873,248	25,329,175	12,871,893	8,504,309	15,284,734	13,339,928	10,091,413	13,967,918	13,967,918	11,142,657
Debt service										
Principal	883,976	1,464,890	2,664,410	3,383,209	4,122,193	2,616,893	2,750,273	3,352,473	3,352,473	2,631,723
Interest	180,227	548,331	208,861	1,829,826	1,754,471	846,193	1,363,623	503,181	503,181	387,257
Other financing uses	-	-	-	-	112,000	142,000	74,463	-	-	-
Total expenditures and other financing uses	\$ 272,725,720	\$ 305,940,155	\$ 304,699,224	\$ 323,482,014	\$ 341,384,295	\$ 341,368,721	\$ 335,921,509	\$ 331,018,724	\$ 331,018,724	\$ 323,638,923
Change in fund balance	\$ 2,737,947	\$ 6,911,635	\$ (5,405,135)	\$ 15,338,661	\$ 1,584,023	\$ 8,038,224	\$ (2,579,919)	\$ (1,319,485)	\$ (1,319,485)	\$ 1,322,651
Debt service as a percentage of noncapital expenditures	0.4%	0.7%	1.0%	1.7%	1.8%	1.1%	1.3%	1.2%	1.2%	1.0%

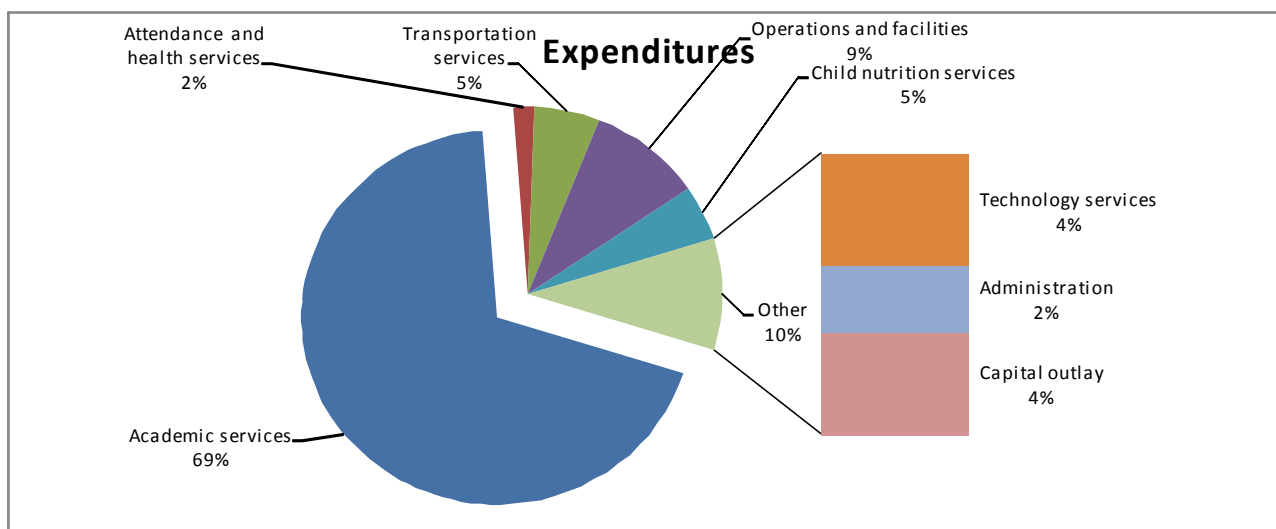


Table VII

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

Capital Leases and Facility Notes Payable Debt to Assessed Value of Taxable Property and Debt Per Capita of the City of Newport News
Last Ten Fiscal Years

Fiscal year	(1) Population	(2) Assessed value of property	(3) Personal Income	Capital lease and facility notes payable debt	Ratio of debt to assessed value	Net debt per capita	Ratio of debt to personal income
2004	185,200	\$ 8,301,266	\$ 4,872,092	\$ 13,287	0.16%	72	0.27%
2005	185,240	9,042,610	5,086,295	26,319	0.29%	142	0.52%
2006	186,000	10,404,207	5,225,657	23,654	0.23%	127	0.45%
2007	186,000	12,293,454	5,500,739	23,340	0.19%	125	0.42%
2008	187,200	14,286,003	5,941,588	19,217	0.13%	103	0.32%
2009	193,212	17,488,713	6,011,449	17,573	0.10%	91	0.29%
2010	193,172	18,048,533	5,946,073	14,822	0.08%	77	0.25%
2011	180,719	17,090,031	6,241,927	12,005	0.07%	66	0.19%
2012	180,719	16,878,501	Not Available	8,653	0.05%	48	Not Available
2013	180,726	16,307,403	Not Available	7,094	0.04%	39	Not Available

Notes: (1) Source: 2004-2008 – City estimate; 2009-2013 – U. S. Bureau of Census

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

(3) Source - Bureau of Economic Analysis

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

Table VIII

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

Standards of Learning – Percentage of Students with a Passing Score – School Board and State

Last Four Fiscal Years

Grade 3										
Test	School Board					State				
	2010	2011	2012	2013	Change	2010	2011	2012	2013	Change
English: Reading	75	73	81	62	(19)	83	83	86	72	(14)
Mathematics	90	87	49	49	-	92	91	64	65	1
Science	87	81	82	71	(11)	91	90	90	84	(6)
History/Social Studies	91	78	76	78	2	93	85	87	87	-
Grade 4										
Test	School Board					State				
	2010	2011	2012	2013	Change	2010	2011	2012	2013	Change
English:Reading	81	79	76	59	(17)	88	87	88	70	(18)
Mathematics	82	83	60	60	-	88	89	70	74	4
Virginia Studies	80	89	83	80	(3)	87	89	89	87	(2)
Grade 5										
Test	School Board					State				
	2010	2011	2012	2013	Change	2010	2011	2012	2013	Change
English: Writing	89	81	78	55	(23)	88	87	87	71	(16)
English: Reading,	87	83	79	58	(21)	90	89	89	73	(16)
Mathematics	87	88	36	56	20	90	89	67	69	2
Science	84	85	86	67	(19)	88	87	88	75	(13)
Grade 6										
Test	School Board					State				
	2010	2011	2012	2013	Change	2010	2011	2012	2013	Change
English:Reading	80	82	84	64	(20)	88	87	89	73	(16)
Mathematics	67	69	68	70	2	77	73	74	77	3
U.S. History I	64	76	71	75	4	78	81	81	83	2
Grade 7										
Test	School Board					State				
	2010	2011	2012	2013	Change	2010	2011	2012	2013	Change
English:Reading	82	83	82	64	(18)	89	89	88	74	(14)
Mathematics	64	66	33	43	10	75	77	58	61	3
U.S. History II	85	82	74	73	(1)	91	85	84	82	(2)
Grade 8										
Test	School Board					State				
	2010	2011	2012	2013	Change	2010	2011	2012	2013	Change
English: Writing	87	83	85	58	(27)	91	88	88	70	(18)
English: Reading,	87	86	84	59	(25)	90	90	89	71	(18)
Mathematics	80	75	44	42	(2)	87	82	60	61	1
Science	88	88	87	72	(15)	92	92	92	76	(16)
Civics/Economics	77	80	75	81	6	86	84	84	85	1
End of Course										
Test	School Board					State				
	2010	2011	2012	2013	Change	2010	2011	2012	2013	Change
English: Writing	91	90	90	82	(8)	92	93	93	87	(6)
English: Reading	91	91	89	85	(4)	94	94	94	89	(5)
Algebra I	91	92	66	72	6	94	94	75	76	1
Algebra II	84	87	58	59	1	91	91	69	76	7
Geometry	79	78	62	63	1	88	87	74	76	2
Earth science	80	86	84	75	(9)	88	89	90	83	(7)
Biology	83	84	88	71	(17)	89	90	92	83	(9)
Chemistry	88	93	91	76	(15)	93	93	93	86	(7)
World History I	92	79	84	84	-	93	81	84	84	-
World History II	91	82	86	82	(4)	93	82	85	85	-
VA & U. S. History	91	75	74	77	3	95	83	85	86	1
World Geography	76	75	73	76	3	86	85	85	86	1

Source - Virginia Department of Education Division Report Card

Table VIII

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

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

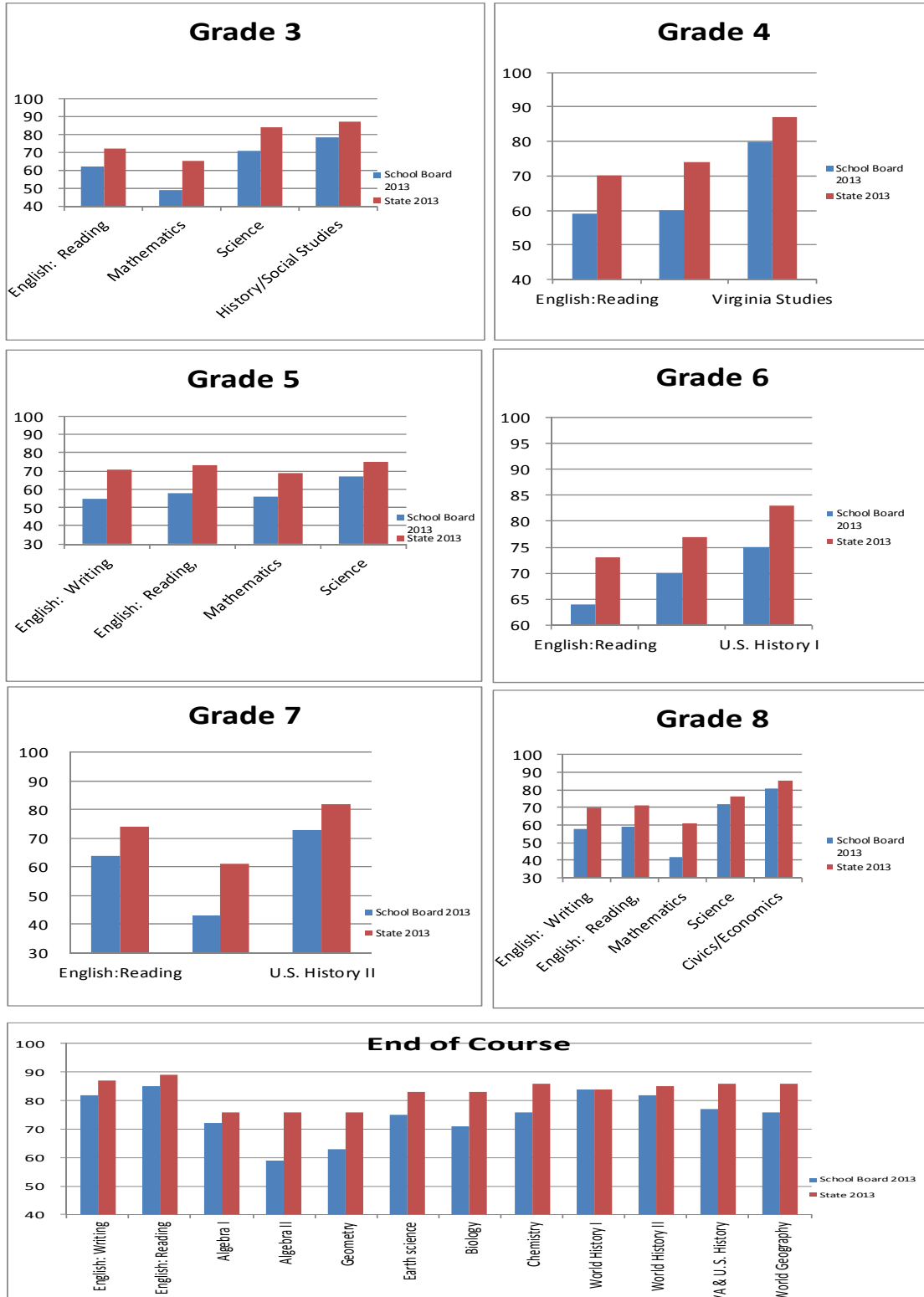


Table IX

THE SCHOOL BOARD OF THE CITY OF NEWPORT NEWS, VIRGINIA

Miscellaneous Statistics

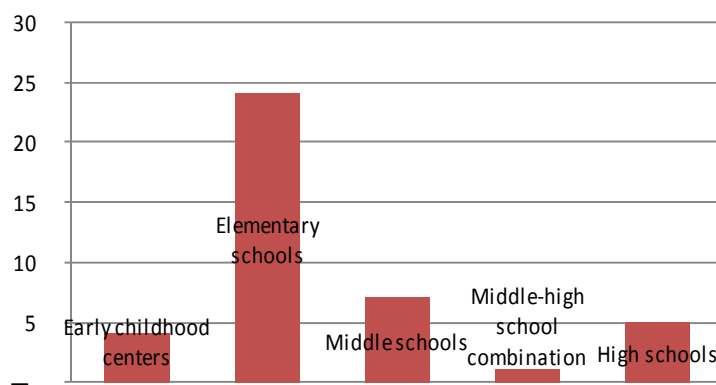
June 30, 2013

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

The School Board of the City of Newport News

Number of schools:		Average daily students (FY2013):	
Early childhood centers	4	Early childhood centers	1,632
Elementary schools	24	Elementary school	13,543
Middle schools	7	Middle school	6,111
Middle-high school combination	1	High school	7,936
High schools	5		
Total	<u>41</u>	Total	<u>29,222</u>

Number of Schools



Average Daily Students (FY2013)

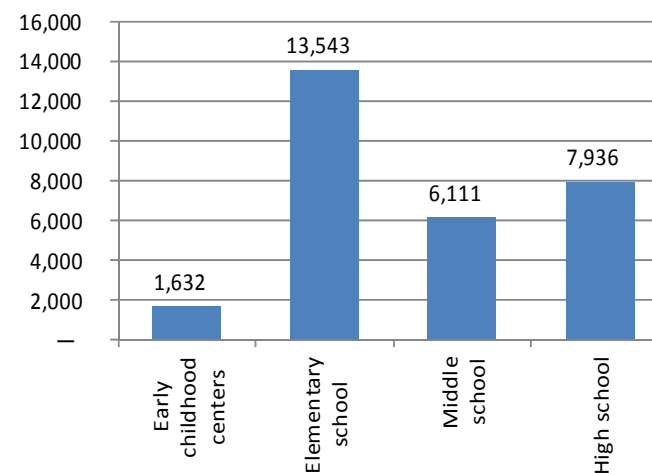


Table X

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

Demographic Statistics

Last Ten Fiscal Years

Fiscal Year	(1) Population	(2) Personal Income (In thousands)	(3) Per Capita Income	(4) School Enrollment	(5) Unemployment Rate (%)
2004	185,200	\$ 4,872,092	\$ 23,986	31,358	5.2%
2005	185,240	5,086,295	25,233	30,827	4.8%
2006	186,000	5,225,657	26,782	30,635	4.2%
2007	186,000	5,500,739	28,436	30,218	3.4%
2008	187,200	5,941,588	28,990	29,441	4.0%
2009	193,212	6,011,449	30,423	29,022	6.5%
2010	193,172	5,946,073	30,781	28,613	8.0%
2011	180,719	6,241,927	33,120	28,183	7.6%
2012	180,719	Not Available	Not Available	27,701	7.4%
2013	180,726	Not Available	Not Available	27,590	6.9%

Notes: (1) Source: 2004-2008 - City estimate; 2009-2013 – U. S. Bureau of Census

(2) Source: 2004-2007 Virginia Employment Commission; 2008-2010 Bureau of Economic Accounts; 2011-2013 data not yet available.

(3) Source: Bureau of Economic Analysis

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

(5) 2004-2009 Virginia Employment Commission; 2010-2013 Virginia Workforce Connection

Table XI

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

**Capital Asset Information
Most Recent Eight Fiscal Years**

	Fiscal Year							
	2006	2007	2008	2009	2010	2011	2012	2013
<u>Schools</u>								
<u>Elementary</u>								
Buildings (Note 1)	28	26	26	26	26	25	24	24
Average age of buildings (Note 2)	42 years	43 years	44 years	45 years	46 years	47 years	48 years	49 years
Modular learning cottages	78	78	78	72	71	71	71	71
Square feet	1,763,000	1,630,000	1,630,000	1,630,000	1,630,000	1,560,400	1,534,997	1,534,997
Capacity (based on current program)	16,124	15,450	17,459	17,459	16,391	15,800	15,600	15,600
Enrollment (as of September 30)	14,190	14,033	13,645	13,746	13,862	13,728	13,686	13,597
Percent of capacity used	88%	91%	78%	79%	85%	87%	88%	87%
<u>Middle</u>								
Buildings (Note 1)	8	8	9	9	8	8	8	8
Average age of buildings (Note 2)	40 years	41 years	38 years	39 years	38 years	39 years	40 years	41 years
Modular learning cottages	19	19	19	19	14	14	14	14
Square feet	1,051,000	1,123,400	1,123,400	1,123,400	1,048,260	1,048,260	1,048,260	1,048,260
Capacity (based on current program)	8,723	9,073	8,084	8,084	7,484	7,484	7,484	7,484
Enrollment (as of September 30)	7,391	7,036	6,799	6,434	6,199	6,074	6,191	6,138
Percent of capacity used	85%	78%	84%	80%	83%	81%	83%	82%
<u>High</u>								
Buildings	5	5	6	6	6	6	6	6
Average age of buildings (Note 2)	27 years	28 years	24 years	25 years	26 years	27 years	28 years	29 years
Alternative high school facilities (leased)	2	2	2	2	2	2	2	2
Modular learning cottages	20	20	20	20	20	20	20	20
Square feet	1,195,000	1,195,000	1,223,000	1,223,000	1,223,000	1,223,000	1,223,000	1,223,000
Capacity (based on current program)	8,206	8,206	8,570	8,570	8,570	8,570	8,570	8,570
Enrollment (as of September 30)	9,775	9,620	9,441	9,328	8,988	8,621	8,139	7,963
Percent of capacity used	119%	117%	110%	109%	105%	101%	95%	93%
<u>Early Childhood Centers</u>								
Buildings	5	4	4	4	4	4	4	4
Average age of buildings (Note 2)	22 years	23 years	24 years	25 years	27 years	28 years	37 years	38 years
Square feet	86,000	112,700	112,700	112,700	181,000	181,000	206,403	206,403
Capacity (based on current program)	1,850	1,700	1,700	1,700	1,850	1,850	2,050	2,050
Enrollment (as of September 30)	1,783	1,684	1,668	1,790	1,813	1,607	1,637	1,632
Percent of capacity used	96%	99%	98%	105%	98%	87%	80%	80%
<u>Administrative and Operations</u>								
Buildings	6	6	6	6	6	6	6	6
Average age of buildings (Note 2)	31 years	32 years	33 years	34 years	35 years	36 years	37 years	38 years
Square feet	199,000	199,000	199,000	199,000	199,000	199,000	199,000	199,000
<u>Transportation</u>								
Buildings	1	1	1	1	1	1	1	1
Age of building	29 years	30 years	31 years	32 years	33 years	34 years	35 years	36 years
Square feet	26,500	26,500	26,500	26,500	26,500	26,500	26,500	26,500
Buses	405	405	412	372	368	361	375	386

Source: Newport News Public Schools insurance and facility department records

Notes: Note 1 - In FY 2006 and FY2007, we have an elementary-middle school combination and in FY2008 we have a middle-high school combination; although one physical building, we have treated it as separate buildings for the purposes of this statistical table.

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

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

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

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

Data for prior years is not available

Table XII

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

Operational Statistics

Last Ten Fiscal Years

	(1)	(2)	(2)	(3)
Fiscal Year	Cost per Student	Elementary Student/ Teacher Ratio	Secondary Student/ Teacher Ratio	Percentage of Students on Free/Reduced Lunch
2004	\$ 7,788	13.2	12.8	47.2%
2005	8,696	12.8	13.1	48.2%
2006	9,712	12.8	13.0	50.3%
2007	10,075	12.0	12.9	48.8%
2008	10,565	11.6	13.4	48.8%
2009	11,032	12.7	12.0	51.4%
2010	10,946	12.1	11.6	53.2%
2011	10,582	13.5	12.6	54.0%
2012	10,842	14.0	12.5	59.1%
2013	10,746	14.1	12.6	60.8%

Sources: (1) Cost per student based upon formula for operating costs per the Virginia Department of Education and published in table 15 of the Annual Superintendent's Report on their website. Starting with FY2012, pre-school students are included in the cost per student. (FY2013 data based on internal estimates and not yet verified and published by the State)

(2) Student/teacher ratio includes all teachers (including resource and special education) and is published by the Virginia Department of Education on their website. (data for 2013 is estimated by School Board pending State publishing the data on their website)

(3) Percentage of students on free/reduced lunch from Newport News Public Schools Child Nutrition Services Department.

Table XIII

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

Full Time Equivalent District Employees by Type – Most Recent Eight Fiscal Years

	2006	2007	2008	2009	2010	2011	2012	2013
Supervisory:								
Principals	44	43	45	45	40	41	41	41
Assistant principals	77	76	76	74	74	68	72	72
Instructional administrative	70	75	69	74	64	59	59	58
Other administrative and professional	70	69	60	72	64	55	55	57
Instructional:								
Elementary classroom teachers	1,427	1,426	1,423	1,357	1,373	1,310	1,251	1,248
Secondary classroom teachers	789	809	812	802	840	795	771	738
Guidance counselors	85	84	87	92	99	91	91	95
Librarians	51	49	51	45	48	47	46	44
Technology	50	50	50	30	32	32	31	29
Other instructional	159	163	165	147	158	138	121	141
Social workers	16	18	20	18	18	18	16	16
Teacher assistants	490	498	483	526	533	521	500	478
Support Services:								
Psychologists	15	18	18	18	21	21	17	17
Instructional technical	13	14	15	30	55	40	36	40
Instructional clerical	222	228	231	238	223	219	192	186
Non-instructional technical	81	93	75	134	105	102	108	99
Non-instruction clerical	70	59	72	51	38	38	27	33
Nurses	55	56	56	53	55	52	51	53
Bus drivers	370	394	394	384	340	326	315	318
Bus assistants	99	98	98	100	92	91	90	97
Custodians	244	248	248	262	252	244	243	242
Child nutrition services	361	361	361	394	371	366	346	344
Security officers	56	65	68	66	65	65	63	64
Skilled trades	96	97	98	98	92	91	88	85
Other	112	86	83	3	2	2	2	2
Total	5,122	5,177	5,158	5,113	5,053	4,832	4,632	4,597

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

Data for prior years is not available.

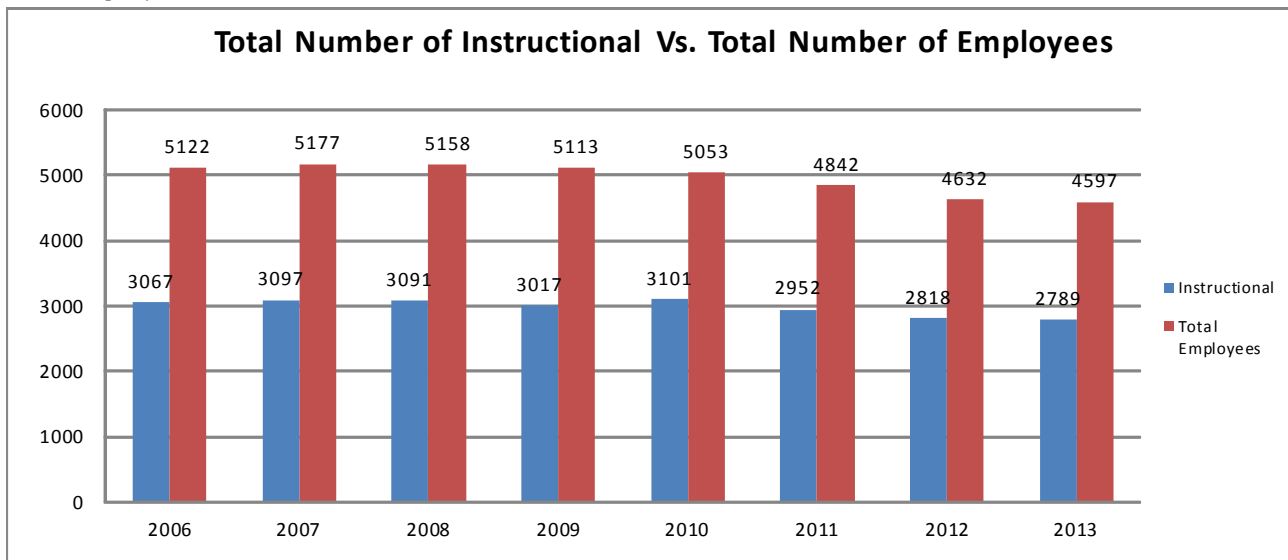


Table XIV

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

Teacher Base Salaries

Last Ten Fiscal Years

Fiscal Year	Minimum Salary	Maximum Salary	Newport News Average Salary	Statewide Average Salary
2004	\$ 31,800	\$ 51,672	\$ 40,489	\$ 43,892
2005	33,200	51,898	42,110	45,377
2006	34,450	53,852	43,649	47,248
2007	35,750	55,709	44,541	49,131
2008	37,350	57,630	45,277	50,511
2009	38,400	58,766	48,815	52,309
2010	38,400	58,766	45,657	51,887
2011	38,000	58,766	46,882	51,524
2012	38,205	56,761	48,228	52,096
2013	38,500	56,761	48,192	52,561

Sources: Minimum and Maximum salaries from Newport News Public Schools Budget Document, Appendix 2 for teachers with a Bachelors degree working standard 192-day contract. Newport News and Statewide average salary from Superintendent's annual financial report Table 19 as published by the Virginia Department of Education on their website, except FY2013 is from our submission to the State but not yet verified. 2013 Statewide Average is a budget estimate.

Table XV

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

Principal Taxpayers of the City of Newport News

June 30, 2013 and Nine Years Prior
(Amounts in Thousands)

Taxpayer	2004 Taxes (1)	Percentage of Total Assessments	2013 Taxes (1)	Percentage of Total Assessments
Huntington Ingalls Industries, Inc.	\$ 11,321	7.89%	\$ 17,358	7.56%
Canon Virginia, Inc.	1,393	0.97%	3,929	1.71%
Dominion Virginia Power	1,651	1.15%	2,118	0.92%
Continental Automotive Systems US, Inc.	-	-	1,861	0.81%
The Mariners' Museum (Riverside Hospital)	665	0.46%	1,689	0.74%
PR Patrick Henry, LLC	1,109	0.77%	1,505	0.66%
Verizon Virginia, Inc.	677	0.47%	1,264	0.55%
Dominion Terminal Associates	952	0.66%	1,154	0.50%
Kinder Morgan Operation LP "C"	521	0.36%	965	0.42%
Patrick Henry Hospital (Warwick Forest)	-	-	818	0.36%
Virginia Natural Gas Inc	411	0.29%	767	0.33%
Inland Western Newport News	-	-	706	0.31%
Bottling Group, LLC	257	0.18%	582	0.25%
Cox Communications Hampton Roads Inc	282	0.20%	503	0.22%
DCO Realty Inc	-	-	479	0.21%
Oyster Point Residential LLC	-	-	471	0.21%
CSX Transportation	314	0.22%	365	0.16%
Meridian Parkside Apartments LLC	-	-	352	0.15%
BR Springhouse LLC	-	-	339	0.15%
Harbours LLC	306	0.21%	300	0.13%
Ferguson Enterprises Corp	474	0.33%	-	-
Printpac Inc	-	-	-	-
The Daily Press Inc	234	0.16%	-	-
Seimens - Bendix Automotive	1,768	1.23%	-	-
Shorewood Packaging Corp of Va	493	0.34%	-	-
Seimens Credit	284	0.20%	-	-
United Dominion Realty Trust Inc	395	0.28%	-	-
Newport-Oxford Associates Ltd	298	0.21%	-	-
	<u>\$ 23,805</u>	<u>16.58%</u>	<u>\$ 37,525</u>	<u>16.35%</u>

Note: (1) Includes real estate and personal property tax assessments for these taxpayers. Current taxpayer name used if different from 2004.

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

TABLE XVI

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

Principal Employers of the City of Newport News

June 30, 2013 and Nine Years Prior

Employer	2004 Employees	Percentage of Total City Employment	2013 Employees	Percentage of Total City Employment
Huntington Ingalls Industries, Inc.	10,000 - 25,000	20.18%	10,000 - 25,000	19.82%
Newport News Public Schools	1,000 - 5,000	3.46%	1,000 - 5,000	3.40%
Riverside Regional Medical Center	1,000 - 5,000	3.46%	1,000 - 5,000	3.40%
City of Newport News	1,000 - 5,000	3.46%	1,000 - 5,000	3.40%
U.S. Department of Defense	1,000 - 5,000	3.46%	1,000 - 5,000	3.40%
Ferguson Enterprise	-	-	1,000 - 5,000	3.40%
Canon	500 -999	0.86%	1,000 - 5,000	3.40%
U.S. Department of Army & Air Force	500 -999	0.86%	1,000 - 5,000	3.40%
Christopher Newport University	500 -999	0.86%	1,000 - 5,000	3.40%
Wal Mart	-	-	1,000 - 5,000	3.40%
Siemen's Automotive Corporation	500 -999	0.86%	-	-
MCI Payroll Services	500 -999	0.86%	-	-
	<u>17,500 - 52,997</u>	<u>38.32%</u>	<u>18,000 - 65,999</u>	<u>50.42%</u>

Source: Virginia Employment Commission

COMPLIANCE SECTION

**Report of Independent Auditor on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the *Specifications for Audits of Authorities, Boards and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the School Board of the City of Newport News, Virginia (the "School Board"), a component unit of the City of Newport News, Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School Board's basic financial statements and have issued our report thereon dated November 26, 2013. That report recognizes that the School Board implemented one new accounting standard effective July 1, 2012. Our report includes a reference to other auditors who audited the financial statements of the Student Activity funds, an agency fund of the School Board. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School Board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and disclosed one instance of noncompliance with Commonwealth of Virginia regulations that is reported in the accompanying schedule of findings and questioned costs as item 2013-1.

We noted certain other matters that we communicated to management in a separate letter dated November 26, 2013

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Cheryl Behrman CPA".

Richmond, Virginia
November 26, 2013

**Report of Independent Auditor on Compliance
for Each Major Program and on Internal Controls
Over Compliance Required by OMB Circular A-133**

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

Report on Compliance for Each Major Federal Program

We have audited the School Board of the City of Newport News, Virginia's (the "School Board") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School Board's major federal programs for the year ended June 30, 2013. The School Board's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the School Board's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School Board's compliance.

Opinion on Each Major Federal Program

In our opinion, the School Board complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control over Compliance

Management of the School Board is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School Board's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School Board's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

Richmond, Virginia
November 26, 2013

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

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2013

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
<u>Department of Agriculture</u>		
<u>Pass-through payments -</u>		
<u>Virginia Department of Agriculture:</u>		
School Lunch Program - Food Commodities	10.555	\$ 957,390
<u>Virginia Department of Education:</u>		
School Breakfast Program (10.553/2011, 10.553/2012)	10.553	2,861,137
National School Lunch Program (10.555/2011, 10.555/2012)	10.555	7,621,572
Total Child Nutrition Cluster		<u>11,440,099</u>
 Fresh Fruits and Vegetables (10.582/2011, 10.582/2012)	 10.582	 212,601
<u>Department of Defense</u>		
United States Army Robotics	12.431	21,432
Military Connected Schools	12.556	880,991
ROTC	12.357	360,277
Financial Assistance - Impact Aid - Severe Disabilities	12.558	668,501
<u>Department of Education</u>		
Impact Aid	84.041	3,071,591
Voices of a Nation	84.215	100,502
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	864
<u>Pass-through payments -</u>		
<u>Virginia Department of Education:</u>		
Adult Education - Basic Grants	84.002	456,382
Total Adult Education		<u>456,382</u>
 Title I Part A Grants to Local Educational Agencies (S010A090046, S010A100046, S010A110046)	 84.010	 10,446,945
Title I Part A School Improvement (S010A090046)	84.010	490,315
Total Title I, Part A Cluster		<u>10,937,260</u>
 IDEA Part B Section 611 Special Education (H027A100107)	 84.027	 7,178,098
IDEA Part B Section 611 - Interpreter Training (H027A100107)	84.027	41,440
IDEA Part B Section 619 Special Education Preschool (H173A100112, H173A110112)	84.173	186,672
Total Special Education Cluster (IDEA)		<u>7,406,210</u>

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

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2013

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
Vocational Education - Perkins Secondary (V048A100046, V048A110046)	84.048	595,799
Title X McKinney-Vento Homeless	84.196	14,809
Title IV Part B 21 Century Community Learning (S287C090047, S287C100047)	84.287	834,728
Title II Part A Language Acquisition Immigrant and Youth (S365A100046)	84.365	15,994
Title II Part A Language Acquisition State Grant (S365A090046, S365A100046)	84.365	52,971
Total English Language Acquisition Grant		<u>68,965</u>
Title II Part A Improving Teacher Quality (S367A090044, S367A100044)	84.367	1,623,059
Title II Part D Education Technology State Grants (S318X090046)	84.318	50,223
Total Education Technology State Grants Cluster		<u>1,673,282</u>
Title I School Improvement (ARRA) (S388A090047)	84.388	91,412
Title I Part D		809
Education Jobs (ARRA) (S410A100047)	84.410	7,000,164
<u>Pass-through Payments -</u>		
<u>Virginia Department of Social Services</u>		
Medicaid Assistance Program	93.778	<u>379,562</u>
		<u>\$ 46,216,240</u>

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

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2013

(1) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes federal grant activity of the School Board of the City of Newport News, Virginia (the School Board) and is presented on the modified accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

(2) Total for CFDA Program number 10.555

The total for the CFDA Program number 10.555 (School Lunch Program) is \$8,578,962. This is comprised of pass-through non-cash transactions from the Virginia Department of Education for food commodities of \$957,390 and pass-through payments from the Virginia Department of Education of \$7,621,572.

(3) Relationship to Basic Financial Statements

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

	Federal Expenditures
General Fund	\$ 4,479,931
Grants Fund	30,083,609
Other Non-Major Special Revenue Funds	<u>11,652,700</u>
Total expenditures as shown on Schedule of Federal Awards	<u>\$46,216,240</u>

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

Schedule of Findings and Questioned Costs

Year Ended June 30, 2013

Section I – Summary of Auditor’s Results

1. The type of report issued on the basic financial statements: **Unmodified opinion**
2. Significant deficiencies in internal control disclosed by the audit of the financial statements: **None reported**
3. Material weaknesses in internal control disclosed by the audit of financial statements: **No**
4. Noncompliance, which is material to the financial statements: **No**
5. Significant deficiencies in internal control over major programs: **None Reported**
6. Material weaknesses in internal control over major programs: **No**
7. The type of report issued on compliance for major programs: **Unmodified opinion**
8. Any audit findings which are required to be reported in accordance with Section 510(a) of OMB A-133: **No**
9. The programs tested as major programs were:

CFDA 10.553/10.555 – Child Nutrition Cluster

CFDA 84.010 – Title I, Part A Cluster

CFDA 84.410 – Education Jobs Fund

10. Dollar Threshold used to distinguish between Type A Programs and Type B Programs: **\$1,386,487**
11. Auditee qualified as a low-risk auditee under Section .530 of OMB Circular A-133: **YES**

Section II – Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None

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

2013-01

Criteria – As described in Section 2.2-3115 Local officials must file an annual disclosure form on a timely basis.

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

Schedule of Findings and Questioned Costs

Year Ended June 30, 2013

Condition – There was one of seven elected officials who did not file an annual disclosure form on a timely basis.

Cause – Annual disclosure form was not filed by January 15, 2013.

Effect – Non-compliance may result in action by the Commonwealth.

Recommendation – Elected officials should file annual disclosure forms on a timely basis.

Views of Management – Management staff reminds the elected officials to submit their disclosures prior to the due date.

Section V – Resolution of Prior Year’s Findings

There were no findings reported in the prior year.