



**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, 2012

(With Independent Auditors' Report Thereon)

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, 2012

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

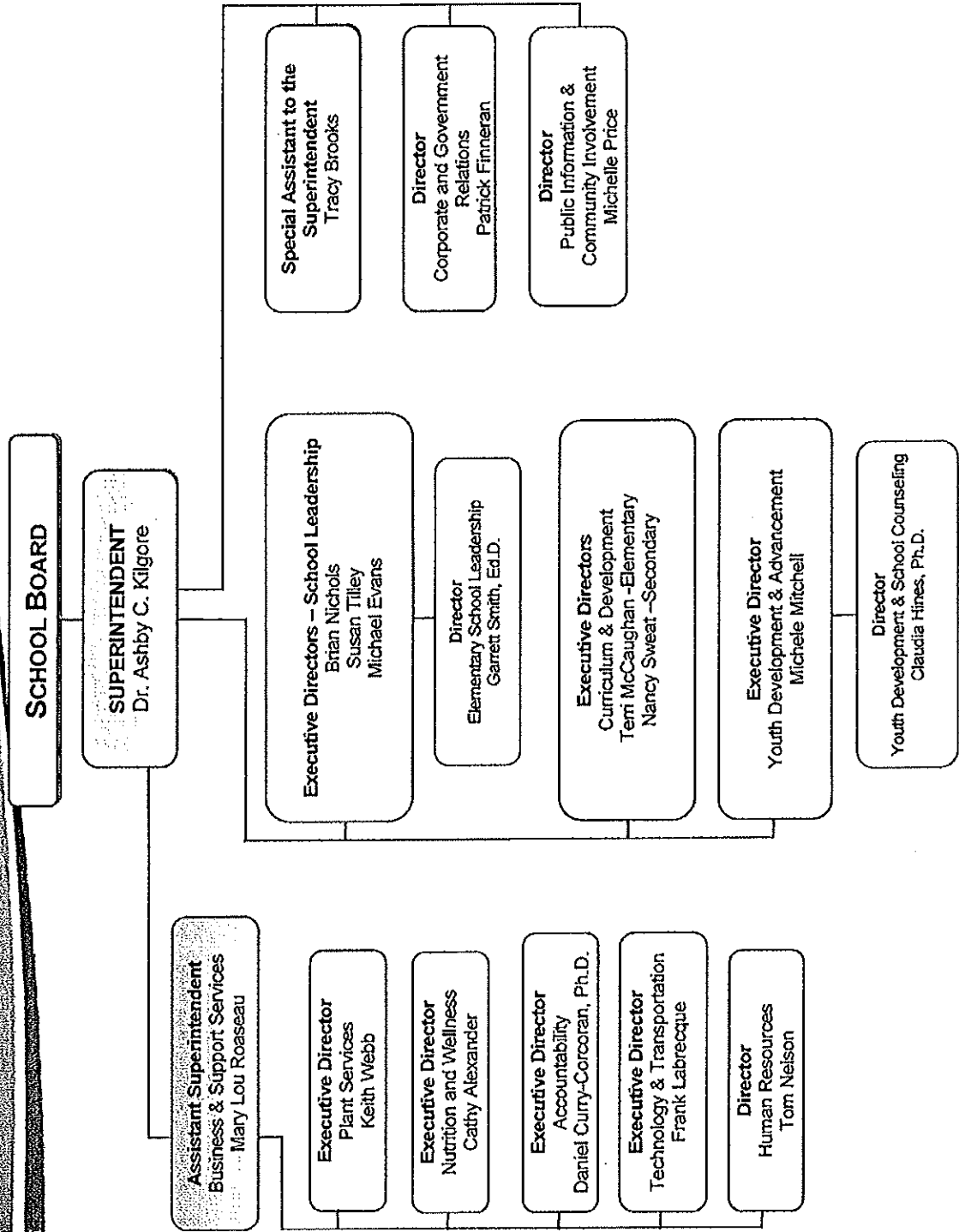
School Board

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
Cathy Alexander	Executive Director – Child Nutrition
Dr. Daniel Curry-Corcoran	Executive Director - Accountability
Michael Evans	Executive Director – Secondary Education
Frank Labrecque	Executive Director – Technology & Transportation
Terri McCaughan	Executive Director – Elementary Curriculum & Development
Michele Mitchell	Executive Director – Youth Development and Advancement
Brian Nichols	Executive Director – Elementary Education
Nancy Sweat	Executive Director – Secondary Curriculum & Development
Susan Tilley	Executive Director – Secondary Education
Keith Webb	Executive Director – Plant Services

Administrative Organization Chart



Business Office

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

November 29, 2012

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, 2012. 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 & Holland, L.L.P., independent certified public accountants. The auditor's report, which includes their unqualified 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). 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 30,200 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 accounting principles generally accepted in the United States of America (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 of Newport News ("the City" or "Newport News"). 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. FY2013 General Fund funding is expected to increase by \$2.0 million (0.7% increase) as compared to the FY2012 budget. The State is providing \$0.4 million more funding and the City is providing \$1.2 million more for the upcoming year. However, the State increased the pension rate for teachers and professionals and the net \$0.4 million is really a combination of a \$3.8 million increase for fringe benefit costs (primarily the pension rate increase) and \$3.4 million decrease for in funding for all other programs. The forecast for FY2014 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 and funding for compensation and related fringe benefits will be problematic in FY2014 without this Federal funding source.

Enrollment is expected to decrease by approximately one-half of one percent.

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 and aggregate claims exceeding 110% of adjusted subscriber charges (maximum liability) 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 2011-2012 school year, at least 70 percent of students must pass the SOL tests in English, math, history, and science (75% in English in grades three and five, and 50% in third grade science and history). 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 2011-2012 school-year was based on the achievement of students on the 2010-2011 administration of Standards of Learning tests.

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

Recognition:

- Newport News high schools are among more than 1,900 public high schools included in the Washington Post's High School Challenge in 2011. High schools are ranked by enrollment in, and access to, Advanced Placement and International Baccalaureate courses.
- Heritage and Menchville High Schools are named Blue Star Schools for students' performance on the Working in Support of Education (W!SE) 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.

In addition to the schools being honored, teachers at three schools have been named Gold Star Teachers because at least 90 percent of their students passed the W!SE test. The teachers are Linda Richardson at Denbigh High School, Tiffanie Smith at Heritage High School and Cynthia Earl at Menchville High School.

- The school district continues its third year of a new Dropout Prevention and Recovery program. Over 1,000 students who had dropped out have returned and are on track 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, 700 students took advantage of this option.
- Newport News Public Schools has 64 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.
- Deer Park Elementary School and Hilton Elementary School earned the 2012 Virginia Board of Education Excellence Award. The schools are among 188 schools in the Commonwealth selected to receive the award, the second-highest honor in the Virginia Index of Performance (VIP) awards for advanced learning and achievement. To qualify for the Excellence Award, schools must meet all state and federal achievement benchmarks for at least two consecutive years and make significant progress in increasing student achievement and expanding educational opportunities established by the state Board of Education.
- Nine Newport News students were recognized in the 2012 National Merit and National Achievement Scholarship programs.
- 228 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 4 on all AP exams and scores of 4 or higher on at least eight AP exams.

Awards:

Newport News Public Schools was awarded the Virginia School Plant Managers Association (VSPMA) Facilities Masters Award in 2011. The award recognizes school districts that meet national standards of excellence in facilities and maintenance operations. Newport News Public Schools is one of just two districts in Virginia to earn the award at the platinum level this year, the highest distinction a school district may receive. This award is earned by those who are recognized for providing access to information on inspections, efficient work orders systems and performance audits, while implementing new initiatives.

Newport News Public Schools' Dropout Prevention and Recovery Program and the "Spring Break: Make It Work" Program earned first place Magna Awards from the National School Boards Association for 2012. The Magna Awards honor best practices and innovative programs that advance student learning. The School Board is the only district in the nation that is recognized with two first place awards.

Newport News Public Schools has earned several awards in recognition of outstanding financial management and distinguished budget presentation. The school district earned an Outstanding Achievement Award from the Government Finance Officers Association for its Popular Annual Financial Report for the 2011 fiscal year. The School Board's comprehensive budget document earned the Government Finance Officers Association's Distinguished Budget Presentation Award for fiscal year 2011. In addition, the board's FY 2012 budget earned the Association of School Business Officials International 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 "Mary Lou Roaseau".

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

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, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Christophe A. Moine

President

Jeffrey R. Enen

Executive Director

Association of School Business Officials International

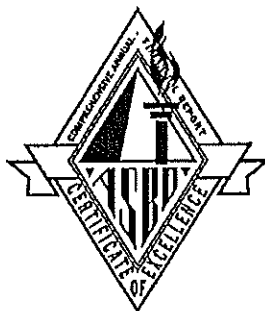


*The Certificate of Excellence in Financial Reporting Award
is presented to*

Newport News Public Schools

*For Its Comprehensive Annual Financial Report (CAFR)
For the Fiscal Year Ended June 30, 2011*

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



Brian L. Mee, SFO, RSBA
President

John D. Musso, CAE, RSBA
Executive Director

FINANCIAL SECTION



Independent Auditor's Report

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, 2012, which collectively comprise the School Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School Board's management. 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. 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 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to previously present fairly, in all material respects, the 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, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the other required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Board's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is also presented for the purpose 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 not a required part of the basic financial statements of the School Board. The combining and individual nonmajor fund financial statements and schedules, including the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic statements and, accordingly, we do not express an opinion or provide any assurance on it.

Cheng Beckert + Holland, C.C.P.

Richmond, Virginia
November 29, 2012

THE SCHOOL BOARD OF THE CITY OF NEWPORT NEWS

Management's Discussion and Analysis (Unaudited)

June 30, 2012

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, 2012. 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) 2012

The School Board, on a government-wide basis, had an increase in net assets of \$3.2 million to \$73.5 million.

Investment in capital assets, net of related debt, increased by \$5.6 million. This was due primarily to the completion of the science lab renovations in the middle and high schools of \$1.7 million, the purchase of 39 school buses at a cost of \$3.1 million and the renovation of high school cafeterias of \$1.4 million.

Restricted net assets increased by \$4.8 million primarily due to the establishment of the Workers' Compensation and Textbook funds less an expenditure of restricted net assets for school buses. Workers' compensation and textbook net assets of \$2.9 million and \$5.1 million respectively became restricted at July 1, 2011 and were previously reported as unrestricted. The funding is considered restricted by a legal annual appropriation made by the Newport News City Council. During FY2012 school bus purchases of \$1.3 million were made from restricted net assets and \$1.5 million of textbook purchases were made from restricted net assets. All other changes amounted to a \$0.4 million decrease to finish accounting for the change in restricted net assets.

Unrestricted net assets decreased by \$7.2 primarily due to the above \$2.9 million and \$5.1 million in net assets now shown as restricted for workers' compensation and textbooks.

The General Fund utilized all available resources to meet School Board needs; therefore no funds reverted to the City.

Overview of the Financial Statements

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

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

THE SCHOOL BOARD OF THE CITY OF NEWPORT NEWS

Management's Discussion and Analysis (Unaudited)

June 30, 2012

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 Assets and Statement of Activities provide information on a government-wide basis. The statements present an aggregate view of the School Board's finances. The government-wide financial statements provide 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 (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 Assets 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 assets and changes in them. The School Board's net assets, which are the difference between assets and liabilities, are one way to measure the School Board's financial position. Over time, increases or decreases in the School Board's net assets 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 State 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. They are summarized into one total, but the details of each fund are also shown.

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

Management's Discussion and Analysis (Unaudited)

June 30, 2012

Financial Analysis of the School Board as a Whole

The School Board presents its financial statements under the reporting model required by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

The following table reflects the condensed net assets of the School Board:

Table 1			
Net Assets			
(In millions)			
	FY 2012	FY 2011	Change
Current and other assets	\$ 73.7	\$ 77.5	\$ (3.8)
Capital assets, net	76.0	73.8	2.2
Total assets	<u>\$ 149.7</u>	<u>\$ 151.3</u>	<u>\$ (1.6)</u>
Other liabilities	\$ 30.1	\$ 32.7	\$ (2.6)
Long-term liabilities	46.1	48.3	(2.2)
Total liabilities	<u>\$ 76.2</u>	<u>\$ 81.0</u>	<u>\$ (4.8)</u>
Net assets:			
Invested in capital assets, net of related debt	\$ 67.4	\$ 61.8	\$ 5.6
Restricted	10.3	5.5	4.8
Unrestricted	(4.2)	3.0	(7.2)
Total net assets	<u>\$ 73.5</u>	<u>\$ 70.3</u>	<u>\$ 3.2</u>

The School Board's total net assets showed an increase of \$3.2 million (4.6%), increasing to \$73.5 million. This was comprised of an increase in invested in capital assets, net of related debt of \$5.6 million and an increase in restricted net assets of \$4.8 million and a decrease in unrestricted net assets of \$7.2 million.

Current and other assets decreased by \$3.8 million (4.9%). This was primarily due to three factors: 1. Payments for textbooks were \$1.2 million more than amounts received for that purpose. 2. The School Board paid \$1.3 million more for school buses than funding received in FY2012. The funding had been received in FY2011 and had resulted in a temporary increase to unrestricted net assets 3. Other liabilities, primarily for accounts payable, decreased as the School Board paid liabilities for large construction projects in progress at June 30, 2011 during FY2012

Capital assets (net of depreciation) increased by \$2.2 million (3.0%). This is the result of additions of \$9.3 million less depreciation expense of \$7.1 million. The largest component in additions was \$1.7 million more for construction of science lab renovations in the middle and high schools funded by Federal stimulus dollars (\$4.7 million was added in FY2011 for a grand total of \$6.4 million). In addition, 39 school buses were procured at a cost of \$3.1 million. Another large project was the upgrade to high school cafeterias costing \$1.4 million.

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Other liabilities decreased by \$2.6 million (8.0%), primarily due to the payoff of \$1.4 million due at June 30, 2012 for the aforementioned science lab renovation project, \$0.9 million due for HVAC capital project renovations and \$0.5 million due for Todd Stadium capital project renovations. Long term liabilities decreased by \$2.2 million (4.6%) primarily due to \$3.4 million in principal payments on capital leases and facility notes payable offset by an increase in the amount owed for other post-employment benefits of \$1.2 million. Included in the principal payments was the early payoff of the capital lease on the Staff Support Center of \$0.4 million

The following table summarizes the changes in the School Board's net assets:

Table 2
Changes in Net Assets
(In millions)

	<u>FY 2012</u>	<u>FY 2011</u>	<u>Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 6.1	\$ 7.3	\$ (1.2)
Operating grants and contributions	70.2	68.8	1.4
Capital grants and contributions	2.5	5.7	(3.2)
General revenues:			
Local	98.8	99.6	(0.8)
State	135.8	133.0	2.8
Federal	5.4	5.2	0.2
Interest	0.1	-	0.1
Total revenues	<u>318.9</u>	<u>319.6</u>	<u>(0.7)</u>
Expenses:			
Academic services	227.4	230.8	(3.4)
Transportation services	18.7	17.4	1.3
Business and support services	34.6	33.5	1.1
Child nutrition services	14.1	13.8	0.3
Technology services	12.8	14.8	(2.0)
Human resources	5.1	5.3	(0.2)
Administration	2.5	2.5	-
Interest on capital debt	0.5	0.6	(0.1)
Total expenses	<u>315.7</u>	<u>318.7</u>	<u>(3.0)</u>
Change in net assets	<u>3.2</u>	<u>0.9</u>	<u>2.3</u>
Beginning net assets	<u>70.3</u>	<u>69.4</u>	<u>0.9</u>
Ending net assets	<u>\$ 73.5</u>	<u>\$ 70.3</u>	<u>\$ 3.2</u>

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For the fiscal year ended June 30, 2012, revenues from governmental activities (excluding charges for services and interest) totaled \$312.8 million. State Standards of Quality (SOQ) Funds account for \$135.8 million (43.4%) of the School Board's resources. These funds are based on student membership counts. The SOQ funds increased by \$2.8 million (2.1%) over FY 2011 due to the State 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	\$ 112,200,000
Less debt service returned to the City	(14,165,160)
Add Revenue General Obligation Bond Fund	8,947,255
Add Revenue General Capital Fund	1,860,000
Less net capital assets transferred tenancy-in-common	<u>(10,088,045)</u>
Net amount from City - Entity-wide statements	<u><u>\$ 98,754,050</u></u>

Revenue from the City in FY 2012 was \$98.8 million (31.0% of the total), a decrease of \$0.8 million. However, the City did increase revenue to the General Fund by \$3.0 million during FY2012, but the other adjustments detailed above offset that to result in a \$0.8 million decrease.

Federal revenue increased by \$0.2 million to \$5.4 million (1.7% of the total) in FY2012 due to the School Board qualifying for certain Department of Defense funding by having at least 20% of students have a federal connection.

Operating grants, which were comprised of approximately 65% from federal sources and 35% from state sources, totaled \$70.2 million (22.0% of the total). This category increased by \$1.4 million (2.0%).

Capital grants and contributions decreased by \$3.2 million due to Federal stimulus funding being used in FY2011 to renovate middle and high school science labs. That project was largely completed in FY2011.

Expenses for FY 2012 totaled \$315.7 million, a decrease of \$3.0 million (0.9%).

Academic services accounted for \$227.4 million (72.0%) 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 decreased by \$3.4 million (1.5%). A large portion of the decrease was attributed to decreases in positions, vacancies and unfilled positions.

Business and support services were the next highest cost category with a total of \$34.6 million (11.0% 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 \$1.1 million (3.3%) increase. This was due to cash capital projects, primarily funded by purchase orders issued in FY2011 but the work was not undertaken and completed until FY2012. Among the largest projects were paving, asbestos testing and abatement, LED lighting replacement and locker replacement.

Transportation services are the third largest cost category, with expenses of \$18.7 million (5.9% of the total). This category showed an increase of \$1.3 million (7.0%). Increased fringe benefit costs for health

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insurance, city pension, and OPEB accounted for about two-thirds of the increase and increased fuel costs due to rising prices accounted for most of the remaining one-third.

Child nutrition services are the fourth largest cost category, with expenses of \$14.1 million (4.5% of the total). This category showed an increase of \$0.3 million (2.2%). Most of this increase was related to increased health insurance and food costs.

Capital Assets

At the end of FY 2012, the School Board had invested \$76.0 million in capital assets, as reflected in the following schedule. This net amount reflects historical cost of \$161.3 million and accumulated depreciation of \$85.2 million. In addition, the School Board and the City hold assets in-common (AHTIC) a net of \$146.9 million of capital assets, which are reflected in the financial statements of the City (historical cost of \$204.6 million net of accumulated depreciation of \$57.7 million). Most school buildings and improvements undertaken in the past 20 years, for which City bonded debt has been issued, are included. (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 2012</u>	<u>FY 2011</u>	<u>Change</u>
Nondepreciable assets:			
Land	\$ 2.5	\$ 2.5	\$ -
Construction in progress	0.1	4.7	(4.6)
Other capital assets:			
Buildings	46.8	46.3	0.5
Building improvements	50.9	43.0	7.9
Equipment and vehicles	60.9	57.8	3.1
Accumulated depreciation	<u>(85.2)</u>	<u>(80.5)</u>	<u>(4.7)</u>
Total	<u><u>\$ 76.0</u></u>	<u><u>\$ 73.8</u></u>	<u><u>\$ 2.2</u></u>

Construction in progress decreased by \$4.6 million due to the completion of the science lab renovation in middle and secondary schools funded by Federal stimulus money. Building improvements increased primarily due to the science lab renovation of \$6.5 million and \$1.4 million for secondary school cafeteria improvements. Equipment and vehicles increased by \$3.1 million due to the procurement of 39 school buses. Accumulated depreciation increased by \$4.7 million, primarily due to depreciation expense of \$7.1 million offset by retirements of \$2.4 million. See note 4 to the financial statements for additional information.

**THE SCHOOL BOARD OF THE
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Long-Term Liabilities

The School Board cannot issue bonded debt. Our long-term liabilities are related to capital leases on equipment, capital facility notes payable, compensated absences, workers' compensation claims payable (under our self-insurance program), other post-employment benefits and incurred but not reported claims under our self-insured employee health insurance program. Our long-term liabilities had a net decrease of \$2.2 million. Principal payments on capital facility notes payable and capital leases reduced debt by \$3.4 million. Amount owed for other post-employment benefits increased by \$1.2 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, 2012, the governmental funds had a combined fund balance of \$43.6 million. This is a decrease of \$1.2 million as compared to June 30, 2011. The primary reason for the decrease was several transactions in other governmental funds. The General Capital Fund purchased school buses and used \$1.3 million in funding received in FY2011. In addition, the Textbook Fund spent \$1.2 million more than received in current year resources. However, the Child Nutrition Fund had a \$0.8 million increase due to increased meals provided and an increased meal reimbursement rate from the Federal government.

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

**THE SCHOOL BOARD OF THE
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General Fund Budgetary Highlights

Table 4
General Fund Budget to Actual Summary (non-GAAP basis)
Year ended June 30, 2012
(In millions)

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:				
State	\$ 160.8	\$ 160.8	\$ 158.4	\$ (2.4)
City	112.2	112.2	112.2	-
Federal	4.1	4.1	5.4	1.3
Other	1.9	1.9	1.9	-
Total revenues	<u>279.0</u>	<u>279.0</u>	<u>277.9</u>	<u>(1.1)</u>
Expenditures and transfers:				
Expenditures	264.8	264.8	264.0	(0.8)
Transfers	14.2	14.2	14.2	-
Total expenditures and transfers	<u>279.0</u>	<u>279.0</u>	<u>278.2</u>	<u>(0.8)</u>
Change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (0.3)</u>	<u>\$ (0.3)</u>

The School Board saved \$0.3 million in prior year purchase orders (not part of the budget basis) to offset the \$0.3 million decrease in fund balance shown above.

Revenues from the state were \$2.4 million less than the budget due to less State basic aid. Lower enrollment than budgeted resulted in a shortfall of \$1.7 million and sales tax revenue was \$0.4 million less than budgeted were the primary reasons. Federal revenues were \$1.3 million more than the budget due to increased Impact Aid funds of \$1.0 million, Department of Defense funding budgeted at \$0.2 million and Medicaid funding of \$0.1 million.

Expenditures were \$0.8 million less than budgeted primarily due to savings related to leaving many vacancies open during the year and savings in utility costs.

Economic Factors

The School Board is financially dependent upon the state and city governments. State 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 revenue, expected to be virtually flat in the near term. FY2013 General Fund funding is expected to increase by \$2.0 million (0.7%) as compared to the FY2012 budget. The State is providing \$0.4 million (0.2%) more funding and the City is providing \$1.2 million (1%) more for the upcoming year. However, the State increased the pension rate for teachers and professionals and the net \$0.4 million is really a combination of a \$3.8 million increase for fringe benefit costs (primarily the pension rate increase) and \$3.4 million decrease for in funding for all other programs.

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

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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 Assets – Governmental Activities

June 30, 2012

Assets

Cash and temporary investments	\$ 35,298,375
Accounts receivable, net	408,164
Receivables from other governments:	
City of Newport News	6,823,693
Federal:	
Department of Agriculture	441,200
Department of Education	309,322
State:	
Department of Treasury – sales tax	4,636,403
Department of Education	12,548,615
Inventories, at cost	1,042,245
Prepaid expenses	12,147,599
Capital assets, non-depreciable	2,609,192
Capital assets, depreciable, net	<u>73,413,703</u>
Total assets	<u>149,678,511</u>

Liabilities and Net Assets

Liabilities:	
Accounts payable	2,760,526
Accrued liabilities	909,901
Payroll withholdings and accrued fringe benefits	25,828,560
Unearned revenue	549,215
Long-term liabilities:	
Due within one year	3,711,900
Due in more than one year	<u>42,435,720</u>
Total liabilities	<u>76,195,822</u>
Net assets:	
Invested in capital assets, net of related debt	67,370,342
Restricted	10,268,578
Unrestricted	<u>(4,156,231)</u>
Total net assets	<u><u>\$ 73,482,689</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, 2012

		Program Revenues			Net (Expense)
			Operating	Capital	Revenue and
	Expenses	Charges for	Grants and	Grants and	Changes in
		Services	Contributions	Contributions	Net Assets
Governmental activities:					
Academic services	\$ 227,368,609	\$ 1,395,070	\$ 59,049,014	\$ 1,753,598	\$ (165,170,927)
Transportation services	18,703,166	-	-	-	(18,703,166)
Business and support services	34,635,744	597,360	-	4,217	(34,034,167)
Child nutrition services	14,079,191	3,923,464	11,149,290	-	993,563
Technology services	12,799,635	192,388	52,498	779,696	(11,775,053)
Human resources	5,124,886	-	-	-	(5,124,886)
Administration	2,502,297	-	-	-	(2,502,297)
Interest on capital debt	503,181	-	-	-	(503,181)
Total governmental activities	<u>\$ 315,716,709</u>	<u>\$ 6,108,282</u>	<u>\$ 70,250,802</u>	<u>\$ 2,537,511</u>	<u>(236,820,114)</u>
General revenues:					
City of Newport News					98,754,050
Commonwealth of Virginia					135,823,650
Federal government					5,380,140
Interest					18,784
Total general revenues					<u>239,976,624</u>
Change in net assets					<u>3,156,510</u>
Net assets at beginning of year					<u>70,326,179</u>
Net assets at end of year					<u>\$ 73,482,689</u>

See accompanying notes to basic financial statements.

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

Balance Sheet – Governmental Funds

June 30, 2012

	General Fund	Grant Fund	General Obligation Bond Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 23,044,414	\$ 160,068	\$ -	\$ 12,093,893	\$ 35,298,375
Accounts receivable, net	178,984	6,800	-	222,380	408,164
Receivables from other governments:					
City of Newport News	-	-	6,823,693	-	6,823,693
Federal:					
Department of Agriculture	-	-	-	441,200	441,200
Department of Education	-	309,322	-	-	309,322
State:					
Department of Treasury – sales tax	4,636,403	-	-	-	4,636,403
Department of Education	-	12,548,615	-	-	12,548,615
Inventories, at cost	706,102	-	-	336,143	1,042,245
Due from other funds	12,500,000	-	-	-	12,500,000
Prepaid items	12,147,599	-	-	-	12,147,599
Total assets	<u>\$ 53,213,502</u>	<u>\$ 13,024,805</u>	<u>\$ 6,823,693</u>	<u>\$ 13,093,616</u>	<u>\$ 86,155,616</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 2,012,392	\$ 140,431	\$ 559,736	\$ 47,967	\$ 2,760,526
Accrued liabilities	909,374	527	-	-	909,901
Payroll withholdings and accrued fringe benefits	25,828,560	-	-	-	25,828,560
Due to other funds	-	12,500,000	-	-	12,500,000
Deferred revenue	165,368	383,847	-	-	549,215
Total liabilities	<u>28,915,694</u>	<u>13,024,805</u>	<u>559,736</u>	<u>47,967</u>	<u>42,548,202</u>
Fund balances:					
Nonspendable:					
Imprest funds	2,375	-	-	-	2,375
Inventories	706,102	-	-	336,143	1,042,245
Restricted:					
Adult education services	-	-	-	257,944	257,944
Capital projects	-	-	-	1,129,856	1,129,856
Child nutrition services	-	-	-	2,830,425	2,830,425
Workers' compensation	-	-	-	2,832,915	2,832,915
Textbooks	-	-	-	3,217,438	3,217,438
Assigned to:					-
Adult education services	-	-	-	377,386	377,386
Child nutrition services	-	-	-	999,650	999,650
Contractual obligations	11,441,732	-	6,263,957	1,063,892	18,769,581
Health insurance	12,147,599	-	-	-	12,147,599
Retiree health insurance	-	-	-	-	-
Unassigned:	-	-	-	-	-
Total fund balances	<u>24,297,808</u>	<u>-</u>	<u>6,263,957</u>	<u>13,045,649</u>	<u>43,607,414</u>
Total liabilities and fund balances	<u>\$ 53,213,502</u>	<u>\$ 13,024,805</u>	<u>\$ 6,823,693</u>	<u>\$ 13,093,616</u>	<u>\$ 86,155,616</u>
Amounts reported for governmental activities in the statement of net assets are different because:					
Total fund balances reported in governmental funds					\$ 43,607,414
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.					76,022,895
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.					(46,147,620)
Net assets of governmental activities					<u>\$ 73,482,689</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, 2012

	General Fund	Grant Fund	General Obligation Bond Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Intergovernmental:					
City of Newport News	\$ 98,034,840	\$ -	\$ 8,947,255	\$ 1,860,000	\$ 108,842,095
Commonwealth of Virginia	157,629,877	2,396,658	-	1,321,869	161,348,404
Federal government	5,380,140	36,338,065	-	10,861,821	52,580,026
Charges for services	1,858,803	-	-	4,987,457	6,846,260
Investment income	-	-	-	18,784	18,784
Miscellaneous	-	59,453	4,217	-	63,670
Total revenues	<u>262,903,660</u>	<u>38,794,176</u>	<u>8,951,472</u>	<u>19,049,931</u>	<u>329,699,239</u>
Expenditures:					
Current:					
Academic services	189,545,875	35,221,642	-	2,792,280	227,559,797
Transportation services	17,575,505	-	-	-	17,575,505
Business and support services	32,861,325	637,877	-	159,726	33,658,928
Child nutrition services	-	-	-	14,217,246	14,217,246
Technology services	9,990,369	2,925,894	-	-	12,916,263
Human resources	4,018,567	8,763	-	848,085	4,875,415
Administration	2,391,998	-	-	-	2,391,998
Debt service:					
Principal	3,352,473	-	-	-	3,352,473
Interest and other charges	503,181	-	-	-	503,181
Capital outlay	1,772,104	-	8,755,823	3,439,991	13,967,918
Total expenditures	<u>262,011,397</u>	<u>38,794,176</u>	<u>8,755,823</u>	<u>21,457,328</u>	<u>331,018,724</u>
Excess (deficiency) of revenues over (under) expenditures	<u>892,263</u>	<u>-</u>	<u>195,649</u>	<u>(2,407,397)</u>	<u>(1,319,485)</u>
Other financial sources (uses):					
Transfers in	-	-	-	8,349,505	8,349,505
Transfers out	(8,349,505)	-	-	-	(8,349,505)
Total other financing sources	<u>(8,349,505)</u>	<u>-</u>	<u>-</u>	<u>8,349,505</u>	<u>-</u>
Net change in fund balances	<u>(7,457,242)</u>	<u>-</u>	<u>195,649</u>	<u>5,942,108</u>	<u>(1,319,485)</u>
Fund balances at beginning of year	31,703,293	-	6,068,308	7,075,418	44,847,019
Increase (decrease) in nonspendable inventory	51,757	-	-	28,123	79,880
Fund balances at end of year	<u>\$ 24,297,808</u>	<u>\$ -</u>	<u>\$ 6,263,957</u>	<u>\$ 13,045,649</u>	<u>\$ 43,607,414</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, 2012

Net change in fund balances – total governmental funds \$ (1,319,485)

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	\$ 13,967,918	
Items capitalized but shown as expensed	<u>5,476,284</u>	
Capital outlay, net	19,444,202	
Transfer to City, tenancy-in-common	(10,088,045)	
Loss on disposal of capital assets	(27,307)	
Depreciation expense	<u>(7,091,392)</u>	2,237,458

Repayment of debt principal is an expenditure in the governmental funds, but does not affect the statement of activities. 3,352,473

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 \$148,525, workers' compensation claims incurred were more than the amount paid by \$100,000, health insurance claims incurred were less than the amount paid by \$271,700 and other post employment benefits incurred were less than the amount paid by \$1,216,991. (1,193,816)

Change in nonspendable inventory from governmental funds is included in expenses in the statement of activities. 79,880

Change in net assets of governmental activities \$ 3,156,510

See accompanying notes to basic financial statements.

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

Statement of Changes in Fiduciary Net Assets – Fiduciary Funds
Year Ended June 30, 2012

	<u>OPEB Trust Fund</u>	<u>Agency Fund</u>
Asset:		
Cash and cash equivalents (note 2)	\$ -	\$ 1,462,007
Investments, at fair value:		
Money market trust	<u>8,437,053</u>	<u>-</u>
Total assets	<u>8,437,053</u>	<u>1,462,007</u>
Liabilities:		
Accounts payable	-	56,150
Due to students	<u>-</u>	<u>1,405,857</u>
Total liabilities	<u>-</u>	<u>1,462,007</u>
Net assets:		
Net Assets held in trust for Other Postemployment Benefits	<u>8,437,053</u>	<u>-</u>
Total net assets	<u>8,437,053</u>	<u>-</u>
Total liabilities and net assets	<u><u>\$ 8,437,053</u></u>	<u><u>\$ 1,462,007</u></u>

See accompanying notes to basic financial statements.

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

Statement of Changes in Fiduciary Net Assets – Fiduciary Funds

Year Ended June 30, 2012

	<u>OPEB Trust Fund</u>
Additions	
Contributions:	
Employer contributions	\$ 5,781,276
Plan member contributions	<u>1,675,679</u>
Total contributions	<u>7,456,955</u>
Net investment income:	
Net appreciation (loss) in the fair value of investments	(64,402)
Interest and dividends	<u>894</u>
Total investment income	<u>(63,508)</u>
Total additions	<u>7,393,447</u>
Deductions	
Benefits	6,256,955
Administrative expenses	<u>9,194</u>
Total deductions	<u>6,266,149</u>
Change in net assets	1,127,298
Net assets at beginning of year	<u>7,309,755</u>
Net assets at end of year	<u><u>\$ 8,437,053</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, 2012

(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 state in addition to federal aid. School construction projects are funded by general obligation bonds 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 accounting principles generally accepted in the United States of America (GAAP) for governmental entities.

(b) Basis of Presentation

The School Board's financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

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

The statement of net assets presents the financial condition of the governmental activities of the School Board at year end. The School Board does not have any business-type activities. 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 identifiable to a particular function. Expenses are grouped in the following categories: Academic services, Transportation services, Business and support services, Child nutrition services, Technology services, Human resources, Administration and Interest on capital debt.

**THE SCHOOL BOARD OF THE
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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 state. We have shown these revenues 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 in the process of consolidation.

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 of its governmental funds 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 acquisition, use and balances of the School Board's expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus is based upon the determination of changes in financial position, rather than upon net income determination.

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 state 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 of Newport News to construct or purchase capital assets.

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

Notes to Basic Financial Statements

June 30, 2012

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. In FY 2012 the School Board established the 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 are custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations. The School Board has two Fiduciary Funds. The OPEB Trust Fund accounts for the resources the School Board uses to pay other post-employment benefits. The other Fiduciary Fund is an Agency Fund, the Student Activity Fund, which accounts for the student activity monies maintained on behalf of the students at each school. Fiduciary Funds are not included in the government-wide financial statements.

(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 use the modified accrual basis of accounting and fiduciary funds use the accrual basis of accounting and have 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.

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 principal and interest on long-term debt which is recorded when due, are recorded when the related fund liability is incurred.

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

June 30, 2012

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 of Newport News Code, unexpended, unencumbered appropriations lapse at the end of the year.

(e) *Cash, Cash Equivalents, and Investments*

Cash and temporary investments are pooled with the cash and investments of the City, except for 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. Investments that are held for more than one year to maturity are stated at fair value while investments that are held for less than one year to maturity are stated at amortized cost. 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.

(f) *Receivables and Due from Other Governments*

Amounts due from the Commonwealth of Virginia consist primarily of May and June sales tax, receivables from state entitlements and reimbursement of grants expenditures. Amounts due from 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.

**THE SCHOOL BOARD OF THE
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June 30, 2012

(g) Inventories

Inventories consist of consumable materials and supplies held for future consumption. Inventory is accounted for under the purchases method. The cost is recorded as an expenditure at the time inventory is purchased. Quantities on hand at year-end are recorded on the Government Funds balance sheet at cost on a first-in, first-out basis with an offsetting reserve to fund balance.

(h) Prepaid Items

A prepaid item of \$12,147,599 represents healthcare premiums paid in advance on deposit with our third-party claims administrator. The School Board's healthcare program is self-insured (see note 8 (a) for further information). Premiums paid in prior years have been more than actual claims and expenses. The premiums have been left on deposit to pay future healthcare premiums. The funds are accounted for on the consumption method.

(i) Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated assets are recorded at estimated fair market value on the date received. The capitalization threshold for equipment, improvements and buildings is \$5,000. 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. At June 30, 2012, the City holds capital assets related to school property with a net book value of \$146,860,165.

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:

Description	Estimated useful lives
Buildings	60 years
Improvements	25 years
Machinery and equipment	5-20 years

**THE SCHOOL BOARD OF THE
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June 30, 2012

(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, and upon retirement, termination or death, may be compensated for certain amounts at their then current rates 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 obtain additional service credit towards their retiree health insurance subsidy. A liability for these amounts is reported in governmental funds only if they have become payable as a result of resignations and retirements.

Effective July 2, 2011, all future retirees will have their retiree health insurance subsidy based on years of service rather than sick leave balance. Anyone that retired effective July 1, 2011 could have elected to use their sick leave under the old policy for OPEB contributions or the new policy. That election pertained only to that one date.

(k) *Fund Balance Items*

The School Board has implemented GASB Statement 54 employing new terminology and classifications for fund balance items.

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

Restricted items – This category includes resources restricted by another government.

- The Workers' Compensation special revenue fund shows a restricted fund balance of \$2,832,915. City Council appropriation restricts the use of these funds for workers' compensation for the School Board's self-insured workers' compensation plan.
- The Textbook special revenue fund shows a restricted fund balance of \$3,217,438. City Council appropriation restricts 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.
- The Child Nutrition Services special revenue fund shows restricted fund balance of \$2,830,425 representing the portion of the fund balance provided over the years from Federal and State grants restricted for the purpose of providing students with nutritional meal services.
- The Adult Education special revenue fund shows restricted fund balance of \$257,944 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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June 30, 2012

- The State Construction capital projects fund fund-balance of \$1,117,194 is restricted by the Commonwealth of Virginia to capital outlay and repayment of debt issued for capital outlay.
- The General Capital capital-projects fund fund-balance of \$12,662 is restricted by the City of Newport News for capital outlay.

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, 2012.

- A total of \$377,386 is assigned to provide adult education services in the community as represented in the Adult Education special revenue fund.
- A total of \$999,650 is assigned to provide students attending the School Board's schools with a nutritious breakfast and lunch meeting the regulations of the United States Department of Agriculture and the Commonwealth of Virginia as represented in the Child Nutrition Services special revenue fund.
- A total of \$18,769,581 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 \$11,441,732 in the General Fund, \$6,263,957 in the General Obligation Bond Fund, \$10,862 in the Workers' Compensation special revenue fund, \$689,523 in the Textbook special revenue fund, \$351,277 in the Child Nutrition Services special revenue fund, \$4,172 in the Adult Education special revenue fund and \$8,058 in the State Construction capital projects fund.
- A total of \$12,147,599 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. Claims have been less than the premiums paid.

Unassigned items – Represents the remainder of the School Board's equity in governmental fund-type balances. This is the residual fund balance in the General Fund or negative residual fund balance of other governmental fund-types. The balance at June 30, 2012 for all funds is zero.

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

(I) 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.

**THE SCHOOL BOARD OF THE
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June 30, 2012

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.

(2) Cash and Cash Equivalents

All of the \$35,298,375 of School Board cash and cash equivalents (except for \$2,445 of imprest 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 of Newport News 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.

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

Interfund receivables, payables and transfers as of and for the year ended June 30, 2012 are as follows:

Funds	Due from other funds	Due to other funds	Transfers in	Transfers out
General Fund	\$ 12,500,000	\$ -	\$ -	\$ 8,349,505
Grant Fund	-	12,500,000	-	-
Other governmental funds:				
Special revenue	-	-	8,349,505	-
Total all funds	<u>\$ 12,500,000</u>	<u>\$ 12,500,000</u>	<u>\$ 8,349,505</u>	<u>\$ 8,349,505</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.

A transfer of \$2,943,486 was made from the General Fund to the Workers' Compensation Fund to establish that Fund as of the start of the fiscal year. A transfer of \$5,406,019 was made from the General Fund to the Textbook Fund to establish that fund as of the start of the fiscal year. During the year, \$333,260 in funding was transferred from the General Fund to the Textbook Fund to purchase textbooks.

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

June 30, 2012

(4) Capital Assets, Net

A summary of changes in capital assets follows:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital assets not being depreciated:				
Land	\$ 2,505,084	\$ -	\$ -	\$ 2,505,084
Construction in progress	4,709,058	1,857,706	6,462,656	104,108
Total capital assets not being depreciated	7,214,142	1,857,706	6,462,656	2,609,192
Other capital assets:				-
Buildings	46,332,342	516,660	-	46,849,002
Improvements	42,996,178	7,937,104	-	50,933,282
Machinery and Equipment	57,777,980	5,507,343	2,409,763	60,875,560
Total other capital assets	147,106,500	13,961,107	2,409,763	158,657,844
Less accumulated depreciation for:				
Buildings	26,585,253	766,099	-	27,351,352
Improvements	14,898,582	2,047,290	-	16,945,872
Machinery and Equipment	39,051,370	4,278,003	2,382,456	40,946,917
Total accumulated depreciation	80,535,205	7,091,392	2,382,456	85,244,141
Other capital assets, net	66,571,295	6,869,715	27,307	73,413,703
Totals	<u>\$ 73,785,437</u>	<u>\$ 8,727,421</u>	<u>\$ 6,489,963</u>	<u>\$ 76,022,895</u>

Depreciation was charged to governmental functions as follows:

Academic services	\$ 3,488,296
Transportation services	1,397,234
Business and support services	1,546,364
Child nutrition services	102,690
Technology services	81,034
Human resources	326,631
Administration	149,143
Total governmental activities depreciation expense	<u><u>\$ 7,091,392</u></u>

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

June 30, 2012

Loss on disposal of assets of \$27,307 is charged \$16,506 to the Transportation services function and \$10,801 to the Business and support services function.

Construction in progress is composed of the following at June 30, 2012:

	Project Authorization	Expended Through June 30, 2012	Balance of Authorization	Future Requirements
Total School projects	<u>\$ 16,237,251</u>	<u>\$ 3,014,124</u>	<u>\$ 13,223,127</u>	<u>\$ -</u>

Expended through June 30, 2012 includes \$2,910,016 in construction in progress transferred to the City under the AHTIC provisions. The balance of authorization of \$13,223,127 includes \$6,263,957 encumbered by existing purchase orders with vendors for projects in progress.

(5) Leases

(a) Operating Leases

The School Board leases three buildings. Two buildings are leased under non-cancelable operating leases and one on a month-to-month operating lease. Total costs for such leases were approximately \$624,933 for the year ended June 30, 2012. In addition, the School Board leased copiers on an operating lease on a month-to-month basis when the capital lease for the existing copiers expired at the end of February 2012. The total cost for the copier operating lease was \$188,457 for the year ended June 30, 2012. The copier month-to-month lease ceased on August 1, 2012 when the new copiers were delivered (see Subsequent Event note 13). The future minimum lease payments for these leases are as follows:

<u>Year ending June 30:</u>	
2013	\$ 576,561
2014	580,980
2015	565,488
2016	570,086
2017	239,180
2018-2021	243,963
	<u>\$ 2,776,258</u>

For one of the leased buildings the School Board has the option to renew annually ten times for one additional year from FY2019 through FY2028 with an annual lease cost of \$248,843 in FY2019 and increasing by two percent per year up through the final year of renewal at \$297,390 in FY2028.

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

June 30, 2012

(b) Capital Leases

The School Board had entered into three lease agreements for financing the acquisition of property and equipment. One of the machinery and equipment leases was completed during the year and a capital lease for buildings was paid off early during the fiscal year. Only one capital lease for machinery and equipment remains at June 30, 2012. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. See Note 13 for a subsequent event for machinery and equipment capital lease agreement which occurred in FY2013.

The net book value of assets acquired through capital leases as of June 30, 2012 is as follows:

Machinery and equipment	<u>\$ 972,182</u>
	972,182
Less accumulated depreciation	<u>(299,757)</u>
	<u><u>\$ 672,425</u></u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2012, were as follows:

Year ending June 30:	
2013	\$ 225,540
2014	<u>225,540</u>
Total minimum lease payments	451,080
Less amounts representing interest	<u>(27,163)</u>
Present value of minimum capital lease payments	<u><u>\$ 423,917</u></u>

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

June 30, 2012

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2012 follows:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Due Within One Year
Compensated absences	\$ 3,806,866	\$ 2,245,450	\$ 2,096,925	\$ 3,955,391	\$ 593,309
Workers' compensation claims	1,964,500	642,228	542,228	2,064,500	412,900
Capital leases payable	1,629,988	-	1,206,071	423,917	205,691
Capital facility notes payable	10,375,037	-	2,146,401	8,228,636	-
Other Post Employment Benefits	27,758,185	7,143,166	5,926,175	28,975,176	-
Incurred but not reported health claims	<u>2,771,701</u>	<u>27,513,144</u>	<u>27,784,845</u>	<u>2,500,000</u>	<u>2,500,000</u>
Totals	<u>\$ 48,306,277</u>	<u>\$ 37,543,988</u>	<u>\$ 39,702,645</u>	<u>\$ 46,147,620</u>	<u>\$ 3,711,900</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, 2012 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 and in fact the claims are paid in a matter of a few weeks after June 30, 2012 as the medical providers submit their claims to the third-party administrator.

Long-term liabilities are normally paid from the General Fund, including Other Post-Employment Benefits.

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, 2012 are as follows (note that the payment normally due in FY2013 was paid in June 2012). The next payment is due in FY2014 (July 2013).

	Principal	Interest
FY2013	\$ -	\$ -
FY2014	2,262,131	333,260
FY2015	2,380,794	241,643
FY2016	2,395,930	145,221
FY2017	<u>1,189,781</u>	<u>48,186</u>
Totals	<u>\$ 8,228,636</u>	<u>\$ 768,310</u>

**THE SCHOOL BOARD OF THE
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(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 local 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. 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.

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.

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. Employees hired after the above dates are in the Virginia Retirement System, a cost sharing and an agent multiple-employer defined benefit plan as discussed in note 7 (b). For the years ended June 30, 2012 and 2011, the total payroll of the City and the School Board was approximately \$338.3 million and \$342.9 million respectively, with approximately \$248.5 million and \$261.8 million covered by NNERF. At June 30, 2012, NNERF membership consisted of:

	Retirees and Beneficiaries	Vested Terminated Employees	Active Employees Vested	Active Employees Non-Vested	Total
City general	1,030	600	1,139	217	2,986
City police and fire	726	223	705	206	1,860
Public utilities	213	107	239	35	594
School VRS	2,288	952	2,362	318	5,920
School Non-VRS	750	169	669	117	1,705
Total	<u>5,007</u>	<u>2,051</u>	<u>5,114</u>	<u>893</u>	<u>13,065</u>

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NERF 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 final average compensation for each year of credited service accumulated to February 28, 2010 and 1.85% on and after March 1, 2010. Final average compensation means 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. Covered employees do not contribute to NNERF.

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.

2. Concentrations

There are no significant investments (other than U.S. Government and U.S. Government-guaranteed obligations) in any one organization that represents 5% or more of net assets available for benefits.

3. Contributions Required and Contributions Made

NNERF funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Level percentage of payroll employer contribution rates are determined using the entry age actuarial cost method. The amortization period for the unfunded actuarial accrued liability has been reduced from 40 years to 30 years to comply with the requirements of GASB Statement No. 27. The unfunded actuarial accrued liability is amortized as a closed 30-year level dollar amount from July 1, 2011.

Contributions for normal costs totaling \$32,786,062 and \$27,398,599 were made by the employer during the year ended June 30, 2012 and 2011. The percentage of employer contributions to current year covered payroll was 15.6% and 10.5% for the fiscal year ending June 30, 2011.

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The percentage of normal cost to current year covered payroll was 5.40% and 5.07% for fiscal years ending June 30, 2012 and 2011, respectively. The employer's annual pension cost and net pension obligation to NNERF for 2012 and 2011 were as follows:

(000's omitted)

	2012	2011
Annual Required Contribution (ARC)	\$ 55,011	\$ 56,662
Interest on net pension obligation	13,543	11,353
Adjustment to ARC	<u>(14,749)</u>	<u>(12,355)</u>
Annual pension cost	53,805	55,660
Contributions made	<u>(32,786)</u>	<u>(27,399)</u>
Increase in net pension obligation	21,019	28,261
Net pension obligation (asset), beginning of year	174,750	146,489
Net pension obligation (asset), end of year	<u><u>\$ 195,769</u></u>	<u><u>\$ 174,750</u></u>

The annual required contribution for the current year was determined as part of the June 30, 2012 actuarial valuation using the entry age actuarial cost method. The amortization method used is closed. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses) (b) projected salary increases of 5.00% per year and (c) 1.9% per year cost-of-living adjustments. All assumptions include an inflation component of 2.8%. The assumptions did not include funding of other post-retirement benefit. The actuarial value of assets was determined under the average value method.

Schedule of Funding Progress (in millions):

The funded status of the plan as of June 30, 2012, 2011 and 2010 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, 2012	\$ 679.6	\$ 1,176.4	\$ (496.8)	57.8%	\$ 48.5	199.9%
June 30, 2011	641.4	1,144.6	(503.2)	56.0%	261.8	192.2%
June 30, 2010	638.4	1,110.6	(472.2)	57.5%	283.1	166.8%

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

Notes to Basic Financial Statements

June 30, 2012

4. Three-Year Trend Information

(000's omitted)

Fiscal year ended	Annual Pension Cost (APC)	Percentage of APC contributed	Net pension obligation (asset)
June 30, 2012	\$ 53,805	60.9%	\$ 195,769
June 30, 2011	55,660	49.2%	174,750
June 30, 2010	40,094	52.8%	146,489

(b) Virginia Retirement System:

1. Plan Description

The School Board contributes to the Virginia Retirement System (VRS or the System), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the System.

In addition, 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 above 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 SCHOOL BOARD OF THE
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Notes to Basic Financial Statements

June 30, 2012

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 Basis 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.

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. All or part of the 5.00% member contribution may be assumed by the employer. This 5% member contribution has been assumed by the School Board except that 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. Effective July 1, 2012 all other employees hired before July 1, 2010 must contribute 1% of the 5% with the School Board paying the remaining 4%. 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 2012 was 6.33% 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 8.39% not including the 5% contributed for members hired before July 1, 2010.

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

June 30, 2012

3. Annual Pension Cost

For 2012, the annual pension cost of \$17.5 million for the School Board was equal to the required and actual contributions.

The annual required contributions for the agent multiple employer plan were determined as part of the June 30, 2012 actuarial valuation. The actuarial assumptions included (a) a rate of return on investment of 7.5% (b) projected salary increases ranging from 3.50% to 5.6% per year, and (c) cost-of-living adjustments of 2.5%. Both (a) and (b) included an inflation component of 2.5%. The actuarial values of the respective entities' assets are equal to the modified market value of the assets. This method was determined using techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis within a period of 20 years.

The annual required contributions for the single employer plan were determined as part of the June 30, 2011 actuarial valuation. The actuarial assumptions included (a) a rate of return on investment of 7.0% (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. Schedule of Funding Progress (in thousands):

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, 2012	\$ 17,536,019	100.0%	\$ -
June 30, 2011	14,086,314	100.0%	-
June 30, 2010	18,446,055	100.0%	-

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

June 30, 2012

(c) Other Post-Employment Benefits (OPEB) Trust Funds

1. Plan Description

In FY 2000, an OPEB fund was established to accumulate assets to pay for other post-employment benefits. The fund was administered by the City to provide health, dental and life insurance benefits for City and School Board 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 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 accumulated sick leave 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 462 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 expresses as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. A level percentage of payroll with a 30-year amortization period is used for purposes of computing the minimum accrual under GASB 45. The projected unit credit method is used for cost calculations.

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

June 30, 2012

Contributions to normal costs totaling \$1.1 million were made during the year ended June 30, 2012. The School Board's annual OPEB cost for the current year and past two years are as follows:

(In millions)

	2012	2011	2010
Annual Required Contribution (ARC)	\$ 7.4	\$ 7.1	\$ 7.0
Interest on net pension obligation	2.1	2.2	2.1
Adjustment to ARC	(2.4)	(2.5)	(2.1)
Annual pension cost	7.1	6.8	7.0
Actual Contribution	5.9	7.6	5.3
Increase (decrease in net OBEP obligation	1.2	(0.8)	1.7
Net OBEP obligation, beginning of year	27.8	28.6	26.8
Net OBEP obligation, end of year	<u>\$ 29.0</u>	<u>\$ 27.8</u>	<u>\$ 28.5</u>

3. Funding Status and Funding Progress

The funded status of the plan as of June 30, 2012 and the past two years was as follows:

(In millions)

	2012	2011	2010
Actuarial value of assets	\$ 8.8	\$ 6.8	\$ 3.3
Actuarial Accrued Liability (AAL)	83.8	77.8	132.7
Unfunded AAL (UAAL)	<u>\$ 75.0</u>	<u>\$ 71.0</u>	<u>\$ 129.4</u>
Funded ratio	10.0%	8.7%	2.4%
Covered payroll	\$ 136.7	\$ 147.0	\$ 181.0
UAAL as a percentage of covered payroll	54.9%	48.3%	71.5%

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

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

Notes to Basic Financial Statements

June 30, 2012

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	6/30/11
Actuarial cost method	Projected Unit Credit
Amortization method	Level Dollar Closed
Amortization period	29 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 the General Fund for employees up to \$175,000 per employee per year and 110% of adjusted subscriber charges (maximum liability) for the year (\$28,715,656 for 2012). 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 2012 or 2011. 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, 2012 are recognized as a long-term liability due within one year in the statement of net assets. Changes in the incurred but not reported amount during the fiscal years ended June 30, 2012 and 2011 were as follows:

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

June 30, 2012

	2012	2011
Claims payable at beginning of year	\$ 2,771,701	\$ 2,430,625
Claims and changes in estimates	27,603,144	29,025,010
Claim payments	(27,874,844)	(28,683,934)
Claims payable at end of year	<u>\$ 2,500,001</u>	<u>\$ 2,771,701</u>

(b) Workers' Compensation

The School Board self-insures for workers' compensation through 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, 2012 are accounted for as long-term liabilities. The following is a reconciliation of changes in workers' compensation claims payable for years ended June 30, 2012 and 2011:

	2012	2011
Claims payable at beginning of year	\$ 1,964,500	\$ 1,597,852
Claims and changes in estimates	814,428	1,046,121
Claim payments	(714,428)	(679,473)
Claims payable at end of year	<u>\$ 2,064,500</u>	<u>\$ 1,964,500</u>

A loss analysis was conducted by Oliver-Wyman, Incorporated on this fund. The total actuarially computed liability as of June 30, 2012 was determined to be approximately \$2.0 million.

(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 of the School Board are reserved and designated fund balances related to self-insurance activities.

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

Notes to Basic Financial Statements

June 30, 2012

(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, 2012 will not be material to the financial statements.

(b) Grants

The School Board received grant funds, principally from the state 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 agencies 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. The City provides annual appropriations to the School Board for operating the school system and is obligated for all bonded indebtedness relations to 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, 2012 was \$465,679. The School Board provides fiber WAN services and fiber WAN installation to the City during the year ended June 30, 2012 at charges of \$251,304. Amounts due to and due from the City of Newport News for services are negligible. Amounts are generally settled on a monthly basis. The City of Newport News Parks & Recreation Department provides services to children and citizens after regular school hours in School Board buildings at no rental charge.

At June 30, 2012, the City owed the School Board \$6,823,693 for capital projects funding.

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

Notes to Basic Financial Statements

June 30, 2012

(12) Subsequent Event

The School Board entered into a contract with Ricoh Americas Corporation on June 27, 2012 to provide the school division with approximately 141 copiers for the school division under the terms of a five-year lease. Equipment was not delivered as of June 30, 2012, hence no accounting entry was made. Subsequent to June 30, 2012 the copiers were delivered. The School Board is accounting for this transaction as a capital lease. In FY2013, other financial source – capital lease proceeds and a corresponding capital outlay expenditure were recorded at \$1,072,755. Repayment will be made over a 60-month term at a nominal interest rate of 4.1%. Annual payments will total \$237,658 to include principal and interest and will be paid from the General Fund.

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, 2012

	Original Budget	Amended Budget	Actual	Variance
Revenues:				
Intergovernmental:				
Commonwealth of Virginia:				
Standards of Quality funds	\$ 137,493,433	\$ 137,493,433	\$ 135,823,649	\$ (1,669,784)
Categorical funds	99,421	99,421	152,677	53,256
Lottery funded programs	23,176,562	23,176,562	22,452,212	(724,350)
Other state agencies	20,000	20,000	12,758	(7,242)
City of Newport News	112,200,000	112,200,000	112,200,000	-
Federal government	4,091,582	4,091,582	5,380,138	1,288,556
Charges for services	1,945,500	1,945,500	1,858,804	(86,696)
Total revenues	279,026,498	279,026,498	277,880,238	(1,146,260)
Expenditures:				
Academic services:				
Classroom instruction	105,711,344	102,677,674	99,297,560	3,380,114
Office of the principal	16,846,676	17,343,401	17,232,828	110,573
Special education	34,429,990	33,900,190	33,621,364	278,826
Career and technical	5,366,700	5,366,700	4,882,651	484,049
Talented and gifted	4,987,502	5,022,502	4,874,835	147,667
Summer school	1,134,669	1,134,669	783,383	351,286
Adult education	30,000	30,000	-	30,000
Pre school	5,821,948	5,823,723	5,679,686	144,037
Guidance and counseling	6,624,166	6,622,666	6,638,290	(15,624)
Improvement of instruction - staff	5,165,796	5,272,614	5,199,725	72,889
Media services	4,697,691	4,698,299	4,720,783	(22,484)
School social workers	1,518,822	1,539,322	922,227	617,095
Homebound	459,213	459,213	488,931	(29,718)
Psychological services	1,559,615	1,555,615	1,469,294	86,321
Instructional support -student leadership	1,213,581	1,226,481	1,178,765	47,716
Attendance	618,129	618,129	610,248	7,881
Health services	3,157,416	3,157,416	3,125,857	31,559
Total academic services	199,343,258	196,448,614	190,726,427	5,722,187
Transportation services:				
Transportation administration	2,205,236	2,208,811	2,335,494	(126,683)
Vehicle operation services	11,976,880	11,516,881	11,216,421	300,460
Monitoring services	2,033,575	2,033,575	2,149,649	(116,074)
Vehicle maintenance services	2,196,467	2,196,467	2,080,619	115,848
Total transportation services	18,412,158	17,955,734	17,782,183	173,551
Business and support services:				
Business	1,121,128	1,121,128	1,136,492	(15,364)
Purchasing	569,605	569,605	523,382	46,223
Athletics	2,342,919	2,342,919	2,200,596	142,323
Accountability	778,660	777,357	746,421	30,936
Operations	1,033,304	1,033,304	660,236	373,068
Grounds services	874,158	874,158	842,588	31,570
Building services	22,078,931	24,077,800	28,802,898	(4,725,098)
Vehicle operation services	313,211	855,298	906,593	(51,295)
Warehouse	288,487	289,987	299,176	(9,189)
Print shop	76,912	76,912	20,461	56,451
Facilities	477,500	477,500	477,500	-

**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, 2012

	Original Budget	Amended Budget	Actual	Variance
Total business and support services	29,954,815	32,495,968	36,616,343	(4,120,375)
Technology services:				
Technology - classroom instruction	71,500	596,110	1,209,572	(613,462)
Technology - instructional support	5,488,799	5,506,072	5,539,729	(33,657)
Information technology	3,728,095	3,958,858	4,793,479	(834,621)
Technology - operations & maintenance	860,491	867,065	811,881	55,184
Total technology services	10,148,885	10,928,105	12,354,661	(1,426,556)
Human Resources:				
Human resources	1,777,101	1,777,796	1,454,255	323,541
Security services	2,663,996	2,693,996	2,601,265	92,731
Total human resources	4,441,097	4,471,792	4,055,520	416,272
Administration:				
Information services	1,114,973	1,114,973	1,074,467	40,506
School Board	260,094	260,094	233,165	26,929
Superintendent's office	1,062,381	1,062,381	1,095,641	(33,260)
Total administration	2,437,448	2,437,448	2,403,273	34,175
Total expenditures	264,737,661	264,737,661	263,938,407	799,254
Total revenues over expenditures	14,288,837	14,288,837	13,941,831	(347,006)
Other financing uses -				
Transfer to Textbook Fund	1,144,679	1,144,679	1,144,679	-
Transfer to City of Newport News – debt service	13,144,158	13,144,158	13,144,158	-
Net change in fund balances	-	-	(347,006)	(347,006)
Fund balance at beginning of year	31,703,293	31,703,293	31,703,293	-
Transfers out not on the budget basis				
Transfer to Textbooks Fund	-	-	(5,072,759)	(5,072,759)
Transfer to Workers' Compensation Fund	-	-	(2,943,486)	(2,943,486)
Less encumbrances outstanding at June 30, 2011 expended or canceled at June 30, 2012	-	-	(10,736,135)	(10,736,135)
Add encumbrances outstanding at June 30, 2012	-	-	11,441,732	11,441,732
Increase in assigned for health self-insurance	-	-	200,412	200,412
Increase in nonspendable inventories	-	-	51,757	51,757
Fund balance at end of year	<u>\$ 31,703,293</u>	<u>\$ 31,703,293</u>	<u>\$ 24,297,808</u>	<u>\$ (7,405,485)</u>

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

Workers' Compensation Fund

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

Year Ended June 30, 2012

	Original Budget	Amended Budget	Actual	Variance
Revenues:				
Charges for services	\$ 772,580	\$ 772,580	\$ 737,978	\$ (34,602)
Investment income	25,000	25,000	10,398	(14,602)
Total revenues	797,580	797,580	748,376	(49,204)
Expenditures:				
Human resources	900,140	900,140	850,134	(50,006)
Total expenditures	900,140	900,140	850,134	(50,006)
Total revenues over expenditures	(102,560)	(102,560)	(101,758)	802
Net change in fund balances	(102,560)	(102,560)	(101,758)	802
Transfers in not on the budget basis				
Transfers in from the General Fund	-	-	2,943,486	2,943,486
Less encumbrances outstanding at June 30, 2011				
expended or canceled at June 30, 2012	-	-	(8,813)	(8,813)
Add encumbrances outstanding at June 30, 2012	-	-	10,862	10,862
Fund balance at end of year	<u>\$ (102,560)</u>	<u>\$ (102,560)</u>	<u>\$ 2,843,777</u>	<u>\$ 2,946,337</u>

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

Textbook Fund

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

Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:				
Total revenues	\$ -	\$ -	\$ -	\$ -
Expenditures:				
Academic services	3,000,000	3,000,000	3,000,000	-
Total expenditures	3,000,000	3,000,000	3,000,000	-
Total revenues over expenditures	(3,000,000)	(3,000,000)	(3,000,000)	-
Other financing uses -				
Transfers in	1,144,679	1,144,679	1,144,679	-
Net change in fund balances	(1,855,321)	(1,855,321)	(1,855,321)	-
Fund balance at beginning of year	-	-	-	-
Transfer in not on the budget basis				
Transfer from General Fund	-	-	5,072,759	5,072,759
Add encumbrances outstanding at June 30, 2012	-	-	689,523	689,523
Fund balance at end of year	<u>\$ (1,855,321)</u>	<u>\$ (1,855,321)</u>	<u>\$ 3,906,961</u>	<u>\$5,762,282</u>

**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, 2012

(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))
6/30/12	\$ 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%
6/30/07	3.4	194.0	(190.6)	1.75%	179.7	106.1%

**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, 2012

(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))
6/30/11	\$ 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, 2011 is the most recent actuarial valuation done.

**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, 2012

(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))
6/30/12	\$ 680	\$ 1,176	\$ (496)	57.8%	\$ 249	199.2%
6/30/11	641	1,145	(504)	56.0%	262	192.4%
6/30/10	638	1,110	(472)	57.5%	283	166.8%
6/30/09	711	1,115	(404)	63.8%	314	128.7%
6/30/08	772	1,030	(258)	75.0%	314	82.2%
6/30/07	746	954	(208)	78.2%	305	68.2%

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2012

(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 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 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. Encumbrances and reserved fund balances outstanding at year end are re-appropriated in the succeeding year.
- (iv) Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America (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 legally adopted operating budgets are not adopted for any other Special Revenue Funds. Program budgets for these funds are approved by executive departments 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.

(2) Intergovernmental Revenue – City of Newport News

A reconciliation of intergovernmental revenue follows:

City of Newport News budget appropriations	\$ 112,200,000
Less amounts recorded by City of Newport News	(14,165,160)
	<hr/>
City of Newport News revenue - GAAP basis	\$ 98,034,840
	<hr/> <hr/>

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

June 30, 2012

(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	\$ 158,441,296
Less amount for textbooks reported in the Textbook Fund for GAAP purposes	- <u>811,419</u>
General Fund revenue from the Commonwealth of Virginia reported for GAAP	<u>\$ 157,629,877</u>
Reported in the Textbook Fund on the Budget Basis	\$ 0
Add amount for textbooks reported in the Textbook Fund for GAAP purposes	<u>811,419</u>
Textbook Fund revenue from the Commonwealth of Virginia reported for GAAP	<u>\$ 811,419</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, 2012

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year
Asset:				
Cash and cash equivalents	<u>\$ 1,425,733</u>	<u>\$ 3,438,222</u>	<u>\$ 3,401,948</u>	<u>\$ 1,462,007</u>
Liabilities:				
Accounts payable	\$ 28,612	\$ 56,150	\$ 28,612	\$ 56,150
Due to students	<u>1,397,121</u>	<u>3,382,072</u>	<u>3,373,336</u>	<u>1,405,857</u>
Total liabilities	<u>\$ 1,425,733</u>	<u>\$ 3,438,222</u>	<u>\$ 3,401,948</u>	<u>\$ 1,462,007</u>

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

June 30, 2012

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, 2012

	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	\$ 2,793,382	\$ 3,914,086	\$ 3,768,698	\$ 479,813	\$ 1,125,252	\$ 12,662	\$ 12,093,893
Accounts receivable	62,557	-	-	159,823	-	-	222,380
Due from other governments:							
Federal -							
Department of Agriculture	-	-	441,200	-	-	-	441,200
Inventories, at cost	-	-	336,143	-	-	-	336,143
Total assets	\$ 2,855,939	\$ 3,914,086	\$ 4,546,041	\$ 639,636	\$ 1,125,252	\$ 12,662	\$ 13,093,616
Liabilities and Fund Balances							
Liabilities:							
Accounts payable	\$ 12,162	\$ 7,125	\$ 28,546	\$ 134	\$ -	\$ -	\$ 47,967
Total liabilities	12,162	7,125	28,546	134	-	-	47,967
Fund balances:							
Nonspendable:							
Inventories	-	-	336,143	-	-	-	336,143
Restricted:							
Adult education services	-	-	-	257,944	-	-	257,944
Capital projects	-	-	-	-	1,117,194	12,662	1,129,856
Child nutrition services	-	-	2,830,425	-	-	-	2,830,425
Workers' compensation	2,832,915	-	-	-	-	-	2,832,915
Textbooks	-	3,217,438	-	-	-	-	3,217,438
Assigned to:							
Adult education services	-	-	-	377,386	-	-	377,386
Child nutrition services	-	-	999,650	-	-	-	999,650
Contractual obligations	10,862	689,523	351,277	4,172	8,058	-	1,063,892
Unassigned	-	-	-	-	-	-	-
Total fund balances	2,843,777	3,906,961	4,517,495	639,502	1,125,252	12,662	13,045,649
Total liabilities and fund balances	\$ 2,855,939	\$ 3,914,086	\$ 4,546,041	\$ 639,636	\$ 1,125,252	\$ 12,662	\$ 13,093,616

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

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Other Nonmajor Governmental Funds

Year Ended June 30, 2012

(Continued)

	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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,860,000	\$ 1,860,000
Commonwealth of Virginia	-	811,419	287,469	222,981	-	-	1,321,869
Federal government	-	-	10,861,821	-	-	-	10,861,821
Charges for services	737,978	-	3,923,464	326,015	-	-	4,987,457
Investment income	10,398	-	8,386	-	-	-	18,784
Total revenues	<u>748,376</u>	<u>811,419.00</u>	<u>15,081,140</u>	<u>548,996</u>	<u>-</u>	<u>1,860,000</u>	<u>19,049,931</u>
Current expenditures:							
Academic services	-	2,310,477	-	481,803	-	-	2,792,280
Business and support services	-	-	159,726	-	-	-	159,726
Child nutrition services	-	-	14,217,246	-	-	-	14,217,246
Human Resources	848,085	-	-	-	-	-	848,085
Capital outlay	-	-	-	-	263,837	3,176,154	3,439,991
Total expenditures	<u>848,085</u>	<u>2,310,477</u>	<u>14,376,972</u>	<u>481,803</u>	<u>263,837</u>	<u>3,176,154</u>	<u>21,457,328</u>
Excess (deficiency) of revenues over expenditures	(99,709)	(1,499,058)	704,168	67,193	(263,837)	(1,316,154)	(2,407,397)
Other financing sources -							
Transfers in	2,943,486	5,406,019	-	-	-	-	8,349,505
Transfers out	-	-	-	-	-	-	-
Net change in fund balances	<u>2,843,777</u>	<u>3,906,961</u>	<u>704,168</u>	<u>67,193</u>	<u>(263,837)</u>	<u>(1,316,154)</u>	<u>5,942,108</u>
Fund balances at beginning of year	-	-	3,785,204	572,309	1,389,089	1,328,816	7,075,418
Increase in nonspendable inventory	-	-	28,123	-	-	-	28,123
Fund balances at end of year	<u>\$ 2,843,777</u>	<u>\$ 3,906,961</u>	<u>\$ 4,517,495</u>	<u>\$ 639,502</u>	<u>\$ 1,125,252</u>	<u>\$ 12,662</u>	<u>\$ 13,045,649</u>

STATISTICAL SECTION

STATISTICAL SECTION

(Unaudited)

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

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.

Contents	Page
Financial Trends	S-1
<i>These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.</i>	
Revenue Capacity	
<i>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.</i>	
Debt Capacity	S-7
<i>The School Board cannot issue general obligation bonded debt. The debt for capital leases and facility notes payable is provided.</i>	
Demographic and Economic Information	S-8
<i>The schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.</i>	
Operating Information	S-10
<i>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.</i>	

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

Table I

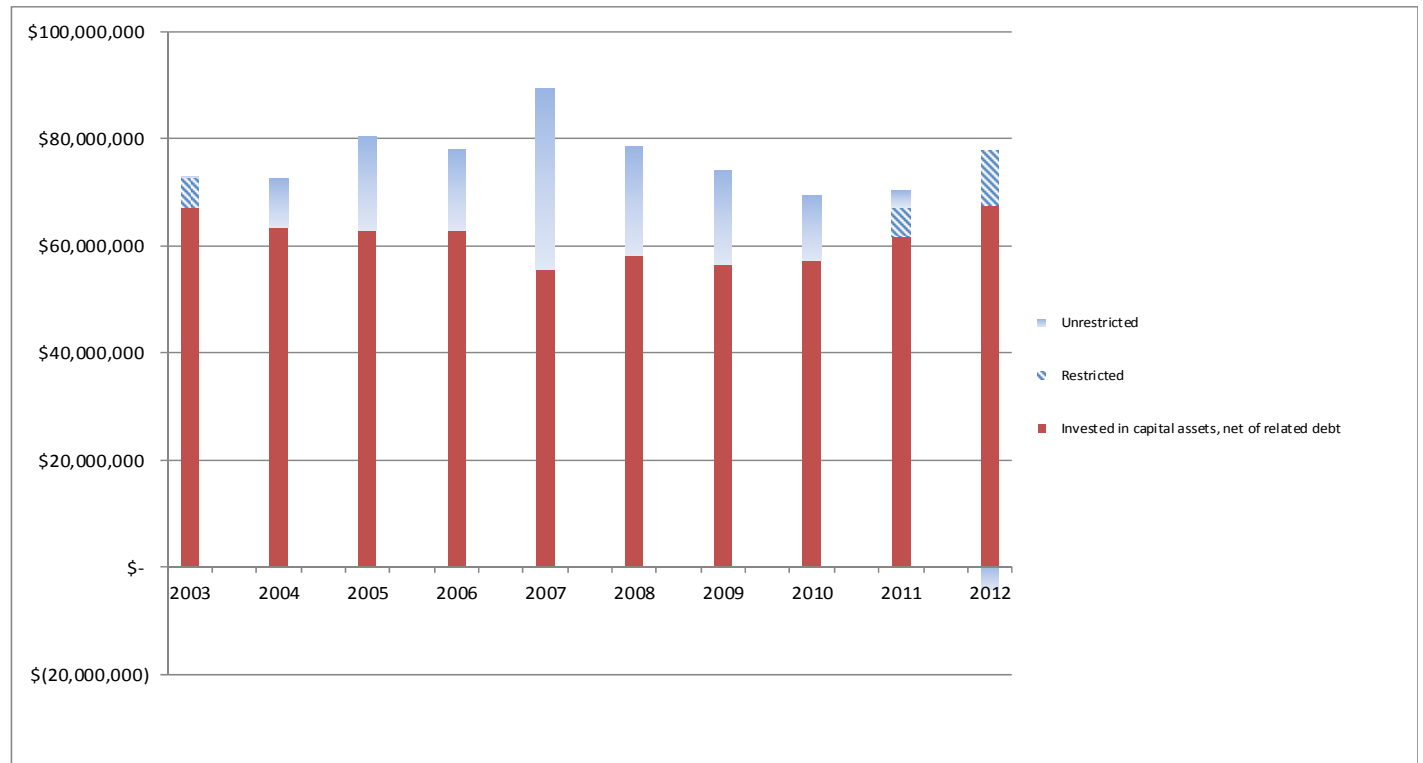
**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

Net Assets by Component

Last Ten Fiscal Years

(Accrual Basis of Accounting)
Fiscal Year

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental activities										
Invested in capital assets, net of related debt	\$ 67,044,965	\$ 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
Restricted	5,738,705	-	-	-	-	-	-	-	5,483,662	10,268,578
Unrestricted	26,583	9,026,271	17,557,851	15,122,510	33,627,682	20,320,652	17,513,844	12,260,185	3,062,106	(4,156,231)
Total primary government net assets	\$ 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



Note: The School Board began to report accrual information when it implemented GASB Statement 34 in 2002.

Table II

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

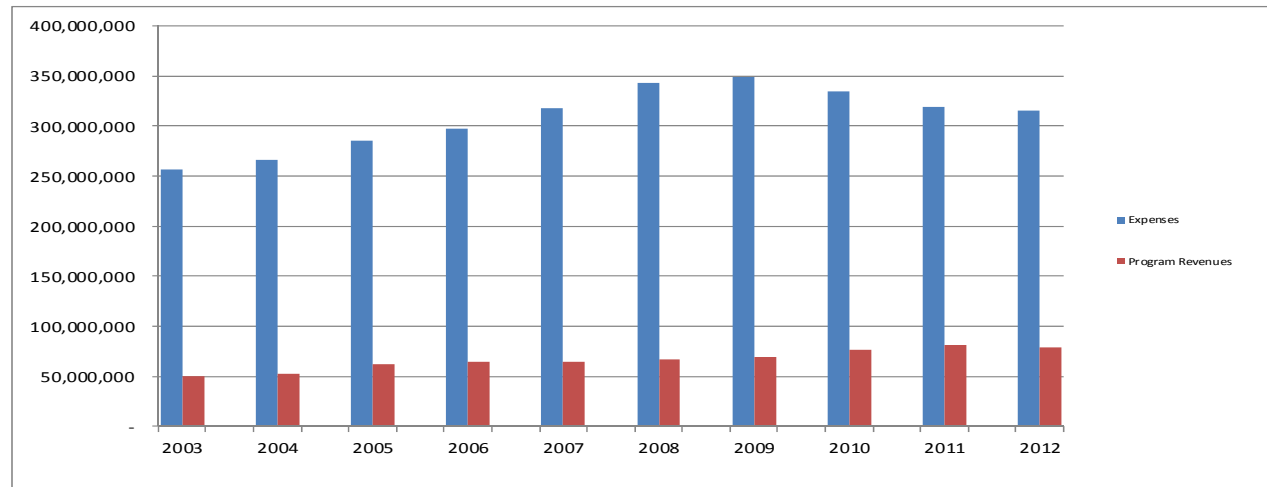
Expenses, Program Revenues and Net Expense/ (Revenue)

Last Ten Fiscal Years

(Accrual Basis of Accounting)

Fiscal Year

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Expenses										
Governmental activities:										
Academic services	\$ 199,315,146	\$ 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
Transportation services	13,016,938	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
Business and support services	28,570,718	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
Child nutrition services	11,929,650	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
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
Human resources	1,054,527	3,020,919	4,474,037	5,597,731	8,476,045	7,271,225	7,096,590	5,831,201	5,263,671	5,124,886
Administration	2,308,361	2,256,463	2,732,655	3,145,969	3,101,378	3,469,967	3,072,736	2,610,749	2,479,316	2,502,297
Interest on capital debt	194,519	180,227	548,331	208,861	1,795,325	1,754,471	846,193	1,363,623	639,293	503,181
Total primary government expenses	<u>256,389,859</u>	<u>265,752,789</u>	<u>285,301,870</u>	<u>297,865,031</u>	<u>317,517,767</u>	<u>342,886,093</u>	<u>349,098,483</u>	<u>334,211,863</u>	<u>318,675,759</u>	<u>315,716,709</u>
Program Revenues										
Charges for services:										
Academic services	1,162,627	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
Business and support services	283,349	224,922	392,302	497,998	1,107,445	730,821	701,607	1,143,087	1,066,629	597,360
Child nutrition services	4,337,918	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
Technology services	-	-	-	-	-	-	241,547	247,226	265,388	192,388
Operating grants and contributions	43,746,557	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
Capital grants and contributions	632,031	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
Total primary government program revenues	<u>50,162,482</u>	<u>52,752,412</u>	<u>61,762,306</u>	<u>64,312,982</u>	<u>64,702,838</u>	<u>67,401,771</u>	<u>69,703,505</u>	<u>77,116,234</u>	<u>81,740,940</u>	<u>78,896,595</u>
Net Expense/(Revenue)										
Total primary government net expense	<u>\$ 206,227,377</u>	<u>\$ 213,000,377</u>	<u>\$ 223,539,564</u>	<u>\$ 233,552,049</u>	<u>\$ 252,814,929</u>	<u>\$ 275,484,322</u>	<u>\$ 279,394,978</u>	<u>\$ 257,095,629</u>	<u>\$ 236,934,819</u>	<u>\$ 236,820,114</u>



Note: The School Board began to report accrual information when it implemented GASB Statement 34 in 2002.

Table III

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

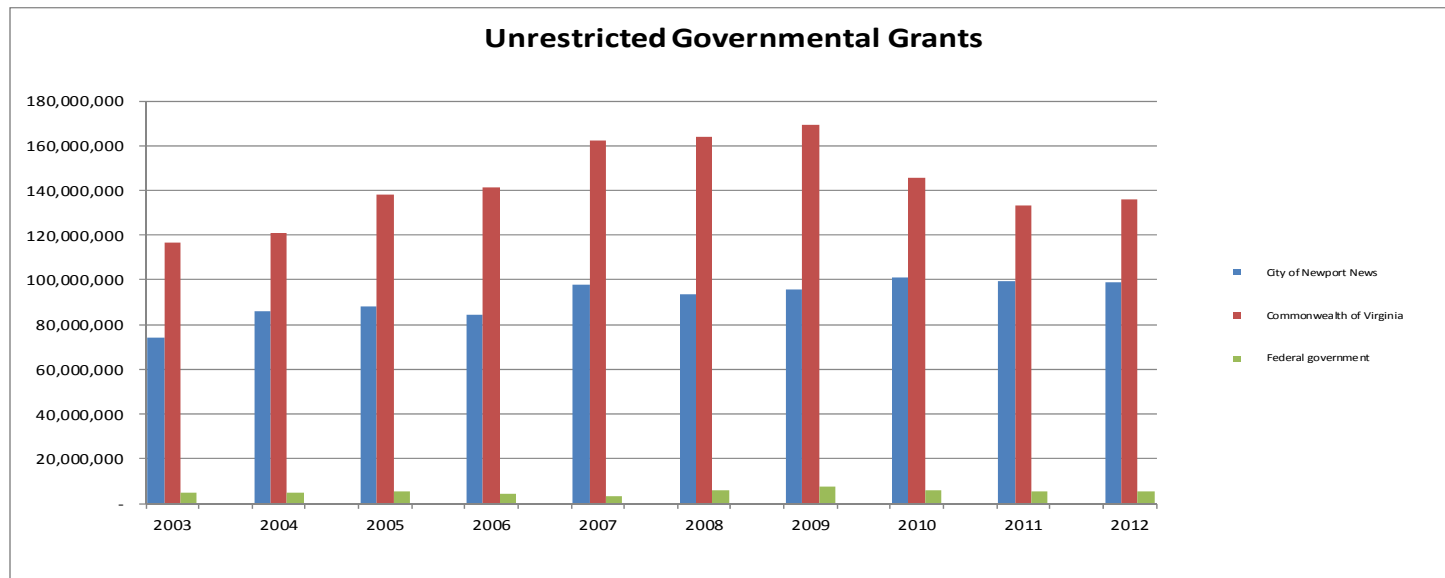
General Revenues and Total Changes in Net Assets

Last Ten Fiscal Years

(Accrual Basis of Accounting)

Fiscal Year

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net Expense										
Total primary government net expense	\$ 206,227,377	\$ 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
General Revenues and Other										
Changes in Net Assets										
Governmental activities:										
Grants not restricted to specific programs										
City of Newport News	74,094,857	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
Commonwealth of Virginia	116,389,313	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
Federal government	4,743,154	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
Interest	442,634	93,396	83,085	97,051	172,616	179,679	56,401	22,443	16,099	18,784
Miscellaneous	1,066,957	901,909	-	476,128	409,740	1,215,891	-	-	-	-
Total general revenues	196,736,915	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
Change in Net Assets	(9,490,462)	(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
Net assets at beginning of year	82,300,715	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
Prior period adjustment	-	-	-	-	-	-	2,670,328	-	-	-
Net assets at end 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



Note: The School Board began to report accrual information when it implemented GASB Statement 34 in 2002.

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
General Fund										
Reserved	\$ 11,687,938	\$ 15,487,793	\$ 18,918,692	\$ 18,323,640	\$ 24,214,767	\$ 26,751,505	\$ 33,179,119	\$ -	\$ -	\$ -
Unreserved	3,659,042	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
Assigned to	-	-	-	-	-	-	-	38,704,948	31,046,573	23,589,331
Unassigned	-	-	-	-	-	-	2,820,409	-	-	-
Total general fund	<u>\$ 15,346,980</u>	<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>
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 funds	1,488,932	1,510,359	1,281,855	1,044,693	2,041,666	2,314,115	2,632,636	-	-	-
Capital project funds	(5,693,791)	(4,541,645)	(6,170,129)	(5,303,241)	1,347,479	2,907,202	2,358,745	-	-	-
Nonspendable	-	-	-	-	-	-	-	295,190	308,020	336,143
Restricted	-	-	-	-	-	-	-	1,871,770	5,483,662	10,268,578
Assigned to	-	-	-	-	-	-	-	7,282,680	7,352,044	2,440,928
Total all other governmental funds	<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>\$ 13,143,726</u>	<u>\$ 13,045,649</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
2003	\$ 80,286,179	\$ 135,986,420	\$ 29,524,635	\$ 7,293,485	\$ 3,077,978	\$ 256,168,697
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

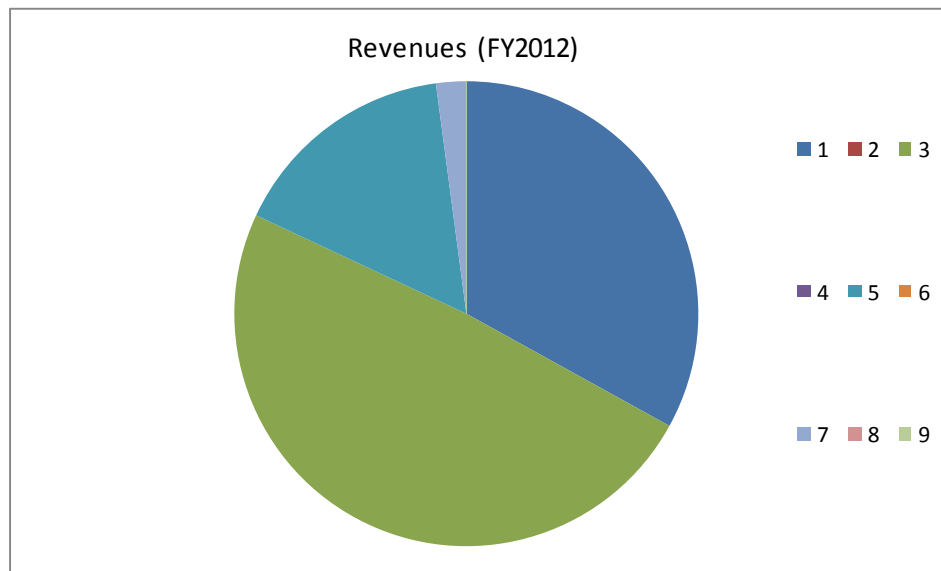


Table VI

**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)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Revenues and other financing	\$ 256,168,697	\$ 275,463,667	\$ 312,851,790	\$ 299,294,089	\$ 338,820,675	\$ 342,968,318	\$ 349,406,945	\$ 333,341,590	\$ 324,091,843	\$ 329,699,239
Academic services	\$ 193,153,858	\$ 191,829,451	\$ 206,623,222	\$ 214,816,879	\$ 229,919,650	\$ 236,249,151	\$ 238,023,334	\$ 234,743,753	\$ 225,908,429	\$ 227,559,797
Transportation services	11,403,511	11,990,048	13,439,423	13,999,913	14,922,008	16,185,859	16,806,995	16,706,999	15,976,632	17,575,505
Business and support services	27,899,752	25,233,122	27,983,539	27,687,672	28,770,938	28,570,237	33,654,510	27,690,322	31,634,702	33,658,928
Child nutrition services	11,680,425	11,703,127	12,441,054	12,952,160	13,354,072	13,916,630	13,486,037	13,231,220	13,630,294	14,217,246
Technology services	-	9,306,605	11,055,093	11,043,512	11,289,089	15,117,541	13,024,631	21,407,036	14,602,982	12,916,263
Human resources	-	1,370,352	4,391,882	5,424,992	8,425,889	6,940,491	6,695,099	5,439,030	4,903,879	4,875,415
Administration	3,189,675	3,355,564	2,663,546	3,028,932	3,083,024	3,130,988	2,733,101	2,423,377	2,305,805	2,391,998
Capital outlay	15,879,003	16,873,248	25,329,175	12,871,893	8,504,309	15,284,734	13,339,928	10,091,413	12,596,870	13,967,918
Debt service										
Principal	646,831	883,976	1,464,890	2,664,410	3,383,209	4,122,193	2,616,893	2,750,273	2,817,314	3,352,473
Interest	194,519	180,227	548,331	208,861	1,829,826	1,754,471	846,193	1,363,623	639,293	503,181
Other financing uses	-	-	-	-	-	112,000	142,000	74,463	30,000	-
Total expenditures and other financing uses	\$ 264,047,574	\$ 272,725,720	\$ 305,940,155	\$ 304,699,224	\$ 323,482,014	\$ 341,384,295	\$ 341,368,721	\$ 335,921,509	\$ 325,046,200	\$ 331,018,724
Change in fund balance	\$ (7,878,877)	\$ 2,737,947	\$ 6,911,635	\$ (5,405,135)	\$ 15,338,661	\$ 1,584,023	\$ 8,038,224	\$ (2,579,919)	\$ (954,357)	\$ (1,319,485)
Debt service as a percentage of noncapital expenditures	0.3%	0.4%	0.7%	1.0%	1.7%	1.8%	1.1%	1.3%	1.1%	1.2%

NOTE - Technology services was part of Academic services until FY2004; Human resources was part of Business and support services until FY2004.

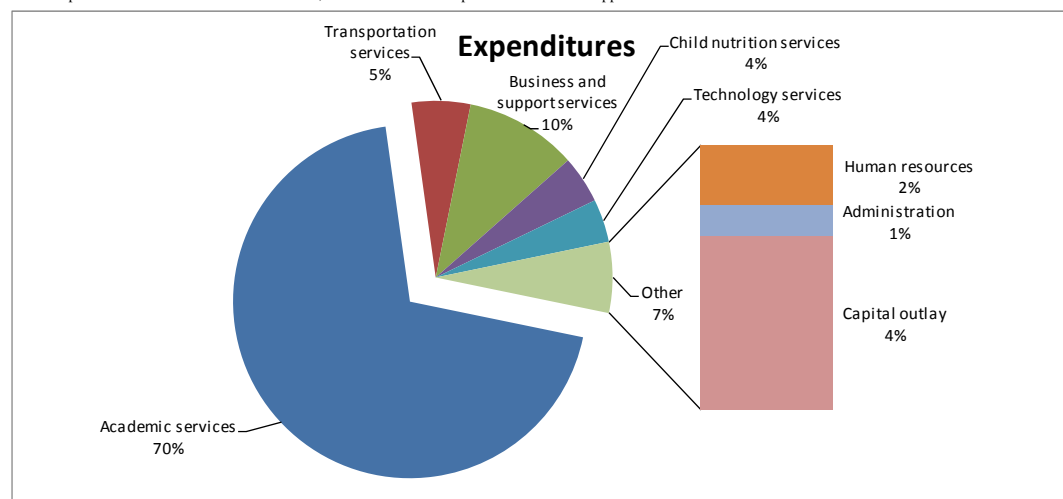


Table VII

**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

(Amounts in thousands except for population)

Fiscal year	(1) Population	(2) Assessed value of real 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
2003	181,640	\$ 7,807,813	\$ 4,598,879	\$ 4,029	0.05%	22	0.09%
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	Not Available	12,005	0.07%	66	Not Available
2012	179,611	16,878,501	Not Available	8,653	0.05%	48	Not Available

Notes: (1) Source: 2003-2004, 2006-2008 – City estimate; 2009-2011 – U. S. Bureau of Census; 2005 – Virginia Employment Commission

(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				
	2009	2010	2011	2012	Change	2009	2010	2011	2012	Change
English: Reading	85	75	73	81	8	86	83	83	86	3
Mathematics	85	90	87	49	(38)	89	92	91	64	(27)
Science	84	87	81	82	1	89	91	90	90	-
History/Social Studies	91	91	78	76	(2)	93	93	85	87	2
Grade 4										
Test	School Board					State				
	2009	2010	2011	2012	Change	2009	2010	2011	2012	Change
English: Reading	89	81	79	76	(3)	89	88	87	88	1
Mathematics	83	82	83	60	(23)	86	88	89	70	(19)
Virginia Studies	88	80	89	83	(6)	88	87	89	89	-
Grade 5										
Test	School Board					State				
	2009	2010	2011	2012	Change	2009	2010	2011	2012	Change
English: Writing	82	89	81	78	(3)	86	88	87	87	-
English: Reading	89	87	83	79	(4)	92	90	89	89	-
Mathematics	88	87	88	36	(52)	90	90	89	67	(22)
Science	83	84	85	86	1	88	88	87	88	1
Grade 6										
Test	School Board					State				
	2009	2010	2011	2012	Change	2009	2010	2011	2012	Change
English: Reading	79	80	82	84	2	86	88	87	89	2
Mathematics	66	67	69	68	(1)	73	77	73	74	1
U.S. History I	61	64	76	71	(5)	74	78	81	81	-
Grade 7										
Test	School Board					State				
	2009	2010	2011	2012	Change	2009	2010	2011	2012	Change
English: Reading	82	82	83	82	(1)	88	89	89	88	(1)
Mathematics	66	64	66	33	(33)	71	75	77	58	(19)
U.S. History II	87	85	82	74	(8)	92	91	85	84	(1)
Grade 8										
Test	School Board					State				
	2009	2010	2011	2012	Change	2009	2010	2011	2012	Change
English: Writing	87	87	83	85	2	89	91	88	88	-
English: Reading	83	87	86	84	(2)	87	90	90	89	(1)
Mathematics	76	80	75	44	(31)	85	87	82	60	(22)
Science	87	88	88	87	(1)	90	92	92	92	-
Civics/Economics	77	77	80	75	(5)	84	86	84	84	-
End of Course										
Test	School Board					State				
	2009	2010	2011	2012	Change	2009	2010	2011	2012	Change
English: Writing	90	91	90	90	-	92	92	93	93	-
English: Reading	92	91	91	89	(2)	95	94	94	94	-
Algebra I	91	91	92	66	#N/A	94	94	94	75	#N/A
Algebra II	81	84	87	58	#N/A	91	91	91	69	#N/A
Geometry	74	79	78	62	#N/A	87	88	87	74	#N/A
Earth science	81	80	86	84	#N/A	87	88	89	90	#N/A
Biology	80	83	84	88	#N/A	88	89	90	92	#N/A
Chemistry	89	88	93	91	#N/A	93	93	93	93	#N/A
World History I	94	92	79	84	5	93	93	81	84	3
World History II	96	91	82	86	4	93	93	82	85	3
VA & U. S. History	93	91	75	74	(1)	95	95	83	85	2
World Geography	78	76	75	73	(2)	86	86	85	85	-

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

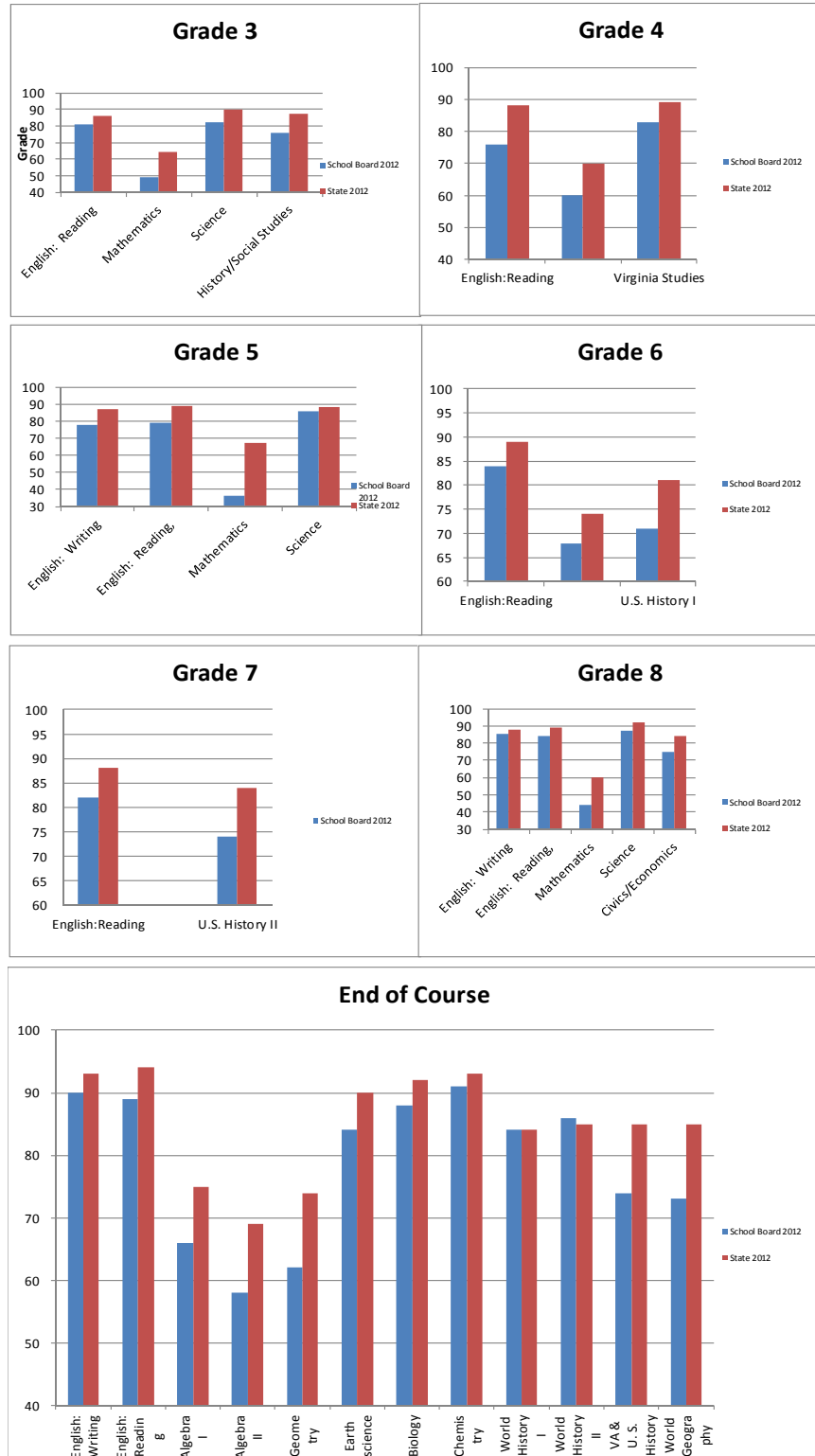


Table IX

THE SCHOOL BOARD OF THE CITY OF NEWPORT NEWS, VIRGINIA

Miscellaneous Statistics

June 30, 2012

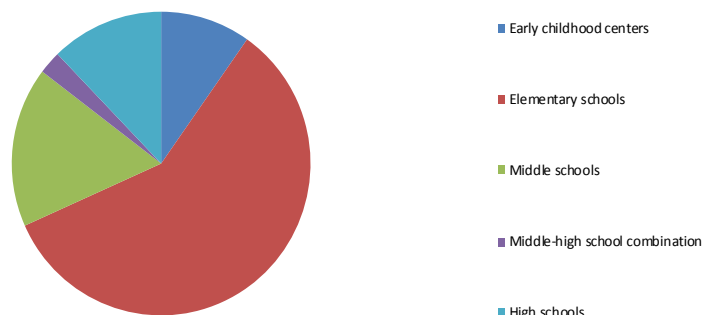
City of Newport News General Information

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

The School Board of the City of Newport News

Number of schools:		Average daily students (FY2012):	
Early childhood centers	4	Early childhood centers	1,662
Elementary schools	24	Elementary school	13,416
Middle schools	7	Middle school	6,150
Middle-high school combination	1	High school	8,135
High schools	5		
Total	<u>41</u>	Total	<u>29,363</u>

Number of Schools



Average Daily Students (FY2012)

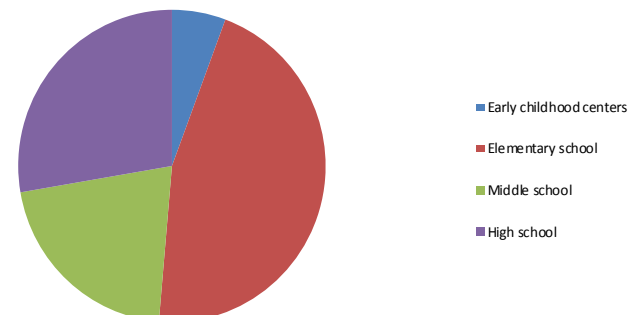


Table X

**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 (%)
2003	181,640	\$ 4,598,879	\$ 23,654	31,535	4.9%
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	Not Available	33,120	28,183	7.6%
2012	179,611	Not Available	32,921	27,701	7.4%

Notes: (1) Source: 2003-2008 - City estimate; 2009-2012 – U. S. Bureau of Census

(2) Source: 2003-2007 Virginia Employment Commission; 2008-2010 Bureau of Economic Accounts; 2011-2012 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) 2003-2009 Virginia Employment Commission; 2010-2012 Virginia Workforce Connection

Table XI

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

Capital Asset Information
Most Recent Seven Fiscal Years

	2006	2007	2008	2009	2010	2011	2012
<u>Schools</u>							
Elementary							
Buildings (Note 1)	28	26	26	26	26	25	24
Average age of buildings (Note 2)	42 years	43 years	44 years	45 years	46 years	47 years	48 years
Modular learning cottages	78	78	78	72	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
Capacity (based on current program)	16,124	15,450	17,459	17,459	16,391	15,800	15,600
Enrollment (as of September 30)	14,190	14,033	13,645	13,746	13,862	13,728	13,686
Percent of capacity used	88%	91%	78%	79%	85%	87%	88%
Middle							
Buildings (Note 1)	8	8	9	9	8	8	8
Average age of buildings (Note 2)	40 years	41 years	38 years	39 years	38 years	39 years	40 years
Modular learning cottages	19	19	19	19	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
Capacity (based on current program)	8,723	9,073	8,084	8,084	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
Percent of capacity used	85%	78%	84%	80%	83%	81%	83%
High							
Buildings	5	5	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
Alternative high school facilities (leased)	2	2	2	2	2	2	2
Modular learning cottages	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
Capacity (based on current program)	8,206	8,206	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
Percent of capacity used	119%	117%	110%	109%	105%	101%	95%
Early Childhood Centers							
Buildings	5	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
Square feet	86,000	112,700	112,700	112,700	181,000	181,000	206,403
Capacity (based on current program)	1,850	1,700	1,700	1,700	1,850	1,850	2,050
Enrollment (as of September 30)	1,783	1,684	1,668	1,790	1,813	1,607	1,637
Percent of capacity used	96%	99%	98%	105%	98%	87%	80%
<u>Administrative and Operations</u>							
Buildings	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
Square feet	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
Age of building	29 years	30 years	31 years	32 years	33 years	34 years	35 years
Square feet	26,500	26,500	26,500	26,500	26,500	26,500	26,500
Buses	405	405	412	372	368	361	375

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

	(1)	(2)	(2)	(3)
Fiscal Year	Cost per Student	Elementary Student/ Teacher Ratio	Secondary Student/ Teacher Ratio	Percentage of Students on Free/Reduced Lunch
2003	\$7,549	13.1	12.6	46.1%
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	\$11,135	14.1	12.7	59.1%

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. (FY2012 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 2012 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 Seven Fiscal Years

	2006	2007	2008	2009	2010	2011	2012
Supervisory:							
Principals	44	43	50	45	40	44	38
Assistant principals	77	76	76	74	74	68	78
Instructional administrative	70	75	69	74	64	56	59
Other administrative and professional	70	69	55	72	64	55	61
Instructional:							
Elementary classroom teachers	1,427	1,426	1,453	1,317	1,373	1,310	1,251
Secondary classroom teachers	789	809	782	842	840	795	771
Guidance counselors	85	84	87	92	99	91	88
Librarians	51	49	51	45	48	47	46
Technology	50	50	50	30	32	32	31
Other instructional	159	163	165	147	158	138	115
Social workers	16	18	20	18	18	18	16
Teacher assistants	490	498	483	526	533	521	500
Support Services:							
Psychologists	15	18	18	18	21	21	17
Instructional technical	13	14	15	30	55	40	36
Instructional clerical	222	228	231	238	223	219	192
Non-instructional technical	81	93	75	134	105	102	108
Non-instruction clerical	70	59	72	51	38	38	27
Nurses	55	56	56	53	55	52	51
Bus drivers	370	394	394	384	340	326	315
Bus assistants	99	98	98	100	92	91	90
Custodians	244	248	248	262	252	244	243
Child nutrition services	361	361	361	394	371	366	346
Security officers	56	65	68	66	65	65	63
Skilled trades	96	97	98	98	92	101	88
Other	112	86	83	3	2	2	2
Total	5,122	5,177	5,158	5,113	5,053	4,842	4,632

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

Data for prior years is not available.

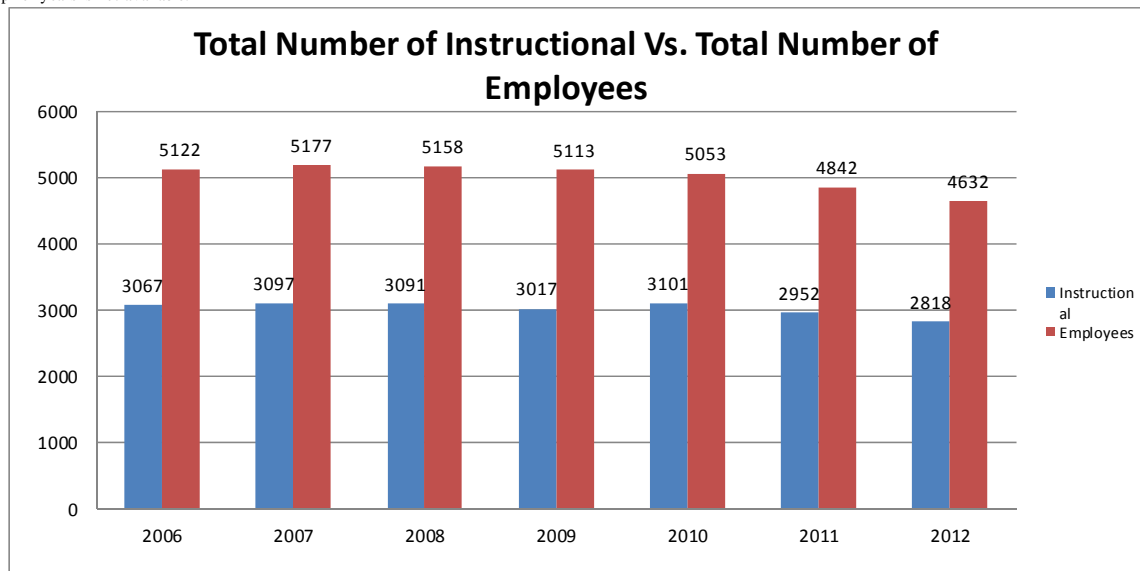


Table XIV

**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
2003	\$ 30,600	\$ 50,391	\$ 40,091	\$ 43,715
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	51,478
2012	38,205	56,761	48,228	Not Available

Sources: Minimum and Maximum salaries from Newport News Public Schools Budget Document, Appendix 2 for teachers with a Bachelors degree working standard 192-day contract. Newport News and Statewide average salary from Superintendent's annual financial report Table 19 as published by the Virginia Department of Education on their website, except FY2012 is from our submission to the State but not yet verified.

Table XV

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

Principal Taxpayers of the City of Newport News

June 30, 2012 and Nine Years Prior
(Amounts in Thousands)

Taxpayer	2003 Taxes (1)	Percentage of Total Assessments	2012 Taxes (1)	Percentage of Total Assessments
Huntington Ingalls Industries, Inc.	\$ 11,632	8.11%	\$ 16,471	7.05%
Canon Virginia, Inc.	1,571	1.10%	3,514	1.51%
Dominion Virginia Power	1,692	1.18%	2,121	0.91%
Continental Automotive Systems US, Inc.	-	-	1,958	0.84%
The Mariners' Museum (Riverside Hospital)	566	0.39%	1,625	0.70%
PR Patrick Henry, LLC	1,069	0.75%	1,505	0.64%
Verizon Virginia, Inc.	780	0.54%	1,430	0.61%
Dominion Terminal Associates	959	0.67%	1,135	0.49%
Kinder Morgan Operation LP "C"	412	0.29%	953	0.41%
Inland Western Newport News	-	-	724	0.31%
Virginia Natural Gas Inc	435	0.30%	641	0.27%
Bottling Group, LLC	-	-	569	0.24%
Ferguson Enterprises Corp	-	-	539	0.23%
Cox Communications Hampton Roads Inc	286	0.20%	497	0.21%
Patrick Henry Hospital (Warwick Forest)	-	-	496	0.21%
DCO Realty Inc	-	-	459	0.20%
Oyster Point Residential LLC	-	-	448	0.19%
Meridian Parkside Apartments LLC	-	-	379	0.16%
CSX Transportation	317	0.22%	353	0.15%
Harbours LLC	251	0.18%	334	0.14%
The Daily Press Inc	286	0.20%	-	-
Seimens - Bendix Automotive	1,671	1.16%	-	-
Shorewood Packaging Corp of Va	494	0.34%	-	-
Seimens Credit	522	0.36%	-	-
United Dominion Realty Trust Inc	353	0.25%	-	-
Newport-Oxford Associates Ltd	250	0.17%	-	-
General Electric Credit Corp of Tennessee	329	0.23%	-	-
Fountain Plaza One LLC	295	0.21%	-	-
	<u>\$ 24,170</u>	<u>16.85%</u>	<u>\$ 36,151</u>	<u>15.47%</u>

Note: (1) Includes real estate and personal property tax assessments for these taxpayers. Current taxpayer name used if different from 2003.

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

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

Principal Employers of the City of Newport News

June 30, 2012 and Nine Years Prior

Employer	2003 Employees	Percentage of Total City Employment	2012 Employees	Percentage of Total City Employment
Huntington Ingalls Industries, Inc.	10,000 - 25,000	19.96%	10,000 - 25,000	18.74%
Newport News Public Schools	1,000 - 5,000	3.42%	1,000 - 5,000	3.21%
Riverside Regional Medical Center	1,000 - 5,000	3.42%	1,000 - 5,000	3.21%
City of Newport News	1,000 - 5,000	3.42%	1,000 - 5,000	3.21%
U.S. Department of Defense	1,000 - 5,000	3.42%	1,000 - 5,000	3.21%
Ferguson Enterprise	—	—	1,000 - 5,000	3.21%
Canon	500 - 999	0.85%	1,000 - 5,000	3.21%
U.S. Department of Army & Air Force	1,000 - 5,000	3.42%	1,000 - 5,000	3.21%
Christopher Newport University	500 - 999	0.85%	1,000 - 5,000	3.21%
Hampton Newport News Community Services Board	—	—	500 -999	0.80%
MCI Payroll Services	1,000 - 5,000	3.42%	—	—
Siemen's Automotive Corporation	500 - 999	0.85%	—	—
	17,500 - 52,997	43.03%	18,000 - 65,999	45.22%

Source: Virginia Employment Commission

COMPLIANCE SECTION



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

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

We have audited the financial statements of the School Board of the City of Newport News, Virginia (the "School Board") as of and for the year ended June 30, 2012, and have issued our report thereon dated November 29, 2012. Our report includes a reference to 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. Other auditors audited the financial statements of the Student Activity Funds, a fiduciary 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

Management of the School Board is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the School Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School Board's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School Board's financial statements are free of 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*.

We noted certain matters that we reported to management of the School Board in a separate letter.

This report is intended solely for the information and use of the members of the School Board, management, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cheng Beckert + Holland, C.L.P.

Richmond, Virginia
November 29, 2012



**Independent Auditors' Report On Compliance With Requirements That
Could Have a Direct and Material Effect on Each Major Program and on Internal Control
Over Compliance in Accordance With OMB Circular A-133**

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

Compliance

We have audited the compliance of the School Board of the City of Newport News, Virginia (the "School Board"), with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The School Board's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the School Board's management. Our responsibility is to express an opinion on the School Board's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and 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. Our audit does not provide a legal determination of the School Board's compliance with those requirements.

In our opinion, the School Board, complied, in all material respects, with the 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, 2012.

Internal Control Over Compliance

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

A deficiency in internal control over compliance 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 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 possibility that material compliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

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

This report is intended solely for the information and use of the members of the School Board, management, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cheng Beckett + Holland, L.L.P.

Richmond, Virginia
November 29, 2012

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

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012

<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	\$ 771,113
<u>Virginia Department of Education:</u>		
School Breakfast Program (10.553/2011, 10.553/2012)	10.553	2,658,352
National School Lunch Program (10.555/2011, 10.555/2012)	10.555	7,179,399
Total Child Nutrition Cluster		<u>10,608,864</u>
Fresh Fruits and Vegetables (10.582/2011, 10.582/2012)	10.582	252,957
<u>Department of Defense</u>		
United States Army Robotics	12.431	19,844
Military Connected Schools	12.556	661,213
ROTC	12.357	355,322
Financial Assistance - Impact Aid - Severe Disabilities	12.558	696,459
<u>Department of Education</u>		
Impact Aid	84.041	3,907,371
Voices of a Nation	84.215	311,375
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	124,385
<u>Pass-through payments -</u>		
<u>Virginia Department of Education:</u>		
Adult Education - Basic Grants	84.002	185,350
Adult Literacy - Corrections and Institutions (V002A100047, V002A110047)	84.002	15,127
Total Adult Education		<u>200,477</u>
Title I Part A Grants to Local Educational Agencies (S010A090046, S010A100046, S010A110046)	84.010	12,568,377
Title I Part A School Improvement (S010A090046)	84.010	46,875
Title I Distinguished Schools	84.010	7,675
Title I Grants to Local Educational Agencies (ARRA) (S389A090046)	84.389	835,223
Total Title I, Part A Cluster		<u>13,458,150</u>
IDEA Part B Section 611 Special Education (H027A100107)	84.027	7,534,105
IDEA Part B Section 611 - Interpreter Training (H027A100107)	84.027	37,889
IDEA Part B Section 619 Special Education Preschool (H173A100112, H173A110112)	84.173	187,326
Special Education Preschool Grants (ARRA) (H392A090112)	84.392	9,877
Total Special Education Cluster (IDEA)		<u>7,769,197</u>

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

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
Vocational Education - Perkins Secondary (V048A100046, V048A110046)	84.048	690,406
Safe and Drug-Free Schools and Communities (Q186A090048)	84.186	29,916
Title X McKinney-Vento Homeless	84.196	14,769
Title IV Part B 21 Century Community Learning (S287C090047, S287C100047)	84.287	1,347,454
Title II Part A Language Acquisition Immigrant and Youth (S365A100046)	84.365	5,528
Title II Part A Language Acquisition State Grant (S365A090046, S365A100046)	84.365	66,543
Total English Language Acquisition Grant		72,071
Title II Part A Improving Teacher Quality (S367A090044, S367A100044)	84.367	1,591,244
Education Technology State Grants (ARRA) (S386A090046)	84.386	13,658
Education Technology State Grants (S318X090046)	84.318	38,840
Total Education Technology State Grants Cluster		52,498
Title I School Improvement (ARRA) (S388A090047)	84.388	199,793
Stabilization Funds (ARRA) (S394A090047)	84.394	1,863,726
Stabilization Funds in lieu of Basic Aid (ARRA) (W394A090047)	84.394	7,325,282
Total Stabilization Funds		9,189,008
Education Jobs (ARRA) (S410A100047)	84.410	615,425
<u>Pass-through Payments -</u>		
<u>Virginia Department of Social Services</u>		
Medicaid Assistance Program	93.778	\$ 416,626
<u>Department of the Interior</u>		
<u>Bureau of Land Management</u>		
National Forest Reserve	10.665	4,363
<u>National Aeronautics and Space Administration</u>	43.008	7,000
		\$ 52,596,187

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

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards 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) Relationship to Basic Financial Statements

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

	Federal Expenditures
General Fund	\$ 5,380,140
Grants Fund	36,338,065
Other Non-Major Special Revenue Funds	<u>10,861,821</u>
Subtotal Federal expenditures basic financial statements	\$52,580,026
Adjustment resulting in a one account shown as negative revenue	<u>16,161</u>
Total expenditures as shown on Schedule of Federal Awards	<u>\$52,596,187</u>

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

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

A. Summary of Auditors' Results

1. The type of report issued on the basic financial statements: **UNQUALIFIED 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: **UNQUALIFIED 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 93.778 – Medicaid**
 - CFDA 84.367 – Improving Teacher Quality State Grants**
 - CFDA 12.558 – Financial Assistance – Impact Aid – Severe Disabilities**
 - CFDA 84.287 – Title IV Part B 21 Century Community Learning**
 - CFDA 84.394 – State Fiscal Stabilization Fund**
10. Dollar Threshold used to distinguish between Type A Programs and Type B Programs: **\$1,577,886**
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: Resolution of Prior Year's Findings

There were no findings reported in the prior year.