

# ***Comprehensive Annual Financial Report***

***City of Portsmouth, Virginia School Board***  
***A Component Unit of the City of Portsmouth, Virginia***

***For the Fiscal Year Ended June 30, 2013***

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**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**City of Portsmouth, Virginia School Board  
Component Unit of the City of Portsmouth, Virginia**

For the Fiscal Year Ended June 30, 2013

Prepared by the Department of Finance

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**CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD  
COMPONENT UNIT OF THE CITY OF PORTSMOUTH, VIRGINIA  
June 30, 2013**

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## ***INTRODUCTORY SECTION***



April 23, 2014

The Honorable Members of the School Board  
and the Citizens of the City of Portsmouth, Virginia:

I am pleased to submit the Comprehensive Annual Financial Report ("CAFR") for the City of Portsmouth, Virginia School Board ("School Board" or "PPS") for the fiscal year ended June 30, 2013. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the management of the School Board. To the best of my knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the Governmental Activities and various funds of the School Board. All disclosures necessary to enable the reader to gain an understanding of the School Board's financial activities have been included.

For financial reporting, the School Board is a component unit of the City of Portsmouth, Virginia ("City"), and, accordingly, the financial position and results of operations of the School Board are also reflected in the financial statements included in the City's CAFR. An annual audit of the books of accounts, financial records, and transactions of all the departments of the school division has been performed by Cherry Bekaert L.L.P., Certified Public Accountants. The auditors' reports, which include their unqualified opinion on the basic financial statements of the school division, are included herein.

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview, and analysis to accompany the Basic Financial Statements in the form of Management's Discussion and Analysis (MD&A). This Transmittal Letter is designed to complement MD&A and should be read in conjunction with it.

The School Board is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996. Information related to this single audit, including the Schedule of Expenditures of Federal Awards, findings and recommendations, if any, and auditors' reports, are included in the City's CAFR.

The GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities, in March 2012. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4. The requirements of the related Statement are effective for financial statements for periods beginning after December 15, 2012.

**Office of the Division Superintendent**  
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Telephone (757) 393-8742 • Fax (757) 393-5236  
[www.pps.k12.va.us](http://www.pps.k12.va.us)

The GASB issued Statement No. 66, Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62, in March 2012. The requirements of the related Statement are effective for financial statements for periods beginning after December 15, 2012.

The GASB issued Statement No. 67, Financial Reporting for Pension Plans, in June 2012. This Statement amends Statement No. 25 relating to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. The requirements of the related Statement are effective for financial statements for periods beginning after June 15, 2013.

The GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions, in June 2012. This Statement amends Statements No. 27 and No. 50 relating to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of the related Statement are effective for financial statements for periods beginning after June 15, 2014.

The GASB issued Statement No. 69, Government Combinations and Disposals of Government Operations in January 2013. This statement amends Statements No. 51 and 62 relating to mergers, acquisitions and transfers of operations. The requirements of the related Statements are effective for financial statements beginning after December 15, 2013.

The GASB issued Statement No. 70, Accounting and Financial Reporting for Non-exchange Financial Guarantees in April 2013. The requirements of the related Statements are effective for financial statements beginning after June 15, 2013.

### **The Reporting Entity and Organization**

Founded in 1752 and incorporated by the Virginia General Assembly in 1858, the City of Portsmouth, Virginia is an urban core city situated at the center of Hampton Roads, the country's 33<sup>rd</sup> largest Metropolitan Statistical Area with over 1.5 million residents. The City encompasses 29.9 square miles of real property of which 54% is tax exempt due in large part to military installations. Over 250 years old, the City is the home to one of the world's greatest natural harbors, situated in the James and Elizabeth Rivers, which empties into the Chesapeake Bay. It is bordered by the cities of Chesapeake, Suffolk, and Norfolk to the South, West, and East.

In accordance with the requirements of the Governmental Accounting Standards, the financial reporting entity consists of a primary government (the City of Portsmouth), and its component units, which are legally separate organizations. The School Board is considered a component unit of the City and the financial position and results of operations of the School Board are also presented in the City's CAFR. The School Board has no component units for financial reporting purposes. The School Board is fiscally dependent, i.e., it does not have taxing and borrowing authority. It derives most of its funding from the City and the Commonwealth of Virginia allocations.

The School Board's responsibility is the education of elementary and secondary students within the City. The nine-member School Board is elected by the Portsmouth citizens and serves a four-year term. The School Board is entrusted with the responsibility of hiring the school division's superintendent who is the executive and administrative head of the public school division. The City Council approves the School Board's operating budget, levies the necessary taxes to finance their portion of the operations, and approves the borrowing of money and issuance of bonds when necessary. The City Council is prohibited from exercising any control over specific expenditures within the operating budget of the School Board. However, City Council may exercise control in total by major categories (e.g. Instruction; Administration, Attendance and Health; Pupil Transportation; Operations and Maintenance) as prescribed by the Code of Virginia, as amended.

## **Economic Condition and Outlook**

Old Dominion University's Regional Studies Institute recently published *The State of The Region - Hampton Roads 2013*. According to the Institute, the "Big Three" sectors in the economy of Hampton Roads are defense spending, the Port of Virginia, and hotels/tourism. Of these three, defense spending is the single most important.

Portsmouth encountered some bumps in the road, but avoided disaster. Sequestration reduced the value of regional activity by about \$460 million this year and cost approximately 4,000 jobs. Stagnant federal spending, especially by the Department of Defense (DOD), pushed down the annual real rate of regional economic growth to only 0.94 percent in 2013. This is less than half the national rate of economic growth and about a third less than the Commonwealth of Virginia economic growth rate. Additionally, tourism has not recovered from the recession, hotel revenue has dropped, and tolls may further choke economic development.

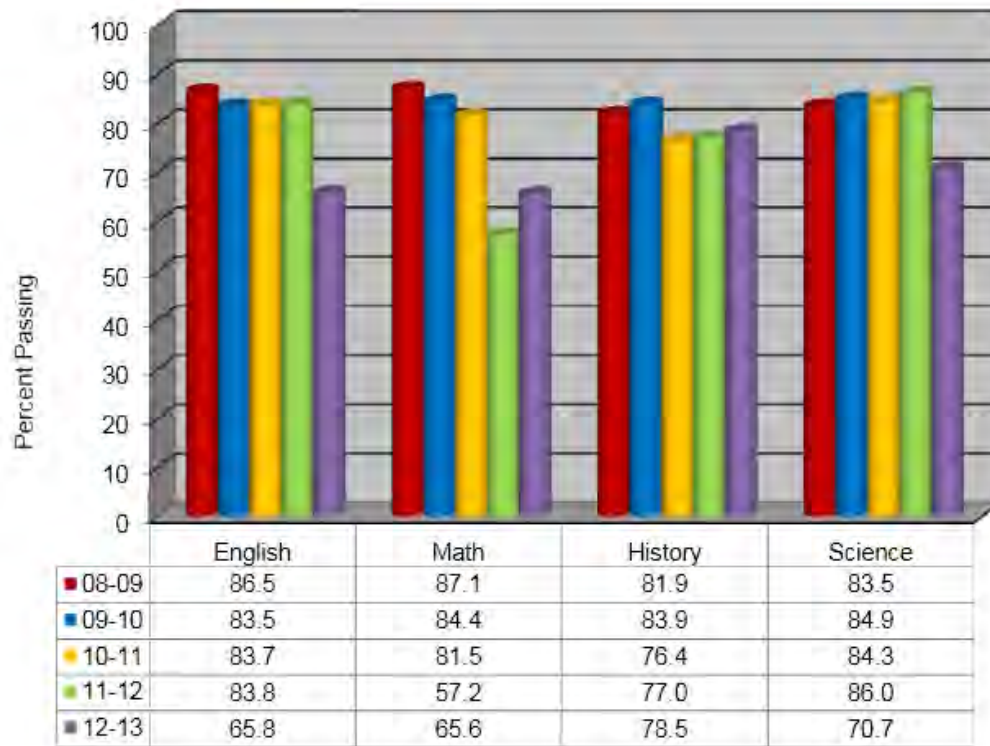
With the bumps, there are also highlights for 2013. Sequestration, it turns out, did not damage the regional economy nearly as much as originally anticipated. Residential home sales and prices are up, while unsold housing inventory and foreclosures are down. More coal is exported from Hampton Roads than any other port in the United States; the annual economic impact of this coal activity on our region approaches \$1 billion. Also, City and county governments in the region focus their spending on education and public safety, the real estate market and port are on the rebound, and the drop in military spending also has contributed to a more diverse economy.

The regional vulnerabilities over this decade are: Congress invokes another BRAC process designed to close or downgrade military facilities and programs; the number of aircraft carrier groups is permanently reduced by one or two; one aircraft carrier group is transferred to the Pacific (former Secretary of Defense Leon Panetta did not disclose such move, but did specifically indicate a refocusing of naval assets in the Pacific); Naval construction and repair in the region are delayed or reduced, and the number of aircraft at Oceana Naval Station is reduced. Also, annual military compensation increases fall significantly as salary increases become smaller, and personnel are required to pay for larger proportions of their medical expenses; the DOD concludes that major floating assets, such as aircraft carriers, no longer are as useful and defensible as they once were, and this leads the DOD to focus its expenditures elsewhere; and rapid increases in the prices of significant military assets (ships, airplanes, etc.) continue and simply make it impossible for the DOD to purchase and maintain as many as before. This leads to fewer homeported ships, smaller numbers of airplanes located in Hampton Roads and reduced construction and repair activity. Additionally, rising sea levels in Hampton Roads prompts the U.S. Navy to give much stronger consideration to relocating its assets.

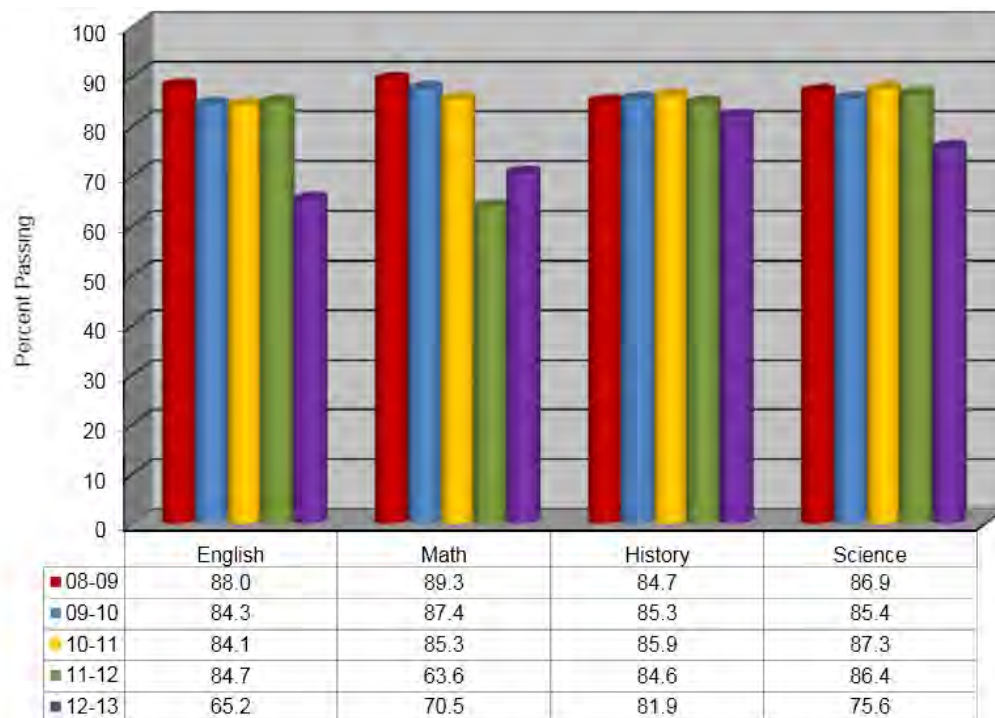
According to 2012 statistics, Portsmouth has a population of 96,470 of which 53.6% is African-American, 41.9% is white, and 4.5% is other. PPS served 14,963 students in thirteen elementary schools (twelve are Title I schools), three middle schools, three high schools, four pre-k centers, an alternative school, adult learning center, and Career and Technical office at Tidewater Community College, Portsmouth campus. Besides regular education, PPS serves special education needs. Based on the 2012-13 Enrollment Percentages by School and Ethnicity, prepared by the PPS Office of Research and Evaluation, 71% of the student population is African-American. School-wide, 13% of all students are identified as having special needs. There are approximately 2,130 employees.

## SOL Passing Rates Comparison

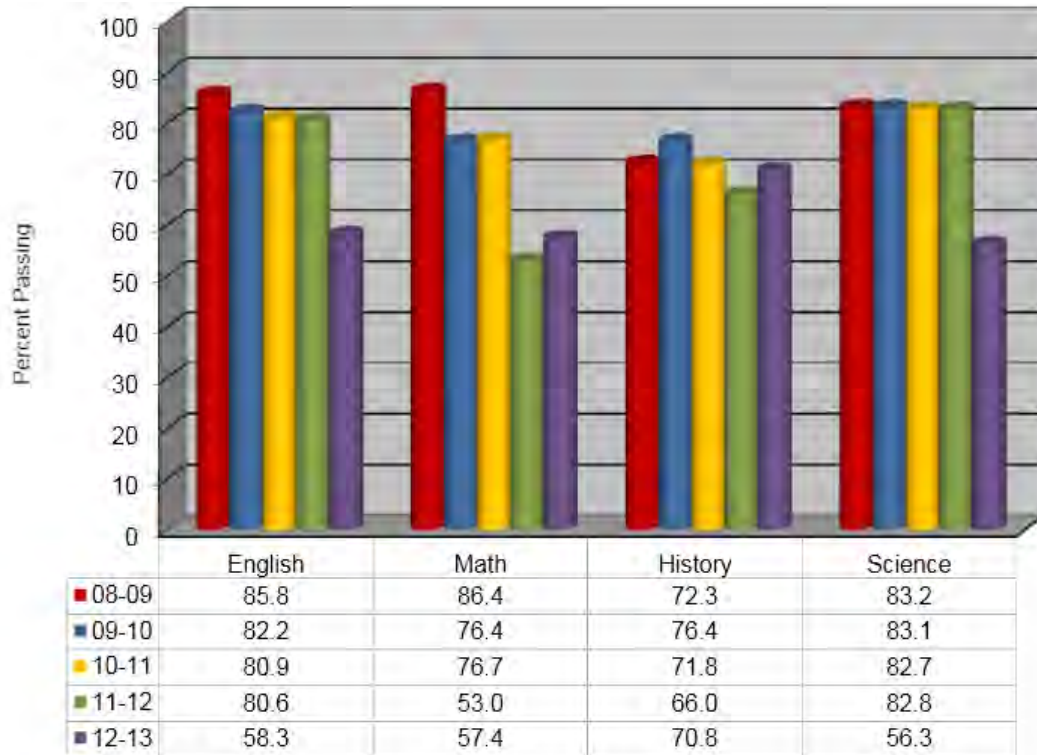
### Division Summary Portsmouth Public Schools Standards of Learning



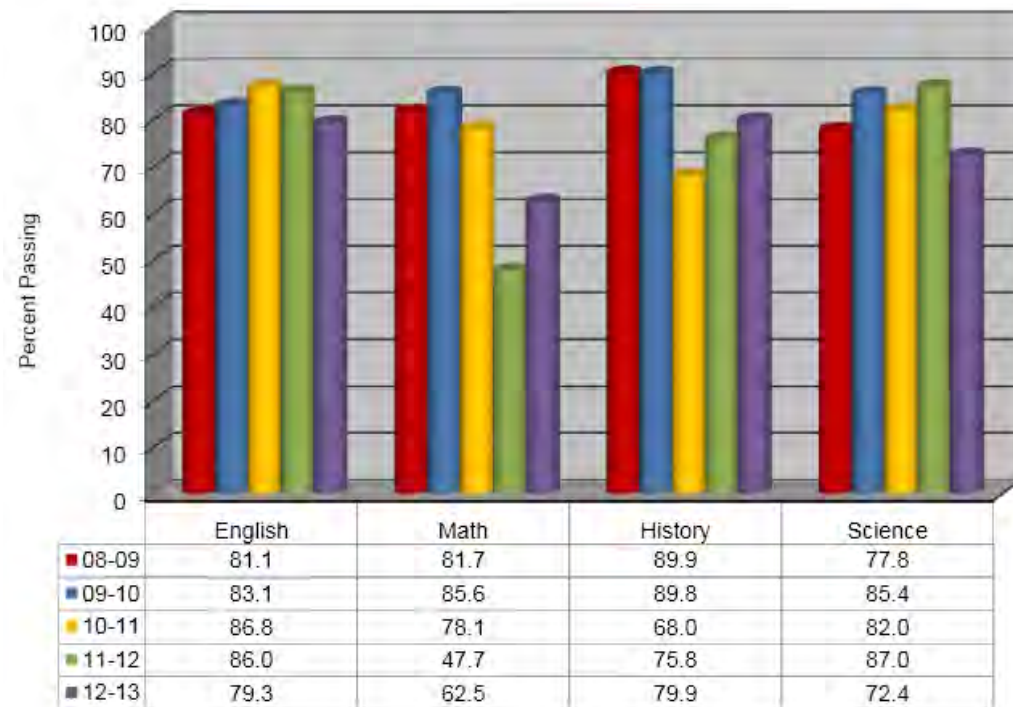
### Elementary Schools Summary Portsmouth Public Schools Standards of Learning



Middle Schools Summary  
Portsmouth Public Schools  
Standards of Learning



High Schools Summary  
Portsmouth Public Schools  
Standards of Learning



## **Major Initiatives and Recognition**

### **Special Education**

Reverse Inclusion (RI) Program: Preschool RI classrooms are language-based learning environments where children with and without disabilities engage in play activities supporting Virginia's Foundation Blocks for Early Learning in developmentally appropriate ways. The RI program went from 3 classes in 2011-2012 school year to 6 classes in 2012-2013 school year. Three preschool Centers having the RI program are Churchland, Olive Branch, and Emily Spong.

Churchland High School Special Education teacher, Marcy Pronovost, was selected by VDOE for the State Special Education Leadership Academy. The Aspiring Special Education Leaders Academy is designed for educators who aspire to be in a leadership position and who are not currently a special education director. Individuals must be nominated and complete an application to be considered for selection into this academy. The program covers workshops, seminars, observations, assignments and field experiences, which will help prepare Ms. Pronovost for future administrative positions in Special Education.

Special Education teacher, Mrs. Judith Clayton, was engaged in the Home Depot Community Partnership. This partnership provided students at Churchland Middle School a community-based experience addressing Aligned Standards of Learning. Through a horticulture experience, the students experienced socialization with the Home Depot staff, and used their life science skills to create a beautiful garden in the Churchland Middle School courtyard.

PPS, in collaboration with the Virginia Department of Aging and Rehabilitative Services (DARS), and with Goodwill Industries, implemented a School-to-Work program to provide disabled students a community based paid work experience. Eight high school students participated in this program.

PPS, in collaboration with Portsmouth Intercommunity Transition Council (PITC), DARS Division of Rehabilitative Services (DRS), and Hampton Roads Transit (HRT), submitted an application, and has been selected to participate on a project with the Easter Seals Project ACTION (ESPA) Accessible Transportation Technical Support Project (ATTS). This project addresses accessible transportation needs for students with disabilities in Portsmouth as they transition to postsecondary education, training and employment.

### **Science - Technology - Engineering - Mathematics (STEM) Pathways**

The following are the Portsmouth Public Schools Science/STEM Program Highlights for 2012-2013:

#### **PreK-12**

Developed and implemented standards-based curriculum that aligns to the Virginia Department of Education's Science Curriculum Framework and is well articulated vertically and horizontally. The annual STEM EXPO was hosted at Woodrow Wilson High School on March 23, 2013 with 800 parents and students in attendance.

#### **Elementary**

CHROME (Cooperating Hampton Roads Organization for Minorities in Engineering): Thirteen elementary clubs participated in the first annual LEGO WEDO robotics competition on May 1, 2013. The Ocean Explorers theme reflected Science SOL 5.6: The students investigated and understand characteristics of the ocean environment. Key concepts included geographical characteristics, physical characteristics, and ecological characteristics. Total students: 325

Sustained Professional Learning Communities for each elementary grade band – K-6 through face-to-face workshops and communication via Edmodo. Instructional strategies shared were research-based focusing on Bill Daggett's work on Rigor, Relevance, and Relationships and Paula Rutherford's Instruction for All Students.

All preschool students planted trees at Paradise Creek Nature Park and received a copy of the Dr. Seuss book, The Lorax. All preschool students experienced a field trip to the Elizabeth River Project's learning barge too.

### Middle

Twenty-five rising 8th and 9th grade students attended App Design Summer Camp. MIT'S Google App Inventor tools and software were used as students applied reasoning, problem solving, and critical thinking to create STEM apps that were used to enhance the K-12 science curriculum.

Ten students from Waters Middle School participated in the Wheelabrator Technologies Environmental Symposium in Sunrise, Florida. They expanded their oyster study to include marsh grasses.

### High School

PPS hosted two (2) VEX Regional competitions resulting in three teams qualifying for the VEX World Championship in Anaheim, CA. The teams placed 63rd, 71st, and 83rd in their respective divisions. A total of 420 teams competed.

Twenty-four students from the AP Biology and Biotechnology classes attended monthly Medical Explorers clubs meeting at Eastern Virginia Medical School (EVMS). Students explored the diverse laboratories at EVMS and listened as research-scientists explained their ground-breaking research.

Eighteen PPS high school students participated in Project Launch, a partnership program with Opportunity Inc, Virginia Modeling, Analysis, and Simulation Center (VMASC), Old Dominion University (ODU), and PPS, that included field experiences to universities and businesses/industries, lectures, summer camps, and internships with local engineering firms.

All PPS Ecology students participated in the first annual unit of study at Paradise Creek Nature Park.

Laura Nelson, Director of Science, gave presentations to:

- Virginia School Board Association's Annual Governor's Round Table: STEM Pathways
  - Dr. Fiona Nichols and Laura Nelson presented information about the Pathways to representatives from School Boards throughout Virginia. Each of the elementary, middle, and high schools STEM components were highlighted. Teacher professional development was emphasized.
- Virginia Association of Science Teachers: Project SEARCH
  - PROJECT SEARCH is an elementary engineering design summer camp during which participants design, build, and test a buoy. The buoy is authentic as it collects Tier one data shared with the division's STEM programs.

Mrs. Nelson was appointed to the MONARCH TEACH Advisory Board – ODU: The function is to bring the University of Austin's critically acclaimed UTEACH program to ODU. UTEACH was designed to promote mathematics and science teaching skills. The goal of the NEW MONARCH

TEACH program is to recruit potential mathematics and science teachers with a 21st Century approach.

### **AC 13 - Academic + Career after High School**

Career and Technical Education (CTE) programs and co-curricular activities provide the skills that address the needs of high growth industries. Over the years CTE has evolved to match the needs of the changing economy. CTE programs, consisting of Auto, AutoCAD, Childcare, Culinary, Certified Nursing Assistant, Horticulture, Hotel Marketing, Marine Electric, and Marine Welding, continue to be an asset in preparing students for success. These programs motivate students because these courses connect to the real world, and as a result, students are less likely to drop out.

During fiscal year 2012-13, CTE continued its recent trend of increased enrollment to 5,964 students; an increase of 3% in all program areas. The office of CTE offered 1,625 certifications this year compared to 603 last year. Types of certifications offered were Greenhouse Pesticide, Microsoft Specialist, Customer Service, Workplace Readiness, Hospitality Test, Adobe, NSE Brakes and AutoCAD. Students involved in CTE clubs such as DECA (Marketing), FBLA (Business), FCCLA (Family and Consumer Science), TSA (Technology Education), Skills USA (Trade and Industry), and FHA (Agriculture) participated in district, state, and national competitions throughout the school year. CTE students have done an exemplary job in various areas – selection for the YStreet Leadership, attendance at Youth Summit in Washington, DC, participation in summer camps at various colleges and universities, culinary awards at Johnson and Wales University, Charlotte, NC, and selection for the Norfolk Naval Shipyard Apprentice Program, to name a few.

### **Social Studies**

PPS proudly announced the 2012 recipients of the Hampton University Leadership Academy (HULA). The purpose of HULA is to train promising teachers in urban education to be effective administrators. Each award winner receives full tuition and books to Hampton University to pursue a Master's Degree in Education Administration. Additionally, participants in the HULA program receive extensive professional development, including participation at national conferences. This program is highly competitive and is valued at over \$15,000 per recipient. The first HULA cohort graduated on May 12, 2013. Portsmouth teachers, Sean Glick, Brian Liverman, and Gwendolyn Towe received their master's degrees and are eligible to hold administrative positions in education. Brian Liverman has recently been hired as assistant principal of Churchland Elementary School.

### **Human Resources**

New application tracking software, SearchSoft, was implemented during the fiscal year. Go-live was scheduled on July, 2013. The new application is user friendly, for all, and is well integrated with the School Board financial software. It provides a highly effective recruitment data base and data collection service, skill analysis review and reporting solution.

The Instructional Personnel Verification Report (IPAL) is an annual report required by the State Department of Education that reflects the school division's data on teacher licensing. The instructional personnel survey data, supply and demand report for the 2012-13 School Year reported the percentage of highly qualified teachers at 99.07.

The ODU-Teacher Immersion Residency Program (ODU-TIR) is a 12-month teacher-training program that concludes with the participant receiving a Master's of Science in Secondary Education. At the conclusion of the internship participants are eligible to teach dual enrollment course offerings in their major. For the 2012-2013 School Year, we were successful in placing two residents from this program.

The Virginia Department of Education provided new criteria for Uniform Performance Standards and Evaluation. They were effective July 1, 2012. The Department of Human Resources revised the existing process and implemented a new teacher performance evaluation system in compliance with VDOE guidelines. The implementation included training for teachers and administrators.

## **Financial Information**

Management is responsible for establishing and maintaining an internal control structure which is designed to provide reasonable, but not absolute, assurance. Reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the valuation of costs and benefits require estimates and judgments by management. A component of internal control structure should increase the probability that material errors or fraud, that may occur, are detected in a timely manner by employees in the normal course of performing their duties.

The School Board management maintains budgetary controls to ensure compliance with the annual appropriated budget adopted by the School Board and City Council. The school division maintains an encumbrance accounting system as a method of accomplishing budgetary control. Outstanding encumbrances or open purchase orders at the end of the fiscal year are carried forward to the next fiscal year. By the end of the second fiscal year, outstanding encumbrances or open purchase orders are liquidated and funds are transferred to the City. The School Board has adopted budgets for the following funds - General, Text Books, Grants, Food Services, Capital Projects, Printshop, and Risk Management. The School Board and the City Council adopt the School Operating Budget by March and April respectively for the upcoming fiscal year.

The School Board pays the City a yearly fee to manage the School Board's risk management program. The School Board is "fully insured" for auto liability and for general liability through the VACorp. For Workers Compensation, the School Board carries an excess policy, with a self-insured retention of \$500,000. Workers Compensation claims are handled by PMA Management Corp, a third party claims administrator.

Except for funds under the trust account for Other Post-Employment Benefits, the City Treasurer is the custodian of pooled cash and temporary investments, and funds held for student activity accounts and related investments. Our financial institution keeps a minimum required balance in a general depository account and invests the excess in an Institutional Money Market Fund. The investments are in compliance with industry-standard requirements for money market funds for quality, maturity, and diversification on investments. Interest earned is allocated among all the pooled cash funds based on General Ledger cash balances at the end of each month.

## **Awards**

### **Certificate of Excellence**

The Association of School Business Officials (ASBO) awarded the School Board its Certificate of Excellence in Financial Reporting for the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2012. The Certificate of Excellence is valid for a period of one year only. This is the seventh consecutive year that PPS has achieved this prestigious award.

The Financial Reporting Award was designed by ASBO to enable school business officials to achieve a high standard of financial reporting. The award is only conferred to school systems that have met or exceeded the standards of the program. Since its inception in 1972, the program has gained the distinction of being a prestigious national award recognized by accounting

professionals, underwriters, securities analysts, bond rating agencies, state and federal agencies, and education, teacher, and citizen groups.

ASBO, founded in 1910, is a professional association, which provides programs and services to promote the highest standards of school business management practices, professional growth, and the effective use of educational resources.

### **Certificate of Achievement**

The Government Finance Officers Association (“GFOA”) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to PPS for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2012. This is the sixth consecutive year that PPS has achieved this prestigious award. In order to be awarded a Certificate of Achievement, the School Board must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. I believe that the current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program requirements, and it will be submitted to GFOA to determine its eligibility for another certificate.

### **Meritorious Budget Award for Excellence**

ASBO awarded the Meritorious Budget Award for Excellence in the preparation and issuance of the School Board’s budget for the fiscal year 2013-14. The budget is judged on its conformity to the principles and standards of ASBO’s budget award program. The program promotes and recognizes excellence in school budget presentation and enhances the school business officials’ skills in developing, analyzing and presenting a school system budget.

### **Community Impact Award**

The School Board was honored by WHRO and Dominion Virginia Power as a recipient of the 2013 Community Impact Award, presented to Rear Admiral William Hayden, USN retired, for his stellar work with StarBase Victory housed at Victory Elementary School.

### **The Facility Master Award**

The Virginia School Plant Managers Association awarded Platinum Level for the 2013 Facility Masters Award to the Operations Department. This award recognizes facility departments that meet extremely high standards established in the Planning Guide for Maintaining School Facilities.

### **Academics**

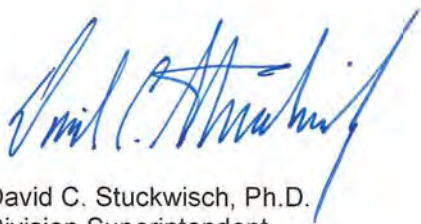
The First College program has grown from 19 students in 2006 to 146 scholars in the 2012-13 school year. In this session, the students achieved a C or better in 82% of the courses they attempted and will be able to transfer that as college credit to 4-year universities.

Of the 966 members of the Class of 2013, 35.7% received Advanced Studies Diplomas and 27.5% graduated with Honors. Merit-based scholarships were awarded in the amount of \$4,841,430.

### **Acknowledgements**

I would like to express my sincere gratitude to the personnel in the Department of Budget and Planning who participated in the preparation of this report and to our independent auditors, Cherry Bekaert, L.L.P. Appreciation is also extended to the School Board and to its administration, whose continuing support is vital to the financial health of the school system.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "David C. Stuckwisch". The signature is stylized with a large, sweeping initial 'D' and a long, horizontal stroke extending to the right.

David C. Stuckwisch, Ph.D.  
Division Superintendent

**CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD  
COMPONENT UNIT OF THE CITY OF PORTSMOUTH, VIRGINIA  
June 30, 2013**

**Members of the School Board and School Board Officials**

**School Board**

Mr. James E. Bridgeford ..... Chairman  
Dr. Elizabeth Daniels ..... Vice Chairman  
Mr. James M. Hewitt, IV  
Mr. Ted J. Lamb (term started January 1, 2013)  
Mr. Edward P. “Ned” McCabe (term ended December 31, 2012)  
Mr. B. Keith Nance, Sr.  
Mr. Claude C. Parent  
Rev. Joseph A. Fleming  
Dr. Mark M. Whitaker  
Mrs. Costella Williams

**Officials**

Dr. David C. Stuckwisch ..... Superintendent  
Dr. Patricia H. Fisher ..... Deputy Superintendent  
Mrs. Meera Phaltankar, CPA ..... Director of Budget and Finance  
Mrs. Kathy L. Chambliss ..... Clerk of the School Board  
Mrs. Laura Chandler ..... Deputy Clerk of the School Board  
Mr. James L. Williams ..... City Treasurer

•   •   •  
The mission of the Portsmouth Public Schools is “to challenge the minds, challenge the bodies,  
and challenge the dreams of all students while focusing on excellence”.  
•   •   •

## MISSION AND VISIONS

The School Board adopted the Mission Statement above in August 2007. To accomplish this mission, the School Board approved a 2007-2017 Comprehensive Plan in December 2007 with five visions for the future. Every two years the School Board reviews the plan and revises it as necessary. They added a sixth vision in December 2009. The plan's six visions are summarized below. The full text of the Comprehensive Plan, including multiple goals and measurable objectives, is printed in a separate publication.

1. *By 2017, the Portsmouth School Board will be a leading force for community advancement.* To complete this vision, the School Board will seek recognition by the Virginia School Boards Association (VSBA) as a “Board of Distinction,” and they will implement technology to increase the efficiency of its operation.
2. *By 2017, all parents of Portsmouth Public School students will be excited about and claim ownership of their children’s education.* Schools will exhibit a parent-friendly environment and will work with the Communities in Schools organization to involve parents and families in their children’s schooling. Parents will be invited into schools, and parent literacy programs will be expanded.
3. *By 2017, all graduates of Portsmouth Public Schools will be highly sought after by both employers and institutions of higher learning.* The Board envisions that 100% of Portsmouth Public Schools students will graduate and enter a post high school educational program or a job that requires specific training. They see high-quality teachers seeking our school division and growing within it. Portsmouth Public Schools will establish programs within the school division to encourage and support students and staff members to become teachers. At the same time, the school system will establish a program evaluation system that will indicate which programs merit expansion, modification, or deletion.
4. *By 2017, Portsmouth Public Schools will be recognized by educational organizations and institutions of higher learning for its innovative and effective programs.* To fulfill this vision, all graduates of Portsmouth Public Schools will successfully complete three years of high school mathematics and three years of a foreign language. The School Board expects it will enhance cultural awareness and learning experiences through the arts. Portsmouth Public Schools will partner with city agencies and with faith-based and civic organizations to establish a comprehensive Pre-K program. Lastly, Portsmouth Public Schools will strengthen athletic and other extracurricular programs to make our students more competitive on the state and national levels.
5. *By 2017, all Portsmouth Public Schools students will be socially responsible and respected as lights of inspiration for future generations.* To accomplish this vision, Portsmouth Public Schools will provide leadership development programs for all students and teach them the value of being law-abiding citizens.

6. *By 2017, the Portsmouth City School Board will provide educational facilities – including technology – that contribute to the learning environment for students and provide safe and accessible facilities for students and staff.* The Board expects to provide facilities that support the 21st Century Learning Environment and will participate in the Virginia School Boards Association (VSBA) Green Schools challenge by implementing environment-friendly solutions. In addition to providing and maintaining safe facilities and equipment, they will also build processes, responsibilities, and technologies that provide information to understand the past and present and enable the shaping of the future.

The School Board's budget is formulated to accomplish the visions listed above and supports the Comprehensive Plan. In the Plan, numerous goals for each vision along with objectives for the goals are listed. Most of the costs associated with achieving the goals are accommodated within the budget for the day-to-day operation of the various departments. With decreasing revenue, it has been difficult to fund some of the objectives; thus, they have been delayed. For example, under Vision 4, the Board identified a goal related to foreign languages. One objective was to include foreign language as part of the elementary school curriculum in grades 4-6. The cost, for this objective, involved supplements for curriculum writers, additional supplies, and hiring additional teaching staff. Since additional funds cannot be identified to support this objective, it has been postponed until funds become available on a continuing basis.

Many of the objectives require funding that simply is not available or cannot be supported on a continuing basis. While the School Board recognizes this limitation, it also expects the staff to diligently work toward achieving the visions and goals adopted in the Comprehensive Plan. Budget constraints continue to limit or postpone the implementation of some objectives, but the division continues to strive toward achieving every goal possible with the funds already budgeted.

One shining example of achieving the Board's visions and goals (specifically, Vision 4, Goal G) is the implementation of additional preschool centers to ensure that students entering kindergarten will make a seamless transition by possessing the readiness skills that ensure success in a public school setting. The division staffs four preschool centers with an adequate number of classrooms to serve all preschool students whose parents wish for them to attend.

Raising the level of publicity for athletics programs is a goal under Vision 4. The PSET (Portsmouth Schools Education Television) facilities are being upgraded to enable athletic events to be televised. This upgrade will also allow for expanded use of PSET resources in the classroom. Additionally, the School Board is considering a program to solicit corporate sponsorships for athletic programs.

An objective under Vision 6 is to provide gymnasiums for all elementary schools to provide for indoor physical education classes for our students. That objective has been met.

# Association of School Business Officials International



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## City of Portsmouth, Virginia School Board

*For Its Comprehensive Annual Financial Report (CAFR)  
For the Fiscal Year Ended June 30, 2012*

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



A handwritten signature in black ink, appearing to read "Ron McCulley", is written over a horizontal line.

Ron McCulley, CPPB, RSBO  
President

A handwritten signature in black ink, appearing to read "John D. Musso", is written over a horizontal line.

John D. Musso, CAE, RSBA  
Executive Director



Government Finance Officers Association

**Certificate of  
Achievement  
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Presented to

**City of Portsmouth, Virginia  
School Board**

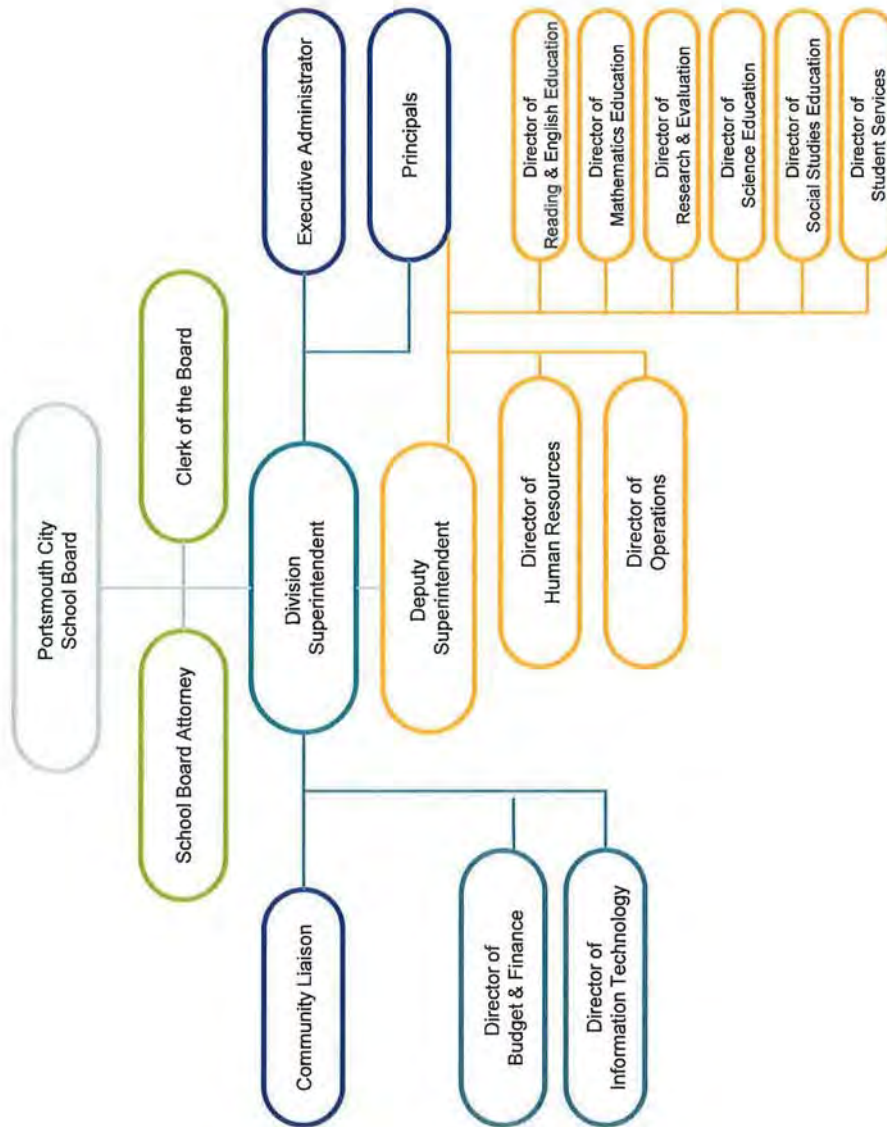
For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2012**

A handwritten signature in black ink, reading "Jeffrey R. Emer". The signature is fluid and cursive.

Executive Director/CEO

City of Portsmouth, Virginia School Board  
 Component Unit of the City of Portsmouth, Virginia  
 Organizational Chart (June 30, 2013)



## ***FINANCIAL SECTION***

## **Report of Independent Auditor**

Members of the School Board  
City of Portsmouth, Virginia

### **Report on the Financial Statements**

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

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We 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 from material misstatement.

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Portsmouth, Virginia School Board, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As described in Note 2 to the financial statements, in 2013, the School Board adopted new accounting guidance, GASB Statement No. 63, *Financial Reporting of Deferred Outflows, Deferred Inflows and Net Position*. Our opinion is not modified with respect to this matter.

As described in Note 11 to the financial statements, the School Board restated beginning net position to correct an overstatement of construction in progress and net position invested in capital assets. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedules of the general fund and major annually budgeted special revenue funds, and the schedule of funding progress and contributions for employer defined benefit pension plan and other post-employment benefits be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Portsmouth, Virginia School Board's basic financial statements. The introductory section, combining fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2014, on our consideration of the City of Portsmouth, Virginia School Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School Board's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Cherry Schmitt" followed by "LLP". The signature is written in a cursive, flowing style.

Virginia Beach, Virginia  
April 23, 2014

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**CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD**  
**Component Unit of the City of Portsmouth, Virginia**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**June 30, 2013**

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This section of the City of Portsmouth, Virginia School Board's ("School Board" or "PPS") annual financial report presents our discussion and analysis of the School Board's financial performance during the fiscal year ended June 30, 2013. Please read it in conjunction with the financial statements, which follow this section.

**Financial Highlights for Fiscal Year Ended June 30, 2013 (FY12-13)**

PPS' financial status, as reflected in total net position, decreased 15.5% to \$83.4 million.

On the Statement of Net Position – Governmental Activities, total liabilities at June 30, 2013 totaled \$39.7 million. The bulk of the current liabilities of \$30.6 million are related to accrued payroll and accounts payable and \$13.5 million is due to the City, while the majority of the non-current liabilities relate to compensated absences and capital leases.

On the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds, all experienced a decrease in fund balance. The decrease in the Grants fund balance was due to sequestration – reduction in federal funds. The General Fund had \$128.8 million in revenues and \$133.5 million in expenditures. The General Fund's fund balance decreased from \$8.7 million to \$.7 million. This decrease was due primarily to the changes in the City's School funding procedures. Funds from year-end encumbrances were returned to the City requesting re-appropriation. Assigned fund balance represents year end encumbrances. The decrease in the Construction Fund was due to a transfer of funds back to the City as directed by City Council for bus bays and the Olive Branch ceiling replacement project. Also, no new projects were funded. Projects that were funded last fiscal year incurred expenditures in this fiscal year.

Total intergovernmental revenue was \$150.0 million. Of that, \$44.0 million was from the City of Portsmouth ("City"), \$87.9 million was state aid from the Commonwealth of Virginia, and \$18.1 million was from the federal government. Interest and other charges were \$944.3 thousand including, \$30.4 thousand in interest, and \$913.9 thousand in charges for services.

**Operational Highlights for Fiscal Year 2013**

School finance staff, in partnership with the City and School's Information Technology (IT) departments, successfully upgraded Munis to version 9.3. Considering the magnitude of the upgrade, Go-Live went well except for payroll notifications, which have been resolved subsequently.

Capital improvements completed during the year included – Churchland Elementary gymnasium renovation; Cradock Middle HVAC; Churchland Middle HVAC; Churchland High small repairs to HVAC; gymnasium floors at High schools and Middle schools. Simonsdale ball fields project was also completed during the year. Since the project was funded by Qualified School Construction Bonds (QSCB), the fixed asset was capitalized on the City books.

Renovation and addition at Churchland Primary and structural repairs at Norcom High continued during the year. The School Board closed the Construction fund as of June 30, 2013. The decision was made to continue with the operation and payment process of the two projects that were in progress as of June 30, 2013. Subsequently, encumbered funds under work-in-process for the two projects were transferred to the City. The monitoring of the two projects is still with the School Board Operations department.

The school district aggressively seeks competitive grant funds to further its mission.

During FY12-13, the School Board was a sub-recipient of the National Science Foundation grant. The Virginia Commonwealth University, a prime recipient, awarded the School Board \$50,000 to support the Mathematics specialist program. Originally, funds were approved for two years, however, due to sequestration the grant ended in June 2013. The School Board was also a sub-recipient of the U.S. Department of Education grant. The Old Dominion University Research Foundation awarded the School Board \$260,619 over three years for Mathematics coaches. This grant also ended in June 2013 due to sequestration.

Virginia Department of Education Office of Adult Education and Literacy developed a regional structure beginning fiscal year 2012-13. The School Board acts as a lead agency for Region 20 consisting of Chesapeake, Franklin, Isle of Wight, Norfolk, Portsmouth, Southampton County, Suffolk, and Virginia Beach. Adult Education and Family Literacy Act (AEFLA), Race to GED and General Adult Education (GAE) grants are included under this structure. The School Board received a \$125,000 grant to be the state lead coordinator.

The School Board received Title I – School Improvement grant over the past few years in the amount of \$179,000. This grant ended on June 30. The last day to encumber funds was September 30.

The Finance Department completed the Modernization process introduced by Virginia Retirement System (VRS). The new process has several improved processes like batch certification which allows secure file uploads to and downloads from VRS, electronic approvals, monthly online reconciliation of payments to expenses, and electronic fund transfers.

## **Overview of the Financial Statements**

This Comprehensive Annual Financial Report has six component sections: *management's discussion and analysis* (this section), *the basic financial statements*, *other supplementary information*, an optional section that presents *combining statements* for internal service funds, a *statistical section*, and a *compliance section*.

There are two types of financial statement presentations -- one for the School Board as a whole (government-wide), and one for the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the School Board's overall financial status on an economic resource focus. The remaining statements are fund financial statements that focus on a current financial resource basis and individual parts of the School Board's operations in more detail than the government-wide financial statements.

Also included in the financial statements are *notes* that explain some of the information in the financial statements and provide more detailed data. Following the statements is a section of *required supplementary information* that further explains and supports the information in the financial statements.

The chart on the following page summarizes the major features of the School Board's financial statements and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Major Features of the School Board's Government-Wide and Fund Financial Statements:

	<b>Government-Wide Statements</b>	<b>Fund Statements</b>		
		<b>Governmental Funds</b>	<b>Proprietary Funds</b>	<b>Fiduciary Funds</b>
Scope	Entire school system	The activities of the school system that are not proprietary or fiduciary, such as General, Text Books, Grants, Food Services, and Capital Projects Funds	Activities the school system operates similar to private businesses, such as the Print Shop Fund	Instances in which the school system is the trustee or agent for resources outside of the government, such as the OPEB trust and Student Activities Fund
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net position</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net position</li> <li>• Statement of revenues, expenses, and changes in fund net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of changes in net assets (Fiduciary Fund only)</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Modified accrual accounting
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	The school system's fund does not currently contain capital assets nor liabilities
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All receipts and disbursements during year, when cash is received or paid, rather than when an obligation is incurred

## Government-Wide Statements

The government-wide statements report information about the School Board as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the School Board's assets and liabilities, while the Statement of Activities reports the School Board's revenues and expenses, regardless of when cash is received or paid. Both of the statements are prepared using the full accrual basis of accounting, which is similar to private-sector accounting.

The two government-wide statements report the School Board's net position and how they have changed. Net position, the difference between the School Board's assets and liabilities, is one way to measure the School Board's financial health or position.

- Over time, increases or decreases in the School Board's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the School Board you need to consider additional non-financial factors such as changes in the student population and the condition of school properties.

The government-wide financial statements of the School Board include only governmental activities, as the School Board does not have business-type activities. Most of the School Board's basic services are included here, such as administration, instruction, attendance and health, pupil transportation, information technology, and operations and maintenance. State aid, Federal aid, and State and Federal grants finance most of these activities.

## Fund Financial Statements

The fund statements focus on the major funds of the School Board, rather than the entity as a whole. These financial statements are presented on a modified accrual basis and are accounting devices that the School Board uses to keep track of specific sources of funding and spending for particular purposes.

The School Board has three types of funds:

- *Governmental funds* – Most of the School Board's basic activities are included in governmental funds, which focus on: (1) how cash and other financial assets can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps a reader determine whether there are more or fewer financial resources that can be spent in the near-term future to finance the School Board's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, this additional information is provided in reconciliations after the governmental funds statements to explain the relationship (or differences) between them.
- *Proprietary funds* – Services for which the School Board charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information. The School Board uses two *internal service funds*. Internal service funds are used for goods or services provided by a central service department or agency to other departments, agencies or to other unrelated governmental units, usually on a cost reimbursement basis. The Print Shop Fund supplies printing and graphic services to the City of Portsmouth, outside entities and functional units in the School Board on a cost reimbursement basis. The Risk Management and Insurance Fund accounts for the payment of claims and legal fees, if necessary, on public liability claims arising from the operations of the School Board.

- *Fiduciary funds* – The School Board maintains an agency fund which is custodial in nature (assets equal liabilities) and does not involve measurements of the results of operations. The School Board's agency fund is the Student Activities Fund, which accounts for the student activity monies maintained on behalf of the students by the school principals at each school. The OPEB trust fund is used to report resources that are required to be held in a trust for members and beneficiaries of defined benefit pension plans, defined contribution plans, other post-employment benefit plans, or employee benefit plans.

## Financial Analysis of the School Board as a Whole

Following is a discussion of the major financial highlights of the School Board financial statements:

### Net Position

The School Board's net position at the year ended June 30, 2013 was \$83.4 million, which was composed of \$3.3 million in unrestricted net position, \$3.7 million in restricted for other purposes, and \$76.4 million invested in capital assets, net of related debt. Capital assets of the School Board for which the City of Portsmouth has incurred related debt are reflected in the City of Portsmouth's financial statements. All capital assets that are School Board assets which are not secured by debt are reported in the School Board's financial statements. Please refer to the Financial Highlights for FY12-13 section for the related construction projects.

<b>Net Position</b>		
Years Ended June 30, (in thousands of dollars)		
	<b>2013</b>	<b>2012, restated</b>
Current and other assets	\$ 42,279	\$ 43,293
Capital assets	80,840	81,540
Total assets	<u>123,119</u>	<u>124,833</u>
Long-term debt outstanding	9,058	9,674
Other liabilities	30,642	16,391
Total liabilities	<u>39,700</u>	<u>26,065</u>
Net position:		
Invested in capital assets	76,350	76,326
Restricted		
Capital Projects	-	506
Grants	1,104	578
School Food Services	1,805	2,037
Textbook	844	376
Unrestricted	3,316	18,945
Total net position	<u>\$ 83,419</u>	<u>\$ 98,768</u>

## Changes in Net Position

The breakdown of program revenue is as follows: 93% comes from operating contributions, while the remaining program revenue is from charges for services. Total general revenues for FY12-13 were \$121.9 million, consisting primarily of grants and contributions not restricted to specific programs. City appropriations make up approximately 36% of these revenues. The majority of the rest of the grants and contributions not restricted to specific programs are derived from State and Federal funds.

### Changes in Net Position

Years Ended June 30,  
(in thousands of dollars)

	<u>2013</u>	<u>2012, restated</u>
Revenues:		
Program revenues:		
Charges for services	\$ 2,249	\$ 2,065
Operating grants and contributions	29,854	26,841
General revenues:		
Interest and investment earnings	30	25
Grants and contributions not restricted	120,975	137,777
Miscellaneous	889	1,137
Total revenues	<u>153,997</u>	<u>167,845</u>
Program expenses:		
Instruction	123,563	110,998
Administration	3,923	4,681
Attendance and health services	3,138	2,801
Pupil transportation	5,967	6,995
Operations and maintenance	16,219	14,288
Information technology	4,691	3,917
Food services	7,916	7,174
Interest on long-term debt	179	211
To local government	3,750	9,944
Total program expenses	<u>169,346</u>	<u>161,009</u>
Change in net position	<u>(15,349)</u>	<u>6,836</u>
Beginning net position, as previously stated	98,768	101,876
Correction of prior year overstatement of capital assets	-	(9,944)
Beginning net position, as restated	<u>98,768</u>	<u>91,932</u>
Ending net position	<u>\$ 83,419</u>	<u>\$ 98,768</u>

Operating contributions in the program revenues section, increased by \$3.0 million over the previous fiscal year. Most of this increase is due to the increase in the professional and non-professional retirement inflation contributions.

Grants and contributions not restricted, in the general revenues section, decreased by \$16.8 million over the previous fiscal year. This decrease is a result of sequestration which reduced federal funding to Title I, special education, other Federal Grants, and reversion of funding to the City.

Total program expenses increased by \$8.3 million over the previous fiscal year. Most of this increase is due a 7% salary increase of which 5% is related to the new VRS retirement funding rules and 2% is a cost-of-living wage increase. The return of funds to the City requesting re-appropriation also contributed to this increase.

## Financial Analysis of the School Board's Funds

The School Board's combined fund balance for the governmental funds was \$5.0 million for fiscal year ended June 30, 2013. The current year compared to last year is as follows:

### Fund Balance Comparison

Years Ended June 30,  
(in thousands of dollars)

	<u>2013</u>	<u>2012</u>
Fund:		
General	\$ 697	\$ 8,718
Grants	421	772
Food Services	1,899	2,075
Textbook	844	1,476
Construction	1,156	7,321
Total combined fund balance	<u>\$ 5,017</u>	<u>\$ 20,362</u>

There were several factors that contributed to the change in fund balances.

- The decrease in fund balance in the General Fund is related to a reduction of federal funding due to sequestration. It is also due primarily to the changes in the City's School funding procedures. Funds from year-end encumbrances were returned to the City requesting re-appropriation.
- The decrease in the fund balance in the Grant Fund is due to decrease in Title I funding.
- The decrease in fund balance in the Food Services Fund is due to a decline in charges for services because of a decrease in enrollment.
- The decrease in fund balance in the Textbook Fund is due to a decrease in purchases in order to reduce the number of textbooks on hand and return of funds to the City.
- The decrease in fund balance in the Construction Fund is due to the transfer of funds to the City for the Olive Branch Preschool ceiling project and for bus bays. Also, expenses were incurred on some projects that received funding in the previous fiscal year.

## General Fund Budgetary Highlights

Throughout FY12-13, the School Board monitors its total budget; however, the School Board delegates authority to the superintendent to move budget amounts between line items and organizational units to meet the changing needs of the School Board. The School Board's administration manages actual spending to revenue received.

### General Fund Fiscal Year 2013 (in thousands of dollars)

	Original Budget	Amended Budget	Actual (Budgetary Basis)	Original Budget versus Amended Budget Variance	Amended Budget versus Actual Variance
Revenues:					
Intergovernmental	\$ 136,912	\$ 138,009	\$ 127,661	1%	-7%
Other	1,625	1,625	1,173	0%	-28%
Total	138,537	139,634	128,834	1%	-8%
Expenditures and transfers:					
Expenditures	135,494	136,004	125,463	0%	-8%
Transfers	3,719	4,306	3,371	16%	-22%
Total	139,213	140,310	128,834	1%	-8%
Change in fund balance	\$ (676)	\$ (676)	\$ -	0%	0%

## Capital Assets and Debt Administration

### Capital Assets

As of June 30, 2013, the School Board had \$80.8 million in capital assets, net of depreciation. Most of the assets are in school buildings and land. Of the equipment, most of the capital assets are the school bus fleet and the maintenance vehicles.

### Capital Assets Years Ended June 30, (Net of depreciation, in thousands of dollars)

	2013	2012, restated
Land	\$ 6,125	\$ 6,125
Buildings and improvements	49,552	47,763
Equipment	8,969	8,891
Intangibles	118	202
Construction in progress	16,076	18,559
Total	\$ 80,840	\$ 81,540

During FY12-13, the School Board completed \$8.3 million in construction in progress. This completion of construction in progress comprised a portion of the decrease in capital assets. Readers desiring more information on capital assets are referred to Note 4 in the basic financial statements.

## **Long-Term Liabilities**

Long-term liabilities as of fiscal year end were \$12.3 million, with \$9.0 million due in greater than one year and the remaining \$3.3 million due within one year.

The significant portions of long-term liabilities were \$3.5 million in vacation and sick leave, \$3.7 million in energy lease obligations and \$1.7 million in claims payable related to potential workman's compensation claims.

Readers desiring more information on long-term liabilities are referred to Note 5 in the basic financial statements.

## **Outlook for Fiscal Year 2014**

The School Board will close the Construction Fund. All remaining encumbered and available funds will be returned to the City. Such funds will be used to pay for existing projects in progress. Funding for School bus purchases and other capital projects will be planned and approved by the City under the City budget.

Employees hired on or after January 1, 2014 will join Virginia Retirement System (VRS) as members of the new VRS Hybrid Retirement Plan. The hybrid retirement plan combines the features of a current defined benefit plan – a monthly retirement benefit based on age, total service credit and average final compensation, with features of a defined contribution plan – a retirement benefit based on contributions and investment performance of these contributions.

Current VRS Plan 1 and Plan 2 (hired after July 1, 2010) members will have the option to transfer to the hybrid retirement plan during a one-time election period January 1 through April 30, 2014. If current members decide to transfer to the hybrid plan, the transfer is irrevocable and will become effective July 1, 2014. Information sessions regarding HRP to current employees will be provided as we get closer to the VRS Opt-In Period.

Hybrid plan members will contribute 5% similar to the current members. They will also have the option of making additional contributions of 4%. The School Board rate will not exceed the prescribed VRS rate.

The new legislation also created the Virginia Local Disability Program (VLDP), for employees covered under the Hybrid Retirement Plan (HRP). This is a short-term and long-term disabilities benefit for political subdivision and school division employees effective January 1, 2014. The HRP will apply to most new employees hired on or after January 1, 2014 and current employees who opt to switch to the HRP.

The VRS VLDP coverage for employees under HRP is automatic unless the School Board elects to opt out by December 2, 2013. School division must provide a comparable employer-paid program. The comparable program does not require long-term care coverage even though this coverage is included in VLDP. The decision to participate or opt out is irrevocable. Current VRS Disability Retirement will not be available to HRP participants. The Department of Finance is evaluating the possibility of contracting out for a comparable employer paid program. The cost and compliance with the new Virginia Code will be the determining factors.

The Information Technology Department of the City of Portsmouth (the City) currently prints checks for the School Board. We are working with the City and Wells Fargo on a new accounts payable process called "Payment Manager". Payment Manager uses payment methods such as Commercial Payment Card or Electronic Funds Transfer. This process will eliminate the need for City IT staff to print accounts payable checks resulting in cost savings. We will still be able to pay vendors with checks if necessary. This is a positive step forward for our School district and will continue "green" efforts.

School Board selected a vendor - SharpSchool to create a new web site. We will transition to the new and improved website in November 2013.

### **Contacting the School Board's Financial Management**

This financial report is designed to provide citizens, taxpayers, parents, guardians, and creditors with a general overview of the School Board's finances and to demonstrate the School Board's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Portsmouth, Virginia, School Board, Superintendent's Office, 801 Crawford Street, Portsmouth, Virginia 23704.

**CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD**  
**Component Unit of the City of Portsmouth, Virginia**

**Exhibit I**

**STATEMENT OF NET POSITION - GOVERNMENTAL ACTIVITIES**

**June 30, 2013**

**ASSETS**

Cash and cash equivalents	\$ 32,217,267
Due from the federal government	2,197,367
Due from the Commonwealth of Virginia	1,186,761
Receivables - net	492,755
Inventory	410,892
Capital assets not depreciated	22,200,677
Other capital assets - net	58,639,523
Net OPEB asset	5,773,486
<b>Total assets</b>	<b>\$ 123,118,728</b>

**LIABILITIES**

Accounts payable	\$ 5,652,918
Accrued payroll	7,482,213
Accrued payroll taxes	552,591
Accrued interest	164,869
Due to City of Portsmouth	13,513,509
Long-term liabilities	
Due within one year	3,276,268
Due in more than one year	9,057,953
<b>Total liabilities</b>	<b>39,700,321</b>

**NET POSITION**

Net investment in capital assets	76,349,904
Restricted	
Grants	1,103,582
School food services	1,804,974
Textbook	843,673
Unrestricted	3,316,274
<b>Total net position</b>	<b>83,418,407</b>
<b>Total liabilities and net position</b>	<b>\$ 123,118,728</b>

The accompanying notes are an integral part of the basic financial statements.

**CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD**  
**Component Unit of the City of Portsmouth, Virginia**

**Exhibit II**

**STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES**

**Year Ended June 30, 2013**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities					
Administration	\$ 3,922,922	\$ -	\$ -	\$ -	\$ (3,922,922)
Instruction	123,563,193	149,487	24,326,281	-	(99,087,425)
Attendance and health services	3,137,760	199,562	-	-	(2,938,198)
Pupil transportation	5,967,101	17,412	-	-	(5,949,689)
Operations and maintenance	16,218,996	29,477	-	-	(16,189,519)
Information technology	4,691,124	-	-	-	(4,691,124)
Food service	7,916,123	1,852,675	5,528,135	-	(535,313)
Interest on long-term debt	178,945	-	-	-	(178,945)
<b>Total Primary Government</b>	<b>\$ 165,596,164</b>	<b>\$ 2,248,613</b>	<b>\$ 29,854,416</b>	<b>\$ -</b>	<b>(133,493,135)</b>
<b>General revenues</b>					
From primary government					44,008,292
Unrestricted grants and contributions					76,966,687
Investment earnings					30,439
Miscellaneous					888,601
<b>Total general revenues</b>					<b>121,894,019</b>
<b>Transfers</b>					
To the City of Portsmouth					(3,750,269)
<b>Change in net position</b>					<b>(15,349,385)</b>
<b>Net position - beginning of year, as restated</b>					<b>98,767,792</b>
<b>Net position - end of year</b>					<b>\$ 83,418,407</b>

The accompanying notes are an integral part of the basic financial statements.

**CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD**  
**Component Unit of the City of Portsmouth, Virginia**

**Exhibit III**  
Page 1 of 2

**BALANCE SHEET - GOVERNMENTAL FUNDS**

**June 30, 2013**

	<b>General</b>	<b>School Grants</b>	<b>School Food Services</b>	<b>School Textbook</b>	<b>School Construction</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>						
Cash and temporary investments	\$ 19,056,613	\$ 2,068,505	\$ 1,933,494	\$ 3,583,120	\$ 2,167,605	\$ 28,809,337
Receivables	378,935	54,966	16	-	-	433,917
Due from federal government	-	1,961,152	236,215	-	-	2,197,367
Due from Commonwealth of Virginia	1,147,082	39,679	-	-	-	1,186,761
Due from other funds	2,949,504	-	12,233	-	-	2,961,737
Inventory	300,259	-	94,404	346	-	395,009
<b>Total assets</b>	<b>\$ 23,832,393</b>	<b>\$ 4,124,302</b>	<b>\$ 2,276,362</b>	<b>\$ 3,583,466</b>	<b>\$ 2,167,605</b>	<b>\$ 35,984,128</b>
<b>LIABILITIES</b>						
Accounts payable	\$ 5,335,270	\$ 237,956	\$ 79,692	\$ -	\$ -	\$ 5,652,918
Accrued payroll	7,471,723	5,231	1,106	598	-	7,478,658
Accrued payroll taxes	552,591	-	-	-	-	552,591
Due to City of Portsmouth	9,763,240	-	-	2,738,849	1,011,420	13,513,509
Due to other funds	12,233	2,653,318	296,186	-	-	2,961,737
<b>Total liabilities</b>	<b>23,135,057</b>	<b>2,896,505</b>	<b>376,984</b>	<b>2,739,447</b>	<b>1,011,420</b>	<b>30,159,413</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable revenue	-	806,954	-	-	-	806,954
<b>FUND BALANCES</b>						
Nonspendable	300,259	-	94,404	346	-	395,009
Restricted	-	296,628	1,804,974	843,673	-	2,945,275
Committed	-	-	-	-	1,156,185	1,156,185
Assigned	397,077	124,215	-	-	-	521,292
<b>Total fund balances</b>	<b>697,336</b>	<b>420,843</b>	<b>1,899,378</b>	<b>844,019</b>	<b>1,156,185</b>	<b>5,017,761</b>
<b>Total liabilities, deferred inflows, and fund balances</b>	<b>\$ 23,832,393</b>	<b>\$ 4,124,302</b>	<b>\$ 2,276,362</b>	<b>\$ 3,583,466</b>	<b>\$ 2,167,605</b>	<b>\$ 35,984,128</b>

The accompanying notes are an integral part of the basic financial statements.

**BALANCE SHEET - GOVERNMENTAL FUNDS**

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**June 30, 2013**

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**Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Position**

**Total fund balances - governmental funds** \$ 5,017,761

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

Capital assets used in governmental activities are not financial  
resources and, therefore, are not reported in the funds.

Net capital assets of governmental activities	\$ 80,840,200	
Net capital assets of internal service funds	<u>(26,001)</u>	80,814,199

Some of the School Board's revenues will be collected after year-end  
but are not available soon enough to pay for the current period's  
expenditures and, therefore, are deferred in the funds.

806,954

Long-term liabilities are not due and payable in the current period,  
and, therefore, are not reported as liabilities in the governmental  
funds.

Long-term liabilities		
Governmental funds	(12,334,221)	
Internal service funds - current portion	700,360	
Internal service funds - long-term portion	<u>1,743,252</u>	(9,890,609)
Accrued interest payable		(164,869)

Amounts paid to the trust for other post-employment benefits  
in excess of the required contributions, the net OPEB asset, are  
not financial resources and, therefore, are not reported in the funds.

5,773,486

Internal service funds are used by management to charge  
the costs of certain activities, such as printing and insurance  
to individual funds. The assets and liabilities of the internal  
service funds are included in governmental activities in the  
statement of net position.

1,061,485

**Total net position - governmental activities** \$ 83,418,407

The accompanying notes are an integral part of the basic financial statements.

**CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD**  
**Component Unit of the City of Portsmouth, Virginia**

**Exhibit IV**  
Page 1 of 2

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES ·**  
**GOVERNMENTAL FUNDS**

**Year Ended June 30, 2013**

	<b>General</b>	<b>School Grants</b>	<b>School Food Services</b>	<b>School Textbook</b>	<b>School Construction</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>						
Intergovernmental						
From City of Portsmouth	\$ 44,008,292	\$ -	\$ -	\$ -	\$ -	\$ 44,008,292
From Commonwealth of Virginia	82,944,069	3,880,104	119,543	924,094	-	87,867,810
From federal government	709,119	11,528,042	5,528,135	-	-	17,765,296
Donated commodities	-	-	431,169	-	-	431,169
Total intergovernmental	127,661,480	15,408,146	6,078,847	924,094	-	150,072,567
Charges for services	-	-	913,852	-	-	913,852
Interest	29,477	-	962	-	-	30,439
Miscellaneous	1,143,540	173,163	765,660	4,052	136,948	2,223,363
<b>Total revenues</b>	<b>128,834,497</b>	<b>15,581,309</b>	<b>7,759,321</b>	<b>928,146</b>	<b>136,948</b>	<b>153,240,221</b>
<b>Expenditures</b>						
Current						
Education						
Administration	3,860,387	4,941	-	-	-	3,865,328
Instruction	98,539,086	16,309,113	-	378,521	-	115,226,720
Attendance and health service	2,640,577	480,869	-	-	-	3,121,446
Pupil transportation	5,306,141	313,766	-	-	-	5,619,907
Information technology	4,623,016	-	-	-	-	4,623,016
Operation and maintenance	15,901,140	-	-	-	-	15,901,140
Food services	-	-	7,775,261	-	-	7,775,261
Capital outlay	1,684,098	78,584	159,937	-	5,849,731	7,772,350
Debt service						
Principal	723,518	-	-	-	-	723,518
Interest	205,511	-	-	-	-	205,511
<b>Total expenditures</b>	<b>133,483,474</b>	<b>17,187,273</b>	<b>7,935,198</b>	<b>378,521</b>	<b>5,849,731</b>	<b>164,834,197</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(4,648,977)</b>	<b>(1,605,964)</b>	<b>(175,877)</b>	<b>549,625</b>	<b>(5,712,783)</b>	<b>(11,593,976)</b>
<b>Other financing sources (uses)</b>						
To the City of Portsmouth	-	-	-	(2,738,849)	(1,011,420)	(3,750,269)
Transfers in	-	1,254,615	-	1,557,593	559,266	3,371,474
Transfers out	(3,371,474)	-	-	-	-	(3,371,474)
<b>Total other financing sources (uses)</b>	<b>(3,371,474)</b>	<b>1,254,615</b>	<b>-</b>	<b>(1,181,256)</b>	<b>(452,154)</b>	<b>(3,750,269)</b>
<b>Net change in fund balances</b>	<b>(8,020,451)</b>	<b>(351,349)</b>	<b>(175,877)</b>	<b>(631,631)</b>	<b>(6,164,937)</b>	<b>(15,344,245)</b>
<b>Fund balances - beginning of year</b>	<b>8,717,787</b>	<b>772,192</b>	<b>2,075,255</b>	<b>1,475,650</b>	<b>7,321,122</b>	<b>20,362,006</b>
<b>Fund balances - end of year</b>	<b>\$ 697,336</b>	<b>\$ 420,843</b>	<b>\$ 1,899,378</b>	<b>\$ 844,019</b>	<b>\$ 1,156,185</b>	<b>\$ 5,017,761</b>

The accompanying notes are an integral part of the basic financial statements.

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES ·**  
**GOVERNMENTAL FUNDS**

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**Year Ended June 30, 2013**

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

**Net change in fund balances - total governmental funds** **\$ (15,344,245)**

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

Governmental funds report capital outlay as expenditures. However, in  
the statement of activities the cost of these assets is allocated over their  
estimated useful lives and reported as depreciation expense. This is the  
amount by which capital outlay exceeded depreciation.

General government capital outlay expenditures	\$ 7,772,350	
Items not capitalized	(5,118,132)	
Depreciation of general government assets, net of amount reported in internal service funds	<u>(3,349,370)</u>	(695,152)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	756,828
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Debt proceeds provide current financial resources to governmental funds,  
but issuing debt increases long-term liabilities in the statement of net position.  
Repayment of bond principal is an expenditure in the governmental funds,  
but the repayment reduces long-term liabilities in the statement of net position.

Add debt repayment	723,518
Adjustment of accrued interest on long-term debt	26,566

Some expenses, such as compensated absences and net pension obligation,  
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.

Change in compensated absences and net pension obligation, net of amount reported in internal service funds	(160,066)	
Change in net OPEB asset	<u>(766,102)</u>	(926,168)

Internal service funds are used by management to charge the cost of  
certain activities, such as printing and insurance, to individual funds. The  
net revenue of certain internal service funds is reported with governmental  
activities.

109,268

**Change in net position of governmental activities** **\$ (15,349,385)**

The accompanying notes are an integral part of the basic financial statements.

**CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD**  
**Component Unit of the City of Portsmouth, Virginia**

**Exhibit V**

**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**

**June 30, 2013**

		<b>Governmental Activities - Internal Service Funds</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and temporary investments	\$	3,407,930
Accounts receivable		58,838
Inventories		15,883
<b>Total current assets</b>		<b>3,482,651</b>
<b>Noncurrent assets</b>		
Capital assets		
Machinery and equipment		966,583
Less - accumulated depreciation		(940,582)
<b>Total noncurrent assets</b>		<b>26,001</b>
<b>Total assets</b>	<b>\$</b>	<b>3,508,652</b>
<b>LIABILITIES AND NET POSITION</b>		
<b>Current liabilities</b>		
Claims payable - current portion	\$	700,360
Accounts payable and accrued expenses		3,555
<b>Total current liabilities</b>		<b>703,915</b>
<b>Noncurrent liabilities</b>		
Claims payable - net of current portion		1,687,078
Compensated absences		56,174
<b>Total noncurrent liabilities</b>		<b>1,743,252</b>
<b>Total liabilities</b>		<b>2,447,167</b>
<b>Net position</b>		
Net investment in capital assets		26,001
Unrestricted		1,035,484
<b>Total net position</b>		<b>1,061,485</b>
<b>Total liabilities and net position</b>	<b>\$</b>	<b>3,508,652</b>

The accompanying notes are an integral part of the basic financial statements.

**CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD**  
**Component Unit of the City of Portsmouth, Virginia**

**Exhibit VI**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -  
PROPRIETARY FUNDS**

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**Year Ended June 30, 2013**

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	<b>Governmental Activities - Internal Service Funds</b>
<b>Operating revenues</b>	
Charges for services	\$ 1,446,260
<b>Total operating revenues</b>	<u>1,446,260</u>
<b>Operating expenses</b>	
Personnel services	371,873
Insurance claims and expenses	710,121
Contractual	166,019
Other supplies and expenses	84,369
Depreciation and amortization	4,610
<b>Total operating expenses</b>	<u>1,336,992</u>
<b>Change in net position</b>	109,268
<b>Total net position - beginning of year</b>	<u>952,217</u>
<b>Total net position - end of year</b>	<u>\$ 1,061,485</u>

The accompanying notes are an integral part of the basic financial statements.

**CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD**  
**Component Unit of the City of Portsmouth, Virginia**

**Exhibit VII**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**

**Year Ended June 30, 2013**

	<b>Governmental Activities - Internal Service Funds</b>
<b>Cash flows from operating activities</b>	
Received from customers and users	\$ 1,427,365
Payments to suppliers for goods and services	(965,841)
Payments to employees	(369,424)
<b>Net cash provided by operating activities</b>	<u>92,100</u>
 <b>Net change in cash and temporary investments</b>	 92,100
<b>Cash and temporary investments - beginning of year</b>	<u>3,315,830</u>
<b>Cash and temporary investments - end of year</b>	<u><u>\$ 3,407,930</u></u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>	
Operating income	\$ 109,268
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation and amortization	4,610
Change in assets and liabilities	
Accounts receivable	(18,895)
Inventories	(7,119)
Vouchers and accounts payable	(20,775)
Claims payable	23,036
Change in compensated absences	1,975
Total adjustments	<u>(17,168)</u>
<b>Net cash provided by operating activities</b>	<u><u>\$ 92,100</u></u>
<b>Supplemental information on significant non-cash transactions</b>	
There were no significant non-cash transactions.	

The accompanying notes are an integral part of the basic financial statements.

**CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD**  
**Component Unit of the City of Portsmouth, Virginia**

**Exhibit VIII**

**STATEMENT OF NET POSITION - FIDUCIARY FUNDS**

**June 30, 2013**

ASSETS	School OPEB	
	Trust Fund	Agency Fund
Cash and temporary investments	\$ 1,689,102	\$ 1,835,429
Investments	8,963,303	-
Total assets	<u>\$ 10,652,405</u>	<u>\$ 1,835,429</u>
<b>LIABILITIES AND NET POSITION</b>		
Liabilities		
Due to students and others	\$ -	\$ 1,835,429
Net position		
Held in trust for other post-employment benefits	<u>10,652,405</u>	<u>-</u>
Total liabilities and net position	<u>\$ 10,652,405</u>	<u>\$ 1,835,429</u>

The accompanying notes are an integral part of the basic financial statements.

**CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD**  
**Component Unit of the City of Portsmouth, Virginia**

**Exhibit IX**

**STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUNDS**

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**Year Ended June 30, 2013**

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	<b>School OPEB Trust Fund</b>
Additions	
Investment earnings	\$ 140,690
Gains on investments	430,065
Total additions	<u>570,755</u>
Deductions	
Benefits - health insurance	145,003
Management fees	14,497
Total deductions	<u>159,500</u>
Change in net position	411,255
Net position - beginning of year	<u>10,241,150</u>
Net position - end of year	<u>\$ 10,652,405</u>

The accompanying notes are an integral part of the basic financial statements.

**NOTES TO BASIC FINANCIAL STATEMENTS**

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**June 30, 2013**

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements presented for the City of Portsmouth, Virginia School Board ("School Board") are prepared in accordance with accounting principles generally accepted in the United States of America applicable to governmental units, as prescribed by the Governmental Accounting Standards Board (GASB). The School Board's significant accounting and reporting policies are described below.

***The Financial Reporting Entity***

The School Board is considered a component unit of the City of Portsmouth ("City"). The School Board has no component units. Component units are legally separate entities for which a primary government is financially accountable. Financial accountability ordinarily involves meeting both of the following criteria: (a) the primary government is accountable for the component unit, and (b) the primary government is able to impose its will upon the component unit (or there is a possibility that the component unit may provide specific financial benefits or impose specific financial burdens on the primary government). The information included in these basic financial statements will also be included in the City of Portsmouth's basic financial statements because of the significance of the School Board's financial relationship with the City.

The School Board determines educational policy and employs a Superintendent of Schools to administer the School Board's policies. The members of the School Board are elected by the citizens of the City of Portsmouth.

The School Board is responsible for elementary and secondary education for the City of Portsmouth.

***Basis of Presentation***

The School Board's basic financial statements consist of government-wide financial statements, including a statement of net position 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 position 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.

The statement of net position presents the financial condition of the governmental type activities of the School Board at year-end. The School Board does not have any business-type activities. The government-wide statement of activities reflects both the gross and net cost per functional category that is otherwise being supported by general government revenues. The statement of activities reduces gross expenses (including depreciation) by related program revenues (charges for services, operating and capital grants, and contributions). The program revenues must be directly associated with the function or a business-type activity. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items such as grants not specific to a program, not properly included among program revenues, are reported as general revenues. The School Board does not allocate indirect expenses. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. The effect of interfund services provided and used, for example, print shop services are not eliminated in the process of consolidation.

***Fund Financial Statements*** - 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 separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues, and expenditures. The fund statements are presented on a current financial resources measurement focus and the modified accrual basis of accounting. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented which briefly explains the adjustments necessary to reconcile the fund financial statements to the government-wide financial statements.

***Governmental Funds*** - Governmental Funds are those through which most governmental functions of the School Board are financed. The acquisition, use and balances of the School Board's expendable financial resources and the related liabilities are accounted for through governmental funds. Governmental fund types use the "flow of current financial resources" measurement focus. This means that generally only current assets and current liabilities are reflected on their balance sheets. Their operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. 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 (School Operating Fund) is the general operating fund of the School Board. It is used to account for all financial resources except those required to be accounted for in another fund. Revenues are primarily from other governments (intergovernmental revenues).

**School Grants Fund** - The School Grants Fund is a special revenue fund which accounts for federal, state and other grants associated with school programs.

**School Food Services Fund** - The School Food Services Fund is a special revenue fund which accounts for the operations of the cafeterias operating in each school. Revenues include federal and state funds, donated commodities, charges for services, and other sales.

**School Textbook Fund** - The School Textbook Fund is a special revenue fund which accounts for state funding for the acquisition of textbooks.

**School Construction Fund** - The School Construction Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Additionally, the School Board reports the following fund types:

***Internal Service Funds*** - The Internal Service Funds account for the financing of services provided by one fund to other funds of the School Board. The Risk Management Fund accounts for the payment of claims and legal fees, if necessary, on public liability claims arising from the operations of the School Board. The Print Shop Fund accounts for print shop services provided to other departments of the School Board or other governments on a cost reimbursement basis. Operating revenues include charges for services. Operating expenses include cost of services. The Internal Service Funds are included in governmental activities for government-wide reporting purposes. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. The excess revenue or expenses for the funds are allocated to the appropriate functional activity.

***Fiduciary Funds*** - Fiduciary Funds are used to account for assets held by the School Board in a trustee capacity or as an agent for individuals, private organizations, and other governments. The Fiduciary Funds of the School Board are the Student Activities Fund and the School OPEB Trust Fund. The Agency Fund accounts for the student activity monies maintained on behalf of the students by the school principals at each school. The School Board also has a trust fund that holds the assets contributed for the costs of the School Board's other post-employment benefits for employees. Fiduciary Funds are not included in the government-wide financial statements.

### ***Basis of Accounting***

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet in the fund statements. Long-term assets and long-term liabilities are included in the government-wide statements. Operating statements of the governmental funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. The School Board generally first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available.

The government-wide statement of net position and statement of activities and all proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operation of these activities are included on the statement of net position. Proprietary fund-type operating statements present increases (revenues) and decreases (expenses) in net total assets.

The statement of net position, statement of activities and financial statements of the proprietary funds are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

The Governmental Fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues, including grants, charges for services and interest income, are recorded as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Generally revenues collected within forty-five days of year-end are recognized. Expenditures, other than interest and principal on long-term debt which is recorded when due, are recorded when the fund liability is incurred, if measurable.

Fiduciary Funds are reported using the accrual basis of accounting. However, agency funds included in fiduciary funds do not involve the measurement of results of operations as they are custodial in nature.

### ***Receivables and Due from Other Governments***

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

### ***Inventory***

Inventory is valued at cost (first-in, first-out). Inventory consists of consumable materials and supplies held for future consumption. Under the purchase method of accounting, the cost is recorded as an expenditure in the general fund at the time individual inventory items are purchased.

### ***Capital Assets***

Capital outlays are recorded as expenditures in the governmental funds and as assets in the government-wide financial statements to the extent the School Board's capitalization threshold of \$5,000 is met.

Depreciation and amortization is recorded on general capital assets on a government-wide basis using the straight-line method over the following estimated useful lives:

Buildings and Improvements	20 - 50 years
Equipment	5 - 30 years
Intangible assets	5 years

To the extent the School Board's capitalization threshold of \$5,000 is met, capital outlays of the Proprietary Funds are recorded as capital assets and depreciated over their estimated useful lives on a straight-line basis on both the funds basis and the government-wide basis using the straight-line method and the following estimated useful life:

Equipment	5 - 8 years
-----------	-------------

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 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 has 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, having a net book value of \$75,937,076 will be carried on the City's financial statements until the outstanding debt is repaid.

Maintenance, repairs and minor equipment are charged to operations when incurred. Expenses that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings and equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

### ***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 pay earned and, upon retirement, termination or death may be compensated as salary related payments for certain amounts at their then current rates of pay. After five consecutive years of service, employees, upon retirement, termination or death may be compensated at a daily rate of \$20 for each unused sick leave day earned provided that the funds have been included in the approved annual budget.

### ***Fund Balances/Net Position***

Fund balance is categorized within one of the five classifications listed below based primarily on the extent to which the School Board is bound to observe constraints imposed upon the use of resources in the governmental funds.

- The *non-spendable fund balance* category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.
- The *restricted fund balance* is reported as restricted when constraints are placed on the use of resources either externally by creditors, grantors, contributors, laws and regulations or through enabling legislation.
- The *committed fund balance* classification includes amounts that can be used only for the specific purposes determined by a formal action (resolution) of the School Board – the highest level of authority and requires a similar formal action to remove the commitment.
- The *assigned fund balance* classification is intended to be used by the School Board for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by School Board or the delegate – an authority delegated by appropriate action such as a resolution.
- The *unassigned fund balance* is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

A fund balance of the School Board may be committed for a specific purpose by formal action of the Portsmouth School Board; e.g., the School Board by approving a contract for construction of a school facility would commit that fund balance for construction of the specific school. When it is appropriate for a fund balance to be assigned, the School Board has delegated the authority to the Superintendent or his designee to assign the fund balance. In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

Net position in government-wide financial statements are classified as invested in capital assets, net of related debt, restricted and unrestricted. Restricted net position represent constraints on resources that are either externally imposed by creditors, grantors, contributors, laws and regulations of other governments or imposed by law through state statute.

### ***Minimum Fund Balance Policy***

The School Board does not have a minimum fund balance policy.

### ***Statement of Cash Flows***

For purposes of the statement of cash flows, investments with original maturities of three months or less from the date of purchase are grouped into cash and temporary investments.

### ***Use of Estimates***

Management of the School Board has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Management believes any differences between these estimates and actual results should not materially affect the School Board's reporting of its financial position.

## **NOTE 2. CHANGE IN ACCOUNTING PRINCIPLE**

The School Board adopted GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This standard requires that deferred outflows of resources be reported in a separate section following assets in statements of net position. Deferred inflows of resources should be reported in a separate section following liabilities. Because deferred outflows and deferred inflows are, by definition, neither assets nor liabilities, the statement of net assets title was changed to statement of net position.

## **NOTE 3. DEPOSITS AND TEMPORARY INVESTMENTS**

The School Board maintains individual segregated bank accounts for the School Grants, School Food Services and Print Shop funds. The General, Textbook, School Construction and Risk Management funds share a pooled cash account.

### ***Deposits***

At year-end, the carrying value of the School Board's deposits with banks and savings institutions was \$35,741,798 and the bank balance was \$39,753,789. The bank balances of the School Board's deposits were covered by Federal Depository Insurance or collateralized in accordance with the Virginia Security for Public Deposits Act (Act). Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the

amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. The State Treasury is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks. If any member financial institution fails, the entire collateral becomes available to satisfy claims of the School Board. If the value of the pool's collateral is inadequate to cover a loss, additional amounts would be assessed on a pro rata basis to the members (banks) of the pool. Therefore, these deposits are considered collateralized and as a result are considered insured.

### **Summary of Deposits and Temporary Investments**

Cash and cash equivalents	\$ 32,217,267
Fiduciary fund cash and temporary investments	3,524,531
	<u>\$ 35,741,798</u>

### ***Investments***

State statutes authorize the City to invest in obligations of the United States or agencies thereof, securities unconditionally guaranteed by the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, bankers acceptances, repurchase agreements, certificates of deposit, and the State Treasurer's Local Government Investment Pool (LGIP). The pension trust funds are also authorized to invest in common stocks and marketable debt securities which mature within twenty years with credit ratings no lower than Baa or BBB as measured by Moody's, Standard and Poor's, or Fitch IBCA's rating services.

### ***Investment policy***

The primary goal of the investment policy is to maximize return on investment while minimizing risk to the investment. The City's investment policy addresses custodial credit risk, interest rate risk, concentration of risk, and credit risk, in which instruments are to be diversified and maturities timed according to anticipated needs in order to minimize any exposure. The City's policy does not address foreign currency risk. The City's investment policy requires that all investments and investment practices meet or exceed all statutes and guidelines governing the investment of public funds in Virginia, including the Investment Code of Virginia and the guidelines established by the State Treasury Board and the Governmental Accounting Standards Board. The policy specifically states that the City shall limit investments to those allowed under the Virginia Security for Public Deposits Act, Sec. 2.1-359 through 2.1-370 and Investment of Public Funds as in Sec. 2.1-327 through 2.1-329, Code of Virginia. The City Treasury is responsible for diversifying the use of investment instruments to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities. It is the policy of the City to concentrate its investment efforts to banks located in the State of Virginia which are under the Virginia statutes for public funds and all banks must be approved by depositories by the State Treasury Board. The City's policy is to invest only in "prime quality" commercial paper, with a maturity of two hundred seventy days or less, or issuing corporations organized under the laws of the United States, or any state thereof including paper issued by banks and bank holding companies. Prime quality shall be as rated by the Moody's Investors Services, Inc. within its ratings of prime 1 or prime 2 or by Standard and Poor's, Inc. within its ratings of A-1 or A-2 or by Fitch Investors Service within its ratings of F-1 and F-2. The maximum percentage of funds to be invested in any one issue shall not exceed five (5) percent of the total portfolio.

The School Board has \$10,652,405 in investments for the School OPEB Trust Fund. These investments include:

		<u>Rating</u>
Cash and money market funds	\$ 1,689,102	Unavailable
Bond mutual funds	5,945,073	Unavailable
Equity mutual funds	3,018,230	Unavailable
	<u>\$ 10,652,405</u>	

#### NOTE 4. CAPITAL ASSETS – NET

A summary of changes in capital assets for the year ended June 30, 2013, follows:

	<u>Balance July 1, 2012 as restated</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2013</u>
<b>Governmental activities:</b>				
Capital assets not being depreciated				
Land	\$ 6,125,204	\$ -	\$ -	\$ 6,125,204
Construction in progress	18,559,127	5,849,731	8,333,385	16,075,473
<b>Total capital assets - not being depreciated</b>	<u>24,684,331</u>	<u>5,849,731</u>	<u>8,333,385</u>	<u>22,200,677</u>
Capital assets being depreciated/amortized				
Buildings and improvements	78,807,165	3,924,563	-	82,731,728
Equipment	24,045,046	1,213,308	11,000	25,247,354
Intangible assets	422,270	-	-	422,270
<b>Total capital assets - being depreciated/amortized</b>	<u>103,274,481</u>	<u>5,137,871</u>	<u>11,000</u>	<u>108,401,352</u>
Less accumulated depreciation/amortization				
Buildings	31,044,714	2,134,559	-	33,179,273
Equipment	15,153,900	1,134,967	11,000	16,277,867
Intangible assets	220,235	84,454	-	304,689
<b>Total accumulated depreciation/amortization</b>	<u>46,418,849</u>	<u>3,353,980</u>	<u>11,000</u>	<u>49,761,829</u>
<b>Other capital assets - being depreciated/amortized - net</b>	<u>56,855,632</u>	<u>1,783,891</u>	<u>-</u>	<u>58,639,523</u>
<b>Governmental activities capital assets - net</b>	<u>\$ 81,539,963</u>	<u>\$ 7,633,622</u>	<u>\$ 8,333,385</u>	<u>\$ 80,840,200</u>

Depreciation and amortization expense was charged to functions as follows:

**Government activities:**

Instruction	\$ 2,785,394
Administration, attendance and health services	37,392
Pupil transportation	317,821
Operations and maintenance	69,204
Information technology	43,945
Food services	<u>100,224</u>
Total governmental activities depreciation expense	<u>\$ 3,353,980</u>

Contracts the School Board is committed to at June 30, 2013 are approximately \$1,060,000.

**NOTE 5. LONG-TERM LIABILITIES**

Long-term liabilities are normally paid from the General Fund, or the applicable Internal Service Fund.

	<b>Net Pension Obligation</b>	<b>Capital Leases</b>	<b>Accrued Vacation Pay</b>	<b>Accrued Sick Leave</b>	<b>Claims Payable</b>	<b>Total</b>
Amounts payable at beginning of year	\$ 113,673	\$ 5,213,816	\$ 3,359,262	\$ 1,821,510	\$ 2,364,402	\$ 12,872,663
Increase in liabilities	7,957	-	1,482,105	474,332	556,017	2,520,411
Decrease in liabilities	<u>(6,237)</u>	<u>(723,518)</u>	<u>(1,294,871)</u>	<u>(501,246)</u>	<u>(532,981)</u>	<u>(3,058,853)</u>
Amounts payable at end of year	<u>\$ 115,393</u>	<u>\$ 4,490,298</u>	<u>\$ 3,546,496</u>	<u>\$ 1,794,596</u>	<u>\$ 2,387,438</u>	<u>\$ 12,334,221</u>
Amounts due within one year	<u>\$ -</u>	<u>\$ 779,908</u>	<u>\$ 1,294,800</u>	<u>\$ 501,200</u>	<u>\$ 700,360</u>	<u>\$ 3,276,268</u>

Long-term liabilities applicable to the School Board's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. All liabilities, both current and long-term, are reported in the statement of net position. Compensated absences are generally liquidated by general, grants, food services and print shop funds. Claims are generally liquidated by the general fund.

The future payments by year of the net pension obligation, accrued vacation pay and sick leave, and claims payable are not determinable.

## **Leases**

A summary of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 2013, is as follows:

<b><u>Fiscal year</u></b>	
2014	\$ 956,900
2015	985,607
2016	1,015,175
2017	1,045,630
2018	1,040,463
Total minimum payments	5,043,775
Less - amount representing interest	(553,477)
Present value of principal	<u>\$ 4,490,298</u>

The assets acquired through capital leases are as follows:

Asset:	
Equipment	\$ 8,764,869
Less accumulated depreciation	(1,205,171)
	<u>\$ 7,559,698</u>

## **NOTE 6. DEFINED BENEFIT PENSION PLANS**

### **Virginia Retirement System (VRS)**

#### ***Plan Description***

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

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of credited service. Employees are eligible for an unreduced retirement benefit at age 65 with five years of service or at age 50 with 30 years of service for participating employers, payable monthly for life, in an amount equal to 1.7% of their average final compensation (AFC) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living adjustments (COLA) beginning in their second year of retirement. The COLA is limited to 5% per year. AFC is defined as the highest consecutive 36 months of reported compensation. 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 that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing to the VRS at P.O. Box 2500, Richmond, Virginia 23218-2500.

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. The School Board's employees 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 a reduced benefit as early as age 55 with at least five years of service credit or age 50 with at least ten 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. The School Board's employees 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 equal 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.

### ***Funding Policy***

VRS plan members are required, by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual reported compensation to the VRS. In addition, the School Board is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The School Board's contribution rate for non-professional employees for the fiscal years ended 2013, 2012 and 2011, was 14% each year, of annual covered payroll.

Additionally, required contributions to the VRS' state-wide teacher pool for the current year and each of the two preceding years were as follows:

<b>Year Ended June 30,</b>	<b>Annual Required Contribution</b>	<b>Actual Contribution</b>	<b>Percentage Contributed</b>
2013	\$ 8,857,467	\$ 8,857,467	100%
2012	\$ 8,492,549	\$ 8,492,549	100%
2011	\$ 6,917,352	\$ 6,917,352	100%

### ***Annual Pension Cost***

The School Board's annual pension cost and net pension obligation to VRS for non-professional employees for the current year were as follows:

Annual required contribution	\$ 998,062
Interest on net pension obligation	7,957
Adjustment to annual required contribution	<u>(6,237)</u>
Annual pension cost	999,782
Contributions made	<u>998,062</u>
Increase in net pension obligation	1,720
Net pension obligation - beginning of year	<u>113,673</u>
Net pension obligation - end of year	<u>\$ 115,393</u>

The required contribution was determined as part of the June 30, 2012, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.0% investment rate of return, (b) projected salary increases of 3.75% to 5.6% per year and (c) 2.5% per year cost-of-living adjustments for Plan 1 Members and 2.25% per year cost-of-living adjustments for Plan 2 Members. Both (a) and (b) included an inflation component of 2.5%. The actuarial value of the School Board's assets is equal to the modified market value of 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 School Board's unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis over a period of nineteen years.

<b>Trend Information for the School Board</b>			
<b>Year Ended June 30,</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
2013	\$ 999,782	100%	\$ 115,393
2012	\$ 938,596	100%	\$ 113,673
2011	\$ 1,000,556	100%	\$ 113,686

### ***Funded Status and Funding Progress***

As of June 30, 2012, the most recent actuarial valuation date, the schedule of funding progress for the pension plan is presented below. The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Overfunded (Unfunded) Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2012	\$ 24,997,565	\$ 35,749,827	\$(10,752,262)	69.92%	\$ 6,749,363	159.31%
June 30, 2011	\$ 25,829,515	\$ 35,671,426	\$ (9,841,911)	72.41%	\$ 6,989,874	140.80%
June 30, 2010	\$ 26,098,503	\$ 34,765,427	\$ (8,666,924)	75.07%	\$ 8,053,701	107.61%

### **NOTE 7. OTHER LIABILITIES, COMMITMENTS AND CONTINGENCIES**

#### ***Risk Management***

The School Board is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School Board is self-insured for a portion of these risks. The self-insurance coverage for workers' compensation is \$250,000 per occurrence. Commercial insurance is purchased to cover any liability above these self-insured levels for specific losses. General liability is fully insured. This insurance coverage is substantially the same as in prior fiscal years. There were no settlements within the past three years which exceeded coverage.

The Risk Management and Insurance Fund services all claims of risk of loss to which the School Board is exposed, including workers' compensation, automobile and general liability. All funds of the School Board participate in the Risk Management Fund.

A loss analysis was conducted by Glicksman Consulting, LLC on this fund. The total actuarially computed liability as of June 30, 2013, was determined to be \$2,387,438 (undiscounted) and recorded in the internal service fund and the government-wide statements, accordingly.

Changes in the fund's claim liability amount for fiscal years ended June 30 were:

	<b>2013</b>	<b>2012</b>
Claims payable - beginning of year	\$ 2,364,402	\$ 2,370,998
Claims and changes in estimates	733,157	756,976
Claims payments	(710,121)	(763,572)
Claims payable - end of year	<u>\$ 2,387,438</u>	<u>\$ 2,364,402</u>

### ***Litigation***

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

### ***Grants***

The School Board received grant funds, principally from the State and Federal governments, 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. Based on prior experience, School Board management believes such refunds, if any, will not be significant.

### ***Encumbrances***

The School Board has outstanding purchase orders representing goods or services not received as of June 30, 2013. These amounts are encumbrances of fiscal year 2012-2013 budgeted funds and are not reflected in the accompanying financial statements. The encumbrances are as follows:

	<b>Amounts</b>
General Fund	\$ 397,077
School Grants Fund	385,611
School Food Services Fund	441,042
School Textbook Fund	48,165
School Construction Fund	179,845
	<hr/>
	\$ 1,451,740

### **NOTE 8. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

Interfund receivable and payable balances at June 30, 2013, which are considered short-term in nature, are as follows:

	<b>Due From Other Funds</b>	<b>Due To Other Funds</b>
General Fund	\$ 2,949,504	\$ 12,233
School Grants Fund	-	2,653,318
School Food Services	12,233	296,186
	<hr/>	<hr/>
	\$ 2,961,737	\$ 2,961,737

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers for the year ended June 30, 2013, consisted of the following:

	<b>Transfers From Other Funds</b>	<b>Transfers To Other Funds</b>
General Fund	\$ -	\$ 3,371,474
School Grants Fund	1,254,615	-
School Textbook Fund	1,557,593	-
School Construction Fund	559,266	-
	<u>\$ 3,371,474</u>	<u>\$ 3,371,474</u>

Transfers are used to: (1) move revenues from the fund, that statute or budget requires to collect them, to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

## **NOTE 9. POST-EMPLOYMENT HEALTH CARE BENEFITS**

### ***Plan Description***

The School Board administers a single-employer defined benefit healthcare plan. It provides medical insurance benefits to eligible retirees and their spouses in accordance with the school's personnel policies and procedures. Plan membership as of the June 30, 2012 valuation date consisted of 2,075 active service participants and 70 retirees and beneficiaries currently receiving benefits. A Trust was established for the purpose of accumulating and investing assets to fund other post-employment benefits obligations. Amounts contributed to the Trust by the School Board are irrevocable and must be used solely to discharge the School Board's obligations for other post-employment benefits and pay for reasonable expenses of the Trust. The OPEB Trust is included as a fiduciary fund in the School Board's financial statements. Separate stand-alone statements are not issued for the plan.

### ***Significant Accounting Policies***

The OPEB Trust is a fiduciary-type fund of the School Board. Fiduciary funds use the flow of economic resources measurement focus and the accrual basis of accounting. Contributions are recognized in the period in which amounts are due, and benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value based on quoted market prices.

### ***Funding Policy***

The contribution requirements of plan members and the School Board are established and may be amended by the School Board. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the School Board. For the year ended June 30, 2013, the School Board made no further contributions to the plan to pay current benefits and to prefund benefits.

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

The School Board's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters established in GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities, or funding excess, over a period not to exceed thirty years.

The following table shows the components of the School Board's annual OPEB cost for the year and the amount actually contributed to the plan, as well as the changes in the School Board's net OPEB obligation.

#### **OPEB Calculation Based on Projected Unit Cost and Level Percentage of Pay Amortization**

Annual required contribution	\$ 768,683
Interest on net OPEB obligation	(526,868)
Adjustment to annual required contribution	<u>524,287</u>
Annual OPEB cost	766,102
Contributions made	<u>-</u>
Decrease in net OPEB asset	766,102
Net OPEB asset - beginning of year	<u>(6,539,588)</u>
Net OPEB asset - end of year	<u>\$ (5,773,486)</u>

The School Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB asset for 2013 were as follows:

<b>Fiscal Year Ended</b>	<b>Annual OPEB Cost</b>	<b>Employer Contributions</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation (Asset)</b>
June 30, 2013	\$ 766,102	\$ -	0%	\$ (5,773,486)
June 30, 2012	\$ 1,050,365	\$ 7,002,500	667%	\$ (6,539,588)
June 30, 2011	\$ 1,005,217	\$ 1,000,000	99%	\$ (587,453)

### ***Funded Status and Funding Progress***

Based on the most recent actuarial valuation report for the fiscal year ended June 30, 2012, the funded status of the plan was as follows:

Actuarial accrued liability (AAL)	\$ 12,204,795
Actuarial value of plan assets	<u>10,241,149</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 1,963,646</u>
Funded ratio (actuarial value of plan assets/AAL)	84%
Covered payroll (active plan participants)	\$ 89,605,502
UAAL as a percentage of covered payroll	2%

### ***Actuarial Methods and Assumptions***

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the School Board's annual required contributions are subject to continued revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information as of June 30, 2013. In subsequent years, the schedule will provide additional multiyear trend information about whether the actuarial values of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective.

In the June 30, 2012 actuarial valuation, the entry age actuarial cost method and level percentage amortization method was used. The actuarial assumptions included a 7% investment rate of return (discount rate) and amortization of the Schools' unfunded actuarial accrued liabilities (UAAL) over a period of 20 years as a level percent of payroll, which closely matches with the cash flow duration. Healthcare cost trend rates ranged from 10% initially to an ultimate rate of 5% for the 2013 fiscal year. Payroll is projected to increase at 3.5%. The inflation rate is implicitly included in other assumptions, such as the discount rate, and the medical trend rates, as it is just one component among many components that comprise the makeup of those assumptions. Retirement benefit payments are typically concentrated at the beginning of the fiscal year with very few spread over during the year. Payments are made out of the Wells Fargo Advantage Treasury Plus Money Market Fund.

## NOTE 10. FUND BALANCES

Fund balances are classified as nonspendable, restricted, committed, assigned and unassigned based primarily on the extent to which the School Board is bound to observe constraints upon the use of the resources in the governmental funds. The constraints placed on fund balance for the governmental funds are presented below:

	General	School Grants	School Food Services	School Textbook	School Construction	Total
Nonspendable						
Inventory	\$ 300,259	\$ -	\$ 94,404	\$ 346	\$ -	\$ 395,009
	<u>300,259</u>	<u>-</u>	<u>94,404</u>	<u>346</u>	<u>-</u>	<u>395,009</u>
Restricted						
Federal	-	48,109	-	-	-	48,109
State	-	152,244	-	-	-	152,244
Other	-	96,275	-	-	-	96,275
Elementary schools	-	-	1,049,503	489,330	-	1,538,833
Middle schools	-	-	267,222	126,551	-	393,773
High schools	-	-	488,249	227,792	-	716,041
	<u>-</u>	<u>296,628</u>	<u>1,804,974</u>	<u>843,673</u>	<u>-</u>	<u>2,945,275</u>
Committed						
Elementary schools	-	-	-	-	636,684	636,684
Middle schools	-	-	-	-	519,501	519,501
High schools	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,156,185</u>	<u>1,156,185</u>
Assigned						
Administration	-	-	-	-	-	-
Instruction	397,077	124,215	-	-	-	521,292
Attendance/health	-	-	-	-	-	-
Pupil transportation	-	-	-	-	-	-
Operations	-	-	-	-	-	-
Information technology	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
	<u>397,077</u>	<u>124,215</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>521,292</u>
Unassigned	-	-	-	-	-	-
Total fund balances	<u>\$ 697,336</u>	<u>\$ 420,843</u>	<u>\$ 1,899,378</u>	<u>\$ 844,019</u>	<u>\$ 1,156,185</u>	<u>\$ 5,017,761</u>

**NOTE 11. RESTATEMENT OF NET POSITION**

Net position, beginning of year, as previously stated	\$ 108,711,589
Decrease resulting from prior year activity in which a transfer of capital projects funds to the primary government were charged to construction in progress in the Statement of Net Position	<u>(9,943,797)</u>
Net position, beginning of year, as restated	<u>\$ 98,767,792</u>

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***REQUIRED SUPPLEMENTARY INFORMATION  
OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)***

**CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD**  
**Component Unit of the City of Portsmouth, Virginia**

**Exhibit XI**

**GENERAL FUND**  
**BUDGETARY COMPARISON SCHEDULE (UNAUDITED)**

**Year Ended June 30, 2013**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual (Budgetary Basis)</b>	<b>Variance with Amended Budget Positive (Negative)</b>
<b>Revenues</b>				
Intergovernmental				
From City of Portsmouth	\$ 53,771,532	\$ 53,771,532	\$ 44,008,292	\$ (9,763,240)
From Commonwealth of Virginia	82,440,052	83,537,452	82,944,069	(593,383)
From federal government	700,000	700,000	709,119	9,119
Interest	273,104	273,104	29,477	(243,627)
Miscellaneous	1,351,896	1,351,896	1,143,540	(208,356)
<b>Total revenues</b>	<b>138,536,584</b>	<b>139,633,984</b>	<b>128,834,497</b>	<b>(10,799,487)</b>
<b>Expenditures</b>				
Education				
Administration	4,444,547	4,515,057	3,750,292	764,765
Instruction	101,515,806	99,171,636	92,357,365	6,814,271
Attendance and health services	2,562,785	2,588,785	2,638,046	(49,261)
Pupil transportation	7,050,134	6,762,297	5,350,634	1,411,663
Operations and maintenance	15,564,080	16,949,248	14,270,034	2,679,214
Information technology	3,686,889	5,347,480	5,103,419	244,061
<b>Total education</b>	<b>134,824,241</b>	<b>135,334,503</b>	<b>123,469,790</b>	<b>11,864,713</b>
Capital outlay	669,568	669,568	1,064,204	(394,636)
Debt service	-	-	929,029	(929,029)
<b>Total expenditures</b>	<b>135,493,809</b>	<b>136,004,071</b>	<b>125,463,023</b>	<b>10,541,048</b>
<b>Excess of revenues over expenditures</b>	<b>3,042,775</b>	<b>3,629,913</b>	<b>3,371,474</b>	<b>(258,439)</b>
<b>Other financing sources (uses)</b>				
Transfers out	(3,718,484)	(4,305,622)	(3,371,474)	934,148
<b>Total other financing sources (uses)</b>	<b>(3,718,484)</b>	<b>(4,305,622)</b>	<b>(3,371,474)</b>	<b>934,148</b>
<b>Excess of revenues over expenditures and other financing sources (uses)</b>	<b>\$ (675,709)</b>	<b>\$ (675,709)</b>	<b>-</b>	<b>\$ 675,709</b>
Fund balance - beginning of year			8,717,788	
Decrease in encumbrances			(8,185,135)	
Increase in inventory			164,683	
Fund balance - end of year			<b>\$ 697,336</b>	

**CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD**  
**Component Unit of the City of Portsmouth, Virginia**

**Exhibit XII**

**SCHOOL GRANTS FUND**  
**BUDGETARY COMPARISON SCHEDULE (UNAUDITED)**

**Year Ended June 30, 2013**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual (Budgetary Basis)</b>	<b>Variance with Amended Budget Positive (Negative)</b>
<b>Revenues</b>				
Intergovernmental				
From Commonwealth of Virginia	\$ 4,060,276	\$ 4,060,276	\$ 3,880,104	\$ (180,172)
From federal government	13,815,210	13,815,210	11,528,042	(2,287,168)
Miscellaneous	213,119	213,119	173,163	(39,956)
<b>Total revenues</b>	<b>18,088,605</b>	<b>18,088,605</b>	<b>15,581,309</b>	<b>(2,507,296)</b>
<b>Expenditures</b>				
Education				
Administration	5,565	5,565	4,941	624
Instruction	18,368,303	18,368,303	16,309,113	2,059,190
Attendance and health	541,584	541,584	480,869	60,715
Pupil transportation	353,382	353,382	313,766	39,616
<b>Total education</b>	<b>19,268,834</b>	<b>19,268,834</b>	<b>17,108,689</b>	<b>2,160,145</b>
Capital outlay	88,506	88,506	78,584	9,922
<b>Total expenditures</b>	<b>19,357,340</b>	<b>19,357,340</b>	<b>17,187,273</b>	<b>2,170,067</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(1,268,735)</b>	<b>(1,268,735)</b>	<b>(1,605,964)</b>	<b>(337,229)</b>
<b>Other financing sources (uses)</b>				
Transfers in	1,268,735	1,268,735	1,254,615	(14,120)
<b>Excess (deficiency) of revenues over expenditures and other financing sources (uses)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>(351,349)</b>	<b>\$ (351,349)</b>
Fund balance - beginning of year			772,192	
Fund balance - end of year			<b>\$ 420,843</b>	

**CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD**  
**Component Unit of the City of Portsmouth, Virginia**

**Exhibit XIII**

**SCHOOL FOOD SERVICES FUND**  
**BUDGETARY COMPARISON SCHEDULE (UNAUDITED)**

**Year Ended June 30, 2013**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual (Budgetary Basis)</b>	<b>Variance with Amended Budget Positive (Negative)</b>
<b>Revenues</b>				
Intergovernmental				
From Commonwealth of Virginia	\$ 125,000	\$ 125,000	\$ 119,543	\$ (5,457)
From federal government	5,364,000	5,364,000	5,528,135	164,135
Donated commodities from the federal government	400,000	400,000	431,169	31,169
Charges for services	1,280,000	1,280,000	913,852	(366,148)
Interest	10,000	10,000	962	(9,038)
Miscellaneous	425,000	850,000	765,660	(84,340)
<b>Total revenues</b>	<u>7,604,000</u>	<u>8,029,000</u>	<u>7,759,321</u>	<u>(269,679)</u>
<b>Expenditures</b>				
Food services	7,233,000	7,658,000	7,656,903	1,097
Capital outlay	371,000	371,000	334,374	36,626
<b>Total expenditures</b>	<u>7,604,000</u>	<u>8,029,000</u>	<u>7,991,277</u>	<u>37,723</u>
<b>Excess (deficiency) of revenues over expenditures</b>	-	-	(231,956)	(231,956)
<b>Other financing sources (uses)</b>				
Transfers in	-	-	-	-
<b>Excess (deficiency) of revenues over expenditures and other financing sources (uses)</b>	<u>\$ -</u>	<u>\$ -</u>	<u>(231,956)</u>	<u>\$ (231,956)</u>
Fund balance - beginning of year			2,075,255	
Increase in inventory			56,079	
Fund balance - end of year			<u>\$ 1,899,378</u>	

**CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD**  
**Component Unit of the City of Portsmouth, Virginia**

**Exhibit XIV**

**SCHOOL TEXTBOOK FUND**  
**BUDGETARY COMPARISON SCHEDULE (UNAUDITED)**

**Year Ended June 30, 2013**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual (Budgetary Basis)</b>	<b>Variance with Amended Budget Positive (Negative)</b>
<b>Revenues</b>				
Intergovernmental				
From Commonwealth of Virginia	\$ 924,094	\$ 924,094	\$ 924,094	\$ -
Interest	-	-	-	-
Miscellaneous	-	-	4,052	4,052
<b>Total revenues</b>	<u>924,094</u>	<u>924,094</u>	<u>928,146</u>	<u>4,052</u>
<b>Expenditures</b>				
Instruction	<u>1,297,980</u>	<u>1,297,980</u>	<u>317,840</u>	<u>980,140</u>
<b>Total expenditures</b>	<u>1,297,980</u>	<u>1,297,980</u>	<u>317,840</u>	<u>980,140</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(373,886)</u>	<u>(373,886)</u>	<u>610,306</u>	<u>984,192</u>
<b>Other financing sources (uses)</b>				
Transfer to primary government	-	-	(2,738,849)	(2,738,849)
Transfers in	<u>-</u>	<u>1,557,593</u>	<u>1,557,593</u>	<u>-</u>
<b>Excess (deficiency) of revenues over expenditures and other financing sources (uses)</b>	<u>\$ (373,886)</u>	<u>\$ 1,183,707</u>	<u>(570,950)</u>	<u>\$ (1,754,657)</u>
Fund balance - beginning of year			1,475,650	
Decrease in reserve for inventory			<u>(60,681)</u>	
Fund balance - end of year			<u>\$ 844,019</u>	

**CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD**  
**Component Unit of the City of Portsmouth, Virginia**

**Exhibit XV**

**SCHEDULE OF FUNDING PROGRESS FOR DEFINED  
 BENEFIT PENSION PLAN (UNAUDITED)**

**Year Ended June 30, 2013**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Overfunded (Unfunded) Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2012	\$ 24,997,565	\$ 35,749,827	\$ (10,752,262)	69.92%	\$ 6,749,363	159.31%
June 30, 2011	25,829,515	35,671,426	(9,841,911)	72.41%	6,989,874	140.80%
June 30, 2010	26,098,503	34,765,427	(8,666,924)	75.07%	8,053,701	107.61%

**SCHEDULE OF FUNDING PROGRESS FOR OTHER  
 POST-EMPLOYMENT BENEFIT PLAN (UNAUDITED)**

**Year Ended June 30, 2013**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Overfunded (Unfunded) Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2012	\$ 10,241,149	\$ 12,204,795	\$ (1,963,646)	83.91%	\$ 89,605,502	2.19%
June 30, 2012	10,241,149	12,204,795	(1,963,646)	83.91%	89,605,502	2.19%
June 30, 2010	2,415,950	11,623,323	(9,207,373)	20.79%	95,870,390	9.60%

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

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**Year Ended June 30, 2013**

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**1. BUDGETS AND BUDGETARY ACCOUNTING**

The budget data reflected in the financial statements was created by the School Board using the procedures which follow:

- 1) The School Board submits to the City Council of the City a proposed operating budget for the General and Special Revenue Funds for the forthcoming fiscal year by April 1. The legal level of budgetary control rests at the fund level for the General and Special Revenue Funds. Management control is exercised over the budgets at the budgetary line item level.
- 2) The budgets are legally enacted through passage of an ordinance by the City Council forty-five days prior to the end of the current fiscal year.
- 3) The School Board is authorized to make transfers between budgetary line items; however, revisions that alter the total expenditures of the total budget must be approved by the City Council.
- 4) The General Fund and Special Revenue Fund have a legally adopted annual budget. The General Fund and Special Revenue Fund budgets are adopted on a basis consistent with accounting principles generally accepted in the United States, except for the recognition of encumbrances and inventory as expenditures. Budgets related to the School Construction Fund are adopted on a project basis.
- 5) 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 Portsmouth, Virginia Code, unexpended, unencumbered appropriations lapse at the end of the year.

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## ***SUPPLEMENTARY INFORMATION***

**CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD**  
**Component Unit of the City of Portsmouth, Virginia**

**Schedule 1**

**COMBINING STATEMENT OF NET POSITON - INTERNAL SERVICE FUNDS**

**June 30, 2013**

	<b>Print Shop</b>	<b>Risk Management</b>	<b>Total</b>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and temporary investments	\$ 619,125	\$ 2,788,805	\$ 3,407,930
Accounts receivable	58,838	-	58,838
Inventories	15,883	-	15,883
<b>Total current assets</b>	<b>693,846</b>	<b>2,788,805</b>	<b>3,482,651</b>
<b>Noncurrent assets</b>			
<b>Capital assets</b>			
Machinery and equipment	966,583	-	966,583
Less - accumulated depreciation	(940,582)	-	(940,582)
<b>Total capital assets</b>	<b>26,001</b>	<b>-</b>	<b>26,001</b>
<b>Total assets</b>	<b>\$ 719,847</b>	<b>\$ 2,788,805</b>	<b>\$ 3,508,652</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Claims payable - current portion	\$ -	\$ 700,360	\$ 700,360
Salaries payable	3,555	-	3,555
<b>Total current liabilities</b>	<b>3,555</b>	<b>700,360</b>	<b>703,915</b>
<b>Noncurrent liabilities</b>			
Claims payable - less current portion	-	1,687,078	1,687,078
Compensated absences	56,174	-	56,174
<b>Total long-term liabilities</b>	<b>56,174</b>	<b>1,687,078</b>	<b>1,743,252</b>
<b>Total liabilities</b>	<b>59,729</b>	<b>2,387,438</b>	<b>2,447,167</b>
<b>NET POSITION</b>			
Net investment in capital assets	26,001	-	26,001
Unrestricted	634,117	401,367	1,035,484
<b>Total net position</b>	<b>660,118</b>	<b>401,367</b>	<b>1,061,485</b>
<b>Total liabilities and net position</b>	<b>\$ 719,847</b>	<b>\$ 2,788,805</b>	<b>\$ 3,508,652</b>

**CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD**  
**Component Unit of the City of Portsmouth, Virginia**

**Schedule 2**

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN  
FUND NET POSITION - INTERNAL SERVICE FUNDS**

**Year Ended June 30, 2013**

	<b>Print Shop</b>	<b>Risk Management</b>	<b>Total</b>
<b>Operating revenues</b>			
Charges for services	\$ 490,558	\$ 955,702	\$ 1,446,260
<b>Total operating revenues</b>	<u>490,558</u>	<u>955,702</u>	<u>1,446,260</u>
<b>Operating expenses</b>			
Personnel services	371,873	-	371,873
Insurance claims and expenses	-	710,121	710,121
Contractual services	166,019	-	166,019
Other supplies and expenses	84,369	-	84,369
Depreciation and amortization	4,610	-	4,610
<b>Total operating expenses</b>	<u>626,871</u>	<u>710,121</u>	<u>1,336,992</u>
<b>Change in net position</b>	(136,313)	245,581	109,268
<b>Net position - beginning of year</b>	<u>796,431</u>	<u>155,786</u>	<u>952,217</u>
<b>Net position - end of year</b>	<u>\$ 660,118</u>	<u>\$ 401,367</u>	<u>\$ 1,061,485</u>

**CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD**  
**Component Unit of the City of Portsmouth, Virginia**

**Schedule 3**

**COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS**

**Year Ended June 30, 2013**

	<b>Print Shop</b>	<b>Risk Management</b>	<b>Total</b>
<b>Cash flows from operating activities</b>			
Received from customers and users	\$ 471,663	\$ 955,702	\$ 1,427,365
Payments to suppliers for goods and services	(278,756)	(687,085)	(965,841)
Payments to employees	(369,424)	-	(369,424)
<b>Net cash provided (used) by operating activities</b>	<b>(176,517)</b>	<b>268,617</b>	<b>92,100</b>
<b>Net change in cash and temporary investments</b>	<b>(176,517)</b>	<b>268,617</b>	<b>92,100</b>
<b>Cash and temporary investments - beginning of year</b>	<b>795,642</b>	<b>2,520,188</b>	<b>3,315,830</b>
<b>Cash and temporary investments - end of year</b>	<b>\$ 619,125</b>	<b>\$ 2,788,805</b>	<b>\$ 3,407,930</b>
<b>Reconciliation of operating income to net cash provided (used) by operating activities</b>			
Operating income (loss)	\$ (136,313)	\$ 245,581	\$ 109,268
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities			
Depreciation and amortization	4,610	-	4,610
Change in assets and liabilities			
Accounts receivable	(18,895)	-	(18,895)
Inventories	(7,119)	-	(7,119)
Vouchers and accounts payable	(20,775)	-	(20,775)
Claims payable	-	23,036	23,036
Change in compensated absences	1,975	-	1,975
Total adjustments	(40,204)	23,036	(17,168)
<b>Net cash provided (used) by operating activities</b>	<b>\$ (176,517)</b>	<b>\$ 268,617</b>	<b>\$ 92,100</b>

**Supplemental information on significant non-cash transactions**

There were no significant non-cash transactions

**CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD**  
**Component Unit of the City of Portsmouth, Virginia**

**Schedule 4**

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**AGENCY FUND - STUDENT ACTIVITIES**

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**Year Ended June 30, 2013**

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	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
<b>ASSETS</b>				
Cash and temporary investments	\$ 1,576,603	\$ 2,367,064	\$ 2,108,238	\$ 1,835,429
<b>LIABILITIES</b>				
Due to students and others	\$ 1,576,603	\$ 2,367,064	\$ 2,108,238	\$ 1,835,429

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## **STATISTICAL SECTION**

(Unaudited)

This part of the City of Portsmouth, Virginia 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 as shown on pages 54 through 68.

### ***Financial Trends***

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

### ***Revenue Capacity***

These schedules contain information to help the reader assess the government's most significant local revenue source, food service sales.

### ***Debt Capacity***

These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.

### ***Demographic and Economic Information***

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

### ***Operating Information***

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

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Report for the relevant year.

**NET POSITION BY COMPONENT (unaudited)**  
**LAST TEN FISCAL YEARS**  
**(accrual basis of accounting)**

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Governmental activities										
Net investment in capital assets	\$ 76,349,904	\$ 86,269,945	\$ 70,253,415	\$ 62,781,638	\$ 52,248,227	\$ 49,912,031	\$ 44,931,980	\$ 36,504,731	\$ 38,854,790	\$ 37,412,004
Restricted:										
Grant compliance	1,103,582	577,712	-	-	-	-	347,430	1,654,671	1,357,929	1,545,299
Capital projects	-	505,998	509,246	532,666	829,897	4,203,589	4,384,612	-	-	-
School food services	1,804,974	2,036,930	-	-	-	-	-	-	-	-
Textbook	843,673	375,765	-	-	-	-	-	-	-	-
Unrestricted	3,316,274	18,945,239	31,113,169	30,063,956	24,772,621	16,157,850	9,034,546	9,057,344	4,757,151	4,910,804
Total governmental activities net position	<u>\$ 83,418,407</u>	<u>\$ 108,711,589</u>	<u>\$ 101,875,830</u>	<u>\$ 93,378,260</u>	<u>\$ 77,850,745</u>	<u>\$ 70,273,470</u>	<u>\$ 58,698,568</u>	<u>\$ 47,216,746</u>	<u>\$ 44,969,870</u>	<u>\$ 43,868,107</u>

Source: Comprehensive Annual Financial Report for the relevant year

**CHANGES IN NET POSITION (unaudited)**  
**LAST TEN FISCAL YEARS**  
**(accrual basis of accounting)**

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
<b>Expenses</b>										
Governmental activities										
Administration	\$ 3,922,922	\$ 4,681,250	\$ 4,890,909	\$ 5,593,602	\$ 5,655,194	\$ 5,281,050	\$ 3,808,174	\$ 3,386,754	\$ 3,086,711	\$ 3,416,935
Instruction	123,563,193	110,997,918	116,243,716	116,857,035	126,005,907	118,518,877	115,070,507	103,745,706	99,863,747	94,328,782
Attendance and health services	3,137,760	2,801,105	3,280,521	3,266,564	3,603,084	3,212,266	3,213,924	3,277,834	2,836,441	3,023,549
Pupil transportation	5,967,101	6,994,723	6,396,152	6,577,674	7,273,274	7,359,321	6,605,055	6,332,823	5,429,111	5,332,389
Operations and maintenance	16,218,996	14,288,609	15,072,405	15,820,741	18,619,097	15,492,941	14,914,931	16,498,396	15,652,607	15,047,717
Information technology	4,691,124	3,917,235	3,179,565	3,493,477	5,703,015	5,998,593	4,756,984	4,949,187	3,740,252	970,603
Food service	7,916,123	7,173,854	7,011,115	6,453,576	7,258,248	6,940,737	6,704,880	6,657,855	6,561,790	6,328,371
Interest on long-term debt	178,945	210,763	233,957	254,075	258,233	296,789	297,069	371,917	11,383	17,314
Total primary government	<u>\$ 165,596,164</u>	<u>\$ 151,065,457</u>	<u>\$ 156,308,340</u>	<u>\$ 158,316,744</u>	<u>\$ 174,376,052</u>	<u>\$ 163,100,574</u>	<u>\$ 155,371,524</u>	<u>\$ 145,220,472</u>	<u>\$ 137,182,042</u>	<u>\$ 128,465,660</u>
<b>Program Revenues</b>										
Governmental activities										
Charges for services										
Food services	\$ 1,852,675	\$ 1,793,828	\$ 1,748,890	\$ 2,273,341	\$ 2,338,403	\$ 1,731,977	\$ 1,878,133	\$ 2,084,713	\$ 1,843,734	\$ 1,788,902
Pupil transportation	17,412	101,135	235,094	214,243	499,889	496,259	491,238	196,116	322,544	399,928
Other	378,526	170,489	276,896	328,609	451,267	399,121	408,874	496,585	248,717	606,902
Operating grants and contributions										
Instruction	24,326,281	21,395,573	42,216,751	49,136,211	46,544,936	51,935,625	46,477,689	40,985,761	38,732,541	32,672,298
Food services	5,528,135	5,444,996	5,178,450	4,951,631	4,951,412	4,891,034	4,874,151	4,782,084	4,686,574	4,410,062
Other	-	-	-	-	-	-	-	-	-	577
Capital grants and contributions	-	-	-	-	1,455,056	1,879,933	1,688,185	1,912,088	2,345,261	4,627,153
Total governmental activities program revenue	<u>\$ 32,103,029</u>	<u>\$ 28,906,021</u>	<u>\$ 49,656,081</u>	<u>\$ 56,904,035</u>	<u>\$ 56,240,963</u>	<u>\$ 61,333,949</u>	<u>\$ 55,818,270</u>	<u>\$ 50,457,347</u>	<u>\$ 48,179,371</u>	<u>\$ 44,505,822</u>
<b>Net (Expense)/Revenue</b>										
Governmental activities	<u>\$ (133,493,135)</u>	<u>\$ (122,159,436)</u>	<u>\$ (106,652,259)</u>	<u>\$ (101,412,709)</u>	<u>\$ (118,135,089)</u>	<u>\$ (101,766,625)</u>	<u>\$ (99,553,254)</u>	<u>\$ (94,763,125)</u>	<u>\$ (89,002,671)</u>	<u>\$ (83,959,838)</u>
<b>General Revenues and Other Changes in Net Position</b>										
Governmental activities										
Unrestricted grants and contributions	\$ 120,974,979	\$ 137,776,964	\$ 113,833,393	\$ 115,161,547	\$ 123,606,569	\$ 111,806,654	\$ 110,786,754	\$ 96,768,950	\$ 89,873,769	\$ 82,412,727
Investment earnings	30,439	25,317	55,597	270,797	498,527	945,002	793,744	630,641	199,291	90,611
Miscellaneous	888,601	1,136,711	1,260,839	1,507,880	1,607,268	589,871	209,103	27,774	31,374	14,637
Special Item	-	-	-	-	-	-	-	(784,133)	-	(116,789)
Total governmental activities	<u>\$ 121,894,019</u>	<u>\$ 138,938,992</u>	<u>\$ 115,149,829</u>	<u>\$ 116,940,224</u>	<u>\$ 125,712,364</u>	<u>\$ 113,341,527</u>	<u>\$ 111,789,601</u>	<u>\$ 96,643,232</u>	<u>\$ 90,104,434</u>	<u>\$ 82,401,186</u>
<b>Transfer to City of Portsmouth</b>	<u>\$ 3,750,269</u>	<u>\$ 9,943,797</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Change in Net Position</b>										
Governmental activities	<u>\$ (15,349,385)</u>	<u>\$ 6,835,759</u>	<u>\$ 8,497,570</u>	<u>\$ 15,527,515</u>	<u>\$ 7,577,275</u>	<u>\$ 11,574,902</u>	<u>\$ 12,236,347</u>	<u>\$ 1,880,107</u>	<u>\$ 1,101,763</u>	<u>\$ (1,558,652)</u>

Source: Comprehensive Annual Financial Report for the relevant year

**CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD**  
**Component Unit of the City of Portsmouth, Virginia**

**Table 3**

**FUND BALANCES, GOVERNMENTAL FUNDS (unaudited)**  
**LAST TEN FISCAL YEARS**  
**(modified accrual basis of accounting)**

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
<b>General Fund</b>										
Reserved	\$ -	\$ -	\$ -	\$ 7,254,071	\$ 4,445,477	\$ 5,831,280	\$ 4,500,831	\$ 4,725,734	\$ 5,927,212	\$ 6,235,088
Nonspendable	300,259	135,575	559,924	-	-	-	-	-	-	-
Assigned	397,077	8,582,212	6,370,824	-	-	-	-	-	-	-
Total General Fund	<u>\$ 697,336</u>	<u>\$ 8,717,787</u>	<u>\$ 6,930,748</u>	<u>\$ 7,254,071</u>	<u>\$ 4,445,477</u>	<u>\$ 5,831,280</u>	<u>\$ 4,500,831</u>	<u>\$ 4,725,734</u>	<u>\$ 5,927,212</u>	<u>\$ 6,235,088</u>
<b>All Other Governmental Funds</b>										
Reserved										
Grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 347,430	\$ 1,654,671	\$ 1,357,929	\$ 1,545,299
Food Services	-	-	-	733,982	153,171	76,521	36,728	38,237	32,001	34,965
Capital Projects	-	-	-	19,866,538	7,489,787	9,527,957	5,916,981	-	1,129,244	3,736,089
Textbook	-	-	-	193,393	297,614	330,263	308,882	-	-	-
Unreserved, reported in										
Grants	-	-	-	438,124	(2,087,325)	(3,155,944)	(993,945)	(470,375)	(159,155)	(536,786)
Food Services	-	-	-	1,559,686	1,471,298	1,933,852	2,317,143	2,319,131	2,240,739	2,252,567
Capital Projects	-	-	-	(1,618,469)	10,893,729	2,877,337	2,882,639	7,140,000	18,277	(2,266,708)
Textbook	-	-	-	1,448,082	1,833,731	665,597	104,804	-	-	-
Nonspendable										
Food Services	94,404	38,325	41,708	-	-	-	-	-	-	-
Textbook	346	61,027	144,567	-	-	-	-	-	-	-
Restricted										
Grants	296,628	527,586	449,844	-	-	-	-	-	-	-
Food Services	1,804,974	2,036,930	2,146,211	-	-	-	-	-	-	-
Textbook	843,673	375,765	1,181,316	-	-	-	-	-	-	-
Capital Projects	-	505,998	509,246	-	-	-	-	-	-	-
Committed										
Textbook	-	1,038,858	-	-	-	-	-	-	-	-
Capital Projects	1,156,185	6,778,417	11,368,937	-	-	-	-	-	-	-
Assigned										
Grants	124,215	244,606	-	-	-	-	-	-	-	-
Capital Projects	-	36,707	9,943,797	-	-	-	-	-	-	-
Unassigned										
Grants	-	-	(585,465)	-	-	-	-	-	-	-
Total all other governmental funds	<u>\$ 4,320,425</u>	<u>\$ 11,644,219</u>	<u>\$ 25,200,161</u>	<u>\$ 22,621,336</u>	<u>\$ 20,052,005</u>	<u>\$ 12,255,583</u>	<u>\$ 10,920,662</u>	<u>\$ 10,681,664</u>	<u>\$ 4,619,035</u>	<u>\$ 4,765,426</u>

Source: Comprehensive Annual Financial Report for the relevant year

**CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS (unaudited)**  
**LAST TEN FISCAL YEARS**  
**(modified accrual basis of accounting)**

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
<b>Revenues</b>										
Intergovernmental										
Federal grants	\$ 17,765,296	\$ 27,939,844	\$ 27,996,547	\$ 31,427,769	\$ 18,168,051	\$ 15,003,073	\$ 18,013,124	\$ 18,255,075	\$ 17,608,987	\$ 16,115,547
Federal donated commodities	431,169	355,290	-	420,343	386,720	-	-	-	-	-
State grants and other	87,867,810	86,894,924	85,452,502	91,264,467	109,377,771	102,341,706	101,872,969	89,004,492	86,360,715	78,750,543
City of Portsmouth	44,008,292	49,571,413	48,171,651	48,171,651	49,862,858	50,002,154	42,936,433	36,939,444	31,543,601	28,802,407
Local										
Charges for services	913,852	1,137,316	1,149,376	1,243,708	1,316,139	1,255,369	1,408,694	1,425,495	1,388,465	1,383,724
Interest	30,439	25,317	48,237	244,345	388,622	822,311	759,818	557,804	174,968	74,954
Miscellaneous	2,223,363	2,064,847	2,370,760	3,079,234	3,497,614	2,256,972	1,984,185	1,761,915	1,393,791	1,658,997
	<u>153,240,221</u>	<u>167,988,951</u>	<u>165,189,073</u>	<u>175,851,517</u>	<u>182,997,775</u>	<u>171,681,585</u>	<u>166,975,223</u>	<u>147,944,225</u>	<u>138,470,527</u>	<u>126,786,172</u>
<b>Expenditures</b>										
Education										
Administration	3,865,328	4,788,359	4,824,594	5,623,747	5,643,305	5,307,991	3,851,694	3,367,420	3,077,453	3,065,160
Instruction	115,226,720	119,373,035	110,480,833	115,612,999	116,852,905	115,371,028	116,186,858	101,365,515	95,286,713	91,141,849
Attendance and health services	3,121,446	2,887,875	3,261,389	3,300,079	3,599,974	3,232,828	3,260,561	3,270,297	2,838,577	3,014,440
Pupil transportation	5,619,907	6,853,967	5,888,145	6,255,707	6,937,753	7,110,037	5,873,848	5,899,213	5,017,220	4,826,015
Information technology	4,623,016	4,023,227	3,145,672	3,515,259	5,670,499	6,011,697	4,741,880	4,858,538	3,680,937	921,747
Operation and maintenance	15,901,140	14,647,181	14,903,276	15,903,972	18,479,476	15,506,446	14,850,521	16,374,494	15,554,177	15,002,639
Food services	7,775,261	7,302,658	6,897,865	6,459,186	7,196,433	6,833,774	6,751,691	6,579,699	6,500,155	6,278,051
Debt service										
Principal	723,518	670,048	619,364	571,338	525,848	482,776	388,469	-	-	-
Interest	205,511	231,923	256,335	278,856	297,266	296,789	366,769	-	-	-
Capital outlay	7,772,350	11,135,784	12,656,098	12,952,449	11,383,697	8,862,849	10,688,837	9,853,137	6,955,168	7,063,486
<b>Total Expenditures</b>	<u>164,834,197</u>	<u>171,914,057</u>	<u>162,933,571</u>	<u>170,473,592</u>	<u>176,587,156</u>	<u>169,016,215</u>	<u>166,961,128</u>	<u>151,568,313</u>	<u>138,910,400</u>	<u>131,313,387</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(11,593,976)</u>	<u>(3,925,106)</u>	<u>2,255,502</u>	<u>5,377,925</u>	<u>6,410,619</u>	<u>2,665,370</u>	<u>14,095</u>	<u>(3,624,088)</u>	<u>(439,873)</u>	<u>(4,527,215)</u>
<b>Other financing sources (uses)</b>										
To local government	(3,750,269)	(9,943,797)	-	-	-	-	-	-	-	-
From local government	-	2,100,000	-	-	-	-	-	-	-	-
Transfers in	3,371,474	4,938,382	12,341,708	8,240,115	11,720,790	7,296,159	5,971,239	3,497,412	774,354	867,642
Transfers out	(3,371,474)	(4,938,382)	(12,341,708)	(8,240,115)	(11,720,790)	(7,296,159)	(5,971,239)	(3,497,412)	(774,354)	(867,642)
<b>Total Other Financing Sources (Uses)</b>	<u>(3,750,269)</u>	<u>(7,843,797)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Net Change in Fund Balances</b>	<u>\$ (15,344,245)</u>	<u>\$ (11,768,903)</u>	<u>\$ 2,255,502</u>	<u>\$ 5,377,925</u>	<u>\$ 6,410,619</u>	<u>\$ 2,665,370</u>	<u>\$ 14,095</u>	<u>\$ (3,624,088)</u>	<u>\$ (439,873)</u>	<u>\$ (4,527,215)</u>
<b>Ratio of debt service expenditures to noncapital expenditures</b>	0.60%	0.56%	0.59%	0.54%	0.50%	0.49%	0.49%	0.00%	0.00%	0.00%

Source: Comprehensive Annual Financial Report for relevant year

**OPERATING INDICATORS (unaudited)**  
**OWN SOURCE REVENUE**  
**LAST TEN FISCAL YEARS**

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Enrollment Level										
Elementary	8,329	8,397	8,322	8,444	8,321	8,193	8,538	8,575	7,410	7,766
Middle	2,112	2,133	1,985	1,908	2,080	2,031	2,034	2,350	3,615	3,587
High	3,689	3,716	3,740	3,916	4,020	3,982	4,191	4,510	4,252	4,445
Special Centers	833	883	862	783	666	697	483	591	802	695
School Lunches										
Full	\$ 95,870	\$ 101,059	\$ 103,859	\$ 116,604	\$ 122,420	\$ 637,770	\$ 642,493	\$ 635,614	\$ 577,682	\$ 653,222
Reduced	261,196	244,129	293,913	295,092	313,566	140,030	151,055	150,229	155,677	152,257
Free	3,278,722	3,194,494	3,038,131	2,868,045	2,511,373	972,755	993,511	1,030,888	1,060,674	1,022,152
Total	<u>\$ 3,635,788</u>	<u>\$ 3,539,682</u>	<u>\$ 3,435,903</u>	<u>\$ 3,279,741</u>	<u>\$ 2,947,359</u>	<u>\$ 1,750,555</u>	<u>\$ 1,787,059</u>	<u>\$ 1,816,731</u>	<u>\$ 1,794,033</u>	<u>\$ 1,827,631</u>
School Breakfasts										
Full	\$ 96,489	\$ 106,502	\$ 111,361	\$ 106,848	\$ 99,421	\$ 430,486	\$ 475,673	\$ 482,397	\$ 462,233	\$ 1,827,631
Reduced	118,272	146,186	166,965	159,261	141,497	107,301	122,279	119,640	113,906	426,531
Free	1,560,571	1,551,953	1,394,510	1,343,457	1,174,088	730,901	784,313	800,387	794,766	110,777
Total	<u>\$ 1,775,332</u>	<u>\$ 1,804,641</u>	<u>\$ 1,672,836</u>	<u>\$ 1,609,566</u>	<u>\$ 1,415,006</u>	<u>\$ 1,268,688</u>	<u>\$ 1,382,265</u>	<u>\$ 1,402,424</u>	<u>\$ 1,370,905</u>	<u>\$ 2,364,939</u>
Meal Prices										
Breakfast										
Elementary	Free	Free	Free	Free	Free	Free	Free	Free	Free	Free
Middle	Free	Free	Free	Free	Free	Free	Free	Free	Free	Free
High	Free	Free	Free	Free	Free	Free	Free	Free	Free	Free
Adult Ed	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 0.60	\$ 0.60	\$ 0.60	\$ 0.50	\$ 0.50
Lunches										
Elementary	\$ 1.35	\$ 1.35	\$ 1.35	\$ 1.25	\$ 1.25	\$ 1.25	\$ 0.85	\$ 0.85	\$ 0.75	\$ 0.75
Middle	1.35	1.35	1.35	1.25	1.25	1.25	0.95	0.95	0.85	0.85
High	1.35	1.35	1.35	1.25	1.25	1.25	0.95	0.95	0.85	0.85
Reduced	0.40	0.40	0.40	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Adult Ed	2.75	2.75	2.75	2.75	2.75	2.75	2.00	2.00	1.75	1.75

Source: Portsmouth Public Schools - Food Services Division

**CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD**  
**Component Unit of the City of Portsmouth, Virginia**

**Table 6**

**CAPITAL LEASES (unaudited)**

			1	2	1÷2			
				Guaranteed	Percentage of	Total	Percent	Per
Year	Principal	Interest	Total	Savings	Guaranteed	Percentage of	of	Capita
			Payment	per Year	Savings per Year	Guaranteed	Personal	
						Savings	Income	
2014	\$ 779,908	\$ 176,992	\$ 956,900	\$ 961,071	99.56601%	18.75371%		
2015	839,356	146,251	985,607	989,903	99.56602%	19.31633%		
2016	902,009	113,166	1,015,175	1,019,600	99.56601%	19.89581%		
2017	968,018	77,612	1,045,630	1,050,188	99.56598%	20.49268%		
2018	1,001,007	39,456	1,040,463	1,081,694	96.18829%	20.39142%		
	<u>\$ 4,490,298</u>	<u>\$ 553,477</u>	<u>\$ 5,043,775</u>	<u>\$ 5,102,456</u>			0.14%	\$ 52.28

Source: Personal income figure for total debt as % of per personal income is the latest available figure as of 2011 from the Bureau of Economic Analysis.

Source: Population figure for total debt per capita is the latest 2012 estimate from the U. S. Census bureau.

Source: Citimortgage Master Lease Rental Payment Schedule

**CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD**  
**Component Unit of the City of Portsmouth, Virginia**

**Table 7**

**DEMOGRAPHIC AND ECONOMIC STATISTICS (unaudited)**  
**LAST TEN FISCAL YEARS**

<b>Year</b>	<b>Population (1)</b>	<b>Personal Income (thousands if dollars) (3)</b>	<b>Per Capita Personal Income (3)</b>	<b>Median Age (1)</b>	<b>School Enrollment (2)</b>	<b>Unemployment Rate (4)</b>
2013	*	*	*	*	14,215	7.80%
2012	96,470	*	*	34.9	14,256	8.60%
2011	95,684	\$ 3,596,088	\$ 37,583	35.2	14,103	8.70%
2010	95,535	3,515,478	36,762	34.5	14,224	9.30%
2009	99,321	3,340,905	33,637	34.4	14,331	9.00%
2008	99,542	3,327,167	33,425	34.9	14,287	5.10%
2007	101,377	3,260,359	32,161	34.8	14,990	4.20%
2006	102,346	3,112,645	30,413	34.8	15,243	4.40%
2005	100,783	2,945,570	29,277	34.9	15,309	5.60%
2004	99,785	2,820,869	28,269	34.4	15,642	5.60%

\* Information not available at this time

(1) Source: Bureau of Economic Analysis and United States Census Bureau

(2) Source: Average Daily Membership submitted to the Virginia Department of Education by the Portsmouth Public School System

(3) Source: Bureau of Economic Analysis.

(4) Source: Virginia Employment Commission-Labor Market Information

**CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD**  
**Component Unit of the City of Portsmouth, Virginia**

**Table 8**

**PRINCIPAL EMPLOYERS (unaudited)**  
**CURRENT YEAR AND NINE YEARS AGO**

Employer	2013			2004		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Norfolk Naval Shipyard	9,500	1	21.42%	7,600	1	18.12%
Naval Medical Center, Portsmouth	6,721	2	15.15%	5,463	2	13.02%
US Fifth District Coast Guard Command	2,500	3	5.64%	1,400	6	3.34%
City of Portsmouth	2,383	4	5.37%	2,448	4	5.84%
Portsmouth Public Schools	2,148	5	4.84%	2,700	3	6.44%
Bon Secours Maryview Medical Center	2,000	6	4.51%	2,000	5	4.77%
Tidewater Community College	622	7	1.40%	-	-	-
General Dynamics - NASSCO (Earl Industries	425	8	0.96%	850	7	2.03%
Gwaltney of Smithfield	-	-	0.00%	520	9	1.24%
Wal-mart Supercenter	380	9	86.00%	-	-	-
Alternative Behavior Services (FHC)	-	-	0.00%	800	8	1.91%
Southeastern Public Service Authority	148	10	0.00%	473	10	1.13%
	<u>26,827</u>		<u>145.29%</u>	<u>24,254</u>		<u>57.84%</u>

**CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD**  
**Component Unit of the City of Portsmouth, Virginia**

**Table 9**

**EMPLOYEES BY CLASS CODE (unaudited)**  
**LAST TEN FISCAL YEARS**

	Employee Count									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
School board members	9	9	9	9	9	9	9	9	9	9
Superintendent	1	1	1	1	1	1	1	1	1	1
Assistant superintendents	1	1	2	2	2	2	2	2	2	2
Directors	12	13	12	12	11	10	10	10	8	7
Coordinators	7	7	8	8	8	8	11	12	13	13
Education specialists	17	17	15	14	14	17	6	5	10	11
Supervisors	29	30	32	32	38	40	38	35	28	23
Principals	25	25	25	25	25	25	25	25	25	25
Assistant principals	29	29	31	31	34	34	33	31	32	30
Teachers	1,016	1,014	1,015	1,019	1,144	1,094	1,131	1,149	1,165	1,142
Guidance and other counselors	35	36	38	42	47	47	46	47	47	49
Librarians	21	22	24	22	26	25	23	25	26	27
Speech therapists	18	18	19	19	27	24	26	-	14	17
School social workers	8	8	9	9	9	9	8	8	8	8
Home school liaisons	2	2	2	2	2	2	4	10	3	14
Medical staff	30	30	30	31	32	33	31	31	29	29
Psychologists	10	10	10	11	11	11	11	10	9	11
Secretaries	137	142	139	145	164	156	168	160	160	154
Instructional assistants	210	211	205	241	270	258	268	298	291	322
Bus drivers and monitors	167	154	153	153	173	161	170	167	169	168
Operations and maintenance staff	132	127	127	144	182	189	201	200	201	209
School crossing guards	28	29	32	28	44	37	36	39	43	45
In school suspension	7	6	7	7	8	8	7	8	7	6
Special police officers	-	-	-	-	23	18	18	21	16	22
Security Officers	16	16	16	16	-	-	-	-	-	-
Attendance Officers	3	3	3	3	-	-	-	-	-	-
Print shop personnel	4	4	4	4	5	4	5	4	4	4
Cafeteria staff	117	119	114	122	137	136	147	161	151	170
Purchasing personnel	2	2	2	2	2	1	1	5	2	2
Technology personnel	20	20	21	22	-	-	-	-	-	-
Other	17	17	16	14	34	7	10	-	23	1
	<u>2,130</u>	<u>2,122</u>	<u>2,121</u>	<u>2,190</u>	<u>2,482</u>	<u>2,366</u>	<u>2,446</u>	<u>2,473</u>	<u>2,496</u>	<u>2,521</u>

Source: Portsmouth Public Schools - Budget and Planning Department (2004 - 2007)  
Portsmouth Public Schools - Finance Department (2008 - present)

**CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD**  
**Component Unit of the City of Portsmouth, Virginia**

**Table 10**

**TEACHERS - TOTAL NUMBER, AVERAGE AGE, AVERAGE SALARY (unaudited)**

	Number of Teachers	Average Teacher Age	Average Teacher Salary	Education Level			
				BA	MA	CAS	PHD
<b>2013</b>							
Elementary	510	43.3	\$ 51,618	181	294	33	2
Middle	144	41.8	50,269	65	69	9	1
High	265	46.8	53,259	125	118	19	3
Other	87	48	53,894	20	47	15	5
<b>2012</b>							
Elementary	509	43.9	\$ 51,198	184	297	27	1
Middle	140	43.3	49,802	66	66	7	1
High	255	46.1	52,669	113	122	18	2
Other	89	47.6	53,304	23	49	14	3
<b>2011</b>							
Elementary	518	43.6	\$ 46,304	215	278	25	-
Middle	139	44.3	45,426	72	60	7	-
High	266	46.2	48,384	140	110	14	2
Other	90	47.9	49,439	40	44	5	1
<b>2010</b>							
Elementary	558	43.7	\$ 48,381	299	234	24	1
Middle	145	44.0	47,453	95	43	7	-
High	266	46.6	50,732	156	97	11	2
Other	93	46.8	49,111	44	44	4	1
<b>2009</b>							
Elementary	577	44.0	\$ 47,740	238	314	24	1
Middle	159	45.0	47,503	36	115	8	-
High	268	47.0	50,656	202	52	12	2
Other	105	46.0	46,513	1	83	17	4
<b>2008</b>							
Elementary	625	43.4	\$ 47,149	317	285	22	1
Middle	169	45.9	47,720	102	63	4	-
High	286	46.7	49,210	164	107	13	2
Other	68	48.2	54,040	27	26	13	2
<b>2007</b>							
Elementary	534	42.8	\$ 45,376	197	324	11	2
Middle	202	44.9	45,100	123	76	2	1
High	287	46.4	45,128	157	119	7	4
Other	22	46.9	49,637	7	4	10	1
<b>2006</b>							
Elementary	622	42.5	\$ 44,048	368	244	8	2
Middle	194	44.3	44,675	133	58	2	1
High	285	45.9	45,941	185	92	5	3
Other	25	45.8	49,934	14	10	1	-

Note: Information for years prior to 2006 is not available - records not converted to new database.  
Source: Portsmouth Public Schools - Human Resource Department

**CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD**  
**Component Unit of the City of Portsmouth, Virginia**

**Table 11**

**CAPITAL ASSETS STATISTICS (unaudited)**  
**LAST TEN FISCAL YEARS**

---

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Building										
Elementary	13	13	14	14	14	17	17	17	17	17
Middle	3	3	3	3	3	3	3	4	5	5
High	3	3	3	3	3	3	3	3	3	3
Other	4	4	4	4	4	3	3	3	3	3
Fleet										
School Buses	147	147	149	149	141	132	144	130	129	143
Other	71	71	67	62	71	69	59	65	63	55
Athletics										
Football Fields	3	3	3	3	3	3	2	2	2	2
Running Tracks	3	3	3	3	3	3	2	3	3	3
Baseball/Softball	9	9	9	9	9	9	3	3	3	3
Playgrounds	16	16	17	17	17	17	15	17	17	17

Source: Portsmouth Public Schools - Transportation Division  
 Portsmouth Public Schools - Athletics Department  
 Portsmouth Public Schools - Operations Division

**CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD**  
**Component Unit of the City of Portsmouth, Virginia**

**Table 12**

**SCHOOL BUILDING INFORMATION (unaudited)**  
**LAST TEN FISCAL YEARS**

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
<b>Elementary Schools:</b>										
Brighton										
Square feet	56,566	56,566	56,566	56,566	56,566	56,566	56,566	56,566	56,566	33,564
Capacity (Students)	650	650	650	650	650	650	650	650	650	320
Enrollment	501	487	542	612	598	669	701	660	571	304
Churchland Academy										
Square feet	83,000	83,000	83,000	96,000	96,000	96,000	96,000	96,000	96,000	96,000
Capacity (Students)	732	732	732	914	914	914	914	914	914	914
Enrollment	695	681	692	913	947	999	1,042	1,033	917	947
Churchland Elementary										
Square feet	76,734	76,734	66,586	66,586	66,586	66,586	66,586	61,612	61,612	61,612
Capacity (Students)	715	715	715	715	715	715	634	634	587	587
Enrollment	830	823	808	784	657	710	721	644	543	578
Churchland Primary										
Square feet	74,050	74,050	74,050	63,800	63,800	63,800	63,800	63,800	63,800	63,800
Capacity (Students)	600	600	600	600	600	600	608	608	608	608
Enrollment	606	620	637	542	529	514	598	606	530	520
Douglass Park										
Square feet	73,755	73,755	73,755	73,755	73,755	73,755	73,755	73,398	73,398	73,398
Capacity (Students)	800	800	800	800	800	800	703	906	703	703
Enrollment	707	680	584	613	520	697	679	774	668	689
Victory Elementary										
Square feet	78,142	78,142	78,142	78,142	78,142	78,142	78,142	51,613	51,613	51,613
Capacity (Students)	540	540	540	540	540	540	744	492	492	492
Enrollment	561	571	622	640	533	264	347	-	-	-
Hodges Manor										
Square feet	50,133	50,133	50,133	50,133	50,133	50,133	50,133	47,633	47,633	47,633
Capacity (Students)	600	600	600	600	600	600	477	477	454	454
Enrollment	558	584	612	572	520	582	526	485	401	475
James Hurst										
Square feet	75,105	75,105	75,105	63,525	63,525	63,525	63,525	63,525	63,525	63,525
Capacity (Students)	775	775	775	775	775	775	605	605	605	605
Enrollment	706	736	666	615	635	734	755	791	622	709
Lakeview										
Square feet	60,009	60,009	60,009	60,009	60,009	60,009	60,009	54,349	54,349	54,349
Capacity (Students)	660	660	660	660	660	660	605	572	518	518
Enrollment	541	546	544	590	592	623	664	641	489	544
Olive Branch										
Square feet	-	-	32,700	32,700	32,700	32,700	32,700	30,700	30,700	30,700
Capacity (Students)	-	-	455	455	455	455	311	311	311	311
Enrollment	-	-	367	367	347	430	464	428	342	350
Park View										
Square feet	79,998	79,998	79,998	79,998	79,998	31,748	31,748	26,548	26,548	26,548
Capacity (Students)	762	762	762	762	762	500	302	302	302	302
Enrollment	649	614	613	636	676	409	398	394	357	344

Continued

**CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD**  
**Component Unit of the City of Portsmouth, Virginia**

**Table 12**

**SCHOOL BUILDING INFORMATION (unaudited)**  
**LAST TEN FISCAL YEARS**

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
<b>Elementary Schools (continued):</b>										
Simonsdale										
Square feet	81,165	81,165	33,300	33,300	33,300	33,300	33,300	33,300	33,300	33,300
Capacity (Students)	700	700	325	325	325	325	317	317	317	317
Enrollment	751	757	292	307	260	311	284	286	278	281
John Tyler										
Square feet	61,040	61,040	106,749	106,749	106,749	106,749	106,749	106,749	106,749	106,749
Capacity (Students)	700	700	700	700	700	700	581	597	546	546
Enrollment	679	711	741	702	687	641	660	689	628	604
Westhaven										
Square feet	65,077	61,040	61,040	65,077	65,077	65,077	65,077	64,671	64,671	64,671
Capacity (Students)	670	670	670	670	670	670	620	797	620	620
Enrollment	545	587	602	551	538	610	598	646	547	545
Port Norfolk										
Square feet	-	-	-	28,700	28,700	28,700	28,700	28,700	28,700	28,700
Capacity (Students)	-	-	-	-	-	-	273	273	273	273
Enrollment	-	-	-	-	-	-	-	-	-	-
Clarke Academy										
Square feet	108,200	108,200	108,200	108,200	108,200	108,200	108,200	108,200	108,200	108,200
Capacity (Students)	-	-	-	-	-	-	1,030	1,030	1,030	1,030
Enrollment	-	-	-	-	-	-	-	498	517	516
<b>Middle Schools:</b>										
Churchland										
Square feet	136,937	136,937	136,937	136,937	136,937	136,937	136,937	136,937	136,937	136,937
Capacity (Students)	1,141	1,141	1,141	1,141	1,141	1,141	1,141	1,141	1,141	1,141
Enrollment	912	921	841	861	949	889	888	967	1,136	1,095
Cradock										
Square feet	106,220	106,220	106,220	106,220	106,220	106,220	106,220	103,420	103,420	103,420
Capacity (Students)	885	885	885	885	885	885	885	885	885	885
Enrollment	612	616	599	525	521	590	584	719	663	581
William E. Waters										
Square feet	104,601	104,601	104,601	104,601	104,601	104,601	104,601	104,601	104,601	104,601
Capacity (Students)	872	872	872	872	872	872	872	872	872	872
Enrollment	588	596	545	522	582	552	562	664	719	739
Hunt/Mapp										
Square feet	-	-	-	235,946	235,946	235,946	235,946	235,946	235,946	235,946
Capacity (Students)	-	-	-	-	-	-	-	-	1,966	1,966
Enrollment	-	-	-	-	-	-	-	-	1,097	1,172

Continued

**CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD**  
**Component Unit of the City of Portsmouth, Virginia**

**Table 12**

**SCHOOL BUILDING INFORMATION (unaudited)**  
**LAST TEN FISCAL YEARS**

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
<b>High Schools:</b>										
Churchland										
Square feet	262,000	262,000	262,000	262,000	262,000	262,000	262,000	262,152	262,152	262,152
Capacity (Students)	1,871	1,871	1,871	1,871	1,871	1,871	1,871	1,871	1,871	1,871
Enrollment	1,318	1,308	1,375	1,477	1,546	1,562	1,639	1,859	1,745	1,813
I. C. Norcom										
Square feet	280,812	280,812	280,812	280,812	280,812	280,812	280,812	280,000	280,000	280,000
Capacity (Students)	2,006	2,006	2,006	2,006	2,006	2,006	2,006	2,006	2,006	2,006
Enrollment	1,086	1,187	1,238	1,269	1,271	1,300	1,402	1,319	1,221	1,321
Woodrow Wilson										
Square feet	261,665	261,665	261,665	261,665	261,665	261,665	261,665	261,655	261,655	261,655
Capacity (Students)	1,869	1,869	1,869	1,869	1,869	1,869	1,869	1,869	1,869	1,869
Enrollment	1,285	1,221	1,127	1,170	1,129	1,120	1,150	1,332	1,286	1,311
Enrollment - Excel Campus	186	162	143	143	100	113	101	80	141	140
<b>Centers:</b>										
Churchland Preschool										
Square feet	13,000	13,000	13,000	-	-	-	-	-	-	-
Capacity (Students)	182	182	182	-	-	-	-	-	-	-
Enrollment	174	175	172	-	-	-	-	-	-	-
DAC Preschool										
Square feet	-	-	31,500	31,500	31,500	31,500	31,500	31,500	31,500	31,500
Capacity (Students)	-	-	96	96	96	96	96	96	96	96
Enrollment	-	-	67	95	90	76	101	115	119	96
Emily Spong										
Square feet	30,206	30,206	30,206	30,206	30,206	30,206	30,206	30,206	30,206	30,206
Capacity (Students)	288	288	288	288	288	288	288	288	288	288
Enrollment	245	250	263	265	263	236	182	179	186	189
Mt. Hermon										
Square feet	36,317	47,349	47,349	47,349	47,349	47,349	47,349	47,349	47,349	47,349
Capacity (Students)	451	451	451	451	451	451	451	451	451	451
Enrollment	213	278	258	287	248	272	260	252	244	171
Olive Branch Preschool										
Square feet	32,700	32,700	-	-	-	-	-	-	-	-
Capacity (Students)	455	455	-	-	-	-	-	-	-	-
Enrollment	201	180	-	-	-	-	-	-	-	-

Source: SASI student information database  
 Portsmouth Public Schools - Operations Division

**CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD**  
**Component Unit of the City of Portsmouth, Virginia**

**Table 13**

**OPERATING STATISTICS (unaudited)**  
**LAST TEN FISCAL YEARS**

---

<b>Year</b>	<b>Expenditures</b>	<b>Enrollment</b>	<b>Cost per Pupil</b>	<b>Percentage Change</b>	<b>Teaching Staff</b>	<b>Pupil/ Teacher Ratio</b>
2013	\$ 158,984,466	14,215	\$ 11,184	-2.38%	1,016	13.99
2012	163,335,746	14,256	11,457	4.77%	1,014	14.06
2011	154,222,462	14,103	10,935	-3.90%	1,015	13.89
2010	161,856,233	14,224	11,379	-3.81%	1,019	13.96
2009	169,537,657	14,331	11,830	3.74%	1,144	12.53
2008	162,921,752	14,287	11,403	7.40%	1,094	13.06
2007	159,162,386	14,990	10,618	12.23%	1,131	13.25
2006	144,216,707	15,243	9,461	6.00%	1,149	13.27
2005	136,647,163	15,309	8,926	8.56%	1,165	13.14
2004	128,606,981	15,642	8,222	7.58%	1,142	13.70

Note: Expenditures only include General and Special Revenue Funds.

Source: Portsmouth Public Schools - Human Resource and Finance Departments

## ***COMPLIANCE SECTION***

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

Members of the School Board  
City of Portsmouth, Virginia School Board

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Portsmouth, Virginia School Board ("School Board"), a component unit of the City of Portsmouth, Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School Board's basic financial statements and have issued our report thereon dated April 23, 2014.

**Internal Control over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses. We consider deficiency 2013-1 to be a material weakness.

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.

A *significant deficiency* is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

## **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*.

## **City of Portsmouth, Virginia School Board's Response to Findings**

The School Board's response to the finding identified in our audit is described in the accompanying schedule of findings and management response. We did not audit the School Board's response and, accordingly, we express no opinion on it.

## **Purpose of this Report**

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

A handwritten signature in black ink that reads "Cherry Reckert LLP". The signature is written in a cursive, flowing style.

Virginia Beach, Virginia  
April 23, 2014

**CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD**

**Schedule of Findings and Management Response  
Year Ended June 30, 2013**

***Finding 2013-1***

**Criteria**

Financial statements should be fairly and accurately presented in accordance with generally accepted accounting principles.

**Condition**

For the year ended June 30, 2013, the School Board restated beginning net position and required several audit adjustments to accurately present its annual financial statements.

**Cause**

The School Board finance department suffered the loss of two key employees during the fiscal year. One of these employees was recently replaced and one of these employees has not been replaced as of the date of this report. The reduced manpower and transition resulted in insufficient time for proper and adequate review of financial reporting.

**Effect**

The School Board financial statements were not accurately presented.

**Recommendation**

We recommend the School Board adequately staff the finance department to ensure timely and adequate review of financial reporting.

**Management Response**

Management agrees with this finding and is making every effort to review financial reports in a timely manner.

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