



**COMPREHENSIVE ANNUAL FINANCIAL REPORT OF
THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**

A Component Unit of the City of Newport News, Virginia

Fiscal Year ended June 30, 2017

(With Report of Independent Auditor)

THE SCHOOL BOARD OF THE CITY OF NEWPORT NEWS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
A COMPONENT UNIT OF THE CITY OF NEWPORT NEWS, VIRGINIA
Fiscal Year ended June 30, 2017

Prepared by:

BUSINESS OFFICE

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12465 Warwick Boulevard
Newport News, VA 23606

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

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INTRODUCTORY SECTION

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

Members of the School Board and School Board Officials

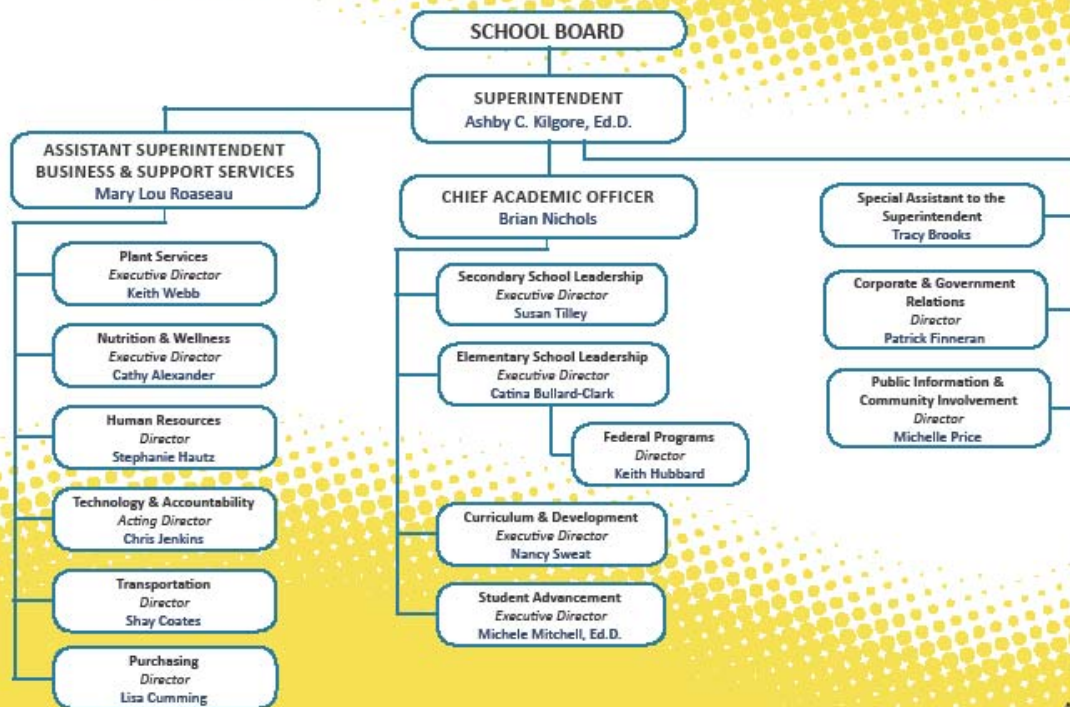
School Board

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

School Board Officials

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

Administrative Organization Chart



As of July 2017



Business Office

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

December 13, 2017

The Honorable Members of the School Board:

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the School Board of Newport News, Virginia (the School Board or Newport News Public Schools), for the fiscal year ended June 30, 2017. The School Board is responsible for the accuracy, completeness and fairness of the data presented. We believe that the data presented is accurate in all material respects and presents fairly the financial position and results of operations of the School Board's various funds.

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

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

Overview of the Report

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

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

School Board profile

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

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

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

The School Board provides educational services in 42 separate school facilities plus alternative services at six additional sites. The School Board's buildings range in age from one-year-old (when the newly constructed Discovery STEM Academy was brought online in September 2016) to 97 years old, with the average age of all schools being 50 years old. Only a few schools have received extensive renovations throughout their life.

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

Factors Affecting Financial Condition

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

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

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

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

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

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

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

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

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

Accomplishments, Recognitions and Awards

School Accreditation. For the 2017-2018 school year, 21 of NNPS' 38 schools are Fully Accredited by the Virginia Department of Education; 12 are Partially Accredited; the remaining five schools are making gains towards accreditation. For the first time since the 2010-2011 school year, all NNPS high schools earned full accreditation. The number of fully accredited schools has increased from 15 just two years ago.

The 2017-2018 accreditation ratings are based on the revised Standards of Accreditation adopted by the Virginia Board of Education in July 2016 and the new guidelines for the partially accredited ratings on October 22, 2015. The accreditation standards require all schools to meet certain achievement pass rates in four subject areas. In addition, high schools must meet a graduation and completion index.

Accreditation ratings for the 2017-2018 school year are based on the achievement of students on the 2016-2017 administration of Standards of Learning tests.

More NNPS Students Are Earning Diplomas. By keeping the focus on college and career readiness, NNPS' graduation rate has increased to 93% in 2017 from 72.9 % in 2008. During the same time, the dropout rate decreased to 2%. Newport News Public Schools' dropout prevention and recovery program provides an array of services to help students graduate on time (in four years).

NNPS Students Are Making Progress on SOL Tests. Newport News Public Schools Standards of Learning (SOL) tests scores show steady progress in all subject areas during the 2016-2017 school year. Student performance increased in many subject areas when compared to the prior year.

NNPS Students Are Preparing for Successful Futures. More high-school students are earning industry certifications, preparing them for future careers. During the 2016-2017 school year, NNPS students earned 3,300 industry and professional certifications, compared to 741 in 2011.

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

250 NNPS high school students who took Advanced Placement courses during the 2016-2017 school year are named 2017 Advanced Placement (AP) Scholars by the College Board. Students earning this distinction took at least three AP course exams and scored a 3 or better (out of 5) on each exam.

2,022 students took 3,373 Advanced Placement courses during the 2016-2017 school year. Recognizing the benefits of AP coursework, NNPS encourages all students to prepare for and take at least one AP class. Studies show that AP courses move students towards a higher level of preparedness for success after high school. Students with qualifying grades may earn college credit. NNPS offers more Advanced Placement courses than any other school district or private school on the Virginia Peninsula.

Seventy-three 2017 NNPS graduates earned the Virginia Board of Education's Diploma Seal of Biliteracy demonstrating a high level of proficiency in English and one or more world languages. To earn the Seal of Biliteracy, students must successfully pass all Standards of Learning tests in English reading and writing at the proficient level or higher; and earn proficiency at the intermediate or higher level in one or more world language tests other than English. The seal symbolizes the graduates' ability to communicate and interact with diverse communities locally and abroad.

Three high school students were recognized in the 2017 National Merit Scholarship Program. The privately-financed, competition program evaluates scores, and recognizes high performing students - those with the highest PSAT Index scores in critical reading, mathematics and writing skills qualify for recognition in the National Merit® Scholarship program.

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

One hundred twenty-eight high school students gained valuable career experiences through two paid internship programs during the summer of 2017. Designed to introduce students to work experiences while developing workplace readiness skills, the Career Pathways Summer Internship Program and the SPARK (Summer Program for Arts, Recreation and Knowledge) Internship Program paired students with NNPS employees in nine schools and 10 departments. Orientations and onsite training prepared each intern for their job specific responsibilities. NNPS employees served as mentors and supervisors.

NNPS Has Qualified Educators. NNPS has 63 National Board Certified Teachers. National Board Certification is recognized nationally as a benchmark for teacher quality and is the highest credential in the profession. Over ninety-nine percent (99%) of NNPS teachers are designated as highly qualified by federal standards.

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

Deer Park and Hilton elementary schools earned the 2017 Virginia Board of Education Excellence Award for exceeding all state and federal accountability benchmarks and making significant progress toward goals for increased student achievement and expanded educational opportunities. The Excellence Award is bestowed to schools that are fully accredited and making significant progress toward specific educational goals.

Heritage High School Governor's STEM Academy earned a 2017 Virginia STAR Best Practice Award for its program that refurbishes surplus computer hardware to donate to students and families in need. The award honors outstanding Virginia STAR (Virginia Student Training and Refurbishment) programs that implement innovative practices and make a positive community impact. The school's student IT specialists have refurbished and donated 50 computers to local students since 2014.

Heritage High School Governor's STEM Academy earned a 2017 Programs That Work Award from the Virginia Mathematics and Science Coalition for the STEMulating Minds Summer Enrichment Program, which provides rising ninth-grade students three weeks of hands-on learning focused on engineering, technology, cybersecurity and robotics.

Woodside High School was awarded a \$10,000 grant in January 2017 from bestselling author James Patterson to transform the library into a "learning commons" by adding a makerspace focused on STEAM (science, technology, engineering, art and math education). Educational makerspaces are learning centers with tools that students can utilize to create and build. Woodside was selected from among thousands of grant applications and was awarded the top dollar amount available.

Menchville and Woodside high schools were named 2015-2016 W!SE Blue Star Schools for their students' performance on the W!SE Financial Literacy Certification Test. To earn the national Blue Star designation, students must achieve an 80% pass rate on the test with either a majority of students at a given grade level taking the test or an average score of 85% or higher by students who take the test.

Marshall Early Learning Center was named a 2016 Virginia Naturally School for its efforts in increasing student environmental awareness and stewardship. Working with a master gardener, the preschool and kindergarten students cultivated and planted a community garden which yielded bushels of vegetables for the students and the community. The students also planted a flower and plant garden and created outdoor learning spaces.

Newport News Public Schools was named Young Audiences of Virginia's 2017 Sunburst Education Partner of the Year in recognition of its dynamic partnership to "engage and inspire students in and through the arts." Young Audiences Arts for Learning provides arts-in-education programming through an array of performances and workshops that inspire and engage students. NNPS and Young Audiences expanded its partnership to provide additional arts programming to nearly 10,000 students in extended learning programs.

Newport News Public Schools Career and Technical Education Advisory Committee earned a 2017 Creating Excellence Award from the Virginia Department of Education for providing workplace learning experiences, internships, career clubs and mentoring programs for students.

Newport News Public Schools was named a 2016 Green School Division by the Virginia School Boards Association for the district's environmental practices that support recycling, energy efficiency and environmental education.

Newport News Public Schools has earned several awards in recognition of outstanding financial management and distinguished budget presentation. The school district earned its fourteenth consecutive Outstanding Achievement Award from the Government Finance Officers Association (GFOA) for our Comprehensive Annual Financial Report (CAFR) for the 2016 fiscal year. We also earned our seventh consecutive Certificate of Excellence for Financial Reporting Award from the Association of School Business Officials International (ASBO) for our CAFR. The School Board's FY 2017 comprehensive budget document earned its seventh consecutive ASBO Meritorious Budget Award for excellence in budget presentation.

Acknowledgements

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

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

Sincerely,



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



Government Finance Officers Association

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

Presented to

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

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Executive Director/CEO



ASSOCIATION OF
SCHOOL BUSINESS OFFICIALS
INTERNATIONAL

The Certificate of Excellence in Financial Reporting
is presented to

Newport News Public Schools

for its Comprehensive Annual Financial Report (CAFR)
for the Fiscal Year Ended June 30, 2016.

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 'Anthony N. Dragona'. The signature is fluid and cursive, written over a horizontal line.

Anthony N. Dragona, Ed.D., RSBA
President

A handwritten signature in black ink, appearing to read 'John D. Musso'. The signature is fluid and cursive, written over a horizontal line.

John D. Musso, CAE, RSBA
Executive Director

FINANCIAL SECTION

Report of Independent Auditor

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the School Board of the City of Newport News, Virginia (the "School Board"), a component unit of the City of Newport News, Virginia, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School Board of the City of Newport News, Virginia, as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis ("MD&A") and the required supplementary information other than MD&A, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2017, on our consideration of the School Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School Board's internal control over financial reporting and compliance.



Richmond, Virginia
December 13, 2017

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

Management's Discussion and Analysis (Unaudited)

June 30, 2017

The following discussion and analysis of The School Board of the City of Newport News, Virginia's (the School Board) financial performance provides an overview of the School Board's financial activities as of and for the fiscal year ended June 30, 2017. The analysis focuses on the School Board's financial performance as a whole. Please read it in conjunction with the transmittal letter at the front of this report and the School Board's financial statements, which follow this section.

Financial Highlights for Fiscal Year (FY) 2017

The School Board, on a government-wide basis, had an increase in Net Position of \$9.5 million. As a result, Net Position went from a negative \$262.2 million to a negative \$252.7 million. This is the third consecutive year we have improved our Net Position, having increased by \$23.7 in FY2015 and \$2.8 million in FY2016.

Net investment in capital assets increased by \$2.7 million to \$79.1 million primarily due to receiving back from the City the accounting book value (cost less accumulated depreciation) of Hines Middle School. Under the provisions of *Code of Virginia* 15.2-1800 (Assets Held Tenancy in Common) (AHTIC), the City recorded Hines on their books as an asset until the general obligation bonds used to finance the construction of the school were repaid (The School Board is not permitted to issue General Obligation Bonds). Restricted Net Position increased by \$3.1 million primarily due to an increase in funds restricted for textbooks (an increase of \$1.9 million) and for child nutrition services (an increase of \$0.8 million). The balance is now \$13.0 million. Unrestricted Net Position increased by \$3.7 million and is now at negative \$344.8 million.

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

Overview of the Financial Statements

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

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

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

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

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

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

Management's Discussion and Analysis (Unaudited)

June 30, 2017

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

Financial Analysis of the School Board as a Whole

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

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**THE SCHOOL BOARD OF THE
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June 30, 2017

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

Table 1
Net Position
(In millions)

	<u>FY 2017</u>	<u>FY 2016</u>	<u>Change</u>
Current and other assets	\$ 88.7	\$ 80.2	\$ 8.5
Capital assets, net	<u>97.9</u>	<u>88.3</u>	<u>9.6</u>
Total assets	<u>186.6</u>	<u>168.5</u>	<u>18.1</u>
Deferred outflows of resources	<u>56.0</u>	<u>29.4</u>	<u>26.6</u>
Other liabilities	\$ 41.3	\$ 36.9	\$ 4.4
Long-term liabilities	<u>435.9</u>	<u>392.9</u>	<u>43.0</u>
Total liabilities	<u>477.2</u>	<u>429.8</u>	<u>47.4</u>
Deferred inflows	<u>\$ 18.1</u>	<u>\$ 30.3</u>	<u>\$ (12.2)</u>
Total Deferred Inflows	<u>\$ 18.1</u>	<u>\$ 30.3</u>	<u>\$ (12.2)</u>
Net Position:			
Net investment in capital assets	\$ 79.1	\$ 76.4	\$ 2.7
Restricted	13.0	9.9	3.1
Unrestricted	<u>(344.8)</u>	<u>(348.5)</u>	<u>3.7</u>
Total Net Position	<u><u>\$ (252.7)</u></u>	<u><u>\$ (262.2)</u></u>	<u><u>\$ 9.5</u></u>

The School Board's total Net Position shows an increase of \$9.5 million increasing from a negative \$262.2 million to a negative \$252.7 million. A total of \$3.5 million (37% of the total) resulted from a decrease in expenses due to the actuarial calculations involving allocated VRS and City (Newport News Employee Retirement Fund (NNERF)) pension plans. The Child Nutrition Services (CNS) function added \$1.1 million (12% of the total) as their operating grant revenues were up by \$0.9 million while they held the line on expenses. This increase is not unusual as in FY2016 CNS added \$1.4 million to Net Position and \$0.3 million in FY2015. Another \$0.8 million (8% of the total) was added from the Federal government general revenues due to more Impact Aid funds.

Long-term liabilities increased by \$43.0 million and allocated pension liabilities were \$37.0 million (86%) of the increase (VRS comprised \$25.5 million and NNERF \$11.5 million). The remaining long-term liability increase of \$6.0 million was due to debt issued for building improvements for improved energy performance. It should be noted the \$37.0 million increase to pension liabilities is directly related to the increase in deferred outflows and the decrease in deferred inflows discussed later in this section. We must note that the actuary report has a lag of one year compared to our CAFR fiscal year. We already know that for FY2018 the pension liabilities will show a sizable decrease due to improved investment performance in FY2017 of the respective pension plans.

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The building improvements for energy performance accounted for \$6.5 million (68%) of the \$9.6 million increase in capital assets. In addition, the City transferred Hines Middle School back to the School Board under the provisions of Assets Held Tenancy in Common (AHTIC), since the bonded debt has been repaid, further adding \$5.4 million. All other capital assets transactions, including depreciation expense, accounted for the remaining \$2.3 million decrease.

Current and other assets increased by \$8.5 million. This was attributed primarily to General Obligation Bond funding provided by the City of Newport News of \$9.7 million. This is for projects for which we had issued purchase orders and commenced the work but it was not yet complete. The funds are shown as an asset as being due to the School Board, and actual cash will be transferred each month as we pay the contractors. Two decreases accounted for most of the remaining variance. Prepaid health insurance expenses decreased by \$0.4 million as the School Board has frozen premiums since the self-insured health plan has had very good claims experience the past several years. Supply inventories decreased by \$0.3 million. Technology repair supplies accounted for two-thirds of the decrease.

Deferred outflows increased by \$26.6 million due to adjustments associated with actuary calculations related to the VRS and NNERF pension plans. The increase in deferred outflows is the result of pension-plan investment income being less than expected for FY2016. The actuary report is always one year behind our fiscal year due to the length of time needed to perform the actuarial analysis. Investment performance was poor in FY2016. However, we already know that investment performance was very good in FY2017 and so the increase in deferred outflows will reverse itself for the FY2018 CAFR. This again is due to the actuary report being one year behind our fiscal year. Accounting rules require that we present all contributions made to VRS and NNERF in FY2017 as though they were not made to the respective pension plans and instead show them as deferred outflows.

Other liabilities increased by \$4.4 million, primarily due to payroll withholdings associated with an increased level of teacher deferred pay (reflecting a three percent pay increase) so those employees can receive paychecks during July and August even though they are not contractually performing duties during those two months. In addition, accounts payable increased by \$1.5 million of which \$0.9 million was grant funded technology equipment delivered the last three days of our fiscal year.

Deferred inflows decreased by \$12.2 million due to changes from actuarial computations associated with the VRS and NNERF pension plans. This change was due to the reduction of accumulated investment gains from prior years which were needed in FY2017 because actual gains were substantially below the expected rate of return.

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

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

Management's Discussion and Analysis (Unaudited)

June 30, 2017

Table 2
Changes in Net Position
(In millions)

	<u>FY 2017</u>	<u>FY 2016</u>	<u>Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 6.8	\$ 7.0	\$ (0.2)
Operating grants and contributions	69.1	62.9	6.2
Capital grants and contributions	1.9	0.9	1.0
General revenues:			
Local	117.6	99.9	17.7
State	151.6	147.2	4.4
Federal	3.2	2.4	0.8
Interest	0.1	0.1	-
Total revenues	<u>350.3</u>	<u>320.4</u>	<u>29.9</u>
Expenses:			
Academic services	239.1	223.9	15.2
Attendance and health	5.8	5.5	0.3
Transportation services	19.4	17.2	2.2
Operations and facilities	33.5	29.9	3.6
Child nutrition services	17.4	16.7	0.7
Technology services	15.9	14.8	1.1
Administration	8.8	9.5	(0.7)
Interest on capital debt	0.9	0.1	0.8
Total expenses	<u>340.8</u>	<u>317.6</u>	<u>23.2</u>
Change in net position	<u>9.5</u>	<u>2.8</u>	<u>6.7</u>
Beginning net position	<u>(262.2)</u>	<u>(265.0)</u>	<u>2.8</u>
Ending net position	<u>\$ (252.7)</u>	<u>\$ (262.2)</u>	<u>\$ 9.5</u>

For the Fiscal Year ended June 30, 2017, revenues from governmental activities (excluding charges for services and interest) totaled \$343.4 million. Charges for services and interest were \$6.9 million to bring the total to \$350.3 million. Commonwealth Standards of Quality (SOQ) Funds accounted for \$151.6 million (43.3%) of the School Board's resources. These funds are based on student membership counts. The SOQ funds increased by \$4.4 million due to changes in the State funding formula.

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

Revenue to the General Fund	\$ 118,300,000
Less debt service returned to the City	(12,247,135)
Add Revenue General Obligation Bonds	10,396,783
Add Revenue General Capital Fund	2,000,000
Less net capital assets transferred tenancy-in-common	<u>(862,922)</u>
Net amount from City - Entity-wide statements	<u><u>\$ 117,586,726</u></u>

Revenue from the City in FY 2016 was \$117.6 million (33.6% of the total), an increase of \$17.7 million. This was related to funding of \$10.4 million for capital projects (no capital project funding was provided in FY2016 as no projects were started, only the completion of Discovery STEM Academy, the revenue for which we had received in FY2015). In addition, the net assets transferred under the provisions of AHTIC increased by \$7.3 million. That is due to the substantial portion of the construction of Discovery STEM Academy done in FY2016, which was transferred back to the City since they issued bonded debt for its construction.

Federal revenue increased by \$0.8 million to \$3.2 million (0.9% of the total) in FY2017 due to increased Impact Aid funding.

Operating grants, which were comprised of approximately 53% from Federal sources and 47% from Virginia sources, totaled \$69.1 million (19.7% of the total). This was an increase of \$6.2 million. Lottery funded programs accounted for \$3.8 million due to changes in the State funding formula. This included an increase of State funds accounted for in the Textbook Fund of \$1.7 million, with the balance of the \$2.1 million accounted for in the General Fund. Other State grants increased by an additional \$1.7 million. The State provided an Extended School Year grant for children at risk, and this accounted for \$1.2 million of the increase. Child Nutrition Services saw an increase of \$0.9 million due to more meals served, which included an expanded dinner program and additional summer meals for qualifying students.

Capital grants, which was primarily for technology, was \$1.9 million (0.5% of the total) increased by \$1.0 million due primarily to a grant used to purchase Chromebooks for student use. We also received a capital grant of \$0.2 million to buy propane-powered schools buses. Propane-powered buses are more reliable than diesel-powered buses and are easier and less expensive to maintain due to the construction components of the engine.

Expenses for FY 2017 totaled \$340.8 million, an increase of \$23.2 million (7.3%). Actuarially calculated pension adjustments accounted for \$11.8 million (50.9%) of this increase. In FY2016, pension adjustments lowered expenses by \$15.3 million and in FY2017 pension adjustments lowered expenses by only \$3.5 million to account for the \$11.8 million change. Excluding pension adjustments, expenses would have been \$329.4 million in FY2016 and would have been \$344.3 million in FY2017. This would have been a \$14.9 million (4.5%) increase.

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CITY OF NEWPORT NEWS, VIRGINIA**

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Academic services accounted for \$239.1 million (70.1%) of the School Board's total spending. A significant portion of this amount is for the salaries and benefits of teachers, teacher assistants and instructional administrators. The increase is \$15.2 million (6.8%). Pension adjustments accounted for \$8.3 million (54.6%) of the increase. Compensation increases accounted for the bulk of the remaining \$6.9 million.

Operations and facilities were the next highest cost category with a total of \$33.5 million (9.8% of the total). Much of these expenses relate to the operation (utilities and insurance), maintenance, and cleaning of our 42 regular schools, six alternative school sites, and administrative offices. This category showed a \$3.6 million (12.0%) increase. A total of \$1.1 million (30.6%) of the \$3.6 million increase was due to changes in the pension actuarial computations. A combination of compensation increases, insurance costs, increased repairs and utility costs accounted for the bulk of the remaining \$2.5 million increase.

Transportation services are the third largest cost category, with expenses of \$19.4 million (5.7% of the total). This category increased by \$2.2 million (12.8%). A total of \$0.6 million (27.3%) of the increase was due to changes in the pension actuarial computations. Significant compensation increases for bus drivers (approximately an average of 12.0%) accounted for \$0.8 million in increased expenses. The cost to participate in the City vehicle self-insurance program increased by \$0.2 million. Other expenses including fuel and repair parts accounted for the remaining \$0.6 million increase.

Child nutrition services is the fourth largest cost category, with expenses of \$17.4 million (5.1% of the total). This category showed an increase of \$0.7 million (4.2%) virtually all of which was due to changes in the pension actuarial computations.

Capital Assets

At the end of 2017, the School Board had invested \$97.9 million in capital assets, which reflects historical cost of \$212.9 million and accumulated depreciation of \$115.0 million. In addition, the School Board and the City have under the provisions of AHTIC a net of \$141.0 million of capital assets, which are reflected in the financial statements of the City (historical cost of \$214.2 million net of accumulated depreciation of \$73.2 million). Most school buildings and improvements undertaken in the past 20 years, for which City bonded debt has been issued, are included therein. The following table shows the capital assets recorded on the School Board's books at year end.

Table 3
Capital Assets, Net
(In millions)

	<u>FY 2017</u>	<u>FY 2016</u>	<u>Change</u>
Nondepreciable assets:			
Land	\$ 2.9	\$ 2.9	\$ -
Construction in progress	20.7	14.2	6.5
Other capital assets:			
Buildings	66.2	59.4	6.8
Building improvements	56.5	56.2	0.3
Equipment and vehicles	66.6	66.0	0.6
Accumulated depreciation	<u>(115.0)</u>	<u>(110.4)</u>	<u>(4.6)</u>
Total	<u>\$ 97.9</u>	<u>\$ 88.3</u>	<u>\$ 9.6</u>

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Construction in progress was increased by \$6.5 million due to the energy performance contract improvement projects. Buildings increased by \$6.8 million due to the transfer of Hines Middle School to the School Board under the provisions of AHTIC, as City bonded debt associated with the building construction has been paid off. Equipment and vehicles increased by \$0.6 million primarily due to furniture and equipment for Discovery STEM Academy. Accumulated depreciation increased by \$4.6 million. This was comprised of depreciation expense of \$6.7 million and \$4.3 million accumulated depreciation in the Hines transfer offset by retirements of \$6.4 million. Retirements related to the demolition of Magruder Elementary and the replacement of school buses. See Note 4 to the financial statements for additional information.

Long-Term Liabilities

The School Board cannot issue bonded debt. Accordingly, long-term liabilities of \$435.9 million as shown on Table 1 are related to capital leases on equipment, capital facility notes payable, compensated absences, workers' compensation claims payable (under our self-insurance program), other postemployment benefits and incurred but not reported claims under our self-insured employee health insurance program and pension obligations. During FY2017, long-term liabilities had a net increase of \$43.0 million primarily due to an increase in allocated pension obligations of \$37.0 million and facility notes payable of \$6.9 million for energy performance contract improvement projects. See Note 6 in the notes to basic financial statements for additional information.

Financial Analysis of the School Board's Fund

For the fiscal year ended June 30, 2017, the governmental funds had a combined fund balance of \$43.5 million. This is an increase of \$2.6 million (6.4%) as compared to June 30, 2016. The primary reasons for the increase was \$0.9 million in the nonmajor Textbook Fund, as purchases in FY2017 were less than the State funding provided, and \$0.9 million in the nonmajor Child Nutrition Services Fund, as more meals (now including dinners to certain qualifying students) are being served. In addition, the funding formula for the Federal Free Breakfast and Lunch program has increased.

The General Fund had a change to fund balance of \$1.7 million. This was due primarily to a transfer to the Textbook Fund of \$1.3 million. The General Obligation Bond Fund increased by \$1.2 million due to the City providing capital project funding, but some of the projects are not yet complete and not all of the funds have been expended.

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

Management's Discussion and Analysis (Unaudited)

June 30, 2017

General Fund Budgetary Highlights

Table 4
General Fund Budget to Actual Summary (non-GAAP basis)
Year ended June 30, 2017

	(In millions)			
	Original Budget	Amended Budget	Actual	Variance
Revenues:				
State	\$ 180.1	\$ 180.1	\$ 176.2	\$ (3.9)
City	118.3	118.3	118.3	-
Federal	3.5	3.5	3.9	0.4
Other	2.7	2.7	2.3	(0.4)
Total revenues	<u>304.6</u>	<u>304.6</u>	<u>300.7</u>	<u>(3.9)</u>
Expenditures and transfers:				
Expenditures	292.9	292.9	288.1	4.8
Transfers	11.7	11.7	13.0	(1.3)
Total expenditures and transfers	<u>304.6</u>	<u>304.6</u>	<u>301.1</u>	<u>3.5</u>
Change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (0.4)</u>	<u>\$ (0.4)</u>

Revenues from the Commonwealth were \$3.9 million less than the budget due to a lower student enrollment than used for budget development purposes and lower sales tax revenue. Federal revenues were \$0.4 million more than the budget due to increased Impact Aid funds. The net revenue shortfall of \$3.9 million was covered by savings expenditures being \$3.5 million under budget and \$0.4 million from cancelled prior year purchase orders.

Economic Factors

The School Board is financially dependent upon the Commonwealth and City governments. Virginia funding is primarily dependent upon income and sales tax, both of which are expected to show very slow growth in the near term. The City is dependent upon property tax revenues, which are expected to be flat in the near term. FY2018 General Fund projected actual funding is expected to be relatively unchanged from FY2017 actual.

Contacting the School Board's Financial Management

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

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BASIC FINANCIAL STATEMENTS

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

Statement of Net Position – Governmental Activities

June 30, 2017

Assets

Cash and temporary investments	\$ 52,275,508
Cash with agent	12,945,694
Accounts receivable, net	247,904
Receivables from other governments:	
City of Newport News, Virginia	9,662,002
Federal:	
Department of Agriculture	780,003
Department of Defense	24,688
Commonwealth of Virginia:	
Department of Treasury – sales tax	5,326,675
Department of Education	4,887,779
Inventories, at cost	1,564,490
Pension asset	932,159
Capital assets, non-depreciable	23,623,060
Capital assets, depreciable, net	<u>74,294,185</u>
Total assets	<u>186,564,147</u>

Deferred Outflows of Resources

Deferred NNERF	18,259,357
Deferred VRS (teacher pool plan)	37,337,209
Deferred VRS (stand alone plan)	<u>399,616</u>
Total deferred outflows of resources	<u>55,996,182</u>

Liabilities:

Accounts payable	10,605,053
Accrued liabilities	825,360
Payroll withholdings and accrued fringe benefits	29,392,388
Unearned revenues	68,146
Accrued interest payable	405,013
Long-term liabilities:	
Due within one year	5,799,592
Due in more than one year	<u>430,108,795</u>
Total liabilities	<u>477,204,347</u>

Deferred inflows:

Deferred VRS (teacher pool plan)	14,739,000
Deferred VRS (stand alone plan)	37,247
Deferred grant proceeds	<u>3,303,639</u>
Total deferred inflows	<u>18,079,886</u>

Net Position:

Net investment in capital assets	79,134,691
Restricted for:	
Adult Education	80,421
Capital Projects	598,110
Child Nutrition Services	5,105,306
Textbooks	3,649,252
Workers' Compensation	3,546,233
Unrestricted (deficit)	<u>(344,837,917)</u>
Total net position	<u><u>\$(252,723,904)</u></u>

See accompanying notes to basic financial statements.

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**
Statement of Activities – Governmental Activities
Year Ended June 30, 2017

		Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
	Expenses				
Governmental activities:					
Academic services	\$ 239,059,534	\$ 994,482	\$ 53,017,034	\$ -	\$ (185,048,018)
Attendance and health services	5,819,807	-	858	-	(5,818,949)
Transportation services	19,401,940	-	-	165,315	(19,236,625)
Operations and facilities	33,551,144	425,862	-	-	(33,125,282)
Child nutrition services	17,410,411	2,435,283	16,033,263	-	1,058,135
Technology services	15,885,584	878,545	-	1,765,858	(13,241,181)
Administration	8,808,208	2,094,329	-	-	(6,713,879)
Interest on capital debt	861,885	-	-	-	(861,885)
Total governmental activities	<u>\$ 340,798,513</u>	<u>\$ 6,828,501</u>	<u>\$ 69,051,155</u>	<u>\$ 1,931,173</u>	<u>(262,987,684)</u>
General revenues:					
City of Newport News, Virginia					117,586,726
Commonwealth of Virginia					151,605,074
Federal government					3,211,922
Interest					<u>59,166</u>
Total general revenues					<u>272,462,888</u>
Change in net position					<u>9,475,204</u>
Net position at beginning of year					<u>(262,199,108)</u>
Net position at end of year					<u>\$ (252,723,904)</u>

See accompanying notes to basic financial statements.

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

Balance Sheet – Governmental Funds

June 30, 2017

	General Fund	Grant Fund	General Obligation Bond Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 32,722,734	\$ 3,560,620	\$ -	\$ 15,992,154	\$ 52,275,508
Cash with agent	12,945,694	-	-	-	12,945,694
Accounts receivable, net	86,396	97,015	-	64,493	247,904
Receivables from other governments:					
City of Newport News	-	-	9,662,002	-	9,662,002
Federal:					
Department of Agriculture	-	-	-	780,003	780,003
Department of Defense	-	24,688	-	-	24,688
Commonwealth of Virginia:					
Department of Treasury – sales tax	5,326,675	-	-	-	5,326,675
Department of Education	-	4,887,779	-	-	4,887,779
Inventories, at cost	1,112,369	-	-	452,121	1,564,490
Due from other funds	3,980,000	-	-	-	3,980,000
Total assets	<u>\$ 56,173,868</u>	<u>\$ 8,570,102</u>	<u>\$ 9,662,002</u>	<u>\$ 17,288,771</u>	<u>\$ 91,694,743</u>
Liabilities, Deferred Inflows of Resources and Fund Balances					
Liabilities:					
Accounts payable	\$ 2,458,155	\$ 1,286,463	\$ 5,109,650	\$ 1,750,785	\$ 10,605,053
Accrued liabilities	797,794	-	-	27,566	825,360
Payroll withholdings and accrued fringe benefits	29,392,388	-	-	-	29,392,388
Due to other funds	-	3,980,000	-	-	3,980,000
Unearned revenues	68,146	-	-	-	68,146
Total liabilities	<u>32,716,483</u>	<u>5,266,463</u>	<u>5,109,650</u>	<u>1,778,351</u>	<u>44,870,947</u>
Deferred inflows:					
Deferred grant proceeds	-	3,303,639	-	-	3,303,639
Total deferred inflows of resources	<u>-</u>	<u>3,303,639</u>	<u>-</u>	<u>-</u>	<u>3,303,639</u>
Fund balances:					
Nonspendable:					
Imprest funds	2,125	-	-	-	2,125
Inventories	1,112,369	-	-	452,121	1,564,490
Restricted:					
Adult education services	-	-	-	80,421	80,421
Capital projects	-	-	-	598,110	598,110
Child nutrition services	-	-	-	5,105,306	5,105,306
Textbooks	-	-	-	3,649,252	3,649,252
Workers' compensation	-	-	-	3,546,233	3,546,233
Assigned to:					
Adult education services	-	-	-	444,248	444,248
Child nutrition services	-	-	-	785,885	785,885
Contractual obligations	9,397,197	-	4,552,352	848,844	14,798,393
Health insurance	12,945,694	-	-	-	12,945,694
Total fund balances	<u>23,457,385</u>	<u>-</u>	<u>4,552,352</u>	<u>15,510,420</u>	<u>43,520,157</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 56,173,868</u>	<u>\$ 8,570,102</u>	<u>\$ 9,662,002</u>	<u>\$ 17,288,771</u>	<u>\$ 91,694,743</u>
Amounts reported for governmental activities in the Statement of Net Position are different because:					
Total fund balances reported in governmental funds					\$ 43,520,157
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds					97,917,245
Pension assets used in governmental activities are not financial resources and, therefore, are not reported in the funds					932,159
Deferred outflows used in governmental activities are not financial resources and, therefore, are not reported in the funds					55,996,182
Accrued interest payable are not due and payable in the current period and, therefore, are not reported in the funds					(405,013)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds					(435,908,387)
Deferred pension inflows are not recognized in the current period and, therefore, are not reported in the funds					(14,776,247)
Net position of governmental activities					<u>\$ (252,723,904)</u>

See accompanying notes to basic financial statements.

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

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds

Year Ended June 30, 2017

	General Fund	Grant Fund	General Obligation Bond Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Intergovernmental:					
City of Newport News, Virginia	\$ 106,052,865	\$ -	\$ 10,396,783	\$ 2,000,000	\$ 118,449,648
Commonwealth of Virginia	176,258,278	5,785,796	-	2,763,045	184,807,119
Federal government	3,873,511	21,342,066	-	15,427,894	40,643,471
Charges for services	2,264,217	-	-	4,564,284	6,828,501
Investment income	-	-	-	59,166	59,166
Miscellaneous	-	348,734	-	-	348,734
Total revenues	<u>288,448,871</u>	<u>27,476,596</u>	<u>10,396,783</u>	<u>24,814,389</u>	<u>351,136,639</u>
Expenditures:					
Current:					
Academic services	210,384,455	24,694,161	-	1,594,923	236,673,539
Attendance and health services	5,795,605	60,376	-	-	5,855,981
Transportation services	18,095,191	165,315	-	-	18,260,506
Operations and facilities	31,920,195	568,696	-	201,361	32,690,252
Child nutrition services	-	-	-	17,364,347	17,364,347
Technology services	13,916,567	1,831,209	-	-	15,747,776
Administration	7,047,580	156,839	-	1,507,535	8,711,954
Debt service:					
Principal	524,590	-	-	-	524,590
Interest and other charges	456,872	-	-	-	456,872
Capital outlay	1,266,005	-	9,225,888	8,875,873	19,367,766
Total expenditures	<u>289,407,060</u>	<u>27,476,596</u>	<u>9,225,888</u>	<u>29,544,039</u>	<u>355,653,583</u>
Deficiency of revenues under expenditures	<u>(958,189)</u>	<u>-</u>	<u>1,170,895</u>	<u>(4,729,650)</u>	<u>(4,516,944)</u>
Other financial sources (uses):					
Issuance of Facility Note	-	-	-	6,928,044	6,928,044
Issuance of capital lease	515,288	-	-	-	515,288
Transfers in	-	-	-	1,282,834	1,282,834
Transfers out	(1,282,834)	-	-	-	(1,282,834)
Total other financing sources (uses), net	<u>(767,546)</u>	<u>-</u>	<u>-</u>	<u>8,210,878</u>	<u>7,443,332</u>
Net change in fund balances	<u>(1,725,735)</u>	<u>-</u>	<u>1,170,895</u>	<u>3,481,228</u>	<u>2,926,388</u>
Fund balances at beginning of year	25,364,411	-	3,381,457	12,124,599	40,870,467
Increase in nonspendable imprest cash	(200)	-	-	-	(200)
Increase in nonspendable inventory	(181,091)	-	-	(95,407)	(276,498)
Fund balances at end of year	<u>\$ 23,457,385</u>	<u>\$ -</u>	<u>\$ 4,552,352</u>	<u>\$ 15,510,420</u>	<u>\$ 43,520,157</u>

See accompanying notes to basic financial statements.

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

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

Year Ended June 30, 2017

Net change in fund balances – total governmental funds	\$ 2,926,388
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	
Capital outlay	\$ 19,367,766
Items capitalized, but shown as expended	(800,899)
Transfer from City, tenancy-in-common	5,375,830
Transfer to City, tenancy-in-common	<u>(6,238,752)</u>
Capital outlay, net	17,703,945
Loss on disposal of capital assets	(1,325,384)
Depreciation expense	<u>(6,727,737)</u> 9,650,824
Repayment of debt principal is an expenditure in the governmental funds, but does not affect the Statement of Activities.	524,590
Issuance of facility note is a financing source in the governmental funds, but does not affect the Statement of Activities.	(6,928,044)
Issuance of capital leases is a financing source in the governmental funds, but does not affect the Statement of Activities	(515,288)
Accrued interest payable reported in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in governmental funds	(405,013)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This year, compensated absences earned exceeded the amount used by \$132,123, workers' compensation claims incurred were more than the amount paid by \$436,587, health insurance claims incurred were more than the amount paid by \$251,000, other postemployment benefits incurred were less than the amount paid by \$1,844,445, VRS teacher pool pension costs incurred were more than the amount paid by \$25,566,000 and City of Newport News pension costs incurred were more than the amount paid by \$11,508,125.	(36,049,390)
Statement of Activities, pension asset decreased, thus decreasing net position	(82,730)
Statement of Activities, deferred outflows associated with pension plans increased, but are not included in governmental funds	26,558,090
Statement of Activities, change in deferred inflows associated with pension plans decreased, but are not included in governmental funds	14,072,475
Change in nonspendable imprest fund cash is included in expenses in Statement of Activities	(200)
Change in nonspendable inventory from governmental funds is included in expenses in the Statement of Activities.	<u>(276,498)</u>
Change in net position of governmental activities	<u>\$ 9,475,204</u>

See accompanying notes to basic financial statements.

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

Statement of Fiduciary Net Position – Fiduciary Funds

June 30, 2017

	<u>OPEB Trust Fund</u>	<u>Agency Fund</u>
Assets:		
Cash and cash equivalents (note 2)	\$ -	\$ 1,530,906
Investments, at fair value:		
Money market trust	<u>23,103,272</u>	<u>-</u>
Total assets	<u>23,103,272</u>	<u>\$ 1,530,906</u>
Liabilities:		
Accounts payable	-	\$ 35,164
Due to students	<u>-</u>	<u>1,495,742</u>
Total liabilities	<u>-</u>	<u>\$ 1,530,906</u>
Net Position:		
Net position held in trust for other postemployment benefits	<u>\$ 23,103,272</u>	

See accompanying notes to basic financial statements.

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

Statement of Changes in Fiduciary Net Position – Fiduciary Funds

Year Ended June 30, 2017

	<u>OPEB Trust Fund</u>
Additions	
Contributions:	
Employer contributions	\$ 6,745,919
Plan member (retiree) contributions	<u>1,525,148</u>
Total contributions	<u>8,271,067</u>
Net investment income:	
Net appreciation in the fair value of investments	2,484,280
Interest and dividends	<u>5,260</u>
Total investment gain	<u>2,489,540</u>
Total additions	<u>10,760,607</u>
 Deductions	
Benefits	6,171,067
Administrative expenses	<u>23,167</u>
Total deductions	<u>6,194,234</u>
 Change in net position	4,566,373
 Net position at beginning of year	<u>18,536,899</u>
 Net position at end of year	<u><u>\$ 23,103,272</u></u>

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

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

Notes to Basic Financial Statements

June 30, 2017

(1) Summary of Significant Accounting Policies

Narrative Profile

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

(a) Financial Reporting Entity

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

(b) Basis of Presentations

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

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

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

Program revenues include charges paid by the recipient for the goods or services offered by the program or from grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Charges for services include adult education, summer school tuition and cafeteria sales. Revenues not classified as program revenues are presented as general revenues of the School Board. This includes funding provided by the Commonwealth of Virginia related to their adopted Standards of Quality (SOQ). SOQ funds take into account funding for all educationally related functions of the School Board and are based upon student enrollment and

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

Notes to Basic Financial Statements

June 30, 2017

prevailing average costs throughout the Commonwealth. These revenues are reported as general revenues as the intricacies of the funding formula do not permit a breakdown by function. The comparison of direct expenses with program revenues identifies the extent to which the governmental function is self-financing or draws from the general revenues of the School Board. The School Board does not allocate indirect expenses. When both restricted and unrestricted resources are available for use, it is the School Board's policy to use restricted resources first.

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

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

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

The School Board reports the following major governmental funds:

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

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

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

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

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

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

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

Notes to Basic Financial Statements

June 30, 2017

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

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

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

(c) Basis of Accounting

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

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

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

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

Notes to Basic Financial Statements

June 30, 2017

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

(d) *Encumbrances*

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

(e) *Cash and Temporary Investments*

Cash and temporary investments are pooled with the cash and investments of the City, except for \$250,000 held in escrow with our workers’ compensation third-party administrator and petty cash of \$2,120. In addition, the cash in the Facility Notes Capital Projects Fund of \$1,299,686 is held in a trust fund administered by Bank of America. The School Board utilizes the pooled cash investment method wherein income from the investment of pooled cash is allocated to the various funds based on the percentage of cash and cash equivalents of each fund to the total pooled cash and cash equivalents. The cash in the Agency Fund represents the Student Activity Fund cash balances in the separate bank accounts maintained by the individual schools. The investments are maintained in the Virginia Association of Counties/Virginia Municipal League (VACo/VML) OPEB Pooled Trust Fund are valued using the Net Asset Value (NAV) per share, which is determined by dividing the total value of the Trust by the number of outstanding shares. The NAV per share changes with the value of the underlying investments in the OPEB Pooled Trust Fund. Generally, participants may redeem their investment at the end of a calendar quarter upon 90 days’ written notice.

(f) *Cash with Agent*

Cash with agent of \$12,945,694 represents healthcare premiums paid in advance and on deposit with our third-party claims administrator. The School Board’s healthcare program is self-insured (see Note 8 (a) for further information). Premiums paid in prior years have been more than actual claims and expenses. The premiums are on deposit to pay future healthcare premiums.

(g) *Receivables and Due from Other Governments*

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

(h) *Inventories*

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

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

Notes to Basic Financial Statements

June 30, 2017

(i) Capital Assets

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

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

Under Virginia law, certain property maintained by the School Board is subject to tenancy-in-common with the City, if the City incurred a financial obligation for the property which is payable over more than one fiscal year. The School Board and the City have agreed that such property will be carried on the City's financial statements until the outstanding debt is repaid, upon which time the book value of the assets in question will be transferred back to the School Board's books. At June 30, 2017, the City holds capital assets related to school property with a net book value of \$140,997,406.

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

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

(j) Compensated Absences

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

(k) Fund Balance Items

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

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

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

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

Notes to Basic Financial Statements

June 30, 2017

- The Workers' Compensation special revenue fund has a restricted fund balance of \$3,546,233, which City Council restricts to the use of these funds for workers' compensation for the School Board's self-insured workers' compensation plan.
- The Textbook special revenue fund has a restricted fund balance of \$3,649,252, which City Council restricts to the use of these funds for textbooks. The School Board intends to purchase textbooks in the upcoming years based upon a six-year replacement cycle for most subjects.
- The Adult Education special revenue fund has a restricted fund balance of \$80,421 representing the portion of the fund balance provided over the years from State grants restricted for the purpose of providing adult citizens of the community with educational services.
- The State Construction Capital Projects Fund has a fund balance of \$157,060, restricted by the Commonwealth to capital outlay and repayment of debt issued for capital outlay.
- The General Capital Projects Fund has a fund balance of \$22,826 restricted by the City for capital outlay.
- The Facility Notes Capital Projects Fund had a fund balance of \$418,224 restricted by the lender for capital outlay.
- The Child Nutrition Services special revenue fund has a restricted fund balance of \$5,105,306 representing the portion of the fund balance provided over the years from Federal and Virginia grants restricted for the purpose of providing students with nutritional meals.

Assigned to items – Assigned items represents School Board management's intent to use certain resources for assigned purposes. The Superintendent is authorized by the School Board annually during the budget approval process to make the following assignments as of June 30, 2017.

- \$444,248 is assigned to provide adult education services in the community as represented in the Adult Education special revenue fund.
- \$785,885 is assigned to provide students attending the schools with a nutritious breakfast and lunch, meeting the regulations of the United States Department of Agriculture and the Commonwealth as represented in the Child Nutrition Services special revenue fund.
- \$14,798,393 is assigned to meet contractual obligations. The School Board has purchase orders outstanding with vendors in this amount and expects the vendors to deliver the goods and services in the upcoming fiscal year. The amounts are \$9,397,197 in the General Fund, \$4,552,352 in the General Obligation Bond Fund, \$435,013 in the Textbook special revenue fund, \$209,395 in the Child Nutrition Services special revenue fund and \$204,436 in the State Construction capital projects fund.
- \$12,945,694 is assigned to the employee self-insured health insurance plan. Funds equal to this amount are on deposit with our contracted health insurance provider and shown as a prepaid item in the asset section of the Balance Sheet.

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

Notes to Basic Financial Statements

June 30, 2017

Unassigned items – The School Board has no unassigned fund equity in governmental fund balances at June 30, 2017.

Net investment in Capital Assets - The Statement of Net Position includes net investment in capital assets. The amount was determined as follows:

Net Investment in capital assets	
Capital assets:	
Capital assets, non-depreciable	\$ 23,623,060
Capital assets, depreciable, net	<u>74,294,185</u>
Total capital assets	<u>97,917,245</u>
Less related debt:	
Capital leases payable	872,986
Capital facility notes payable	<u>17,909,568</u>
Total related debt	<u>18,782,554</u>
Net Investment in capital assets	<u>\$ 79,134,691</u>

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

(l) Interfund Transactions

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

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

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

(m) Deferred Inflows and Outflows

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

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

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

Notes to Basic Financial Statements

June 30, 2017

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

(n) Pensions

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

(2) Cash and Cash Equivalents

All of the \$52,275,508 of School Board cash and cash equivalents (except for \$250,000 of funds in escrow with our workers' compensation third-party administrator, \$2,320 of petty cash funds, and \$1,299,686 for the Facility Notes Capital Projects Fund maintained in trust by Bank of America) are maintained on deposit with the Treasurer of the City. All of the funds are available for immediate School Board use. See the City's Comprehensive Annual Financial Report for additional details. A copy may be obtained from the City of Newport News, Virginia's Finance Department, 2400 Washington Avenue, Newport News, VA 23607.

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

Notes to Basic Financial Statements

June 30, 2017

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

Interfund receivables, payables and transfers as of and for the year ended June 30, 2017 are as follows:

Funds	Due from other funds	Due to other funds	Transfers in	Transfers out
General Fund	\$ 3,980,000	\$ -	\$ -	\$ 1,282,834
Grant Fund	-	3,980,000	-	-
Other governmental funds				
Special revenue	-	-	1,282,834	-
Total all funds	<u>\$ 3,980,000</u>	<u>\$ 3,980,000</u>	<u>\$ 1,282,834</u>	<u>\$ 1,282,834</u>

The amounts that are due to other funds are to provide for cash to pay for expenditures of the Grant Fund until revenue is received in cash. Transfers were to provide funding for the Textbook special revenue fund to purchase books in future years (The School Board attempts to keep textbooks refreshed on a six-year replacement cycle dependent upon available funding).

(4) Capital Assets, Net

A summary of changes in capital assets follows:

	Balance July 1, 2016	Increases	Decreases	Assets Held Tenancy In-Common	Balance June 30, 2017
Capital assets not being depreciated:					
Land	\$ 2,896,704	\$ -	\$ -	\$ -	\$ 2,896,704
Construction in progress	14,184,064	6,542,292	-	-	20,726,356
Total capital assets not being depreciated	17,080,768	6,542,292	-	-	23,623,060
Other capital assets:					
Buildings	59,385,962	234,315	2,365,909	8,935,719	66,190,087
Improvements	56,187,459	124,396	524,343	755,217	56,542,729
Machinery and Equipment	66,038,386	5,427,112	4,874,030	-	66,591,468
Total other capital assets	181,611,807	5,785,823	7,764,282	9,690,936	189,324,284
Less accumulated depreciation for:					
Buildings	38,808,221	872,823	1,275,605	4,088,539	42,493,978
Improvements	24,416,847	1,831,191	309,715	226,567	26,164,890
Machinery and Equipment	47,201,086	4,023,723	4,853,578	-	46,371,231
Total accumulated depreciation	110,426,154	6,727,737	6,438,898	4,315,106	115,030,099
Other capital assets, net	71,185,653	(941,914)	1,325,384	5,375,830	74,294,185
Totals	<u>\$88,266,421</u>	<u>\$5,600,378</u>	<u>\$1,325,384</u>	<u>\$5,375,830</u>	<u>\$ 97,917,245</u>

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

Depreciation was charged to governmental functions as follows:

Academic services	\$ 3,672,765
Attendance and health services	28,462
Transportation services	1,340,208
Operations and facilities	1,205,178
Child nutrition services	142,320
Technology services	146,390
Administration	<u>192,414</u>
Total governmental activities depreciation expense	<u><u>\$ 6,727,737</u></u>

Loss on disposal of assets of \$1,325,484 is charged to the Academic services function. This was primarily associated with the demolition of Magruder Elementary for which, although the original building was fully depreciated, building additions were not. Magruder was replaced on the same site by Discovery STEM Academy.

Construction in progress is composed of the following at June 30, 2017:

	Project	Expended	Balance of	Future
	<u>Authorization</u>	<u>Through</u>	<u>Authorization</u>	<u>Requirements</u>
	<u>\$ 51,071,065</u>	<u>June 30, 2017</u>	<u>\$ 6,664,336</u>	<u>\$ -</u>
Total School projects		<u>\$ 44,406,729</u>		

Of the amount expended through June 30, 2017, \$26,752,495 relates to assets transferred to the City under the AHTIC provisions. The balance of authorization of \$6,664,336 includes \$6,256,900, which will be transferred to the City as AHTIC once completed.

(5) Leases

(a) Operating Leases

The School Board had three ongoing leased buildings in FY2017. Part of the leased space expires on June 30, 2028 and other leased space in that same building expires on June 30, 2030. One other lease expires on December 31, 2017 but the School Board intends to renew for 3.5 years to June 2021. We also lease space for high school graduation ceremonies on a year-to-year basis. Total costs for such leases were approximately \$811,600 for the year ended June 30, 2017.

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

<u>Year ending June 30:</u>	
2018	\$ 741,652
2019	700,550
2020	658,673
2021	663,606
2022	707,751
2023-2027	3,617,819
2028-2030	1,328,600
	<u>\$ 8,418,651</u>

(b) Capital Leases

The School Board has four lease agreements at June 30, 2017 for financing the acquisition of property and equipment.

The net book value of assets acquired through the four capital leases as of June 30, 2017 is as follows:

Machinery and equipment	\$2,184,023
Less accumulated depreciation	<u>(1,430,818)</u>
	<u>\$ 753,205</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2017, were as follows:

<u>Year ending June 30:</u>	
2018	\$ 294,938
2019	255,328
2020	143,187
2021	105,807
2022	145,525
Total minimum lease payments	<u>944,785</u>
Less amounts representing interest	<u>(71,799)</u>
Present value of minimum capital lease payment	<u>\$ 872,986</u>

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(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2017 follows:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Due Within One Year
Compensated absences	\$ 4,688,050	\$ 2,463,282	\$ 2,331,159	\$ 4,820,173	\$ 723,026
Workers' compensation claims	4,895,770	1,819,768	1,383,181	5,332,357	994,419
Capital leases payable	719,398	515,288	361,700	872,986	265,791
Capital facility notes payable	11,144,414	6,928,044	162,890	17,909,568	738,356
Other Postemployment Benefits	27,879,696	6,426,622	8,271,067	26,035,251	-
Incurred but not reported health claims	2,827,000	28,355,880	28,104,880	3,078,000	3,078,000
VRS teacher pool pension	260,538,000	62,055,000	36,489,000	286,104,000	-
City of Newport News pension	80,247,927	19,873,443	8,365,318	91,756,052	-
Totals	<u>\$ 392,940,255</u>	<u>\$ 128,437,327</u>	<u>\$ 85,469,195</u>	<u>\$ 435,908,387</u>	<u>\$ 5,799,592</u>

Incurred but not reported health claims represent an estimate of healthcare claims incurred by our employees as of June 30, 2017, but not paid by our third-party claims administrator. As we are self-insured for healthcare claims, we consider the entire amount as due within one year. In fact, the claims are paid in a matter of a few weeks after year end as the medical providers submit their claims to the third-party administrator.

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

The annual requirements to pay principal and interest on capital facility notes payable due to Bank of America Public Capital Corp. are as follows:

	Principal	Interest	Total
FY2018	\$ 738,356	\$ 458,366	\$ 1,196,722
FY2019	794,266	439,598	1,233,864
FY2020	852,720	419,398	1,272,118
FY2021	913,818	397,702	1,311,520
FY2022	977,662	374,441	1,352,103
FY2023 - FY2027	5,939,639	1,463,446	7,403,085
FY2028 - FY2032	<u>7,693,107</u>	<u>606,619</u>	<u>8,299,726</u>
Totals	<u><u>\$ 17,909,568</u></u>	<u><u>\$ 4,159,570</u></u>	<u><u>\$ 22,069,138</u></u>

The interest rate on \$15,222,827 of debt is 2.651% and an annual payment is due each July 15th. The interest rate is 2.04% on \$2,686,741 of the debt and an annual payment is due each March 1st.

Capital facility notes payable provided financing for energy performance contract improvements and are paid from the General Fund.

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(7) Defined Benefit Retirement Plans and Other Postemployment Benefits

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

1. Plan Description

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

Full-time regular employees hired on or before July 1, 2009 for the School Board and March 1, 2010 for the City are members of this fund. NNERF benefits are available only to employees with five years' service. School VRS employees who did not have five years' service when the supplemental NNERF benefits were frozen at December 31, 2012 are not eligible for a supplemental benefit from NNERF. Employees hired after the above dates are in VRS, an agent multiple-employer defined benefit plan as discussed in note 7 (b). For the years ended June 30, 2017 and 2016, the total payroll of the City and the School Board was approximately \$374.4 million and \$362.5 million, respectively, with approximately \$108.2 million and \$113.3 million covered by NNERF.

At June 30, 2017, NNERF membership consisted of:

	Retirees and Beneficiaries	Vested Terminated or Frozen Employees	Active Employees Vested	Total
City general	1,377	783	829	2,989
City police and fire	894	287	656	1,837
Public utilities	281	105	204	590
School VRS	2,731	3,204	-	5,935
School Non-VRS	901	259	479	1,639
Total	<u>6,184</u>	<u>4,638</u>	<u>2,168</u>	<u>12,990</u>

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

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

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

2. Contributions

Effective January 1, 2013 employee contributions to the Plan were made mandatory. Contributions totaling \$7,270,772 and \$680,586 were made by the employer and employees respectively to the entire NNERF during the year ended June 30, 2017. The percentage of contributions to covered payroll for fiscal year 2017 was 6.13% and 6.48 for fiscal year 2016. The percentage of normal costs to covered payroll was 1.57% for fiscal year ending June 30, 2017 and 1.70% for fiscal year ending June 30, 2016.

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

At June 30, 2017, the School Board reported a liability of \$91,756,052 for its proportionate share of the Net Pension Liability, which was measured as of June 30, 2016 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The School Board's proportion of the Net Pension Liability was based on the School Board's actuarially determined employer contributions to the pension plan for the year ended June 30, 2016 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2016, the School Board's proportion was 19.7110% as compared to 20.3103% at June 30, 2015.

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For the year ended June 30, 2017, the School Board recognized pension expense of \$2,908,855. Since there was a change in proportionate share between June 30, 2015 and June 30, 2016, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2017, the School Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 10,988,586	\$ -
Contributions to the plan subsequent to the measurement date	7,270,772	-
Total	\$ 18,259,358	\$ -

\$7,270,772 reported as deferred outflows of resources related to pensions resulting from the School Board's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	Deferred Inflows
2017	\$ 1,999,407
2018	1,999,407
2019	4,220,342
2020	2,769,429
	<u>\$10,988,585</u>

4. Actuarial Assumptions

The City's net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of July 1, 2015, using an updated actuarial assumption, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

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

Actuarial valuation date	July 1, 2016
Actuarial cost method	Entry Age Normal
Amortization method	Closed
Remaining amortization period	30 years level dollar from July 1, 2011
Asset valuation method	Five-Year smoothed market
Actuarial assumptions:	
Investment rate of return	7.50%
Rate of salary increases:For the City:	
	2.00% for the next two years
	4.50% thereafter
	For the Non-VRS Schools:
	3.00% for the next year
	2.00% for the second year
	4.50% thereafter
Cost of living adjustment	1.33%
Inflation	2.80%
Rate of Mortality	RP-2000 sex distinct combined healthy mortality projected to 2020 by Scale AA

The long-term expected rate of return on NNERF investments was determined using best-estimate ranges of expected future real rates of return (expected return, net of pension plan investment expense and inflation), developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017 are summarized in the following table:

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<u>Asset Class</u>	Long-Term Expected	
	<u>Real Rate of Return</u>	<u>Target Allocation</u>
Large Cap Equities	5.40%	24.00%
Mid Cap Equities	9.10%	14.00%
Small Cap Equities	6.20%	12.00%
International Equities	3.40%	12.00%
Emerging Markets	5.50%	4.00%
Real Estate	7.00%	4.00%
Private Equities	11.30%	6.00%
Timberland	4.20%	8.00%
Fixed Income (Bonds)	2.30%	15.00%
Cash	0.00%	1.00%
Total		<u>100.00%</u>

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

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

	Current Discount Rate:	
1.00% Lower		1.00% Higher
6.50%	7.50%	8.50%

Proportionate share of the			
NNERF Net Pension Liability	\$119,953,636	\$91,756,052	\$68,006,599

6 Pension Plan Fiduciary Net Position

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

(b) Virginia Retirement System:

1. Plan Description

All full-time, salaried permanent (professional) employees of the School Board are automatically covered by the VRS Teacher Retirement Plan, a multiple-employer cost-sharing plan, upon employment. All full-time, salaried, permanent (nonprofessional) employees of the School Board are automatically covered by the VRS Retirement Plan, an agent multiple-employer plan, upon employment. Both plans are administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of

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Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

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

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

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

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

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

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

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VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
		<p>minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70½.</p>
<p><u>Calculating the Benefit</u> The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It</p>	<p><u>Calculating the Benefit</u> See definition under Plan 1.</p>	<p><u>Calculating the Benefit</u> Defined Benefit Component: See definition under Plan 1.</p>

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VRS PLAN 1	VRS PLAN 2	HYBRID RETIRMENT PLAN
<p>is one of the benefit payout options available to a member at retirement.</p> <p>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>		<p><u>Defined Contribution Component:</u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>
<p><u>Average Final Compensation</u> A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p><u>Average Final Compensation</u> A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p><u>Average Final Compensation</u> Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p><u>Service Retirement Multiplier</u> The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for members is 1.70%.</p>	<p><u>Service Retirement Multiplier</u> Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. The retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p>	<p><u>Service Retirement Multiplier</u> <u>Defined Benefit Component:</u> The retirement multiplier for the defined benefit component is 1.00%.</p> <p>For members that opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p> <p><u>Defined Contribution Component:</u> Not Applicable.</p>
<p><u>Normal Retirement Age</u> Age 65.</p>	<p><u>Normal Retirement Age</u> Normal Social Security retirement age.</p>	<p><u>Normal Retirement Age</u> <u>Defined Benefit Component:</u> Same as Plan 2.</p>

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VRS PLAN 1	VRS PLAN 2	HYBRID RETIRMENT PLAN
		Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.
<u>Earliest Unreduced Retirement Eligibility</u> Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.	<u>Earliest Unreduced Retirement Eligibility</u> Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.	<u>Earliest Unreduced Retirement Eligibility</u> Defined Benefit Component: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.
<u>Earliest Reduced Retirement Eligibility</u> Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.	<u>Earliest Reduced Retirement Eligibility</u> Age 60 with at least five years (60 months) of creditable service.	<u>Earliest Reduced Retirement Eligibility</u> Defined Benefit Component: Age 60 with at least five years (60 months) of creditable service. Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.
<u>Cost-of-Living Adjustment (COLA) in Retirement</u> The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all	<u>Cost-of-Living Adjustment (COLA) in Retirement</u> The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any	<u>Cost-of-Living Adjustment (COLA) in Retirement</u> Defined Benefit Component: Same as Plan 2.

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VRS PLAN 1	VRS PLAN 2	HYBRID RETIRMENT PLAN
<p>Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and 	<p>additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><u>Eligibility:</u> Same as Plan 1</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1</p>	<p>Defined Contribution Component: Not applicable.</p> <p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p>

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VRS PLAN 1	VRS PLAN 2	HYBRID RETIRMENT PLAN
<p>Disability Program (VSDP).</p> <ul style="list-style-type: none"> • The member Is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. 		
<p><u>Disability Coverage</u> Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p><u>Disability Coverage</u> Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p><u>Disability Coverage</u> Employees of political subdivision and school divisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members, which the School Board has elected to provide.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>

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VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<u>Purchase of Prior Service</u> Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	<u>Purchase of Prior Service</u> Same as Plan 1.	<u>Purchase of Prior Service Defined Benefit Component:</u> Same as VRS Plan 1, with the following exceptions: <ul style="list-style-type: none"> • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the highest of 4% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one year period, the rate for most categories of service will change to actuarial cost. <u>Defined Contribution Component:</u> Not applicable.

2. Employees Covered by Benefit Terms – Nonprofessional

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

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	<u>Number</u>
Members receiving benefits	2
Inactive members:	
Vested inactive members	3
Non-vested inactive members	216
Inactive members active elsewhere in VRS	<u>27</u>
Total inactive members	246
Active Members	<u>362</u>
Total covered employees	<u><u>610</u></u>

3. Contributions

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

Professional

Each School Board's contractually required contribution rate for the year ended June 30, 2017 was 14.66% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015 and rolled forward. The actuarial rate for the Teacher Retirement Plan was 17.64%. The contractually required rate, when combined with employee contributions, was expected to finance the costs of benefits earned by the employee during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the *Code of Virginia*, as amended, the contributions were funded at 79.69% of the actuarial rate for the year ended June 30, 2017. Contributions to the pension plan from the School Board were \$20,947,209 and \$20,744,442 for the years ended June 30, 2017 and 2016, respectively.

Nonprofessional

The political subdivision's contractually required contribution rate for the year ended June 30, 2017 was 3.70% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2016. Contributions to the pension plan from the School Board were \$290,298 and \$328,332 for the years ended June 30, 2017 and 2016, respectively.

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June 30, 2017

4. Net Pension Liability

Professional

At June 30, 2017, the School Board reported a liability of \$286,104,000 for its proportionate share of the Net Pension Liability, which was measured as of June 30, 2016 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation done as June 30, 2015 and rolled forward to June 30, 2016. The School Board's proportion of the Net Pension Liability was based on the School Board's actuarially determined employer contributions to the pension plan for the year ended June 30, 2016 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2016, the School Board's proportion was 2.041154% as compared to 2.070000% at June 30, 2015.

Nonprofessional

The School Board Net Pension Liability was measured as of June 30, 2016. The total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

5. Actuarial Assumptions

The total pension liability for the Professional and Nonprofessional Plans were based on an actuarial valuation as of June 30, 2015, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

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

- * Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GAAP purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

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

Largest 10 – Non-LEOS:

Pre-Retirement:

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

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Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Largest 10 – Non-LEOS:

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

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

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

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June 30, 2017

6. Long-Term Expected Rate of Return

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

Asset Class	Target Allocation	Arithmetic Long- Term Expected Rate of Return	Weighted Average Long- Term Rate of Return
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.90%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	48.10%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	100.00%		5.83%
Inflation			2.50%
* Expected arithmetic nominal return			8.33%

* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

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

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

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

	1.00% Lower 6.00%	Current Discount Rate 7.00%	1.00% Higher 8.00%
Professional Net Pension Liability	\$407,842,000	\$ 286,104,000	\$185,821,000
Nonprofessional Net Pension Asset	(559,553)	(932,159)	(1,230,032)

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Changes in Net Pension Liability – Nonprofessional Plan

	Increase/(Decrease)		
	Plan		
	Total Pension Liability	Fiduciary Net Position	Net Pension (Asset)
Balance at July 1, 2016	\$ 1,577,719	\$ 2,592,608	\$ (1,014,889)
Changes for the Year:			
Service cost	571,242	-	571,242
Interest	109,773	-	109,773
Difference between expected and actual experience	22,631	-	22,631
Contributions -- employer		261,217	(261,217)
Contributions -- employee	-	296,130	(296,130)
Net investment income	-	64,857	(64,857)
Benefit payments including refunds of employee contributions	(19,080)	(19,080)	-
Administrative expense	-	(1,265)	1,265
Other changes	-	(23)	23
Net Changes	684,566	601,836	82,730
Balances at June 30, 2017	\$ 2,262,285	\$ 3,194,444	\$ (932,159)

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

Professional

For the year ended June 30, 2017, the School Board recognized pension expense of \$22,873,000. Since there was a change in proportionate share between June 30, 2015 and June 30, 2016, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

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At June 30, 2017, the School Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 16,343,000	\$ -
Change in proportion and differences between employer contributions and proportionate share of contributions	47,000	5,469,000
Change in expected versus actual experience	-	9,270,000
Contributions to the plan subsequent to the measurement date	20,947,209	-
Total	\$ 37,337,209	\$ 14,739,000

\$20,947,209 reported as deferred outflows of resources related to pensions resulting from the School Board's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as detailed on page 53:

Nonprofessional

For the year ended June 30, 2017, the School Board recognized pension expense of \$191,065. At June 30, 2017, the School Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 17,785	\$ 37,247
Net difference between projected and actual earnings on pension plan investments	91,533	-
Change in proportion and differences between employer contributions and proportionate share of contributions	-	
Contributions to the plan subsequent to the measurement date	290,298	-
Total	\$ 399,616	\$ 37,247

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\$290,298 reported as deferred outflows of resources related to pensions resulting from the School Board's contributions subsequent to the measurement date will be recognized as a reduction/increase of the Net Pension Liability (Asset) in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	School Board (non- teacher) Plan	School Board Teacher Retirement Plan
2018	\$ 5,169	\$ (3,644,000)
2019	5,167	(3,644,000)
2020	31,404	5,944,000
2021	30,331	3,910,000
2022	-	(915,000)
	\$ 72,071	\$ 1,651,000

9. Pension Plan Fiduciary Net Position

Detailed information about the VRS Teacher Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2016-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

(c) Other Postemployment Benefits (OPEB) Trust Funds

1. Plan Description

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

The School Board provides health and dental insurance for their pre-65 retirees under the school's group plans. The School Board annually determines the retiree's contribution to participate in the medical plans. The total contribution is based on the active premium rates except that employees retiring after July 1, 2011 have their group premiums based upon the health claim experience of just the retiree group (adjusted to filter out large claims greater than \$75,000). The amount contributed by the School Board is based on the retiree's years of service at retirement. Retirees with thirty years of service and who retired by July 1, 2011 will pay what an active employee would pay. Retirees after that date pay higher premiums commensurate with claims experience.

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Approximately 220 School Board retirees are grandfathered to participate in the City OPEB Fund's sponsored life insurance coverage paid for by the School Board. The premiums are not material. These retirees have elected supplemental coverage under the City OPEB fund.

The OPEB Trust Fund does not issue a separate report.

2. Contributions Required and Contributions Made

OPEB funding policy provides for periodic employer contributions at actuarially determined rates that express, as percentages of annual covered payroll, contributions sufficient to accumulate sufficient assets to pay benefits when due. A level percentage of payroll with a 25-year amortization period is used for purposes of computing the minimum accrual in accordance with GAAP. The projected unit credit method is used for cost calculations.

Contributions to normal costs totaling \$6.7 million were made during the year ended June 30, 2017. The School Board's annual OPEB cost for the current year and past two years are as follows:

	(in millions):		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially Required Contribution (ARC)	\$ 6.7	\$ 7.8	\$ 7.4
Interest on net pension obligation	2.0	2.1	2.1
Adjustment to ARC	<u>(2.3)</u>	<u>(2.5)</u>	<u>(2.5)</u>
Annual pension cost	6.4	7.4	7.0
Actual Contribution	<u>8.3</u>	<u>7.8</u>	<u>7.4</u>
Decrease in net OBEP obligation	<u>(1.9)</u>	<u>(0.4)</u>	<u>(0.4)</u>
Net OBEP obligation, beginning of year	<u>27.9</u>	<u>28.3</u>	<u>28.7</u>
Net OBEP obligation, end of year	<u><u>\$ 26.0</u></u>	<u><u>\$ 27.9</u></u>	<u><u>\$ 28.3</u></u>
Percentage of annual OPEB cost contributed	<u>124%</u>	<u>100%</u>	<u>100%</u>

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3. Funding Status and Funding Progress

The funded status of the plan as of June 30, 2017, 2016 and 2015 was as follows:

(In millions)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarial value of assets	\$ 23.1	\$ 18.3	\$ 15.8
Actuarial Accrued Liability (AAL)	99.5	99.0	93.0
Unfunded AAL (UAAL)	<u>\$ 76.4</u>	<u>\$ 80.7</u>	<u>\$ 77.2</u>
Funded ratio	23.2%	18.5%	17.0%
Covered payroll	\$ 111.3	\$ 105.7	\$ 111.5
UAAL as a percentage of covered payroll	68.6%	76.3%	69.2%

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

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

4. Actuarial Methods and Assumptions

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

Actuarial valuation date	June 30, 2016
Actuarial cost method	Entry age normal
Amortization method	Level Dollar Closed
Amortization period	24 years
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return	7.00% net of investment expense and including inflation
Projected salary increases	NA
Healthcare inflation rate	7.80% initially, grading down to 4.50% ultimate
Inflation Rate	NA

The same economic and demographic assumptions are used for both funding and financial reporting purposes under GASB 74. The entry age method is used for accounting/GASB

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purposes; therefore, all of the actuarial figures within this footnote are based on it. Actuarial contributions are also based on the entry age method, with a level dollar amortization of the unfunded liability (24 years remaining).

The discount rate used to measure the total OPEB liability is 6.46%. The School's funding expectations/policy is to contribute approximately \$2,100,000 per year to their OPEB trust, in addition to paying benefits for retirees. It is expected that benefits will be paid from the trust when a 60% funding level is reached. Based on this information, we project that benefits will be financed on a pay as you go basis until 2022, then from the trust there forward. Therefore, the expected trust return of 7.00% is blended with the 20-year Aa bond rate of 3.56% (Source: Fidelity general obligation municipal bond index). The blended rate is 6.46%.

The Net OPEB liability (NOL) as of June 30, 2017 was established under GASB 74. The purpose of GASB 74 is to outline the changes in the NOL over time, via the OPEB expense.

The OPEB expense under GASB 74 will include the cost of benefits accrued, interest cost for elapsed time, administrative expenses, decreases for benefits paid and for employee contributions, differences between actual and assumed experience, and other adjustments resulting from changes in assumptions or plan provisions.

GASB 75 will be implemented as of June 30, 2018 and will include information on the OPEB expense, deferred inflows and outflows of resources, and recognition schedules for such.

Investment gains and losses for each year, beginning with FY2018, will be recognized over five years. Demographic gains and losses as well as assumption changes will be recognized over the average remaining working lifetimes of all plan participants, which could vary from year to year. In general, any impact of any plan changes will be recognized immediately.

5. Long-Term Expected Rate of Return

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimates of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation. This is then modified through a Monte-Carlo simulation process, by which a (downward) risk adjustment is applied to the baseline expected return.

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CITY OF NEWPORT NEWS, VIRGINIA**

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June 30, 2017

Best estimates of real rates of return for each major asset class included in the OPEB's plan target asset allocation as of June 30, 2017, and the final investment return assumption, are summarized in the following table:

Asset Class	Long-Term Expected Real Return-Portfolio	Weight
Domestic Equity	5.75%	36.00%
International Funds	6.25%	18.00%
U.S. Fixed Income	2.75%	21.00%
Hedge Funds	3.85%	10.00%
Real Estate	4.45%	7.00%
Private Equity	8.00%	5.00%
Commodities	2.55%	3.00%
		100.00%
Total Weighted Average Expected Real Return	4.95%	
Plus Inflation	2.50%	
Total Return without Adjustment	7.45%	
Risk Adjustment	-0.45%	
Total Expected Return	7.00%	

The weighted average rate of return for FY2017 was 12.8%.

6. Sensitivity of the net OPEB liability to changes in the discount rate

The following presents the net OPEB liability of the plans, calculated using the discount rate of 6.46%, as well as what each plan's net OPEB liability would be if it were calculated using a discount rate that is 1.00% lower or 1.00% higher than the current rate.

	1% Lower 5.46%	Current Discount Rate 6.46%	1.00% Higher 7.46%
Total OPEB Liability	\$108,599,141	\$ 99,517,522	\$ 91,754,975
Plan Net Position	23,103,272	23,103,272	23,103,272
Net OPEB Liability	\$ 85,495,869	\$ 76,414,250	\$ 68,651,703
Ratio of Plan Net Position to Total OPEB Liability	21.00%	23.00%	25.00%

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June 30, 2017

7. Sensitivity of the net OPEB liability to changes in the trend rate

The following presents the net OPEB liability of the plans, calculated using the healthcare trend rate of from 7.8% to an ultimate rate of 4.5%, as well as what each plan's net OPEB liability would be if it were calculated using trend rates for each year that are 1.00% lower or 1.00% higher than the current rates:

	1% Lower 3.50%	Current Ultimate Trend Rate 4.50%	1.00% Higher 5.50%
Total OPEB Liability	\$ 81,443,744	\$ 99,517,522	\$ 121,279,641
Plan Net Position	23,103,272	23,103,272	23,103,272
Net OPEB Liability	<u>\$ 58,340,472</u>	<u>\$ 76,414,250</u>	<u>\$ 98,176,369</u>
Ratio of Plan Net Position to Total OPEB Liability	28.00%	23.00%	19.00%

8. Annual OPEB Cost

GAAP sets the method for determining the School Board's retiree postemployment benefits accrual to include both the value of benefits earned during the year (normal cost) and an amortization of the unfunded actuarial accrued liability (AAL). Accordingly, the following table shows the School Board's annual required contribution based on a 24-year amortization of the unfunded AAL, as a level dollar amount. These calculations are based on the prior valuation, and a 7% discount rate.

	Fiscal Year 2017
Normal Cost	\$ 303,867
Unfunded AAL Amortization	6,199,129
Interest to End of Year	<u>223,755</u>
Annual Required Contribution (ARC)	<u><u>\$ 6,726,751</u></u>

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

Notes to Basic Financial Statements

June 30, 2017

9. Plan Membership

The following is a summary of plan membership as of June 30, 2016.

Number of Participants	<u>Total</u>
Active	2,558
Retired	<u>1,764</u>
Total Participants	<u><u>4,322</u></u>

(8) Self-Insurance

(a) Medical Benefits

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

Claims processing and payments for the medical claims are made through a third-party administrator. The School Board uses the information provided by the third-party administrator to aid in the determination of self-insurance liabilities. Amounts due in future years on claims as of June 30, 2017 are recognized as a long-term liability due within one year in the Statement of Net Position. Changes in the incurred but not reported amount during the fiscal years ended June 30, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Claims payable at beginning of year	\$ 2,827,000	\$ 2,661,000
Claims and changes in estimates	28,355,880	27,402,785
Claim payments	<u>(28,104,880)</u>	<u>(27,236,785)</u>
Claims payable at end of year	<u><u>\$ 3,078,000</u></u>	<u><u>\$ 2,827,000</u></u>

(b) Workers’ Compensation

The School Board self-insures for workers’ compensation through funding from the Workers’ Compensation Special Revenue Fund. Expenditures are charged to the various departments at amounts that approximate what third-party insurers would have charged. Amounts due in future years on claims made as of June 30, 2017 are accounted for as long-term liabilities. These long-term liabilities include an estimate of claims that have been incurred but not reported. The following is a

**THE SCHOOL BOARD OF THE
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June 30, 2017

reconciliation of changes in workers' compensation claims payable for years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Claims payable at beginning of year	\$ 4,895,770	\$ 4,757,302
Claims and changes in estimates	1,819,768	1,692,550
Claim payments	<u>(1,383,181)</u>	<u>(1,554,082)</u>
Claims payable at end of year	<u>\$ 5,332,357</u>	<u>\$ 4,895,770</u>

(c) Other

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

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

(9) Contingent Liabilities

(a) Litigation

The School Board is involved in several lawsuits arising in the ordinary course of operations. It is the opinion of School Board management, based on the advice of the School Board attorney, that any losses incurred as a result of claims existing as of June 30, 2017 will not be material to the financial statements.

(b) Grants

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

(10) Related Organizations

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

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

Notes to Basic Financial Statements

June 30, 2017

(11) Related-Party Transaction

The School Board operates by authority of the charter of the City, which provides annual appropriations to the School Board for operating the school system and is obligated for all bonded indebtedness issued to benefit the School Board. The City is also the custodian of the majority of the School Board's cash and temporary investments and also provides a defined benefit pension plan to employees hired before July 1, 2009. The City provides services to the School Board, primarily 800 megahertz radio repairs and radio purchases and services related to the vehicle self-insurance program, through the City's General Fund. The School Board is charged based on established fee schedules or a shared cost formula. The total value of the services provided by the City and reimbursed by the School Board during the year ended June 30, 2017 was \$401,768. The School Board provides fiber WAN services, fiber WAN installation and shared costs of a School Board building that houses City programs to the City during the year ended June 30, 2017 at charges of \$145,585. Amounts due to and due from the City for services are negligible and are generally settled on a monthly basis. The City provides school police resource officers at no charge to the School Board. The City Parks & Recreation Department provides services to children and citizens after regular school hours in School Board buildings at no rental charge to the City.

At June 30, 2017, the City owed the School Board \$9,662,002 for capital projects funding.

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

(12) Subsequent Event

In July 2017, the School Board signed a capital lease with Ricoh to provide 108 copier machines. The cost and present value of the agreement was \$956,819. Sixty monthly payments of \$17,621 (including the portion allocated to interest) are to be made from September 2017 through August 2022.

The approved School Board budget for FY2018, which took effect on July 1, 2017, did not contain \$2.1 million paid into the OPEB Trust Fund, as had been done for the past several years. It is unlikely the School Board or management will make budget amendments during FY2018 that will provide any significant funding for this purpose beyond the pay-as-you-go amount. The OPEB Trust Fund financial calculations and disclosures as contained in Note 7 section C and the Required Supplement Information (RSI), will change substantially when the actuary prepares their report to be included in the June 30, 2018 CAFR.

REQUIRED SUPPLEMENTARY INFORMATION

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

Required Supplemental Information (Unaudited)

General Fund Year Ended June 30, 2017

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

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:				
Intergovernmental:				
Commonwealth of Virginia:				
Standards of Quality funds	\$ 153,765,333	\$ 153,765,333	\$ 151,669,537	\$ (2,095,796)
Incentive funds	1,355,418	1,355,418	-	(1,355,418)
Categorical funds	179,797	179,797	178,844	(953)
Lottery funded programs	24,836,960	24,836,960	24,409,894	(427,066)
Other state agencies	20,000	20,000	3	(19,997)
City of Newport News	118,300,000	118,300,000	118,300,000	-
Federal government	3,470,000	3,470,000	3,873,511	403,511
Charges for services	2,662,500	2,662,500	2,264,218	(398,282)
Total revenues	<u>304,590,008</u>	<u>304,590,008</u>	<u>300,696,007</u>	<u>(3,894,001)</u>
Expenditures:				
Instructional services:				
Classroom instruction	119,413,851	117,072,625	115,032,975	2,039,650
Office of the principal	19,718,305	19,291,197	19,083,628	207,569
Special education	37,281,157	35,213,125	34,919,707	293,418
Career and technical	5,740,601	5,789,367	6,034,365	(244,998)
Talented and gifted	4,955,800	4,955,800	4,902,559	53,241
Athletics/Drivers' Education	2,578,852	2,576,352	2,520,468	55,884
Summer school	1,252,995	1,253,031	1,295,777	(42,746)
Pre school	6,900,280	6,932,068	6,030,391	901,677
Guidance and counseling	7,597,156	7,597,156	7,398,108	199,048
Improvement of instruction - staff	5,626,150	5,654,628	5,593,741	60,887
Media services	4,960,952	5,024,334	4,905,151	119,183
School social workers	69,333	69,333	91,098	(21,765)
Homebound	522,420	522,420	326,451	195,969
Instructional support-student leadership	1,188,337	1,196,519	1,011,562	184,957
Total academic services	<u>217,806,189</u>	<u>213,147,955</u>	<u>209,145,981</u>	<u>4,001,974</u>
Attendance and health services:				
Psychological services	1,670,707	1,670,707	1,563,801	106,906
Attendance	837,761	837,761	805,199	32,562
Health services	3,659,549	3,659,549	3,426,337	233,212
Total attendance and health services	<u>6,168,017</u>	<u>6,168,017</u>	<u>5,795,337</u>	<u>372,680</u>
Transportation services:				
Transportation administration	1,875,211	1,875,421	1,812,794	62,627
Vehicle operation services	11,956,412	11,956,202	11,375,692	580,510
Monitoring services	2,230,830	2,230,830	2,241,032	(10,202)
Vehicle maintenance services	2,428,947	2,428,947	2,244,793	184,154
Total transportation services	<u>18,491,400</u>	<u>18,491,400</u>	<u>17,674,311</u>	<u>817,089</u>

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

Required Supplemental Information (Unaudited)

General Fund Year Ended June 30, 2017

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

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Operations and Facilities:				
Security	\$ 2,943,532	\$ 2,863,532	\$ 2,764,123	\$ 99,409
Warehouse	237,983	237,983	246,109	(8,126)
Operations	1,218,430	1,218,430	1,147,977	70,453
Grounds services	954,859	954,859	1,192,914	(238,055)
Building services	23,782,640	26,522,858	27,193,960	(671,102)
Vehicle operation services	366,190	366,190	256,410	109,780
Facilities	477,500	477,500	457,859	19,641
Total operations and facilities	<u>29,981,134</u>	<u>32,641,352</u>	<u>33,259,352</u>	<u>(618,000)</u>
Technology services:				
Technology - classroom instruction	69,000	1,865,762	2,094,969	(229,207)
Technology - instructional support	7,008,246	6,936,856	6,499,613	437,243
Information technology	4,953,393	4,496,180	4,643,180	(147,000)
Technology - operations & maintenance	510,106	1,141,416	1,581,353	(439,937)
Total technology services	<u>12,540,745</u>	<u>14,440,214</u>	<u>14,819,115</u>	<u>(378,901)</u>
Administration:				
Information services	1,506,274	1,506,274	1,409,036	97,238
School Board	262,242	262,242	257,921	4,321
Superintendent's office	1,318,789	1,318,789	1,317,033	1,756
Human resources	2,528,553	2,617,100	2,281,466	335,634
Accountability	198,083	198,083	247,287	(49,204)
Business	1,569,358	1,579,358	1,411,235	168,123
Purchasing	487,679	487,679	488,317	(638)
Print shop	-	-	(43,065)	43,065
Total administration	<u>7,870,978</u>	<u>7,969,525</u>	<u>7,369,230</u>	<u>600,295</u>
Total expenditures	<u>292,858,463</u>	<u>292,858,463</u>	<u>288,063,326</u>	<u>4,795,137</u>
Other financing uses:				
Transfer to Textbook Fund	-	-	1,282,834	(1,282,834)
Transfer to City of Newport News – debt service	11,731,545	11,731,545	11,731,548	(3)
Total other financing uses	<u>11,731,545</u>	<u>11,731,545</u>	<u>13,014,382</u>	<u>(1,282,837)</u>
Total expenditures and other financing uses	<u>304,590,008</u>	<u>304,590,008</u>	<u>301,077,708</u>	<u>3,512,300</u>
Net change in fund balances	-	-	(381,701)	(381,701)
Fund balance at beginning of year	25,364,411	25,364,411	25,364,411	-
Less encumbrances outstanding at June 30, 2016 expended or canceled at June 30, 2017	(10,780,271)	(10,780,271)	(10,398,770)	381,501
Add encumbrances outstanding at June 30, 2017	9,397,286	9,397,286	9,397,286	-
Decrease in assigned for health self-insurance	(342,950)	(342,950)	(342,950)	-
Increase in nonspendable imprest fund	-	-	200	200
Decrease in nonspendable inventories	(181,091)	(181,091)	(181,091)	-
Fund balance at end of year	<u>\$ 23,457,385</u>	<u>\$ 23,457,385</u>	<u>\$ 23,457,385</u>	<u>\$ -</u>

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

Required Supplementary Information (Unaudited)

Schedule of Funding Progress
For Other Postemployment Benefits

Year Ended June 30

(Amounts in millions)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (a-b)	Funded Ratio (a/b)	Covered Payroll (d)	UAAL as a Percentage of Covered Payroll ((b-a)/(d))
6/30/17	\$ 23.1	\$ 99.5	\$ (76.4)	23.2%	\$ 111.3	68.6%
6/30/16	18.3	99.0	(80.7)	18.5%	105.7	76.3%
6/30/15	15.8	93.0	(77.2)	17.0%	111.5	69.2%
6/30/14	13.8	104.3	(90.5)	13.2%	119.8	75.5%
6/30/13	11.0	101.4	(90.4)	10.8%	128.6	70.3%
6/30/12	8.8	83.8	(75.0)	10.5%	136.7	54.9%
6/30/11	6.4	71.8	(65.4)	8.9%	147.0	44.5%
6/30/10	3.2	132.7	(129.5)	2.4%	158.2	81.9%
6/30/09	1.6	187.8	(186.2)	0.9%	181.0	102.9%
6/30/08	2.7	180.5	(177.8)	1.5%	184.2	96.5%

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

Required Supplementary Information (Unaudited)

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

Year Ended June 30

(Amounts in millions)

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Total Pension Liability			
Service cost	\$ 422,992	\$ 487,107	\$ 571,242
Interest	45,008	76,377	109,773
Benefit payments, including refunds of employee contributions	(13,178)	(26,584)	(19,080)
Difference between expected and actual experience	(63,569)	(63,569)	22,631
Net change in total pension liability	454,822	473,331	684,566
Total pension liability -- beginning	649,566	1,104,388	1,577,719
Total pension liability -- ending	<u>\$ 1,104,388</u>	<u>\$ 1,577,719</u>	<u>\$ 2,262,285</u>
 Plan fiduciary net position			
Contributions -- employer	\$ 375,675	\$ 261,980	\$ 261,217
Contributions -- employee	226,048	284,255	296,130
Net investment income	221,774	104,055	64,857
Benefit payments, including refunds of employee contributions	(13,178)	(26,584)	(19,080)
Administrative expense	(698)	(876)	(1,265)
Other	12	(24)	(23)
Net change in plan fiduciary net position	809,633	622,806	601,836
Plan fiduciary net position -- beginning	1,160,169	1,969,802	2,592,608
Plan fiduciary net position -- ending	<u>\$ 1,969,802</u>	<u>\$ 2,592,608</u>	<u>\$ 3,194,444</u>
 Total net pension asset -- beginning	\$ (510,603)	\$ (865,414)	\$ (1,014,889)
Total net pension asset -- ending	<u>\$ (865,414)</u>	<u>\$ (1,014,889)</u>	<u>\$ (932,159)</u>
Plan Net Position as a percentage of total pension asset	227.6%	255.5%	342.7%
Covered Employee Payroll	4,012,012	6,499,789	7,793,308
Net Pension asset as a percentage of Covered Payroll	21.6%	15.6%	12.0%

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

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

Required Supplementary Information (Unaudited)

Schedule of Employer's Proportionate Share of Net Pension Liability – School Board Teacher Retirement Plan for the Virginia Retirement System
(VRS) and the Newport News Employees Retirement Fund (NNERF)

	Year Ended June 30					
	VRS 2014	NNERF 2014	VRS 2015	NNERF 2015	VRS 2016	NNERF 2016
Employers proportion of the net pension liability	2.06946%	22.85650%	2.07000%	20.31030%	2.04154%	19.71100%
Employer's proportionate share of the net pension liability	\$ 250,088,000	\$ 81,092,361	\$ 260,538,000	\$ 80,247,927	\$ 286,104,000	\$ 91,756,052
Employer's covered-employee payroll	\$ 145,324,977	\$ 129,912,288	\$ 155,708,543	\$ 123,619,906	\$ 159,685,425	\$ 118,640,000
Employer proportionate share of the net pension liability as a percentage of its covered-employee payroll	172.09%	62.42%	167.32%	64.92%	179.17%	77.34%
Plan fiduciary net position as a percentage of the total pension liability	70.88%	70.67%	70.68%	68.28%	68.28%	63.67%

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

Schedules are intended to show information for 10 years. Additional years will be included as they become available.

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

Required Supplementary Information (Unaudited)

Schedule of Contributions for the Virginia Retirement System and NNERF

Year Ended June 30

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
School Board (non-teacher) Pension Plan:					
2015	\$ 375,675	\$ 375,675	\$ -	\$ 4,102,012	9.16%
2016	328,332	328,332	-	6,499,789	5.05%
2017	290,298	290,298	-	7,793,308	3.72%
School Board Teacher Retirement Plan:					
2015	\$ 21,648,000	\$ 21,648,000	\$ -	\$ 145,324,977	14.90%
2016	20,744,442	20,744,442	-	155,708,543	13.32%
2017	20,947,209	20,947,209	-	159,685,425	13.12%
Newport News Employee Retirement Fund:					
2015	\$ 6,711,771	\$ 6,711,771	\$ -	\$ 123,619,906	5.43%
2016	7,779,308	7,688,476	90,832	118,600,000	6.48%
2017	7,270,772	7,270,772	-	118,640,000	6.13%

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

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

Required Supplementary Information
Changes in Net OPEB Liability (Unaudited)

Year Ended June 30

	<u>2017</u>
Total OPEB Liability	
Service cost	\$ 346,158
Interest	6,228,890
Benefit payments	<u>(6,171,067)</u>
Net change in total OPEB liability	403,981
Total pension liability -- beginning	<u>99,113,541</u>
Total pension liability -- ending	<u><u>\$ 99,517,522</u></u>
 Plan fiduciary net position	
Contributions -- employer	\$ 6,745,919
Contributions -- members	1,525,148
Net investment income	2,489,541
Benefit payments	(6,171,067)
Administrative expense	(23,168)
Other	<u>-</u>
Net change in plan fiduciary net position	4,566,373
Plan fiduciary net position -- beginning	<u>18,536,899</u>
Plan fiduciary net position -- ending	<u><u>\$ 23,103,272</u></u>
 Net OPEB Liability -- Beginning of Year	 \$ 80,576,642
Net OPEB Liability -- End of Year	\$ 76,414,250
Plan Fiduciary Net Position as a percentage of Total OPEB Liability	23.2%
Covered Employee Payroll	111,269,858
Net OPEB Liability as a percentage of Covered Payroll	72.3%

Schedules are intended to show information for 10 years. Since 2017 is the first year of this presentation, only one year is shown. Additional years will be included as they become available.

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

**Required Supplementary Information
Schedule of Investment Returns (Unaudited)**

Year Ended June 30

<u>Year</u>	<u>Annual Money- Weighted Rate of Return, net of Investment Expenses</u>
2017	12.8%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, OPEB plans should present information for those years for which information is available.

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

Required Supplementary Information
Schedule of Employer Contributions
Other Postemployment Benefits Plan (Unaudited)

Year Ended June 30

Year Ended	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Percentage Contributed	Contribution Excess	Employer's Covered Payroll	Contributions as a % of Covered Payroll
				(1)	(1)	(1)
June 30, 2015	\$ 7,407,843	\$ 7,407,843	100.00%	\$ -	\$ 111,511,673	6.64%
June 30, 2016	7,781,323	6,897,333	112.82%	883,990	105,746,207	6.52%
June 30, 2017	6,726,751	8,271,067	81.33%	(1,544,316)	111,269,858	7.43%

Notes:

(1) Added for compliance with new GASB 74 requirements.

Schedule is intended to show GASB 74 information for 10 years. Currently three years of data is available.

Additional years will be included as they become available.

Actuarial Assumptions: (1)

The following assumptions relate only to the GASB 74 actuarial valuation.

Valuation date	6/30/2016
Actuarial cost method	Entry Age Normal
Amortization period	24 years
Asset valuation method	Market Value
Inflation	7.80% initially, grading down to 4.50% ultimate
Salary Increases	NA
Investment rate of return	7.00% net of investment expenses and including inflation

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

Required Supplementary Information
Schedule of Employer OPEB Contributions (Unaudited)

Year Ended June 30

Year		Actuarially Determined Employer Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2008	\$	18,153,831	\$ 3,051,679	\$ 15,102,152	\$ 184,154,900	1.7%
2009		14,918,672	3,212,348	11,706,324	180,966,338	1.8%
2010		7,008,600	5,272,059	1,736,541	158,211,791	3.3%
2011		7,097,748	3,242,131	3,855,617	147,032,000	2.2%
2012		7,422,128	5,926,175	1,495,953	136,661,837	4.3%
2013		8,717,833	8,625,943	91,890	128,553,728	6.7%
2014		8,837,990	8,548,391	289,599	119,767,787	7.1%
2015		7,407,843	7,407,843	-	111,511,673	6.6%
2016		7,781,323	6,897,333	883,990	105,746,207	6.5%
2017		6,726,751	8,271,067	(1,544,316)	111,269,858	7.4%

The employer contributions above represent amount paid in OPEB to retirees, as well as contributions to the OPEB trust.

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

Notes To Required Supplementary Information

June 30, 2017

(1) Budgetary Data

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

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

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**
Notes To Required Supplementary Information
June 30, 2017

(2) Intergovernmental Revenue – City of Newport News

A reconciliation of intergovernmental revenue follows:

City budget appropriations	\$ 118,300,000
Less amounts recorded by City	<u>(12,247,135)</u>
City revenue - GAAP basis	<u><u>\$ 106,052,865</u></u>

SUPPLEMENTARY INFORMATION

AGENCY FUND

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

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

Statement of Changes of Assets and Liabilities – Agency Fund

Year Ended June 30, 2017

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year
Asset:				
Cash and cash equivalents	<u>\$1,599,737</u>	<u>\$3,831,520</u>	<u>\$3,900,351</u>	<u>\$1,530,906</u>
Liabilities:				
Accounts payable	\$ 5,014	\$ 35,164	\$ 5,014	\$ 35,164
Due to students	<u>1,594,723</u>	<u>3,796,356</u>	<u>3,895,337</u>	<u>1,495,742</u>
Total liabilities	<u>\$1,599,737</u>	<u>\$3,831,520</u>	<u>\$3,900,351</u>	<u>\$1,530,906</u>

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

June 30, 2017

Special Revenue Funds:

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

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

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

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

Capital Projects Funds:

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

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

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

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

Combining Balance Sheet

Other Nonmajor Governmental Funds

June 30, 2017

	Special Revenue Funds				Capital Projects Funds			Total Other Nonmajor Governmental Funds
Assets	Workers' Compensation	Textbooks	Child Nutrition	Adult Education	State Construction	General Capital	Facility Notes	
Cash and cash equivalents	\$ 3,657,514	\$ 4,269,741	\$ 5,613,588	\$ 477,847	\$ 650,952	\$ 22,826	\$ 1,299,686	\$ 15,992,154
Accounts receivable	-	-	-	64,493	-	-	-	64,493
Due from other governments:								
Federal - Department of Agriculture	-	-	780,003	-	-	-	-	780,003
Inventories, at cost	-	-	452,121	-	-	-	-	452,121
Total assets	<u>\$ 3,657,514</u>	<u>\$ 4,269,741</u>	<u>\$ 6,845,712</u>	<u>\$ 542,340</u>	<u>\$ 650,952</u>	<u>\$ 22,826</u>	<u>\$ 1,299,686</u>	<u>\$ 17,288,771</u>
Liabilities and Fund Balances								
Liabilities:								
Accounts payable	\$ 111,281	\$ 185,476	\$ 283,110	\$ -	\$ 289,456	\$ -	\$ 881,462	\$ 1,750,785
Accrued liabilities	-	-	9,895	17,671	-	-	-	27,566
Total liabilities	<u>111,281</u>	<u>185,476</u>	<u>293,005</u>	<u>17,671</u>	<u>289,456</u>	<u>-</u>	<u>881,462</u>	<u>1,778,351</u>
Fund balances:								
Nonspendable:								
Inventories	-	-	452,121	-	-	-	-	452,121
Restricted:								
Adult education services	-	-	-	80,421	-	-	-	80,421
Capital projects	-	-	-	-	157,060	22,826	418,224	598,110
Child nutrition services	-	-	5,105,306	-	-	-	-	5,105,306
Textbooks	-	3,649,252	-	-	-	-	-	3,649,252
Workers' compensation	3,546,233	-	-	-	-	-	-	3,546,233
Assigned to:								
Adult education services	-	-	-	444,248	-	-	-	444,248
Child nutrition services	-	-	785,885	-	-	-	-	785,885
Contractual obligations	-	435,013	209,395	-	204,436	-	-	848,844
Total fund balances	<u>3,546,233</u>	<u>4,084,265</u>	<u>6,552,707</u>	<u>524,669</u>	<u>361,496</u>	<u>22,826</u>	<u>418,224</u>	<u>15,510,420</u>
Total liabilities and fund balances	<u>\$ 3,657,514</u>	<u>\$ 4,269,741</u>	<u>\$ 6,845,712</u>	<u>\$ 542,340</u>	<u>\$ 650,952</u>	<u>\$ 22,826</u>	<u>\$ 1,299,686</u>	<u>\$ 17,288,771</u>

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

Combining Statement of Revenues, Expenditures and Changes in Fund Balance

Other Nonmajor Governmental Funds

Year Ended June 30, 2017

	Special Revenue Funds				Capital Project Funds			Total Other Nonmajor Governmental Funds
	Workers' Compensation	Textbook	Child Nutrition	Adult Education	State Construction	Operating Capital	Facility Notes	
Revenues:								
Intergovernmental:								
City of Newport News	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,000,000	\$ -	\$ 2,000,000
Commonwealth of Virginia	-	2,127,318	605,369	30,358	-	-	-	2,763,045
Federal government	-	-	15,427,894	-	-	-	-	15,427,894
Charges for services	1,961,303	-	2,435,283	167,698	-	-	-	4,564,284
Investment income	25,768	-	33,398	-	-	-	-	59,166
Total revenues	<u>1,987,071</u>	<u>2,127,318</u>	<u>18,501,944</u>	<u>198,056</u>	<u>-</u>	<u>2,000,000</u>	<u>-</u>	<u>24,814,389</u>
Current expenditures:								
Academic services	-	1,256,781	-	338,142	-	-	-	1,594,923
Operations and facilities	-	-	201,361	-	-	-	-	201,361
Child nutrition services	-	-	17,364,347	-	-	-	-	17,364,347
Administration	1,507,535	-	-	-	-	-	-	1,507,535
Capital outlay	-	-	-	-	371,177	1,994,876	6,509,820	8,875,873
Total expenditures	<u>1,507,535</u>	<u>1,256,781</u>	<u>17,565,708</u>	<u>338,142</u>	<u>371,177</u>	<u>1,994,876</u>	<u>6,509,820</u>	<u>29,544,039</u>
Excess (Deficiency) of revenues over (under) expenditures	<u>479,536</u>	<u>870,537</u>	<u>936,236</u>	<u>(140,086)</u>	<u>(371,177)</u>	<u>5,124</u>	<u>(6,509,820)</u>	<u>(4,729,650)</u>
Other financial sources:								
Proceeds of Facility Note	-	-	-	-	-	-	6,928,044	6,928,044
Transfers in	-	1,282,834	-	-	-	-	-	1,282,834
Total other financing sources	<u>-</u>	<u>1,282,834</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,928,044</u>	<u>8,210,878</u>
Net change in fund balances	<u>479,536</u>	<u>2,153,371</u>	<u>936,236</u>	<u>(140,086)</u>	<u>(371,177)</u>	<u>5,124</u>	<u>418,224</u>	<u>3,481,228</u>
Fund balances at beginning of year	3,066,697	1,930,894	5,711,878	664,755	732,673	17,702	-	12,124,599
Decrease in nonspendable inventory	-	-	(95,407)	-	-	-	-	(95,407)
Fund balances at end of year	<u>\$ 3,546,233</u>	<u>\$ 4,084,265</u>	<u>\$ 6,552,707</u>	<u>\$ 524,669</u>	<u>\$ 361,496</u>	<u>\$ 22,826</u>	<u>\$ 418,224</u>	<u>\$ 15,510,420</u>

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

Workers' Compensation Fund

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

Year Ended June 30, 2017

	Original Budget	Amended Budget	Actual	Variance
Revenues:				
Charges for services	\$ 1,817,000	\$ 1,817,000	\$ 1,961,303	\$ 144,303
Investment income	8,000	8,000	25,768	17,768
Total revenues	<u>1,825,000</u>	<u>1,825,000</u>	<u>1,987,071</u>	<u>162,071</u>
Expenditures:				
Administration				
Claims	1,940,000	1,940,000	1,271,880	668,120
Administrative	132,000	132,000	218,674	(86,674)
Total Administration	<u>2,072,000</u>	<u>2,072,000</u>	<u>1,490,554</u>	<u>581,446</u>
Total expenditures	<u>2,072,000</u>	<u>2,072,000</u>	<u>1,490,554</u>	<u>581,446</u>
Excess (deficiency) revenues (under) over expenditures	<u>(247,000)</u>	<u>(247,000)</u>	<u>496,517</u>	<u>743,517</u>
Net change in fund balances	(247,000)	(247,000)	496,517	743,517
Fund balance at beginning of year	3,066,697	3,066,697	3,066,697	-
Less encumbrances outstanding at June 30, 2016				
expended or canceled at June 30, 2017	<u>(16,981)</u>	<u>(16,981)</u>	<u>(16,981)</u>	<u>-</u>
Fund balance at end of year	<u>\$ 2,802,716</u>	<u>\$ 2,802,716</u>	<u>\$ 3,546,233</u>	<u>\$ 743,517</u>

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

Textbook Fund

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

Year Ended June 30, 2017

		<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:					
	Total revenues	<u>\$ 1,500,000</u>	<u>\$ 1,500,000</u>	<u>\$ 2,127,318</u>	<u>\$ 627,318</u>
Expenditures:					
Academic services		<u>1,719,219</u>	<u>1,719,219</u>	<u>1,501,748</u>	<u>217,471</u>
	Total expenditures	<u>1,719,219</u>	<u>1,719,219</u>	<u>1,501,748</u>	<u>217,471</u>
	Excess (deficiency) revenues (under) over expenditures	<u>(219,219)</u>	<u>(219,219)</u>	<u>625,570</u>	<u>844,789</u>
Other financing sources:					
	Transfers in	<u>-</u>	<u>-</u>	<u>1,282,834</u>	<u>1,282,834</u>
	Total other financing sources	<u>-</u>	<u>-</u>	<u>1,282,834</u>	<u>1,282,834</u>
Net change in fund balances		<u>(219,219)</u>	<u>(219,219)</u>	<u>1,908,404</u>	<u>2,127,623</u>
Fund balance at beginning of year		<u>1,930,894</u>	<u>1,930,894</u>	<u>1,930,894</u>	<u>-</u>
Less encumbrances outstanding at June 30, 2016					
expended or canceled at June 30, 2017		<u>(197,447)</u>	<u>(197,447)</u>	<u>(190,046)</u>	<u>7,401</u>
Add encumbrances outstanding at June 30, 2017		<u>-</u>	<u>-</u>	<u>435,013</u>	<u>435,013</u>
Fund balance at end of year		<u><u>\$ 1,514,228</u></u>	<u><u>\$ 1,514,228</u></u>	<u><u>\$ 4,084,265</u></u>	<u><u>\$ 2,570,037</u></u>

STATISTICAL SECTION

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**
STATISTICAL SECTION
(Unaudited)

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

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

Schedule of Property Tax Levies and Collections
Schedule of Property Valuations – Assessed Valuations
Schedule of Property Tax Rates
Legal Debt Limit
Construction and Property Values and Bank Deposits

<u>Contents</u>	<u>Page</u>
Financial Trends	S-1
<i>These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.</i>	
Revenue Capacity	
<i>The School Board does not have the ability to generate its own revenue, but instead receives revenue generated by the City of Newport News, the Commonwealth of Virginia and the Federal government.</i>	
Debt Capacity	S-7
<i>The School Board cannot issue general obligation bonded debt. The debt for capital leases and facility notes payable is provided.</i>	
Demographic and Economic Information	S-8
<i>The schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.</i>	
Operating Information	S-10
<i>These schedules contain service and capital asset data to help the reader understand how the information of the government's financial report relates to the services the government provides and the activities it performs.</i>	

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

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

Net Position by Component

Last Ten Fiscal Years

(Accrual Basis of Accounting)

Fiscal Year

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Governmental activities:										
Net investment in capital assets	\$ 58,043,143	\$ 56,433,717	\$ 57,205,176	\$ 61,780,411	\$ 67,370,342	\$ 66,806,834	\$ 68,663,255	\$ 73,864,578	\$ 76,396,233	\$ 79,134,691
Restricted	-	-	-	5,483,662	10,268,578	9,143,955	10,355,978	10,161,823	9,887,365	12,979,322
Unrestricted	20,320,652	17,513,844	12,260,185	3,062,106	(4,156,231)	(1,530,491)	(6,480,188)	(349,008,517)	(348,482,706)	(344,837,917)
Total net position	<u>\$ 78,363,795</u>	<u>\$ 73,947,561</u>	<u>\$ 69,465,361</u>	<u>\$ 70,326,179</u>	<u>\$ 73,482,689</u>	<u>\$ 74,420,298</u>	<u>\$ 72,539,045</u>	<u>\$ (264,982,116)</u>	<u>\$ (262,199,108)</u>	<u>\$ (252,723,904)</u>

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

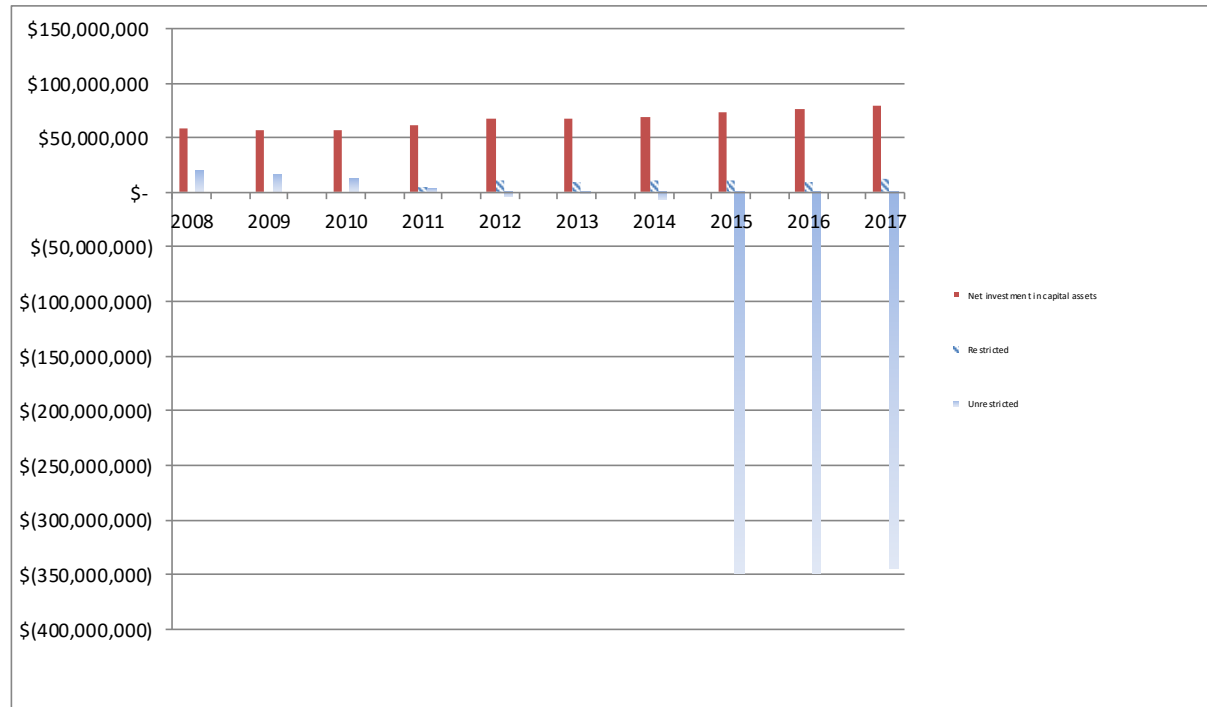


Table II

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

Expenses, Program Revenues and Net Expense/ (Revenue)

Last Ten Fiscal Years

(Accrual Basis of Accounting)

Fiscal Year

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Expenses										
Governmental activities:										
Academic services	\$ 249,356,000	\$ 252,927,122	\$ 240,751,459	\$ 230,788,505	\$ 227,368,609	\$ 224,047,407	\$ 220,242,178	\$ 226,919,153	\$ 223,914,542	\$ 239,059,534
Attendance and health services	-	-	-	-	-	5,410,181	5,370,389	5,477,238	5,516,924	5,819,807
Transportation services	18,436,799	19,258,223	18,284,090	17,460,802	18,703,166	18,732,095	17,760,521	18,060,597	17,178,198	19,401,940
Operations and facilities	34,236,753	36,894,552	29,659,712	33,490,915	34,635,744	31,507,246	32,334,959	32,217,732	29,940,440	33,551,144
Child nutrition services	14,677,570	15,180,605	13,987,487	13,766,336	14,079,191	15,155,813	15,045,887	16,318,436	16,719,938	17,410,411
Technology services	13,683,308	13,822,462	21,723,542	14,786,921	12,799,635	12,189,933	13,352,948	13,305,419	14,816,817	15,885,584
Administration	10,741,192	10,169,326	8,441,950	7,742,987	7,627,183	7,718,428	8,320,335	9,677,653	9,478,014	8,808,208
Interest on capital debt	1,754,471	846,193	1,363,623	639,293	503,181	387,257	282,261	258,111	40,858	861,885
Total expenses	342,886,093	349,098,483	334,211,863	318,675,759	315,716,709	315,148,360	312,709,478	322,234,339	317,605,731	340,798,513
Program Revenues										
Charges for services:										
Academic services	1,557,444	1,967,773	2,048,618	1,872,761	1,395,070	1,200,596	1,431,667	1,694,406	1,043,101	994,482
Operations and facilities	730,821	701,607	1,143,087	1,066,629	597,360	480,397	258,467	417,127	443,071	425,862
Child nutrition services	4,596,842	4,435,779	4,019,072	4,059,105	3,923,464	3,510,490	3,310,549	3,054,562	2,959,508	2,435,283
Technology services	-	241,547	247,226	265,388	192,388	180,020	169,063	106,760	526,503	878,545
Administration	-	-	-	-	-	1,007,426	857,254	2,446,135	2,095,897	2,094,329
Operating grants and contributions	55,365,851	59,273,209	67,739,489	68,789,246	70,250,802	68,549,968	62,988,257	62,730,008	62,893,347	69,051,155
Capital grants and contributions	5,150,813	3,083,590	1,918,742	5,687,811	2,537,511	867,746	858,967	1,308,589	885,030	1,931,173
Total program revenues	67,401,771	69,703,505	77,116,234	81,740,940	78,896,595	75,796,643	69,874,224	71,757,587	70,846,457	77,810,829
Net Expense/(Revenue)										
Total net expense	\$ 275,484,322	\$ 279,394,978	\$ 257,095,629	\$ 236,934,819	\$ 236,820,114	\$ 239,351,717	\$ 242,835,254	\$ 250,476,752	\$ 246,759,274	\$ 262,987,684

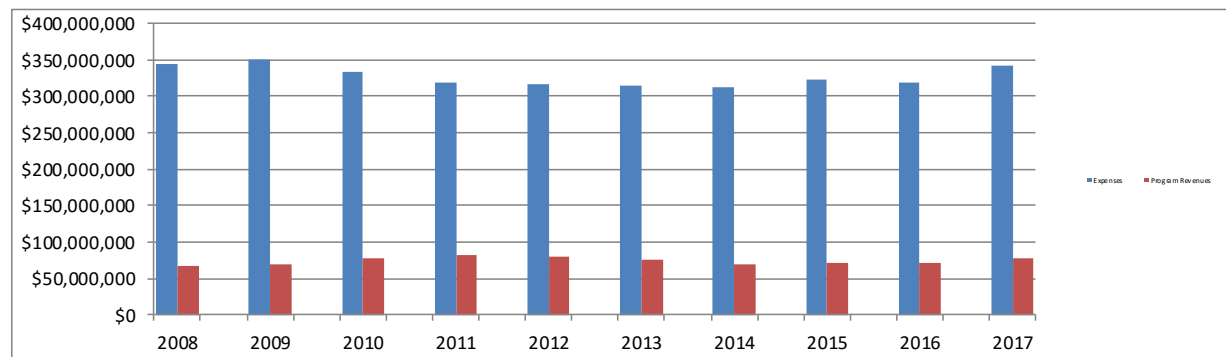


Table III

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

General Revenues and Total Changes in Net Position

Last Ten Fiscal Years

(Accrual Basis of Accounting)

Fiscal Year

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Net Expense										
Total net expense	\$275,484,322	\$279,394,978	\$ 257,095,629	\$ 236,934,819	\$236,820,114	\$ 239,351,717	\$ 242,835,254	\$ 250,476,752	\$ 246,759,274	\$ 262,987,684
General Revenues and Other										
Changes in Net Position										
Governmental activities:										
Grants not restricted to specific programs										
City of Newport News, Virginia	93,681,119	95,773,213	101,052,200	99,557,045	98,754,050	98,085,490	99,150,620	126,133,857	99,916,844	117,586,726
Commonwealth of Virginia	163,806,388	169,035,453	145,390,261	133,006,200	135,823,650	138,444,470	139,113,046	146,829,384	147,216,415	151,605,074
Federal government	5,681,596	7,443,349	6,148,525	5,216,293	5,380,140	3,740,091	2,672,988	1,173,182	2,380,330	3,211,922
Interest	179,679	56,401	22,443	16,099	18,784	19,275	17,347	15,432	28,693	59,166
Miscellaneous	1,215,891	-	-	-	-	-	-	-	-	-
Total general revenues	264,564,673	272,308,416	252,613,429	237,795,637	239,976,624	240,289,326	240,954,001	274,151,855	249,542,282	272,462,888
Change in Net Position	(10,919,649)	(7,086,562)	(4,482,200)	860,818	3,156,510	937,609	(1,881,253)	23,675,103	2,783,008	9,475,204
Net position at beginning of year	89,283,444	78,363,795	73,947,561	69,465,361	70,326,179	73,482,689	74,420,298	72,539,045	(264,982,116)	(262,199,108)
Prior period adjustment	-	-	2,670,328	-	-	-	-	(361,196,264)	-	-
Net position at end of year	\$ 78,363,795	\$ 71,277,233	\$ 72,135,689	\$ 70,326,179	\$ 73,482,689	\$ 74,420,298	\$ 72,539,045	\$ (264,982,116)	\$ (262,199,108)	\$ (252,723,904)

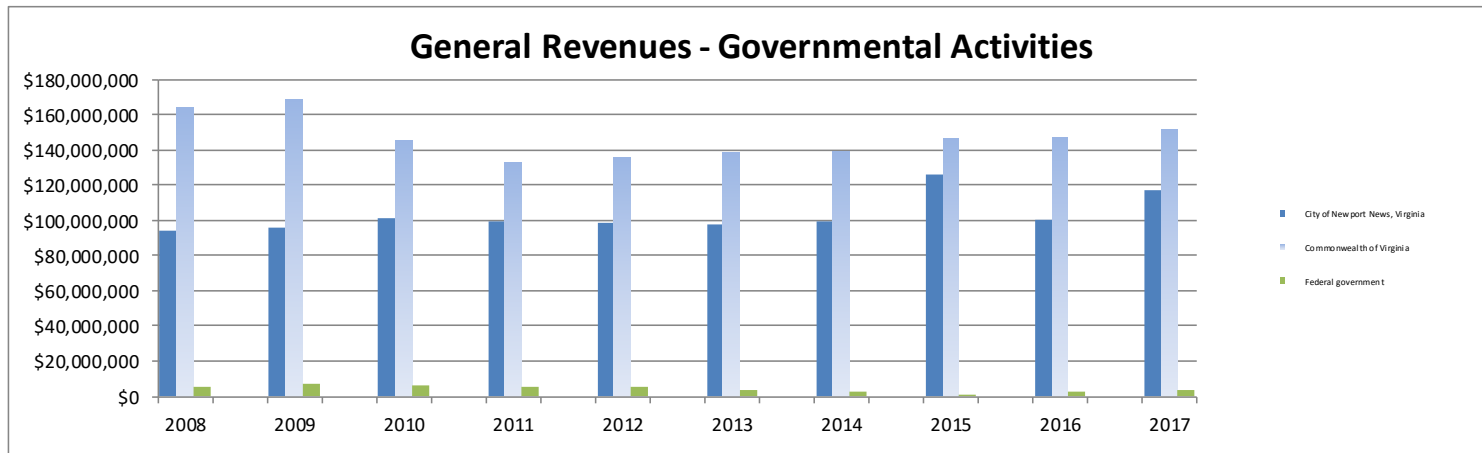


Table IV

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

Fund Balances – Governmental Funds

Last Ten Fiscal Years

(Modified Accrual Basis of Accounting)
Fiscal Year

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General Fund										
Reserved	\$ 26,751,505	\$ 33,179,119	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	7,373,979	8,982,912	-	-	-	-	-	-	-	-
Nonspendable	-	-	690,372	656,720	708,477	1,416,350	1,812,575	1,748,790	1,295,585	1,114,494
Assigned to	-	-	38,704,948	31,046,573	23,589,331	27,509,853	27,925,260	23,648,913	24,068,826	22,342,891
Unassigned	-	2,820,409	-	-	-	619,750	-	-	-	-
Total General Fund	<u>\$ 34,125,484</u>	<u>\$ 44,982,440</u>	<u>\$ 39,395,320</u>	<u>\$ 31,703,293</u>	<u>\$ 24,297,808</u>	<u>\$ 29,545,953</u>	<u>\$ 29,737,835</u>	<u>\$ 25,397,703</u>	<u>\$ 25,364,411</u>	<u>\$ 23,457,385</u>
All Other Governmental Funds										
Reserved	\$ 8,555,882	\$ 3,673,127	\$ 2,572,199	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds	2,041,666	2,314,115	2,632,636	-	-	-	-	-	-	-
Capital project funds	1,347,479	2,907,202	2,358,745	-	-	-	-	-	-	-
Nonspendable	-	-	-	295,190	336,143	402,407	390,017	521,172	547,528	452,121
Restricted	-	-	-	1,871,770	10,268,578	9,143,955	10,355,978	10,161,823	9,887,365	12,979,322
Assigned to	-	-	-	7,282,680	2,440,928	5,881,305	2,038,882	19,738,006	5,071,163	6,631,329
Total all other governmental fun	<u>\$ 11,945,027</u>	<u>\$ 8,894,444</u>	<u>\$ 7,563,580</u>	<u>\$ 9,449,640</u>	<u>\$ 13,045,649</u>	<u>\$ 15,427,667</u>	<u>\$ 12,784,877</u>	<u>\$ 30,421,001</u>	<u>\$ 15,506,056</u>	<u>\$ 20,062,772</u>

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

NOTE - CAFR's issued in prior years had some fund balance reported as Committed for All Other Governmental Funds for years 2012 through 2016. It has been determined that those amounts should have been reported as Restricted. The table above has been reclassified to retroactively account for this change.

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

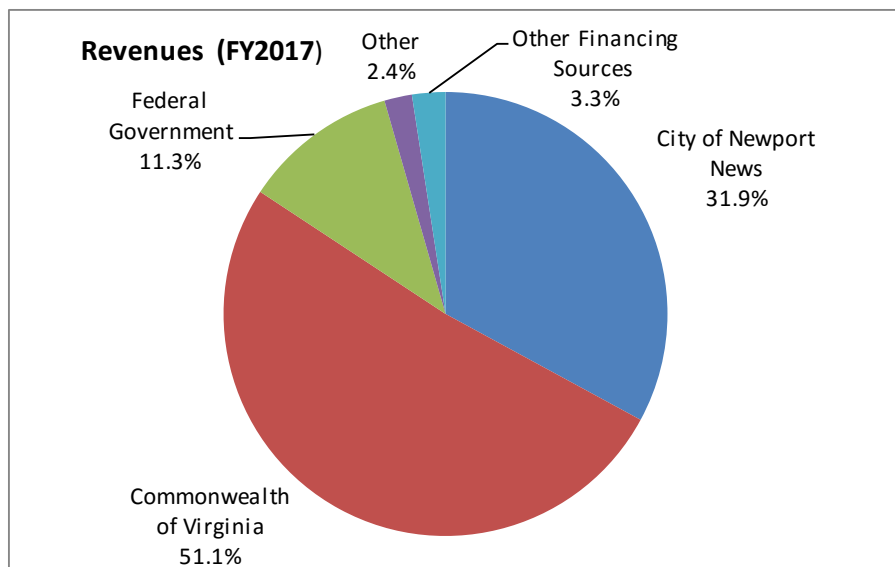
Governmental Funds Revenues and Other Financing Sources

Last Ten Fiscal Years

(Modified Accrual Basis of Accounting)

(Amounts in Thousands)

Fiscal Year	City of Newport News	Commonwealth of Virginia	Federal Government	Other	Other Financing Sources	Total Revenues and Other Financing Sources
2008	\$ 104,682,993	\$ 190,950,988	\$ 39,053,660	\$ 8,280,677	\$ -	\$ 342,968,318
2009	102,196,055	197,538,187	41,006,149	7,694,372	972,182	349,406,945
2010	104,664,127	173,239,439	47,778,713	7,659,311	-	333,341,590
2011	104,112,311	160,146,070	52,480,818	7,352,644	-	324,091,843
2012	108,842,095	161,348,404	52,580,026	6,928,714	-	329,699,239
2013	105,888,340	165,372,234	46,216,240	6,412,005	1,072,755	324,961,574
2014	104,055,471	167,995,494	37,479,790	6,202,320	18,165	315,751,240
2015	127,074,351	174,050,882	37,375,412	8,349,290	663,485	347,513,420
2016	108,353,173	173,853,546	38,426,543	7,991,806	11,164,235	339,789,303
2017	118,449,648	184,807,119	40,643,471	7,236,401	8,726,166	359,862,805



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

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

Last Ten Fiscal Years

(Modified Accrual Basis of Accounting)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenues and other financing sources (Table V)	\$ 342,968,318	\$ 349,406,945	\$ 333,341,590	\$ 324,091,843	\$ 329,699,239	\$ 324,961,574	\$ 315,751,240	\$ 347,513,420	\$ 339,789,303	\$ 359,862,805
Academic services	\$ 236,249,151	\$ 238,023,334	\$ 234,743,753	\$ 227,559,797	\$ 227,559,797	\$ 221,425,243	\$ 219,338,755	\$ 226,859,864	\$ 228,286,657	\$ 236,673,539
Attendance and health services	-	-	-	-	-	\$ 5,429,791	5,426,772	5,582,154	5,772,945	5,855,981
Transportation services	16,185,859	16,806,995	16,706,999	17,575,505	17,575,505	17,520,252	16,900,789	17,141,068	16,747,043	18,260,506
Operations and facilities	28,570,237	33,654,510	27,690,322	33,658,928	33,658,928	30,366,533	31,502,312	31,474,496	30,267,232	32,690,252
Child nutrition services	13,916,630	13,486,037	13,231,220	14,217,246	14,217,246	15,237,387	15,127,188	16,617,410	17,460,389	17,364,347
Technology services	15,117,541	13,024,631	21,407,036	12,916,263	12,916,263	12,188,113	13,616,968	13,577,254	15,655,607	15,747,776
Administration	10,071,479	9,428,200	7,862,407	7,267,413	2,391,998	7,309,967	8,054,340	9,654,222	9,740,468	8,711,954
Capital outlay	15,284,734	13,339,928	10,091,413	13,967,918	13,967,918	11,142,657	5,450,745	9,316,121	30,684,616	19,367,766
Debt service										
Principal	4,122,193	2,616,893	2,750,273	3,352,473	3,352,473	2,631,723	2,803,222	3,888,129	346,321	524,590
Interest	1,754,471	846,193	1,363,623	503,181	503,181	387,257	282,261	258,111	40,858	456,872
Other financing uses	112,000	142,000	74,463	-	-	-	18,165	-	19,821	1,282,834
Total expenditures and other financing uses	\$ 341,384,295	\$ 341,368,721	\$ 335,921,509	\$ 331,018,724	\$ 326,143,309	\$ 323,638,923	\$ 318,521,517	\$ 334,368,829	\$ 355,021,957	\$ 356,936,417
Change in fund balance	\$ 1,584,023	\$ 8,038,224	\$ (2,579,919)	\$ (6,926,881)	\$ 3,555,930	\$ 1,322,651	\$ (2,770,277)	\$ 13,144,591	\$ (15,232,654)	\$ 2,926,388
Debt service as a percentage of noncapital expenditures	1.8%	1.1%	1.3%	1.2%	1.2%	1.0%	1.0%	1.3%	0.1%	0.3%

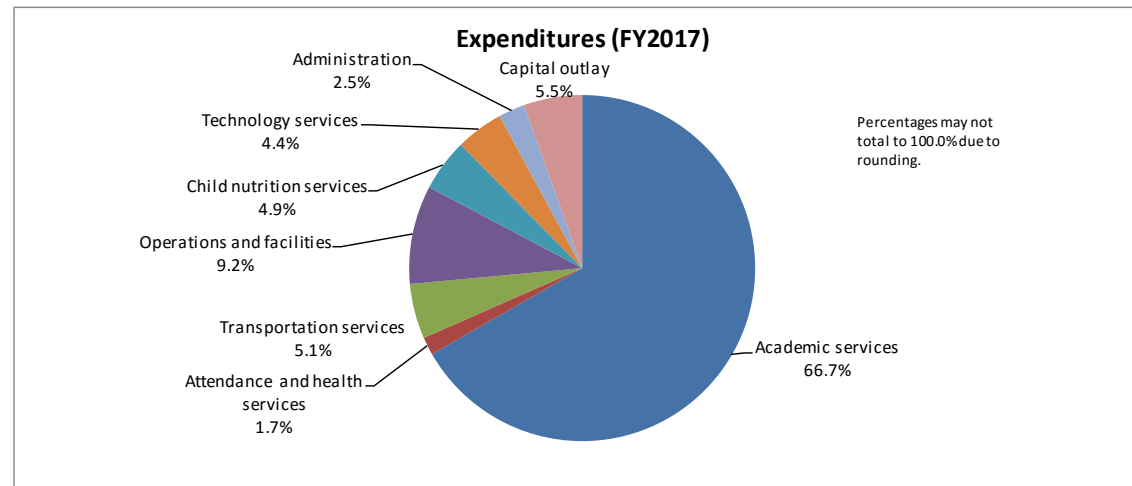


Table VII

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

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

Last Ten Fiscal Years

(Amounts in thousands except for population and net debt per capita)

Fiscal year	(1) Population	(2) Assessed value of property	(3) Personal Income	Capital lease and facility notes payable debt	Ratio of debt to assessed value	Net debt per capita	Ratio of debt to personal income
2008	187,200	\$ 14,286,003	\$ 5,941,588	\$ 19,217	0.13%	\$ 103	0.32%
2009	193,212	17,488,713	6,011,449	17,573	0.10%	91	0.29%
2010	193,172	18,048,533	5,946,073	14,822	0.08%	77	0.25%
2011	180,719	17,090,031	6,241,927	12,005	0.07%	66	0.19%
2012	180,719	16,878,501	6,672,878	8,653	0.05%	48	0.13%
2013	180,726	16,307,403	6,891,612	7,094	0.04%	39	0.10%
2014	182,020	16,207,738	7,045,829	4,290	0.03%	24	0.06%
2015	182,965	16,319,157	7,377,992	1,066	0.01%	6	0.01%
2016	182,385	16,716,737	Not Available	11,863	0.07%	65	Not Available
2017	181,825	17,082,661	Not Available	18,945	0.11%	104	Not Available

Notes: (1) Source: 2008-2015 – Bureau of Economic Analysis; 2016-2017, U. S. Bureau of Census

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

(3) Source: 2008-2015 Bureau of Economic Analysis, 2016-2017 data not yet available

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

Table VIII

THE SCHOOL BOARD OF THE CITY OF NEWPORT NEWS, VIRGINIA

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

Last Four Fiscal Years

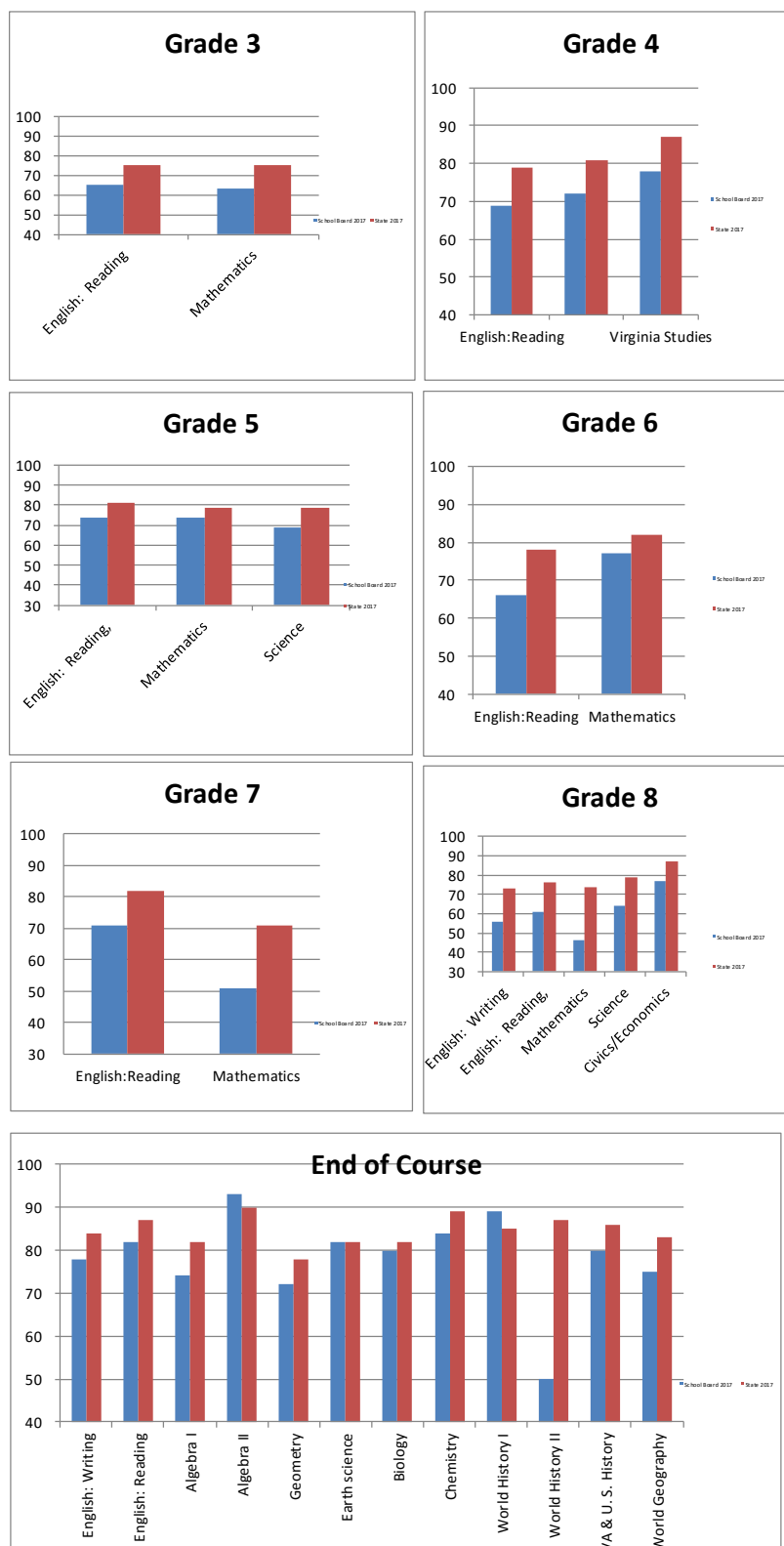
Grade 3										
Test	School Board					State				
	2014	2015	2016	2017	Change	2014	2015	2016	2017	Change
English: Reading	58	64	66	65	(1)	69	75	76	75	(1)
Mathematics	60	66	66	63	(3)	67	74	77	75	(2)
Grade 4										
Test	School Board					State				
	2014	2015	2016	2017	Change	2014	2015	2016	2017	Change
English:Reading	58	71	69	69	-	70	77	77	79	2
Mathematics	73	75	74	72	(2)	80	84	83	81	(2)
Virginia Studies	76	82	78	78	-	85	87	87	87	-
Grade 5										
Test	School Board					State				
	2014	2015	2016	2017	Change	2014	2015	2016	2017	Change
English: Reading,	59	66	73	74	1	73	79	81	81	-
Mathematics	62	72	70	74	4	73	79	79	79	-
Science	59	69	74	69	(5)	73	79	81	79	(2)
Grade 6										
Test	School Board					State				
	2014	2015	2016	2017	Change	2014	2015	2016	2017	Change
English:Reading	60	62	64	66	2	73	76	77	78	1
Mathematics	67	77	76	77	1	76	83	82	82	-
Grade 7										
Test	School Board					State				
	2014	2015	2016	2017	Change	2014	2015	2016	2017	Change
English:Reading	66	71	69	71	2	76	81	82	82	-
Mathematics	38	53	47	51	4	65	73	72	71	(1)
Grade 8										
Test	School Board					State				
	2014	2015	2016	2017	Change	2014	2015	2016	2017	Change
English: Writing	60	61	60	56	(4)	70	72	71	73	2
English: Reading,	57	61	61	61	-	70	75	75	76	1
Mathematics	43	48	49	46	(3)	67	74	73	74	1
Science	58	64	65	64	(1)	74	78	79	79	-
Civics/Economics	75	77	78	77	(1)	83	86	87	87	-
End of Course										
Test	School Board					State				
	2014	2015	2016	2017	Change	2014	2015	2016	2017	Change
English: Writing	78	76	80	78	(2)	84	83	83	84	1
English: Reading	88	83	85	82	(3)	90	89	89	87	(2)
Algebra I	71	81	81	74	(7)	79	82	83	82	(1)
Algebra II	67	77	91	93	2	82	87	89	90	1
Geometry	68	74	75	72	(3)	77	80	80	78	(2)
Earth science	72	78	78	82	4	83	83	84	82	(2)
Biology	71	79	83	80	(3)	83	84	84	82	(2)
Chemistry	82	87	78	84	6	87	88	88	89	1
World History I	84	85	86	89	3	85	85	84	85	1
World History II	85	87	89	50	(39)	86	87	86	87	1
VA & U. S. History	79	80	82	80	(2)	87	87	86	86	-
World Geography	77	82	80	75	(5)	86	86	86	83	(3)

Source - Virginia Department of Education Division Report Card

THE SCHOOL BOARD OF THE CITY OF NEWPORT NEWS, VIRGINIA

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

Last Four Fiscal Years



THE SCHOOL BOARD OF THE CITY OF NEWPORT NEWS, VIRGINIA

Miscellaneous Statistics

June 30, 2017

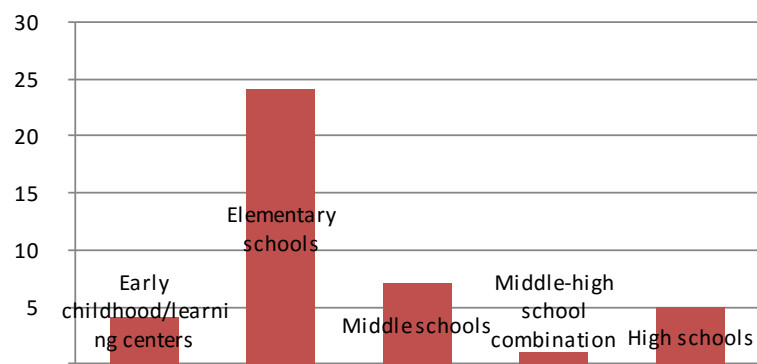
City of Newport News General Information

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

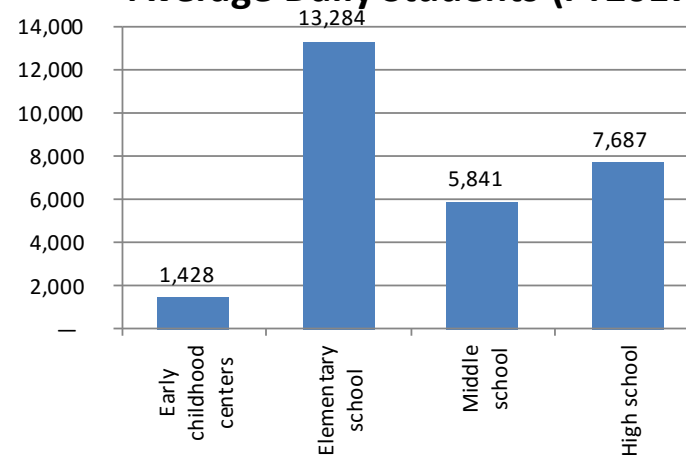
The School Board of the City of Newport News

Number of schools:		Average daily students (FY2017):	
Early childhood/learning centers	4	Early childhood centers	1,428
Elementary schools	24	Elementary school	13,284
Middle schools	7	Middle school	5,841
Middle-high school combination	1	High school	7,687
High schools	5		
Total	<u>41</u>	Total	<u>28,240</u>

Number of Schools



Average Daily Students (FY2017)



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

Demographic Statistics

Last Ten Fiscal Years

Fiscal Year	(1) Population	(2) Personal Income (In thousands)	(3) Per Capita Income	(4) School Enrollment	(5) Unemployment Rate (%)
2008	187,200	\$ 5,941,588	\$ 28,990	29,441	4.0%
2009	193,212	6,011,449	31,120	29,022	6.5%
2010	193,172	5,946,073	32,921	28,613	8.0%
2011	180,719	6,241,927	34,752	28,183	7.6%
2012	180,719	6,672,878	36,923	27,701	7.4%
2013	180,726	6,891,612	37,862	27,590	6.9%
2014	182,020	7,045,829	38,509	27,804	6.4%
2015	182,965	7,377,992	40,453	27,488	6.0%
2016	182,385	Not Available	Not Available	27,253	5.0%
2017	181,825	Not Available	Not Available	26,993	4.9%

Notes:

(1) Source: 2008-2015 – Bureau of Economic Analysis; 2016-2017, U. S. Bureau of Census

(2) Source: 2008-2015 Bureau of Economic Analysis; 2016-2017 data not yet available

(3) Source: 2008-2015 Bureau of Economic Analysis; 2016-2017 data not yet available

(4) City of Newport News School System - average ADM as of March 31st of each year

Early childhood enrollment is not included.

(5) 2008-2009 Virginia Employment Commission; 2010-2014 Virginia Workforce Connection,
2015-2017 Virginia Labor market Information

Table XI

THE SCHOOL BOARD OF THE CITY OF NEWPORT NEWS, VIRGINIA

Capital Asset Information

Last Ten Fiscal Years

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<u>Schools</u>										
Elementary										
Buildings (Note 1)	26	26	26	25	24	24	24	24	24	24
Average age of buildings (Note 2)	44 years	45 years	46 years	47 years	48 years	49 years	50 years	51 years	52 years	50 years
Modular learning cottages	78	72	71	71	71	71	71	71	71	71
Square feet	1,630,000	1,630,000	1,630,000	1,560,400	1,534,997	1,534,997	1,534,997	1,534,997	1,534,997	1,563,147
Capacity (based on current program)	17,459	17,459	16,391	15,800	15,600	15,600	15,600	15,600	15,600	15,750
Enrollment (as of September 30)	13,645	13,746	13,862	13,728	13,686	13,597	13,664	13,664	13,519	13,418
Percent of capacity used	78%	79%	85%	87%	88%	87%	88%	88%	87%	85%
Middle										
Buildings (Note 1)	9	9	8	8	8	8	8	8	8	8
Average age of buildings (Note 2)	38 years	39 years	38 years	39 years	40 years	41 years	42 years	43 years	44 years	45 years
Modular learning cottages	19	19	14	14	14	14	14	14	14	14
Square feet	1,123,400	1,123,400	1,048,260	1,048,260	1,048,260	1,048,260	1,048,260	1,048,260	1,048,260	1,048,260
Capacity (based on current program)	8,084	8,084	7,484	7,484	7,484	7,484	7,484	7,484	7,484	7,484
Enrollment (as of September 30)	6,799	6,434	6,199	6,074	6,191	6,138	6,152	6,152	6,162	5,911
Percent of capacity used	84%	80%	83%	81%	83%	82%	82%	82%	82%	79%
High										
Buildings	6	6	6	6	6	6	6	6	6	6
Average age of buildings (Note 2)	24 years	25 years	26 years	27 years	28 years	29 years	30 years	31 years	32 years	33 years
Alternative high school facilities (leased)	2	2	2	2	2	2	2	2	2	2
Modular learning cottages	20	20	20	20	20	20	20	20	20	20
Square feet	1,223,000	1,223,000	1,223,000	1,223,000	1,223,000	1,223,000	1,223,000	1,223,000	1,223,000	1,223,000
Capacity (based on current program)	8,570	8,570	8,570	8,570	8,570	8,570	8,570	8,570	8,570	8,570
Enrollment (as of September 30)	9,441	9,328	8,988	8,621	8,139	7,963	7,963	7,963	7,540	7,757
Percent of capacity used	110%	109%	105%	101%	95%	93%	93%	93%	88%	91%
Early Childhood Centers										
Buildings	4	4	4	4	4	4	4	4	4	4
Average age of buildings (Note 2)	24 years	25 years	27 years	28 years	37 years	38 years	39 years	40 years	41 years	42 years
Square feet	112,700	112,700	181,000	181,000	206,403	206,403	206,403	206,403	206,403	206,403
Capacity (based on current program)	1,700	1,700	1,850	1,850	2,050	2,050	2,050	2,050	1,919	1,919
Enrollment (as of September 30)	1,668	1,790	1,813	1,607	1,637	1,632	1,456	1,456	1,504	1,428
Percent of capacity used	98%	105%	98%	87%	80%	80%	71%	71%	78%	74%
<u>Administrative and Operations</u>										
Buildings	6	6	6	6	6	6	6	6	6	6
Average age of buildings (Note 2)	33 years	34 years	35 years	36 years	37 years	38 years	39 years	40 years	41 years	42 years
Square feet	199,000	199,000	199,000	199,000	199,000	199,000	199,000	199,000	199,000	199,000
<u>Transportation</u>										
Buildings	1	1	1	1	1	1	1	1	1	1
Age of building	31 years	32 years	33 years	34 years	35 years	36 years	37 years	38 years	39 years	40 years
Square feet	26,500	26,500	26,500	26,500	26,500	26,500	26,500	26,500	26,500	26,500
Buses	412	372	368	361	375	386	365	356	335	336

Source: Newport News Public Schools insurance and facility department records

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

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

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

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

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

Table XII

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

Operational Statistics

Last Ten Fiscal Years

	(1)	(2)	(2)	(3)
Fiscal Year	Cost per Student	Elementary Student/ Teacher Ratio	Secondary Student/ Teacher Ratio	Percentage of Students on Free/Reduced Lunch
2008	\$10,565	11.6	13.4	48.8%
2009	11,032	12.7	12.0	51.4%
2010	10,946	12.1	11.6	53.2%
2011	10,582	13.5	12.6	54.0%
2012	10,842	14.0	12.5	59.1%
2013	10,658	14.1	12.7	60.8%
2014	10,563	14.4	13.7	61.3%
2015	11,043	13.7	12.0	62.9%
2016	11,191	14.2	12.9	64.2%
2017	11,834	14.0	13.1	64.1%

Sources:

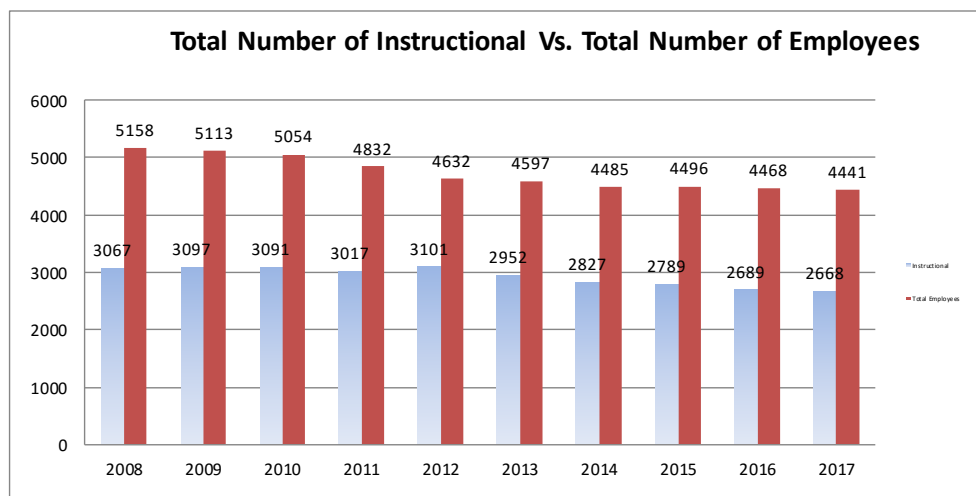
- (1) Cost per student based upon formula for operating costs per the Virginia Department of Education and published in table 15 of the Annual Superintendent's Report on their website. Starting with FY2012, pre-school students are included in the cost per student. (FY2017 data based on internal estimates and not yet verified and published by the State)
- (2) Student/teacher ratio includes all teachers (including resource and special education) and is published by the Virginia Department of Education on their website. (data for 2017 is estimated by School Board pending State publishing the data on their website)
- (3) Percentage of students on free/reduced lunch from Newport News Public Schools Child Nutrition Services Department.

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**
Full Time Equivalent District Employees by Type

Last Ten Fiscal Years

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Supervisory:										
Principals	45	45	40	41	41	41	42	39	40	39
Assistant principals	76	74	74	68	72	72	76	77	77	72
Instructional administrative	69	74	64	59	59	58	56	59	60	60
Other administrative and professional	60	72	64	55	55	57	57	57	55	55
Instructional:										
Elementary classroom teachers	1,423	1,357	1,373	1,310	1,251	1,248	1,223	1,139	1,227	1,236
Secondary classroom teachers	812	802	840	795	771	738	693	801	734	702
Guidance counselors	87	92	99	91	91	95	95	95	95	93
Librarians	51	45	48	47	46	44	39	40	42	42
Technology	50	30	32	32	31	29	28	28	27	27
Other instructional	165	147	158	138	121	141	145	121	112	117
Social workers	20	18	18	18	16	16	14	13	13	14
Teacher assistants	483	526	533	521	500	478	452	431	415	413
Support Services:										
Psychologists	18	18	21	21	17	17	17	17	17	17
Instructional technical	15	30	55	40	36	40	38	41	40	41
Instructional clerical	231	238	223	219	192	186	180	180	179	171
Non-instructional technical	75	134	105	102	108	99	98	104	89	89
Non-instruction clerical	72	51	38	38	27	33	34	35	34	36
Nurses	56	53	55	52	51	53	52	52	56	55
Bus drivers	394	384	340	326	315	318	310	308	309	312
Bus assistants	98	100	92	91	90	97	96	113	99	106
Custodians	248	262	252	244	243	242	233	240	238	238
Child nutrition services	361	394	371	366	346	344	346	344	344	347
Security officers	68	66	65	65	63	64	62	61	64	65
Skilled trades	98	98	92	91	88	85	85	85	86	81
Other	83	3	2	2	2	2	14	16	16	13
Total	5,158	5,113	5,054	4,832	4,632	4,597	4,485	4,496	4,468	4,441

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



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

Teacher Base Salaries

Last Ten Fiscal Years

Fiscal Year	Minimum Salary	Maximum Salary	Newport News Average Salary	Statewide Average Salary
2008	\$ 37,350	\$ 57,630	\$ 45,277	\$ 50,511
2009	38,400	58,766	48,815	52,309
2010	38,400	58,766	45,657	51,887
2011	38,000	58,766	46,882	51,524
2012	38,205	56,761	48,228	52,096
2013	38,500	56,761	48,045	52,923
2014	39,500	57,879	49,540	53,756
2015	40,500	59,590	50,219	54,486
2016	41,500	59,884	51,153	54,891
2017	42,600	61,931	52,838	Not Available

Sources: Minimum and Maximum salaries from Newport News Public Schools Budget Document, Appendix 2 for teachers with a Bachelors degree working standard 192-day contract. Newport News and Statewide average salary from Superintendent's annual financial report Table 19 as published by the Virginia Department of Education on their website, except FY2017 is from our submission to the State but not yet verified. FY2017 Statewide Average is not yet available.

Table XV

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

Principal Taxpayers of the City of Newport News

June 30, 2017 and Nine Years Prior
(Amounts in Thousands)

Taxpayer	2008 Taxes (1)	Percentage of Total Assessments	2017 Taxes (1)	Percentage of Total Assessments
Huntington Ingalls Incorporated	\$ 13,867	7.89%	\$ 22,157	8.44%
Canon Virginia, Inc.	1,671	0.95%	4,882	1.86%
Virginia Electric & Power Company	818	0.47%	2,886	1.10%
The Mariners' Museum (Riverside Hospital)	1,264	0.72%	2,808	1.07%
PR Patrick Henry, LLC	-	-	1,921	0.73%
Continental Automotive Systems US, Inc.	873	0.50%	1,679	0.64%
Verizon Virginia, Inc.	530	0.30%	1,389	0.53%
Dominion Terminal Associates	545	0.31%	1,195	0.45%
Kinder Morgan Operation LP	446	0.25%	1,003	0.38%
FCPK Harbours LLC	-	-	986	0.38%
Virginia Natural Gas Inc	356	0.20%	973	0.37%
Pointe Hope LLC	-	-	920	0.35%
Cox Communications Hampton Roads Inc	387	0.22%	911	0.35%
IREIT Newport News Tech Center LLC	-	-	892	0.34%
Wal-Mart Real Estate Business Trust	-	-	756	0.29%
RPAI US Management LLC	-	-	709	0.27%
Ferguson Enterprises Corp	-	-	671	0.26%
Oyster Point Residential LLC	-	-	608	0.23%
Patrick Henry Hospital (Warwick Forest)	-	-	558	0.21%
Bottling Group LLC	318	0.18%	545	0.21%
Crown America Financial Partnership LP	1,440	0.82%	-	-
Mountain Ventures / Jefferson Value Assoc	662	0.38%	-	-
Shorewood Packaging Corp of Va	557	0.32%	-	-
United Dominion Realty Trust	502	0.29%	-	-
Peninsula Ports Authority	396	0.23%	-	-
Newport-Oxford Associates Ltd	385	0.22%	-	-
Harbours LLC	364	0.21%	-	-
Hewlett Packard Financial Services Inc	330	0.19%	-	-
Chesapeake Investors LLC	322	0.18%	-	-
	<u>\$ 26,033</u>	<u>14.83%</u>	<u>\$ 48,449</u>	<u>18.46%</u>

Note: (1) Includes real estate and personal property tax assessments for these taxpayers. Current taxpayer name used if different from 2008

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

TABLE XVI

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**
Principal Employers of the City of Newport News
June 30, 2017 and Nine Years Prior

Employer	2008 Employees	Percentage of Total City Employment	2017 Employees	Percentage of Total City Employment
Huntington Ingalls Industries, Inc.	10,000 - 20,000	17.13%	10,000 - 25,000	19.73%
U.S. Department of Defense	1,000 - 5,000	3.43%	5,000 - 12,500	9.86%
Riverside Regional Medical Center	1,000 - 5,000	3.43%	1,000 - 5,000	3.38%
Newport News Public Schools	1,000 - 5,000	3.43%	1,000 - 5,000	3.38%
City of Newport News	1,000 - 5,000	3.43%	1,000 - 5,000	3.38%
Ferguson Enterprises Inc.	1,000 - 5,000	3.43%	1,000 - 5,000	3.38%
Christopher Newport University	1,000 - 5,000	3.43%	1,000 - 5,000	3.38%
Canon	-	-	1,000 - 5,000	3.38%
RMH Teleservices Inc.	-	-	1,000 - 5,000	3.38%
WalMart	-	-	1,000 - 5,000	3.38%
APAC Customer Services	1,000 - 5,000	3.43%	—	—
U.S. Department of the Army and Air Force	1,000 - 5,000	3.43%	—	—
	18,000 - 60,000	44.57%	23,000 - 77,500	56.63%

Source: Virginia Employment Commission

COMPLIANCE SECTION

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the School Board of the City of Newport News, Virginia (the "School Board"), a component unit of the City of Newport News, Virginia, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School Board's basic financial statements and have issued our report thereon dated December 13, 2017. Our report includes a reference to other auditors who audited the financial statements of the Student Activity Funds, an agency fund of the School Board. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Student Activity Funds were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School Board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or the *Specifications for Audits of Counties, Cities, and Towns*.

Purpose of this Report

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

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

Richmond, Virginia
December 13, 2017

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

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

Report on Compliance for Each Major Federal Program

We have audited the School Board of the City of Newport News, Virginia's (the "School Board") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the School Board's major federal programs for the year ended June 30, 2017. The School Board's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of the School Board's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the School Board complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

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

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

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

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

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

Richmond, Virginia
December 13, 2017

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

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2017

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
Department of Agriculture		
<u>Pass-through payments -</u>		
<u>Virginia Department of Agriculture:</u>		
School Lunch Program - Food Commodities	10.555	\$ 1,100,152
<u>Virginia Department of Education:</u>		
School Breakfast Program (10.553/2015, 10.553/2016)	10.553	4,192,569
National School Lunch Program (10.555/2015, 10.555/2016)	10.555	8,707,449
Total Child Nutrition Cluster		<u>14,000,170</u>
Fresh Fruits and Vegetables (10.582/2015, 10.582/2016)	10.582	330,710
Child Nutrition Discretionary Grants (10.579/2016)	10.579	59,892
<u>Virginia Department of Health:</u>		
Child and Adult Care Food Program (10.558/2016)	10.558	1,037,122
<u>Department of Defense</u>		
Invitational Grants for Military Connected Schools (HE1254-14-1-0043)	12.557	92,738
ROTC	12.357	380,822
<u>Department of Education</u>		
Impact Aid	84.041	3,211,922
<u>Pass-through payments -</u>		
<u>Virginia Department of Education:</u>		
Adult Education - Basic Grants (V002A150047, V002A160047)	84.002	693,391
Total Adult Education		<u>693,391</u>
Title I Part A Grants to Local Educational Agencies (S010A150046, S010A160046)	84.010	9,492,427
Title I Part A School Improvement (S010A130046, S010A140046)	84.010	2,055,401
Total Title I, Part A Cluster		<u>11,547,828</u>
IDEA Part B Section 611 Special Education (H027A160107)	84.027	5,340,904
IDEA Part B Section 611 - Interpreter Training (H027A140107, H027A160107)	84.027	21,833
IDEA Part B Section 619 Special Education Preschool (H173A150112, H173A160112)	84.173	184,374
Total Special Education Cluster (IDEA)		<u>5,547,111</u>
Vocational Education - Perkins Secondary (V048A150046, V048A160046)	84.048	519,545
Title X McKinney-Vento Homeless	84.196	20,031
Title IV Part B 21 Century Community Learning (S287C140047, S287C150047)	84.287	831,894
Title IV Part A GEAR-UP	84.334	332,248
Title III Part A Language Acquisition Immigrant and Youth (S365A140046, S365A150046)	84.365	82,937
Title III Part A Language Acquisition State Grant (S365A130046, S365A140046)	84.365	9,368
Total English Language Acquisition Grant		<u>92,305</u>
Title II Part A Improving Teacher Quality (S367A140044, S367A150044)	84.367	1,370,807
ESEA Section 1003(G) School Improvement Grants (S377A140047)	84.377	291,803
Title I Part D (S013A140046)	84.013	2,365
<u>Pass-through Payments -</u>		
<u>Virginia Department of Social Services</u>		
Medicaid Assistance Program	93.778	\$ 280,767
		<u>\$ 40,643,471</u>

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

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2017

(1) Basis of Presentation

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

(2) Relationship to Basic Financial Statements

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

	Federal Expenditures
General Fund	\$ 3,873,511
Grants Fund	21,342,066
Other Non-Major Special Revenue Funds	<u>15,427,894</u>
Total expenditures as shown on Schedule of Federal Awards	<u><u>\$ 40,643,471</u></u>

(3) Indirect Cost

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

(4) Subrecipients

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

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

Schedule of Findings and Questioned Costs

Year Ended June 30, 2017

Section I – Summary of Auditor’s Results

1. The type of report issued on the basic financial statements: **Unmodified opinion**
2. Significant deficiencies in internal control disclosed by the audit of the financial statements: **None reported**
3. Material weaknesses in internal control disclosed by the audit of financial statements: **None**
4. Noncompliance, which is material to the financial statements: **None**
5. Significant deficiencies in internal control over major program: **None Reported**
6. Material weaknesses in internal control over major program: **None**
7. The type of report issued on compliance for major program: **Unmodified opinion**
8. Any audit findings which are required to be reported in accordance with the Uniform Guidance: **None**
9. The programs tested as major programs were:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.027 and 84.173	Special Education Cluster (IDEA)
84.041	Impact Aid

10. Dollar Threshold used to distinguish between Type A Programs and Type B Programs: **\$1,219,304**
11. Auditee qualified as a low-risk auditee under Section .530 of Uniform Guidance: **Yes**

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

None

Section III – Findings and Questioned Costs Relating to Federal Awards

None

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

None

Section V – Resolution of Prior Year’s Findings

None in previous year