



**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, 2011

(With Independent Auditors' Report Thereon)

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

Fiscal Year ended June 30, 2011

Prepared by:

BUSINESS OFFICE

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Steven Kanehl, CPA, Accounting Supervisor

12465 Warwick Boulevard
Newport News VA 23606

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

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INTRODUCTORY SECTION

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

Members of the School Board and School Board Officials

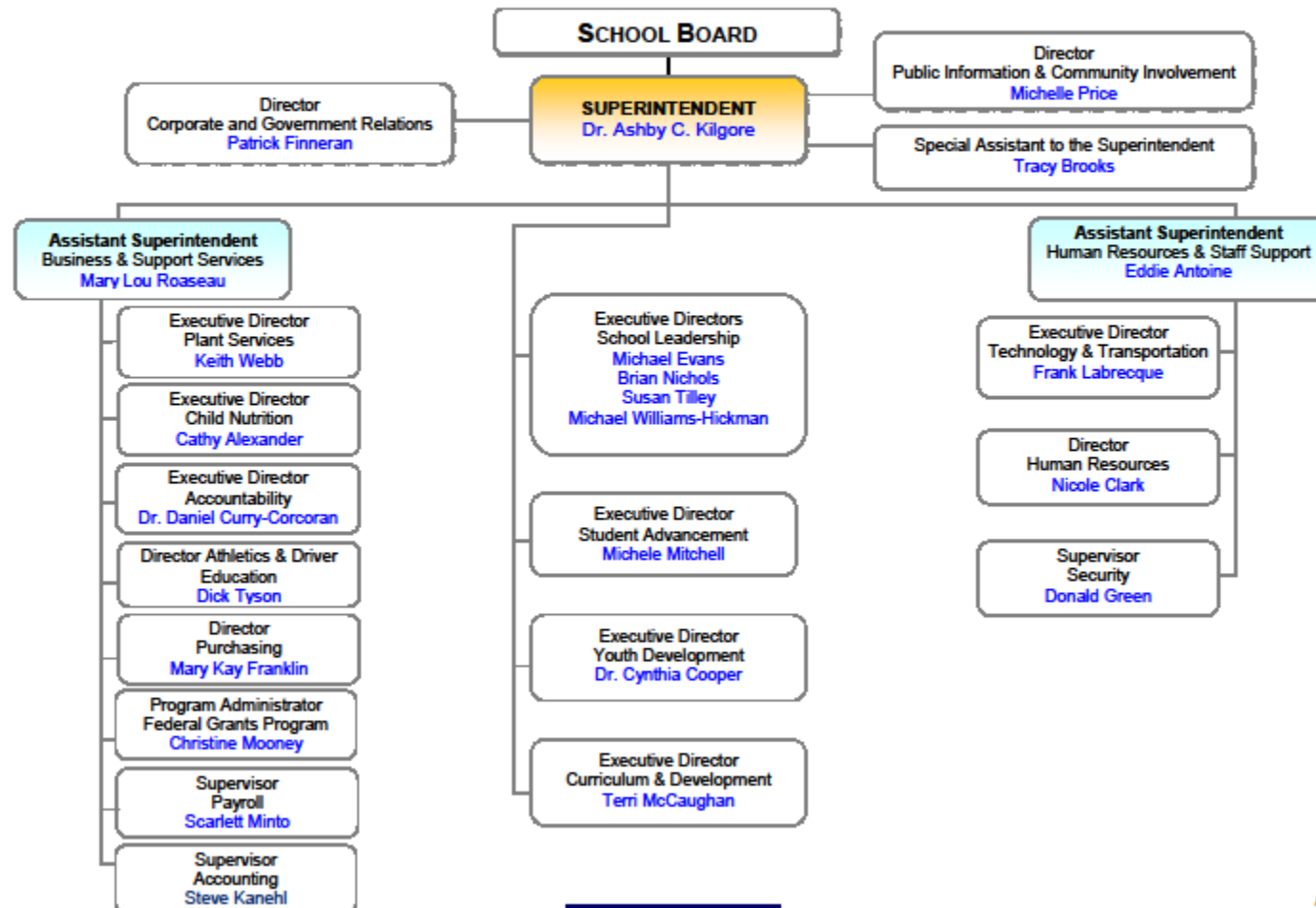
School Board

Debbie “Dee” Johnston	Chairman
Carlton Ashby	Vice Chairman
Pricillia E. Burnett	Member
Dr. William J. Collins, III	Member
Betty Dixon	Member
Everette “Teddy” Hicks, Sr.	Member
Jeff Stodghill	Member

School Board Officials

Dr. Ashby Kilgore	Superintendent
Eddie Antoine	Assistant Superintendent – Human Resources and Staff Support
Mary Lou Roaseau	Assistant Superintendent – Business and Support Services
Cathy Alexander	Executive Director – Child Nutrition
Dr. Cynthia Cooper	Executive Director – Youth Development
Dr. Daniel Curry-Corcoran	Executive Director - Accountability
Michael Evans	Executive Director – Secondary Education
Frank Labrecque	Executive Director – Technology & Transportation Services
Terri McCaughan	Executive Director – Curriculum & Development
Michele Mitchell	Executive Director – Student Advancement
Brian Nichols	Executive Director – Elementary Education
Susan Tilley	Executive Director – Secondary Education
Keith Webb	Executive Director – Plant Services
Michael Williams-Hickman	Executive Director – Elementary Education

Administrative Organization Chart



December 12, 2011

The Honorable Members of the School Board and the citizens of the City of Newport News:

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the School Board of Newport News, Virginia (the School Board), for the fiscal year ended June 30, 2011. The School Board is responsible for the accuracy, completeness and fairness of the data presented. We believe that the data presented is accurate in all material respects and presents fairly the financial position and results of operations of the School Board's various funds.

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

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

Overview of the Report

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

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

School Board profile

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

The School Board provides a full range of public educational services to approximately 30,200 students from grades pre-kindergarten through the 12th grade.

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

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

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

Factors Affecting Financial Condition

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

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

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

Annual operating budgets are not legally adopted for any Special Revenue Fund; therefore, they are not included in the budget and actual comparisons. Program budgets for these funds are administratively approved on a basis consistent with the related grant applications. Project and program budgets are utilized in the Capital Projects Funds and certain Special Revenue Funds where appropriations remain open and carry over to succeeding years.

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

The School Board is expected to continue to experience virtually no change in funding in the near future, while enrollment is expected to decrease only slightly. FY2012 funding is expected to increase by \$0.8 million (0.3% increase) as compared to the FY2011 budget. The State is providing \$2.2 million less funding and the City is providing \$3.0 million more for the upcoming year. The forecast for FY2013 is not yet known. Enrollment is expected to decrease by less than one-half of one percent.

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

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

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

Accomplishments and Awards

School Accreditation. Accreditation standards require all schools to meet objectives for achievement in English, mathematics, history, and science. High schools must also meet a graduation and completion index. To be fully accredited for the 2011-2012 school year, at least 70 percent of students must pass the SOL tests in English, math, history, and science (75% in English in grades three and five, and 50% in third grade science and history). Schools could also earn full accreditation for meeting the benchmarks

based on a three year average or through alternative benchmarks. High schools must also attain a point value of at least 85 based on the Graduation and Completion Index. School accreditation for the 2011-2012 school-year is based on the achievement of students on the 2010-2011 administration of Standards of Learning tests.

Twenty-one of 24 Newport News elementary schools are fully accredited for 2011-2012: An Achievable Dream Academy, B.C. Charles, Carver, Deer Park, Dutrow, Epes, General Stanford, Greenwood, Hidenwood, Hilton, Kiln Creek, Lee Hall, Magruder, McIntosh, Nelson, Palmer, Richneck, Riverside, Sanford, Saunders, and Yates elementary schools. Three elementary schools are accredited with warning: Jenkins, Sedgefield, and Newsome Park elementary schools.

All middle schools are fully accredited: Crittenden, Dozier, Gildersleeve, Hines, Huntington, Passage, and B.T. Washington middle schools.

Five high schools are fully accredited having met the state test benchmarks and the Graduations and Completion Index of 85: An Achievable Dream Middle and High, Denbigh, Heritage, Menchville, and Woodside. Warwick High School is Provisionally Accredited – Graduation Rate

Jenkins Elementary, Sedgefield Elementary, and Newsome Park Elementary missed full accreditation due to English scores. Jenkins, Sedgefield and Newsome Park will receive additional instructional and leadership support to improve student achievement.

Recognition:

- Heritage, Menchville, Warwick and Woodside high schools are among more than 1,900 public high schools included in the Washington Post's High School Challenge. High schools are ranked by enrollment in, and access to, Advanced Placement and International Baccalaureate courses.
- Newport News Public Schools was one of three school districts in the country that hosted a National School Board Association site visit in 2011 for its embrace of technology. NNPS was honored with a 2009 Technology Leadership award for integrating technology into the curriculum and business functions.
- The school district continues its third year of a new Dropout Prevention and Recovery program. Over 700 students who had dropped out have returned and are on track to earn a high school diploma or GED. Starting in middle school, intervention plans are implemented for youth who are at risk of dropping out, and the transition process for rising ninth graders was expanded.
- To provide additional class options, online courses are offered at all high schools. Students also have the option of receiving college credit through dual enrollment at Thomas Nelson Community College. Last year, 700 students took advantage of this option.
- NNPS has 60 National Board Certified Teachers. National Board Certification is recognized nationally as a benchmark for teacher quality and is the highest credential in the profession

- Over ninety-nine percent (99%) of NNPS teachers are designated as highly qualified by federal No Child Left Behind standards.

Academic Excellence:

- Charles, Sanford, and Sedgefield elementary schools have received the Recognized ASCA Model Program (RAMP) designation by the American School Counselor Association. The honor goes to schools whose counseling programs align with criteria in the ASCA National Model and recognizes schools that are committed to delivering a comprehensive, data-driven school counseling program.
- Newport News Public Schools has increased its number of graduating students from 82.4% to 87% and decreased the number of student dropouts from 11.8% to 6.9%. Achievable Dream had the highest graduation rate of 100%; the next closest was Woodside with a 94.2% overall completion.
- Newport News Public Schools and its graduation coaches earned a 2011 Excellence In Education Award presented by Virginia Tech for the "Finding Futures on Facebook" initiative, a tool used to find students who have dropped out of school and help them earn a diploma or GED certification.
- Sixteen Newport News students were recognized in the 2010 National Merit and National Achievement Scholarship programs.
- 201 students were named 2011 Advanced Placement Scholars, Scholars with Honor, or Scholars with Distinction, qualifying them for potential college credit. To receive this distinction, a student must receive grades of three or higher (out of five) on at least three Advanced Placement exams. Three students were named National AP Scholars. National AP Scholars receive an average score of at least 4 on all AP exams and scores of 4 or higher on at least eight AP exams.

Awards:

Newport News Public Schools earned a first place Magna Award from the National School Boards Association for Huntington Middle School's partnership with Huntington Ingalls Industries' Newport News Shipbuilding (formerly Northrop Grumman). The partnership helps students to achieve the district's goal of graduating students who are College, Career, and Citizen-Ready.

Newport News Public Schools has earned several awards in recognition of outstanding financial management and distinguished budget presentation. The school district earned an Outstanding Achievement Award from the Government Finance Officers Association for its Popular Annual Financial Report for the 2010 fiscal year. The School Board's comprehensive budget document earned the *Government Finance Officers Association's Distinguished Budget Presentation Award for fiscal year 2009*. In addition, the board's FY 2011 budget earned the *Association of School Business Officials International Meritorious Budget Award* for excellence in budget presentation.


Hilton Elementary School received the 2011 Governor's Award for Educational Excellence. Hilton is just one of 110 public schools from across the Commonwealth selected to receive this award, the highest honor under the Virginia Index of Performance (VIP) incentive program. Deer Park Elementary School earned the 2011 Virginia Board of Education Excellence Award. General Stanford, McIntosh and Nelson elementary schools earned the 2011 Board of Education Competence to Excellence Award. The VIP incentive program recognizes schools that exceed state and federal achievement benchmarks and achieve excellence goals in reading.

Acknowledgements:

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

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

Sincerely,

A handwritten signature in blue ink, appearing to read "M L Roaseau", with a long horizontal flourish extending to the right.

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

Certificate of Achievement for Excellence in Financial Reporting

Presented to

School Board of the City
of Newport News, Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

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



Linda C. Danison

President

Jeffrey R. Enser

Executive Director

**ASSOCIATION OF SCHOOL BUSINESS OFFICIALS
INTERNATIONAL**



This 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, 2010

Upon recommendation of the Association's Panel of Review which has judged that the Report substantially conforms to principles and standards of ASBO's Certificate of Excellence Program

A handwritten signature in cursive script, appearing to read "Chuck Lindner".

President

A handwritten signature in cursive script, appearing to read "John D. Mueser".

Executive Director

FINANCIAL SECTION



Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the School Board of the City of Newport News, Virginia, (the "School Board"), a component unit of the City of Newport News, Virginia, as of and for the year ended June 30, 2011, which collectively comprise the School Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School Board's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Student Activity Funds, a fiduciary fund of the School Board. Those financial statements were audited by other auditors, whose report thereon has been furnished to us, and our opinions, insofar as it relates to the amounts included for the Student Activity Funds, are based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School Board of the City of Newport News, Virginia, as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2011, on our consideration of the School Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing,

and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the other required supplementary information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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, combining and individual nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is also presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the School Board. The combining and individual nonmajor fund financial statements and schedules, including the schedule of expenditures of federal awards, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken 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 express no opinion on them.

Cheng Beckert + Holland, C.C.P.

Richmond, Virginia
December 12, 2011

THE SCHOOL BOARD OF THE CITY OF NEWPORT NEWS

Management's Discussion and Analysis (Unaudited)

June 30, 2011

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, 2011. 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) 2011

The School Board, on a government-wide basis, had a increase in net assets of \$.9 million to \$70.3 million.

Unrestricted net assets declined by \$3.7 million. The School Board's prepaid expenses for self-funded health insurance decreased by \$3.1 million to account as the primary reason for the change.

Investment in capital assets, net of related debt, increased by \$4.6 million primarily for construction-in-progress of science lab renovations of \$4.7 million in the middle and high schools paid for with Federal stimulus funds.

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

Overview of the Financial Statements

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

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

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

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

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

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

Management's Discussion and Analysis (Unaudited)

June 30, 2011

financial activities and position. The required supplementary information further explains and supports the financial statements.

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

Financial Analysis of the School Board as a Whole

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

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

Management's Discussion and Analysis (Unaudited)

June 30, 2011

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

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

	FY 2011	FY 2010	Change
Current and other assets	\$ 77.5	\$ 78.5	\$ (1.0)
Capital assets, net	73.8	72.0	1.8
Total assets	<u>\$ 151.3</u>	<u>\$ 150.5</u>	<u>\$ 0.8</u>
Other liabilities	\$ 32.7	\$ 29.7	\$ 3.0
Long-term liabilities	48.3	51.4	(3.1)
Total liabilities	<u>\$ 81.0</u>	<u>\$ 81.1</u>	<u>\$ (0.1)</u>
Net assets:			
Invested in capital assets, net of related debt	\$ 61.8	\$ 57.2	\$ 4.6
Unrestricted	8.5	12.2	(3.7)
Total net assets	<u>\$ 70.3</u>	<u>\$ 69.4</u>	<u>\$ 0.9</u>

The School Board's total net assets showed an increase of \$0.9 million (1%), increasing to \$70.3 million. This was comprised of an increase in invested in capital assets, net of related debt of \$4.6 million (8%), and a decrease in unrestricted net assets of \$3.7 million (30%).

Current and other assets decreased by \$1.0 million (1%). This was primarily due to six factors, three of which were decreases and three of which were increases: 1. The School Board elected not to increase premiums charged to employees and the employer despite rising health insurance claims. As a result the prepaid health insurance premiums declined by \$3.1 million. 2. The School Board transferred \$3.2 million to the OPEB Pooled Trust Fund. 3. Payments for textbooks were \$0.6 million more than amounts received for that purpose. 4. The above three net decreases were partially offset by an increase of \$3.4 million in amounts due from the City of Newport News for capital projects. 5. A total of \$2.5 million in amounts due from the State Department of Education increased for grants, chief among them being Federal stimulus projects. 6. A total of \$1.0 million received from the City of Newport News in the General Capital Projects Fund for school bus purchases, which will be made in FY2012.

Capital assets (net of depreciation) increased by \$1.8 million (2.5%). This is the result of additions of \$8.7 million less depreciation expense of \$6.9 million. The largest component in additions was \$4.7 million for construction in progress of science lab renovations in the middle and high schools funded by Federal stimulus dollars.

Other liabilities increased by \$3.0 million (10%), primarily due to \$1.4 million due at June 30, 2011 for the aforementioned science lab renovation project, \$0.9 million due for HVAC capital project renovations and \$0.5 million due for Todd Stadium capital project renovations. Long term liabilities decreased by \$3.1 million (7%) primarily due to \$2.8 million in principal payments on capital leases and facility notes payable. In addition, the amount owed for other post employment benefits decreased by \$0.8 million but the liability for accrued workers' compensation claims increased by \$0.4 million.

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

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June 30, 2011

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

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

	<u>FY 2011</u>	<u>FY 2010</u>	<u>Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 7.3	\$ 7.4	\$ (0.1)
Operating grants and contributions	68.8	67.7	1.1
Capital grants and contributions	5.7	1.9	3.8
General revenues:			
Local	99.6	101.1	(1.5)
State	133.0	145.4	(12.4)
Federal	5.2	6.1	(0.9)
Interest	-	0.1	(0.1)
Total revenues	<u>319.6</u>	<u>329.7</u>	<u>(10.1)</u>
Expenses:			
Academic services	230.8	240.7	(9.9)
Transportation services	17.4	18.3	(0.9)
Business and support services	33.5	29.7	3.8
Child nutrition services	13.8	14.0	(0.2)
Technology services	14.8	21.7	(6.9)
Human resources	5.3	5.8	(0.5)
Administration	2.5	2.6	(0.1)
Interest on capital debt	0.6	1.4	(0.8)
Total expenses	<u>318.7</u>	<u>334.2</u>	<u>(15.5)</u>
Change in net assets	<u>0.9</u>	<u>(4.5)</u>	<u>5.4</u>
Beginning net assets	<u>69.4</u>	<u>73.9</u>	<u>(4.5)</u>
Ending net assets	<u>\$ 70.3</u>	<u>\$ 69.4</u>	<u>\$ 0.9</u>

For the fiscal year ended June 30, 2011, revenues from governmental activities totaled \$319.6 million. State Standards of Quality (SOQ) Funds account for \$133.0 million (42%) of the School Board's resources. These funds are based on student membership counts. The SOQ funds decreased by \$12.4 million (9%) over FY 2010 due to State budget reductions.

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:

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Revenue to the General Fund	\$ 109,200,000
Less debt service returned to the City	(14,149,573)
Add Revenue General Obligation Bond Fund	8,061,884
Add Revenue General Capital Fund	1,000,000
Less net capital assets transferred tenancy-in-common	<u>(4,555,266)</u>
Net amount from City - Entity-wide statements	<u><u>\$ 99,557,045</u></u>

Revenue from the City in FY 2011 was \$99.6 million (31% of the total), a decrease of \$1.5 million.

Federal revenue decreased by \$0.9 million to \$5.2 million (2% of the total) in FY2011 due to the School Board not qualifying for certain Department of Defense funding due to fewer students meeting the qualifying criteria. To qualify, our Federally-connected students must be at least 20 percent of our total population.

Operating grants, which were comprised of approximately 61% from federal sources and 39% from state sources, totaled \$68.8 million (22% of the total). This category increased by \$1.1 million (2%).

Capital grants and contributions increased by \$3.8 million (200%) due to Federal stimulus funding being used to renovate middle and high school science labs.

Expenses for FY 2011 totaled \$318.7 million, a decrease of \$15.5 million (4.6%). Combining FY2010's decrease of \$15.5 million with FY2009's decrease of \$14.9 million, expenses have decreased by \$30.4 million (8.7%) over a two-year period.

Academic services accounted for \$230.8 million (72%) of the School Board's total spending. A significant portion of this amount is for the salaries and benefits of teachers, teacher assistants and instructional administrators. This function decreased by \$9.9 million (4.1%). A large portion of the decrease was attributed to decreases in positions, vacancies and unfilled positions.

Business and support services were the next highest cost category with a total of \$33.5 million (10.5% of the total). Much of these expenses relate to the operation (utilities and insurance), maintenance, and cleaning of our 44 regular schools, alternative school sites, and administrative offices. This category showed a \$3.8 million (12.8%) increase. This was due to cash capital projects, primarily funded by purchase orders issued in FY2010 but the work was not undertaken and completed until FY2011. Among the largest projects was paving renovations and repairs at many school sites (\$1.1 million), window and ceiling tile replacement at seven sites (\$0.7 million), a comprehensive arc-flash project (\$0.3 million), and leasing and moving of modular classrooms of \$0.3 million.

Transportation services are the third largest cost category, with expenses of \$17.4 million (5.5% of the total). This category showed a decrease of \$0.9 million (4.9%).

Technology services are the fourth largest cost category, with expenses of \$14.8 million (4.7% of the total). This category showed a decrease of \$6.9 million (32%). Most of this decrease was related to higher non-

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

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June 30, 2011

capitalized technology equipment purchases in FY2010. This equipment modernized approximately 2,500 classrooms with state of the art technology for both teacher and student use.

Capital Assets

At the end of FY 2011, the School Board had invested \$73.8 million in capital assets, as reflected in the following schedule. This net amount reflects historical cost of \$154.3 million and accumulated depreciation of \$80.5 million. In addition, the School Board and the City hold assets in-common (AHTIC) a net of \$141.4 million of capital assets, which are reflected in the financial statements of the City (historical cost of \$194.5 million net of accumulated depreciation of \$53.1 million). Most school buildings and improvements undertaken in the past 20 years, for which City bonded debt has been issued, are included. (The City has also net bonded debt outstanding related to School Board projects of approximately the same net amount). The following table shows the capital assets recorded on the School Board's books at year end.

Table 3
Capital Assets, Net
(In millions)

	<u>FY 2011</u>	<u>FY 2010</u>	<u>Change</u>
Nondepreciable assets:			
Land	\$ 2.5	\$ 2.5	\$ -
Construction in progress	4.7	-	4.7
Other capital assets:			
Buildings	46.3	46.1	0.2
Building improvements	43.0	42.4	0.6
Equipment and vehicles	57.8	58.1	(0.3)
Accumulated depreciation	<u>(80.5)</u>	<u>(77.1)</u>	<u>(3.4)</u>
Total	<u><u>\$ 73.8</u></u>	<u><u>\$ 72.0</u></u>	<u><u>\$ 1.8</u></u>

Construction in progress of \$4.7 million consists primarily of science lab renovation in six secondary schools funded by Federal stimulus money. Accumulated depreciation increased by \$3.4 million, primarily due to depreciation expense of \$7.0 million offset by retirements of \$3.6 million. See note 4 to the financial statements for additional information.

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

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Long-Term Liabilities

The School Board cannot issue bonded debt. Our long-term liabilities are related to capital leases on equipment, capital facility notes payable, compensated absences, workers' compensation claims payable (under our self-insurance program), other post employment benefits and incurred but not reported claims under our self-insured employee health insurance program. Our long-term liabilities had a net decrease of \$3.1 million. Principal payments on capital facility notes payable and capital leases reduced debt by \$2.8 million. All other categories of debt combined to decline to account for the remaining \$0.3 million. See note 6 in the notes to basic financial statements for additional information.

Financial Analysis of the School Board's Funds

For the fiscal year ended June 30, 2011, the governmental funds had a combined fund balance of \$44.8 million. This is a decrease of \$4.0 million as compared to June 30, 2010. The primary reason for the decrease was a decline of \$3.1 million in the School Board's prepaid health insurance premiums as the School Board elected to not change premiums charged to employees and the employer for FY2011 despite rising health care claims.

The General Obligation Bond Fund had an increase of \$2.0 million in fund balance as the City provided funding for contracts issued at June 30, 2011 but the related expenditures will not be made until FY2012 or later. This was primarily for an HVAC replacement at Palmer Elementary and renovations at Todd Stadium.

Other governmental funds showed an increase of unassigned fund balance of \$1.7 million. This was primarily an increase in the Operating Capital Fund of \$1.0 million to be spent on school buses in FY2012 and an increase in the Child Nutrition Services Fund of \$0.9 million offset by a \$0.2 million decrease in the State Construction Fund.

See page 15 of the basic financial statements for additional detail.

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

Management's Discussion and Analysis (Unaudited)

June 30, 2011

General Fund Budgetary Highlights

Table 4
General Fund Budget to Actual Summary (Budget Basis)
Year ended June 30, 2011
(In millions)

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:				
State	\$ 163.0	\$ 163.0	\$ 157.2	\$ (5.8)
City	109.2	109.2	109.2	-
Federal	4.1	4.1	5.2	1.1
Other	<u>1.9</u>	<u>1.9</u>	<u>2.7</u>	<u>0.8</u>
Total revenues	<u>278.2</u>	<u>278.2</u>	<u>274.3</u>	<u>(3.9)</u>
Expenditures and transfers:				
Expenditures	264.9	264.9	261.6	(3.3)
Transfers	<u>13.3</u>	<u>13.3</u>	<u>13.2</u>	<u>(0.1)</u>
Total expenditures and transfers	<u>278.2</u>	<u>278.2</u>	<u>274.8</u>	<u>(3.4)</u>
Change in fund balance	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (0.5)</u></u>	<u><u>\$ (0.5)</u></u>

The School Board saved \$0.5 million in prior year purchase orders (not part of the budget basis) to offset the \$0.5 million decrease in fund balance shown above.

Revenues from the state were \$5.8 million less than the budget due to less State basic aid. Lower enrollment resulted in a reduction of \$1.8 million and the State substituted \$3.6 million in Federal stimulus funds. The School Board has accounted for the Federal stimulus funds in the Grant Fund along with all other Federal stimulus funding. Federal revenues were \$1.1 million more than the budget due to increased Impact Aid funds of \$1.6 million, but offset by the loss of Department of Defense funding budgeted at \$0.5 million. Other revenues exceeded the budget by \$0.8 million due to additional indirect cost charges to grants (primarily stimulus grants) and the sale of additional surplus items.

Expenditures were \$3.3 million less than budgeted primarily due to savings related to leaving many vacancies open during the year and savings in utility costs.

Economic Factors

The School Board is financially dependent upon the state and city governments. State funding is primarily dependent upon income and sales tax both of which are expected to show very slow growth or a slight decline in the near term. The City is dependent upon property tax revenue, expected to be virtually flat in the near term. FY2012 funding is expected to increase by \$0.8 million as compared to the FY2011 budget. The State is providing \$2.2 million less funding and the City is providing \$3.0 million more for the upcoming year.

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

Management's Discussion and Analysis (Unaudited)

June 30, 2011

Contacting the School Board's Financial Management

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

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BASIC FINANCIAL STATEMENTS

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

Statement of Net Assets – Governmental Activities

June 30, 2011

Assets

Cash and Cash Equivalents	\$ 35,880,965
Accounts receivable, net	453,490
Receivables from other governments:	
City of Newport News	7,646,883
Federal:	
Department of Agriculture	581,746
Department of Education	613
State:	
Department of Treasury – sales tax	5,077,110
Department of Education	14,963,317
Inventories, at cost	962,365
Prepaid expenses	11,947,187
Capital assets, non-depreciable	7,214,142
Capital assets, depreciable, net	<u>66,571,295</u>
Total assets	<u>151,299,113</u>

Liabilities and Net Assets

Liabilities:	
Accounts payable	5,824,851
Accrued liabilities	926,041
Payroll withholdings and accrued fringe benefits	25,069,770
Unearned revenue	845,995
Long-term liabilities:	
Due within one year	4,375,062
Due in more than one year	<u>43,931,215</u>
Total liabilities	<u>80,972,934</u>
Net assets:	
Invested in capital assets, net of related debt	61,780,411
Unrestricted	<u>8,545,768</u>
Total net assets	<u><u>\$ 70,326,179</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, 2011

		Program Revenues			Net (Expense)
		Charges for	Operating	Capital	Revenue and
	Expenses	Services	Grants and	Grants and	Changes in
			Contributions	Contributions	Net Assets
Governmental activities:					
Academic services	\$ 230,788,505	\$ 1,872,761	\$ 58,136,980	\$ 4,709,058	\$ (166,069,706)
Transportation services	17,460,802	-	-	-	(17,460,802)
Business and support services	33,490,915	1,066,629	-	-	(32,424,286)
Child nutrition services	13,766,336	4,059,105	10,606,748	-	899,517
Technology services	14,786,921	265,388	45,518	978,753	(13,497,262)
Human resources	5,263,671	-	-	-	(5,263,671)
Administration	2,479,316	-	-	-	(2,479,316)
Interest on capital debt	639,293	-	-	-	(639,293)
Total governmental activities	<u>\$ 318,675,759</u>	<u>\$ 7,263,883</u>	<u>\$ 68,789,246</u>	<u>\$ 5,687,811</u>	<u>(236,934,819)</u>
General revenues:					
City of Newport News					99,557,045
Commonwealth of Virginia					133,006,200
Federal government					5,216,293
Interest					<u>16,099</u>
Total general revenues					<u>237,795,637</u>
Change in net assets					<u>860,818</u>
Net assets at beginning of year					<u>69,465,361</u>
Net assets at end of year					<u>\$ 70,326,179</u>

See accompanying notes to basic financial statements

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

Balance Sheet
Governmental Funds
June 30, 2011

	General Fund	Grant Fund	General Obligation Bond Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 29,210,363	\$ 197,309	\$ 158,403	\$ 6,314,890	\$ 35,880,965
Accounts receivable, net	206,457	4,457	-	242,576	453,490
Receivables from other governments					
City of Newport News	-	-	7,646,883	-	7,646,883
Federal:					
Department of Agriculture	-	-	-	581,746	581,746
Department of Education	-	613	-	-	613
State:					
Department of Treasury – sales tax	5,077,110	-	-	-	5,077,110
Department of Education	-	14,963,317	-	-	14,963,317
Inventories, at cost	654,345	-	-	308,020	962,365
Due from other funds	13,000,000	-	-	-	13,000,000
Prepaid items	11,947,187	-	-	-	11,947,187
Total assets	<u>\$ 60,095,462</u>	<u>\$ 15,165,696</u>	<u>\$ 7,805,286</u>	<u>\$ 7,447,232</u>	<u>\$ 90,513,676</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 1,840,705	\$ 1,879,572	\$ 1,732,760	\$ 371,814	\$ 5,824,851
Accrued liabilities	926,041	-	-	-	926,041
Payroll withholdings and accrued fringe benefit:	25,069,770	-	-	-	25,069,770
Due to other funds	-	13,000,000	-	-	13,000,000
Deferred revenue	555,653	286,124	4,218	-	845,995
Total liabilities	<u>28,392,169</u>	<u>15,165,696</u>	<u>1,736,978</u>	<u>371,814</u>	<u>45,666,657</u>
Fund balances:					
Nonspendable:					
Imprest funds	2,375	-	-	-	2,375
Inventories	654,345	-	-	308,020	962,365
Restricted:					
Adult education services	-	-	-	171,670	171,670
Capital projects	-	-	154,186	2,657,036	2,811,222
Child nutrition services	-	-	-	2,500,770	2,500,770
Assigned to:					
Adult education services	-	-	-	400,562	400,562
Child nutrition services	-	-	-	972,525	972,525
Contractual obligations	11,091,954	-	5,914,122	64,835	17,070,911
Health insurance	11,947,187	-	-	-	11,947,187
Textbooks	5,072,759	-	-	-	5,072,759
Workers' compensation	2,934,673	-	-	-	2,934,673
Total fund balances	<u>31,703,293</u>	<u>-</u>	<u>6,068,308</u>	<u>7,075,418</u>	<u>44,847,019</u>
Total liabilities and fund balances	<u>\$ 60,095,462</u>	<u>\$ 15,165,696</u>	<u>\$ 7,805,286</u>	<u>\$ 7,447,232</u>	<u>\$ 90,513,676</u>
Amounts reported for governmental activities in the statement of net assets are different because:					
Total fund balances reported in governmental fund:					\$ 44,847,019
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.					73,785,437
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.					(48,306,277)
Net assets of governmental activities					<u>\$ 70,326,179</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, 2011

	General Fund	Grant Fund	General Obligation Bond Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Intergovernmental:					
City of Newport News	\$ 95,050,427	\$ -	\$ 8,061,884	\$ 1,000,000	\$ 104,112,311
Commonwealth of Virginia	157,186,029	2,484,008	-	476,033	160,146,070
Federal government	5,216,293	36,919,814	-	10,344,711	52,480,818
Charges for services	2,701,892	-	-	4,561,991	7,263,883
Investment income	9,119	-	-	6,980	16,099
Miscellaneous	-	72,662	-	-	72,662
Total revenues	<u>260,163,760</u>	<u>39,476,484</u>	<u>8,061,884</u>	<u>16,389,715</u>	<u>324,091,843</u>
Expenditures:					
Current:					
Academic services	195,786,209	29,377,704	-	744,516	225,908,429
Transportation services	15,976,632	-	-	-	15,976,632
Business and support services	31,064,906	391,677	-	178,119	31,634,702
Child nutrition services	-	-	-	13,630,294	13,630,294
Technology services	10,192,877	4,410,105	-	-	14,602,982
Human resources	4,884,783	19,096	-	-	4,903,879
Administration	2,305,655	150	-	-	2,305,805
Debt service:					
Principal	2,817,314	-	-	-	2,817,314
Interest and other charges	639,293	-	-	-	639,293
Capital outlay	<u>1,071,704</u>	<u>5,277,752</u>	<u>6,093,549</u>	<u>153,865</u>	<u>12,596,870</u>
Total expenditures	<u>264,739,373</u>	<u>39,476,484</u>	<u>6,093,549</u>	<u>14,706,794</u>	<u>325,016,200</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(4,575,613)</u>	<u>-</u>	<u>1,968,335</u>	<u>1,682,921</u>	<u>(924,357)</u>
Other financial sources (uses):					
Transfers in	-	-	-	30,000	30,000
Transfers out	<u>(30,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(30,000)</u>
Total other financing sources	<u>(30,000)</u>	<u>-</u>	<u>-</u>	<u>30,000</u>	<u>-</u>
Net change in fund balances	<u>(4,605,613)</u>	<u>-</u>	<u>1,968,335</u>	<u>1,712,921</u>	<u>(924,357)</u>
Fund balances at beginning of year	39,395,320	-	4,099,973	5,349,667	48,844,960
Increase (decrease) in nonspendable inventory	(34,502)	-	-	12,830	(21,672)
Increase in nonspendable for imprest funds	850	-	-	-	850
Decrease in assigned for health self-insurance activity	<u>(3,052,762)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,052,762)</u>
Fund balances at end of year	<u>\$ 31,703,293</u>	<u>\$ -</u>	<u>\$ 6,068,308</u>	<u>\$ 7,075,418</u>	<u>\$ 44,847,019</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, 2011

Net change in fund balances – total governmental funds	\$	(924,357)
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Amounts reported for governmental activities in the statement of activities are different because:

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

Capital outlay	\$ 12,596,870		
Items capitalized but shown as expensed	679,204		
Capital outlay, net	13,276,074		
Transfer to City, tenancy-in-common	(4,555,266)		
Loss on disposal of capital assets and adjustments	(1,667)		
Depreciation expense	(6,961,221)		
			1,757,920

Repayment of debt principal is an expenditure in the governmental funds, but does not affect the statement of activities.		2,817,314
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This year, compensated absences used exceeded the amount earned by \$183,023, workers' compensation claims incurred were more than the amount paid by \$366,648, health insurance claims incurred were more than the amount paid by \$341,075 and other post employment benefits incurred were less than the amount paid by \$808,225.		283,525
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Change in assigned for health insurance activity is included in expenses in the statement of activities		(3,052,762)
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Change in nonspendable imprest funds from governmental funds is included in expenses in the statement of activities.		850
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Change in nonspendable inventory from governmental funds is included in expenses in the statement of activities.		(21,672)
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Change in net assets of governmental activities	\$	860,818
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See accompanying notes to financial statements

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

Statement of Fiduciary Assets and Liabilities – Fiduciary Funds

	<u>OPEB Trust Fund</u>	<u>Agency Fund</u>
Asset:		
Cash and cash equivalents (note 2)	\$ -	\$ 1,425,733
Investments, at fair value:		
Money market trust	<u>7,309,755</u>	<u>-</u>
Total assets	<u><u>\$ 7,309,755</u></u>	<u><u>\$ 1,425,733</u></u>
Liabilities:		
Accounts payable	\$ -	\$ 28,612
Due to students	<u>-</u>	<u>1,397,121</u>
Total liabilities	<u>-</u>	<u>1,425,733</u>
Net assets:		
Net Assets held in trust for Other Postemployment Benefits	<u>7,309,755</u>	<u>-</u>
Total net assets	<u><u>7,309,755</u></u>	<u><u>-</u></u>
Total liabilities and net assets	<u><u>\$ 7,309,755</u></u>	<u><u>\$ 1,425,733</u></u>

See accompanying notes to basic financial statements

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds
Year ended June 30, 2011

	<u>OPEB Trust Fund</u>
Additions	
Contributions:	
Employer contributions	\$ 6,990,277
Plan member contributions	<u>1,411,301</u>
Total contributions	<u>8,401,578</u>
Net investment income:	
Net appreciation in the fair value of investments	879,291
Interest and dividends	<u>770</u>
Total investment income	<u>880,061</u>
Total additions	<u>9,281,639</u>
Deductions	
Benefits	5,159,446
Administrative expenses	<u>7,213</u>
Total deductions	<u>5,166,659</u>
Change in net assets	4,114,980
Net assets at beginning of year	<u>3,194,775</u>
Net assets at end of year	<u><u>\$ 7,309,755</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, 2011

(1) Summary of Significant Accounting Policies

Narrative Profile

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

(a) Financial Reporting Entity

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

(b) Basis of Presentation

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

Government-Wide Financial Statements: The statement of net assets and the statement of activities display information about the School Board as a whole, except for fiduciary funds. These statements are reflected on a full accrual basis of accounting and economic resources measurement focus, which incorporates long-term assets as well as long-term liabilities. Transfers are eliminated to avoid "doubling up" revenues and expenditures. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The statement of net assets presents the financial condition of the governmental activities of the School Board at year end. The School Board does not have any business-type activities. The statement of activities presents a comparison between direct expenses and program revenues for each function of the School Board governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore identifiable to a particular function. Expenses are grouped in the following categories: Academic services, Transportation services, Business and support services, Child nutrition services, Technology services, Human resources, Administration and Interest on capital debt.

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

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

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

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

The School Board reports the following major governmental funds:

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

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

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

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.

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

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

(c) Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting and economic resources measurement focus. Governmental funds use the modified accrual basis of accounting and fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

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

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

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

June 30, 2011

project before any amounts will be paid to the School Board; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the accrual criteria are met.

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

(d) *Encumbrances*

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

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

Cash and temporary investments are pooled with the cash and investments of the City. The School Board utilizes the pooled cash investment method wherein income from the investment of pooled cash is allocated to the various funds based on the percentage of cash and cash equivalents of each fund to the total pooled cash and cash equivalents. Investments that are held for more than one year to maturity are stated at fair value while investments that are held for less than one year to maturity are stated at amortized cost. The cash in the Agency Fund represents the Student Activity Fund cash balances in the separate bank accounts maintained by the individual schools. The investments in the OPEB Trust Fund are valued at fair value and maintained in the Virginia Association of Counties/Virginia Municipal League (VACO/VML) OPEB Pooled Trust Fund.

(f) *Receivables and Due from Other Governments*

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

(g) *Inventories*

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

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June 30, 2011

(h) Prepaid Items

Prepaid items of \$11.9 million represent healthcare premiums paid in advance on deposit with our third-party claims administrator. The School Board's healthcare program is self-insured (see note 8 (a) for further information). Premiums paid in prior years have been more than actual claims and expenses. The premiums have been left on deposit to pay future healthcare premiums. The funds are accounted for on the consumption method.

(i) Capital Assets

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

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

Under Virginia law, certain property maintained by the School Board is subject to tenancy-in-common with the City, if the City incurred a financial obligation for the property which is payable over more than one fiscal year. The School Board and the City have agreed that such property will be carried on the City's financial statements until the outstanding debt is repaid. At June 30, 2011, the City holds capital assets related to school property with a net book value of \$141,419,614.

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

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

(j) Compensated Absences

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

**THE SCHOOL BOARD OF THE
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only if they have become payable as a result of resignations and retirements. Effective July 2, 2011, all future retirees will have their retiree health insurance subsidy based on years of service rather than sick leave.

Anyone retiring effective July 1, 2011 may elect to use their sick leave under the old policy or the new policy. This election pertains only to that date.

(k) Fund Balance Items

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

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

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

- The Child Nutrition Services special revenue fund shows restricted fund balance of \$2,550,770 representing the portion of the fund balance provided over the years from Federal and State grants restricted for the purpose of providing students with nutritional meal services.
- The Adult Education special revenue fund shows restricted fund balance of \$171,670 representing the portion of the fund balance provided over the years from Federal grants restricted for the purpose of providing adult citizens of the community with educational services.
- The General Obligation Bond Fund fund-balance of \$154,186 is restricted by the City of Newport News for capital outlay.
- The State Construction capital projects fund fund-balance of \$1,328,220 is restricted by the Commonwealth of Virginia to capital outlay and repayment of debt issued for capital outlay.
- The General Capital capital-projects fund fund-balance of \$1,328,816 is restricted by the City of Newport News for capital outlay.

Assigned to items – Assigned items represent the School Board's intent to use certain resources for assigned purposes. The School Board has the following assignments as of June 30, 2011.

- A total of \$400,562 is assigned to provide adult education services in the community as represented in the Adult Education special revenue fund.

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- A total of \$972,525 is assigned to provide students attending the School Board's schools with a nutritious breakfast and lunch meeting the regulations of the United States Department of Agriculture and the Commonwealth of Virginia as represented in the Child Nutrition Services special revenue fund.
- A total of \$17,070,911 is assigned to meet contractual obligations. The School Board has purchase orders outstanding with vendors in this amount and expects the vendors to deliver the goods and services in the upcoming fiscal year. The amounts are \$11,091,954 in the General Fund, \$5,914,122 in the General Obligation Bond Fund, \$60,869 in the State Construction capital projects fund, \$3,889 in the Child Nutrition Services special revenue fund and \$77 in the Adult Education special revenue fund.
- A total of \$11,947,187 is assigned to the employee self-insured health insurance plan. Funds equal to this amount are on deposit with our contracted health insurance provider and shown as a prepaid item in the asset section of the balance sheet. Claims have been less than the premiums paid.
- A total of \$5,072,759 is assigned to textbooks. The School Board intends to purchase textbooks in the upcoming years based upon a six-year replacement cycle for most subjects.
- A total of \$2,934,673 is assigned to workers' compensation to pay claims for the School Board's self-insured workers' compensation plan.

Unassigned items – Represents the remainder of the School Board's equity in governmental fund-type balances. This is the residual fund balance in the General Fund or negative residual fund balance of other governmental fund-types. The unassigned balance at June 30, 2011 for all funds is zero.

(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.

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June 30, 2011

(2) Cash and Cash Equivalents

All of the \$35,880,965 of School Board cash and cash equivalents (except for \$2,450 of imprest funds) are maintained on deposit with the Treasurer of the City of Newport News. All of the funds are available for immediate School Board use. See the City of Newport News Comprehensive Annual Financial Report for additional details. A copy may be obtained from The City of Newport News, Finance Department, 2400 Washington Avenue, Newport News, VA 23607.

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

Interfund receivables, payables and transfers as of and for the year ended June 30, 2011 are as follows:

Funds	Due from other funds	Due to other funds	Transfers in	Transfers out
General Fund	\$13,000,000	\$ -	\$ -	\$ 30,000
Grant Fund		13,000,000		
Other governmental funds				
Special revenue			30,000	
Total all funds	<u>\$13,000,000</u>	<u>\$13,000,000</u>	<u>\$ 30,000</u>	<u>\$ 30,000</u>

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

The transfer from the General Fund to Other governmental funds – Special Revenue is to provide the General Fund's portion of costs associated with the adult education program of the School Board.

(4) Capital Assets, Net

A summary of changes in capital assets follows:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Capital assets not being depreciated:				
Land	\$ 2,505,084	\$ -	\$ -	\$ 2,505,084
Construction in progress	-	4,709,058	-	4,709,058
Total capital assets not being depreciated	<u>2,505,084</u>	<u>4,709,058</u>	<u>-</u>	<u>7,214,142</u>
Other capital assets:				
Buildings	46,094,798	237,544	-	46,332,342
Improvements	42,469,253	526,925	-	42,996,178
Machinery and equipment	<u>58,098,041</u>	<u>3,247,282</u>	<u>3,567,343</u>	<u>57,777,980</u>

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Total other capital assets	146,662,092	4,011,751	3,567,343	147,106,500
Less accumulated depreciation for:				
Buildings	25,831,014	754,239	-	26,585,253
Improvements	13,059,392	1,839,190	-	14,898,582
Machinery and equipment	38,249,254	4,367,792	3,565,676	39,051,370
Total accumulated depreciation	77,139,660	6,961,221	3,565,676	80,535,205
Other capital assets, net	69,522,432	(2,949,470)	1,667	66,571,295
Totals	<u>\$ 72,027,516</u>	<u>\$ 1,759,588</u>	<u>\$ 1,667</u>	<u>\$ 73,785,437</u>

Depreciation was charged to governmental functions as follows:

Academic services	\$ 3,352,502
Transportation services	1,372,863
Business and support services	1,609,407
Child nutrition services	56,704
Technology services	85,194
Human resources	326,631
Administration	157,920
Total governmental activities depreciation expense	<u>\$ 6,961,221</u>

Construction in progress is composed of the following at June 30, 2011:

	Project Authorization	Expended Through June 30, 2011	Balance of Authorization	Future Requirements
Capital projects	\$ 19,731,305	\$ 4,157,616	\$ 15,573,689	\$ -
Special revenue -stimulus	6,512,523	4,709,058	1,803,465	-
Total School projects	<u>\$ 26,243,828</u>	<u>\$ 8,866,674</u>	<u>\$ 17,377,154</u>	<u>\$ -</u>

Expended through June 30, 2011 includes \$4,157,616 in construction in progress transferred to the City under the AHTIC provisions. The balance of authorization of \$17,377,154 includes \$7,717,587 encumbered by existing purchase orders with vendors for projects in progress.

**THE SCHOOL BOARD OF THE
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(5) Leases

(a) Operating Leases

The School Board leases buildings under noncancelable operating leases. Total costs for such leases were approximately \$596,710 for the year ended June 30, 2011. The future minimum lease payments for these leases are as follows:

Year ending June 30:	
2012	\$ 624,033
2013	576,561
2014	580,980
2015	565,488
2016	570,086
2017-2021	483,143
	<hr/>
	\$ 3,400,291
	<hr/>

For one of the leased buildings the School Board has the option to renew annually ten times for one additional year from FY2019 through FY2028 with an annual lease cost of \$248,842 in FY2019 and increasing by two percent per year up through the final year of renewal at \$297,390 in FY2028.

(b) Capital Leases

The School Board has entered into three lease agreements for financing the acquisition of property and equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The net book value of assets acquired through capital leases is as follows:

Buildings	\$ 1,435,000
Machinery and equipment	2,954,247
	<hr/>
	4,389,247
Less accumulated depreciation	(1,362,809)
	<hr/>
	\$ 3,026,438
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The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2011, were as follows:

Year ending June 30:	
2012	\$ 722,420
2013	335,215
2014	330,168
2015	99,982
2016	89,490
2017-2020	<u>311,395</u>
Total minimum lease payments	1,888,670
Less amounts representing interest	<u>(258,682)</u>
Present value of minimum capital lease payments	<u><u>\$ 1,629,988</u></u>

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2011 follows:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30,</u> <u>2011</u>	<u>Due Within</u> <u>One Year</u>
Compensated absences	\$ 3,989,889	\$ 1,890,318	\$ 2,073,341	\$ 3,806,866	\$ 571,030
Workers' compensation claims	1,597,852	1,046,121	679,473	1,964,500	392,900
Capital leases payable	2,412,823	-	782,835	1,629,988	639,432
Capital facility notes payable	12,409,516	-	2,034,479	10,375,037	-
Other Post Employment Benefits	28,566,410	6,833,775	7,642,000	27,758,185	-
Incurred but not reported health claims	<u>2,430,625</u>	<u>29,025,010</u>	<u>28,683,934</u>	<u>2,771,701</u>	<u>2,771,700</u>
Totals	<u><u>\$ 51,407,115</u></u>	<u><u>\$ 38,795,224</u></u>	<u><u>\$ 41,896,062</u></u>	<u><u>\$ 48,306,277</u></u>	<u><u>\$ 4,375,062</u></u>

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

Incurred but not reported health claims represent an estimate of healthcare claims incurred by our employees as of June 30, 2011 but not yet paid by our third-party claims administrator. As we are self-insured for healthcare claims we consider the entire amount a current liability and in fact the claims are

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paid in a matter of a few weeks after June 30, 2011 as the medical providers submit their claims to the third-party administrator.

Long-term liabilities are normally paid from the General Fund.

The annual requirements to pay principal and interest at a rate of 4.05% on capital notes payable due to PNC Equipment Finance (formerly National City Commercial Capital) at June 30, 2011 are as follows (note that the payment normally due in FY2012 was paid in June 2011). The next payment is due in FY2013 (July 2012).

	<u>Principal</u>	<u>Interest</u>
FY2012	\$ -	\$ -
FY2013	2,146,401	420,189
FY2014	2,262,131	333,260
FY2015	2,380,794	241,643
FY2016	2,395,930	145,221
FY2017	<u>1,189,781</u>	<u>48,186</u>
Totals	<u><u>\$ 10,375,037</u></u>	<u><u>\$ 1,188,499</u></u>

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

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

1. Plan Description

The NNERF is a single employer, defined benefit, public employee retirement system established and administered by the City to provide pension benefits for employees of the local government, including the School Board. For those school teachers and administrative support personnel employed by the Newport News School Board, the City plan is a supplement to the Virginia Retirement System. The fund has been closed to new School Board hires and rehires effective July 1, 2009 and since March 1, 2010 for new City hires.

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

Full-time regular employees hired on or before July 1, 2009 and March 1, 2010 for the School Board and the City are members of this fund. For the years ended June 30, 2011 and June 30, 2010, the total payroll of the City and the School Board was approximately \$342.9 million and \$347.4 million respectively, with approximately \$261.8 million and \$283.1 million covered by NNERF. At June 30, 2011, NNERF membership consisted of:

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	Retirees and Beneficiaries	Vested Terminated Employees	Active Employees Vested	Active Employees Non-Vested	Total
City general	997	624	1,084	341	3,046
City police and fire	695	235	657	305	1,892
Public utilities	206	116	239	48	609
School VRS	2,124	1,064	2,340	557	6,085
School Non-VRS	696	219	683	184	1,782
Total	<u>4,718</u>	<u>2,258</u>	<u>5,003</u>	<u>1,435</u>	<u>13,414</u>

NNERF provides retirement benefits as well as death and disability benefits. All benefits vest after five years of credited service. Employees who retire at or after age 60 (50 for police officers, firefighters and deputy sheriffs) with five years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2.0% of their final average compensation for each year of credited service accumulated to February 28, 2010 and 1.85% on and after March 1, 2010. Final average compensation means the average rate of salary received during the highest paid 36 consecutive months of credited service. Employees with 30 years (25 for police officers, firefighters and deputy sheriffs) credited service may retire at any age with full benefits. Employees (other than police officers, firefighters and deputy sheriffs) with 25 years of service may retire prior to age 60 and receive a reduced benefit. Covered employees do not contribute to NNERF.

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

2. Concentrations

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

3. Contributions Required and Contributions Made

NNERF funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Level percentage of payroll employer contribution rates are determined using the entry age actuarial cost method. The amortization period for the

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unfunded actuarial accrued liability has been reduced from 40 years to 30 years to comply with the requirements of GASB Statement No. 27.

Contributions for normal costs totaling \$27,398,599 and \$21,167,724 were made by the employer during the years ended June 30, 2011 and 2010. The percentage of employer contributions to current year covered payroll was 10.5% and 7.5% for the fiscal year ending June 30, 2010.

The percentage of normal cost to current year covered payroll was 5.07% and 4.98% for fiscal years ending June 30, 2011 and 2010, respectively. The employer's annual pension cost and net pension obligation to NNERF for 2011 and 2010 were as follows:

(000's omitted)

	2011	2010
Annual Required Contribution (ARC)	\$ 56,662	\$ 40,967
Interest on net pension obligation	11,353	9,886
Adjustment to ARC	(12,355)	(10,759)
Annual pension cost	55,660	40,094
Contributions made	(27,399)	(21,168)
Increase in net pension obligation	28,261	18,926
Net pension obligation (asset), beginning of year	146,489	127,563
Net pension obligation (asset), end of year	<u>\$ 174,750</u>	<u>\$ 146,489</u>

Schedule of Funding Progress (in millions):

The funded status of the plan as of June 30, 2011 was as follows:

Actuarial valuation date	Actuarial value of assets	Actual accrued liability (AAL)	Overfunded (unfunded) accrued liability (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
June 30, 2011	\$ 641	\$ 1,145	\$ (504)	56%	\$ 262	-192.4%

Schedules of Funding Progress and Employer Contributions are included in the Required Supplemental Information Section.

The annual required contribution for the current year was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The amortization method

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used is level dollar open. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses) (b) projected salary increases of 1.50% per year and (c) 1.9% per year cost-of-living adjustments. All assumptions include an inflation component of 2.8%. The assumptions did not include funding of other post-retirement benefit. The actuarial value of assets was determined under the average value method.

4. Three-Year Trend Information

(000's omitted)

Fiscal year ended	Annual Pension Cost (APC)	Percentage of APC contributed	Net pension obligation (asset)
June 30, 2011	\$ 55,660	49.2%	\$ 174,750
June 30, 2010	40,094	52.8%	146,489
June 30, 2009	39,597	49.9%	127,563

(b) Virginia Retirement System:

1. Plan Description

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

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

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

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

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

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benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.

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

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

The System issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained from the VRS Web site at www.varetire.org/Pdf/Publications/2010-annual-report.pdf or by writing the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

2. Funding Policy

Members of all plans are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5.00% of their annual reported compensation to the VRS. All or part of the 5.00% member contribution may be assumed by the employer. This 5% member contribution has been assumed by the School Board except that employees hired or rehired on or after July 1, 2010 and have no prior VRS credited service will be required to contribute the 5% member contribution. The School Board is required to contribute the remaining amounts necessary to fund their participation in the VRS using the actuarial bases specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The contribution rate for the fiscal year ended 2011 was 8.93% of covered annual payroll for the School Board for professional employees. The contribution rate for the single employer plan for non-professional employees was 13.97%.

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3. Annual Pension Cost

For 2011, the annual pension cost of \$14.1 million for the School Board was equal to the required and actual contributions.

The annual required contributions for the cost-sharing multiple employer plan were determined as part of the June 30, 2011 actuarial valuation. The actuarial assumptions included (a) a rate of return on investment of 7.5% to 8% (b) projected salary increases ranging from 3.50% to 5.6% per year, and (c) cost-of-living adjustments of 2.5% to 3%. Both (a) and (b) included an inflation component of 2.5% to 3%. The actuarial values of the respective entities' assets are equal to the modified market value of the assets. This method was determined using techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis within a period of 30 years or less.

The annual required contributions for the single employer plan were determined as part of the June 30, 2010 actuarial valuation. The actuarial assumptions included (a) a rate of return on investment of 7.0% to 7.5% (b) projected annual cost-of-living adjustments of 2.50% and salary increases that range between 3.75% and 5.60% depending upon the member's service and classification). Liabilities were determined under the Entry Age Normal actuarial cost method. There is no unfunded actuarial accrued liability at June 30, 2011 but if there is one in the future it would be amortized as a level percentage of payroll on an open basis within a period of 20 years.

4. Schedule of Funding Progress (in thousands):

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

Fiscal year ending		Annual Pension Cost (APC)	Percentage of APC contributed	Net pension obligation
06/30/11	\$	14,086,314	100.0%	-
06/30/10		18,446,055	100.0%	-
06/30/09		22,520,695	100.0%	-

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

1. Plan Description

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

The School Board participants in the Virginia Pooled OPEB Trust Fund sponsored by the Virginia Municipal League and the Virginia Association of Counties (VML/VACo). The Virginia Pooled OPEB Trust Fund is established as an investment vehicle for participating employers to accumulate assets to fund OPEB. Plan assets for purposes of GASB Statement No. 45 are usually in the form of stocks, bonds, and other classes of investments, that have been segregated and restricted in a trust, in which (a) contributions to the plan are irrevocable, (b) assets are dedicated to providing benefits to retirees and their beneficiaries, and (c) assets are legally protected from creditors of the employer or plan administrator, for the payment of benefits in accordance with the terms of the plan. Further information, including financial statements, can be obtained by writing to VML/VACo Finance Program, 1108 East Main Street, Richmond, Virginia 23219.

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

Approximately 422 School Board retirees are grandfathered to participate in the City OPEB Fund's sponsored life insurance coverage paid for by the School Board. The premiums are not material. These retirees have elected supplemental coverage under the City OPEB fund.

The OPEB Trust Fund does not issue a separate report.

2. Contributions Required and Contributions Made

OPEB funding policy provides for periodic employer contributions at actuarially determined rates, that expresses as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. A level percentage of payroll with a 30-year

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amortization period is used for purposes of computing the minimum accrual under GASB 45. The projected unit credit method is used for cost calculations.

Contributions to normal costs totaling \$1.0 million were made during the year ended June 30, 2011. The School Board's annual OPEB cost for the current year is as follows:

(In millions)

Actuarial Required Contribution (ARC)	\$ 7.1
Interest on net pension obligation	2.2
Adjustment to ARC	<u>(2.5)</u>
Annual pension cost	6.8
Actual Contribution	<u>7.6</u>
Decrease in net OPEB obligation	(0.8)
Net OPEB obligation, beginning of year	<u>28.6</u>
Net OPEB obligation, end of year	<u>\$27.8</u>

3. Funding Status and Funding Progress

The funded status of the plan as of June 30, 2011 was as follows:

(In millions)

Actuarial value of assets	\$ 6.8
Actuarial Accrued Liability (AAL)	<u>77.8</u>
Unfunded AAL (UAAL)	<u>\$71.0</u>
Funded ratio	8.7%
Covered payroll	\$147.0
UAAL as a percentage of covered payroll	48.3%

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

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

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of sharing benefit costs between the city and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Actuarial valuation date	6/30/10
Actuarial cost method	Projected Unit Credit
Amortization method	Level Dollar Closed
Amortization period	30 years
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	NA%
Healthcare inflation rate	4.50%

(8) Self-Insurance

(a) Medical Benefits

The School Board is self-insured for its medical benefits through the General Fund for employees up to \$175,000 per employee per year and 110% of adjusted subscriber charges (maximum liability) for the year (\$28,146,566 for 2011). Claims in excess of the limitation are covered by third-party insurance. Expenditures are charged to the fund to which the employees' payroll expenditure is charged at amounts that approximate what third-party insurers would have charged. The insurance coverage is substantially the same as in prior fiscal years.

Claims processing and payments for the medical claims are made through a third-party administrator. The settlement using reinsurance did not exceed insurance for fiscal years 2011 or 2010. 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, 2011 are recognized as a long-term liability due within one year in the statement of net assets. Changes in the incurred but not reported amount during the fiscal years ended June 30, 2011 and 2010 were as follows:

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	<u>2011</u>	<u>2010</u>
Claims payable at beginning of year	\$ 2,430,625	\$ 2,204,000
Claims and changes in estimates	29,025,009	26,119,024
Claim payments	<u>(28,683,934)</u>	<u>(25,892,399)</u>
Claims payable at end of year	<u>\$ 2,771,700</u>	<u>\$ 2,430,625</u>

(b) Workers' Compensation

The School Board self-insures for workers' compensation through the General 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, 2011 are accounted for as long-term liabilities. The following is a reconciliation of changes in workers' compensation claims payable for years ended June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Claims payable at beginning of year	\$ 1,597,852	\$ 1,484,181
Claims and changes in estimates	1,046,121	728,781
Claim payments	<u>(679,473)</u>	<u>(615,110)</u>
Claims payable at end of year	<u>\$ 1,964,500</u>	<u>\$ 1,597,852</u>

A loss analysis was conducted by Oliver Wyman Actuarial Consulting, Inc. on this fund. The total actuarially computed liability as of June 30, 2011 was determined to be approximately \$2.0 million.

(c) Other

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

Included in the fund balance of the General Fund of the School Board are reserved and designated fund balances related to self-insurance activities.

(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

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June 30, 2011

losses incurred as a result of claims existing as of June 30, 2011 will not be material to the financial statements.

(b) Grants

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

(10) Related Organizations

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

(11) Related Party Transaction

The School Board operates by authority of the charter of the City. The City provides annual appropriations to the School Board for operating the school system and is obligated for all bonded indebtedness relations to the School Board. The City is also the custodian of the majority of the School Board's cash and temporary investments and also provides a defined benefit pension plan to employees hired before July 1, 2009. The City provides services to the School Board, primarily legal services, 800 megahertz radio repairs and services related to the vehicle self-insurance program, through the City's General Fund. The City provides school police officers at no charge to the School Board. 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, 2011 was \$404,317. The School Board provides fiber WAN services and fiber WAN installation to the City during the year ended June 30, 2011 at charges of \$121,676. Amounts due to and due from the City of Newport News for services are negligible. Amounts are generally settled on a monthly basis. The City of Newport News Parks & Recreation Department provides services to children and citizens after regular school hours in School Board buildings at no rental charge.

At June 30, 2011, the City owed the School Board \$7,646,883 for capital projects funding.

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

REQUIRED SUPPLEMENTARY INFORMATION

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

General Fund

Schedule of Revenues, Expenditures and Changes
in Fund Balance – Budget and Actual (Budget Basis) (Unaudited)
Year ended June 30, 2011

	Original Budget	Amended Budget	Actual	Variance
Revenues:				
Intergovernmental:				
Commonwealth of Virginia:				
Standards of Quality funds	\$ 137,536,086	\$ 137,536,086	\$ 133,006,200	\$ (4,529,886)
Incentive funds	3,802,695	3,802,695	3,545,659	(257,036)
Categorical funds	131,661	131,661	96,353	(35,308)
Lottery funded programs	21,492,234	21,492,234	20,524,955	(967,279)
Other state agencies	20,000	20,000	12,862	(7,138)
City of Newport News	109,200,000	109,200,000	109,200,000	-
Federal government	4,091,582	4,091,582	5,216,293	1,124,711
Charges for services	1,945,500	1,945,500	2,701,892	756,392
Total revenues	278,219,758	278,219,758	274,304,214	(3,915,544)
Expenditures:				
Academic services:				
Classroom instruction	106,081,126	103,521,977	102,505,809	1,016,168
Office of the principal	16,652,567	16,361,907	16,589,943	(228,036)
Special education	34,304,559	34,094,684	32,636,604	1,458,080
Career and technical	5,549,820	5,527,524	5,081,611	445,913
Talented and gifted	4,508,367	4,767,667	4,812,856	(45,189)
Summer school	1,214,716	1,214,716	638,025	576,691
Adult education	30,000	30,000	30,000	-
Pre school	5,687,632	5,688,132	5,687,393	739
Guidance and counseling	6,471,279	6,220,727	6,081,325	139,402
Improvement of instruction - staff	5,572,011	5,608,918	5,022,084	586,834
Media services	4,938,936	5,013,073	4,736,170	276,903
School social workers	1,523,217	1,523,217	1,470,108	53,109
Homebound	486,230	486,230	447,604	38,626
Psychological services	1,554,946	1,554,946	1,509,688	45,258
Instructional support -student leadership	1,077,926	1,233,383	1,246,438	(13,055)
Attendance	671,587	671,587	586,115	85,472
Health services	3,172,849	3,172,849	3,090,168	82,681
Total academic services	199,497,768	196,691,537	192,171,941	4,519,596
Transportation services				
Transportation administration	2,358,222	2,348,747	2,303,617	45,130
Vehicle operation services	10,113,472	10,122,947	10,380,095	(257,148)
Monitoring services	1,893,861	1,893,861	1,881,121	12,740
Vehicle maintenance services	2,218,960	2,218,960	2,453,102	(234,142)
Total transportation services	16,584,515	16,584,515	17,017,935	(433,420)
Business and support services:				
Business	1,085,896	1,085,896	1,078,397	7,499
Purchasing	606,124	590,824	559,671	31,153
Athletics	2,291,831	2,377,902	2,414,743	(36,841)
Accountability	795,051	795,051	679,179	115,872
Operations	716,749	716,749	594,249	122,500
Grounds services	834,675	849,675	885,879	(36,204)
Building services	23,449,185	24,707,361	25,873,040	(1,165,679)
Vehicle operation services	314,860	302,860	313,715	(10,855)
Warehouse	283,706	283,706	280,584	3,122

**THE SCHOOL BOARD OF THE
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General Fund

Schedule of Revenues, Expenditures and Changes
in Fund Balance – Budget and Actual (Budget Basis) (Unaudited)
Year ended June 30, 2011

	Original Budget	Amended Budget	Actual	Variance
Print shop	71,426	71,426	(28,127)	99,553
Facilities	477,500	1,776,501	1,779,192	(2,691)
Total business and support services	30,927,003	33,557,951	34,430,522	(872,571)
Technology services:				
Technology - classroom instruction	68,500	129,403	108,370	21,033
Technology - instructional support	5,385,754	5,360,594	5,665,861	(305,267)
Information technology	5,052,460	5,185,700	4,980,350	205,350
Technology - operations & maintenance	846,136	817,236	831,586	(14,350)
Total technology services	11,352,850	11,492,933	11,586,167	(93,234)
Human Resources:				
Human resources	1,597,229	1,621,929	1,554,174	67,755
Security services	2,625,256	2,625,256	2,509,501	115,755
Total human resources	4,222,485	4,247,185	4,063,675	183,510
Administration:				
Information services	1,057,772	1,064,272	1,035,296	28,976
School Board	257,187	257,187	225,520	31,667
Superintendent's office	1,037,276	1,041,276	1,044,258	(2,982)
Total administration	2,352,235	2,362,735	2,305,074	57,661
Total expenditures	264,936,856	264,936,856	261,575,314	3,361,542
Total revenues over expenditures	13,282,902	13,282,902	12,728,900	(554,002)
Other financing uses -				
Transfer to City of Newport News – debt service	13,282,902	13,282,902	13,182,902	100,000
Net change in fund balances	-	-	(454,002)	(454,002)
Fund balance at beginning of year	39,395,320	39,395,320	39,395,320	-
Less encumbrances outstanding at June 30, 2010 expended or canceled at June 30, 2011	-	-	(11,291,049)	(11,291,049)
Add encumbrances outstanding at June 30, 2011	-	-	11,091,954	11,091,954
Decrease in assigned for health self-insurance	-	-	(3,052,762)	(3,052,762)
Decrease in assigned for textbooks	-	-	(642,418)	(642,418)
Decrease in assigned for workers' compensation	-	-	(67,967)	(67,967)
Net transfer to OPEB Trust Fund (non budget basis expenditure)	-	-	(3,242,131)	(3,242,131)
Increase in nonspendable for imprest funds	-	-	850	850
Decrease in nonspendable inventories	-	-	(34,502)	(34,502)
Fund balance at end of year	<u>\$ 39,395,320</u>	<u>\$ 39,395,320</u>	<u>\$ 31,703,293</u>	<u>\$ (7,692,027)</u>

**THE SCHOOL BOARD OF THE
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Required Supplementary Information

Schedule of Funding Progress
for Other Postemployment Benefits (Unaudited)
Year ended June 30, 2011
(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))
6/30/11	\$ 6.8	\$ 77.8	\$ (71.0)	8.74%	\$ 147.0	48.3%
6/30/10	3.2	132.7	(129.5)	2.41%	181.0	71.5%
6/30/09	2.7	180.5	(177.8)	1.50%	184.2	96.5%

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

Required Supplementary Information

Schedule of Funding Progress
for the School Board's Single Employer Plan Administered by the Virginia Retirement System (Unaudited)
Year ended June 30, 2011
(Amount in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (a-b)	Funded Ratio (a/b)	Covered Payroll (d)	UAAL as a Percentage of Covered Payroll ((b-a)/(d))
6/30/10	\$ 79	\$ 16	\$ 63	493.8%	\$ 983	-6.4%

Plan started July 1, 2009. June 30, 2010 is the only actuarial valuation done thus far.

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**
Required Supplementary Information

Schedule of Funding Progress
for the Newport News Employee's Retirement Fund (Unaudited)
Year ended June 30, 2011
(Amount 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))
6/30/11	\$ 641	\$ 1,145	\$ (504)	56.0%	\$ 262	192.4%
6/30/10	638	1,110	(472)	57.5%	283	166.8%
6/30/09	711	1,115	(404)	63.8%	314	128.7%
6/30/08	772	1,030	(258)	75.0%	314	82.2%
6/30/07	746	954	(208)	78.2%	305	68.2%

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**
Required Supplementary Information

Schedule of Employer Contributions (unaudited)
Year ended June 30, 2011

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

<u>Fiscal year end</u>	<u>Annual Required Contribution</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
6/30/2011	\$ 197.9	\$ 197.9	100%
6/30/2010	39.1	39.1	100%

June 30, 2010 was the first year the plan was established.

For Other Postemployment Benefits (Unaudited)
(Amounts in millions)

<u>Fiscal year end</u>	<u>Annual Required Contribution</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
6/30/2011	\$ 7.1	\$ 7.6	107%
6/30/2010	7.0	5.3	76%
6/30/2009	14.9	3.2	21%
6/30/2008	18.2	3.1	17%

NOTE - Prior to June 30, 2008 OPEB contributions were combined with City pension contributions and were not accounted for separately.

Starting the year ending July 1, 2010, the School Board established its own OPEB Trust Fund apart from the City of Newport News OPEB Trust Fund

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2011

(1) Budgetary Data

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

- (i) On or before April 1, the School Board submits to the City Council of the City proposed operating budgets for the General Fund for the forthcoming fiscal year. The operating budgets include proposed expenditures and other financing uses and the means of financing them.
- (ii) A public hearing on the City budget, which includes the School Board, is held after a synopsis of the budget is published in a local newspaper of general circulation. An appropriation ordinance must be adopted by the City Council by May 15.
- (iii) The School Board and Superintendent may amend the budget or make transfers between functions and budgetary line items without City Council approval. However, the School Board may not make transfers or expend any sum of money in excess of City Council appropriations, at the fund level, without the consent of the City Council. The legal level of budgetary control for the general fund is the fund level; however, management control is exercised over the budget at the budgetary line item level. Appropriations, except for encumbrances and reserved fund balances, lapse at year end. Encumbrances and reserved fund balances outstanding at year end are re-appropriated in the succeeding year.
- (iv) Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP), except that encumbrances are included as budgetary expenditures and that net revenues and expenditures for the medical self-insurance program are excluded from the budget comparison.

Annual legally adopted operating budgets are not adopted for any other Special Revenue Funds. Program budgets for these funds are approved by executive departments on a basis consistent with the related grant applications. Project and program budgets are utilized in the Capital Projects Funds and certain Special Revenue Funds where appropriations remain open and carry over to succeeding years.

(2) Intergovernmental Revenue – City of Newport News

A reconciliation of intergovernmental revenue follows:

City of Newport News budget appropriations	\$ 109,200,000
Less amounts recorded by City of Newport News	<u>(14,149,573)</u>
City of Newport News revenue - GAAP basis	<u><u>\$ 95,050,427</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 Asset and Liabilities – Agency Fund

Year ended June 30, 2011

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year
Asset:				
Cash and cash equivalents	\$ 1,518,471	\$ 3,561,994	\$ 3,654,732	\$ 1,425,733
Liabilities:				
Accounts payable	\$ 55,796	\$ 28,612	\$ 55,796	\$ 28,612
Due to students	1,462,675	3,533,382	3,598,936	1,397,121
Total liabilities	\$ 1,518,471	\$ 3,561,994	\$ 3,654,732	\$ 1,425,733

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA
NON-MAJOR GOVERNMENTAL FUNDS**

June 30, 2011

Special Revenue Funds:

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 State of Virginia provides grant funding to be used for construction/renovation of school buildings.

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

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

Combining Balance Sheet

Other Governmental Funds

June 30, 2011

	Special Revenue Funds		Capital Projects Funds		Total Other Governmental Funds
Assets	Child Nutrition	Adult Education	State Construction	General Capital	
Cash and cash equivalents	\$ 3,138,540	\$ 330,012	\$ 1,517,522	\$ 1,328,816	\$ 6,314,890
Accounts receivable	-	242,576	-	-	242,576
Due from other governments:					
Federal -					
Department of Agriculture	581,746	-	-	-	581,746
Inventories, at cost	308,020	-	-	-	308,020
Total assets	<u>\$ 4,028,306</u>	<u>\$ 572,588</u>	<u>\$ 1,517,522</u>	<u>\$ 1,328,816</u>	<u>\$ 7,447,232</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 243,102	\$ 279	\$ 128,433	\$ -	\$ 371,814
Accrued liabilities	-	-	-	-	-
Total liabilities	<u>243,102</u>	<u>279</u>	<u>128,433</u>	<u>-</u>	<u>371,814</u>
Fund balances:					
Nonspendable:					
Inventories	308,020	-	-	-	308,020
Restricted:					
Adult education services	-	171,670	-	-	171,670
Capital projects	-	-	1,328,220	1,328,816	2,657,036
Child nutrition services	2,500,770	-	-	-	2,500,770
Assigned to:					
Adult education services	-	400,562	-	-	400,562
Child nutrition services	972,525	-	-	-	972,525
Contractual obligations	3,889	77	60,869	-	64,835
Unassigned	-	-	-	-	-
Total fund balances	<u>3,785,204</u>	<u>572,309</u>	<u>1,389,089</u>	<u>1,328,816</u>	<u>7,075,418</u>
Total liabilities and fund balances	<u>\$ 4,028,306</u>	<u>\$ 572,588</u>	<u>\$ 1,517,522</u>	<u>\$ 1,328,816</u>	<u>\$ 7,447,232</u>

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Other Governmental Funds
Year ended June 30, 2011

	Special Revenue Funds		Capital Project Funds		Total Other Governmental Funds
	Child Nutrition	Adult Education	State Construction	Operating Capital	
Revenues:					
Intergovernmental:					
City of Newport News	\$ -	\$ -	\$ -	\$ 1,000,000	\$ 1,000,000
Commonwealth of Virginia	262,036	213,997	-	-	476,033
Federal government	10,344,711	-	-	-	10,344,711
Charges for services	4,059,105	502,886	-	-	4,561,991
Investment income	6,980	-	-	-	6,980
Total revenues	14,672,832	716,883	-	1,000,000	16,389,715
Current expenditures:					
Academic services	-	744,516	-	-	744,516
Business and support services	178,119	-	-	-	178,119
Child nutrition services	13,630,294	-	-	-	13,630,294
Capital outlay	-	-	153,865	-	153,865
Total expenditures	13,808,413	744,516	153,865	-	14,706,794
Excess (deficiency) of revenues over expenditures	864,419	(27,633)	(153,865)	1,000,000	1,682,921
Other financing sources -					
Transfers in	-	30,000	-	-	30,000
Net change in fund balances	864,419	2,367	(153,865)	1,000,000	1,712,921
Fund balances at beginning of year	2,907,955	569,942	1,542,954	328,816	5,349,667
Increase in nonspendable inventory	12,830	-	-	-	12,830
Fund balances at end of year	\$ 3,785,204	\$ 572,309	\$ 1,389,089	\$ 1,328,816	\$ 7,075,418

STATISTICAL SECTION

STATISTICAL SECTION

(Unaudited)

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

Schedule of Property Tax Levies and Collections

Schedule of Property Valuations – Assessed Valuations

Schedule of Property Tax Rates

Legal Debt Limit

Construction and Property Values and Bank Deposits

STATISTICAL SECTION

(Unaudited)

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

Contents	Page
Financial Trends	S-1
<i>These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.</i>	
Revenue Capacity	S-5
<i>The School Board does not have the ability to generate its own revenue, but instead receives revenue generated by the City of Newport News, the Commonwealth of Virginia and the Federal government.</i>	
Debt Capacity	S-7
<i>The School Board cannot issue general obligation bonded debt. The debt for capital leases and facility notes payable is provided.</i>	
Demographic and Economic Information	S-8
<i>The schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.</i>	
Operating Information	S-10
<i>These schedules contain service and capital asset data to help the reader understand how the information of the government's financial report relates to the services the government provides and the activities it performs.</i>	

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

Table I

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**
Net Assets by Component
Last Ten Fiscal Years
(accrual basis of accounting)
Fiscal Year

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Governmental activities										
Invested in capital assets, net of related debt	\$ 70,529,693	\$ 67,044,965	\$ 63,352,661	\$ 62,882,021	\$ 62,872,389	\$ 55,655,762	\$ 58,043,143	\$ 56,433,717	\$ 57,205,176	\$ 61,780,411
Restricted	3,363,218	5,738,705	-	-	-	-	-	-	-	-
Unrestricted	8,407,804	26,583	9,026,271	17,557,851	15,122,510	33,627,682	20,320,652	17,513,844	12,260,185	8,545,768
Total primary government net assets	<u>\$ 82,300,715</u>	<u>\$ 72,810,253</u>	<u>\$ 72,378,932</u>	<u>\$ 80,439,872</u>	<u>\$ 77,994,899</u>	<u>\$ 89,283,444</u>	<u>\$ 78,363,795</u>	<u>\$ 73,947,561</u>	<u>\$ 69,465,361</u>	<u>\$ 70,326,179</u>

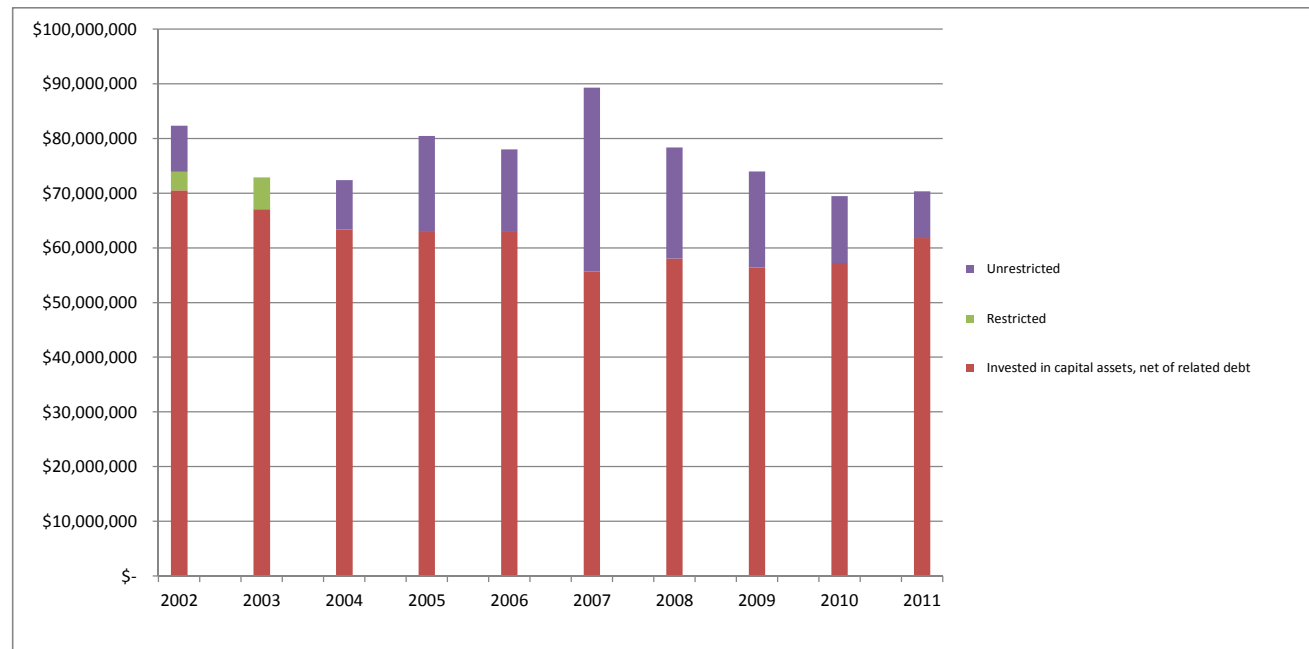


Table II

**THE SCHOOLD 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

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Expenses										
Governmental activities:										
Academic services	\$ 189,573,850	\$ 199,315,146	\$ 199,192,874	\$ 212,060,368	\$ 221,222,204	\$ 233,361,627	\$ 249,356,000	\$ 252,927,122	\$ 240,751,459	\$ 230,788,505
Transportation services	11,283,597	13,016,938	13,570,012	14,976,768	15,875,203	16,452,839	18,436,799	19,258,223	18,284,090	17,460,802
Business and support services	25,142,280	28,570,718	26,100,723	28,087,367	29,105,006	29,730,401	34,236,753	36,894,552	29,659,712	33,490,915
Child nutrition services	11,942,136	11,929,650	11,950,822	12,618,956	13,364,923	13,433,566	14,677,570	15,180,605	13,987,487	13,766,336
Technology services	-	-	9,480,749	9,803,388	9,345,134	11,166,586	13,683,308	13,822,462	21,723,542	14,786,921
Human resources	1,073,929	1,054,527	3,020,919	4,474,037	5,597,731	8,476,045	7,271,225	7,096,590	5,831,201	5,263,671
Administration	2,293,092	2,308,361	2,256,463	2,732,655	3,145,969	3,101,378	3,469,967	3,072,736	2,610,749	2,479,316
Interest on capital debt	139,594	194,519	180,227	548,331	208,861	1,795,325	1,754,471	846,193	1,363,623	639,293
Total primary government expenses	241,448,478	256,389,859	265,752,789	285,301,870	297,865,031	317,517,767	342,886,093	349,098,483	334,211,863	318,675,759
Program Revenues										
Charges for services										
Academic services	1,181,504	1,162,627	1,303,193	1,350,358	1,298,301	1,362,393	1,557,444	1,967,773	2,048,618	1,872,761
Business and support services	195,000	283,349	224,922	392,302	497,998	1,107,445	730,821	701,607	1,143,087	1,066,629
Child nutrition services	4,271,786	4,337,918	4,284,748	4,526,021	4,605,387	4,755,748	4,596,842	4,435,779	4,019,072	4,059,105
Technology services	-	-	-	-	-	-	-	241,547	247,226	265,388
Operating grants and contributions	46,835,917	43,746,557	45,732,547	52,405,547	55,052,021	53,970,556	55,365,851	59,273,209	67,739,489	68,789,246
Capital grants and contributions	1,194,000	632,031	1,207,002	3,088,078	2,859,275	3,506,696	5,150,813	3,083,590	1,918,742	5,687,811
Total primary government program revenues	53,678,207	50,162,482	52,752,412	61,762,306	64,312,982	64,702,838	67,401,771	69,703,505	77,116,234	81,740,940
Net Expense/(Revenue)										
Total primary government net expense	\$ 187,770,271	\$ 206,227,377	\$ 213,000,377	\$ 223,539,564	\$ 233,552,049	\$ 252,814,929	\$ 275,484,322	\$ 279,394,978	\$ 257,095,629	\$ 236,934,819

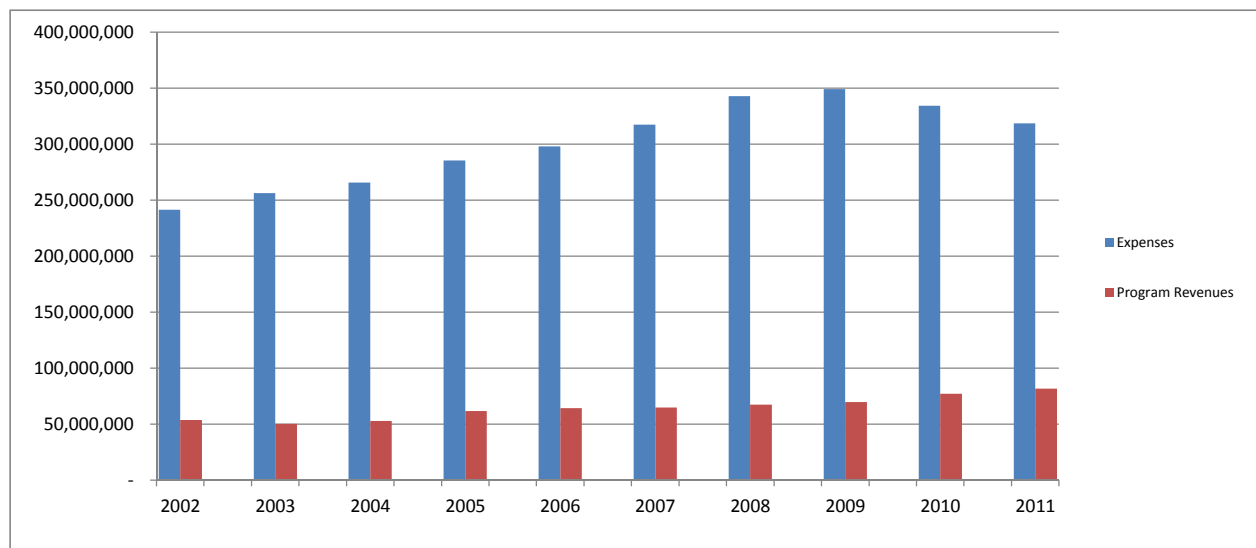


Table III

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**
General Revenues and Total Change in Net Assets
Last Ten Fiscal Years
(accrual basis of accounting)
Fiscal Year

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Net Expense										
Total primary government net expense	\$ 187,770,271	\$ 206,227,377	\$ 213,000,377	\$ 223,539,564	\$ 233,552,049	\$ 252,814,929	\$ 275,484,322	\$ 279,394,978	\$ 257,095,629	\$ 236,934,819
General Revenues and Other Changes in Net Assets										
Governmental activities:										
Grants not restricted to specific programs										
City of Newport News	78,134,669	74,094,857	85,829,654	88,151,971	84,558,244	97,701,846	93,681,119	95,773,213	101,052,200	99,557,045
Commonwealth of Virginia	107,125,852	116,389,313	120,702,233	138,129,797	141,414,267	162,492,690	163,806,388	169,035,453	145,390,261	133,006,200
Federal government	4,338,889	4,743,154	5,041,864	5,235,651	4,561,386	3,326,582	5,681,596	7,443,349	6,148,525	5,216,293
Interest	229,838	442,634	93,396	83,085	97,051	172,616	179,679	56,401	22,443	16,099
Miscellaneous	1,002,163	1,066,957	901,909	-	476,128	409,740	1,215,891	-	-	-
Total general revenues	190,831,411	196,736,915	212,569,056	231,600,504	231,107,076	264,103,474	264,564,673	272,308,416	252,613,429	237,795,637
Change in Net Assets	3,061,140	(9,490,462)	(431,321)	8,060,940	(2,444,973)	11,288,545	(10,919,649)	(7,086,562)	(4,482,200)	860,818
Net assets at beginning of year	79,239,575	82,300,715	72,810,253	72,378,932	80,439,872	77,994,899	89,283,444	78,363,795	73,947,561	69,465,361
Prior period adjustment	-	-	-	-	-	-	-	2,670,328	-	-
Net assets at end of year	\$ 82,300,715	\$ 72,810,253	\$ 72,378,932	\$ 80,439,872	\$ 77,994,899	\$ 89,283,444	\$ 78,363,795	\$ 73,947,561	\$ 69,465,361	\$ 70,326,179

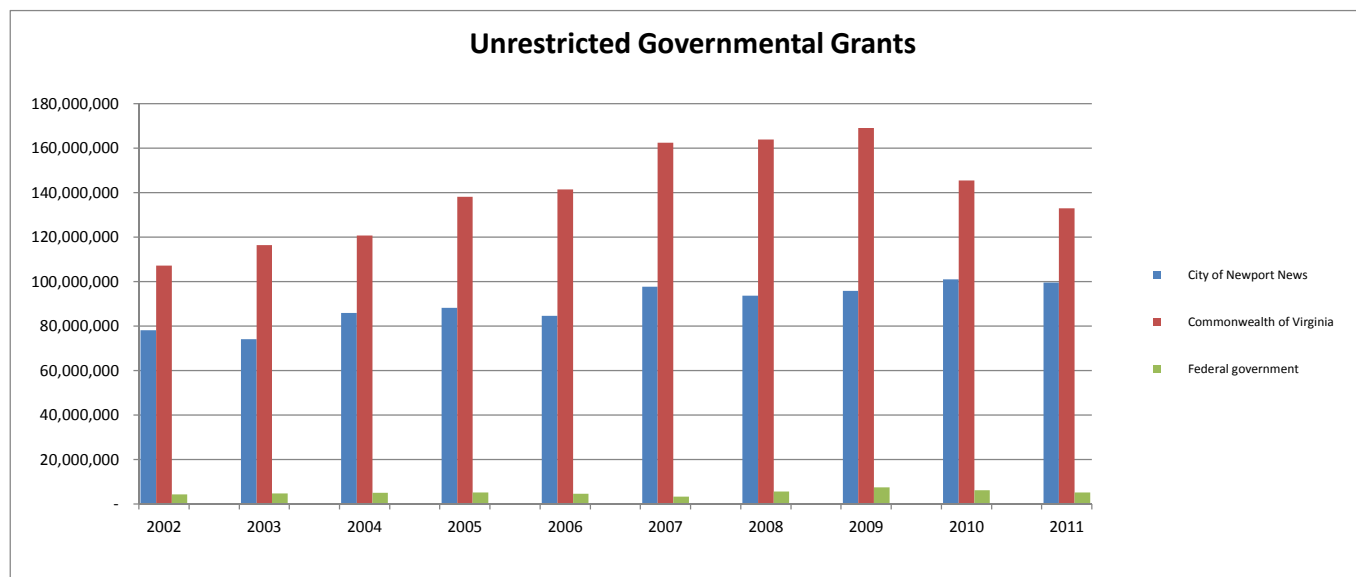


Table IV

**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

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General Fund										
Reserved	\$ 9,768,011	\$ 11,687,938	\$ 15,487,793	\$ 18,918,692	\$ 18,323,640	\$ 24,214,767	\$ 26,751,505	\$ 33,179,119	\$ -	\$ -
Unreserved	3,693,652	3,659,042	2,870,939	4,073,886	4,290,893	4,819,439	7,373,979	8,982,912	-	-
Nonspendable	-	-	-	-	-	-	-	-	690,372	656,720
Assigned to	-	-	-	-	-	-	-	-	38,704,948	31,046,573
Unassigned	-	-	-	-	-	-	-	2,820,409	-	-
Total general fund	<u>\$ 13,461,663</u>	<u>\$ 15,346,980</u>	<u>\$ 18,358,732</u>	<u>\$ 22,992,578</u>	<u>\$ 22,614,533</u>	<u>\$ 29,034,206</u>	<u>\$ 34,125,484</u>	<u>\$ 44,982,440</u>	<u>\$ 39,395,320</u>	<u>\$ 31,703,293</u>
All Other Governmental Funds										
Reserved	\$ 2,387,650	\$ 1,097,438	\$ 989,058	\$ 6,700,117	\$ 3,739,314	\$ 8,555,882	\$ 3,673,127	\$ 2,572,199	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds	1,427,247	1,488,932	1,510,359	1,281,855	1,044,693	2,041,666	2,314,115	2,632,636	-	-
Capital project funds	788,449	(5,693,791)	(4,541,645)	(6,170,129)	(5,303,241)	1,347,479	2,907,202	2,358,745	-	-
Nonspendable	-	-	-	-	-	-	-	-	295,190	308,020
Restricted	-	-	-	-	-	-	-	-	1,871,770	5,483,662
Assigned to	-	-	-	-	-	-	-	-	7,282,680	7,352,044
Total all other governmental funds	<u>\$ 4,603,346</u>	<u>\$ (3,107,421)</u>	<u>\$ (2,042,228)</u>	<u>\$ 1,811,843</u>	<u>\$ (519,234)</u>	<u>\$ 11,945,027</u>	<u>\$ 8,894,444</u>	<u>\$ 7,563,580</u>	<u>\$ 9,449,640</u>	<u>\$ 13,143,726</u>

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

Table V

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

Governmental Funds Revenues and Other Financing Sources

Last Ten Fiscal Years

(modified accrual basis of accounting)

(Amounts in thousands)

Fiscal Year	City of Newport News	Commonwealth of Virginia	Federal Government	Other	Other Financing Sources	Total Revenues and Other Financing Sources
2002	\$ 78,590	\$ 131,205	\$ 27,835	\$ 6,880	\$ -	\$ 244,510
2003	80,286	135,986	29,525	7,294	3,078	256,169
2004	85,830	140,022	32,661	6,808	10,142	275,463
2005	93,145	164,964	33,488	6,759	14,496	312,852
2006	88,432	168,557	35,330	6,975	-	299,294
2007	104,647	187,784	35,513	7,808	3,069	338,821
2008	104,683	190,951	39,054	8,392	-	343,080
2009	102,196	197,538	41,006	7,695	1,114	349,549
2010	104,664	173,239	47,779	7,659	74	333,415
2011	104,112	160,146	52,481	7,353	30	324,122

Table VI

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**
Governmental Funds Expenditures, Other Financing Sources, Change in Fund Balance and Debt Service Ratio
Last Ten Fiscal Years
(modified accrual basis of accounting)
(Amounts in thousands)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Revenues and other financing sources	\$ 244,510	\$ 256,169	\$ 275,463	\$ 312,852	\$ 299,294	\$ 338,821	\$ 343,080	\$ 349,549	\$ 333,415	\$ 324,122
Academic services	180,485	193,154	191,830	203,995	211,997	229,920	236,249	238,023	234,744	225,908
Transportation services	10,422	11,404	11,990	13,439	14,000	14,922	16,186	16,807	16,707	15,977
Business and support services	24,993	27,890	25,233	27,984	27,688	28,770	28,536	33,655	27,690	31,635
Child nutrition services	11,552	11,680	11,703	12,441	12,952	13,354	13,917	13,486	13,231	13,630
Technology services	-	-	9,307	11,055	11,043	11,289	15,117	13,025	21,407	14,603
Human resources	-	-	1,370	7,020	8,245	8,426	6,940	6,695	5,439	4,904
Administration	2,949	3,190	3,356	2,664	3,029	3,083	3,131	2,733	2,423	2,306
Capital outlay	11,658	15,879	16,873	25,329	12,872	8,504	15,285	13,340	10,092	12,597
Debt service										
Principal	284	647	884	1,465	2,664	3,383	4,157	2,617	2,750	2,817
Interest	140	195	180	548	209	1,830	1,754	846	1,364	639
Other financing uses	-	-	-	-	-	-	112	142	74	30
Total expenditures and other financing uses	\$ 242,483	\$ 264,039	\$ 272,726	\$ 305,940	\$ 304,699	\$ 323,481	\$ 341,384	\$ 341,369	\$ 335,921	\$ 325,046
Change in fund balance	\$ 2,027	\$ (7,870)	\$ 2,737	\$ 6,912	\$ (5,405)	\$ 15,340	\$ 1,696	\$ 8,180	\$ (2,506)	\$ (924)
Debt service as a percentage of noncapital expenditures	0.2%	0.3%	0.4%	0.7%	1.0%	1.7%	1.8%	1.1%	1.3%	1.1%

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

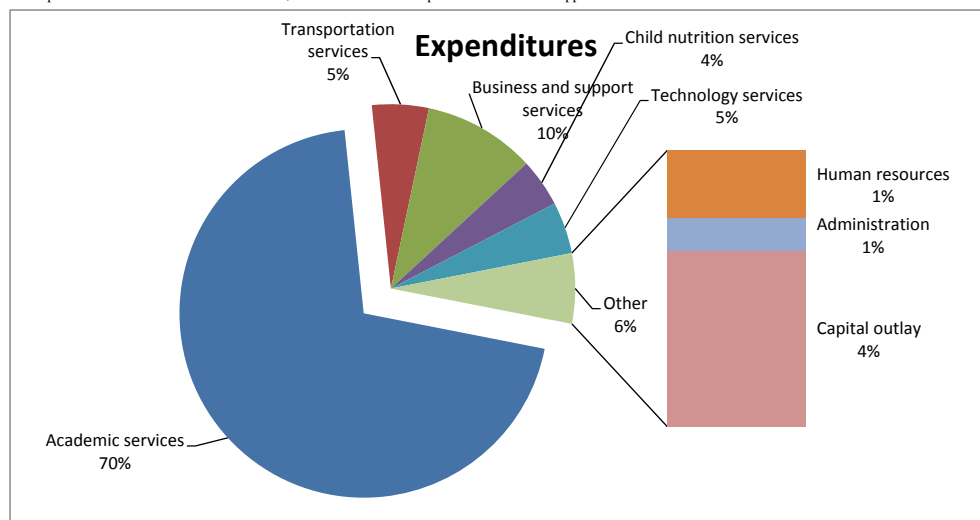


Table VII

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

Ratio of School Board Capital Leases and Facility Notes Payable Debt to Assessed Value of Taxable Property
and Debt Per Capita of the City of Newport News
Last Ten Fiscal Years
(Amounts in thousands)

Fiscal year	(1) Population	(2) Assessed value of real property	(3) Personal Income	Capital lease and facility notes payable debt	Ratio of debt to assessed value	Net debt per capita	Ratio of debt to personal income
2002	180,305	\$ 7,406,809	\$ 4,416,298	\$ 1,814	0.02%	10	0.04%
2003	181,640	7,807,813	4,598,879	4,029	0.05%	22	0.09%
2004	185,200	8,301,266	4,872,092	13,287	0.16%	72	0.27%
2005	185,240	9,042,610	5,086,295	26,319	0.29%	142	0.52%
2006	186,000	10,404,207	5,225,657	23,654	0.23%	127	0.45%
2007	186,000	12,293,454	5,500,739	23,340	0.19%	125	0.42%
2008	187,200	14,286,003	5,941,588	19,217	0.13%	103	0.32%
2009	193,212	17,488,713	6,011,449	17,573	0.10%	91	0.29%
2010	193,172	18,048,533	Not Available	14,822	0.08%	77	Not Available
2011	180,719	17,090,031	Not Available	12,005	0.07%	62	Not Available

Notes: (1) Source: 2003-2004, 2006-2008 – City estimate; 2002, 2009-2011 – U. S. Bureau of Census; 2002 – Virginia Employment Commission

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

(3) Source - Bureau of Economic Analysis

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

Table VIII

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**
Standards of Learning - Percentage of Students with a Passing Score – School Board and State
Last Four Fiscal Years

Grade 3												
Test	School Board						State					
	2008		2009	2010	2011	Change	2008		2009	2010	2011	Change
English: Reading	83		85	75	73	(2)	84		86	83	83	-
Mathematics	86		85	90	87	(3)	89		89	92	91	(1)
Science	86		84	87	81	(6)	88		89	91	90	(1)
History/Social Studies	91		91	91	78	(13)	93		93	93	85	(8)
Grade 4												
Test	School Board						State					
	2008		2009	2010	2011	Change	2008		2009	2010	2011	Change
English:Reading	85		89	81	79	(2)	88		89	88	87	(1)
Mathematics	81		83	82	83	1	84		86	88	89	1
Virginia Studies	76		88	80	89	9	83		88	87	89	2
Grade 5												
Test	School Board						State					
	2008		2009	2010	2011	Change	2008		2009	2010	2011	Change
English: Writing	81		82	89	81	(8)	87		86	88	87	(1)
English: Reading,	86		89	87	83	(4)	89		92	90	89	(1)
Mathematics	87		88	87	88	1	88		90	90	89	(1)
Science	88		83	84	85	1	88		88	88	87	(1)
Grade 6												
Test	School Board						State					
	2008		2009	2010	2011	Change	2008		2009	2010	2011	Change
English:Reading	76		79	80	82	2	85		86	88	87	(1)
Mathematics	61		66	67	69	2	66		73	77	73	(4)
U.S. History I	66		61	64	76	12	74		74	78	81	3
Grade 7												
Test	School Board						State					
	2008		2009	2010	2011	Change	2008		2009	2010	2011	Change
English:Reading	78		82	82	83	1	86		88	89	89	-
Mathematics	61	##	66	64	66	2	65		71	75	77	2
U.S. History II	88		87	85	82	(3)	92		92	91	85	(6)
Grade 8												
Test	School Board						State					
	2008		2009	2010	2011	Change	2008		2009	2010	2011	Change
English: Writing	88		87	87	83	(4)	87		89	91	88	(3)
English: Reading,	77		83	87	86	(1)	83		87	90	90	-
Mathematics	79		76	80	75	(5)	83		85	87	82	(5)
Science	89		87	88	88	-	90		90	92	92	-
Civics/Economics	81		77	77	80	3	84		84	86	84	(2)
End of Course												
Test	School Board						State					
	2008		2009	2010	2011	Change	2008		2009	2010	2011	Change
English: Writing	92		90	91	90	(1)	92		92	92	93	1
English: Reading,	92		92	91	91	-	94		95	94	94	-
Algebra I	92		91	91	92	1	92		94	94	94	-
Algebra II	78		81	84	87	3	90		91	91	91	-
Geometry	76		74	79	78	(1)	87		87	88	87	(1)
Earth science	81		81	80	86	6	86		87	88	89	1
Biology	79		80	83	84	1	88		88	89	90	1
Chemistry	86		89	88	93	5	92		93	93	93	-
World History I	94		94	92	79	(13)	91		93	93	81	(12)
World History II	95		96	91	82	(9)	92		93	93	82	(11)
VA & U. S. History	94		93	91	75	(16)	94		95	95	83	(12)
World Geography	80		78	76	75	(1)	84		86	86	85	(1)

Source - Virginia Department of Education Division Report Card

Table VIII

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**
Standards of Learning - Percentage of Students with a Passing Score – School Board and State
Last Four Fiscal Years

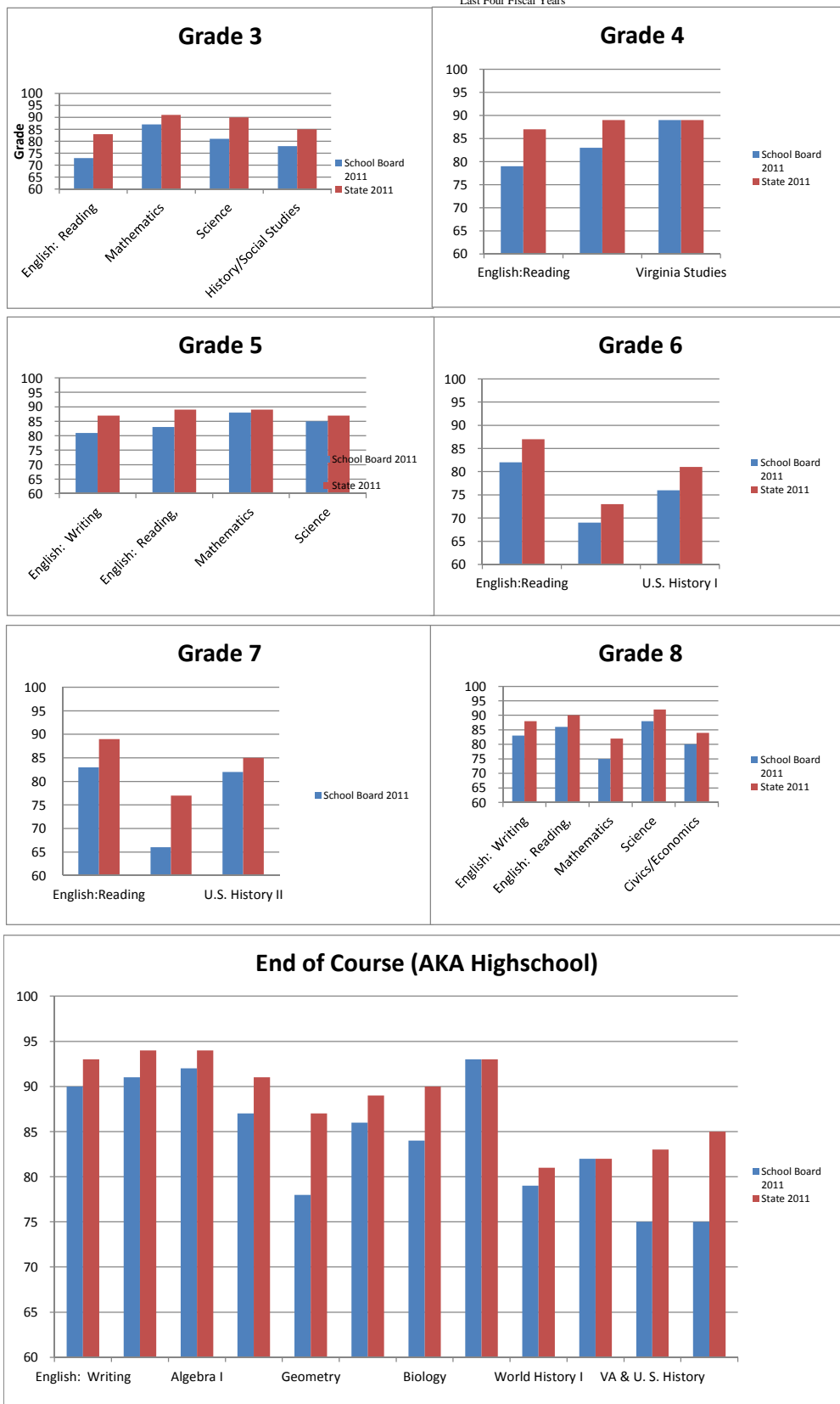


Table IX

THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA

Miscellaneous Statistics

June 30, 2011

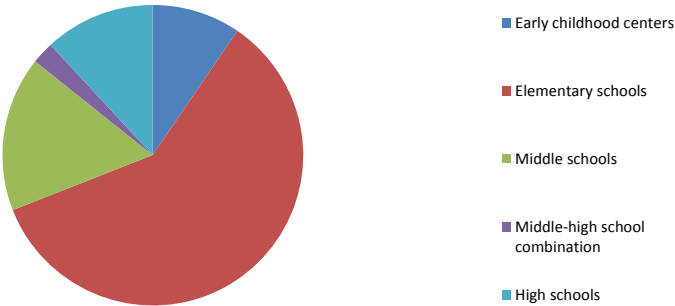
City of Newport News General Information

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 (FY2011):	
Early childhood centers	4	Early childhood centers	1,876
Elementary schools	25	Elementary school	13,666
Middle schools	7	Middle school	6,011
Middle-high school combination	1	High school	8,486
High schools	5		
Total	42	Total	30,039

Number of Schools



Average Daily Students (FY2011)

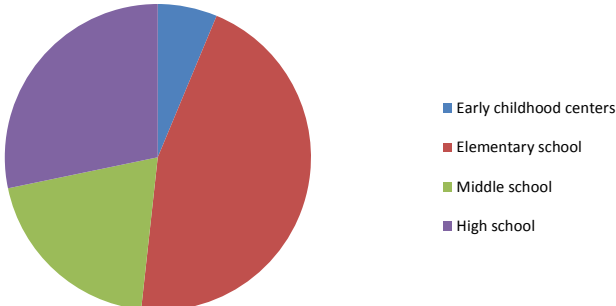


Table X

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

Demographic Statistics

Last Ten Fiscal Years

(Amounts in thousands)

Fiscal Year	(1) Population	(2) Personal Income (In thousands)	(3) Per Capita Income	(4) School Enrollment	(5) Unemployment Rate (%)
2002	180,305	\$ 4,416,298	\$ 22,849	31,440	4.8%
2003	181,640	4,598,879	23,654	31,535	4.9%
2004	185,200	4,872,092	23,986	31,358	5.2%
2005	185,240	5,086,295	25,233	30,827	4.8%
2006	186,000	5,225,657	26,782	30,635	4.2%
2007	186,000	5,500,739	28,436	30,218	3.4%
2008	187,200	5,941,588	28,990	29,441	4.0%
2009	193,212	6,011,449	30,423	29,022	6.5%
2010	193,172	Not Available	30,423	28,613	8.0%
2011	180,719	Not Available	31,120	28,183	7.6%

Notes: (1) Source: 2003-2004, 2006-2008 - City estimate; 2005 and 2009-2011 – U. S. Bureau of Census; 2002 – Virginia Employment Commission

(2) Source: 2002-2007 Virginia Employment Commission; 2008-2009 Bureau of Economic Accounts; 2010-2011 data not yet available.

(3) Source: Bureau of Economic Analysis

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

(5) Virginia Employment Commission

Table XI

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**
Capital Asset Information
Most Recent Five Fiscal Years

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

Source: Newport News Public Schools insurance and facility department record

Notes: Note 1 - In FY 2006 and FY 2007, we have an elementary-middle school combination and in FY 2008 we have middle-high school combination; although one physical building, we have treated it as separate buildings for the purposes of this statistical table.

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

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

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

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

Data for prior years is not available

Table XII

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

Operational Statistics
Last Ten Fiscal Years

	(1)	(2)	(2)	(3)
Fiscal Year	Cost per Student	Elementary Student/ Teacher Ratio	Secondary Student/ Teacher Ratio	Percentage of Students on Free/Reduced Lunch
2002	\$7,059	13.7	13.0	43.9%
2003	\$7,549	13.1	12.6	46.1%
2004	\$7,788	13.2	12.8	47.2%
2005	\$8,696	12.8	13.1	48.2%
2006	\$9,712	12.8	13.0	50.3%
2007	\$10,075	12.0	12.9	48.8%
2008	\$10,565	11.6	13.4	48.8%
2009	\$11,032	12.7	12.0	51.4%
2010	\$10,946	12.3	12.2	53.2%
2011	\$10,960	12.3	12.3	54.0%

Sources: (1) Cost per student based upon formula for operating costs per the Virginia Department of Education and published on their website.
(FY2011 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 2011 is estimated by School Board pending State publishing the data on their website)
(3) Percentage of students on free/reduced lunch from Newport News Public Schools Child Nutrition Services Department.

Table XIII

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**
Full Time Equivalent District Employees by Type as of June 30
Most Recent Five Fiscal Years

	2006	2007	2008	2009	2010	2011
Supervisory:						
Principals	44	43	50	45	40	44
Assistant principals	77	76	76	74	74	68
Instructional administrative	70	75	69	74	64	56
Other administrative and professional	70	69	55	72	64	55
Instructional:						
Elementary classroom teachers	1,427	1,426	1,453	1,317	1,373	1,310
Secondary classroom teachers	789	809	782	842	840	795
Guidance counselors	85	84	87	92	99	91
Librarians	51	49	51	45	48	47
Technology	50	50	50	30	32	32
Other instructional	159	163	165	147	158	138
Social workers	16	18	20	18	18	18
Teacher assistants	490	498	483	526	533	521
Support Services:						
Psychologists	15	18	18	18	21	21
Instructional technical	13	14	15	30	55	40
Instructional clerical	222	228	231	238	223	219
Non-instructional technical	81	93	75	134	105	102
Non-instruction clerical	70	59	72	51	38	38
Nurses	55	56	56	53	55	52
Bus drivers	370	394	394	384	340	326
Bus assistants	99	98	98	100	92	91
Custodians	244	248	248	262	252	244
Child nutrition services	361	361	361	394	371	366
Security officers	56	65	68	66	65	65
Skilled trades	96	97	98	98	92	101
Other	112	86	83	3	2	2
Total	5,122	5,177	5,158	5,113	5,054	4,842

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

Data for prior years is not available.

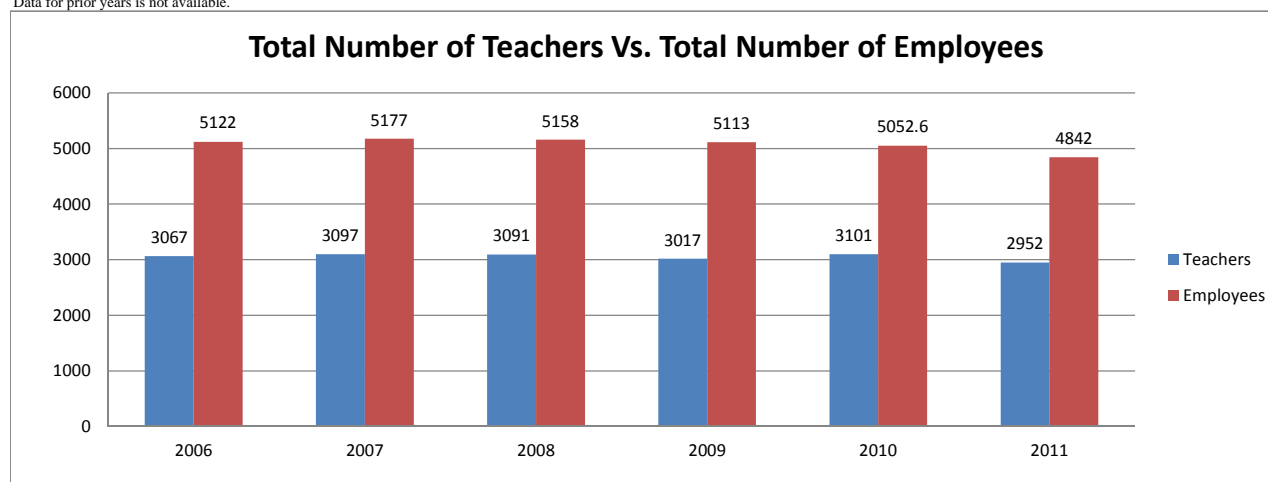


Table XIV

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**
Teacher Base Salaries
Last Ten Fiscal Years

Fiscal Year	Minimum Salary	Maximum Salary	Newport News Average Salary	Statewide Average Salary
2002	\$ 30,000	\$ 49,333	\$ 37,483	\$ 41,771
2003	30,600	50,391	40,091	43,715
2004	31,800	51,672	40,489	43,892
2005	33,200	51,898	42,110	45,377
2006	34,450	53,852	43,649	47,248
2007	35,750	55,709	44,541	49,131
2008	37,350	57,630	45,277	50,511
2009	38,400	58,766	48,938	52,309
2010	38,400	58,766	45,842	51,894
2011	38,400	58,766	45,953	51,903

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 as published by the Virginia Department of Education on their website. (FY2011 average for Newport News and State based on budgeted data)

Table XV

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

Principal Taxpayers of the City of Newport News

June 30, 2011 and nine years prior

(Amounts in thousands)

Taxpayer	2002 Taxes (1)	Percentage of Total Assessments	2011 Taxes (1)	Percentage of Total Assessments
Huntington Ingalls Industries, Inc.	\$ 11,571	8.70%	\$ 15,060	8.30%
Canon Virginia, Inc.	1,461	1.10%	2,784	1.53%
Dominion Virginia Power	1,326	1.00%	2,004	1.10%
Continental Automotive Systems US, Inc.	-	-	1,927	1.06%
The Mariners' Museum (Riverside Hospital)	517	0.39%	1,582	0.87%
Verizon Virginia, Inc.	1,184	0.89%	1,511	0.83%
PR Patrick Henry, LLC	1,005	0.76%	1,453	0.80%
Kinder Morgan Operation LP "C"	502	0.38%	1,065	0.59%
Dominion Terminal Associates	953	0.72%	1,001	0.55%
Inland Western Newport News	-	-	754	0.42%
Virginia Natural Gas Inc	442	0.33%	638	0.35%
Bottling Group, LLC	232	0.17%	551	0.30%
Patrick Henry Hospital (Warwick Forest)	-	-	496	0.27%
Cox Communications Hampton Roads Inc	286	0.21%	478	0.26%
Ferguson Enterprises Corp	-	-	470	0.26%
Oyster Point Residential LLC	-	-	457	0.25%
Meridian Parkside Apartments LLC	-	-	415	0.23%
CSX Transportation	307	0.23%	354	0.20%
Harbours LLC	238	0.18%	345	0.19%
The Daily Press Inc	339	0.26%	318	0.18%
Seimens - Bendix Automotive	1,652	1.24%	-	-
Shorewood Packaging Corp of Va	596	0.45%	-	-
Seimens Credit	565	0.43%	-	-
United Dominion Realty Trust Inc	313	0.24%	-	-
Newport-Oxford Associates Ltd	229	0.17%	-	-
Denbigh Associates	225	0.17%	-	-
	<u>\$ 23,943</u>	<u>18.02%</u>	<u>\$ 33,663</u>	<u>18.54%</u>

Note: (1) Includes real estate and personal property tax assessments for these taxpayers. Current taxpayer name used if different from 2002.

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, 2011 and nine years prior

Employer	2002 Employees	Percentage of Total City Employment	2011 Employees	Percentage of Total City Employment
Huntington Ingalls Industries, Inc.	10,000 - 25,000	20.24%	10,000 - 25,000	18.08%
Newport News Public Schools	1,000 - 5,000	3.47%	1,000 - 5,000	3.10%
Riverside Regional Medical Center	1,000 - 5,000	3.47%	1,000 - 5,000	3.10%
City of Newport News	1,000 - 5,000	3.47%	1,000 - 5,000	3.10%
U.S. Department of Defense	1,000 - 5,000	3.47%	1,000 - 5,000	3.10%
Ferguson Enterprise	—	—	1,000 - 5,000	3.10%
Canon	500-999	0.87%	1,000 - 5,000	3.10%
U.S. Department of Army & Air Force	1,000 - 5,000	3.47%	1,000 - 5,000	3.10%
Christopher Newport University	500-999	0.87%	1,000 - 5,000	3.10%
Hampton Newport News Community Services Board	—	—	500 - 999	0.77%
MCI Payroll Services	1,000 - 5,000	3.47%	—	—
Siemen's Automotive Corporation	500-999	0.87%	—	—
	17,500 - 52,997	43.67%	18,000 - 56,998	43.65%

Source: Virginia Employment Commission

COMPLIANCE SECTION



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

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

We have audited the financial statements of the School Board of the City of Newport News, Virginia (the "School Board") as of and for the year ended June 30, 2011, and have issued our report thereon dated December 12, 2011. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Other auditors audited the financial statements of the Student Activity Funds, a fiduciary fund of the School Board. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

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

A handwritten signature in black ink that reads "Cheng, Bekant + Holland, C.C.P.".

Richmond, Virginia
December 12, 2011



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

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

Compliance

We have audited the compliance of the School Board of the City of Newport News, Virginia, (the "School Board"), with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the School Board's management. Our responsibility is to express an opinion on the School Board's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School Board's compliance with those requirements.

In our opinion, the School Board, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of the School Board is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School Board's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the

purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School Board's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a possibility that material compliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

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

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

Cheng Beckert + Holland, L.L.P.

Richmond, Virginia
December 12, 2011

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

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2011

<u>Federal Granting Agency/Recipient State Agency</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
<u>Department of Agriculture</u>		
<u>Pass-through payments -</u>		
<u>Virginia Department of Agriculture:</u>		
School Lunch Program-Food Commodities	10.555	\$ 733,298
<u>Virginia Department of Education:</u>		
School Breakfast Program	10.553	2,353,413
National School Lunch Program	10.555	7,074,765
Fresh Fruits and Vegetables	10.555	183,235
<u>Department of Defense</u>		
United States Army Robotics	12.431	26,000
ROTC	45.000	350,591
<u>Department of Education</u>		
Impact Aid	84.041	4,556,162
Fund for the Improvement of Education (Foundations of Freedom)	84.215	4,643
Voices of a Nation	84.215	365,710
Federal Land use (National Forest Reserve)	10.665	26,627
Gaining Early Awareness and Readiness for		
Undergraduate Programs	84.334	364,261

Pass-through payments –**Virginia Department of Education:**

Adult Education – Basic Grants to States	84.002	223,139
Title I Grants to Local Educational Agencies	84.010	9,844,784
Title I Grants to Local Educational Agencies (ARRA)	84.010	5,267,575
Title I Neglected and Delinquent	84.013	18,164
Title I – School Improvement (ARRA)	84.013	34,305
Special Education – Grants to States	84.027	2,518,038
Special Education – Grants to States (ARRA)	84.027	5,117,271
Special Education -Interpreter Training	84.027A	59,474
Career and Technical Education – Basic Grants to State	84.048	541,249
Special Education Preschool Grants	84.173	213,667
Special Education Preschool Grants (ARRA)	84.173	257,200
Safe and Drug-Free Schools and Communities – State Grants	84.186	97,317
Title X McKinney-Vento Homeless	84.196	16,361
Twenty-First Century Community Learning Centers	84.287	1,107,925
Education Technology State Grants	84.318	27,191
Education Technology State Grants (ARRA)	84.318	18,327
Reading First State Grants	84.357	61,793
English Language Acquisition Grants	84.365	75,583
Improving Teacher Quality State Grants	84.367	1,704,268
Stabilization Funds (ARRA)	84.394	6,095,800
Stabilization Funds in lieu of Basic Aid (ARRA)	84.394	2,859,547
Health Services	93.283	222

Department of Health and Human Services**Pass-through Payments –****Virginia Department of Social Services**

Medicaid Assistance Program	93.778	282,913
		<u>\$ 52,480,818</u>

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

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2011

(1) Basis of Presentation

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

(2) Relationship to Basic Financial Statements

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

	Federal Expenditures
General Fund.....	\$ 5,216,293
Grants Fund.....	36,919,814
Other Non-Major Special Revenue Funds	<u>9,611,413</u>
Subtotal	51,747,520
Food commodities.....	<u>733,298</u>
Total expenditures as shown on Schedule of Federal Awards.....	<u>\$52,480,818</u>

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

Schedule of Findings and Questioned Costs

Year Ended June 30, 2011

A. Summary of Auditor's Results

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

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I, Grants to Local Educational
84.027/84.027A/84.173	Special Education Cluster
84.041	Impact Aid
84.394	State Fiscal Stabilization Fund – Education State Grants, (ARRA)

10. Dollar threshold used to distinguish between type A and type B programs: \$1,574,425
11. School Board of Newport News was determined not to be a low risk auditee.

B. Findings – Financial Statement Audit
None noted

C. Findings and Questioned Costs-Major Federal Awards
None noted

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

Schedule of Findings and Questioned Costs

Year Ended June 30, 2011

- D. Resolution of Prior Year's Findings**
None Noted.