



**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, 2014

(With Report of Independent Auditor)

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

Fiscal Year ended June 30, 2014

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

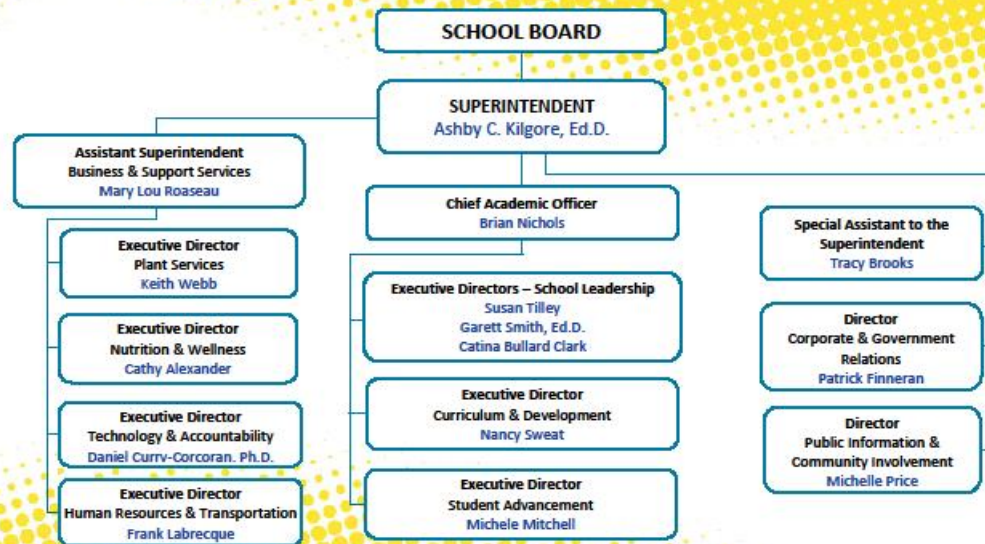
T. Jeff Stoghill	Chairman
Carlton S. Ashby	Vice Chairman
Douglas C. Brown	Member
Everette “Teddy” A. Hicks, Sr.	Member
Gary B. Hunter	Member
Darian L. Scott	Member
Shelley A. Simonds	Member

School Board Officials

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



Administrative Organization Chart



Effective July 1, 2014

Newport News Public Schools

Business Office

12455 Warwick Boulevard, Newport News, VA 23606-3041 • phone: 757-591-4511 • FAX: 757-595-9461

November 21, 2014

The Honorable Members of the School Board:

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the School Board of Newport News, Virginia (the School Board or Newport News Public Schools), for the fiscal year ended June 30, 2014. The School Board is responsible for the accuracy, completeness and fairness of the data presented. We believe that the data presented is accurate in all material respects and presents fairly the financial position and results of operations of the School Board's various funds.

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

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

School Board profile

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

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

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

relationship with the City, the School Board is considered a component unit of the city government as defined by GAAP for governmental entities.

The School Board provides educational services in 41 separate school facilities plus alternative services at three additional non-owned sites. The School Board's buildings range in age from eleven years old to 95 years old, with the average age of all schools being 48 years old. However, many schools have received extensive renovations throughout their life.

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

Factors Affecting Financial Condition

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

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

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

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

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

The School Board is expected to continue to experience virtually no change in funding in the near future, while enrollment is expected to stabilize or decrease only slightly. FY2015 General Fund funding increased by \$9.3 million (3.3%) as compared to the FY2014 actual. The State is providing \$7.8 million (4.7%) more funding and the City is providing level funding for the upcoming year. Federal and other

charges for services accounts for the remaining increase. The forecast for FY2016 is not yet known, but the State is experiencing financial challenges as FY2015 is underway, so we are not optimistic that any noteworthy increase will be forthcoming.

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 workers' compensation (no re-insurance contracted for).

Accomplishments, Recognitions 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 2014-2015 school-year, at least 70% of students must pass the SOL tests in math, history, and science and 75% in English. Schools could also earn full accreditation for meeting the benchmarks based on a three-year average or through alternative benchmarks. High schools must also attain a point value of at least 85 based on the Graduation and Completion Index. School accreditation for the 2014-2015 school-year was based on the achievement of students on the 2013-2014 administration of Standards of Learning tests.

Eleven of our 38 schools were fully accredited by the State, two were conditionally accredited, 23 were accredited with warning and two were denied accreditation.

More NNPS students are earning diplomas. By keeping the focus on college and career readiness, NNPS' graduation rate increased to 88% in 2014, from 72.9% six years ago. During the same time, the dropout rate decreased has decreased to 2.4%. Newport News Public Schools' dropout prevention and recovery program provides an array of services to help students graduate on time (in four years).

NNPS students are making progress on SOL tests. Newport News students scored higher than the state benchmarks on several Virginia Standards of Learning (SOL) tests during the 2013-2014 school year: third-grade history and science, fourth-grade Virginia studies, civics and economics; middle school Algebra I and geometry; high school reading, world geography, U.S. History I and II and world history. In addition, the school division is making notable progress in third through fifth-grade mathematics, fifth-grade reading, seventh-grade reading, high school geometry, Algebra II and chemistry.

Eight elementary schools saw mathematics test scores rise by 15 to 24 percentage points. In addition, 18 schools improved performance in two to three SOL test subjects.

NNPS offers numerous Advanced Placement courses. The school division offers more Advanced Placement (AP) courses than any other school district or private school on the Peninsula. AP courses are open to all; students with qualifying grades may earn college credit. Nearly 2,000 high school students took 3,330 AP courses during the 2013-2014 school-year.

Industry certifications give students a jump start to successful careers. Career and Technical Education (CTE) courses are designed around industry standards to ensure high-quality instruction for high-wage, high-demand, and high-skill careers. CTE courses prepare NNPS students to earn more than a dozen industry certifications. In 2014, NNPS students earned 1,552 industry certifications, accelerating access to technical, high-skilled careers.

NNPS students may graduate with a diploma and college credit. High school seniors may earn up to 19 semester hours of college credit prior to high school graduation in this unique partnership with Thomas Nelson Community College. During their senior year, students complete their high school course work during the first semester and attend TNCC during the second semester. Through Early College and other dual enrollment opportunities, nearly 900 high school students were enrolled in college coursework during the 2013-2014 school-year.

NNPS students and staff continue to earn recognition.

- Ten high school students were recognized in the 2014 National Merit and National Achievement scholarship programs
- Deer Park Elementary School received a 2014 VIP Board of Education Distinguished Achievement Award
- Menchville High School's Triple Helix Robotics Team earned top honors in the Galileo Division at the annual International FIRST Robotics Competition in 2014
- Warwick High School's Electric Car Team earned first place in the Washington, DC Electric Vehicle Grand Prix and second place in the Solar Decathlon in California during the 2013-2014 school year
- NNPS earned a National School Board Association Magna Award Honorable Mention for its Bring Your Own Device initiative in 2014
- The school division's purchasing office was awarded the 2013 Virginia Association of Governmental Purchasing Leading Light Award for innovation and achievement
- The Custodial Services office earned the 2013 Grand Award for Green Cleaning from the American School and University magazine

Awards:

Newport News Public Schools has earned several awards in recognition of outstanding financial management and distinguished budget presentation. The school district earned its twelfth consecutive Outstanding Achievement Award from the Government Finance Officers Association (GFOA) for our Comprehensive Annual Financial Report (CAFR) for the 2013 fiscal year. We also earned our fifth

consecutive Certificate of Excellence for Financial Reporting Award from the Association of School Business Officials International (ASBO) for our CAFR. The School Board's comprehensive budget document earned its sixth consecutive *GMA* Distinguished Budget Presentation Award for fiscal year 2014. In addition, the School Board's FY 2014 budget earned its fourth consecutive ASBO Meritorious Budget Award for excellence in budget presentation.

Acknowledgements:

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

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

Sincerely,



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



Government Finance Officers Association

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

Presented to

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

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

A handwritten signature in black ink, reading "Jeffrey R. Egan".

Executive Director/CEO

Association of School Business Officials International



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

Newport News Public Schools

For Its Comprehensive Annual Financial Report (CAFR)

For the Fiscal Year Ended June 30, 2013

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



Ron McCulley, CPPB, RSBO
President

John D. Musso, CAE, RSBA
Executive Director

FINANCIAL SECTION

Report of Independent Auditor

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the School Board of the City of Newport News, Virginia (the "School Board"), a component unit of the City of Newport News, Virginia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School Board of the City of Newport News, Virginia, as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

As discussed in Note 1 to the basic financial statements, the School Board adopted the provisions of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective July 1, 2013. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information on pages 3-10 and 48-54, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2014, on our consideration of the School Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School Board's internal control over financial reporting and compliance.



Richmond, Virginia
November 25, 2014

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

Management's Discussion and Analysis (Unaudited)

June 30, 2014

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, 2014. 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) 2014

The School Board, on a government-wide basis, had a decrease in Net Position of \$1.8 million to \$72.5 million.

Net investment in capital assets increased by \$1.9 million due to repayment of facility note payable debt associated with energy improvements accomplished a decade ago. Restricted Net Position increased by \$0.6 million due to a continuing improved financial performance of the federally funded portion of Child Nutrition Services due to an ever greater percentage of free and reduced eligible students. Unrestricted Net Position decreased by \$4.4 million. This was attributed primarily to payment on purchase orders for capital projects. Revenue from the City of Newport News, Virginia (the City) in the amount of \$2.1 million was accrued in FY2013 when purchase orders for projects were issued and the expenditures were incurred in FY2014. In addition, workers' compensation costs increased by \$1.0 million.

The General Fund utilized all available resources to meet School Board needs. However, the General Fund had savings of \$24 thousand related to cancellation of prior year purchase orders, which was returned to the City.

Overview of the Financial Statements

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

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

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

Management's Discussion and Analysis (Unaudited)

June 30, 2014

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

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

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

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

Management's Discussion and Analysis (Unaudited)

June 30, 2014

Financial Analysis of the School Board as a Whole

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

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

Table 1
Net Position
(In millions)

	FY 2014	FY 2013	Change
Current and other assets	\$ 75.1	\$ 75.7	\$ (0.6)
Capital assets, net	72.9	73.9	(1.0)
Total assets	<u>\$ 148.0</u>	<u>\$ 149.6</u>	<u>\$ (1.6)</u>
Other liabilities	\$ 32.2	\$ 30.3	\$ 1.9
Long-term liabilities	42.9	44.5	(1.6)
Total liabilities	<u>\$ 75.1</u>	<u>\$ 74.8</u>	<u>\$ 0.3</u>
Deferred grant proceeds	\$ 0.4	\$ 0.4	\$ -
Total Deferred Inflows	<u>\$ 0.4</u>	<u>\$ 0.4</u>	<u>\$ -</u>
Net Position:			
Net investment in capital assets	\$ 68.7	\$ 66.8	\$ 1.9
Restricted	4.9	4.3	0.6
Unrestricted	(1.1)	3.3	(4.4)
Total Net Position	<u>\$ 72.5</u>	<u>\$ 74.4</u>	<u>\$ (1.9)</u>

The School Board's total Net Position showed a decrease of \$1.9 million (2.6%), decreasing to \$72.5 million. This was achieved through an increase in net investment in capital assets of \$1.9 million, an increase in restricted Net Position of \$0.6 million and a decrease in unrestricted Net Position of \$4.4 million.

Current and other assets decreased by \$0.6 million (0.8%). This was attributed primarily to less due to the School Board from the City for capital project funding. Existing projects are substantially complete and little remains to be done, pending the appropriation in FY2015 by the City to start construction of a new elementary school.

Capital assets (net of depreciation) decreased by \$1.0 million (1.4%). This is the result of additions of \$6.6 million less depreciation expense of \$7.6 million. The largest components in additions were \$1.6 million for expansion of the textbook inventory, \$1.2 million for the procurement of 13 school buses and \$1.4 million for construction in progress on office expansion at four schools. Textbook inventory was enhanced by the implementation of a state-of-the-art bar code system in FY2013, which enables the School Board to track individual books and resulted in the discovery of some books not previously identified as part of the prior inventory.

Other liabilities increased by \$1.9 million (6.2%), primarily due to amounts due for computers delivered in late June as part of the School Board's computer refreshment program. Long term liabilities decreased by

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\$1.6 million. This is the result of principal payments on capital leases and capital notes payable of \$2.8 million offset by a \$1.0 million increase for worker compensation liability claims. The remaining \$0.2 million increase was attributed to incurred but not reported health care claims for the School Board's self-insured health care program.

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

Table 2
Changes in Net Position
(In millions)

	<u>FY 2014</u>	<u>FY 2013</u>	<u>Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 6.0	\$ 6.4	\$ (0.4)
Operating grants and contributions	63.0	68.5	(5.5)
Capital grants and contributions	0.9	0.9	-
General revenues:			
Local	99.1	98.1	1.0
State	139.1	138.4	0.7
Federal	2.7	3.7	(1.0)
Interest	0.1	0.1	-
Total revenues	<u>310.9</u>	<u>316.1</u>	<u>(5.2)</u>
Expenses:			
Academic services	220.2	224.1	(3.9)
Attendance and health	5.4	5.4	-
Transportation services	17.8	18.7	(0.9)
Operations and facilities	32.3	31.5	0.8
Child nutrition services	15.1	15.2	(0.1)
Technology services	13.4	12.2	1.2
Administration	8.3	7.7	0.6
Interest on capital debt	0.3	0.4	(0.1)
Total expenses	<u>312.8</u>	<u>315.2</u>	<u>(2.4)</u>
Change in net position	<u>(1.9)</u>	<u>0.9</u>	<u>(2.8)</u>
Beginning net position	<u>74.4</u>	<u>73.5</u>	<u>0.9</u>
Ending net position	<u>\$ 72.5</u>	<u>\$ 74.4</u>	<u>\$ (1.9)</u>

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For the fiscal year ended June 30, 2014, revenues from governmental activities (excluding charges for services and interest) totaled \$304.8 million. Commonwealth Standards of Quality (SOQ) Funds accounted for \$139.1 million (44.7%) of the School Board's resources. These funds are based on student membership counts. The SOQ funds increased by \$0.7 million (0.5%) over FY 2013 due to the Commonwealth contributing more for the cost of fringe benefits, primarily pension costs.

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

Revenue to the General Fund	\$ 115,276,090
Less debt service returned to the City	(13,834,357)
Add Revenue General Obligation Bond Fund	1,513,738
Add Revenue General Capital Fund	1,100,000
Less net capital assets transferred tenancy-in-common	<u>(4,904,851)</u>
Net amount from City - Entity-wide statements	<u><u>\$ 99,150,620</u></u>

Revenue from the City in FY 2014 was \$99.1 million (31.9% of the total), an increase of \$1.0 million (1.0%).

Federal revenue decreased by \$1.0 million to \$2.7 million (0.9% of the total) in FY2014 due to lower Impact Aid funding.

Operating grants, which were comprised of approximately 55% from Federal sources and 45% from Virginia sources, totaled \$63.0 million (20.3% of the total). This was a decrease of \$5.5 million (8.0%) and reflected the end of Federal stimulus funding, as none was received in FY2014.

Expenses for FY 2014 totaled \$312.8 million, a decrease of \$2.4 million (0.8%).

Academic services accounted for \$220.2 million (70.4%) of the School Board's total spending. A significant portion of this amount is for the salaries and benefits of teachers, teacher assistants and instructional administrators. This function decreased by \$3.9 million (1.7%) mainly attributed to lower teacher compensation due to savings from employee turnover as more experienced higher-paid teachers retired and were replaced largely by less experienced and lower-paid teachers.

Operations and facilities were the next highest cost category with a total of \$32.3 million (10.3% 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 \$0.8 million (2.5%) increase primarily due to additional paving and snow removal costs.

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Transportation services is the third largest cost category, with expenses of \$17.8 million (5.7% of the total). This category decreased by \$0.9 million (4.8%) due to lower fuel costs and lower bus driver costs reflecting more efficient routing of school buses.

Child nutrition services is the fourth largest cost category, with expenses of \$15.1 million (4.8% of the total). This category showed a decrease of \$0.1 million (0.1%).

Capital Assets

At the end of FY 2014, the School Board had invested \$72.9 million in capital assets, which reflects historical cost of \$168.0 million and accumulated depreciation of \$95.1 million. In addition, the School Board and the City hold assets in-common (AHTIC) a net of \$147.8 million of capital assets, which are reflected in the financial statements of the City (historical cost of \$215.7 million net of accumulated depreciation of \$67.9 million). Most school buildings and improvements undertaken in the past 20 years, for which City bonded debt has been issued, are included therein. The City also has 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 2014</u>	<u>FY 2013</u>	<u>Change</u>
Nondepreciable assets:			
Land	\$ 2.5	\$ 2.5	\$ -
Construction in progress	1.4	-	1.4
Other capital assets:			
Buildings	46.8	46.8	-
Building improvements	52.1	51.5	0.6
Equipment and vehicles	65.2	63.6	1.6
Accumulated depreciation	<u>(95.1)</u>	<u>(90.5)</u>	<u>(4.6)</u>
Total	<u>\$ 72.9</u>	<u>\$ 73.9</u>	<u>\$ (1.0)</u>

Construction in progress was increased by \$1.4 million due to office renovation underway in four schools. Equipment and vehicles increased by \$1.6 million primarily due to additional textbooks identified by the textbook inventory system implemented in FY2013 and the procurement of 13 school buses. Accumulated depreciation increased by \$4.6 million, primarily due to depreciation expense of \$7.6 million offset by retirements of \$3.0 million. See note 4 to the financial statements for additional information.

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Long-Term Liabilities

The School Board cannot issue bonded debt. Accordingly, long-term liabilities of \$42.9 million as shown on Table 1 are related to capital leases on equipment, capital facility notes payable, compensated absences, workers' compensation claims payable (under our self-insurance program), other postemployment benefits and incurred but not reported claims under our self-insured employee health insurance program. During FY2014, long-term liabilities had a net decrease of \$1.6 million due to 1) principal payments on capital facility notes payable and capital leases reduced debt by \$2.8 million 2) amounts due for worker compensation liability increased by \$1.0 million, and 3) changes to all other types of debt amounted to an increase of \$0.2 million. See note 6 in the notes to basic financial statements for additional information.

Financial Analysis of the School Board's Funds

For the fiscal year ended June 30, 2014, the governmental funds had a combined fund balance of \$42.5 million. This is a decrease of \$2.5 million as compared to June 30, 2013. The primary reason for the decrease was the payment of prior year purchase orders for capital projects, where the City had provided the funding in FY2013. See pages 14 and 15 of the basic financial statements for additional detail.

General Fund Budgetary Highlights

Table 4
General Fund Budget to Actual Summary (non-GAAP basis)
Year ended June 30, 2014
(In millions)

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:				
State	\$ 163.7	\$ 164.3	\$ 165.3	\$ 1.0
City	115.3	115.3	115.2	(0.1)
Federal	4.5	4.5	3.3	(1.2)
Other	1.6	1.6	1.7	0.1
Total revenues	<u>285.1</u>	<u>285.7</u>	<u>285.5</u>	<u>(0.2)</u>
Expenditures and transfers:				
Expenditures	270.9	271.5	271.5	-
Transfers	14.2	14.2	14.2	-
Total expenditures and transfers	<u>285.1</u>	<u>285.7</u>	<u>285.7</u>	<u>-</u>
Change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (0.2)</u>	<u>\$ (0.2)</u>

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Revenues from the Commonwealth were \$1.0 million more than the budget due to a higher student enrollment than used for budget development purposes. Federal revenues were \$1.2 million less than the budget due to decreased Impact Aid funds. The net revenue shortfall of \$0.2 million was covered by savings from cancelled prior year purchase orders. Expenditures and transfers equaled the budget of \$285.7 million.

Economic Factors

The School Board is financially dependent upon the Commonwealth and City governments. Virginia funding is primarily dependent upon income and sales tax, both of which are expected to show very slow growth in the near term. The City is dependent upon property tax revenues, which are expected to be flat in the near term. FY2015 General Fund funding is expected to increase by \$4.1 million (1.5%) as compared to the FY2014 actual. Federal funding is decreased by \$0.3 million (6.3%) due to less Impact Aid and other revenues will decrease by \$0.1 million (6.3%).

Contacting the School Board's Financial Management

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

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BASIC FINANCIAL STATEMENTS

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

Statement of Net Position – Governmental Activities

June 30, 2014

Assets

Cash and temporary investments	\$ 42,441,762
Accounts receivable, net	139,148
Receivables from other governments:	
City of Newport News, Virginia	541,161
Federal:	
Department of Agriculture	547,919
Department of Education	280,013
Department of Defense	266,627
Commonwealth of Virginia:	
Department of Treasury – sales tax	4,854,861
Department of Education	8,010,287
Inventories, at cost	1,405,170
Prepaid expenses	16,598,335
Capital assets, non-depreciable	3,932,826
Capital assets, depreciable, net	<u>69,020,791</u>
Total assets	<u>148,038,900</u>

Liabilities and Net Position

Liabilities:	
Accounts payable	4,942,652
Accrued liabilities	997,495
Payroll withholdings and accrued fringe benefits	26,116,385
Unearned revenues	67,549
Long-term liabilities:	
Due within one year	4,225,554
Due in more than one year	<u>38,711,730</u>
Total liabilities	<u>75,061,365</u>
Deferred inflows:	
Deferred grant proceeds	<u>438,490</u>
Total Deferred inflows	<u>438,490</u>
Net Position:	
Net investment in capital assets	68,663,254
Restricted for:	
Child Nutrition Services	3,751,110
Capital Projects	917,812
Adult Education	293,807
Unrestricted	<u>(1,086,938)</u>
Total Net Position	<u>\$ 72,539,045</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, 2014

		Program Revenues			Net (Expense)
		Charges for	Operating	Capital	Revenue and
	Expenses	Services	Grants and	Grants and	Changes in
			Contributions	Contributions	Net Position
Governmental activities:					
Academic services	\$ 220,242,178	\$ 1,431,667	\$ 50,536,914	\$ -	\$ (168,273,597)
Attendance and health services	5,370,389	-	2,612	-	(5,367,777)
Transportation services	17,760,521	-	-	-	(17,760,521)
Operations and facilities	32,334,959	258,467	-	-	(32,076,492)
Child nutrition services	15,045,887	3,310,549	12,448,731	-	713,393
Technology services	13,352,948	169,063	-	858,967	(12,324,918)
Administration	8,320,335	857,254	-	-	(7,463,081)
Interest on capital debt	282,261	-	-	-	(282,261)
Total governmental activities	<u>\$ 312,709,478</u>	<u>\$ 6,027,000</u>	<u>\$ 62,988,257</u>	<u>\$ 858,967</u>	<u>(242,835,254)</u>
General revenues:					
City of Newport News, Virginia					99,150,620
Commonwealth of Virginia					139,113,046
Federal government					2,672,988
Interest					<u>17,347</u>
Total general revenues					<u>240,954,001</u>
Change in net position					<u>(1,881,253)</u>
Net position at beginning of year					<u>74,420,298</u>
Net position at end of year					<u>\$ 72,539,045</u>

See accompanying notes to basic financial statements.

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

Balance Sheet – Governmental Funds

June 30, 2014

	General Fund	Grant Fund	General Obligation Bond Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 30,471,193	\$ 275,226	\$ -	\$ 11,695,343	\$ 42,441,762
Accounts receivable, net	115,361	18,774	-	5,013	139,148
Receivables from other governments:					
City of Newport News	-	-	541,161	-	541,161
Federal:					
Department of Agriculture	-	-	-	547,919	547,919
Department of Education	280,013	-	-	-	280,013
Department of Defense	-	266,627	-	-	266,627
Commonwealth of Virginia:					
Department of Treasury – sales tax	4,854,861	-	-	-	4,854,861
Department of Education	-	8,010,287	-	-	8,010,287
Inventories, at cost	1,015,153	-	-	390,017	1,405,170
Due from other funds	7,600,000	-	-	-	7,600,000
Prepaid items	16,598,335	-	-	-	16,598,335
Total assets	<u>\$ 60,934,916</u>	<u>\$ 8,570,914</u>	<u>\$ 541,161</u>	<u>\$ 12,638,292</u>	<u>\$ 82,685,283</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 4,015,652	\$ 532,424	\$ 9,089	\$ 385,487	\$ 4,942,652
Accrued liabilities	997,495	-	-	-	997,495
Payroll withholdings and accrued fringe benefits	26,116,385	-	-	-	26,116,385
Due to other funds	-	7,600,000	-	-	7,600,000
Unearned revenues	67,549	-	-	-	67,549
Total liabilities	<u>31,197,081</u>	<u>8,132,424</u>	<u>9,089</u>	<u>385,487</u>	<u>39,724,081</u>
Deferred inflows:					
Deferred grant proceeds	-	438,490	-	-	438,490
Total deferred inflows	<u>-</u>	<u>438,490</u>	<u>-</u>	<u>-</u>	<u>438,490</u>
Fund balances:					
Nonspendable:					
Imprest funds	2,375	-	-	-	2,375
Inventories	1,015,153	-	-	390,017	1,405,170
Prepaid property and liability insurance	795,047	-	-	-	795,047
Restricted:					
Adult education services	-	-	-	293,807	293,807
Capital projects	-	-	-	917,812	917,812
Child nutrition services	-	-	-	3,751,110	3,751,110
Committed:					
Workers' compensation	-	-	-	2,032,016	2,032,016
Textbooks	-	-	-	3,361,233	3,361,233
Assigned to:					
Adult education services	-	-	-	417,589	417,589
Child nutrition services	-	-	-	1,003,148	1,003,148
Contractual obligations	12,121,972	-	532,072	86,073	12,740,117
Health insurance	15,803,288	-	-	-	15,803,288
Total fund balances	<u>29,737,835</u>	<u>-</u>	<u>532,072</u>	<u>12,252,805</u>	<u>42,522,712</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 60,934,916</u>	<u>\$ 8,570,914</u>	<u>\$ 541,161</u>	<u>\$ 12,638,292</u>	<u>\$ 82,685,283</u>
Amounts reported for governmental activities in the Statement of Net Position are different because:					
Total fund balances reported in governmental funds					\$ 42,522,712
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.					72,953,617
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.					(42,937,284)
Net position of governmental activities					<u>72,539,045</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, 2014

	General Fund	Grant Fund	General Obligation Bond Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Intergovernmental:					
City of Newport News, Virginia	\$ 101,441,733	\$ -	\$ 1,513,738	\$ 1,100,000	\$ 104,055,471
Commonwealth of Virginia	162,935,418	2,748,978	-	2,311,098	167,995,494
Federal government	3,344,445	22,040,397	-	12,094,948	37,479,790
Charges for services	1,660,757	-	-	4,366,243	6,027,000
Investment income	-	-	-	17,347	17,347
Miscellaneous	-	157,973	-	-	157,973
Total revenues	<u>269,382,353</u>	<u>24,947,348</u>	<u>1,513,738</u>	<u>19,889,636</u>	<u>315,733,075</u>
Expenditures:					
Current:					
Academic services	193,755,325	23,217,812	-	2,365,618	219,338,755
Attendance and health services	5,360,365	66,407	-	-	5,426,772
Transportation services	16,900,789	-	-	-	16,900,789
Operations and facilities	30,603,886	737,142	-	161,284	31,502,312
Child nutrition services	-	-	-	15,127,188	15,127,188
Technology services	12,676,482	940,486	-	-	13,616,968
Administration	6,621,520	3,666	-	1,429,154	8,054,340
Debt service:					
Principal	2,803,222	-	-	-	2,803,222
Interest and other charges	282,261	-	-	-	282,261
Capital outlay	500,215	-	3,637,718	1,312,812	5,450,745
Total expenditures	<u>269,504,065</u>	<u>24,965,513</u>	<u>3,637,718</u>	<u>20,396,056</u>	<u>318,503,352</u>
Deficiency of revenues under expenditures	<u>(121,712)</u>	<u>(18,165)</u>	<u>(2,123,980)</u>	<u>(506,420)</u>	<u>(2,770,277)</u>
Other financial sources (uses):					
Transfers in	-	18,165	-	-	18,165
Transfers out	(18,165)	-	-	-	(18,165)
Total other financing sources (uses)	<u>(18,165)</u>	<u>18,165</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>(139,877)</u>	<u>-</u>	<u>(2,123,980)</u>	<u>(506,420)</u>	<u>(2,770,277)</u>
Fund balances at beginning of year	29,545,953	-	2,656,052	12,771,615	44,973,620
Increase (decrease) in nonspendable inventory	331,759	-	-	(12,390)	319,369
Fund balances at end of year	<u>\$ 29,737,835</u>	<u>\$ -</u>	<u>\$ 532,072</u>	<u>\$ 12,252,805</u>	<u>\$ 42,522,712</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, 2014

Net change in fund balances – total governmental funds \$ (2,770,277)

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	\$ 5,450,745	
Items capitalized, but shown as expended	6,131,398	
Transfer to City, tenancy-in-common	<u>(4,904,851)</u>	
Capital outlay, net	6,677,292	
Loss on disposal of capital assets	(14,363)	
Depreciation expense	<u>(7,609,731)</u>	(946,802)

Repayment of debt principal is an expenditure in the governmental funds, but does not affect the Statement of Activities. 2,803,222

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This year, compensated absences earned exceeded the amount used by \$36,136, workers' compensation claims incurred were more than the amount paid by \$986,590, health insurance claims incurred were more than the amount paid by \$331,000 and other post employment benefits incurred were less than the amount paid by \$66,961. (1,286,765)

Change in nonspendable inventory from governmental funds is included in expenses in the Statement of Activities. 319,369

Change in net position of governmental activities \$ (1,881,253)

See accompanying notes to basic financial statements.

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

Statement of Net Position – Fiduciary Funds

June 30, 2014

	<u>OPEB Trust Fund</u>	<u>Agency Fund</u>
Asset:		
Cash and cash equivalents (note 2)	\$ -	\$ 1,536,798
Investments, at fair value:		
Money market trust	<u>14,055,476</u>	<u>-</u>
Total assets	<u>14,055,476</u>	<u>1,536,798</u>
Liabilities:		
Accounts payable	-	25,151
Due to students	<u>-</u>	<u>1,511,647</u>
Total liabilities	<u>-</u>	<u>1,536,798</u>
Net Position:		
Net position held in trust for other postemployment benefits	<u>14,055,476</u>	<u>-</u>
Total net position	<u>14,055,476</u>	<u>-</u>
Total liabilities and net position	<u><u>\$ 14,055,476</u></u>	<u><u>\$ 1,536,798</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 Position – Fiduciary Funds

Year Ended June 30, 2014

	<u>OPEB Trust Fund</u>
Additions	
Contributions:	
Employer contributions	\$ 6,635,364
Plan member (retiree) contributions	<u>1,430,009</u>
Total contributions	<u>8,065,373</u>
Net investment income:	
Net appreciation in the fair value of investments	1,463,380
Interest and dividends	<u>2,835</u>
Total investment income	<u>1,466,215</u>
Total additions	<u>9,531,588</u>
Deductions	
Benefits	6,265,373
Administrative expenses	<u>14,270</u>
Total deductions	<u>6,279,643</u>
Change in net position	3,251,945
Net position at beginning of year	<u>10,803,531</u>
Net position at end of year	<u><u>\$ 14,055,476</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, 2014

(1) Summary of Significant Accounting Policies

Narrative Profile

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

(a) Financial Reporting Entity

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

(b) Basis of Presentations

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

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

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

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

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

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

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

The School Board reports the following major governmental funds:

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

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

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

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

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

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

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

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

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

(c) *Basis of Accounting*

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

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

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

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

(d) *Encumbrances*

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

(e) *Cash and Temporary Investments*

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

(f) *Receivables and Due from Other Governments*

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

(g) *Inventories*

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

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(h) Prepaid Items

A prepaid item of \$15,803,288 represents healthcare premiums paid in advance and on deposit with our third-party claims administrator. The School Board's healthcare program is self-insured (see note 8 (a) for further information). Premiums paid in prior years have been more than actual claims and expenses. The premiums have been left on deposit to pay future healthcare premiums. The funds are accounted for on the consumption method.

Also shown as a prepaid item is \$795,047, which represents property and liability insurance premium cost for FY2015 paid in FY2014.

(i) Capital Assets

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

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

Under Virginia law, certain property maintained by the School Board is subject to tenancy-in-common with the City, if the City incurred a financial obligation for the property which is payable over more than one fiscal year. The School Board and the City have agreed that such property will be carried on the City's financial statements until the outstanding debt is repaid, upon which time the book value of the assets in question will be transferred back to the School Board's books. At June 30, 2014, the City holds capital assets related to school property with a net book value of \$147,775,554.

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

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

(k) Fund Balance Items

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

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

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

- The Adult Education special revenue fund has a restricted fund balance of \$293,807 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 State Construction capital projects fund has a fund balance of \$863,729, restricted by the Commonwealth to capital outlay and repayment of debt issued for capital outlay.
- The General Capital capital projects fund has a fund balance of \$54,083 restricted by the City for capital outlay.
- The Child Nutrition Services special revenue fund has a restricted fund balance of \$3,751,110 representing the portion of the fund balance provided over the years from Federal and Virginia grants restricted for the purpose of providing students with nutritional meals.

Committed to items – This includes items committed to per the City Primary Government budget process. City Council makes an annual appropriation at the fund level. Should additional resources be needed during the year, the City Council would have to make a supplemental appropriation.

- The Workers' Compensation special revenue fund has a committed fund balance of \$2,032,016, which City Council appropriation commits to the use of these funds for workers' compensation for the School Board's self-insured workers' compensation plan.
- The Textbook special revenue fund has a committed fund balance of \$3,361,233, which City Council appropriation commits to the use of these funds for textbooks. The School Board intends to purchase textbooks in the upcoming years based upon a six-year replacement cycle for most subjects.

Assigned to items – Assigned items represents management of the School Board's intent to use certain resources for assigned purposes. The Superintendent is authorized by the School Board annually during the budget approval process to make the following assignments as of June 30, 2014.

- \$417,589 is assigned to provide adult education services in the community as represented in the Adult Education special revenue fund.

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- \$1,003,148 is assigned to provide students attending the schools with a nutritious breakfast and lunch, meeting the regulations of the United States Department of Agriculture and the Commonwealth as represented in the Child Nutrition Services special revenue fund.
- \$12,740,117 is assigned to meet contractual obligations. The School Board has purchase orders outstanding with vendors in this amount and expects the vendors to deliver the goods and services in the upcoming fiscal year. The amounts are \$12,121,972 in the General Fund, \$532,072 in the General Obligation Bond Fund, \$2,073 in the Workers' Compensation special revenue fund and \$84,000 in the Textbook special revenue fund.
- \$15,803,288 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.

Unassigned items – The School Board has no unassigned fund equity in governmental fund balances at June 30, 2014.

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

(l) Interfund Transactions

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

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

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

(m) Deferred Inflows

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School Board has several items that qualify under this classification. Accordingly, unearned revenue and deferred inflows are reported in the governmental funds' balance sheet and the Statement of Net Position.

(2) Cash and Cash Equivalents

All of the \$42,441,762 of School Board cash and cash equivalents (except for \$250,000 of funds in escrow with our workers' compensation third party administrator and \$2,445 of petty cash funds) are maintained on deposit with the Treasurer of the City. All of the funds are available for immediate School Board use. See the City's Comprehensive Annual Financial Report for additional details. A copy may be obtained from The City of Newport News, Finance Department, 2400 Washington Avenue, Newport News, VA 23607.

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

Interfund receivables, payables and transfers as of and for the year ended June 30, 2014 are as follows:

General Fund	\$ 7,600,000	\$ -	\$ -	\$ 18,165
Grant Fund	-	7,600,000	18,165	-
Total all funds	<u>\$ 7,600,000</u>	<u>\$ 7,600,000</u>	<u>\$ 18,165</u>	<u>\$ 18,165</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. Transfers were to provide matching grant funds.

(4) Capital Assets, Net

A summary of changes in capital assets follows:

	<u>Balance July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2014</u>
Capital assets not being depreciated:				
Land	\$ 2,505,084	\$ -	\$ -	\$ 2,505,084
Construction in progress	-	1,427,742	-	1,427,742
Total capital assets not being depreciated	<u>2,505,084</u>	<u>1,427,742</u>	<u>-</u>	<u>3,932,826</u>
Other capital assets:				
Buildings	46,849,002	-	-	46,849,002
Improvements	51,496,466	548,394	-	52,044,860
Machinery and equipment	63,571,105	4,701,156	3,047,387	65,224,874
Total other capital assets	<u>161,91,573</u>	<u>5,249,550</u>	<u>3,047,387</u>	<u>164,118,736</u>
Less accumulated depreciation for:				
Buildings	28,125,275	772,845	-	28,898,120
Improvements	18,738,171	1,978,556	-	20,716,727
Machinery and equipment	43,657,792	4,858,330	3,033,024	45,483,098
Total accumulated depreciation	<u>90,521,238</u>	<u>7,609,731</u>	<u>3,033,024</u>	<u>95,097,945</u>
Other capital assets, net	<u>71,395,535</u>	<u>(2,360,181)</u>	<u>14,363</u>	<u>69,020,791</u>
Totals	<u>\$ 73,900,419</u>	<u>\$(932,439)</u>	<u>\$ 14,363</u>	<u>\$ 72,953,617</u>

Depreciation was charged to governmental functions as follows:

Academic services	\$ 4,316,761
Attendance and health services	28,462
Transportation services	1,290,508
Operations and facilities	1,328,346
Child nutrition services	142,815
Technology services	110,918
Administration	391,921
Total governmental activities depreciation expense	<u>\$ 7,609,731</u>

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Loss on disposal of assets of \$14,363 is charged to the Academic services function.

Construction in progress is composed of the following at June 30, 2014:

	Project Authorization	Expended Through June 30, 2014	Balance of Authorization	Future Requirements
Total School projects	<u>\$ 9,020,775</u>	<u>\$ 5,321,768</u>	<u>\$ 3,699,007</u>	<u>\$ -</u>

All of the expended through June 30, 2014 (\$5,321,768) relates to assets transferred to the City under the AHTIC provisions. The balance of authorization of \$3,699,007 includes \$532,072 encumbered by existing purchase orders with vendors for projects in progress.

(5) Leases

(a) Operating Leases

A lease was terminated effective July 15, 2013 resulting in an early termination penalty of \$214,891, which was paid by the lessor of an existing lease since additional space was being leased at that site. The School Board had two ongoing leased buildings in 2014. Part of the leased space expires on June 30, 2028 and other leased space in that same building expires on June 30, 2030. One other lease expires on December 31, 2015 with the School Board option to renew for one additional year. Total costs for such leases were approximately \$442,386 for the year ended June 30, 2014.

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

<u>Year ending June 30:</u>	
2015	\$ 665,113
2016	628,295
2017	664,509
2018	668,776
2019	673,129
2020-2024	3,563,107
2025-2029	3,298,556
2030	<u>296,938</u>
	<u>\$ 10,458,423</u>

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(b) Capital Leases

The School Board has one lease agreement at June 30, 2014 for financing the acquisition of property and equipment, and a second lease which was completed by June 30, 2014 for which the leases qualify for capital lease for accounting; therefore, the transactions have been recorded at the present value of their future minimum lease payments as of the inception date.

The net book value of assets acquired through the one remaining capital lease as of June 30, 2014 is as follows:

Machinery and equipment	\$ 1,072,755
Less accumulated depreciation	<u>(411,223)</u>
	<u><u>\$ 661,532</u></u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2014, were as follows:

Year ending June 30:	
2015	\$ 237,658
2016	237,658
2017	237,658
2018	<u>39,610</u>
Total minimum lease payments	752,584
Less amounts representing interest	<u>(47,932)</u>
Present value of minimum capital lease payments	<u><u>\$ 704,652</u></u>

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2014 follows:

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2014</u>	<u>Due Within One Year</u>
Compensated absences	\$ 4,234,536	\$ 1,852,368	\$ 1,816,232	\$ 4,270,672	\$ 640,600
Workers' compensation claims	1,914,500	2,284,520	1,297,930	2,901,090	580,218
Capital leases payable	1,127,080	-	422,428	704,652	212,736
Capital facility notes payable	5,966,505	-	2,380,794	3,585,711	-
Other postemployment benefits	28,750,120	8,481,430	8,548,391	28,683,159	-
Incurred but not reported health claims	<u>2,461,000</u>	<u>27,961,633</u>	<u>27,630,633</u>	<u>2,792,000</u>	<u>2,792,000</u>
Totals	<u><u>\$ 44,453,741</u></u>	<u><u>\$ 40,579,951</u></u>	<u><u>\$ 42,096,408</u></u>	<u><u>\$ 42,937,284</u></u>	<u><u>\$ 4,225,554</u></u>

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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, 2014, but not yet paid by our third-party claims administrator. As we are self-insured for healthcare claims, we consider the entire amount a current liability. In fact, the claims are paid in a matter of a few weeks after June 30, 2014 as the medical providers submit their claims to the third-party administrator.

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

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, 2014 are as follows (note that the payment normally due in FY2015 was paid in June 2014):

	<u>Principal</u>	<u>Interest</u>
FY2015	\$ -	\$ -
FY2016	2,395,930	145,221
FY2017	<u>1,189,781</u>	<u>48,186</u>
Totals	<u>\$ 3,585,711</u>	<u>\$ 193,407</u>

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

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

1. Plan Description

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

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

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Full-time regular employees hired on or before July 1, 2009 for the School Board and March 1, 2010 for the City are members of this fund. NNERF benefits are available only to employees with five years' service. School VRS employees who did not have five years' service when the supplemental NNERF benefits were frozen at December 31, 2012 are not eligible for a supplemental benefit from NNERF. Employees hired after the above dates are in VRS, an agent multiple-employer defined benefit plan as discussed in note 7 (b). For the years ended June 30, 2014 and 2013, the total payroll of the City and the School Board was approximately \$345.8 million and \$357.6 million, respectively, with approximately \$123.6 million and \$129.9 million covered by NNERF. At June 30, 2014, NNERF membership consisted of:

	Retirees and Beneficiaries	Terminated or Frozen Employees	Active Employees Vested	Active Employees Non-Vested	Total
City general	1,178	740	1,104	36	3,058
City police and fire	789	263	765	42	1,859
Public utilities	240	104	242	9	595
School VRS	2,525	3,445	-	-	5,970
School Non-VRS	805	216	606	23	1,650
Total	<u>5,537</u>	<u>4,768</u>	<u>2,717</u>	<u>110</u>	<u>13,132</u>

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

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

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

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2. Concentrations

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

3. Contributions Required and Contributions Made

The Pension Fund is contributory for employees. The Plan engages an actuary to determine the Actuarially Determined Contribution (ADC); however, the City has elected to continue to compute the Actuarially Required Contribution (ARC) in order to track its progress on the eight year funding program established by the City in 2010. The eight year funding program was put in place in order to provide that, by 2017, the City would be contributing 100% of the recommended contribution. The City intends to begin funding of the 100% of ADC beginning in 2018. The percentage of the ARC contributed by both the city and employees in 2014 was 88%.

Contributions for normal costs totaling \$29,364,826 were made by the employer during the year ended June 30, 2014. Contributions totaling \$33,968,281 were made by employees to the Pension Fund during the year ended June 30, 2013. The percentage of employer contributions to covered payroll was 28.8% for fiscal year 2014 and was 28.5% for fiscal year 2013. The percentage of normal costs to covered payroll was 8.03% and 8.11% for the fiscal years ending June 30, 2014 and June 30, 2013 respectively.

The actuarial assumptions have been approved by the Pension Board of Trustees, upon the recommendations from the Plan actuary, based on the experience study of the period July 1, 2008 through June 30, 2012. The significant actuarial assumptions are shown below:

Actuarial valuation date	July 1, 2014
Actuarial cost method	Entry Age
Amortization method	Close 30-year level dollar from July 1, 2011
Actuarial assumptions:	
Investment rate of return	7.50%
Rate of salary increases For the City:	
	2.00% for the next four years
	4.50% thereafter
	For the Non-VRS Schools:
	3.00% for the next three years
	2.00% for the fourth year
	4.50% thereafter
Cost of living adjustment	1.33%
Inflation	2.80%

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4. Three-Year Trend Information

(000's omitted)

Fiscal year ended	Annual Pension Cost (APC)	Percentage of APC contributed	Net pension obligation
June 30, 2014	\$ 38,597	76.0%	\$ 226,353
June 30, 2013	55,320	61.4%	217,121
June 30, 2012	53,805	60.9%	195,769

As of June 30, 2014, the City's most recent actuarial valuation date, the plan was 64.8% funded. The actuarial accrued liability for benefits was \$1,215,969,882, and the actuarial value of assets was \$787,625,994, resulting in an unfunded actuarial accrued liability (UAAL) of \$428,343,888. The covered payroll (annual payroll of active employees covered by the plan) was \$123,619,906, and the ratio of the UAAL to the covered payroll was 346.5%.

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

(b) Virginia Retirement System:

1. Plan Description

The School Board contributes to the Virginia Retirement System (VRS or the System), which administers two plans – an agent simple employer plan and a cost-sharing multiple-employer defined benefit plan. VRS administers a single employer plan for all School Board non-professional employees hired on or after July 1, 2009. Those hired between July 1, 2009 and June 30, 2010 are under the provisions of Plan 1, those hired between July 1, 2010 and December 31, 2013 are under the provisions of Plan 2 and those hired on or after January 1, 2014 are under the provisions of the hybrid plan. All full-time, salaried professional employees of participating employers must participate in the VRS cost-sharing multiple-employer defined benefit plan. 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 the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service.

The different eligibility and benefit structures are as set out in the table that .

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VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>About VRS Plan 1</p> <p>VRS Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p>	<p>About VRS Plan 2</p> <p>VRS Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p>	<p>About the Hybrid Retirement Plan</p> <p>The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as VRS Plan 1 and VRS Plan 2 members who were eligible and opted into the plan during a special election window. (See "Eligible Members")</p> <ul style="list-style-type: none"> • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
<p>Eligible Members</p> <p>Employees are in VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1,</p>	<p>Eligible Members</p> <p>Employees are in VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before</p>	<p>Eligible Members</p> <p>Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. In addition,</p>

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VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>2013.</p> <p>Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible VRS Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and had prior service under VRS Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 1 or ORP.</p>	<p>July 1, 2010, and they were not vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election VRS Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible VRS Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under VRS Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 2 or ORP.</p>	<p>Members in VRS Plan 1 or VRS Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014</p> <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under VRS Plan 1 or VRS Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.</p>
<p>Retirement Contributions Members contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. The School Board elected to phase in the required 5% member contribution; all employees will be paying the full 5% by July 1, 2014. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or</p>	<p>Retirement Contributions Same as VRS Plan 1.</p>	<p>Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer.</p>

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VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.		Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.
<p>Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p>Creditable Service Same as VRS Plan 1.</p>	<p>Creditable Service Defined Benefit Component: Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p>Defined Contributions Component: Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>
<p>Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement</p>	<p>Vesting Same as VRS Plan 1.</p>	<p>Vesting Defined Benefit Component: Defined benefit vesting is the minimum length of service a</p>

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VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>		<p>member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. VRS Plan 1 or VRS Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p>Defined Contributions Component: Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and

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VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
		<p>may withdraw 100% of employer contributions.</p> <p>Distribution is not required by law until age 70½.</p>
<p>Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> <p>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>	<p>Calculating the Benefit See definition under VRS Plan 1.</p>	<p>Calculating the Benefit Defined Benefit Component: See definition under VRS Plan 1.</p> <p>Defined Contribution Component: The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>
<p>Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation Same as VRS Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p>Service Retirement Multiplier The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.7%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees</p>	<p>Service Retirement Multiplier Same as Plan1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p>	<p>Service Retirement Multiplier The retirement multiplier is 1.0%.</p> <p>For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p>

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VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.		
Normal Retirement Age Age 65.	Normal Retirement Age Normal Social Security retirement age.	Normal Retirement Age Defined Benefit Component: Same as VRS Plan 2. Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.
<p>Earliest Unreduced Retirement Eligibility Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p> <p>Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility Defined Benefit Component: Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Reduced Retirement Eligibility Members may retire with a reduced benefit as early as age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility Defined Benefit Component: Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p> <p>Defined Contribution</p>

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VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
		Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.
<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p>Eligibility: For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p>Exceptions to COLA Effective Dates: The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. 	<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p>Eligibility: Same as VRS Plan 1</p> <p>Exceptions to COLA Effective Dates: Same as VRS Plan 1</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement Defined Benefit Component: Same as VRS Plan 2.</p> <p>Defined Contribution Component: Not applicable.</p> <p>Eligibility: Same as VRS Plan 1 and VRS Plan 2.</p> <p>Exceptions to COLA Effective Dates: Same as VRS Plan 1 and VRS Plan 2.</p>

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VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<ul style="list-style-type: none"> • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member Is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. 		
<p>Disability Coverage</p> <p>Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p>	<p>Disability Coverage</p> <p>Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p>	<p>Disability Coverage</p> <p>Eligible school division (including VRS Plan 1 and VRS Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members, which the School Board has elected to provide.</p> <p>Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability</p>

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VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
		benefits.
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	Purchase of Prior Service Same as VRS Plan 1.	Purchase of Prior Service Defined Benefit Component: Same as VRS Plan 1. Defined Contribution Component: Not applicable.

VRS issues a publicly available Comprehensive Annual Financial Report that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the report may be obtained from the VRS Web site at <http://www.varetire.org/Pdf/Publications/2013-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

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2. Funding Policy

Members of all plans are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5.00% of their annual reported compensation to the VRS. Employers that have paid the 5.00% for the member have until July 1, 2016 to phase-in transferring this contribution to the member. The School Board has assumed 4% of the contribution for employees for the year ending June 30, 2013 (dropping to 3% effective July 1, 2013 and zero percent effective July 1, 2014). However, employees hired or rehired on or after July 1, 2010 and have no prior VRS credited service will be required to contribute the 5% member contribution. The School Board is required to contribute the remaining amounts necessary to fund their participation in the VRS using the actuarial bases specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The contribution rate for the fiscal year ended 2013 was 11.66% of covered annual payroll for the School Board for professional employees, not including the 5% contributed for members hired before July 1, 2010. The contribution rate for the single employer plan for non-professional employees was 8.17% not including the 5% contributed for members hired before July 1, 2010.

3. Annual Pension Cost

Cost Sharing Multiple-Employer Plan

For professional employees participating in the VRS cost-sharing multiple-employer plan, the School Board's contributions for the years ended June 30, 2014, 2013 and 2012 were \$25,801,090, \$20,396,339 and \$16,804,356, respectively, and were equal to the required contributions. The School Board's contribution rate for the fiscal year ended June 30, 2014 was 16.66 percent of the annual covered payroll.

Agent Single-Employer Plan

The annual required contributions for the single employer plan were determined as part of the June 30, 2013 actuarial valuation, the most recent actuarial valuation date. As of June 30, 2013 the actuarial value of the Plan assets was \$1,103,067. The Plan was 170% funded. The actuarial accrued liability for benefits was \$649,566, resulting in an overfunded actuarial accrued liability (OAAL) of \$453,501. The covered payroll was \$3,917,266 and the ratio of the OAAL to the covered payroll was 11.6 percent. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The actuarial assumptions included (a) a rate of return on investment of 7.0% to 7.5% (b) projected annual cost-of-living adjustments of 2.50% for Plan 1 members and 2.25% for Plan 2 members and salary increases that range between 3.50% and 5.35% depending upon the member's service and classification. Liabilities were determined under the Entry Age Normal actuarial cost method. There is no unfunded actuarial

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accrued liability at June 30, 2013 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 30 years.

4. Employer Contributions:

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

<u>Fiscal year ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC contributed</u>	<u>Net pension obligation</u>
June 30, 2014	\$ 25,801,090	100.0%	\$ -
June 30, 2013	25,624,173	100.0%	-
June 30, 2012	17,536,019	100.0%	-

(c) Other Postemployment Benefits (OPEB) Trust Funds

1. Plan Description

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

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

Approximately 259 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.

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2. Contributions Required and Contributions Made

OPEB funding policy provides for periodic employer contributions at actuarially determined rates that express, as percentages of annual covered payroll, contributions sufficient to accumulate sufficient assets to pay benefits when due. A level percentage of payroll with a 27-year amortization period is used for purposes of computing the minimum accrual in accordance with GAAP. The projected unit credit method is used for cost calculations.

Contributions to normal costs totaling \$1.1 million were made during the year ended June 30, 2014. The School Board's annual OPEB cost for the current year and past two years are as follows:

(In millions)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Annual Required Contribution	\$ 8.8	\$ 8.7	\$ 7.4
Interest on net pension obligation	2.2	2.3	2.1
Adjustment to ARC	(2.5)	(2.6)	(2.4)
Annual pension cost	8.5	8.4	7.1
Actual Contribution	8.6	8.6	5.9
Increase (decrease) in net OPEB obligation	(0.1)	(0.2)	1.2
Net OPEB obligation, beginning of year	28.8	29.0	27.8
Net OPEB obligation, end of year	\$ 28.7	\$ 28.8	\$ 29.0
Percentage of annual OPEB cost contributed	101%	102%	83%

3. Funding Status and Funding Progress

The funded status of the plan as of June 30, 2014, 2013 and 2012 was as follows:

(In millions)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Actuarial value of assets	\$ 13.8	\$ 11.0	\$ 8.8
Actuarial Accrued Liability (AAL)	104.3	101.4	83.8
Unfunded AAL (UAAL)	\$ 90.5	\$ 90.4	\$ 75.0
Funded ratio	13.2%	10.8%	10.5%
Covered payroll	\$ 119.8	\$ 128.6	\$ 136.7
UAAL as a percentage of covered payroll	75.5%	70.3%	54.9%

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.

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

4. Actuarial Methods and Assumptions

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

Actuarial valuation date	7/1/13
Actuarial cost method	Projected Unit Credit
Amortization method	Level Dollar Closed
Amortization period	27 years
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	NA
Healthcare inflation rate	5.00%
Inflation Rate	5.00%

(8) Self-Insurance

(a) Medical Benefits

The School Board is self-insured for its medical benefits through funding from the General Fund for employees up to \$175,000 per employee per year. 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.

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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 2014 or 2013. 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, 2014 are recognized as a long-term liability due within one

year in the Statement of Net Position. Changes in the incurred but not reported amount during the fiscal years ended June 30, 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Claims payable at beginning of year	\$ 2,461,000	\$ 2,500,001
Claims and changes in estimates	27,961,633	26,623,085
Claim payments	<u>(27,630,633)</u>	<u>(26,662,086)</u>
Claims payable at end of year	<u><u>\$ 2,792,000</u></u>	<u><u>\$ 2,461,000</u></u>

(b) Workers' Compensation

The School Board self-insures for workers' compensation through funding from the Workers' Compensation Special Revenue Fund. Expenditures are charged to the various departments at amounts that approximate what third-party insurers would have charged. Amounts due in future years on claims made as of June 30, 2014 are accounted for as long-term liabilities. These long-term liabilities include an estimate of claims that have been incurred but not reported. The following is a reconciliation of changes in workers' compensation claims payable for years ended June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Claims payable at beginning of year	\$ 1,914,500	\$ 2,064,500
Claims and changes in estimates	2,284,520	788,531
Claim payments	<u>(1,297,930)</u>	<u>(938,531)</u>
Claims payable at end of year	<u><u>\$ 2,901,090</u></u>	<u><u>\$ 1,914,500</u></u>

(c) Other

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

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

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

Notes to Basic Financial Statements

June 30, 2014

(9) Contingent Liabilities

(a) *Litigation*

The School Board is involved in several lawsuits arising in the ordinary course of operations. It is the opinion of School Board management, based on the advice of the School Board attorney, that any losses incurred as a result of claims existing as of June 30, 2014 will not be material to the financial statements.

(b) *Grants*

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

(10) Related Organizations

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

(11) Related-Party Transaction

The School Board operates by authority of the charter of the City, which provides annual appropriations to the School Board for operating the school system and is obligated for all bonded indebtedness issued to benefit the School Board. The City is also the custodian of the majority of the School Board's cash and temporary investments and also provides a defined benefit pension plan to employees hired before July 1, 2009. The City provides services to the School Board, primarily 800 megahertz radio repairs and radio purchases and services related to the vehicle self-insurance program, through the City's General Fund. The School Board is charged based on established fee schedules or a shared cost formula. The City provides school police resource officers at no charge to the School Board. The total value of the services provided by the City and reimbursed by the School Board during the year ended June 30, 2014 was \$682,710. The School Board provides fiber WAN services, fiber WAN installation and shared costs of a School Board building that houses City programs to the City during the year ended June 30, 2014 at charges of \$117,339. Amounts due to and due from the City for services are negligible and are generally settled on a monthly basis. The City Parks & Recreation Department provides services to children and citizens after regular school hours in School Board buildings at no rental charge.

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

Notes to Basic Financial Statements

June 30, 2014

At June 30, 2014, the City owed the School Board \$541,161 for capital projects funding.

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

(12) Subsequent Events

(a) *Magruder Elementary Capital Project*

In July 2014, the City appropriated \$23.96 million for construction of a replacement elementary school on the current site of Magruder Primary. This appropriation included the reallocation of \$3.24 million of capital project funds previously appropriated by the City to the School Board for other projects but were not yet obligated by purchase orders for their original purposes. Later in July 2014, the School Board issued a contract purchase order of \$22.82 million for the construction of this school.

(b) *Print Shop equipment capital lease*

In August 2014, print shop equipment with a value of \$663 thousand was delivered and purchased with a five-year capital lease. Sixty monthly payments made from the General Fund of \$12,460 each commenced October 1, 2014 with the final payment due on September 1, 2019. The nominal interest rate is 4.8%.

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, 2014

	Original Budget	Amended Budget	Actual	Variance
Revenues:				
Intergovernmental:				
Commonwealth of Virginia:				
Standards of Quality funds	\$ 137,908,628	\$ 137,908,628	\$ 139,113,045	\$ 1,204,417
Standards of Quality funds-state carry-forward	-	621,005	619,750	(1,255)
Incentive funds	3,693,980	3,693,980	3,549,872	(144,108)
Categorical funds	140,759	140,759	152,528	11,769
Lottery funded programs	22,028,684	22,028,684	21,852,193	(176,491)
Other state agencies	20,000	20,000	1,604	(18,396)
City of Newport News	115,300,000	115,300,000	115,276,090	(23,910)
Federal government	4,491,500	4,491,500	3,344,445	(1,147,055)
Charges for services	1,554,966	1,554,966	1,660,756	105,790
Total revenues	285,138,517	285,759,522	285,570,283	(189,239)
Expenditures:				
Instructional services:				
Classroom instruction	109,811,301	106,655,738	107,399,823	(744,085)
Office of the principal	18,057,393	17,932,119	17,968,532	(36,413)
Special education	34,467,976	34,272,993	32,820,925	1,452,068
Career and technical	5,368,405	5,365,905	5,599,491	(233,586)
Talented and gifted	5,188,632	5,188,632	4,957,463	231,169
Athletics/Drivers' Education	2,262,671	2,392,033	2,519,307	(127,274)
Summer school	1,164,813	1,164,813	540,927	623,886
Pre school	6,394,400	6,419,067	5,751,442	667,625
Guidance and counseling	6,957,977	6,947,417	6,820,780	126,637
Improvement of instruction - staff	5,181,789	5,258,542	5,304,075	(45,533)
Media services	4,840,091	4,840,091	4,429,698	410,393
School social workers	1,469,616	467,219	62,370	404,849
Homebound	461,213	461,213	509,503	(48,290)
Instructional support -student leadership	1,266,136	1,267,171	1,133,946	133,225
Total academic services	202,892,413	198,632,953	195,818,282	2,814,671
Attendance and health services:				
Psychological services	1,540,372	1,540,372	1,485,802	54,570
Attendance	662,197	662,197	647,852	14,345
Health services	3,301,040	3,301,040	3,229,437	71,603
Total attendance and health services	5,503,609	5,503,609	5,363,091	140,518
Transportation services:				
Transportation administration	2,135,818	2,152,798	2,208,901	(56,103)
Vehicle operation services	11,980,109	11,766,442	11,156,444	609,998
Monitoring services	2,265,574	2,265,574	2,078,731	186,843
Vehicle maintenance services	2,135,104	2,134,454	2,089,031	45,423
Total transportation services	18,516,605	18,319,268	17,533,107	786,161

**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, 2014

	Original Budget	Amended Budget	Actual	Variance
Operations and Facilities:				
Security	2,727,975	2,727,975	2,786,734	(58,759)
Warehouse	265,304	267,104	234,600	32,504
Operations	794,713	741,605	750,214	(8,609)
Grounds services	724,597	912,797	1,927,270	(1,014,473)
Building services	21,653,644	22,368,763	23,892,611	(1,523,848)
Vehicle operation services	341,832	341,832	488,843	(147,011)
Facilities	477,500	477,500	521,622	(44,122)
Total operations and facilities	26,985,565	27,837,576	30,601,894	(2,764,318)
Technology services:				
Technology - classroom instruction	107,049	2,005,360	1,970,489	34,871
Technology - instructional support	5,897,989	6,772,202	6,727,980	44,222
Information technology	3,135,801	4,424,672	5,548,124	(1,123,452)
Technology - operations & maintenance	785,784	771,188	769,176	2,012
Total technology services	9,926,623	13,973,422	15,015,769	(1,042,347)
Administration:				
Information services	1,266,950	1,283,011	1,357,149	(74,138)
School Board	265,659	265,659	238,418	27,241
Superintendent's office	1,174,920	1,174,920	1,193,728	(18,808)
Human resources	1,734,001	1,779,667	1,888,894	(109,227)
Accountability	848,790	849,119	831,633	17,486
Business	1,207,033	1,343,259	1,382,966	(39,707)
Purchasing	560,166	560,656	441,276	119,380
Print shop	5,846	(13,934)	(156,831)	142,897
Total administration	7,063,365	7,242,357	7,177,233	65,124
Total expenditures	270,888,180	271,509,185	271,509,376	(191)
Other financing uses:				
Transfer to Textbook Fund	1,734,015	1,734,015	1,733,824	191
Transfer to City of Newport News – debt service	12,516,322	12,516,322	12,516,322	-
Total other financing uses	14,250,337	14,250,337	14,250,146	191
Total expenditures and other financing uses	285,138,517	285,759,522	285,759,522	-
Net change in fund balances	-	-	(189,239)	(189,239)
Fund balance at beginning of year	29,545,953	29,545,953	29,545,953	-
Less encumbrances outstanding at June 30, 2013 expended or canceled at June 30, 2014	(12,433,723)	(12,433,723)	(12,244,484)	189,239
Add encumbrances outstanding at June 30, 2014	12,121,972	12,121,972	12,121,972	-
Less carryforward State funds recognized	-	(621,005)	(619,750)	1,255
Increase in assigned for health self-insurance	727,159	727,159	727,159	-
Increase for prepaid property and liability insurance	64,465	64,465	64,465	-
Increase in nonspendable inventories	331,759	331,759	331,759	-
Fund balance at end of year	\$ 30,357,585	\$ 29,736,580	\$ 29,737,835	\$ 1,255

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

Required Supplementary Information

Schedule of Funding Progress
For Other Postemployment Benefits (Unaudited)

Year Ended June 30, 2014

(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))
6/30/14	\$	13.8	\$	104.3	\$	(90.5)		13.23%	\$	119.8		75.5%
6/30/13		11.0		101.4		(90.4)		10.85%		128.6		70.3%
6/30/12		8.8		83.8		(75.0)		10.50%		136.7		54.9%
6/30/11		6.4		71.8		(65.4)		8.91%		147.0		44.5%
6/30/10		3.2		132.7		(129.5)		2.41%		158.2		81.9%
6/30/09		1.6		187.8		(186.2)		0.85%		181.0		102.9%
6/30/08		2.7		180.5		(177.8)		1.50%		184.2		96.5%

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

Required Supplementary Information

Schedule of Funding Progress

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

Year Ended June 30, 2014

(Amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (a-b)	Funded Ratio (a/b)	Covered Payroll (d)	UAAL as a Percentage of Covered Payroll ((b-a)/(d))
6/30/13	\$ 1,103	\$ 650	\$ 453	169.7%	\$ 3,917	-11.6%
6/30/12	597	366	231	163.1%	2,812	-8.2%
6/30/11	285	210	75	135.7%	1,849	-4.1%
6/30/10	79	16	63	493.8%	983	-6.4%

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

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

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

Required Supplementary Information

Schedule of Funding Progress
For the Newport News Employee's Retirement Fund (Unaudited)

Year Ended June 30, 2014

(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))
6/30/14	\$ 788	\$ 1,216	(428)	64.8%	\$ 124	345.0%
6/30/13	744	1,180	(436)	63.1%	130	335.2%
6/30/12	680	1,176	(496)	57.8%	249	199.2%

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2014

(1) Budgetary Data

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

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

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

June 30, 2014

(2) Intergovernmental Revenue – City of Newport News

A reconciliation of intergovernmental revenue follows:

City budget appropriations	\$ 115,276,090
Less amounts recorded by City	<u>(13,834,357)</u>
City revenue - GAAP basis	<u><u>\$ 101,441,733</u></u>

(3) Governmental Revenue – Commonwealth of Virginia

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

Reported in the General Fund on the Budget Basis	\$ 165,288,992
Less State funds carried forward from fund balance reported as revenue on the budget basis but not revenue for GAAP purposes	 (619,750)
Less amount for textbooks reported in the Textbook Fund for GAAP purposes	<u>(1,733,824)</u>
General Fund revenue from the Commonwealth of Virginia reported for GAAP	<u><u>\$ 162,935,418</u></u>
Reported in the Textbook Fund on the Budget Basis	\$ -
Add amount for textbooks reported in the Textbook Fund for GAAP purposes	<u>1,733,824</u>
Textbook Fund revenue from the Commonwealth of Virginia reported for GAAP	<u><u>\$ 1,733,824</u></u>

SUPPLEMENTARY INFORMATION

AGENCY FUND

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

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

Statement of Changes of Assets and Liabilities – Agency Fund
Year Ended June 30, 2014

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year
Asset:				
Cash and cash equivalents	\$ 1,516,755	\$ 3,819,467	\$ 3,799,424	\$ 1,536,798
Liabilities:				
Accounts payable	\$ 60,123	\$ 25,151	\$ 60,123	\$ 25,151
Due to students	1,456,632	3,794,316	3,739,301	1,511,647
Total liabilities	\$ 1,516,755	\$ 3,819,467	\$ 3,799,424	\$ 1,536,798

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

June 30, 2014

Special Revenue Funds:

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

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

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

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

Capital Projects Funds:

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

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

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

Combining Balance Sheet

Other Nonmajor Governmental Funds

June 30, 2014

	Special Revenue Funds				Capital Projects Funds		Total Other Nonmajor Governmental Funds
Assets	Workers' Compensation	Textbooks	Child Nutrition	Adult Education	State Construction	General Capital	
Cash and cash equivalents	\$ 2,179,491	\$ 3,445,233	\$ 4,446,424	\$ 706,383	\$ 863,729	\$ 54,083	\$ 11,695,343
Accounts receivable	-	-	-	5,013	-	-	5,013
Due from other governments:							
Federal - Department of Agriculture	-	-	547,919	-	-	-	547,919
Inventories, at cost	-	-	390,017	-	-	-	390,017
Total assets	<u>\$ 2,179,491</u>	<u>\$ 3,445,233</u>	<u>\$ 5,384,360</u>	<u>\$ 711,396</u>	<u>\$ 863,729</u>	<u>\$ 54,083</u>	<u>\$ 12,638,292</u>
Liabilities and Fund Balances							
Liabilities:							
Accounts payable	\$ 145,402	\$ -	\$ 240,085	\$ -	\$ -	\$ -	\$ 385,487
Total liabilities	<u>145,402</u>	<u>-</u>	<u>240,085</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>385,487</u>
Fund balances:							
Nonspendable:							
Inventories	-	-	390,017	-	-	-	390,017
Restricted:							
Adult education services	-	-	-	293,807	-	-	293,807
Capital projects	-	-	-	-	863,729	54,083	917,812
Child nutrition services	-	-	3,751,110	-	-	-	3,751,110
Committed:							
Workers' compensation	2,032,016	-	-	-	-	-	2,032,016
Textbooks	-	3,361,233	-	-	-	-	3,361,233
Assigned to:							
Adult education services	-	-	-	417,589	-	-	417,589
Child nutrition services	-	-	1,003,148	-	-	-	1,003,148
Contractual obligations	2,073	84,000	-	-	-	-	86,073
Total fund balances	<u>2,034,089</u>	<u>3,445,233</u>	<u>5,144,275</u>	<u>711,396</u>	<u>863,729</u>	<u>54,083</u>	<u>12,252,805</u>
Total liabilities and fund balances	<u>\$ 2,179,491</u>	<u>\$ 3,445,233</u>	<u>\$ 5,384,360</u>	<u>\$ 711,396</u>	<u>\$ 863,729</u>	<u>\$ 54,083</u>	<u>\$ 12,638,292</u>

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

Combining Statement of Revenues, Expenditures and Changes in Fund Balance

Other Nonmajor Governmental Funds

Year Ended June 30, 2014

	Special Revenue Funds				Capital Project Funds		Total Other Nonmajor Governmental Funds
	Workers' Compensation	Textbook	Child Nutrition	Adult Education	State Construction	Operating Capital	
Revenues:							
Intergovernmental:							
City of Newport News	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,100,000	\$ 1,100,000
Commonwealth of Virginia	-	1,733,824	353,783	223,491	-	-	2,311,098
Federal government	-	-	12,094,948	-	-	-	12,094,948
Charges for services	737,634	-	3,310,549	318,060	-	-	4,366,243
Investment income	7,632	-	9,715	-	-	-	17,347
Total revenues	<u>745,266</u>	<u>1,733,824</u>	<u>15,768,995</u>	<u>541,551</u>	<u>-</u>	<u>1,100,000</u>	<u>19,889,636</u>
Current expenditures:							
Academic services	-	1,840,235	-	525,383	-	-	2,365,618
Operations and facilities	-	-	161,284	-	-	-	161,284
Child nutrition services	-	-	15,127,188	-	-	-	15,127,188
Administration	1,429,154	-	-	-	-	-	1,429,154
Capital outlay	-	-	-	-	233,819	1,078,993	1,312,812
Total expenditures	<u>1,429,154</u>	<u>1,840,235</u>	<u>15,288,472</u>	<u>525,383</u>	<u>233,819</u>	<u>1,078,993</u>	<u>20,396,056</u>
Net change in fund balances	(683,888)	(106,411)	480,523	16,168	(233,819)	21,007	(506,420)
Fund balances at beginning of year	2,717,977	3,551,644	4,676,142	695,228	1,097,548	33,076	12,771,615
Decrease in nonspendable inventory	-	-	(12,390)	-	-	-	(12,390)
Fund balances at end of year	<u>\$ 2,034,089</u>	<u>\$ 3,445,233</u>	<u>\$ 5,144,275</u>	<u>\$ 711,396</u>	<u>\$ 863,729</u>	<u>\$ 54,083</u>	<u>\$ 12,252,805</u>

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

Workers' Compensation Fund

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

Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:				
Charges for services	\$ 752,814	\$ 752,814	\$ 737,634	\$ (15,180)
Investment income	12,000	12,000	7,632	(4,368)
Total revenues	<u>764,814</u>	<u>764,814</u>	<u>745,266</u>	<u>(19,548)</u>
Expenditures:				
Administration	<u>1,019,000</u>	<u>1,519,000</u>	<u>1,425,066</u>	<u>93,934</u>
Total expenditures	<u>1,019,000</u>	<u>1,519,000</u>	<u>1,425,066</u>	<u>93,934</u>
Excess (deficiency) revenues (under) over expenditures	<u>(254,186)</u>	<u>(754,186)</u>	<u>(679,800)</u>	<u>74,386</u>
Net change in fund balances	(254,186)	(754,186)	(679,800)	74,386
Fund balance at beginning of year	2,717,977	2,717,977	2,717,977	-
Less encumbrances outstanding at June 30, 2013				
expended or canceled at June 30, 2014	(4,088)	(4,088)	(4,088)	-
Add encumbrances outstanding at June 30, 2014	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance at end of year	<u>\$ (258,274)</u>	<u>\$ (758,274)</u>	<u>\$ 2,034,089</u>	<u>\$ 74,386</u>

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

Textbook Fund

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

Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:				
Total revenues	\$ -	\$ -	\$ -	\$ -
Expenditures:				
Academic services	1,733,824	1,733,824	510,371	1,223,453
Total expenditures	<u>1,733,824</u>	<u>1,733,824</u>	<u>510,371</u>	<u>1,223,453</u>
Excess (deficiency) revenues (under) over expenditures	(1,733,824)	(1,733,824)	(510,371)	1,223,453
Other financing sources -				
Transfers in	<u>1,733,824</u>	<u>1,733,824</u>	<u>1,733,824</u>	<u>-</u>
Net change in fund balances	-	-	1,223,453	1,223,453
Fund balance at beginning of year	3,551,644	3,551,644	3,551,644	-
Less encumbrances outstanding at June 30, 2013				
expended or canceled at June 30, 2014	(1,415,408)	(1,415,408)	(1,413,864)	1,544
Add encumbrances outstanding at June 30, 2014	<u>84,000</u>	<u>84,000</u>	<u>84,000</u>	<u>-</u>
Fund balance at end of year	<u>\$ 2,220,236</u>	<u>\$ 2,220,236</u>	<u>\$ 3,445,233</u>	<u>\$1,224,997</u>

STATISTICAL SECTION

STATISTICAL SECTION

(Unaudited)

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

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

Schedule of Property Tax Levies and Collections

Schedule of Property Valuations – Assessed Valuations

Schedule of Property Tax Rates

Legal Debt Limit

Construction and Property Values and Bank Deposits

Contents

Page

Financial Trends

S-1

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

Revenue Capacity

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

Debt Capacity

S-7

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

Demographic and Economic Information

S-8

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

Operating Information

S-10

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

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

Table I

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

Net Position by Component

Last Ten Fiscal Years

(Accrual Basis of Accounting)

Fiscal Year

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Governmental activities										
Net investment in capital assets	\$ 62,882,021	\$ 62,872,389	\$ 55,655,762	\$ 58,043,143	\$ 56,433,717	\$ 57,205,176	\$ 61,780,411	\$ 67,370,342	\$ 66,806,834	\$ 68,663,255
Restricted	-	-	-	-	-	-	5,483,662	4,218,225	4,293,830	4,962,729
Unrestricted	17,557,851	15,122,510	33,627,682	20,320,652	17,513,844	12,260,185	3,062,106	1,894,122	3,319,634	(1,086,939)
Total primary government net position	\$ 80,439,872	\$ 77,994,899	\$ 89,283,444	\$ 78,363,795	\$ 73,947,561	\$ 69,465,361	\$ 70,326,179	\$ 73,482,689	\$ 74,420,298	\$ 72,539,045

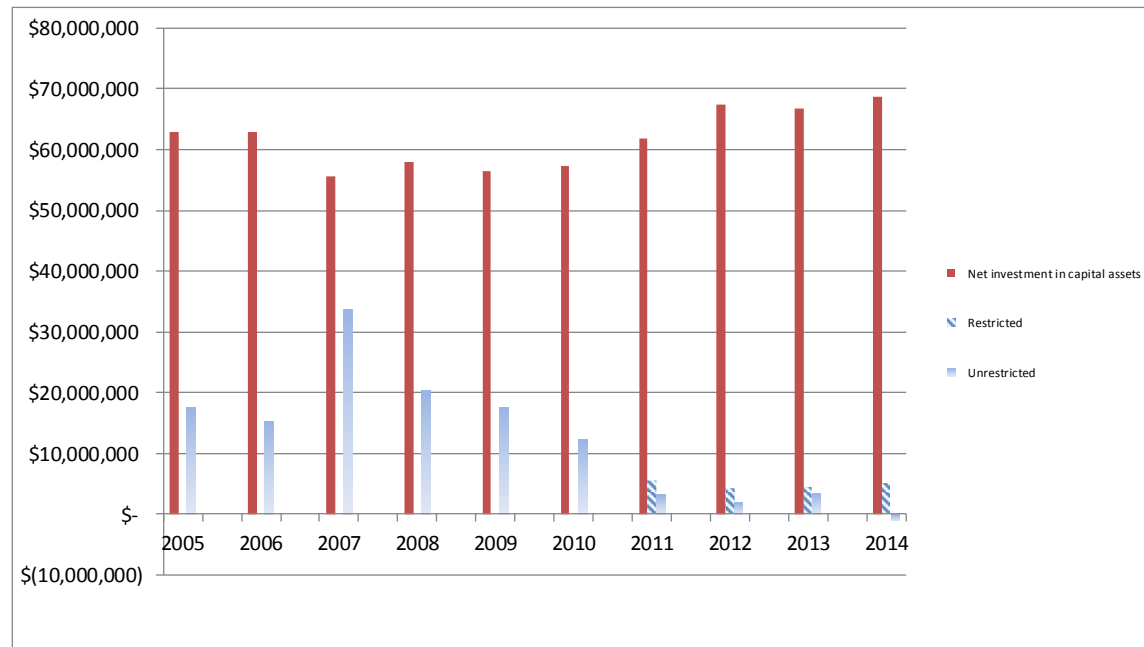


Table II

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

Expenses, Program Revenues and Net Expense/ (Revenue)

Last Ten Fiscal Years

(Accrual Basis of Accounting)

Fiscal Year

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Expenses										
Governmental activities:										
Academic services	\$ 212,060,368	\$ 221,222,204	\$ 233,361,627	\$ 249,356,000	\$ 252,927,122	\$ 240,751,459	\$ 230,788,505	\$ 227,368,609	\$ 224,047,407	\$ 220,242,178
Attendance and health services	-	-	-	-	-	-	-	-	5,410,181	5,370,389
Transportation services	14,976,768	15,875,203	16,452,839	18,436,799	19,258,223	18,284,090	17,460,802	18,703,166	18,732,095	17,760,521
Operations and facilities	28,087,367	29,105,006	29,730,401	34,236,753	36,894,552	29,659,712	33,490,915	34,635,744	31,507,246	32,334,959
Child nutrition services	12,618,956	13,364,923	13,433,566	14,677,570	15,180,605	13,987,487	13,766,336	14,079,191	15,155,813	15,045,887
Technology services	9,803,388	9,345,134	11,166,586	13,683,308	13,822,462	21,723,542	14,786,921	12,799,635	12,189,933	13,352,948
Administration	7,206,692	8,743,700	11,577,423	10,741,192	10,169,326	8,441,950	7,742,987	7,627,183	7,718,428	8,320,335
Interest on capital debt	548,331	208,861	1,795,325	1,754,471	846,193	1,363,623	639,293	503,181	387,257	282,261
Total expenses	285,301,870	297,865,031	317,517,767	342,886,093	349,098,483	334,211,863	318,675,759	315,716,709	315,148,360	312,709,478
Program Revenues										
Charges for services:										
Academic services	1,350,358	1,298,301	1,362,393	1,557,444	1,967,773	2,048,618	1,872,761	1,395,070	1,200,596	1,431,667
Operations and facilities	392,302	497,998	1,107,445	730,821	701,607	1,143,087	1,066,629	597,360	480,397	258,467
Child nutrition services	4,526,021	4,605,387	4,755,748	4,596,842	4,435,779	4,019,072	4,059,105	3,923,464	3,510,490	3,310,549
Technology services	-	-	-	-	241,547	247,226	265,388	192,388	180,020	169,063
Administration	-	-	-	-	-	-	-	-	1,007,426	857,254
Operating grants and contributions	52,405,547	55,052,021	53,970,556	55,365,851	59,273,209	67,739,489	68,789,246	70,250,802	68,549,968	62,988,257
Capital grants and contributions	3,088,078	2,859,275	3,506,696	5,150,813	3,083,590	1,918,742	5,687,811	2,537,511	867,746	858,967
Total program revenues	61,762,306	64,312,982	64,702,838	67,401,771	69,703,505	77,116,234	81,740,940	78,896,595	75,796,643	69,874,224
Net Expense/(Revenue)										
Total net expense	\$ 223,539,564	\$ 233,552,049	\$ 252,814,929	\$ 275,484,322	\$ 279,394,978	\$ 257,095,629	\$ 236,934,819	\$ 236,820,114	\$ 239,351,717	\$ 242,835,254

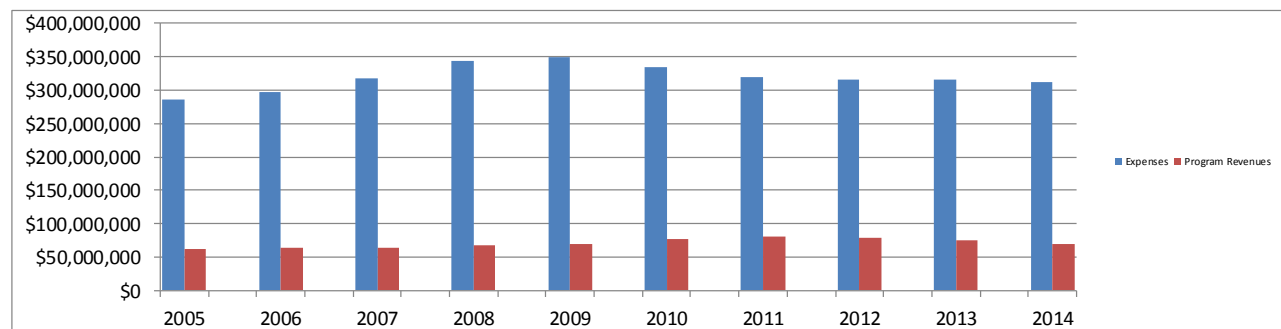


Table III

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

General Revenues and Total Changes in Net Position

Last Ten Fiscal Years

(Accrual Basis of Accounting)
Fiscal Year

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Net Expense										
Total net expense	\$ 223,539,564	\$ 233,552,049	\$ 252,814,929	\$ 275,484,322	\$ 279,394,978	\$ 257,095,629	\$ 236,934,819	\$ 236,820,114	\$ 239,351,717	\$ 242,835,254
General Revenues and Other Changes in Net Position										
Governmental activities:										
Grants not restricted to specific programs										
City of Newport News, Virginia	88,151,971	84,558,244	97,701,846	93,681,119	95,773,213	101,052,200	99,557,045	98,754,050	98,085,490	99,150,620
Commonwealth of Virginia	138,129,797	141,414,267	162,492,690	163,806,388	169,035,453	145,390,261	133,006,200	135,823,650	138,444,470	139,113,046
Federal government	5,235,651	4,561,386	3,326,582	5,681,596	7,443,349	6,148,525	5,216,293	5,380,140	3,740,091	2,672,988
Interest	83,085	97,051	172,616	179,679	56,401	22,443	16,099	18,784	19,275	17,347
Miscellaneous	-	476,128	409,740	1,215,891	-	-	-	-	-	-
Total general revenues	231,600,504	231,107,076	264,103,474	264,564,673	272,308,416	252,613,429	237,795,637	239,976,624	240,289,326	240,954,001
Change in Net Position	8,060,940	(2,444,973)	11,288,545	(10,919,649)	(7,086,562)	(4,482,200)	860,818	3,156,510	937,609	(1,881,253)
Net position at beginning of year	72,378,932	80,439,872	77,994,899	89,283,444	78,363,795	73,947,561	69,465,361	70,326,179	73,482,689	74,420,298
Prior period adjustment	-	-	-	-	-	2,670,328	-	-	-	-
Net position at end of year	\$ 80,439,872	\$ 77,994,899	\$ 89,283,444	\$ 78,363,795	\$ 71,277,233	\$ 72,135,689	\$ 70,326,179	\$ 73,482,689	\$ 74,420,298	\$ 72,539,045

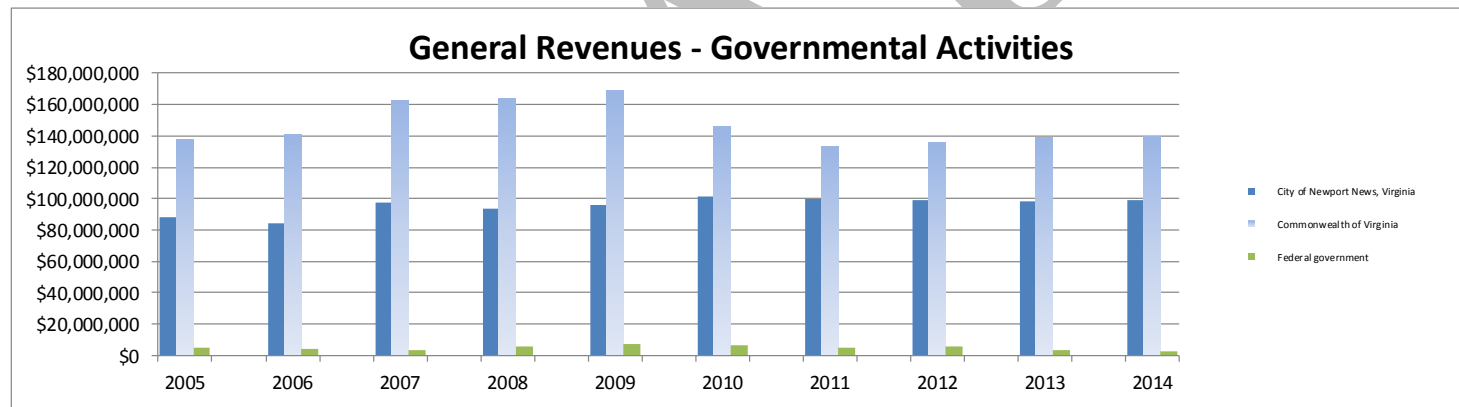


Table IV

**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

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General Fund										
Reserved	\$ 18,918,692	\$ 18,323,640	\$ 24,214,767	\$ 26,751,505	\$ 33,179,119	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	4,073,886	4,290,893	4,819,439	7,373,979	8,982,912	-	-	-	-	-
Nonspendable	-	-	-	-	-	690,372	656,720	708,477	1,416,350	1,812,575
Assigned to	-	-	-	-	-	38,704,948	31,046,573	23,589,331	27,509,853	27,925,260
Unassigned	-	-	-	-	2,820,409	-	-	-	619,750	-
Total general fund	<u>\$ 22,992,578</u>	<u>\$ 22,614,533</u>	<u>\$ 29,034,206</u>	<u>\$ 34,125,484</u>	<u>\$ 44,982,440</u>	<u>\$ 39,395,320</u>	<u>\$ 31,703,293</u>	<u>\$ 24,297,808</u>	<u>\$ 29,545,953</u>	<u>\$ 29,737,835</u>
All Other Governmental Funds										
Reserved	\$ 989,058	\$ 6,700,117	\$ 3,739,314	\$ 8,555,882	\$ 3,673,127	\$ 2,572,199	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds	1,510,359	1,281,855	1,044,693	2,041,666	2,314,115	2,632,636	-	-	-	-
Capital project funds	(4,541,645)	(6,170,129)	(5,303,241)	1,347,479	2,907,202	2,358,745	-	-	-	-
Nonspendable	-	-	-	-	-	-	295,190	336,143	402,407	390,017
Restricted	-	-	-	-	-	-	1,871,770	4,218,225	4,293,830	4,962,729
Committed	-	-	-	-	-	-	-	6,050,353	4,850,125	5,393,249
Assigned to	-	-	-	-	-	-	7,282,680	2,440,928	5,881,305	2,038,882
Total all other government	<u>\$ (2,042,228)</u>	<u>\$ 1,811,843</u>	<u>\$ (519,234)</u>	<u>\$ 11,945,027</u>	<u>\$ 8,894,444</u>	<u>\$ 7,563,580</u>	<u>\$ 9,449,640</u>	<u>\$ 13,045,649</u>	<u>\$ 15,427,667</u>	<u>\$ 12,784,877</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
2005	93,144,600	164,964,221	33,488,214	6,758,404	14,496,351	312,851,790
2006	88,432,275	168,557,037	35,329,912	6,974,865	-	299,294,089
2007	104,647,395	187,784,047	35,512,477	7,807,942	3,068,814	338,820,675
2008	104,682,993	190,950,988	39,053,660	8,280,677	-	342,968,318
2009	102,196,055	197,538,187	41,006,149	7,694,372	972,182	349,406,945
2010	104,664,127	173,239,439	47,778,713	7,659,311	-	333,341,590
2011	104,112,311	160,146,070	52,480,818	7,352,644	-	324,091,843
2012	108,842,095	161,348,404	52,580,026	6,928,714	-	329,699,239
2013	105,888,340	165,372,234	46,216,240	6,412,005	1,072,755	324,961,574
2014	104,055,471	167,995,494	37,479,790	6,202,320	18,165	315,751,240
chart segment	1	2	3	4	5	

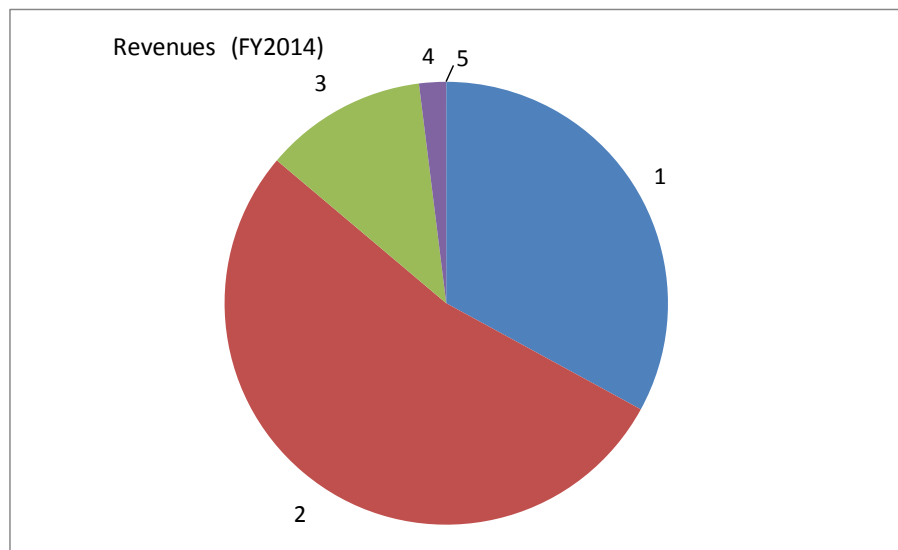


Table VI

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

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

Last Ten Fiscal Years

(Modified Accrual Basis of Accounting)

(Amounts in Thousands)

Fiscal Year

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Revenues and other financing sources (Table V)	\$ 312,851,790	\$ 299,294,089	\$ 338,820,675	\$ 342,968,318	\$ 349,406,945	\$ 333,341,590	\$ 329,699,239	\$ 329,699,239	\$ 324,961,574	\$ 315,751,240
Academic services	\$ 206,623,222	\$ 214,816,879	\$ 229,919,650	\$ 236,249,151	\$ 238,023,334	\$ 234,743,753	\$ 227,559,797	\$ 227,559,797	\$ 221,425,243	\$ 219,338,755
Attendance and health services	-	-	-	-	-	-	-	-	5,429,791	5,426,772
Transportation services	13,439,423	13,999,913	14,922,008	16,185,859	16,806,995	16,706,999	17,575,505	17,575,505	17,520,252	16,900,789
Operations and facilities	27,983,539	27,687,672	28,770,938	28,570,237	33,654,510	27,690,322	33,658,928	33,658,928	30,366,533	31,502,312
Child nutrition services	12,441,054	12,952,160	13,354,072	13,916,630	13,486,037	13,231,220	14,217,246	14,217,246	15,237,387	15,127,188
Technology services	11,055,093	11,043,512	11,289,089	15,117,541	13,024,631	21,407,036	12,916,263	12,916,263	12,188,113	13,616,968
Administration	7,055,428	8,453,924	11,508,913	10,071,479	9,428,200	7,862,407	7,267,413	2,391,998	7,309,967	8,054,340
Capital outlay	25,329,175	12,871,893	8,504,309	15,284,734	13,339,928	10,091,413	13,967,918	13,967,918	11,142,657	5,450,745
Debt service										
Principal	1,464,890	2,664,410	3,383,209	4,122,193	2,616,893	2,750,273	3,352,473	3,352,473	2,631,723	2,803,222
Interest	548,331	208,861	1,829,826	1,754,471	846,193	1,363,623	503,181	503,181	387,257	282,261
Other financing uses	-	-	-	112,000	142,000	74,463	-	-	-	18,165
Total expenditures and other financing uses	\$ 305,940,155	\$ 304,699,224	\$ 323,482,014	\$ 341,384,295	\$ 341,368,721	\$ 335,921,509	\$ 331,018,724	\$ 326,143,309	\$ 323,638,923	\$ 318,521,517
Change in fund balance	\$ 6,911,635	\$ (5,405,135)	\$ 15,338,661	\$ 1,584,023	\$ 8,038,224	\$ (2,579,919)	\$ (1,319,485)	\$ 3,555,930	\$ 1,322,651	\$ (2,770,277)
Debt service as a percentage of noncapital expenditures	0.7%	1.0%	1.7%	1.8%	1.1%	1.3%	1.2%	1.2%	1.0%	1.0%

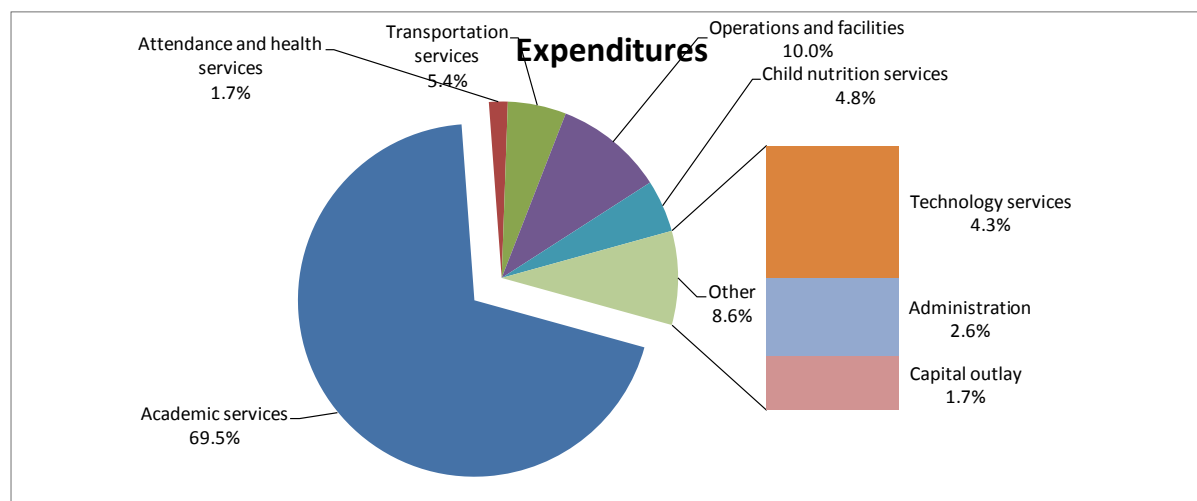


Table VII

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

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

Fiscal year	(1) Population	(2) Assessed value of property	(3) Personal Income	Capital lease and facility notes payable debt	Ratio of debt to assessed value	Net debt per capita	Ratio of debt to personal income
2005	185,240	\$ 9,042,610	\$ 5,086,295	\$ 26,319	0.29%	\$ 142	0.52%
2006	186,000	10,404,207	5,225,657	23,654	0.23%	127	0.45%
2007	186,000	12,293,454	5,500,739	23,340	0.19%	125	0.42%
2008	187,200	14,286,003	5,941,588	19,217	0.13%	103	0.32%
2009	193,212	17,488,713	6,011,449	17,573	0.10%	91	0.29%
2010	193,172	18,048,533	5,946,073	14,822	0.08%	77	0.25%
2011	180,719	17,090,031	6,241,927	12,005	0.07%	66	0.19%
2012	180,719	16,878,501	6,672,878	8,653	0.05%	48	0.13%
2013	180,726	16,307,403	Not Available	7,094	0.04%	39	Not Available
2014	182,020	16,207,738	Not Available	4,290	0.03%	24	Not Available

Notes: (1) Source: 2005-2008 – City estimate; 2009-2014 – U. S. Bureau of Census

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

(3) Source: 2005 Census Bureau, 2006-2012 Bureau of Economic Analysis, 2013-2014 data not yet available

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

Table VIII

THE SCHOOL BOARD OF THE CITY OF NEWPORT NEWS, VIRGINIA

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

Grade 3										
Test	School Board					State				
	2011	2012	2013	2014	Change	2011	2012	2013	2014	Change
English: Reading	73	81	62	58	(4)	83	86	72	69	(3)
Mathematics	87	49	49	60	11	91	64	65	67	2
Science	81	82	71	70	(1)	90	90	84	83	(1)
History/Social Studies	78	76	78	76	(2)	85	87	87	86	(1)
Grade 4										
Test	School Board					State				
	2011	2012	2013	2014	Change	2011	2012	2013	2014	Change
English:Reading	79	76	59	58	(1)	87	88	70	70	-
Mathematics	83	60	60	73	13	89	70	74	80	6
Virginia Studies	89	83	80	76	(4)	89	89	87	85	(2)
Grade 5										
Test	School Board					State				
	2011	2012	2013	2014	Change	2011	2012	2013	2014	Change
English: Writing	81	78	55	52	(3)	87	87	71	71	-
English: Reading,	83	79	58	59	1	89	89	73	73	-
Mathematics	88	36	56	62	6	89	67	69	73	4
Science	85	86	67	59	(8)	87	88	75	73	(2)
Grade 6										
Test	School Board					State				
	2011	2012	2013	2014	Change	2011	2012	2013	2014	Change
English:Reading	82	84	64	60	(4)	87	89	73	73	-
Mathematics	69	68	70	67	(3)	73	74	77	76	(1)
U.S. History I	76	71	75	74	(1)	81	81	83	81	(2)
Grade 7										
Test	School Board					State				
	2011	2012	2013	2014	Change	2011	2012	2013	2014	Change
English:Reading	83	82	64	66	2	89	88	74	76	2
Mathematics	66	33	43	38	(5)	77	58	61	65	4
U.S. History II	82	74	73	73	-	85	84	82	81	(1)
Grade 8										
Test	School Board					State				
	2011	2012	2013	2014	Change	2011	2012	2013	2014	Change
English: Writing	83	85	58	60	2	88	88	70	70	-
English: Reading,	86	84	59	57	(2)	90	89	71	70	(1)
Mathematics	75	44	42	43	1	82	60	61	67	6
Science	88	87	72	58	(14)	92	92	76	74	(2)
Civics/Economics	80	75	81	75	(6)	84	84	85	83	(2)
End of Course										
Test	School Board					State				
	2011	2012	2013	2014	Change	2011	2012	2013	2014	Change
English: Writing	90	90	82	78	(4)	93	93	87	84	(3)
English: Reading	91	89	85	88	3	94	94	89	90	1
Algebra I	92	66	72	71	(1)	94	75	76	79	3
Algebra II	87	58	59	67	8	91	69	76	82	6
Geometry	78	62	63	68	5	87	74	76	77	1
Earth science	86	84	75	72	(3)	89	90	83	83	-
Biology	84	88	71	71	-	90	92	83	83	-
Chemistry	93	91	76	82	6	93	93	86	87	1
World History I	79	84	84	84	-	81	84	84	85	1
World History II	82	86	82	85	3	82	85	85	86	1
VA & U. S. History	75	74	77	79	2	83	85	86	87	1
World Geography	75	73	76	77	1	85	85	86	86	-

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

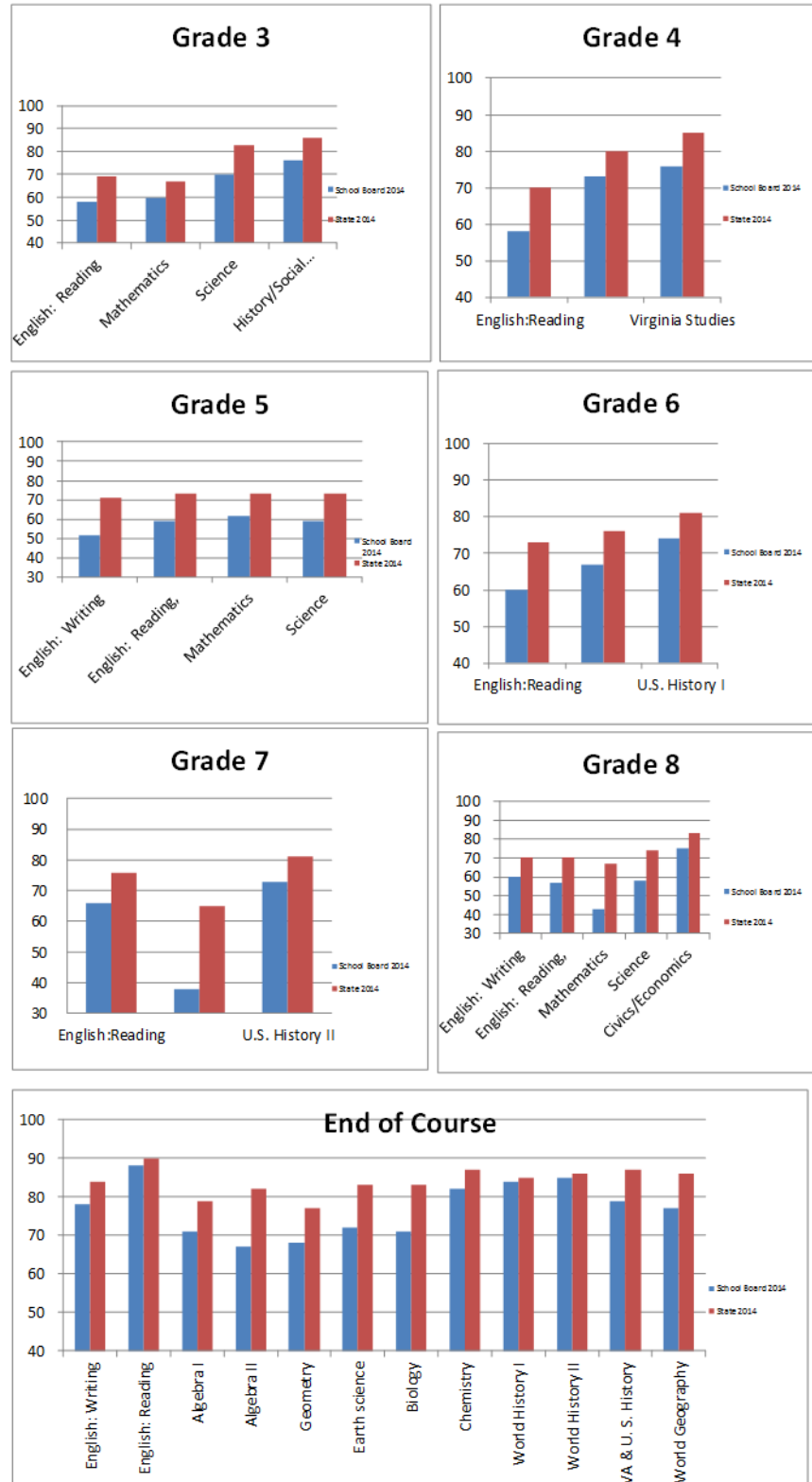


Table IX

THE SCHOOL BOARD OF THE CITY OF NEWPORT NEWS, VIRGINIA

Miscellaneous Statistics

June 30, 2014

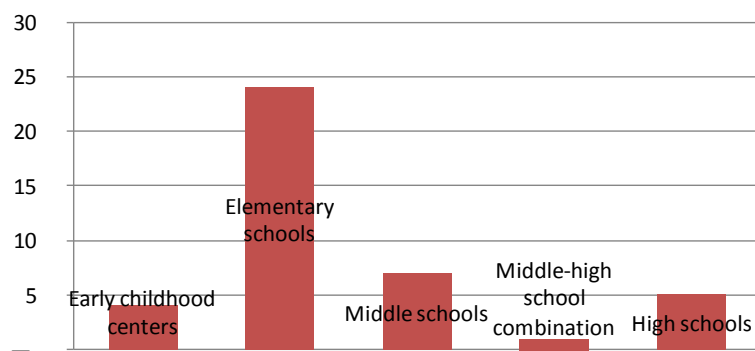
City of Newport News General Information

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 (FY2014):	
Early childhood centers	4	Early childhood centers	1,464
Elementary schools	24	Elementary school	13,660
Middle schools	7	Middle school	6,187
Middle-high school combination	1	High school	7,957
High schools	5		
Total	<u>41</u>	Total	<u>29,268</u>

Number of Schools



Average Daily Students (FY2014)

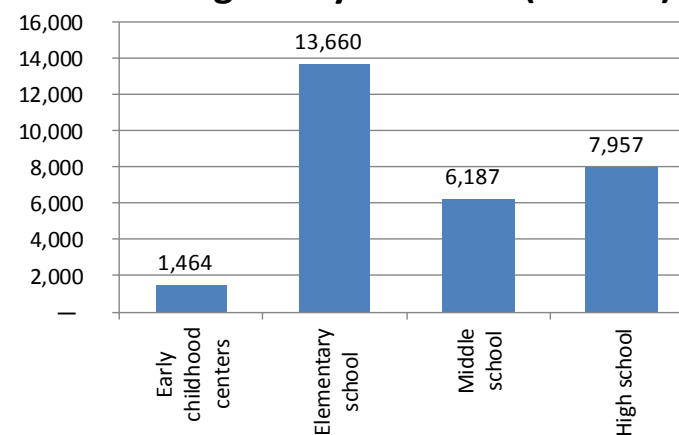


Table X

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

Demographic Statistics

Last Ten Fiscal Years

Fiscal Year	(1) Population	(2) Personal Income (In thousands)	(3) Per Capita Income	(4) School Enrollment	(5) Unemployment Rate (%)
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	31,120	29,022	6.5%
2010	193,172	5,946,073	32,921	28,613	8.0%
2011	180,719	6,241,927	34,752	28,183	7.6%
2012	180,719	6,672,878	36,923	27,701	7.4%
2013	180,726	Not Available	Not Available	27,590	6.9%
2014	182,020	Not Available	Not Available	27,804	6.4%

Notes: (1) Source: 2005-2008 - City estimate; 2009-2014 – U. S. Bureau of Census

(2) Source: 2005-2007 Virginia Employment Commission; 2008-2012 Bureau of Economic Accounts; 2013-2014 data not yet available.

(3) Source: 2005 Census Bureau, 2006-2012 Bureau of Economic Analysis, 2013-2014 data not yet available

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

(5) 2004-2009 Virginia Employment Commission; 2010-2014 Virginia Workforce Connection

Table XI

THE SCHOOL BOARD OF THE CITY OF NEWPORT NEWS, VIRGINIA

Capital Asset Information Most Recent Nine Fiscal Years

	Fiscal Year								
	2006	2007	2008	2009	2010	2011	2012	2013	2014
Schools									
Elementary									
Buildings (Note 1)	28	26	26	26	26	25	24	24	24
Average age of buildings (Note 2)	42 years	43 years	44 years	45 years	46 years	47 years	48 years	49 years	50 years
Modular learning cottages	78	78	78	72	71	71	71	71	71
Square feet	1,763,000	1,630,000	1,630,000	1,630,000	1,630,000	1,560,400	1,534,997	1,534,997	1,534,997
Capacity (based on current program)	16,124	15,450	17,459	17,459	16,391	15,800	15,600	15,600	15,600
Enrollment (as of September 30)	14,190	14,033	13,645	13,746	13,862	13,728	13,686	13,597	13,664
Percent of capacity used	88%	91%	78%	79%	85%	87%	88%	87%	88%
Middle									
Buildings (Note 1)	8	8	9	9	8	8	8	8	8
Average age of buildings (Note 2)	40 years	41 years	38 years	39 years	38 years	39 years	40 years	41 years	42 years
Modular learning cottages	19	19	19	19	14	14	14	14	14
Square feet	1,051,000	1,123,400	1,123,400	1,123,400	1,048,260	1,048,260	1,048,260	1,048,260	1,048,260
Capacity (based on current program)	8,723	9,073	8,084	8,084	7,484	7,484	7,484	7,484	7,484
Enrollment (as of September 30)	7,391	7,036	6,799	6,434	6,199	6,074	6,191	6,138	6,152
Percent of capacity used	85%	78%	84%	80%	83%	81%	83%	82%	82%
High									
Buildings	5	5	6	6	6	6	6	6	6
Average age of buildings (Note 2)	27 years	28 years	24 years	25 years	26 years	27 years	28 years	29 years	30 years
Alternative high school facilities (leased)	2	2	2	2	2	2	2	2	2
Modular learning cottages	20	20	20	20	20	20	20	20	20
Square feet	1,195,000	1,195,000	1,223,000	1,223,000	1,223,000	1,223,000	1,223,000	1,223,000	1,223,000
Capacity (based on current program)	8,206	8,206	8,570	8,570	8,570	8,570	8,570	8,570	8,570
Enrollment (as of September 30)	9,775	9,620	9,441	9,328	8,988	8,621	8,139	7,963	7,963
Percent of capacity used	119%	117%	110%	109%	105%	101%	95%	93%	93%
Early Childhood Centers									
Buildings	5	4	4	4	4	4	4	4	4
Average age of buildings (Note 2)	22 years	23 years	24 years	25 years	27 years	28 years	37 years	38 years	39 years
Square feet	86,000	112,700	112,700	112,700	181,000	181,000	206,403	206,403	206,403
Capacity (based on current program)	1,850	1,700	1,700	1,700	1,850	1,850	2,050	2,050	2,050
Enrollment (as of September 30)	1,783	1,684	1,668	1,790	1,813	1,607	1,637	1,632	1,456
Percent of capacity used	96%	99%	98%	105%	98%	87%	80%	80%	71%
Administrative and Operations									
Buildings	6	6	6	6	6	6	6	6	6
Average age of buildings (Note 2)	31 years	32 years	33 years	34 years	35 years	36 years	37 years	38 years	39 years
Square feet	199,000	199,000	199,000	199,000	199,000	199,000	199,000	199,000	199,000
Transportation									
Buildings	1	1	1	1	1	1	1	1	1
Age of building	29 years	30 years	31 years	32 years	33 years	34 years	35 years	36 years	37 years
Square feet	26,500	26,500	26,500	26,500	26,500	26,500	26,500	26,500	26,500
Buses	405	405	412	372	368	361	375	386	365

Source: Newport News Public Schools insurance and facility department records

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

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

In many cases, the buildings have received additions and/or extensive renovations, such as roof, window and HVAC replacements. However, the following schools have received such an extensive renovation, that the age of the building is based upon the year of renovation, rather than the year of original construction:

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

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
2005	\$ 8,696	12.8	13.1	48.2%
2006	9,712	12.8	13.0	50.3%
2007	10,075	12.0	12.9	48.8%
2008	10,565	11.6	13.4	48.8%
2009	11,032	12.7	12.0	51.4%
2010	10,946	12.1	11.6	53.2%
2011	10,582	13.5	12.6	54.0%
2012	10,842	14.0	12.5	59.1%
2013	10,658	14.1	12.7	60.8%
2014	11,161	14.5	13.9	61.3%

Sources:

- (1) Cost per student based upon formula for operating costs per the Virginia Department of Education and published in table 15 of the Annual Superintendent's Report on their website. Starting with FY2012, pre-school students are included in the cost per student. (FY2014 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 2014 is estimated by School Board pending State publishing the data on their website)
- (3) Percentage of students on free/reduced lunch from Newport News Public Schools Child Nutrition Services Department.

Table XIII

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

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

	2006	2007	2008	2009	2010	2011	2012	2013	2014
Supervisory:									
Principals	44	43	45	45	40	41	41	41	42
Assistant principals	77	76	76	74	74	68	72	72	76
Instructional administrative	70	75	69	74	64	59	59	58	56
Other administrative and professional	70	69	60	72	64	55	55	57	57
Instructional:									
Elementary classroom teachers	1,427	1,426	1,423	1,357	1,373	1,310	1,251	1,248	1,223
Secondary classroom teachers	789	809	812	802	840	795	771	738	693
Guidance counselors	85	84	87	92	99	91	91	95	95
Librarians	51	49	51	45	48	47	46	44	39
Technology	50	50	50	30	32	32	31	29	28
Other instructional	159	163	165	147	158	138	121	141	145
Social workers	16	18	20	18	18	18	16	16	14
Teacher assistants	490	498	483	526	533	521	500	478	452
Support Services:									
Psychologists	15	18	18	18	21	21	17	17	17
Instructional technical	13	14	15	30	55	40	36	40	38
Instructional clerical	222	228	231	238	223	219	192	186	180
Non-instructional technical	81	93	75	134	105	102	108	99	98
Non-instruction clerical	70	59	72	51	38	38	27	33	34
Nurses	55	56	56	53	55	52	51	53	52
Bus drivers	370	394	394	384	340	326	315	318	310
Bus assistants	99	98	98	100	92	91	90	97	96
Custodians	244	248	248	262	252	244	243	242	233
Child nutrition services	361	361	361	394	371	366	346	344	346
Security officers	56	65	68	66	65	65	63	64	62
Skilled trades	96	97	98	98	92	91	88	85	85
Other	112	86	83	3	2	2	2	2	14
Total	5,122	5,177	5,158	5,113	5,053	4,832	4,632	4,597	4,485

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

Data for prior years is not available.

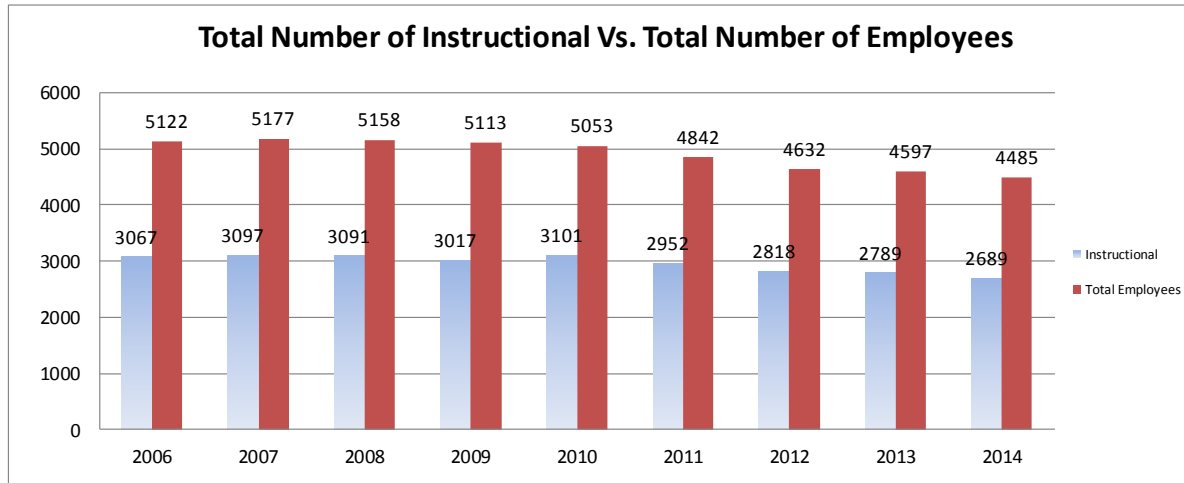


Table XIV

**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
2005	\$ 33,200	\$ 51,898	\$ 42,110	\$ 45,377
2006	34,450	53,852	43,649	47,248
2007	35,750	55,709	44,541	49,131
2008	37,350	57,630	45,277	50,511
2009	38,400	58,766	48,815	52,309
2010	38,400	58,766	45,657	51,887
2011	38,000	58,766	46,882	51,524
2012	38,205	56,761	48,228	52,096
2013	38,500	56,761	48,045	52,923
2014	39,500	57,879	49,682	53,466

Sources: Minimum and Maximum salaries from Newport News Public Schools Budget Document, Appendix 2 for teachers with a Bachelors degree working standard 192-day contract. Newport News and Statewide average salary from Superintendent's annual financial report Table 19 as published by the Virginia Department of Education on their website, except FY2014 is from our submission to the State but not yet verified. FY2014 Statewide Average is a budgeted estimate, the actual is not yet available.

Table XV

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

Principal Taxpayers of the City of Newport News

June 30, 2014 and Nine Years Prior
(Amounts in Thousands)

Taxpayer	2005 Taxes (1)	Percentage of Total Assessments	2014 Taxes (1)	Percentage of Total Assessments
Huntington Ingalls Industries, Inc.	\$ 11,336	7.56%	\$ 19,363	7.78%
Canon Virginia, Inc.	1,438	0.96%	4,505	1.81%
The Mariners' Museum (Riverside Hospital)	889	0.59%	2,712	1.09%
Dominion Virginia Power	1,523	1.02%	2,476	0.99%
Continental Automotive Systems US, Inc.	-	-	1,819	0.73%
PR Patrick Henry, LLC	1,167	0.78%	1,590	0.64%
Verizon Virginia, Inc.	1,258	0.84%	1,305	0.52%
Dominion Terminal Associates	943	0.63%	1,212	0.49%
Kinder Morgan Operation LP "C"	449	0.30%	1,016	0.41%
Virginia Natural Gas Inc	411	0.27%	929	0.37%
Inland Western Newport News	-	-	794	0.32%
Bottling Group, LLC	257	0.17%	591	0.24%
Patrick Henry Hospital (Warwick Forest)	-	-	550	0.22%
DCO Realty Inc	-	-	515	0.21%
Oyster Point Residential LLC	-	-	471	0.19%
Meridian Parkside Apartments LLC	-	-	456	0.18%
Cox Communications Hampton Roads Inc	286	0.19%	454	0.18%
CSX Transportation	317	0.21%	411	0.17%
Radius Apartments	-	-	393	0.16%
BR Springhouse LLC	-	-	373	0.15%
Harbours LLC	314	0.21%	-	-
Ferguson Enterprises Corp	474	0.32%	-	-
Seimens - Bendix Automotive	1,874	1.25%	-	-
Shorewood Packaging Corp of Va	526	0.35%	-	-
Seimens Credit	275	0.18%	-	-
United Dominion Realty Trust Inc	435	0.29%	-	-
Newport-Oxford Associates Ltd	317	0.21%	-	-
Lea Company	259	0.17%	-	-
	<u>\$ 24,748</u>	<u>16.50%</u>	<u>\$ 41,935</u>	<u>16.85%</u>

Note: (1) Includes real estate and personal property tax assessments for these taxpayers. Current taxpayer name used if different from 2005.

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, 2014 and Nine Years Prior

Employer	2005 Employees	Percentage of Total City Employment	2014 Employees	Percentage of Total City Employment
Huntington Ingalls Industries, Inc.	10,000 - 25,000	20.08%	10,000 - 25,000	19.74%
Newport News Public Schools	1,000 - 5,000	3.44%	1,000 - 5,000	3.38%
Riverside Regional Medical Center	1,000 - 5,000	3.44%	1,000 - 5,000	3.38%
City of Newport News	1,000 - 5,000	3.44%	1,000 - 5,000	3.38%
U.S. Department of Defense	1,000 - 5,000	3.44%	1,000 - 5,000	3.38%
Ferguson Enterprise	500 - 999	0.86%	1,000 - 5,000	3.38%
Canon	500 - 999	0.86%	1,000 - 5,000	3.38%
U.S. Department of Army & Air Force	500 - 999	0.86%	1,000 - 5,000	3.38%
Christopher Newport University	500 - 999	0.86%	1,000 - 5,000	3.38%
Wal Mart	500 - 999	0.86%	1,000 - 5,000	3.38%
Siemen's Automotive Corporation	500 - 999	0.86%	250 - 499	0.42%
APAC Customer Services	500 - 999	0.86%	—	—
	17,500 - 51,993	39.86%	19,250 - 75,499	50.58%

Source: Virginia Employment Commission

COMPLIANCE SECTION

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the School Board of the City of Newport News, Virginia (the "School Board"), a component unit of the City of Newport News, Virginia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School Board's basic financial statements and have issued our report thereon dated November 25, 2014. That report recognizes that the School Board implemented one new accounting standard effective July 1, 2013. Our report includes a reference to other auditors who audited the financial statements of the Student Activity funds, an agency fund of the School Board. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Student Activity Funds were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

Richmond, Virginia
November 25, 2014

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

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

Report on Compliance for Each Major Federal Program

We have audited the School Board of the City of Newport News, Virginia's (the "School Board") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School Board's major federal programs for the year ended June 30, 2014. The School Board's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the School Board complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

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

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

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

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

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

Richmond, Virginia
November 25, 2014

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

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2014

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
<u>Department of Agriculture</u>		
<u>Pass-through payments -</u>		
<u>Virginia Department of Agriculture:</u>		
School Lunch Program - Food Commodities	10.555	\$ 969,172
<u>Virginia Department of Education:</u>		
School Breakfast Program (10.553/2011, 10.553/2012)	10.553	3,032,651
National School Lunch Program (10.555/2011, 10.555/2012)	10.555	7,880,490
Total Child Nutrition Cluster		<u>11,882,313</u>
Fresh Fruits and Vegetables (10.582/2011, 10.582/2012)	10.582	212,635
<u>Department of Defense</u>		
United States Army Robotics	12.431	7,500
Military Connected Schools	12.556	886,724
ROTC	12.357	284,959
<u>Department of Education</u>		
Impact Aid	84.041	2,672,988
<u>Pass-through payments -</u>		
<u>Virginia Department of Education:</u>		
Adult Education - Basic Grants	84.002	<u>723,271</u>
Total Adult Education		<u>723,271</u>
Title I Part A Grants to Local Educational Agencies (S010A090046, S010A100046, S010A110046)	84.010	9,049,403
Title I Part A School Improvement (S010A090046)	84.010	<u>833,524</u>
Total Title I, Part A Cluster		<u>9,882,927</u>
IDEA Part B Section 611 Special Education (H027A100107)	84.027	7,501,132
IDEA Part B Section 611 - Interpreter Training (H027A100107)	84.027	24,478
IDEA Part B Section 619 Special Education Preschool (H173A100112, H173A110112)	84.173	<u>176,481</u>
Total Special Education Cluster (IDEA)		<u>7,702,091</u>
Vocational Education - Perkins Secondary (V048A100046, V048A110046)	84.048	512,870
Title X McKinney-Vento Homeless	84.196	22,259
Title IV Part B 21 Century Community Learning (S287C090047, S287C100047)	84.287	743,807
Title III Part A Language Acquisition Immigrant and Youth (S365A100046)	84.365	37,378
Title III Part A Language Acquisition State Grant (S365A090046, S365A100046)	84.365	<u>31,413</u>
Total English Language Acquisition Grant		<u>68,791</u>
Title II Part A Improving Teacher Quality (S367A090044, S367A100044)	84.367	1,464,890
Title I School Improvement (ARRA) (S388A090047)	84.388	23,759
Title I Part D		1508
<u>Pass-through Payments -</u>		
<u>Virginia Department of Social Services</u>		
Medicaid Assistance Program	93.778	\$ 386,498
		<u>\$ 37,479,790</u>

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

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2014

(1) Basis of Presentation

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

(2) Relationship to Basic Financial Statements

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

	Federal <u>Expenditures</u>
General Fund	\$ 3,344,445
Grants Fund	22,040,397
Other Non-Major Special Revenue Funds	<u>12,094,948</u>
Total expenditures as shown on Schedule of Federal Awards	<u>\$37,479,790</u>

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

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

Section I – Summary of Auditor’s Results

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

CFDA 84.027/84.173 – Special Education Cluster

CFDA 84.041 – Impact Aid Cluster

10. Dollar Threshold used to distinguish between Type A Programs and Type B Programs: **\$1,124,394**
11. Auditee qualified as a low-risk auditee under Section .530 of OMB Circular A-133: **Yes**

Section II – Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None

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

None

Section V – Resolution of Prior Year’s Findings

2013-01 Conflicts of Interest – Finding not repeated