



**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, 2010

(With Independent Auditors' Report Thereon)

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

Fiscal Year ended June 30, 2010

Prepared by:

BUSINESS OFFICE

Ashby Kilgore, EdD., Superintendent
Mary Lou Roaseau, CPA, Assistant Superintendent – Business and Support Services
Steven Kanehl, CPA, Accounting Supervisor

12465 Warwick Boulevard
Newport News VA 23606

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

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INTRODUCTORY SECTION

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

Members of the School Board and School Board Officials

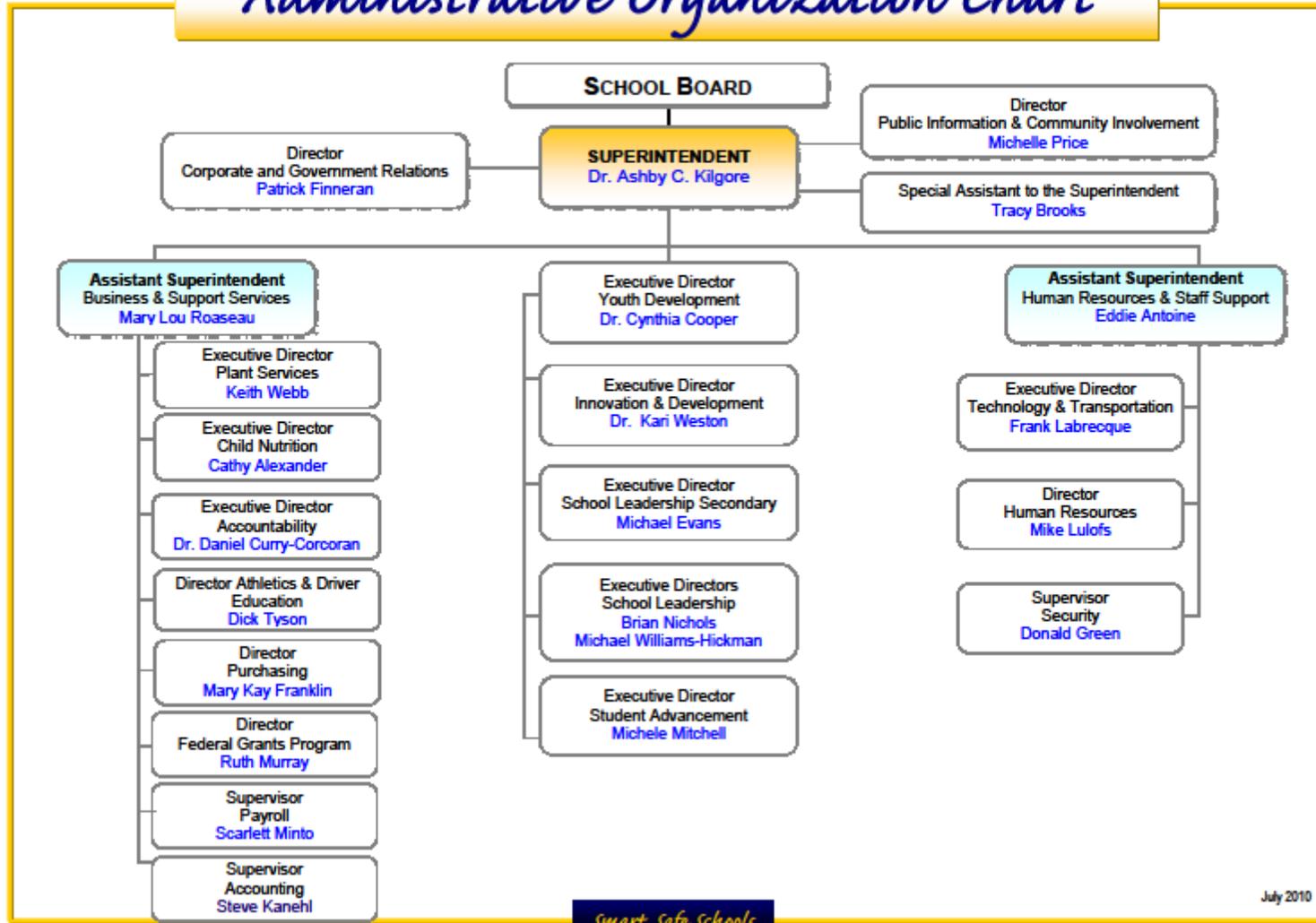
School Board

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

School Board Officials

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

Administrative Organization Chart



Business Office

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

December 22, 2010

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), for the fiscal year ended June 30, 2010. The School Board is responsible for the accuracy, completeness and fairness of the data presented. We believe that the data presented is accurate in all material respects and presents fairly the financial position and results of operations of the School Board's various funds.

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

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

Overview of the Report

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

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

School Board profile

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

The School Board provides a full range of public educational services to approximately 30,400 students from grades pre-kindergarten through the 12th grade. The projected enrollment for the 2010-2011 school-year including pre-kindergarten is approximately 29,900.

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

The School Board provides educational services in 43 separate school facilities plus alternative services at three additional non-owned sites. The School Board's buildings range in age from six years old to 93 years old, with approximately two-thirds of all facilities being at least thirty years old. However, many schools have received extensive renovations throughout their life.

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

Factors Affecting Financial Condition

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

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

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

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

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

The School Board does contribute to the cost of other post employment benefits (OPEB), primarily health insurance for retirees. The School Board participated jointly at the start of the fiscal year with the City of Newport News with a Trust Fund set up for this purpose. The rates established for FY2010 by the City of Newport News for the Trust Fund were less than the actuarially required rates. During the fiscal year, the School Board terminated its relationship with the City of Newport News Trust Fund and established its own OPEB Trust Fund as part of the Virginia Association of Counties (VACO)/Virginia Municipal League (VML) OPEB Pooled Trust. The School Board has recorded a liability of \$28.5 million in accordance with the requirements of Government Accounting Standards Board Statement No. 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions." The rates established for FY2011 are also less than those actuarially required, so the liability will increase for at least the near future. Several changes were made to benefit levels including the elimination of plan benefits for all new hires effective July 1, 2009 and reductions in benefits for those with less than ten years in the plan, which will take effect on July 2, 2011.

The School Board will experience a relatively large decrease in funding in the near future, while enrollment is expected to decrease only slightly. Funding from the State will decrease by approximately nine percent in FY2011 with probable slight decreases expected in FY2012. Funding from the City will decrease by three and one-half percent for FY2011. The forecast for FY2012 is not yet known. Enrollment is expected to decrease by less than one percent.

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

Cash Management. Cash and temporary investments pertaining to the School Board funds (except individual school activity funds, as mentioned in the Fiduciary Funds section) are pooled and invested with the cash and temporary investments of the City. The City Treasurer, through daily activity with several local banking institutions, carries out a cash management program. Temporary idle funds are invested in accordance with State laws and regulations.

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

Accomplishments and Awards

School Accreditation. School improvement teams continue to be active at each school. These teams analyze disaggregated student performance data to aid in developing instructional strategies that will help each child improve their performance on state SOL tests. School based SOL preparation/remediation programs have been provided to allow students additional time to master SOL objectives.

All 39 schools received full accreditation by the Virginia Department of Education for the second consecutive year. The accreditation standards require schools to meet objectives for achievement in English, mathematics, history/social studies and science.

Fourteen out of 38 schools were judged to have made Adequate Yearly Progress (AYP) according to the standards promulgated by the United States Department of Education as authorized in the *No Child Left Behind* Act. This was a decrease of 12 as compared to last year. One school improved to earn AYP status for 2010 (Hines Middle), but 13 schools lost their AYP designation for a net change of 12 fewer schools. (NOTE – AYP lists only 38 schools as South Morrison Elementary, closed effective June 30, 2010 is excluded in the count).

Eleven schools have earned AYP distinction for at least four consecutive years (Achievable Dream Middle & High, Carver Elementary, Deer Park Elementary, General Stanford Elementary, Greenwood Elementary, Hilton Elementary, Jenkins Elementary, Lee Hall Elementary, McIntosh Elementary, Menchville High, and Nelson Elementary.)

Recognition:

- All 39 Newport News schools are fully accredited by the Virginia Department of Education. The accreditation standards require schools to meet objectives for achievement in English, mathematics, history/social studies and science.
- For the fifth year in a row, *Newsweek* magazine’s list of the top public high schools in America includes all five Newport News schools. *Newsweek* ranked high schools by enrollment in, and access to, Advanced Placement and International Baccalaureate courses.
- Newport News Public Schools is one of three school districts in the country cited by the National School Boards Association for its embrace of technology. NNPS was honored with a 2009

Technology Leadership award for integrating technology into the curriculum and business functions.

- The school district continued its second year of a new Dropout Prevention and Recovery program. Over 550 students who had dropped out have returned and are on track to earn a high school diploma or GED. Starting in middle school, intervention plans are implemented for youth who are at risk of dropping out, and the transition process for rising ninth graders was expanded.
- To provide additional class options, online courses are offered at all high schools. Students also have the option of receiving college credit through dual enrollment at Thomas Nelson Community College. Last year, 750 students took advantage of this option.
- NNPS has 57 National Board Certified Teachers. National Board Certification is recognized nationally as a benchmark for teacher quality and is the highest credential in the profession.
- Over ninety-nine percent (99%) of NNPS teachers are designated as highly qualified by federal No Child Left Behind standards.
- The school district is home to Dr. Mary Ann Laverty, the National Dance Educator of the Year; Brian Nichols, Association for Supervisor and Curriculum Development's Outstanding Young Educator; and Linda Vulcan, Virginia Debate Coach of the Year.

Academic Excellence:

- Saunders Elementary School was named a 2010 Title I Distinguished School by the Virginia Board of Education. The designation recognizes schools for raising the academic achievement of its students.
- Hilton Elementary School received the 2010 Governor's Award for Educational Excellence. Hilton is just one of 153 public schools from across the Commonwealth selected to receive this award, the highest honor under the Virginia Index of Performance (VIP) incentive program. In addition, Deer Park and General Stanford elementary schools earned the 2010 Virginia Board of Education Excellence Award. Carver, Greenwood, Kiln Creek, McIntosh, Nelson and Saunders elementary schools earned the 2010 Board of Education Competence to Excellence Award. The VIP incentive program recognizes schools that exceed state and federal achievement benchmarks and achieve excellence goals in reading.
- Sixteen Newport News students were recognized in the 2010 National Merit and National Achievement Scholarship programs.

- 209 students were named 2010 Advanced Placement Scholars, Scholars with Honor, or Scholars with Distinction, qualifying them for potential college credit. To receive this distinction, a student must receive grades of three or higher (out of five) on at least three Advanced Placement exams. Nine students were named National AP Scholars. National AP Scholars receive an average score of at least 4 on all AP exams and scores of 4 or higher on at least eight AP exams.

Awards:

Newport News Public Schools won eight awards in the 2010 National School Public Relations Association competition for publications and electronic media, including a Golden Achievement Award for the Business & Education Summit, an event designed to enlist local businesses and organizations to provide career experiences for students before they finish high school.

The Government Finance Officers Association of the United States and Canada (GFOA) has awarded a Certificate of Achievement for Excellence in Financial Reporting to The School Board of the City of Newport News, Virginia for its CAFR for the fiscal year ended June 30, 2009. This was the eighth consecutive year that the government has applied for and achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The School Board also received the Association of School Business Officials (ASBO) International's Certificate of Excellence in Financial Reporting to the School Board for its CAFR for the fiscal year ended June 30, 2009. This is the first year we applied for and have received this award.

The award certifies that the report substantially conforms to the principles and standards of financial reporting as recommended and adopted by ASBO International. The award is granted only after an intensive review of financial reports by an expert panel of certified public accountants and practicing school business officials and is also valid for a period of one year.

Acknowledgements:

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

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

Sincerely,

A handwritten signature in black ink, appearing to read "Mary Lou Roaseau". The signature is fluid and cursive, with a prominent initial "M" and a long, sweeping underline.

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

Certificate of Achievement for Excellence in Financial Reporting

Presented to

School Board of the
City of Newport News
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

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



President

Executive Director

**ASSOCIATION OF SCHOOL BUSINESS OFFICIALS
INTERNATIONAL**



This Certificate of Excellence in Financial Reporting is presented to

NEWPORT NEWS PUBLIC SCHOOLS

For its Comprehensive Annual Financial Report (CAFR)

For the Fiscal Year Ended June 30, 2009

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

Handwritten signature of Erin Owen in cursive script.

President

Handwritten signature of John A. Russo in cursive script.

Executive Director

FINANCIAL SECTION



Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the School Board of the City of Newport News, Virginia, (the "School Board"), a component unit of the City of Newport News, Virginia, as of and for the year ended June 30, 2010, which collectively comprise the School Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School Board's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Student Activity Funds, a fiduciary fund of the School Board. Those financial statements were audited by other auditors, whose report thereon has been furnished to us, and our opinions, insofar as it relates to the amounts included for the Student Activity Funds, are based on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School Board of the City of Newport News, Virginia, as of June 30, 2010, and the respective changes in financial position thereof for the year then ended conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2010, on our consideration of the School Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the other required supplementary information as listed in the table of contents are not a required part of the basic financial statements but are supplementary

information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Cherry, Bekaert + Holland, LLP

Richmond, Virginia
December 14, 2010

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

Management's Discussion and Analysis (Unaudited)

June 30, 2010

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, 2010. 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) 2010

The School Board, on a government-wide basis, had a decrease in net assets of \$4.5 million to \$69.5 million.

Unrestricted net assets declined by \$5.3 million. The School Board's unpaid Other Post Employment Benefits (OPEB) liability increased by \$1.7 million as funding the benefits still lagged the annual required contribution (ARC). In addition, the prepaid expenses for self-funded health insurance decreased by \$0.7 million.

Investment in capital assets, net of related debt, increased by \$0.8 million.

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

Overview of the Financial Statements

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

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

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

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

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

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

Management's Discussion and Analysis (Unaudited)

June 30, 2010

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

Financial Analysis of the School Board as a Whole

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

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

Management's Discussion and Analysis (Unaudited)

June 30, 2010

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

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

	FY 2010	FY 2009	Change
Current and other assets	\$ 78.5	\$ 83.6	\$ (5.1)
Capital assets, net	72.0	74.0	(2.0)
Total assets	<u>\$ 150.5</u>	<u>\$ 157.6</u>	<u>\$ (7.1)</u>
Other liabilities	\$ 29.7	\$ 31.6	\$ (1.9)
Long-term liabilities	51.4	52.1	(0.7)
Total liabilities	<u>\$ 81.1</u>	<u>\$ 83.7</u>	<u>\$ (2.6)</u>
Net assets:			
Invested in capital assets, net of related debt	\$ 57.2	\$ 56.4	\$ 0.8
Unrestricted	12.2	17.5	(5.3)
Total net assets	<u>\$ 69.4</u>	<u>\$ 73.9</u>	<u>\$ (4.5)</u>

The School Board's total net assets showed a decrease of \$4.5 million (6%), decreasing to \$69.4 million. This was comprised of an increase in invested in capital assets, net of related debt of \$0.8 million (1%), and a decrease in unrestricted net assets of \$5.3 million (30%).

Current and other assets decreased by \$5.1 million (6%). This was primarily due to a decrease in cash of \$8.5 million, offset by an increase of \$2.6 million in amounts due from the Commonwealth of Virginia, primarily reimbursements for stimulus grants. There were three significant reasons cash decreased during the year: 1.) Payments of \$3.2 million were made to the OPEB Trust Fund (offset by \$1.6 million received from the City OPEB Trust Fund) for a net cash decrease of \$1.6 million. 2.) Principal payments for capital leases and facility notes payable totaled \$2.8 million and no new borrowing was undertaken. 3.) Unearned revenue decreased by \$1.4 million (primarily for Federal Impact Aid), thus providing revenue but no additional cash. These three reasons account for two-thirds of the cash decrease.

Capital assets (net of depreciation) decreased by \$2.0 million (3%). This is the result of additions of \$6.0 million, depreciation of \$7.3 million, and a loss on disposal of equipment of \$1.2 million.

Other liabilities decreased by \$1.9 million (6%), primarily due a decrease of \$1.4 million in the aforementioned unearned revenue category. Long term liabilities decreased by \$0.7 million (1%) primarily due to the recognition of a \$1.7 million liability increase for other post employment benefits offset by the aforementioned \$2.8 million in principal payments on capital leases and facility notes payable. Other changes for self-insurance accounted for a \$0.4 million increase.

**THE SCHOOL BOARD OF THE
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The following table summarizes the changes in the School Board's net assets:

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

	<u>FY 2010</u>	<u>FY 2009</u>	<u>Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 7.4	\$ 7.3	\$ 0.1
Operating grants and contributions	67.7	59.2	8.5
Capital grants and contributions	1.9	3.1	(1.2)
General revenues:			
Local	101.1	95.8	5.3
State	145.4	169.0	(23.6)
Federal	6.1	7.4	(1.3)
Interest	0.1	0.1	-
Total revenues	<u>329.7</u>	<u>341.9</u>	<u>(12.2)</u>
Expenses:			
Academic services	240.7	252.9	(12.2)
Transportation services	18.3	19.3	(1.0)
Business and support services	29.7	36.9	(7.2)
Child nutrition services	14.0	15.2	(1.2)
Technology services	21.7	13.8	7.9
Human resources	5.8	7.1	(1.3)
Administration	2.6	3.1	(0.5)
Interest on capital debt	1.4	0.8	0.6
Total expenses	<u>334.2</u>	<u>349.1</u>	<u>(14.9)</u>
Change in net assets	<u>(4.5)</u>	<u>(7.2)</u>	<u>2.7</u>
Beginning net assets, as originally reported	73.9	78.4	(4.5)
Prior period adjustment, capital assets	-	2.7	(2.7)
Beginning net assets, as adjusted	<u>73.9</u>	<u>81.1</u>	<u>(7.2)</u>
Ending net assets	<u>\$ 69.4</u>	<u>\$ 73.9</u>	<u>\$ (4.5)</u>

For the fiscal year ended June 30, 2010, revenues from governmental activities totaled \$329.7 million. State Standards of Quality (SOQ) Funds account for \$145.4 million (44%) of the School Board's resources. These funds are based on student membership counts. The SOQ funds decreased by \$23.6 million (14%) over FY 2009 due to State budget reductions.

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

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Revenue to the General Fund	\$ 113,200,000
Less debt service returned to the City	(14,916,490)
Add Revenue General Obligation Bond Fund	5,380,617
Add Revenue General Capital Fund	1,000,000
Less net capital assets transferred tenancy-in-common	<u>(3,611,927)</u>
Net amount from City - Entity-wide statements	<u><u>\$ 101,052,200</u></u>

Revenue from the City in FY 2010 was \$101.1 million (31% of the total), an increase of \$5.3 million. Half of this is due to \$2.8 million less transferred to the City under the assets held tenancy-in-common (AHTIC) provision as compared to FY2009. Less was transferred due to a slower pace of capital project expenditures, some of which was at the City Manager's request due to the economic downturn. Another factor was an increase of General Obligation Bond funding of \$1.7 million due principally to the issuance of a purchase order to renovate the Menchville High School roof.

Federal revenue decreased by \$1.3 million to \$6.1 million (2% of the total) due to less Impact Aid revenue.

Operating grants, which were comprised of approximately 61% from federal sources and 39% from state sources, totaled \$67.7 million (21% of the total). This category increased by \$8.5 million (14%) due to \$9.0 million in Federal stimulus grants.

Capital grants and contributions decreased by \$1.2 million due a change in the State funding regulations regarding the use of lottery proceeds for non-recurring expenditures.

Expenses for FY 2010 totaled \$334.2 million, a decrease of \$14.9 million (4.3%).

Academic services accounted for \$240.7 million (72%) of the School Board's total spending. A significant portion of this amount is for the salaries and benefits of teachers, teacher assistants and instructional administrators. This function decreased by \$12.2 million (4.8%). A large portion of the decrease was attributed to vacancies and unfilled positions.

Business and support services were the next highest cost category with a total of \$29.7 million (9% 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 \$7.2 million (19.5%) decrease. This was a combination of several factors. Utility costs decreased by \$1.0 million. The property and liability insurance of \$1.2 million was prepaid in FY2009, thus there was no expenditure in FY2010. In addition there was a decrease in building services compensation of \$1.0 million due to vacancies and fewer custodial substitutes. Depreciation expense declined by \$1.4 million due to the change in the capitalization policy implemented at June 30, 2009 in which assets costing less than \$5,000 were no longer capitalized.

Technology services are the third largest cost category, with expenses of \$21.7 million (6.5% of the total). This category showed an increase of \$7.9 million (57%). Most of this increase (\$7.6 million or 96%) was related to non-capitalized technology equipment purchases of which \$3.2 million was funded by Federal

**THE SCHOOL BOARD OF THE
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June 30, 2010

stimulus funding. This equipment is modernizing approximately 2,500 classrooms with state of the art technology for both teacher and student use.

Transportation services are the fourth largest cost category, with expenses of \$18.3 million (5.5% of the total). This category showed a decrease of \$1.0 million (5.2%).

Capital Assets

At the end of FY 2010, the School Board had invested \$72.0 million in capital assets, as reflected in the following schedule. This net amount reflects historical cost of \$149.1 million and accumulated depreciation of \$77.1 million. In addition, the School Board and the City hold assets in-common (AHTIC) a net of \$141.5 million of capital assets, which are reflected in the financial statements of the City (historical cost of \$189.9 million net of accumulated depreciation of \$48.4 million). Most school buildings and improvements undertaken in the past 20 years, for which City bonded debt has been issued, are included. (The City has also net bonded debt outstanding related to School Board projects of approximately the same net amount). The following table shows the capital assets recorded on the School Board's books at year end.

**Table 3
Capital Assets, Net
(In millions)**

	<u>FY 2010</u>	<u>FY 2009</u>	<u>Change</u>
Nondepreciable assets:			
Land	\$ 2.5	\$ 2.5	\$ -
Construction in progress	-	0.3	(0.3)
Other capital assets:			
Buildings	46.1	46.0	0.1
Building improvements	42.4	39.2	3.2
Equipment and vehicles	58.1	56.3	1.8
Accumulated depreciation	<u>(77.1)</u>	<u>(70.3)</u>	<u>(6.8)</u>
Total	<u>\$ 72.0</u>	<u>\$ 74.0</u>	<u>\$ (2.0)</u>

Building improvements consisting of various roof, window and HVAC replacements resulted in a \$3.2 million increase. Accumulated depreciation increased by \$6.8 million, primarily due to depreciation expense of \$7.4 million offset by retirements of \$0.6 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. Our long-term liabilities are related to capital leases on equipment, capital facility notes payable, compensated absences, workers' compensation claims payable (under our self-insurance program), other post employment benefits and incurred but not reported claims under our self-insured employee health insurance program. Our long-term liabilities had a net decrease of \$0.7 million. An increase in other post employment benefits of \$1.7 million was partially offset by principal payments on capital facility notes payable and capital leases of \$2.8 million. Incurred but not reported health insurance claims and workers' compensation claims accounted for the remaining \$0.4 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, 2010, the governmental funds had a combined fund balance of \$48.8 million. This is a decrease of \$3.2 million as compared to June 30, 2009. The General Fund had a \$5.6 million fund balance decrease as assigned to contractual obligation for purchase orders issued (formerly called encumbrances) at June 30 decreased by \$5.0 million. Goods and services ordered in the prior fiscal year were received in FY2010 and the resulting contractual obligations were paid, resulting in expenditures in FY2010.

The General Obligation Bond Fund had an increase of \$1.8 million in assets as the City provided funding for contracts issued at June 30, 2010 but the related expenditures will not be made until FY2011 or later. This was primarily for a roof replacement project at Menchville High School.

Other governmental funds showed an increase in fund balance of \$0.5 million. This was primarily an increase in the Child Nutrition Services Fund.

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

**THE SCHOOL BOARD OF THE
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Management's Discussion and Analysis (Unaudited)

June 30, 2010

General Fund Budgetary Highlights

Table 4
General Fund Budget to Actual Summary
Year ended June 30, 2010
(In millions)

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:				
State	\$ 179.8	\$ 179.8	\$ 169.3	\$ (10.5)
City	113.2	113.2	113.2	-
Federal	4.1	4.1	6.1	2.0
Other	1.8	1.8	2.8	1.0
Total revenues	<u>298.9</u>	<u>298.9</u>	<u>291.4</u>	<u>(7.5)</u>
Expenditures and transfers:				
Expenditures	285.0	285.1	278.5	(6.6)
Transfers	13.9	13.8	13.6	(0.2)
Total expenditures and transfers	<u>298.9</u>	<u>298.9</u>	<u>292.1</u>	<u>(6.8)</u>
Change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (0.7)</u>	<u>\$ (0.7)</u>

The School Board saved \$0.7 million in prior year purchase orders (not part of the budget basis) to offset the \$0.7 million decrease in fund balance shown above.

Revenues from the state were \$10.5 million less than the budget due to less State basic aid as a result of a slow-down in the economy. Federal revenues were \$2.0 million more than the budget due to Impact Aid and Department of Defense funds. Other revenues exceeded the budget by \$1.0 million due to additional indirect cost charges to grants (primarily stimulus grants) and the sale of additional surplus items.

Expenditures were \$6.6 million less than budgeted primarily due to savings related to leaving many vacancies open during the year and savings in utility costs.

Economic Factors

The School Board is financially dependent upon the State and City governments. State funding is primarily dependent upon income and sales tax both of which are expected to show a decrease in the near term. The City is dependent upon property tax revenue, also expected to be flat or show a decrease in the near term. Accordingly, FY2011 funding is expected to decrease by \$20.7 million (6.9 percent). The State is providing \$16.8 million (9.4 percent) less funding; the City is providing \$4.0 million (3.5 percent) less for the upcoming year.

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

Management's Discussion and Analysis (Unaudited)

June 30, 2010

Contacting the School Board's Financial Management

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

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BASIC FINANCIAL STATEMENTS

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

Statement of Net Assets – Governmental Activities

June 30, 2010

Assets

Cash and temporary investments	\$ 41,756,379
Accounts receivable, net	387,888
Receivables from other governments:	
City of Newport News	4,164,431
Federal:	
Department of Agriculture	575,497
Department of Education	5,472
State:	
Department of Treasury – sales tax	5,029,153
Department of Education	10,596,249
Inventories, at cost	984,037
Prepaid expenses	14,999,949
Capital assets, non-depreciable	2,505,084
Capital assets, depreciable, net	69,522,432
	<u>150,526,571</u>
Total assets	<u>150,526,571</u>

Liabilities and Net Assets

Liabilities:	
Accounts payable	\$ 2,768,570
Accrued liabilities	758,061
Payroll withholdings and accrued fringe benefits	24,933,096
Unearned revenue	1,194,368
Long-term liabilities:	
Due within one year	4,124,205
Due in more than one year	47,282,910
	<u>81,061,210</u>
Total liabilities	<u>81,061,210</u>
Net assets:	
Invested in capital assets, net of related debt	57,205,176
Unrestricted	12,260,185
	<u>69,465,361</u>
Total net assets	<u>\$ 69,465,361</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, 2010

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		<u>Capital Grants and Contributions</u>
Governmental activities:					
Academic services	\$ 240,751,459	\$ 2,048,618	\$ 57,567,080	\$ -	(181,135,761)
Transportation services	18,284,090	-	-	-	(18,284,090)
Business and support services	29,659,712	1,143,087	-	-	(28,516,625)
Child nutrition services	13,987,487	4,019,072	9,860,112	-	(108,303)
Technology services	21,723,542	247,226	242,187	1,918,742	(19,315,387)
Human resources	5,831,201	-	70,110	-	(5,761,091)
Administration	2,610,749	-	-	-	(2,610,749)
Interest on capital debt	1,363,623	-	-	-	(1,363,623)
Total governmental activities	<u>\$ 334,211,863</u>	<u>\$ 7,458,003</u>	<u>\$ 67,739,489</u>	<u>\$ 1,918,742</u>	<u>(257,095,629)</u>
General revenues:					
City of Newport News					101,052,200
Commonwealth of Virginia					145,390,261
Federal government					6,148,525
Interest					22,443
Total general revenues					<u>252,613,429</u>
Change in net assets					(4,482,200)
Net assets at beginning of year					<u>73,947,561</u>
Net assets at end of year					<u>\$ 69,465,361</u>

See accompanying notes to basic financial statements.

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

Balance Sheet – Governmental Funds

June 30, 2010

	General Fund	Grant Fund	General Obligation Bond Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 36,935,103	\$ 249,089	\$ 158,403	\$ 4,413,784	\$ 41,756,379
Accounts receivable, net	\$ 74,795	25,359	-	287,734	387,888
Receivables from other governments:					
City of Newport News	-	-	4,164,431	-	4,164,431
Federal:					
Department of Agriculture	-	-	-	575,497	575,497
Department of Education	-	5,472	-	-	5,472
State:					
Department of Treasury – sales tax	5,029,153	-	-	-	5,029,153
Department of Education	-	10,596,249	-	-	10,596,249
Inventories, at cost	688,847	-	-	295,190	984,037
Due from other funds	10,300,000	-	-	-	10,300,000
Prepaid items	14,999,949	-	-	-	14,999,949
Total assets	<u>\$ 68,027,847</u>	<u>\$ 10,876,169</u>	<u>\$ 4,322,834</u>	<u>\$ 5,572,205</u>	<u>\$ 88,799,055</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 2,169,109	\$ 158,280	\$ 218,643	\$ 222,538	\$ 2,768,570
Accrued liabilities	758,061	-	-	-	758,061
Payroll withholdings and accrued fringe benefits	24,933,096	-	-	-	24,933,096
Due to other funds	-	10,300,000	-	-	10,300,000
Deferred revenue	772,261	417,889	4,218	-	1,194,368
Total liabilities	<u>28,632,527</u>	<u>10,876,169</u>	<u>222,861</u>	<u>222,538</u>	<u>39,954,095</u>
Fund balances:					
Nonspendable:					
Imprest funds	1,525	-	-	-	1,525
Inventories	688,847	-	-	295,190	984,037
Restricted:					
Capital projects	-	-	-	1,871,770	1,871,770
Assigned to:					
Adult education services	-	-	-	569,942	569,942
Child nutrition services	-	-	-	2,611,868	2,611,868
Contractual obligations	11,774,826	-	4,099,973	897	15,875,696
Health insurance	14,999,949	-	-	-	14,999,949
Retiree health insurance	3,212,356	-	-	-	3,212,356
Textbooks	5,715,177	-	-	-	5,715,177
Workers' compensation	3,002,640	-	-	-	3,002,640
Unassigned:					
Total fund balances	<u>39,395,320</u>	<u>-</u>	<u>4,099,973</u>	<u>5,349,667</u>	<u>48,844,960</u>
Total liabilities and fund balances	<u>\$ 68,027,847</u>	<u>\$ 10,876,169</u>	<u>\$ 4,322,834</u>	<u>\$ 5,572,205</u>	<u>\$ 88,799,055</u>
Amounts reported for governmental activities in the statement of net assets are different because:					
Total fund balances reported in governmental funds					\$ 48,844,960
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.					72,027,516
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.					(51,407,115)
Net assets of governmental activities					<u>\$ 69,465,361</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, 2010

	<u>General Fund</u>	<u>Grant Fund</u>	<u>General Obligation Bond Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Intergovernmental:					
City of Newport News	\$ 98,283,510	\$ -	\$ 5,380,617	\$ 1,000,000	\$ 104,664,127
Commonwealth of Virginia	169,295,643	3,439,275	-	504,521	173,239,439
Federal government	6,148,525	32,132,682	-	9,497,506	47,778,713
Charges for services	2,801,245	-	-	4,656,758	7,458,003
Investment income	15,789	-	-	6,654	22,443
Miscellaneous	-	178,865	-	-	178,865
Total revenues	<u>276,544,712</u>	<u>35,750,822</u>	<u>5,380,617</u>	<u>15,665,439</u>	<u>333,341,590</u>
Expenditures:					
Current:					
Academic services	203,911,441	29,914,995	-	917,317	234,743,753
Transportation services	16,682,993	24,006	-	-	16,706,999
Business and support services	27,376,080	205,854	-	108,388	27,690,322
Child nutrition services	-	66,700	-	13,164,520	13,231,220
Technology services	16,081,270	5,325,766	-	-	21,407,036
Human resources	5,338,015	97,568	-	3,447	5,439,030
Administration	2,423,377	-	-	-	2,423,377
Debt service:					
Principal	2,750,273	-	-	-	2,750,273
Interest and other charges	1,363,623	-	-	-	1,363,623
Capital outlay	5,394,496	115,933	3,542,669	1,038,315	10,091,413
Total expenditures	<u>281,321,568</u>	<u>35,750,822</u>	<u>3,542,669</u>	<u>15,231,987</u>	<u>335,847,046</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(4,776,856)</u>	<u>-</u>	<u>1,837,948</u>	<u>433,452</u>	<u>(2,505,456)</u>
Other financial sources (uses):					
Transfers in	-	-	-	74,463	74,463
Transfers out	(74,463)	-	-	-	(74,463)
Total other financing sources	<u>(74,463)</u>	<u>-</u>	<u>-</u>	<u>74,463</u>	<u>-</u>
Net change in fund balances	<u>(4,851,319)</u>	<u>-</u>	<u>1,837,948</u>	<u>507,915</u>	<u>(2,505,456)</u>
Fund balances at beginning of year	44,982,440	-	2,262,025	4,801,746	52,046,211
Increase (decrease) in nonspendable inventory	(51,494)	-	-	40,006	(11,488)
Decrease in assigned for health self-insurance activity	<u>(684,307)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(684,307)</u>
Fund balances at end of year	<u>\$ 39,395,320</u>	<u>\$ -</u>	<u>\$ 4,099,973</u>	<u>\$ 5,349,667</u>	<u>\$ 48,844,960</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, 2010

Net change in fund balances – total governmental funds		\$ (2,505,456)
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	\$10,091,413	
Items capitalized but shown as expensed	<u>35,584</u>	
Capital outlay, net	10,126,997	
Transfer to City, tenancy-in-common	(3,611,927)	
Loss on disposal of fixed assets and adjustments	(1,174,678)	
Depreciation expense	<u>(7,319,206)</u>	(1,978,814)
Repayment of debt principal is an expenditure in the governmental funds, but does not affect the statement of activities.		2,750,273
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This year, compensated absences used exceeded the amount earned by \$24,428, workers' compensation claims incurred were more than the amount paid by \$113,671, health insurance claims incurred were more than the amount paid by \$226,625 and other post employment benefits incurred exceeded the amount paid by \$1,736,541		(2,052,408)
Change in assigned for health insurance activity is included in expenses in the statement of activities		(684,307)
Change in nonspendable inventory from governmental funds is included in expenses in the statement of activities.		<u>(11,488)</u>
Change in net assets of governmental activities		<u>\$ (4,482,200)</u>

See accompanying notes to basic financial statements.

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

Statement of Fiduciary Assets and Liabilities – Fiduciary Funds

June 30, 2010

	<u>OPEB Trust Fund</u>	<u>Agency Fund</u>
Asset:		
Cash and cash equivalents (note 2)	\$ -	\$ 1,518,471
Investments, at fair value:		
Money market trust	<u>3,194,775</u>	<u>-</u>
Total assets	<u>3,194,775</u>	<u>1,518,471</u>
Liabilities:		
Accounts payable	-	55,796
Due to students	<u>-</u>	<u>1,462,675</u>
Total liabilities	<u>-</u>	<u>1,518,471</u>
Net assets:		
Net Assets held in trust for Other Postemployment Benefits	<u>3,194,775</u>	<u>-</u>
Total net assets	<u>3,194,775</u>	<u>-</u>
Total liabilities and net assets	<u><u>\$ 3,194,775</u></u>	<u><u>\$ 1,518,471</u></u>

See accompanying notes to basic financial statements.

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

Statement of Changes in Fiduciary Net assets - Fiduciary Funds

June 30, 2010

	<u>OPEB Trust Fund</u>
Additions	
Contributions:	
Transfer from City OPEB Trust Fund	\$ 1,587,570
Employer contributions	5,272,059
Plan member contributions	<u>1,009,725</u>
Total contributions	7,869,354
Net investment income:	
Interest and dividends	<u>57</u>
Total additions	<u>7,869,411</u>
Deductions	
Benefits	4,669,354
Administrative expenses	<u>5,282</u>
Total deductions	<u>4,674,636</u>
Change in net assets	3,194,775
Net assets at beginning of year	<u>-</u>
Net assets at end of year	<u><u>\$ 3,194,775</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, 2010

(1) Summary of Significant Accounting Policies

Narrative Profile

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

(a) Financial Reporting Entity

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

(b) Basis of Presentation

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

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

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

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

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

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

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

Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The School Board reports the following major governmental funds:

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

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

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

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

Special Revenue Funds – Special Revenue Funds account for revenue derived from specific revenue sources (other than major capital projects) that are restricted to expenditures for specified purposes.

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

Fiduciary Funds – Fiduciary Funds are custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations. The School Board has two Fiduciary Funds. The OPEB Trust Fund was added for the year ending June 30, 2010. The other Fiduciary Fund is an Agency Fund, the Student Activity Fund, which accounts for the student activity monies maintained on behalf of the students at each school. Fiduciary Funds are not included in the government-wide financial statements.

(c) Basis of Accounting

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

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

In applying the subject to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended for the specific purpose or 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

**THE SCHOOL BOARD OF THE
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requirements. These resources are reflected as revenues at the time of receipt or earlier if the accrual criteria are met.

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

(d) *Encumbrances*

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

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

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

(f) *Receivables and Due from Other Governments*

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

(g) *Inventories*

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

(h) *Prepaid Items*

Prepaid items of \$15.0 million represent healthcare premiums paid in advance on deposit with our third-party claims administrator. The School Board's healthcare program is self-insured (see note 8 (a) for further information). Premiums paid in prior years have been more than actual claims and expenses. The premiums have been left on deposit to pay future healthcare premiums. The funds are accounted for on the consumption method.

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(i) **Capital Assets**

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

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

Under Virginia law, certain property maintained by the School Board is subject to tenancy-in-common with the City, if the City incurred a financial obligation for the property which is payable over more than one fiscal year. The School Board and the City have agreed that such property will be carried on the City's financial statements until the outstanding debt is repaid. At June 30, 2010, the City holds capital assets related to school property with a net book value of \$141,534,048 (4100.07).

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

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

(j) **Compensated Absences**

School Board employees are granted vacation and sick pay in varying amounts as services are provided. They may accumulate, subject to certain limitations, unused vacation leave, and upon retirement, termination or death, may be compensated for certain amounts at their then current rates of pay. Upon termination for reasons other than retirement, School Board employees are not paid for accumulated sick leave. Upon retirement, sick leave may be taken in cash at between \$53 to \$70 per day depending upon employment status, obtain additional service credit towards their City retirement or may be exchanged for a lifetime subsidy (based on number of unused days) for retiree health insurance. A liability for these amounts is reported in governmental funds only if they have become payable as a result of resignations and retirements.

Employees hired or re-hired on or after July 1, 2009 may not exchange their unused sick leave for a lifetime subsidy for retiree health insurance. In addition, effective July 2, 2011, all future retirees will have their retiree health insurance subsidy based on years of service rather than sick leave. Unused sick leave may be used either to purchase additional years of service credit towards the retiree health insurance or paid at a rate of \$30 per day with a maximum of \$5,000.

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

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(k) Fund Balance Items

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

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

Restricted items – This category includes resources restricted by another government. The State Construction capital projects fund fund-balance of \$1,542,954 is restricted by the Commonwealth of Virginia to capital outlay and repayment of debt issued for capital outlay. The General Capital capital-projects fund fund-balance of \$328,816 is restricted by the City of Newport News for capital outlay.

Assigned to items – Assigned items represent the School Board's intent to use certain resources for assigned purposes. The School Board has the following assignments as of June 30, 2010.

- A total of \$569,942 is assigned to provide adult education services in the community as represented in the Adult Education special revenue fund.
- A total of \$2,611,868 is assigned to provide students attending the School Board's schools with a nutritious breakfast and lunch meeting the regulations of the United States Department of Agriculture and the Commonwealth of Virginia as represented in the Child Nutrition Services special revenue fund.
- A total of \$15,875,696 is assigned to meet contractual obligations. The School Board has purchase orders outstanding with vendors in this amount and expects the vendors to deliver the goods and services in the upcoming fiscal year. The amounts are \$11,774,826 in the General Fund, \$4,099,973 in the General Obligation Bond Fund and \$897 in the Child Nutrition Services Fund.
- A total of \$14,999,949 is assigned to the employee self-insured health insurance plan. Funds equal to this amount are on deposit with our contracted health insurance provider and shown as a prepaid item in the asset section of the balance sheet. Claims have been less than the premiums paid.
- A total of \$3,212,356 is assigned to retiree health insurance. The School Board intends to make payments in this amount in FY2011 to the OPEB Trust Fund.
- A total of \$5,715,177 is assigned to textbooks. The School Board intends to purchase textbooks in the upcoming years based upon a six-year replacement cycle for most subjects.
- A total of \$3,002,640 is assigned to workers' compensation to pay claims for the School Board's self-insured workers' compensation plan.

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Unassigned items – Represents the remainder of the School Board’s equity in governmental fund-type balances. The balance at June 30, 2010 is zero.

(1) 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.

(2) Cash and Cash Equivalents

All of the \$41,756,379 of School Board cash and cash equivalents (except for \$1,445 of imprest funds) are maintained on deposit with the Treasurer of the City of Newport News. All of the funds are available for immediate School Board use. See the City of Newport News Comprehensive Annual Financial Report for additional details. A copy may be obtained from The City of Newport News, Finance Department, 2400 Washington Avenue, Newport News, VA 23607.

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

Interfund receivables, payables and transfers as of and for the year ended June 30, 2010 are as follows:

<u>Funds</u>	<u>Due from other funds</u>	<u>Due to other funds</u>	<u>Transfers in</u>	<u>Transfers out</u>
General Fund	\$10,300,000	-	-	\$ 74,463
Grant Fund	-	10,300,000	-	-
Other governmental funds Special revenue	-	-	74,463	-
Total all funds	<u>\$10,300,000</u>	<u>\$10,300,000</u>	<u>\$ 74,463</u>	<u>\$ 74,463</u>

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

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

**THE SCHOOL BOARD OF THE
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Notes to Basic Financial Statements
June 30, 2010

(4) Capital Assets, Net

A summary of changes in capital assets follows:

	Balance 2009	Increases	Decreases	Adjustment¹	Balance 2010
Capital assets not being depreciated:					
Land	\$ 2,505,084	\$ -	\$ -	\$ -	\$ 2,505,084
Construction in progress	340,127	203,239	543,366	-	-
Total capital assets not being depreciated	<u>2,845,211</u>	<u>203,239</u>	<u>543,366</u>	<u>-</u>	<u>2,505,084</u>
Other capital assets:					
Buildings	46,004,194	90,604	-	-	46,094,798
Improvements	39,216,182	1,885,698	-	1,367,373	42,469,253
Machinery and equipment	56,269,131	3,847,020	3,049,986	1,031,876	58,098,041
Total other capital assets	<u>141,489,507</u>	<u>5,823,322</u>	<u>3,049,986</u>	<u>2,399,249</u>	<u>146,662,092</u>
Less accumulated depreciation for:					
Buildings	23,119,885	748,492	-	1,962,637	25,831,014
Improvements	9,919,948	1,772,071	-	1,367,373	13,059,392
Machinery and equipment	37,288,556	4,798,643	3,558,530	(279,415)	38,249,254
Total accumulated depreciation	<u>70,328,389</u>	<u>7,319,206</u>	<u>3,558,530</u>	<u>3,050,595</u>	<u>77,139,660</u>
Other capital assets, net	71,161,118	(1,495,884)	(508,544)	(651,346)	69,522,432
Totals	<u>\$ 74,006,329</u>	<u>\$ (1,292,645)</u>	<u>\$ 34,822</u>	<u>\$ (651,346)</u>	<u>\$ 72,027,516</u>

¹ Adjustments in cost of improvements and in accumulated depreciation and improvements are the result of the following situation: A state law known as Assets Held Tenancy In Common (AHTIC) permits the City to record capital assets owned by the School Board on the City books to offset the approximate value of general bonded debt issued for school projects. This law has been in effect for approximately ten years. During the ten-year period various assets have been swapped back and forth between the City and the School Board depending on the value needed to offset the bonded debt.

When AHTIC was first implemented the City valued all swaps to them from the School Board by recording the original historical cost of the asset and by inheriting any accumulated depreciation for assets. However, if any assets were swapped from the City back to the School Board the asset's historical cost was written down to the book value at the time of the swap and no accumulated depreciation was recognized. This was done only for the School Board's Comprehensive Annual Financial Report (CAFR) as during this time period the City was the fiscal agent for the School Board and the City did not recognize this adjustment. Starting on July 1, 2007 the School Board dropped the City as its fiscal agent and assumed responsibility for its financial records. Assets were transferred to the School Board. It was discovered that some capital asset detail now in the School Board financial records differed from that in the School Board's detail as used to prepare the CAFR due to the above mentioned swaps. This created a situation in which some assets had in effect negative cost and negative accumulated depreciation. These assets were written off in the current fiscal year.

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Depreciation was charged to governmental functions as follows:

Academic services	\$ 3,179,021
Transportation services	1,387,851
Business and support services	1,572,145
Child nutrition services	636,836
Technology services	58,551
Human resources	326,631
Administration	158,171
Total governmental activities depreciation expense	\$ 7,319,206

Construction in progress is composed of the following at June 30, 2010:

	Project Authorization	Expended Through June 30, 2010	Balance of Authorization	Future Requirements
School projects	\$ 20,937,718	\$ 1,274,000	\$ 14,175,523	\$ -

Expended through June 30, 2010 includes \$1,274,230 in construction in progress transferred to the City under the AHTIC provisions. The balance of authorization of \$14,175,523 includes \$4,099,973 encumbered by existing purchase orders with vendors for projects in progress.

(5) Leases

(a) Operating Leases

The School Board leases buildings under noncancelable operating leases. Total costs for such leases were approximately \$620,946 for the year ended June 30, 2010. The future minimum lease payments for these leases are as follows:

Year ending June 30:	
2011	\$ 596,710
2012	572,228
2013	576,561
2014	580,980
2015	585,488
2016-2020	1,073,229
	\$ 3,985,196

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

(b) Capital Leases

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

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

Buildings	\$ 1,435,000
Machinery and equipment	<u>2,954,247</u>
	4,389,247
Less accumulated depreciation	<u>(974,247)</u>
	<u><u>\$ 3,415,000</u></u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2010, were as follows:

Year ending June 30:	
2011	\$ 918,632
2012	722,420
2013	335,215
2014	330,168
2015	99,982
2016-2020	<u>401,485</u>
Total minimum lease payments	2,807,902
Less amounts representing interest	<u>(395,079)</u>
Present value of minimum capital lease payments	<u><u>\$ 2,412,823</u></u>

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(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2010 follows:

	<u>Balance July 1, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2010</u>	<u>Due Within One Year</u>
Compensated absences	\$ 4,014,317	\$ 1,890,318	\$ 1,914,746	\$ 3,989,889	\$ 598,483
Workers' compensation claims	1,484,181	728,781	615,110	1,597,852	312,263
Capital leases payable	3,232,136	-	819,313	2,412,823	782,834
Capital facility notes payable	14,340,476	-	1,930,960	12,409,516	-
Other Post Employment Benefits Incurred but not reported health claims	26,829,869	7,008,600	5,272,059	28,566,410	-
	<u>2,204,000</u>	<u>26,119,024</u>	<u>25,892,399</u>	<u>2,430,625</u>	<u>2,430,625</u>
Totals	<u>\$ 52,104,979</u>	<u>\$ 35,746,723</u>	<u>\$ 36,444,587</u>	<u>\$ 51,407,115</u>	<u>\$ 4,124,205</u>

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

Incurred but not reported health claims represent an estimate of healthcare claims incurred by our employees as of June 30, 2010 but not yet paid by our third-party claims administrator. As we are self-insured for healthcare claims we consider the entire amount a current liability and in fact the claims are paid in a matter of a few weeks after June 30, 2010 as the medical providers submit their claims to the third-party administrator.

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

The annual requirements to pay principal and interest at a rate of 4.05% on capital notes payable due to National City Commercial Capital at June 30, 2010 are as follows (note that the payment normally due in FY2011 was paid in June 2010). The next payment is due in FY2012 (July 2011).

	<u>Principal</u>	<u>Interest</u>
FY2011	\$ -	\$ -
FY2012	2,034,479	502,585
FY2013	2,146,401	420,189
FY2014	2,262,131	333,260
FY2015	2,380,794	241,643
FY2016-FY2017	<u>3,585,711</u>	<u>193,407</u>
Totals	<u>\$12,409,516</u>	<u>\$ 1,691,084</u>

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

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

1. Plan Description

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

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

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

	Retirees and Beneficiaries	Vested Terminated Employees	Active Employees Vested	Active Employees Non-Vested	Total
City general	986	596	1,068	503	3,153
City police and fire	684	224	620	395	1,923
Public utilities	201	107	244	56	608
School VRS	2,086	957	2,353	866	6,262
School Non-VRS	685	179	660	297	1,821
Total	<u>4,642</u>	<u>2,063</u>	<u>4,945</u>	<u>2,117</u>	<u>13,767</u>

NNERF provides retirement benefits as well as death and disability benefits. All benefits vest after five years of credited service. Employees who retire at or after age 60 (50 for police officers, firefighters and deputy sheriffs) with five years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2.0% of their final average compensation for each year of credited service accumulated to February 28, 2010 and 1.85% on and after March 1, 2010. Final average compensation means the average rate of salary received during the highest paid 36 consecutive months of credited service. Employees with 30 years (25 for police officers, firefighters and deputy sheriffs) credited service may retire at any age with full benefits. Employees (other than police officers, firefighters and

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deputy sheriffs) with 25 years of service may retire prior to age 60 and receive a reduced benefit. Covered employees do not contribute to NNERF.

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

2. Concentrations

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

3. Contributions Required and Contributions Made

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

Contributions for normal costs totaling \$21.2 million were made by the employer during the year ended June 30, 2010. The percentage of employer contributions to current year covered payroll was 7.5%.

The percentage of normal cost to current year covered payroll was 4.98%. The employer's annual pension cost and net pension obligation to NNERF for 2010 were as follows:

(000's omitted)

	2010
Annual Required Contribution (ARC)	\$ 40,967
Interest on net pension obligation	9,886
Adjustment to ARC	(10,759)
Annual pension cost	40,094
Contributions made	(21,168)
Increase in net pension obligation	18,926
Net pension obligation (asset), beginning of year	127,563
Net pension obligation (asset), end of year	\$ 146,489

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

Notes to Basic Financial Statements
June 30, 2010

Schedule of Funding Progress (in millions):

The funded status of the plan as of June 30, 2010 was as follows:

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actual accrued liability (AAL)</u>	Overfunded (unfunded) accrued liability (UAAL)	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL as a percentage of covered payroll</u>
June 30, 2010	\$ 638	1,110	(472)	57%	283	-166.8%

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

The annual required contribution for the current year was determined as part of the June 30, 2009 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses) (b) projected salary increases ranging from 0 – 5% per year and (c) 2.8% per year cost-of-living adjustments, resulting in an average retiree increase of 1.9%. The amortization method used is level dollar open. The assumptions did not include funding of other post-retirement benefit. The actuarial value of assets was determined under the average value method.

4. Three-Year Trend Information

(000's omitted)

<u>Fiscal year ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC contributed</u>	<u>Net pension obligation (asset)</u>
June 30, 2010	\$ 40,094	52.8%	\$ 146,489
June 30, 2009	39,597	49.9%	127,563
June 30, 2008	41,197	39.9%	107,706

(b) Virginia Retirement System:

1. Plan Description

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

All full-time permanent employees of the School Board must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with five years of service and at 50 with 30 years of service for participating employees payable monthly for life in an amount equal to 1.70% of their average final compensation (AFC) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living adjustments (COLA) beginning in their second year of retirement. The COLA is limited to 5% per year. AFC is defined as the highest consecutive 36 months of salary. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as

**THE SCHOOL BOARD OF THE
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Notes to Basic Financial Statements
June 30, 2010

amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing the System at P.O. Box 2500, Richmond, VA 23218-2500.

2. Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual reported compensation to the VRS. This 5% member contribution has been assumed by the employers except that employees hired or rehired on or after July 1, 2010 and have no prior VRS credited service will be required to contribute the 5% member contribution. The School Board is required to contribute the remaining amounts necessary to fund their participation in the VRS using the actuarial bases specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The contribution rate for the fiscal year ended 2010 was 13.81% of covered annual payroll for the School Board for professional employees from July 1, 2009 through March 31, 2010 and was 5.00% for April 1, 2010 through June 30, 2010. The lower rate was due to premium holiday. The contribution rate for non-professional employees was 11.50% for the entire year.

3. Annual Pension Cost

For 2010, the annual pension cost of \$18.4 million for the School Board was equal to the required and actual contributions.

The annual required contributions were determined as part of the June 30, 2010 actuarial valuation. The actuarial assumptions included (a) a rate of return on investment of 7.5% to 8% (b) projected salary increases ranging from 3.50% to 5.6% per year, and (c) cost-of-living adjustments of 2.5% to 3%. Both (a) and (b) included an inflation component of 2.5% to 3%. The actuarial values of the respective entities' assets are equal to the modified market value of the assets. This method was determined using techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis within a period of 30 years or less.

4. Schedule of Funding Progress (in thousands):

Schedules of Funding Progress and Employer Contributions are as follows:

Fiscal year ending	Annual Pension Cost (APC)	Percentage of APC contributed	Net pension obligation
06/30/10	\$ 18,446,055	100.0%	-
06/30/09	22,520,695	100.0%	-
06/30/08	24,529,972	100.0%	-

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

Notes to Basic Financial Statements
June 30, 2010

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

1. Plan Description

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

The School Board provides health and dental insurance for their retirees under the school's group plans. The School Board annually determines the retiree's contribution to participate in the medical plans. The total contribution is based on the active premium rates.

The retiree's portion of the active rate is based on the retiree's accumulated sick leave at retirement. Retirees with maximum accumulated sick leave will pay what an active employee would pay. Retirees with minimal accumulations would pay most of the total active premium rate.

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

2. Contributions Required and Contributions Made

OPEB funding policy provides for periodic employer contributions at actuarially determined rates, that expresses as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. A level percentage of payroll with a 30-year amortization period is used for purposes of computing the minimum accrual under GASB 45. The projected unit credit method is used for cost calculations.

Contributions to normal costs totaling \$5.3 million were made during the year ended June 30, 2010. The School Board's annual OPEB cost for the current year is as follows:

(In millions)

Actuarial Required Contribution (ARC)	\$ 7.0
Interest on net pension obligation	2.1
Adjustment to ARC	<u>(2.1)</u>
Annual pension cost	7.0
Actual Contribution	<u>5.3</u>
Increase in net OPEB obligation	1.7
Net OPEB obligation, beginning of year	<u>26.8</u>
Net OPEB obligation, end of year	<u>\$28.5</u>

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

Notes to Basic Financial Statements
June 30, 2010

3. Funding Status and Funding Progress

The funded status of the plan as of June 30, 2010 was as follows:

(In millions)

Actuarial value of assets	\$ 3.2
Actuarial Accrued Liability (AAL)	<u>132.7</u>
Unfunded AAL (UAAL)	<u>\$129.5</u>
Funded ratio	2.4%
Covered payroll	\$181.0
UAAL as a percentage of covered payroll	71.5%

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

4. Actuarial Methods and Assumptions

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

Actuarial valuation date	6/30/09
Actuarial cost method	Projected Unit Credit Method
Amortization method	Level percentage of payroll
Amortization period	30 years - Open
Asset valuation method	3-year smoothed market
Actuarial assumptions:	
Inflation rate:	2%
Investment rate of return	4%
Projected salary increases	3%
Post retirement benefit increases	2%
Healthcare inflation rate	9.5% initially, reduced to 5% for each year following 2016

(8) Self-Insurance

(a) Medical Benefits

The School Board is self-insured for its medical benefits through the General Fund for employees up to \$175,000 per employee per year and 110% of adjusted subscriber charges (maximum liability) for the year (\$29,810,434 for 2010). 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

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

Notes to Basic Financial Statements
June 30, 2010

charged at amounts that approximate what third-party insurers would have charged. The insurance coverage is substantially the same as in prior fiscal years.

Claims processing and payments for the medical claims are made through a third-party administrator. The settlement using reinsurance did not exceed insurance for fiscal years 2010 or 2009. 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, 2010 are recognized as a long-term liability in the statement of net assets. Changes in the incurred but not reported amount during the fiscal years ended June 30, 2010 and 2009 were as follows:

	2010	2009
Claims payable at beginning of year	\$ 2,204,000	\$ 2,199,000
Claims and changes in estimates	26,119,024	24,382,548
Claim payments	(25,892,399)	(24,377,548)
Claims payable at end of year	\$ 2,430,625	\$ 2,204,000

(b) Workers' Compensation

The School Board self-insures for workers' compensation through the General Fund. Expenditures are charged to the various departments at amounts that approximate what third-party insurers would have charged. Amounts due in future years on claims made as of June 30, 2010 are accounted for in the long-term liabilities. The following is a reconciliation of changes in workers' compensation claims payable for years ended June 30, 2010 and 2009:

	2010	2009
Claims payable at beginning of year	\$ 1,484,181	\$ 1,440,488
Claims and changes in estimates	728,781	889,768
Claim payments	(615,110)	(846,075)
Claims payable at end of year	\$ 1,597,852	\$ 1,484,181

A loss analysis was conducted by William M. Mercer, Incorporated on this fund. The total actuarially computed liability as of June 30, 2010 was determined to be approximately \$1.5 million.

(c) Other

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

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

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

Notes to Basic Financial Statements
June 30, 2010

(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, 2010 will not be material to the financial statements.

(b) Grants

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

(10) Related Organizations

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

(11) Related Party Transaction

The School Board operates by authority of the charter of the City. The City provides annual appropriations to the School Board for operating the school system and is obligated for all bonded indebtedness relations to the School Board. The City is also the custodian of the majority of the School Board's cash and temporary investments and also provides a defined benefit pension plan to employees hired before July 1, 2009. The City provides services to the School Board, primarily legal services, 800 megahertz radio repairs and services related to the vehicle self-insurance program, through the City's General Fund. The City provides school police officers at no charge to the School Board starting in FY2010 (however, the City reduced the School Board's funding in FY2010 by the approximate value of these of services of \$600,000.) The School Board is charged based on established fee schedules or a shared cost formula. The total value of the services provided by the City and reimbursed by the School Board during the year ended June 30, 2010 was \$494,557. The School Board provides fiber WAN services to the City for annual charges of \$94,734. Amounts due to and due from the City of Newport News for services are negligible. Amounts are generally settled on a monthly basis. The City of Newport News Parks & Recreation Department provides services to children and citizens after regular school hours in School Board buildings at no rental charge.

At June 30, 2010, the City owed the School Board \$4,164,431 for capital projects funding.

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, 2010

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:				
Intergovernmental:				
Commonwealth of Virginia:				
Standards of Quality funds	\$ 157,949,499	\$ 157,949,499	\$ 145,390,261	\$(12,559,238)
Incentive funds	1,387,558	1,387,558	934,629	(452,929)
Categorical funds	106,922	106,922	129,065	22,143
Lottery funded programs	20,354,441	20,354,441	22,827,268	2,472,827
Other state agencies	20,000	20,000	14,419	(5,581)
City of Newport News	113,200,000	113,200,000	113,200,000	-
Federal government	4,096,650	4,096,650	6,148,526	2,051,876
Charges for services	1,828,550	1,828,550	2,801,245	972,695
Total revenues	<u>298,943,620</u>	<u>298,943,620</u>	<u>291,445,413</u>	<u>(7,498,207)</u>
Expenditures:				
Academic services:				
Classroom instruction	113,585,642	109,532,954	109,283,973	248,981
Office of the principal	17,941,096	18,151,421	17,320,783	830,638
Special education	36,181,656	34,731,886	32,866,120	1,865,766
Career and technical	6,566,070	6,996,822	6,751,089	245,733
Talented and gifted	4,429,432	4,515,553	4,525,177	(9,624)
Summer school	1,774,935	1,639,314	1,259,195	380,119
Adult education	30,000	30,000	74,463	(44,463)
Pre school	5,801,583	6,577,739	7,333,351	(755,612)
Guidance and counseling	7,095,037	7,343,520	7,151,874	191,646
Improvement of instruction - staff	7,699,177	6,487,474	5,629,585	857,889
Media services	5,435,534	5,531,676	5,070,780	460,896
School social workers	1,578,911	1,581,111	1,512,983	68,128
Homebound	498,250	431,370	432,097	(727)
Psychological services	1,597,159	1,611,459	1,540,946	70,513
Instructional support -student leadership	1,543,830	1,477,705	1,400,831	76,874
Attendance	625,805	642,305	592,676	49,629
Health services	3,390,614	3,391,214	3,213,110	178,104
Total academic services	<u>215,774,731</u>	<u>210,673,523</u>	<u>205,959,033</u>	<u>4,714,490</u>
Transportation services				
Transportation administration	5,413,466	3,328,877	2,440,266	888,611
Vehicle operation services	7,475,627	9,584,442	10,506,770	(922,328)
Monitoring services	1,131,163	1,901,888	1,801,230	100,658
Vehicle maintenance services	1,934,849	2,364,348	2,319,069	45,279
Total transportation services	<u>15,955,105</u>	<u>17,179,555</u>	<u>17,067,335</u>	<u>112,220</u>
Business and support services:				
Business	\$ 1,414,118	\$ 1,125,965	\$ 1,085,767	\$ 40,198
Purchasing	684,753	597,178	594,588	2,590
Athletics	2,252,830	2,412,136	2,392,402	19,734
Drivers' education	489,831	519,341	491,580	27,761
Accountability	845,160	790,116	723,646	66,470
Testing	778,367	504,107	434,151	69,956

**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, 2010

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:				
Operations	4,598,191	1,017,449	692,511	324,938
Grounds services	642,768	1,092,713	921,996	170,717
Building services	20,456,311	27,440,048	26,086,029	1,354,019
Vehicle operation services	313,747	319,195	286,754	32,441
Warehouse	337,825	431,675	353,075	78,600
Mail services	286,666	159,874	95,619	64,255
Print shop	-	(30,836)	101,547	(132,383)
Facilities	<u>477,500</u>	<u>477,500</u>	<u>1,003,271</u>	<u>(525,771)</u>
Total business and support services	<u>33,578,067</u>	<u>36,856,461</u>	<u>35,262,936</u>	<u>1,593,525</u>
Technology services:				
Technology - classroom instruction	-	125,441	360,864	(235,423)
Technology - instructional support	5,273,474	7,098,996	7,166,185	(67,189)
Information technology	6,238,359	4,829,294	5,019,358	(190,064)
Technology - operations & maintenance	<u>772,139</u>	<u>1,056,279</u>	<u>962,322</u>	<u>93,957</u>
Total technology services	<u>12,283,972</u>	<u>13,110,010</u>	<u>13,508,729</u>	<u>(398,719)</u>
Human Resources:				
Human resources	1,762,043	1,872,043	1,777,159	94,884
Security services	<u>2,817,532</u>	<u>2,914,332</u>	<u>2,646,292</u>	<u>268,040</u>
Total human resources	<u>4,579,575</u>	<u>4,786,375</u>	<u>4,423,451</u>	<u>362,924</u>
Administration:				
Information services	1,315,007	1,095,479	936,780	158,699
School Board	426,856	348,856	303,200	45,656
Superintendent's office	<u>1,115,610</u>	<u>1,117,810</u>	<u>1,054,677</u>	<u>63,133</u>
Total administration	<u>2,857,473</u>	<u>2,562,145</u>	<u>2,294,657</u>	<u>267,488</u>
Total expenditures	<u>285,028,923</u>	<u>285,168,069</u>	<u>278,516,141</u>	<u>6,651,928</u>
Total revenues over expenditures	13,914,697	13,775,551	12,929,272	(846,279)
Other financing uses -				
Transfer to City of Newport News – debt service	<u>13,914,697</u>	<u>13,775,551</u>	<u>13,634,073</u>	<u>141,478</u>
Net change in fund balances	-	-	(704,801)	(704,801)
Fund balance at beginning of year	44,982,440	44,982,440	44,982,440	-
Less encumbrances outstanding at June 30, 2009				
expended or canceled at June 30, 2010	-	-	(16,049,721)	(16,049,721)
Add encumbrances outstanding at June 30, 2010	-	-	11,774,826	11,774,826
Decrease in assigned for health self-insurance	-	-	(684,307)	(684,307)
Net transfer to OPEB Trust Fund (non budgeted expenditure)	-	-	(1,642,206)	(1,642,206)
Increase in assigned for workers' compensation	-	-	305,367	305,367
Increase in assigned for textbooks	-	-	1,465,216	1,465,216
Decrease in nonspendable inventories	-	-	(51,494)	(51,494)
Fund balance at end of year	<u>\$ 44,982,440</u>	<u>\$ 44,982,440</u>	<u>\$ 39,395,320</u>	<u>\$ (5,587,120)</u>

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

Required Supplementary Information

Schedule of Funding Progress
for the Other Postemployment Benefits (Unaudited)
Year ended June 30, 2010

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (a-b)	Funded Ratio (a/b)	Covered Payroll (d)	UAAL as a Percentage of Covered Payroll ((b-a)/(d))
6/30/10	\$ 3.2	\$ 132.7	\$ (129.5)	2.41%	\$ 181.0	71.5%
6/30/09	2.7	180.5	(177.8)	1.50%	184.2	96.5%
6/30/08	3.4	194.0	(190.6)	1.75%	179.7	106.1%

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

Required Supplementary Information

Schedule of Funding Progress
for the Newport News Employee's Retirement Fund (Unaudited)
Year ended June 30, 2010

(Amount in millions)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (a-b)	Funded Ratio (a/b)	Covered Payroll (d)	UAAL as a Percentage of Covered Payroll ((b-a)/(d))
6/30/10	\$ 638	\$ 1,110	\$ (472)	57.5%	\$ 283	166.8%
6/30/09	711	1,115	(404)	63.8%	314	128.7%
6/30/08	772	1,030	(258)	75.0%	314	82.2%
6/30/07	746	954	(208)	78.2%	305	68.2%

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

June 30, 2010

(1) Budgetary Data

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

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

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

(2) Intergovernmental Revenue – City of Newport News

A reconciliation of intergovernmental revenue follows:

City of Newport News budget appropriations	\$ 113,200,000
Less amounts recorded by City of Newport News	<u>(14,916,490)</u>
City of Newport News revenue - GAAP basis	<u><u>\$ 98,283,510</u></u>

SUPPLEMENTARY INFORMATION

AGENCY FUND

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

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

Statement of Changes of Asset and Liabilities – Agency Fund

Year ended June 30, 2010

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year
Asset:				
Cash and cash equivalents	\$ 1,581,909	\$ 3,506,119	\$ 3,569,557	\$ 1,518,471
Liabilities:				
Accounts payable	\$ 43,953	\$ 55,796	\$ 43,953	\$ 55,796
Due to students	1,537,956	3,450,323	3,525,604	1,462,675
Total liabilities	\$ 1,581,909	\$ 3,506,119	\$ 3,569,557	\$ 1,518,471

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

June 30, 2010

Special Revenue Funds:

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

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

Capital Projects Funds:

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

Virginia Department of Transportation (VDOT) – to account for the proceeds of right of way for street widening which will require renovation of the School Administration Building.

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

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

Combining Balance Sheet
Other Governmental Funds
June 30, 2010

Assets	<u>Special Revenue Funds</u>		<u>Capital Projects Funds</u>			<u>Total Other Governmental Funds</u>
	<u>Child Nutrition</u>	<u>Adult Education</u>	<u>State Construction</u>	<u>VDOT Proceeds</u>	<u>General Capital</u>	
Cash and cash equivalents	\$ 2,258,248	\$ 282,208	\$ 1,544,512	\$ -	\$ 328,816	\$ 4,413,784
Accounts receivable	-	\$ 287,734	-	-		287,734
Due from other governments:						
Federal -						
Department of Agriculture	575,497		-	-		575,497
Inventories	295,190		-	-		295,190
Total assets	<u>\$ 3,128,935</u>	<u>\$ 569,942</u>	<u>\$ 1,544,512</u>	<u>\$ -</u>	<u>\$ 328,816</u>	<u>\$ 5,572,205</u>
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 220,980	\$ -	1,558	\$ -	\$ -	\$ 222,538
Total liabilities	<u>220,980</u>	<u>-</u>	<u>1,558</u>	<u>-</u>	<u>-</u>	<u>222,538</u>
Fund balances:						
Nonspendable:						
Inventories	295,190	-	-	-	-	295,190
Restricted:						
Capital projects	-	-	1,542,954	-	328,816	1,871,770
Assigned to:						
Adult education services	-	569,942	-	-	-	569,942
Child nutrition services	2,611,868	-	-	-	-	2,611,868
Contractual obligations	897	-	-	-	-	897
Total fund balances	<u>2,907,955</u>	<u>569,942</u>	<u>1,542,954</u>	<u>-</u>	<u>328,816</u>	<u>5,349,667</u>
Total liabilities and fund balances	<u>\$ 3,128,935</u>	<u>\$ 569,942</u>	<u>\$ 1,544,512</u>	<u>\$ -</u>	<u>\$ 328,816</u>	<u>\$ 5,572,205</u>

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

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Other Governmental Funds
Year ended June 30, 2010

	<u>Special Revenue Funds</u>		<u>Capital Project Funds</u>			<u>Total Other Governmental Funds</u>
	<u>Child Nutrition</u>	<u>Adult Education</u>	<u>State Construction</u>	<u>VDOT Proceeds</u>	<u>Operating Capital</u>	
Revenues:						
Intergovernmental:						
City of Newport News	\$ -	\$ -	\$ -	\$ -	\$ 1,000,000	\$ 1,000,000
Commonwealth of Virginia	295,906	208,615	-	-	-	504,521
Federal government	9,497,506	-	-	-	-	9,497,506
Charges for services	4,019,072	637,686	-	-	-	4,656,758
Investment income	6,654	-	-	-	-	6,654
Total revenues	<u>13,819,138</u>	<u>846,301</u>	<u>-</u>	<u>-</u>	<u>1,000,000</u>	<u>15,665,439</u>
Current expenditures:						
Academic services	-	917,317	-	-	-	917,317
Business and support services	108,388	-	-	-	-	108,388
Child nutrition services	13,164,520	-	-	-	-	13,164,520
Human resources	-	3,447	-	-	-	3,447
Capital outlay	-	-	152,148	18,282	867,885	1,038,315
Total expenditures	<u>13,272,908</u>	<u>920,764</u>	<u>152,148</u>	<u>18,282</u>	<u>867,885</u>	<u>15,231,987</u>
Excess (deficiency) of revenues over expenditures	546,230	(74,463)	(152,148)	(18,282)	132,115	433,452
Other financing sources -						
Transfers in	-	74,463	-	-	-	74,463
Net change in fund balances	546,230	-	(152,148)	(18,282)	132,115	507,915
Fund balances at beginning of year	2,321,719	569,942	1,695,102	18,282	196,701	4,801,746
Increase in nonspendable inventory	40,006	-	-	-	-	40,006
Fund balances at end of year	<u>\$ 2,907,955</u>	<u>\$ 569,942</u>	<u>\$ 1,542,954</u>	<u>\$ -</u>	<u>\$ 328,816</u>	<u>\$ 5,349,667</u>

STATISTICAL SECTION

STATISTICAL SECTION

(Unaudited)

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

Schedule of Property Tax Levies and Collections

Schedule of Property Valuations – Assessed Valuations

Schedule of Property Tax Rates

Legal Debt Limit

Construction and Property Values and Bank Deposits

STATISTICAL SECTION

(Unaudited)

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

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

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

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS VIRGINIA**
Net Assets by Component

Last Nine Fiscal Years
(accrual basis of accounting)
Fiscal Year

Table 1

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

Data for years before FY2002 is not available, as GASB 34 was not yet implemented.

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS VIRGINIA**
Expenses, Program Revenues, and Net (Expense) Revenue

Last Nine Fiscal Years
(accrual basis of accounting)
Fiscal Year

Table II

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

Data for years before FY2002 is not available, as GASB 34 was not yet implemented.

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS VIRGINIA**
General Revenues and Total Change in Net Assets

Last Nine Fiscal Years
(accrual basis of accounting)
Fiscal Year

Table III

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

Data for years before FY2002 is not available, as GASB 34 was not yet implemented.

**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

Table IV

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
General Fund										
Reserved	\$ 4,945,204	\$ 9,768,011	\$ 11,687,938	\$ 15,487,793	\$ 18,918,692	\$ 18,323,640	\$ 24,214,767	\$ 26,751,505	\$ 33,179,119	\$ -
Unreserved	3,905,056	3,693,652	3,659,042	2,870,939	4,073,886	4,290,893	4,819,439	7,373,979	8,982,912	-
Nonspendable	-	-	-	-	-	-	-	-	-	690,372
Assigned to	-	-	-	-	-	-	-	-	-	38,704,948
Unassigned	-	-	-	-	-	-	-	-	2,820,409	-
Total general fund	<u>\$ 8,850,260</u>	<u>\$ 13,461,663</u>	<u>\$ 15,346,980</u>	<u>\$ 18,358,732</u>	<u>\$ 22,992,578</u>	<u>\$ 22,614,533</u>	<u>\$ 29,034,206</u>	<u>\$ 34,125,484</u>	<u>\$ 44,982,440</u>	<u>\$ 39,395,320</u>
All Other Governmental Funds										
Reserved	\$ 4,481,359	\$ 2,387,650	\$ 1,097,438	\$ 989,058	\$ 6,700,117	\$ 3,739,314	\$ 8,555,882	\$ 3,673,127	\$ 2,572,199	\$ -
Unreserved, reported in:										
Special revenue funds	1,650,903	1,427,247	1,488,932	1,510,359	1,281,855	1,044,693	2,041,666	2,314,115	2,632,636	-
Capital project funds	1,073,296	788,449	(5,693,791)	(4,541,645)	(6,170,129)	(5,303,241)	1,347,479	2,907,202	2,358,745	-
Nonspendable	-	-	-	-	-	-	-	-	-	295,190
Restricted	-	-	-	-	-	-	-	-	-	1,871,770
Assigned to	-	-	-	-	-	-	-	-	-	3,182,707
Total all other governmental funds	<u>\$ 7,205,558</u>	<u>\$ 4,603,346</u>	<u>\$ (3,107,421)</u>	<u>\$ (2,042,228)</u>	<u>\$ 1,811,843</u>	<u>\$ (519,234)</u>	<u>\$ 11,945,027</u>	<u>\$ 8,894,444</u>	<u>\$ 7,563,580</u>	<u>\$ 5,349,667</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.

**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)

Table V

Fiscal Year	City of Newport News	Commonwealth of Virginia	Federal Government	Other	Other Financing Sources	Total Revenues and Other Financing Sources
2001	\$ 77,992	\$ 131,582	\$ 23,103	\$ 6,300	\$ -	\$ 238,977
2002	78,590	131,205	27,835	6,880	-	244,510
2003	80,286	135,986	29,525	7,294	3,078	256,169
2004	85,830	140,022	32,661	6,808	10,142	275,463
2005	93,145	164,964	33,488	6,759	14,496	312,852
2006	88,432	168,557	35,330	6,975	-	299,294
2007	104,647	187,784	35,513	7,808	3,069	338,821
2008	104,683	190,951	39,054	8,392	-	343,080
2009	102,196	197,538	41,006	7,695	1,114	349,549
2010	104,664	173,239	47,779	7,659	74	333,416

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

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

Last Ten Fiscal Years
(modified accrual basis of accounting)

(Amounts in thousands)

Table VI

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Revenues and other financing	238,977	244,510	256,169	275,463	312,852	\$ 299,294	\$ 338,821	\$ 343,080	\$ 349,549	\$ 333,416
Academic services	\$ 176,311	\$ 180,485	\$ 193,154	\$ 191,830	\$ 203,995	\$ 211,997	\$ 229,920	\$ 236,249	\$ 238,023	\$ 234,744
Transportation services	10,044	10,422	11,404	11,990	13,439	14,000	14,922	16,186	16,807	16,707
Business and support services	24,731	24,993	27,890	25,233	27,984	27,688	28,770	28,536	33,655	27,690
Child nutrition services	11,015	11,552	11,680	11,703	12,441	12,952	13,354	13,917	13,486	13,231
Technology services	-	-	-	9,307	11,055	11,043	11,289	15,117	13,025	21,407
Human resources	-	-	-	1,370	7,020	8,245	8,426	6,940	6,695	5,439
Administration	3,451	2,949	3,190	3,356	2,664	3,029	3,083	3,131	2,733	2,423
Capital outlay	17,421	11,658	15,879	16,873	25,329	12,872	8,504	15,285	13,340	10,092
Debt service										
Principal	79	284	647	884	1,465	2,664	3,383	4,157	2,617	2,750
Interest	113	140	195	180	548	209	1,830	1,754	846	1,364
Other financing uses	4,290	-	-	-	-	-	-	112	142	74
Total expenditures and other financing uses	<u>\$ 247,455</u>	<u>\$ 242,483</u>	<u>\$ 264,039</u>	<u>\$ 272,726</u>	<u>\$ 305,940</u>	<u>\$ 304,699</u>	<u>\$ 323,481</u>	<u>\$ 341,384</u>	<u>\$ 341,369</u>	<u>\$ 335,921</u>
Change in fund balance	<u>\$ (8,478)</u>	<u>\$ 2,027</u>	<u>\$ (7,870)</u>	<u>\$ 2,737</u>	<u>\$ 6,912</u>	<u>\$ (5,405)</u>	<u>\$ 15,340</u>	<u>\$ 1,696</u>	<u>\$ 8,180</u>	<u>\$ (2,505)</u>
Debt service as a percentage of noncapital expenditures	0.1%	0.2%	0.3%	0.4%	0.7%	1.0%	1.7%	1.8%	1.1%	1.3%

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

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

Ratio of School Board Capital Leases and Facility Notes Payable Debt to Assessed Value of Taxable Property
and Debt Per Capita of the City of Newport News

Last Ten Fiscal Years

(Amounts in thousands)

Table VII

Fiscal year	(1) Population	(2) Assessed value of real property	(3) Personal Income	Capital lease and facility notes payable debt	Ratio of debt to assessed value	Net debt per capita	Ratio of debt to personal income
2001	180,150	7,344,018	4,266,810	1,483	0.02%	8	0.03%
2002	180,305	7,406,809	4,416,298	1,814	0.02%	10	0.04%
2003	181,640	7,807,813	4,598,879	4,029	0.05%	22	0.09%
2004	185,200	8,301,266	4,872,092	13,287	0.16%	72	0.27%
2005	185,240	9,042,610	5,086,295	26,319	0.29%	142	0.52%
2006	186,000	10,404,207	5,225,657	23,654	0.23%	127	0.45%
2007	186,000	12,293,454	5,500,739	23,340	0.19%	125	0.42%
2008	187,200	14,286,003	Not Available	19,217	0.13%	103	Not Available
2009	193,212	17,488,713	Not Available	17,573	0.10%	91	Not Available
2010	193,172	18,048,533	Not Available	14,822	0.08%	77	Not Available

Notes: (1) Source: 2003-2004, 2006-2010 – City estimate; 2001 and 2005 – U. S. Bureau of Census;
2002 Virginia Employment Commission

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

(3) Source - Virginia Employment Commission (2008 to 2010 not available)

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

**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

(Amounts in thousands)

Table VIII

Grade 3												
Test	School Board					State						
	2007	2008	2009	2010	Change	2007	2008	2009	2010	Change		
English: Reading	80	83	85	75	(10)	80	84	86	83	(3)		
Mathematics	86	86	85	90	5	89	89	89	92	3		
Science	85	86	84	87	3	88	88	89	91	2		
History/social	91	91	91	91	-	92	93	93	93	-		
Grade 4												
Test	School Board					State						
	2007	2008	2009	2010	Change	2007	2008	2009	2010	Change		
English: Reading	87	85	89	81	(8)	87	88	89	88	(1)		
Mathematics	78	81	83	82	(1)	81	84	86	88	2		
Virginia Studies	78	76	88	80	(8)	83	83	88	87	(1)		
Grade 5												
Test	School Board					State						
	2007	2008	2009	2010	Change	2007	2008	2009	2010	Change		
English: Writing	80	81	82	89	7	89	87	86	88	2		
English: Reading, literature and research	85	86	89	87	(2)	87	89	92	90	(2)		
Mathematics	86	87	88	87	(1)	87	88	90	90	-		
Science	87	88	83	84	1	88	88	88	88	-		
Grade 6												
Test	School Board					State						
	2007	2008	2009	2010	Change	2007	2008	2009	2010	Change		
English: Reading	83	76	79	80	1	84	85	86	88	2		
Mathematics	52	61	66	67	1	60	66	73	77	4		
S. History to 1877	54	66	61	64	3	69	74	74	78	4		
Grade 7												
Test	School Board					State						
	2007	2008	2009	2010	Change	2007	2008	2009	2010	Change		
English: Reading	79	78	82	82	-	82	86	88	89	1		
Mathematics	49	61	66	64	(2)	56	65	71	75	4		
S. History 1877 to Present	81	88	87	85	(2)	87	92	92	91	(1)		
Grade 8												
Test	School Board					State						
	2007	2008	2009	2010	Change	2007	2008	2009	2010	Change		
English: Writing	85	88	87	87	-	86	87	89	91	2		
English: Reading, literature and research	76	77	83	87	4	80	83	87	90	3		
Mathematics	72	79	76	80	4	77	83	85	87	2		
Science	86	89	87	88	1	89	90	90	92	-		
Arts/physical education/economics	73	81	77	77	-	83	84	84	86	2		
End of Course												
Test	School Board					State						
	2007	2008	2009	2010	Change	2007	2008	2009	2010	Change		
English: Writing	91	92	90	91	1	92	92	92	92	-		
English: Reading, literature and research	91	92	92	91	(1)	94	94	95	94	(1)		
Algebra I	91	92	91	91	-	92	92	94	94	-		
Algebra II	79	78	81	84	3	88	90	91	91	-		
Geometry	77	76	74	79	5	86	87	87	88	1		
Earth science	80	81	81	80	(1)	85	86	87	88	1		
Biology	79	79	80	83	3	87	88	88	89	1		
Chemistry	88	86	89	88	(1)	91	92	93	93	-		
World history to 1000 AD and world geography	89	94	94	92	(2)	89	91	93	93	-		
World history from 1000 AD and world geography	94	95	96	91	(5)	92	92	93	93	-		
S. History	91	94	93	91	(2)	93	94	95	95	-		
World geography	82	80	78	76	(2)	83	84	86	86	-		

Source - Virginia Department of Education Division Report Card

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

Miscellaneous Statistics
June 30, 2010

Table IX

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 (FY2010):	
Early childhood centers	4	Early childhood centers	1,813
Elementary schools	26	Elementary school	13,720
Middle schools	8	Middle school	6,145
Middle-high school combination	1	High school	8,748
High schools	5		
Total	<u>44</u>	Total	<u>30,426</u>

Note - Early childhood center students are not included in State ADM official enrollment numbers. Their data is as of September 30.

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**
Demographic Statistics
Last Ten Fiscal Years

(Amounts in thousands)

Table X

Fiscal Year	(1) Population	(2) Personal Income (In thousands)	(3) Per Capita Income	(4) School Enrollment	(5) Unemployment Rate (%)
2001	180,150	4,266,810	22,199	31,563	3.0%
2002	180,305	4,416,298	22,849	31,440	4.8%
2003	181,640	4,598,879	23,654	31,535	4.9%
2004	185,200	4,872,092	23,986	31,358	5.2%
2005	185,240	5,086,295	25,233	30,827	4.8%
2006	186,000	5,225,657	26,782	30,635	4.2%
2007	186,000	5,500,739	28,436	30,218	3.4%
2008	187,200	-	28,990	29,441	4.0%
2009	193,212	-	30,423	29,022	6.5%
2010	193,172	-	30,423	28,613	8.0%

Notes: (1) Source: 2003-2004, 2006-2010 - City estimate; 2001 and 2005 – U. S. Bureau of Census, 2002 – Virginia Employment Commission

(2) 2001-2007 Virginia Employment Commission; 2008-2010 data not available.

(3) 2008-2010 City of Newport News estimates;
2001 and 2005 U.S. Bureau of Census, 2002-2004, 2006-2007 Bureau of Economic Analysis

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

(5) Virginia Employment Commission

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

Table XI
Fiscal Year

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

Source: Newport News Public Schools insurance and facility department records

Notes: Note 1 - In FY 2006 and FY2007, we have an elementary-middle school combination and in FY2008 we have a middle-high school combination; although one physical building, we have treated it as separate buildings for the purposes of this statistical table.

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

In many cases, the buildings have received additions and/or extensive

renovations, such as roof, window and HVAC replacements.

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

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

Data for prior years is not available

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**
Operational Statistics
Last Ten Fiscal Years

Table XII

Fiscal Year	(1) Cost per Student	(2) Elementary Student/ Teacher Ratio	(2) Secondary Student/ Teacher Ratio	(3) Percentage of Students on Free/Reduced Lunch
2001	\$6,439	13.1	12.9	42.9%
2002	\$7,059	13.7	13.0	43.9%
2003	\$7,549	13.1	12.6	46.1%
2004	\$7,788	13.2	12.8	47.2%
2005	\$8,696	12.8	13.1	48.2%
2006	\$9,712	12.8	13.0	50.3%
2007	\$10,075	12.0	12.9	48.8%
2008	\$10,565	11.6	13.4	48.8%
2009	\$11,032	12.7	12.0	51.4%
2010	\$10,896	12.8	12.2	54.0%

Sources: (1) Cost per student based upon formula for operating costs per the Virginia Department of Education and published on their website.
(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 2010 is estimated by School Board pending State publishing the data on their website)
(3) Percentage of students on free/reduced lunch from Newport News Public Schools Child Nutrition Services Department.

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

Full Time Equivalent District Employees by Type as of June 30
Most Recent Five Fiscal Years

	Table XIII				
	2006	2007	2008	2009	2010
Supervisory:					
Principals	44	43	50	45	40
Assistant principals	77	76	76	74	74
Instructional administrative	70	75	69	74	64
Other administrative and professional	70	69	55	72	64
Instructional:					
Elementary classroom teachers	1,427	1,426	1,453	1,317	1,373
Secondary classroom teachers	789	809	782	842	840
Guidance counselors	85	84	87	92	99
Librarians	51	49	51	45	48
Technology	50	50	50	30	32
Other instructional	159	163	165	147	158
Social workers	16	18	20	18	18
Teacher assistants	490	498	483	526	533
Support Services:					
Psychologists	15	18	18	18	21
Instructional technical	13	14	15	30	55
Instructional clerical	222	228	231	238	223
Non-instructional technical	81	93	75	134	105
Non-instruction clerical	70	59	72	51	38
Nurses	55	56	56	53	55
Bus drivers	370	394	394	384	340
Bus assistants	99	98	98	100	92
Custodians	244	248	248	262	252
Child nutrition services	361	361	361	394	371
Security officers	56	65	68	66	65
Skilled trades	96	97	98	98	92
Other	112	86	83	3	2
Total	5,122	5,177	5,158	5,113	5,053

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

Data for prior years is not available.

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**
Teacher Base Salaries

Table XIV

Fiscal Year	Minimum Salary	Maximum Salary	Newport News Average Salary	Statewide Average Salary
2001	29,178	51,165	36,814	41,161
2002	30,000	49,333	37,483	41,771
2003	30,600	50,391	40,091	43,715
2004	31,800	51,672	40,489	43,892
2005	33,200	51,898	42,110	45,377
2006	34,450	53,852	43,649	47,248
2007	35,750	55,709	44,541	49,131
2008	37,350	57,630	45,277	50,511
2009	38,400	58,766	48,815	52,307
2010	38,400	58,766	45,842	52,149

Sources: Minimum and Maximum salaries from Newport News Public Schools Budget Document, Appendix 2 for teachers with a Bachelors degree working standard 192-day contract. Newport News and Statewide average salary from Superintendent's annual financial report as published by the Virginia Department of Education on their website. (FY2010 average for State is based on budgeted data)

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**
Principal Taxpayers of the City of Newport News
June 30, 2010 and Nine Years Prior

Table XV

Taxpayer	2001 Taxes (1)	Percentage of Total Assessments	2010 Taxes (1)	Percentage of Total Assessments
Northrop Grumman Shipbuilding Inc	\$11,141	8.06%	\$14,944	8.48%
Canon Virginia Inc	2,195	1.59%	2,412	1.37%
Continental Automotive Systems Us Inc	-	-	1,831	1.04%
Mariner Museum (Riverside Hospital)	489	0.35%	1,582	0.90%
PR Patrick Henry LLC	1,104	0.80%	1,453	0.82%
Dominion Virginia Power	1,616	1.17%	1,154	0.65%
Kinder Morgan Operation LP "C"	425	0.31%	1,050	0.60%
Dominion Terminal Associates	968	0.70%	1,035	0.59%
Verizon VA	768	0.56%	881	0.50%
Inland Western Newport News	-	-	793	0.45%
Ferguson Enterprises Corp	-	-	582	0.33%
Bottling Group LLC	213	0.15%	526	0.30%
Oyster Point Residential LLC	-	-	521	0.30%
United Dominion Realty Trust	314	0.23%	507	0.29%
Patrick Henry Hospital (Warwick Forest)	-	-	496	0.28%
Meridian Parkside Apartments LLC	-	-	467	0.26%
Cox Communications Hampton Roads, Inc	278	0.20%	457	0.26%
Shorewood Packaging Corp Of Va	465	0.34%	435	0.25%
Virginia Natural Gas	529	0.38%	433	0.25%
Harbours LLC	203	0.15%	402	0.23%
Siemens - Bendix Automotive	1,742	1.26%	-	-
Siemens Credit	529	0.38%	-	-
Daily Press Inc The	319	0.23%	-	-
CSX Transportation Inc	307	0.22%	-	-
Denbigh Associates LP	225	0.16%	-	-
Newport-Oxford Associates LTD	207	0.15%	-	-
	<u>\$ 24,037</u>	<u>17.39%</u>	<u>\$ 31,961</u>	<u>18.13%</u>

Note: (1) Includes real estate and personal property tax assessments for these taxpayers. Current taxpayer name used if different from 2001.

Source: City of Newport News Office of the Treasurer and Office of the Commissioner of the Revenue

**THE SCHOOL BOARD OF THE
CITY OF NEWPORT NEWS, VIRGINIA**
Principal Employers of the City of Newport News
June 30, 2010 and Nine Years Prior

Table XVI

Taxpayer	2001 Employees	Percentage of Total City Employment	2010 Employees	Percentage of Total City Employment
Northrop Grumman Shipbuilding Inc	10,000 - 20,000	17.80%	10,000 - 20,000	16.52%
Newport News Public Schools	1,000 - 5,000	3.56%	1,000 - 5,000	3.30%
Riverside Regional Medical Center	1,000 - 5,000	3.56%	1,000 - 5,000	3.30%
City of Newport News	1,000 - 5,000	3.56%	1,000 - 5,000	3.30%
U. S. Department of Defense	1,000 - 5,000	3.56%	1,000 - 5,000	3.30%
Canon USA	1,000 - 5,000	3.56%	1,000 - 5,000	3.30%
U. S. Department of Army & Air Force	1,000 - 5,000	3.56%	1,000 - 5,000	3.30%
Christopher Newport University	500 - 999	0.89%	1,000 - 5,000	3.30%
Ferguson Enterprise	-	-	500 - 999	0.83%
Hampton Newport News Community Services Board	-	-	500 - 999	0.83%
APAC Customer Services	500 - 999	0.89%	-	-
Siemen's Automotive Corportation	500 - 999	0.89%	-	-
	17,500 - 52,997	41.82%	18,000 - 56,998	41.29%

Source: Virginia Employment Commission

COMPLIANCE



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

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

We have audited the financial statements of the School Board of the City of Newport News, Virginia (the "School Board") as of and for the year ended June 30, 2010, and have issued our report thereon dated December 14, 2010. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Other auditors audited the financial statements of the Student Activity Funds, a fiduciary fund of the School Board. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the School Board in a separate letter dated December 14, 2010.

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

Cherry, Bekaert + Holland, LLP

Richmond, Virginia
December 14, 2010



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

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

Compliance

We have audited the compliance of the School Board of the City of Newport News, Virginia, (the "School Board"), with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The School Board's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the School Board's management. Our responsibility is to express an opinion on the School Board's compliance based on our audit.

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

In our opinion, the School Board, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

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

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

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

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

Cherry, Bekaert + Holland, LLP

Richmond, Virginia
December 14, 2010

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

Schedule of Expenditures of Federal Awards
June 30, 2010

<u>Federal Granting Agency/Recipient State Agency</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
Department of Agriculture		
Pass-through payments		
Child Nutrition Cluster		
Virginia Department of Agriculture:		
School Lunch Program-Food Commodities	10.555	\$ 807,608
Virginia Department of Education:		
School Breakfast Program	10.553	2,040,921
National School Lunch Program	10.555	6,544,256
National School Lunch Program (ARRA)	10.555	66,700
Fresh Fruits and Vegetables	10.555	<u>104,721</u> \$ 9,564,206
 Department of Education		
Direct payments		
Impact Aid	84.041	4,649,197
Fund for the Improvement of Education (Foundations of Freedom)	84.215	213,747
Voices of a Nation	84.215	222,913
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	381,456
Pass-through payments		
Virginia Department of Education:		
Adult Education – Basic Grants to States	84.002	195,330
Title I, Part A Cluster		
Title I Grants to Local Educational Agencies	84.010	11,060,900
Title I Grants to Local Educational Agencies (ARRA)	84.389	<u>2,737,582</u> 13,798,482
Title I Neglected and Delinquent	84.013	65,811
Special Education – Grants to States	84.027	6,533,510
Special Education – Grants to States (ARRA)	84.027	2,814,160
Special Education – Interpreter Training	84.027	126,563
Special Education Preschool Grants	84.173	<u>214,194</u> 9,688,427
Career and Technical Education – Basic Grants to State	84.048	678,582
Safe and Drug-Free Schools and Communities – National Programs	84.184E	70,110
Safe and Drug-Free Schools and Communities – State Grants	84.186	126,832
Title X McKinney-Vento Homeless	84.196	48,738
Twenty-First Century Community Learning Centers	84.287	855,595
Title V State Grants for Innovative Programs	84.298	3,841
Education Technology State Grants	84.318	242,187
Reading First State Grants	84.357	416,351
English Language Acquisition Grants	84.365	68,614
Improving Teacher Quality State Grants	84.367	1,640,095
Stabilization Funds (ARRA)	84.394	3,178,573
High Schools That Work	84.404	4,405
 Department of Defense		
Financial Assistance – Impact Aid-Severe Disabilities	12.000	793,293
United States Army Robotics	12.431	18,815
ROTC	45.000	366,930
 Department of Health and Human Services		
Pass-through payments		
Virginia Department of Social Services:		
Medicaid Assistance Program	93.778	339,105
 Department of Labor		
Pass-through payments		
Virginia Employment Commission:		
Workforce Investment Act – Youth Program	17.259	<u>147,078</u>
		<u>\$ 47,778,713</u>

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

Notes to the Schedule of Expenditures of Federal Awards
June 30, 2010

(1) Basis of Presentation

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

(2) Relationship to Basic Financial Statements

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

	Federal Expenditures
General Fund.....	\$ 6,148,525
Grants Fund.....	32,132,682
Other Non-Major Special Revenue Funds	<u>8,689,899</u>
Subtotal	\$46,971,106
Food commodities.....	<u>807,607</u>
Total expenditures as shown on Schedule of Federal Awards.....	<u>\$47,778,713</u>

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

Schedule of Findings and Questioned Costs
June 30, 2010

A. Summary of Auditor's Results

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

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.553/10.555	Child Nutrition Cluster
10.555	Child Nutrition Cluster (ARRA)
84.010	Title I, Grants to Local Educational
84.027//84.027A/84.173	Special Education Cluster
84.394	State Fiscal Stabilization Fund –Education State Grants, (ARRA)

10. Dollar threshold used to distinguish between type A and type B programs: \$1,433,361
11. School Board of Newport News was determined not to be a low risk auditee.

B. Findings – Financial Statement Audit
None noted

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

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

Schedule of Findings and Questioned Costs
June 30, 2010

D. Resolution of Prior Year's Findings

2010-1: Control over Capitalized Assets

Inadequate adherence to policies and procedures for identifying and recording assets acquired and disposed of during the year to ensure that all capitalized assets were recorded and tracked from the time of purchase through disposal.

Management has implemented a new capitalization policy reducing the number of items tracked in the financial system. They also implemented a control system for tracking computer equipment that is below the capitalization threshold. Management has continued to review the database of assets held by the Schools and is reviewing records to ensure assets are properly tracked.