



Comprehensive Annual Financial Report

City of Portsmouth, Virginia School Board
A Component Unit of the City of Portsmouth, Virginia
For the Fiscal Year Ended June 30, 2018



COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

For the Fiscal Year Ended June 30, 2018

Prepared by the Department of Finance

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**CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
COMPONENT UNIT OF THE CITY OF PORTSMOUTH, VIRGINIA
June 30, 2018**

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INTRODUCTORY SECTION

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December 3, 2018

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

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) for the City of Portsmouth, Virginia School Board (School Board or PPS) for the fiscal year ended June 30, 2018. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the management of the School Board. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the Governmental Activities and various funds of the School Board. All disclosures necessary to enable the reader to gain an understanding of the School Board's financial activities have been included.

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

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

The School Board is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and Title 2 in the Code of Federal Regulations CFR Part 200 Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards. Information related to this single audit, including the Schedule of Expenditures of Federal Awards, findings and recommendations, if any, and auditors' reports, are included in the City's CAFR.

The Reporting Entity and Organization

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

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

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

Economic Condition and Outlook

Old Dominion University's Regional Studies Institute (the Institute) recently published the State of the Region - Hampton Roads 2018 report. According to the Institute, the economy in Hampton Roads (which includes the City of Portsmouth) grew 0.9 % and continues to lag behind the state and the nation in terms of growth. The real gross regional product growth rate for Hampton Roads was 2.2% in 2018 (1.41% in 2017). The study estimates the Commonwealth of Virginia had 0.3% more jobs than in 2007; making 2017 the first year our yearly level of employment surpassed recessionary peak. Unemployment rates have dropped below 3.5% in the area, but the number of people actively seeking a job has decreased. Within the City of Portsmouth, the latest unemployment rate is 4.3%.

Defense spending continues to be the major supplier to the Hampton Roads economy. Approximately, 4% of national defense spending occurs in this area. Hampton Roads has seen defense spending remain steady the last four years at \$19 billion. It is anticipated that federal defense spending will increase by \$1 billion in fiscal year 2019. However, it is not certain how much defense spending will increase in the Hampton Roads area over the next decade. Additionally, Hampton Roads has experienced a decrease in active duty military and the decrease is expected to continue. Between 2003 and 2016, the number of active duty personnel stationed in Hampton Roads decreased by 25.8% or 84,089. With an expected decrease in active duty personnel, this could offset increases in defense spending.

The Port of Virginia (the Port) activity continues to exceed the economic annual growth rate of the United States, Virginia, and Hampton Roads. Cargo tonnage handled by the Port continues to increase year after year. Because of the geographical location of the Port, it being the largest deep water port (and third largest port) on the East Coast, and with the Port's relationships with major rail companies, the Port appears to be in a good position to experience continued positive growth in future years. From 2013 to 2017 cargo tonnage have risen from 18.8 million tons to 22 million tons. However, as with any business, there are challenges facing the Port (i.e. competitors, facility and logistical constraints, etc.). In an effort to accommodate ultra-wide cargo ships and dredge shipping lanes to a depth of 55 feet, \$350 million was included in the 2019 Virginia budget to start these projects. The Port of Virginia continues to shine and is expected to handle a record amount of traffic this year.

Hotels/tourism, which is considered the third major sector in the Hampton Road's economy, is transforming itself with assistance of economic conditions. In 2017, hotel revenue increased 0.5% above 2007 level, making this a historical notation. RevPAR – revenue per available room increased 0.4% from 2007 to 2017 which signifies recovery for the hotel sector.

With the modest outlook for growth in Hampton Roads, it will be important for diversification within the economy. Since Hampton Roads makes up seven cities (including Portsmouth), it will likely require a unified effort to help boost the local economy.

According to July 1, 2017 statistics from the U.S. Census Bureau, Portsmouth had a population of 94,572, of which 54.6% were African-American, 40.4% were Caucasian, and 5.0% were other nationalities. Major City employers include Norfolk Naval Shipyard, Naval Medical Center - Portsmouth, U.S. Fifth Coast Guard District Command, City of Portsmouth, and PPS. Within PPS, there are approximately 2,741 employees. PPS served 14,340 students (629 are pre-K students) in 13 elementary schools (12 are Title I schools), 3 middle schools, 3 high schools, 4 Pre-K centers, 1 alternative school, 1 adult learning center, and a Career and Technical office at Tidewater Community College, Portsmouth campus. Projected enrollment for FY2018-19 is estimated to be 13,999. Along with general education, PPS serves special education needs. School-wide, approximately 13% of all students received special education services.

The average age of school buildings, within the district, is 49 years. Numerous school building additions and improvements have been completed subsequent to the initial construction of school buildings. The average school building addition and improvement is 11 years.

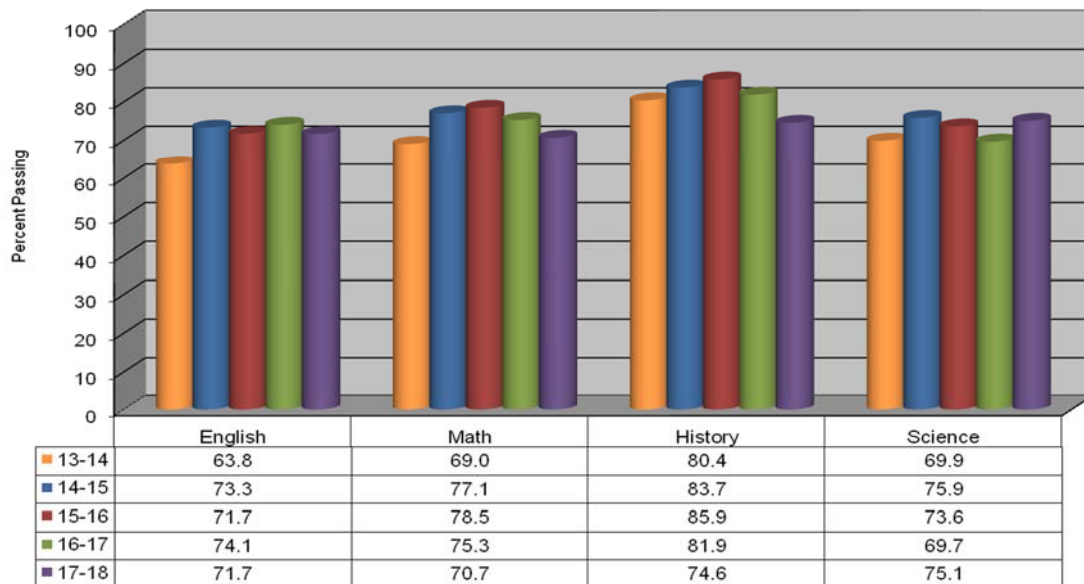
PPS is funded from local (City of Portsmouth), state, and federal resources. State and City funds are the two largest sources of revenue and represent approximately 98% of the total budget. PPS does not have the authority to levy taxes to directly support education; as such the school division is fiscally dependent on the City. State monies are determined based on the school division's Average Daily Membership (ADM) and the local composite index, which measures a school division's ability to pay education costs to meet the Commonwealth's Standard of Quality (SOQ). Federal monies primarily consist of Impact Aid from the United States Government. Significant funding is also received from federal grants.

The most recent recession and slow recovery of the region's and state's economy continues to have an effect on the funding of the school division. State funding for FY2017-18 was below the funding levels experienced pre-recession. The outlook for FY2018-19 shows no change in City funding (to the level funding experienced in FY2017-18). A new state biennium budget began for FY2018-19 providing a slight increase in direct educational funding. With proposed changes in the federal government for grant programs (i.e. Title II, SPED), the school system could face a slight increase in federal funding. As aiding in long-term financial planning, the annual budget is utilized to reflect PPS' diverse plans by assigning resources to meet the goals of its Five Year strategic plan. One of the five goals attributed to finance is ensuring fiscal stability through sound fiscal practices and ensuring the facilities are of the highest quality. As part of the budget development process for fiscal year 2017-2018, the Superintendent provided an online survey to foster the community and personnel in providing recommendations in the budget development process. In preparation of facing a potential budget deficit, various initiatives were scaled back and some school improvements halted. Aiming to improve academics and school safety as well as retain and attract dedicated personnel, the PPS approved budget for fiscal year 2017-2018 included adding a consumer-driven high deductible plan decreasing projected health benefit costs. Beyond FY2018-19, the school division expects an overall decrease in revenue. However, PPS is committed to utilizing the best financial practices and seeking innovating methods in providing quality education to the students within the City of Portsmouth.

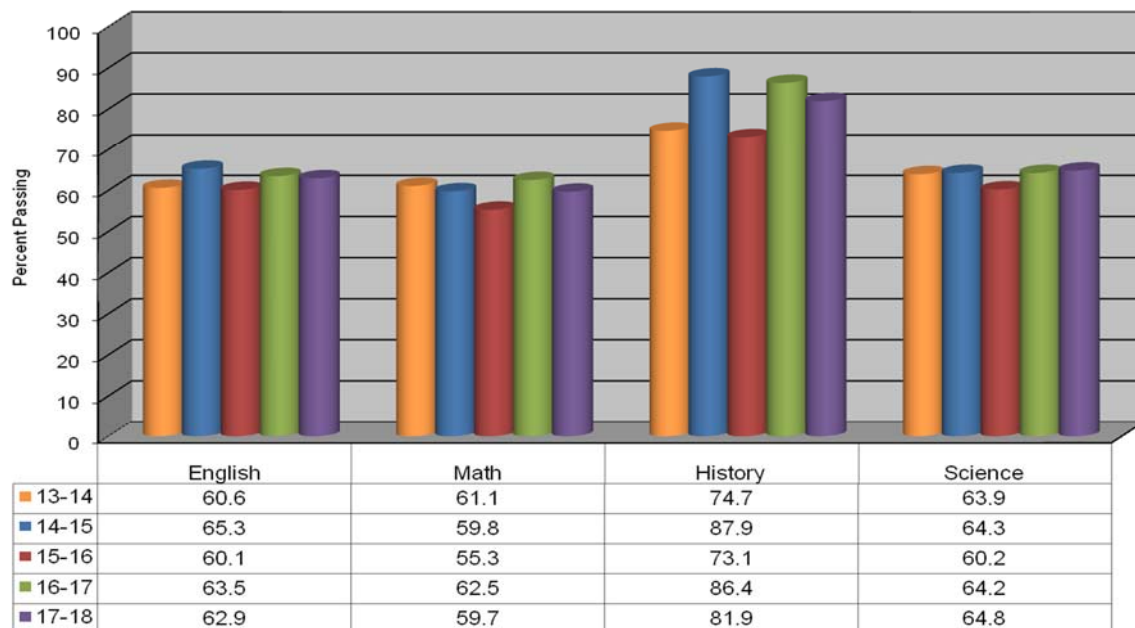
SOL Passing Rates Comparison

Division Summary Portsmouth Public Schools Standards of Learning Assessments

Elementary School Division Summary

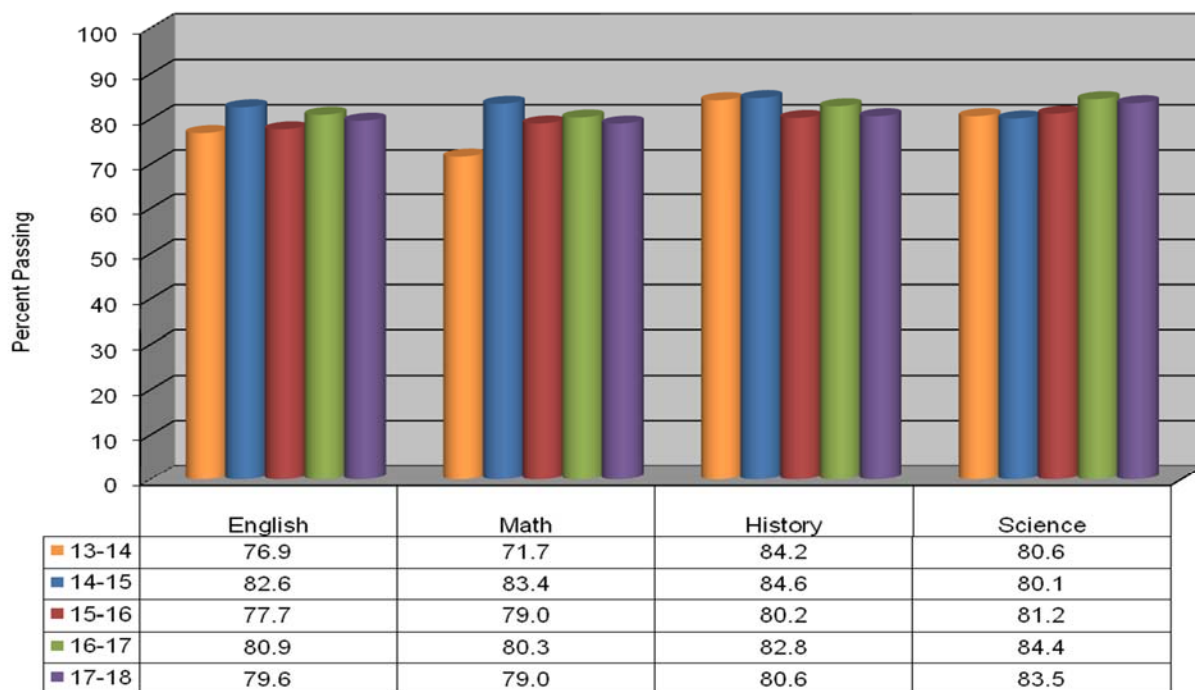


Middle School Division Summary

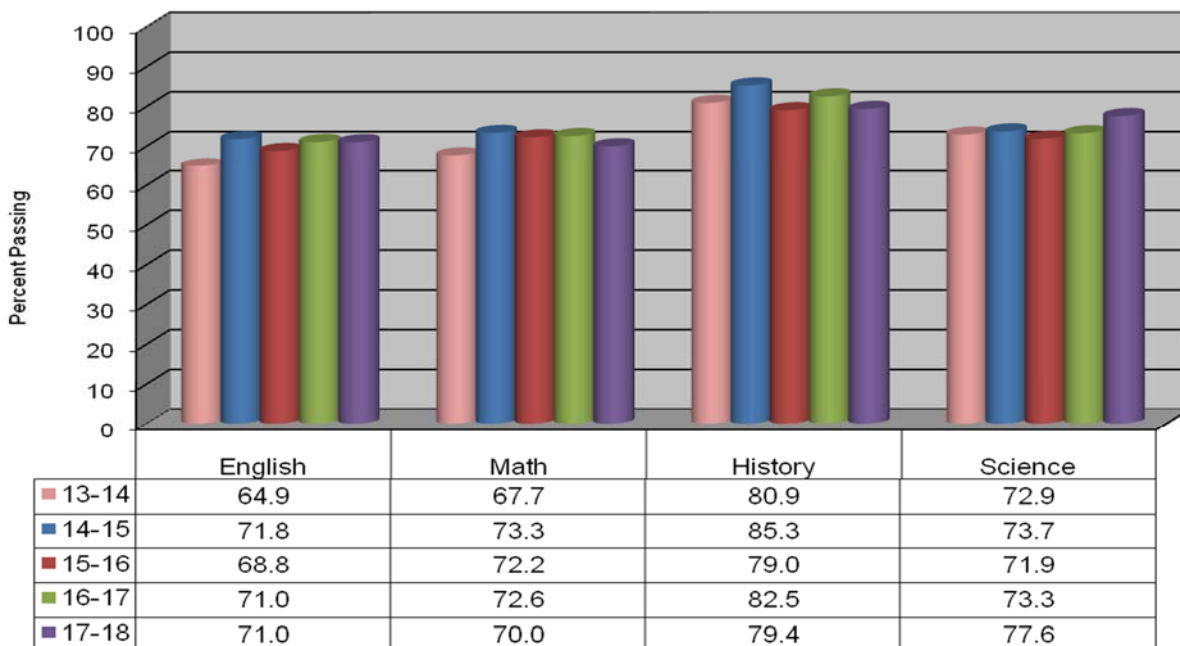


**Elementary Schools Summary
Portsmouth Public Schools
Standards of Learning Assessments**

High School Division Summary



Division Summary



Major Initiatives and Recognition

Special Education

The Special Education and Related Services Department welcomed three new employees consisting of a one supervisor two team specialists. During the 2017-18 school year, the special education program served over 1,645 students each with a current Individualized Educational Plan using 147 teachers. Two hundred twenty-three (223) students were sent for eligibility to determine if they qualified for special education services and 77.6% of them were found eligible. All kindergarten students, new to the VRS, were screened for potential speech delays, as well as screening their sensory/hearing levels.

Three (3) special education high school students participated in the Postsecondary Education Rehabilitation Transition (PERT) Summer Program, a highly effective school-to-work initiative supported by the Virginia Department of Education (VDOE) and administered through Virginia (VA) Department of Aging and Rehabilitative Services at the Wilson Workforce and Rehabilitation Center (WWRC) campus in Fishersville, VA.

Language! Live, a web-based program expanded in 2017-18 and continued to address tier 2 and tier 3 students in 10 of our schools. 105 special education students participated in this program for the entire 2017-2018 school year. Eighty-nine (89) of these students made very significant gains. The other 16 made gains as well. This program continues to expand in PPS schools to bridge the gap in literacy performance for all students with disabilities.

The Reverse Inclusion program provided free, half day preschool sessions and meals to 40 general education three-year-olds, who served as role models to two and three-year-old children with disabilities served in the early childhood special education classrooms.

On June 1, 2018, PPS hosted its third annual Special Olympics event. This year, we expanded to cover all pre-school and K-6 students in a self-contained class and their buddy. In addition, there were many volunteers and community partners helping with the event, to include representatives from Portsmouth Police Department, Portsmouth Sheriff's Department, and high school students from Wilson High School Early Childhood and ROTC programs. Wilson High School offered us the use of their track this year with our growth. This venue made the expansion very conducive to great fun for all. Portsmouth Schools Food Services and Operations helped set up and take down audio equipment and deliver coolers and ice.

This year, Young Audiences of VA teamed with our autism program and provided a series of movement workshops for our Autistic students, their parents, and staff with a very successful culminating event held at Simonsdale Elementary. Because of this partnership, Judith Fagan and Tammy King and our PART (Portsmouth Autism Resource Team) received the Sunburst Educator of the Year Award from Young Audiences.

Science – Technology – Engineering – Mathematics (STEM) Pathways

Elementary

STARBASE Victory, the elementary STEM Center, supported a new-to-the-Division Grade 4 Outreach to the 13 elementary schools. STEM Teachers delivered instruction alongside the regular classroom teachers to work interactive stations on such topics as Moon Phases and Electricity. Approximately 1145 fourth grade students were served per Outreach experience.

STARBASE Teachers and Division Science Specialists participated in 12 hours of professional development in Computational Thinking delivered by the Center for Educational Partnerships at Old Dominion University and in 18 hours of Student Maker professional development with “littleBits” and PBL (Project-Based Learning) delivered by Jorge Valenzuela, Buck Institute for Education National Faculty and National Teacher Effectiveness Coach (ISTE).

Elementary CHROME (Cooperating Hampton Roads Organization for Minorities in Engineering) Clubs participated in the Waste Wise competition using LEGO WeDo robots. Seven elementary schools engaged students in a year-long investigation of the purposeful use of simple and complex machines in their efforts to be waste wise. The competition included a showcase of constructed models of machines for use in recycling, reusing, and/or repurposing. The students designed and created the models, as well as programmed them to execute the desired robotic functions.

Middle

eCYBERMISSION is a web-based science, technology, engineering, and mathematics (STEM) competition for students in grades six through nine that promotes self-discovery and enables all students to recognize the real-life applications of STEM. Teams of three or four students are instructed to ask questions (for science) or define problems (for engineering), and then construct explanations (for science) or design solutions (for engineering) based on identified problems in their community. PPS was awarded \$1,000.00 in support of student research.

PPS had three (3) students qualify and compete for the STATE eCYBERMISSION competition. This competition is a web-based STEM competition for students in grades 6-9. After learning about climate change and researching its impact on our local communities, teams proposed a solution to a real problem in our community. They researched, planned, experimented, collected data, and reported on their results in an online environment.

High

The PPS FIRST (FOR INSPIRATION AND RECOGNITION IN SCIENCE AND TECHNOLOGY) Robotics Team hosted the FIRST Chesapeake Regional Competition for the third consecutive year. This event is sponsored by Newport News Shipbuilding. Thirty-seven teams, including the PPS Royal Robotics #3359, competed in this year's POWER UP challenge over the weekend of March 16-18, 2018. The Royal Robotics Team was competed at the World Championships in Detroit, MI in April 2018.

The Virginia Junior Science and Humanities Symposium at James Madison University is designed to challenge and engage students (Grades 9-12) in science, technology, engineering or mathematics (STEM). Individual students compete for scholarships and recognition by presenting the results of their original research efforts before a panel of judges and an audience of their peers. Nine (9) PPS STEM Experimental Design course students presented on March 16, 2018.

Division

A NOAA Environmental Literacy Grant to the Elizabeth River Project afforded (12) students from Waters Middle School and (12) Wilson High School to become YOUTH RESILIENT LEADERS to assist adults in a call to action regarding preparation for rising seas and the related challenges in Tidewater Virginia.

Approximately 936 people were in attendance at The 2018 Tenth Annual STEM EXPO was held at Wilson High School on March 10, 2018. This number included 515 students, 252 parents/guardians, 90 PPS employees, 15 special guests, and 64 exhibitors. Nineteen PPS schools were represented. Virtual Reality was new to the mix of interactive sessions this year as participants experienced zspace and Google Expeditions. In addition, racing drones made their debut, along with the littleBitsR2D2 droids, and Sphero robotics challenges using quadrant planes. New to the Exhibits were the Augmented Reality Sandbox, the VA Port Authority, and the VA Space Grant Consortium.

JASON LEARNING continues to be an extraordinary resource in the science instructional program. Fifty teachers received professional development and are considered trainer-ready for their schools. JASON LEARNING is an online curriculum resource that allows PPS teachers and students to experience JASON'S missions and labs. PPS sponsored one student ARGONAUT and one teacher ARGONAUT to Acadia National Park in Maine. PPS also sponsored a visiting scientist and is a pilot site for the new World of Waves curriculum.

A SCHEV (State Council for Higher Education in VA) grant partnership with Hampton University resulted in the graduate course, Biodiversity in the Critical Zone. Twenty-five middle and high school teachers completed the course.

Over four hundred (400) students attended free summer camps learning coding, droning and cybersecurity.

Career and Technical Education/First College/Early College/Dual Enrollment

The Career and Technical Education (CTE) advisory board continues to help schools and teachers improve the quality of instruction in all CTE programs that prepare students with workplace skills. The advisory board consists of a group of community members selected to ensure students receive relevant instructional programs that will remain in touch with the needs of local businesses and job industry.

CTE programs are based on current, real occupational skills that facilitate the transition of students from school to work. The advisory board assists in making the best use of resources by being responsive to social, economic and cultural changes. The board continues to ensure that its students are enrolled in one of the CTE programs and receives a rigorous and relevant education.

Career and Technical Education (CTE) programs and co-curricular activities provide the skills that address the needs of high growth industries. The Portsmouth Public Schools/Tidewater Community College Partnership has provided 2,147 Dual Enrollment students an opportunity to take college level courses in high school. Over the years, CTE has evolved to match the needs of the changing economy by offering 16 career clusters and 79 career pathways. CTE programs, which consist of, but are not limited to, AutoCAD, Childcare, Culinary, Certified Nursing Assistant, Horticulture, Hotel Marketing, Pharmacy, Cosmetology, Sports Medicine and Marine Welding continue to be an asset in preparing students for success. These programs motivate students by connecting students to the real world, and as a result, students are less likely to drop out.

During FY2017-18, CTE offered the following industry certifications: Greenhouse Operations, Food Handling, CPR, Registered Pesticide Technician, WISE, Microsoft Specialists, Customer Service/Sales, Workplace Readiness, Hospitality Management, and Adobe, with a total of 1,226 certifications earned.

The First College Program alone has grown tremendously during the decade, completing its thirteenth year with 211 students. Portsmouth Public Schools has expanded the Dual Enrollment career pathways enrolling 11 students in Early College and 78 in Career and Technical Education pathway.

One (1) I. C. Norcom High School culinary student received a \$90K national full-tuition scholarship to Arts institute from C-CAP.

Social Studies

In November, the Office of Social Studies held a mock election for the Governor, Lt. Governor, and Attorney General. The mock election gave our students an opportunity to demonstrate civic responsibility.

The students of Portsmouth Public Schools collected \$811.35 for Pennies for Peace. This service project allowed our students to learn lessons about cultural understanding while helping to provide educational opportunities for children in Central Asia.

The Office of Social Studies partnered with the Foodbank of Southeastern Virginia for a district wide food drive. PPS donated over 400 pounds of food which provided 300 plus meals for local families.

Fourth grade students participated in the 15th Annual History Bowl at Woodrow Wilson High School. Teams demonstrated knowledge of the Virginia Studies curriculum in a history quiz competition. Churchland Elementary School won the event for the second year in a row.

Flocabulary, a web based program designed to increase student engagement and achievement, was used across the district/disciplines to view 35,000 educational videos.

The Office of Social Studies completed a successful trial of Discovery Education Techbooks. They provided select 6th grade teacher with professional development and in class support. The Techbooks provided additional primary and secondary resources to allow student to explore inquiry and analysis.

Mathematics

A total of 7,559 mathematics students in elementary, middle and high school participated in the Hour of Code in December. During math classes, students coded programs to create angles, moved characters in certain directions, and created games. High school students created programs on the graphing calculators for math formulas.

Members of the Mathematics Team served on the Virginia Department of Education SOL Content Review Committees.

In December and March, Middle School Math Madness was held. Through a Portsmouth Schools Foundations (PSF) Grant, awarded to one of the mathematics program specialists several years ago, three Wii Games were purchased and used to gather data as every seventh grade student in each middle school participated in math madness. Students rotated through two stations during their math class. Students gathered data through Wii Bowling and Wii Basketball and worked with fractions, decimals, and percentages. Additionally, students worked with the Gizmos program to model mathematical concepts.

Reading and English

Our students are becoming proficient readers through the use of Daily 5, a literacy framework that instills behaviors of independence, creates a classroom of highly engaged readers, writers, learners and provides teachers with the time and structure to meet diverse student needs. Teachers and interventionists are using data to target and meet the needs of each student.

Teachers in grades Pre-K-2 participated in PALS I and II training. This engaging professional development training was “standing room only” as so many staff were excited to hear Ms. Beth Estill, a guru on using PALS data for small group instruction.

District, school and community partners participated in Read for the Record Day! Read for the Record is an early childhood education initiative where millions of people across the country read the same book on the same day to promote literacy. This year the book selected was Quackers!

A Churchland Middle School student competed in the regional Scripps Spelling Bee hosted by the Virginia Pilot and hosted at the WHRO studios.

Graduation Results

Of the 903 members of the Class of 2018, 399 received Advanced Studies Diplomas and 315 graduated with Honors. The Class of 2018 earned 4,822 college credits. Merit-based scholarships were awarded in the amount of \$21,537,459.

Financial Information

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

The School Board management maintains budgetary controls to ensure compliance with the annual appropriated budget adopted by the School Board and City Council. The level of budgetary control is established at the individual fund level. The school division maintains an encumbrance accounting system as a method of accomplishing budgetary control. Outstanding encumbrances or open purchase orders at the end of the fiscal year are a use of the current fiscal year budget and are carried forward to the next fiscal year after re-appropriation from City Council. The School Board has adopted budgets for the following funds - General, Textbooks, Grants, Food Services, and Risk Management. The School Board and the City Council adopt the School Operating Budget each May, for the upcoming fiscal year.

The School Board is "fully insured" for auto liability and for general liability through the Virginia Association of Counties Group Self Insurance Risk Pool (VACoRP). For Workers Compensation, the School Board carries an excess policy, with a self-insured retention of \$500,000. Workers Compensation claims are handled by VACoRP, a third-party claims administrator. For health insurance, the School Board is self-insured and utilizes Optima Health as the third party claims administrator. The School Board carries excess loss insurance with a specific stop loss limit of \$300,000 and aggregate stop loss coverage at 125% of expected medical claims during a single policy year.

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

Awards

Certificate of Excellence

The Association of School Business Officials (ASBO) awarded the School Board its Certificate of Excellence in Financial Reporting for the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2017. The Certificate of Excellence is valid for a period of one year only. This is the twelfth consecutive year that PPS has achieved this prestigious award.

The Financial Reporting Award was designed by ASBO to enable school business officials to achieve a high standard of financial reporting. The award is only conferred to school systems that have met or exceeded the standards of the program. Since its inception in 1972, the program has gained the distinction of being a prestigious national award recognized by accounting professionals, underwriters, securities analysts, bond rating agencies, state and federal agencies, and education, teacher, and citizen groups.

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

Certificate of Achievement

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to PPS for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2017. This is the eleventh consecutive year that PPS has achieved this prestigious award. In order to be awarded a Certificate of Achievement, the School Board must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

Meritorious Budget Award for Excellence

ASBO awarded the Meritorious Budget Award for Excellence in the preparation and issuance of the School Board's budget for FY2018-19. The budget is judged on its conformity to the principles and standards of ASBO's budget award program. The program promotes and recognizes excellence in school budget presentation and enhances the school business officials' skills in developing, analyzing and presenting a school system budget.

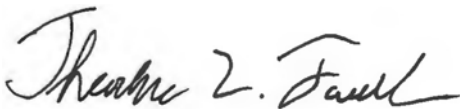
Acknowledgements

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

Respectfully submitted,



Elie Bracy, III, Ed.D.
Division Superintendent



Theodore L. Faulk, CPA
Chief Financial Officer

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
COMPONENT UNIT OF THE CITY OF PORTSMOUTH, VIRGINIA
June 30, 2018

Members of the School Board and School Board Officials

School Board

Mr. Claude C. ParentChairman
Mrs. Costella B. Williams Vice Chairwoman
Ms. Angelia N. Allen
Ms. Lakeesha S. “Klu” Atkinson
Rev. Joseph A. Fleming
Mrs. Sarah D. Hinds
Mr. Ted J. Lamb
Rev. Cardell C. Patillo
Dr. Ingrid P. Whitaker

Officials

Elie Bracy, III, Ed.D..... Division Superintendent
Dr. Anita Wynn.....Assistant Superintendent for Curriculum and Instruction
Ms. Brittany T. Dortch, CPA.....Assistant Superintendent of Budget and Planning/Chief Financial Officer
Mr. Scott A. Ziegler Director of Human Resources/Director of Operations
Mrs. Kathy L. Chambliss Clerk of the School Board
Mrs. Brenda StewardDeputy Clerk of the School Board
Mr. James L. Williams (end date:12/31/2017)..... City Treasurer
Mr. Paige D. Cherry (begin date: 01/01/2018)..... City Treasurer



PORTSMOUTH CITY SCHOOL BOARD



Mr. Claude C. Parent
School Board Chairman
Member of the School Board since 2010
Current Term expires December 31, 2018
Minister of Church Administration, Retired Educator

Mrs. Costella B. Williams
School Board Vice-Chairwoman
Member of the School Board since 2008
Current Term expires December 31, 2020
Retired Supervisor and Community Volunteer



Ms. Angelia N. Allen
Member since 2016
Current Term expires
December 31, 2020
Healthcare Professional



Ms. Lakeesha S. "Klu" Atkinson
Member since 2016
Current Term expires
December 31, 2020



Rev. Joseph A. Fleming
Member since July 2012
Current Term expires
December 31, 2018
Senior Pastor,
Former Teacher



Mrs. Sarah D. Hinds
Member since 2014
Current Term expires
December 31, 2020
Career Educator



Mr. Ted J. Lamb
Member since 2013
Current Term expires
December 31, 2020
Career Educator



Rev. Cardell C. Patillo
Member since 2015
Current Term expires
December 31, 2018
Youth Pastor



Dr. Ingrid P. Whitaker
Member since 2015
Current Term expires
December 31, 2018
Associate Professor

The mission of the Portsmouth Public Schools is to engage all students in learning that will foster academic excellence and responsible citizenship.

Mission and Vision

To accomplish this mission, the School Board approved a 2016-2022 Strategic Plan, in August 2016, with five goals which constituted the Board's goals for the division. The full text is available at <http://ppsk12.us/> (Click the "About PPS" tab; click "Superintendent" and click the "[Strategic Plan](#)" link on the bottom of page). The plan's five visions are summarized below.

1. *By 2022, the Portsmouth School Board will provide educational opportunities to assure all students achieve high academic growth.* To complete this goal, the School Board will increase the percentage of students graduating from high school to be equal to or greater than the state average in all gap groups; adopt and implement division-wide instructional practices that support rigor and student engagement across the curriculum; and continue to leverage technology and identify other research-based solutions to integrate personalized learning practices across the curriculum.

2. *By 2022, Portsmouth Public Schools will have strengthened practices and policies focused on social-emotional development.* This will occur by adopting and effectively implementing a research-based positive behavior program at each school; identify the practices that will increase student's ability to work cooperatively with others, resolve conflicts, and respect other cultures and beliefs; and students will have the ability to filter and use information and technology wisely.

3. *By 2022, Portsmouth Public Schools will recruit, retain, and develop highly-qualified personnel.* The Board envisions that there will be a 50% increase in the number of school division collaborative partnerships with higher education institutions and/or alternative teacher education organizations. Provisions for effective, researched-based and differentiated professional learning opportunities tied directly to the district strategic plan and aligned school improvement plans will be instituted. As a continuum, support will be given for new teachers and administrators via a comprehensive plan. To accomplish this goal, virtual strategies, coaching and mentoring programs are being developed.

4. *By 2022, Portsmouth Public Schools will strengthen the perception of school, family, and community involvement.* Efforts will be made in partnering with families to strengthen understanding of academic standards, student progress, social-emotional development support and the importance of teachers and families working together. To assist in fulfilling this goal, Portsmouth Public Schools will have ongoing collaboration opportunities with businesses, military, faith-based, recreational, civic, and city organizations to benefit students and families.

5. *By 2022, all Portsmouth Public Schools will ensure fiscal stability through sound financial practices and ensure high-quality school facilities.* Sound financial management practices, stability, and efficiency will be maintained by developing, monitoring, and evaluating our annual finances and debt plan. Effective and efficient processes will be used as a guide for optimum resource availability with regards to supporting the success of all students and staff. Monitoring equipment and infrastructure to support technology integration is a priority. All school facilities will be safe and inviting places for students, families, staff, and the community.

Since Portsmouth Public Schools is passionate about education and the success of all its students, the division develops its budget to accomplish the above visions and supports implementation of the Five-Year Strategic Plan. Most of the costs associated with achieving the goals are accommodated within the budget for the day-to-day operation of the various departments. Many of the action steps within each goal can be accomplished through continued focus of improvement in process and practices. With possibility of decreasing revenue, it may become challenging to fund some of the objectives; however, the division is committed to make the best use of resources to meet these goals.



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

City of Portsmouth, Virginia School Board

**for its Comprehensive Annual Financial Report (CAFR)
for the Fiscal Year Ended June 30, 2017.**

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



A handwritten signature in black ink, reading 'Charles E. Peterson, Jr.', written over a horizontal line.

Charles E. Peterson, Jr., SFO, RSBA, MBA
President

A handwritten signature in black ink, reading 'John D. Musso', written over a horizontal line.

John D. Musso, CAE
Executive Director



Government Finance Officers Association

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

Presented to

**City of Portsmouth
Virginia School Board**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

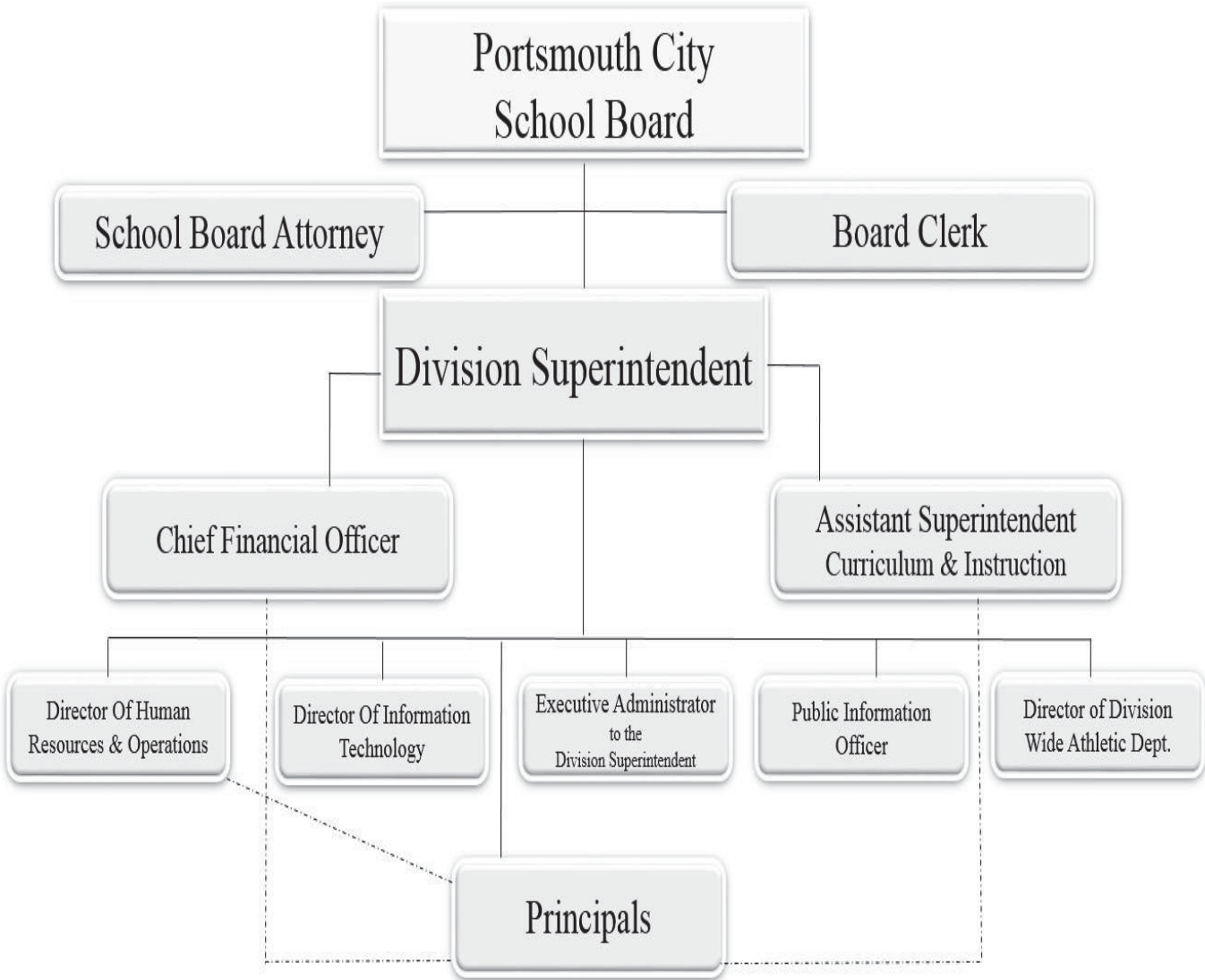
June 30, 2017

Christopher P. Morrell

Executive Director/CEO

Division Organizational Chart

2017-2018



FINANCIAL SECTION

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Report of Independent Auditor

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Portsmouth, Virginia School Board (the "School Board"), a component unit of the City of Portsmouth, Virginia, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audits of Counties, Cities and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School Board as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 10 to the financial statements, the School Board adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective July 1, 2017. Our opinions are not modified with respect to this matter.

Other Matters***Required Supplementary Information***

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

Other Information

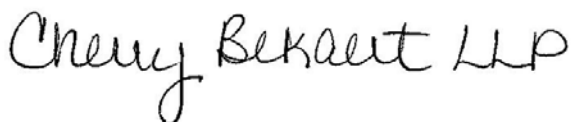
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Board's basic financial statements. The introductory section, other supplementary information, as listed in the table of contents, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2018, on our consideration of the School Board of the City of Portsmouth, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the School Board's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School Board's internal control over financial reporting and compliance.



Virginia Beach, Virginia
December 3, 2018

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2018

This section of the City of Portsmouth, Virginia School Board's ("School Board" or "PPS") annual financial report presents our discussion and analysis of the School Board's financial performance during the fiscal year (FY) ended June 30, 2018. Please read it in conjunction with the financial statements, which follow this section.

Financial Highlights for Fiscal Year Ended June 30, 2018 (FY2018)

PPS' financial status, as reflected in total net position, decreased 3.7% to \$(98.5) million.

On the Statement of Net Position – Governmental Activities, total liabilities at June 30, 2018 totaled \$179.0 million. The bulk of the current liabilities of \$14.5 million are related to accrued payroll and funds due to local government, while the majority of the noncurrent liabilities is related to the net pension liability and Other Postemployment Benefits liability.

On the Statement of Activities, total net position decreased from \$(94.9) million at June 30, 2017 to \$(98.5) million at June 30, 2018.

At the governmental fund level, all funds, except for the Food Service Fund and School Textbook Fund, experienced a decrease in fund balance.

Total intergovernmental revenue was \$166.9 million. Of that, \$50.7 million was from the City of Portsmouth ("City"), \$95.9 million was from state aid from the Commonwealth of Virginia, and \$20.3 million was from the federal government. Interest and other charges were \$3.6 million.

Overview of the Financial Statements

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

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

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

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

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

	Government-Wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire school system	Activities of the school system that are not proprietary or fiduciary, such as General, Text Books, Grants, Food Services, and Capital Projects Funds	Activities the school system operates similar to private businesses, such as the Risk Management Fund	Instances in which the school system is the trustee or agent for resources outside of the government, such as the OPEB Trust and Student Activities Fund
Required financial statements	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures, and Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Revenues, Expenses, and Changes in Fund Net Position • Statement of Cash Flows 	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Changes in Net Position (Fiduciary Fund only)
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All receipts and disbursements during year, when cash is received or paid, rather than when an obligation is incurred

Government-Wide Statements

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

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

Over time, increases or decreases in the School Board's net position are an indicator of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the School Board, you need to consider additional non-financial factors such as changes in the student population and the condition of school properties.

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

Fund Financial Statements

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

The School Board has three types of funds:

- *Governmental Funds* – Most of the School Board's basic activities are included in governmental funds, which focus on: (1) how cash and other financial assets can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps a reader determine whether there are more or fewer financial resources that can be spent in the near-term future to finance the School Board's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, this additional information is provided in reconciliations after the governmental funds statements to explain the relationship (or differences) between them.
- *Proprietary Funds* – Services for which the School Board charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information. The School Board uses two internal service funds. Internal service funds are used for goods or services provided by a central service department or agency to other departments, agencies or to other unrelated governmental units, usually on a cost reimbursement basis. The Risk Management and Insurance Fund accounts for the payment of claims and legal fees, if necessary, on public liability claims arising from the operations of the School Board.
- *Fiduciary Funds* – The School Board maintains an agency fund which is custodial in nature (assets equal liabilities) and does not involve measurements of the results of operations. The School Board's agency fund is the Student Activities Fund, which accounts for the student activity monies maintained on behalf of the students by the school principals at each school. The OPEB trust fund is used to report resources that are required to be held in a trust for members and beneficiaries of defined benefit pension plans, defined contribution plans, other postemployment benefit plans, or employee benefit plans.

Financial Analysis of the School Board as a Whole

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

Net Position

June 30,
(in thousands of dollars)

	2018	2017*
Current and other assets	\$ 25,681	\$ 29,290
Capital assets	61,254	64,239
Total assets	<u>86,935</u>	<u>93,529</u>
Deferred outflows related to pensions	15,991	21,586
Deferred outflows related to other postemployment benefits	5,094	1,357
Total deferred outflows of resources	<u>21,085</u>	<u>22,943</u>
Other liabilities	17,065	13,629
Long-term debt outstanding	161,928	188,222
Total liabilities	<u>178,993</u>	<u>201,851</u>
Deferred inflows related to pensions	21,436	9,570
Deferred inflows related to other postemployment benefits	6,059	-
Total deferred inflows of resources	<u>27,495</u>	<u>9,570</u>
Net position:		
Net investment in capital assets	61,254	64,239
Restricted	5,961	9,698
Unrestricted	(165,683)	(168,886)
Total net position	<u>\$ (98,468)</u>	<u>\$ (94,949)</u>

* Restated

The School Board's net position, as of June 30, 2018, was \$(98.5) million, which was composed of \$(165.7) million in unrestricted net position, \$6.0 million in restricted for other purposes, and \$61.2 million net investment in capital assets. Capital assets of the School Board, for which the City of Portsmouth has incurred related debt, are reflected in the City of Portsmouth's financial statements. All School Board capital assets, which are not secured by debt, are reported in the School Board's financial statements. The largest drivers for the deficit is due to reporting the OPEB and net pension liability.

The net pension liability for Portsmouth Public Schools as of June 30, 2018 is \$131.8 million. The net other postemployment liability for Portsmouth Public Schools as of June 30, 2018 is \$24.3 million.

Readers desiring more information on the School Board's pension plans are referred to Note 5 in the basic financial statements. Readers desiring more information on the School Board's other postemployment benefit plans are referred to Note 8 in the basic financial statements.

Changes in Net Position

The breakdown of program revenue is as follows: 91% comes from operating contributions, while the remaining program revenue is from charges for services and capital grants and contributions. In the prior year, operating contributions represented 94% of program revenue. Total general revenues for FY2018 were \$128.5 million, consisting primarily of grants and contributions not restricted to specific programs. City appropriations make up approximately 39% of these revenues. The majority of the rest of the grants and contributions not restricted to specific programs are derived from State and Federal funds.

Years Ended June 30,
(in thousands of dollars)

	<u>2018</u>	<u>2017*</u>
Revenues:		
Program revenues:		
Charges for services	\$ 2,375	\$ 2,137
Operating grants and contributions	34,118	30,670
Capital grants and contributions	1,030	984
General revenues:		
Interest and investment earnings	76	10
Grants and contributions not restricted	127,289	132,620
Miscellaneous	1,151	1,246
Total revenues	<u>166,039</u>	<u>167,667</u>
Program expenses:		
Instruction	120,926	124,549
Administration, attendance, and health services	8,814	9,109
Pupil transportation	7,292	7,314
Operations and maintenance	15,646	15,224
Information technology	8,814	5,711
Food services	8,066	8,236
Interest on long-term debt	-	30
Total program expenses	<u>169,558</u>	<u>170,173</u>
Change in net position	(3,519)	(2,506)
Beginning net position, as restated	<u>(94,949)</u>	<u>(92,443)</u>
Ending net position	<u>\$ (98,468)</u>	<u>\$ (94,949)</u>

* Restated

Charges for services increased by \$.2 million from the previous year. This increase is primarily due to the revenue generated from the Medicaid program of the state of Virginia and revenue generated from student transportation. Grants and contributions not restricted, in the general revenues section, decreased by \$5.3 million over the previous fiscal year. This decrease is primarily due to a reversion of risk management reserves to the City of Portsmouth.

Total program expenses decreased by \$.6 million from the previous fiscal year.

Financial Analysis of the School Board's Funds

Governmental Funds

The School Board's combined fund balance for the governmental funds was \$6.2 million as of June 30, 2018. The current year compared to last year is as follows:

Fund Balance Comparison

June 30,

(in thousands of dollars)

	2018	2017
Fund:		
General	\$ 789	\$ 2,678
Grants	739	912
Food services	1,070	853
Textbook	3,641	2,560
Total combined fund balance	\$ 6,239	\$ 7,003

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

General Fund

End of the year assigned fund balance decreased from \$1.8 million to \$.6 million from the previous year while the unassigned fund balance decreased from \$.6 million to \$.0 million. The decrease in the assigned fund balance is primarily due to summer facility projects, which included interior and exterior painting of schools, gym floor repair and field repair, and athletic equipment. The majority of change in the unassigned fund balance between FY2018 and FY2017 was due a \$.6 million transfer to the City.

Grants Fund

During FY2018, the School Board's Grants Fund (a multi-year fund) received \$18.6 million in revenues and \$1.2 million required local match from the General Fund for total funding of \$19.8 million. Total grant expenditures totaled \$19.9 million. The deficiency of revenues over expenditures (including local match requirements) caused fund balance to decrease by approximately \$172 thousand from FY2017. Spending within the Grants Fund were fairly consistent with FY 2017.

Food Services Fund

During FY2018, the School Board's Food Services Fund received \$8.5 million in revenues and transfers in and incurred \$8.3 million in expenditures. The excess of revenues, (excluding transfers) over expenditures caused fund balance to increase by \$.2 million from FY2017. Fund balance increase is due to greater federal funding received due to heightened participation in breakfast and lunch program.

Textbook Fund

During FY2018, the School Board's Textbook Fund received \$1.1 million in revenues and \$.4 million in required local match from the General Fund for total funding of \$1.5 million. Total expenditures incurred were \$.4 million. The excess of revenues over expenditures caused fund balance to increase by \$1.1 million from FY2017. This was primarily due to fewer textbook adoptions in FY2018.

Internal Service Funds

Risk Management Fund

The Risk Management Fund reserves decreased from \$5.3 million in FY2017 to \$(.2) million in FY2018. The decrease in reserves is directly related to the transfer of 2018 fund balance reserve to the City.

General Fund Budgetary Highlights

Throughout FY2018, the School Board monitors its total budget; however, the School Board delegates authority, to the Division Superintendent, to move budget amounts, within each category, to meet the changing needs of the School Board. Budget amounts, which need to be moved between categories, must receive School Board and City Council approval prior to movement. The School Board's administration manages actual spending of revenue received.

General Fund
Fiscal Year 2018
(in thousands of dollars)

	Original Budget	Amended Budget	Actual (Budgetary Basis)	Original Budget Versus Amended Budget Variance	Amended Budget Versus Actual Variance
Revenues:					
Intergovernmental	\$ 142,596	\$ 142,688	\$ 141,650	0.1%	-0.7%
Other	1,707	1,707	2,319	0.0%	35.9%
Total	144,303	144,395	143,969	0.1%	-0.3%
Expenditures and transfers:					
Instruction	106,447	105,968	104,832	-0.4%	-1.1%
Administration, attendance, and health	8,619	8,029	7,628	-6.8%	-5.0%
Pupil transportation	6,433	6,732	6,320	4.6%	-6.1%
Operations and maintenance	14,145	14,814	14,450	4.7%	-2.5%
Information technology	5,572	5,840	5,813	4.8%	-0.5%
Debt service	-	-	-	0.0%	0.0%
Transfers in (out)	(3,087)	(3,012)	(4,590)	-2.4%	52.4%
Total	144,303	144,395	143,633	0.1%	-0.5%
Change in fund balance	\$ -	\$ -	\$ 336	100.0%	100.0%

Actual intergovernmental revenues, as compared to the amended budget, decreased by .7% or \$1 million. This decrease is primarily due to a decrease in state funding as a result of lower Average Daily Membership than what was anticipated. Actual other revenues, as compared to the amended budget revenues, increased by 35% or \$.6 million. This increase is primarily due to Medicaid reimbursements.

Actual expenditures and transfers, as compared to the amended budget, decreased .5% or \$.8 million. The decrease in expenditures is related to the transfer of funds to the City's risk management reserve.

Capital Assets and Debt Administration Capital Assets

As of June 30, 2018, the School Board had \$61.2 million in capital assets, net of depreciation. Most of the assets are in school buildings and land. Of the equipment, most of these assets are the school bus fleet and maintenance vehicles.

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

	2018	2017
Land	\$ 6,086	\$ 6,086
Buildings and improvements	45,784	48,522
Equipment	9,384	9,631
Total	<u>\$ 61,254</u>	<u>\$ 64,239</u>

Buildings and Improvements decreased due to the FY2018 depreciation on existing building assets. Equipment increased due to the net of \$2.9 million of new assets, equipment disposals, and FY2018 depreciation on new and existing equipment.

Readers desiring more information on capital assets are referred to Note 3 in the basic financial statements.

Implementation of New GASB Standard

Beginning in fiscal year 2018, the School Board is required to implement the Governmental Accounting Standards Board (GASB) Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. OPEB includes postemployment healthcare benefits such as medical, dental, and vision, whether the benefit is provided separate from or through a pension plan. GASB 75 parallels the standards for accounting and financial reporting for pensions (GASB 68). GASB 75 applies to state and local government OPEB plans administered through a trust or equivalent arrangement, defined benefit plans and defined contribution plans. This pronouncement is for plan financial reporting and requires OPEB plans administered, through a trust, to present the OPEB liability, deferred inflows/outflows of resources, OPEB expense and for cost-sharing multiple-employer plans, the employer proportionate share. Its objective is to provide a more accurate picture of true costs associated with other postemployment benefits promised to retirees by taking an approach that will reflect the extent of the future cost for postemployment benefits.

Economic Factors

The unemployment rate for Portsmouth is well above the Metropolitan Statistical Area (MSA), and the U.S. rates. In June 2018, the unemployment rate was 4.3% for Portsmouth, 3.3% for the state, and 4.2% for the U.S. Portsmouth was ranked as the 10th highest unemployment rate in the state of Virginia.

Portsmouth had a per capita income of \$39,170, in 2016 (most recent information available), which was 26% less than the per capita income for the state at \$52,957, and 20% less than the per capita income for the nation at \$49,246 (U.S. Bureau of Economic Analysis). Portsmouth's median household income, in 2016, increased 3% to \$47,050. This is 29% less than the state's median household income at \$66,149, and is 20% less than the national median household income at \$58,820.

Factors Influencing Future Budgets

- Employee healthcare costs
- Employee postemployment benefits
- Inadequate state and federal aid
- Unfunded state and federal mandates
- Competitive salaries and pay raises
- Global and national economic conditions
- Fluctuations in student enrollment

Contacting the School Board's Financial Management

This financial report is designed to provide citizens, taxpayers, parents, guardians, and creditors with a general overview of the School Board's finances, and to demonstrate the School Board's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Portsmouth, Virginia, School Board, Superintendent's Office, 801 Crawford Street, 3rd Floor, Portsmouth, Virginia 23704.

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

Exhibit I

STATEMENT OF NET POSITION - GOVERNMENTAL ACTIVITIES

June 30, 2018

ASSETS	
Current assets	
Cash and cash equivalents	\$ 20,162,457
Due from the federal government	2,727,744
Due from the Commonwealth of Virginia	1,643,475
Due from City of Portsmouth	75,221
Receivables - net	829,864
Inventory	242,869
Total current assets	<u>25,681,630</u>
Noncurrent assets	
Capital assets not depreciated	6,085,707
Other capital assets - net	55,168,058
Total noncurrent assets	<u>61,253,765</u>
Total assets	\$ 86,935,395
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources - pension	\$ 15,990,508
Deferred outflows of resources - OPEB	5,094,658
Total deferred outflows of resources	\$ 21,085,166
LIABILITIES	
Current Liabilities	
Accounts payable	\$ 1,983,655
Accrued payroll	7,687,300
Accrued payroll taxes	550,246
Due to City of Portsmouth	6,843,249
Total current liabilities	<u>17,064,450</u>
Noncurrent liabilities	
Due within one year	3,021,534
Due in more than one year	2,816,919
Net pension liability	131,776,573
Net OPEB liability	24,313,310
Total noncurrent liabilities	<u>161,928,336</u>
Total liabilities	\$ 178,992,786
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources - pension	\$ 21,436,240
Deferred inflows of resources - OPEB	6,059,345
Total deferred inflows of resources	\$ 27,495,585
NET POSITION	
Net investment in capital assets	\$ 61,253,765
Restricted	
Grants	1,187,813
School food services	1,132,315
Textbook	3,641,222
Unrestricted (deficit)	<u>(165,682,925)</u>
Total net position	\$ (98,467,810)

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

STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES

Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues			Net Revenues (Expenses) and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities					
Administration, attendance, and health services	\$ 8,814,368	\$ 742,231	\$ -	\$ -	\$ (8,072,137)
Instruction	120,925,967	81,819	27,267,039	-	(93,577,109)
Pupil transportation	7,291,521	203,112	-	-	(7,088,409)
Operations and maintenance	15,645,909	79,563	-	1,029,558	(14,536,788)
Information technology	8,813,988	-	-	-	(8,813,988)
Food service	8,066,102	1,268,250	6,851,143	-	53,291
Total Primary Government	\$ 169,557,855	\$ 2,374,975	\$ 34,118,182	\$ 1,029,558	(132,035,140)
General revenues					
From primary government					50,746,364
Unrestricted grants and contributions					76,542,883
Investment earnings					75,822
Miscellaneous					1,151,486
Total general revenues					128,516,555
Change in net position					(3,518,585)
Net position - beginning of year, as restated					(94,949,225)
Net position - end of year					\$ (98,467,810)

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

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

Exhibit III

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2018

	General	School Grants	School Food Services	School Textbook	Total Governmental Funds
ASSETS					
Cash and temporary investments	\$ 6,917,791	\$ 542,391	\$ 1,515,849	\$ 3,640,141	\$ 12,616,172
Receivables	498,125	51,728	216,072	1,081	767,006
Due from City of Portsmouth	75,221	-	-	-	75,221
Due from federal government	34,030	2,287,754	405,960	-	2,727,744
Due from Commonwealth of Virginia	1,295,506	347,969	-	-	1,643,475
Due from other funds	3,738,083	1,031,930	3,430	-	4,773,443
Inventory	210,990	-	31,879	-	242,869
Total assets	\$ 12,769,746	\$ 4,261,772	\$ 2,173,190	\$ 3,641,222	\$ 22,845,930
LIABILITIES					
Accounts payable	\$ 1,192,571	\$ 63,018	\$ 143,187	\$ -	\$ 1,398,776
Accrued payroll	7,548,633	103,720	34,947	-	7,687,300
Accrued payroll taxes	550,246	-	-	-	550,246
Due to City of Portsmouth	1,653,636	-	-	-	1,653,636
Due to other funds	1,035,360	2,907,221	830,862	-	4,773,443
Total liabilities	11,980,446	3,073,959	1,008,996	-	16,063,401
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue	-	448,589	94,649	-	543,238
FUND BALANCES					
Nonspendable	210,990	-	31,879	-	242,869
Restricted	-	978,263	1,037,666	3,641,222	5,657,151
Assigned	578,310	-	-	-	578,310
Unassigned	-	(239,039)	-	-	(239,039)
Total fund balances	789,300	739,224	1,069,545	3,641,222	6,239,291
Total liabilities, deferred inflows, and fund balances	\$ 12,769,746	\$ 4,261,772	\$ 2,173,190	\$ 3,641,222	\$ 22,845,930

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

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION**

June 30, 2018

Total fund balances - governmental funds		\$ 6,239,291	
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			
Net capital assets of governmental activities			61,253,765
Some of the School Board's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.			
			543,238
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.			
Long-term liabilities			
Governmental funds	\$ (5,838,453)		
Internal service funds - current portion	1,765,576		
Internal service funds - long-term portion	250,302		
			(3,822,575)
Pension Related			
Net pension liability	(131,776,573)		
Deferred outflows of resources	15,990,508		
Deferred inflows of resources	(21,436,240)		
			(137,222,305)
OPEB Related			
Net OPEB liability	(24,313,310)		
Deferred outflows of resources	5,094,658		
Deferred inflows of resources	(6,059,345)		
			(25,277,997)
Internal service funds are used by management to charge the costs of certain activities, such as insurance to individual funds. The assets and liabilities of the internal statement of net position.			
			(181,227)
Total net position - governmental activities		\$ (98,467,810)	

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

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

Exhibit IV

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

Year Ended June 30, 2018

	General	School Grants	School Food Services	School Textbook	Total Governmental Funds
Revenues					
Intergovernmental					
From City of Portsmouth	\$ 50,746,364	\$ -	\$ -	\$ -	\$ 50,746,364
From Commonwealth of Virginia	88,620,586	6,020,746	123,712	1,108,665	95,873,709
From federal government	537,565	12,383,250	6,851,143	-	19,771,958
Donated commodities	-	-	482,332	-	482,332
Total intergovernmental	139,904,515	18,403,996	7,457,187	1,108,665	166,874,363
Charges for services	-	-	465,889	-	465,889
Interest	62,744	-	13,078	-	75,822
Miscellaneous	2,256,316	232,632	569,729	1,895	3,060,572
Total revenues	142,223,575	18,636,628	8,505,883	1,110,560	170,476,646
Expenditures					
Current					
Education					
Instruction	105,955,695	16,073,825	-	400,204	122,429,724
Administration, attendance, and health services	8,852,145	295,416	-	-	9,147,561
Pupil transportation	6,583,234	375,328	-	-	6,958,562
Operation and maintenance	15,079,953	310,039	-	-	15,389,992
Information technology	6,085,875	2,914,005	-	-	8,999,880
Food services	-	-	8,314,520	-	8,314,520
Total expenditures	142,556,902	19,968,613	8,314,520	400,204	171,240,239
Excess (deficiency) of revenues over (under) expenditures	(333,327)	(1,331,985)	191,363	710,356	(763,593)
Other financing sources (uses)					
Transfers in	636,000	1,159,626	25,468	370,739	2,191,833
Transfers out	(1,555,833)	-	-	-	(1,555,833)
To City of Portsmouth	(636,000)	-	-	-	(636,000)
Total other financing sources (uses)	(1,555,833)	1,159,626	25,468	370,739	-
Net change in fund balances	(1,889,160)	(172,359)	216,831	1,081,095	(763,593)
Fund balances - beginning of year	2,678,460	911,583	852,714	2,560,127	7,002,884
Fund balances - end of year	\$ 789,300	\$ 739,224	\$ 1,069,545	\$ 3,641,222	\$ 6,239,291

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

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

Year Ended June 30, 2018

Net change in fund balances - total governmental funds **\$ (763,593)**

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

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

Capital acquisitions	\$ 1,329,356	
Capital disposals	(11,295)	
Depreciation of general government assets, net of amount reported in internal service funds	<u>(4,303,138)</u>	(2,985,077)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(277,321)
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Some expenses, such as compensated absences and net pension obligation, report in the statement of activities, do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in compensated absences, net of amount reported in internal service funds	190,689	
Change in deferred outflows related to pensions	(5,595,282)	
Change in deferred inflows related to pensions	(11,866,315)	
Change in net pension liability	24,117,934	
Change in deferred outflows related to OPEB	3,737,658	
Change in deferred inflows related to OPEB	(6,059,345)	
Change in net OPEB liability	<u>1,481,890</u>	6,007,229

Internal service funds are used by management to charge the costs of certain activities, such as printing and insurance, to individual funds. The net revenue of certain internal service funds is reported with governmental activities		<u>(5,499,823)</u>
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Change in net position of governmental activities **\$ (3,518,585)**

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

**STATEMENT OF NET POSITION -
 PROPRIETARY FUNDS**

June 30, 2018

	Governmental Activities - Internal Service Funds
ASSETS	
Current assets	
Cash and temporary investments	\$ 7,546,285
Accounts receivable	62,858
Total current assets	<u>7,609,143</u>
Total assets	<u>\$ 7,609,143</u>
LIABILITIES AND NET POSITION	
Current liabilities	
Claims payable - current portion	\$ 1,765,576
Accounts payable and accrued expenses	584,879
Due to City of Portsmouth	5,189,613
Total current liabilities	<u>7,540,068</u>
Noncurrent liabilities	
Claims payable - net of current portion	<u>250,302</u>
Total noncurrent liabilities	<u>250,302</u>
Total liabilities	<u>7,790,370</u>
Net deficit	
Unrestricted	<u>(181,227)</u>
Total net deficit	<u>(181,227)</u>
Total liabilities and net deficit	<u>\$ 7,609,143</u>

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

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

Year Ended June 30, 2018

	Governmental Activities - Internal Service Funds
Operating revenues	
Insurance recoveries	\$ 454,808
Charges for services	19,256,176
Total operating revenues	<u>19,710,984</u>
Operating expenses	
Insurance claims and expenses	19,385,194
Total operating expenses	<u>19,385,194</u>
Net operating income	325,790
Nonoperating revenues/(expenses)	
To City of Portsmouth	<u>(5,189,613)</u>
Total nonoperating expenses	<u>(5,189,613)</u>
Transfers out	(636,000)
Change in net position	(5,499,823)
Net position - beginning of year	<u>5,318,596</u>
Net deficit - end of year	<u>\$ (181,227)</u>

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

**STATEMENT OF CASH FLOWS -
 PROPRIETARY FUNDS**

Year Ended June 30, 2018

	Governmental Activities - Internal Service Funds
Cash flows from operating activities	
Received from customers and users	\$ 19,271,209
Insurance recovery	454,808
Payments to suppliers for goods and services	(19,791,519)
Net cash used in operating activities	<u>(65,502)</u>
Cash flows from noncapital financing activities	
Payments to City of Portsmouth	(252,628)
Payments to other funds	(636,000)
Net cash used for noncapital financing activities	<u>(888,628)</u>
Net change in cash and temporary investments	(954,130)
Cash and temporary investments - beginning of year	8,500,415
Cash and temporary investments - end of year	<u>\$ 7,546,285</u>
Reconciliation of operating income to net cash used in operating activities	
Operating income	\$ 325,790
Adjustments to reconcile operating income to net cash used in operating activities	
Change in assets and liabilities	
Accounts receivable	15,033
Accounts payable and accrued expenses	97,262
Claims payable	(503,587)
Total adjustments	<u>(391,292)</u>
Net cash used in operating activities	<u>\$ (65,502)</u>
Supplemental information on significant non-cash transactions	
To City of Portsmouth	<u>\$ 5,189,613</u>

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

**STATEMENT OF NET POSITION -
FIDUCIARY FUNDS**

June 30, 2018

	School OPEB Trust Fund	Agency Fund
ASSETS		
Cash and temporary investments	\$ 5,266	\$ 781,243
Investments:		
Equity mutual funds	4,252,343	-
Corporate bond mutual funds	3,699,850	-
Government mutual funds	2,772,653	-
Fixed mutual funds	1,811,251	-
Total assets	\$ 12,541,363	\$ 781,243
LIABILITIES AND NET POSITION		
Liabilities		
Due to students	\$ -	\$ 781,243
Net position		
Restricted for postemployment benefits other than pensions	12,541,363	-
Total liabilities and net position	\$ 12,541,363	\$ 781,243

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

STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUNDS

Year Ended June 30, 2018

	School OPEB Trust Fund
Additions	
Investment income:	
Investment earnings	\$ 230,671
Net realized and unrealized gain on investments	302,064
Net investment income	532,735
Total additions	532,735
Deductions	
Benefit and withdrawal payments:	
Benefits - health insurance	73,336
Total benefits	73,336
Total deductions	73,336
Change in net position	459,399
Net position - beginning of year	12,081,964
Net position - end of year	\$ 12,541,363

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

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Financial Reporting Entity

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

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

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

Basis of Presentation

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

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Governmental Funds - Governmental Funds are those through which most governmental functions of the School Board are financed. The acquisition, use and balances of the School Board's expendable financial resources and the related liabilities are accounted for through governmental funds. Governmental fund types use the "flow of current financial resources" measurement focus. This means that, generally, only current assets and current liabilities are reflected on their balance sheets. Their operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. The measurement focus is based upon the determination of changes in financial position, rather than upon net income determination. The School Board reports the following major governmental funds:

General Fund - The General Fund (School Operating Fund) is the general operating fund of the School Board. It is used to account for all financial resources except those required to be accounted for in another fund. Revenues are primarily from other governments (intergovernmental revenues).

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

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

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

Additionally, the School Board reports the following fund types:

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

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

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

The statement of net position, statement of activities and financial statements of the proprietary funds are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash. The principal operating revenues and expenses of the proprietary funds are charges for services to customers, administrative expenses, and depreciation expense of capital assets. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

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

Receivables and Due from Other Governments

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

Inventory

Inventory is valued at cost (first-in, first-out). Inventory consists of consumable materials and supplies held for future consumption. Under the purchase method of accounting, the cost is recorded as an expenditure in the General Fund at the time individual inventory items are purchased. Reported inventories are equally offset by a fund balance designation which indicates the inventories do not constitute "available spendable resources."

Capital Assets

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

All capital assets are capitalized at cost (or estimated historical cost) at the completion of each project and updated for additions and retirements during the year. Donated assets are recorded at acquisition 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 has incurred a financial obligation for the property, which is payable over more than one fiscal year. The School Board and the City have agreed that such property, having a net book value of \$79,115,587, will be carried on the City's financial statements until the outstanding debt is repaid.

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditures) until then. The School Board has several items arising from pension resources and other postemployment benefits paid in advance, which qualify for reporting in this category. Accordingly, the items, deferred outflows related to pension and deferred outflows related to other postemployment benefits, are reported in the statement of net position.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School Board has several items, which qualify for reporting in this category. These account for pension, other postemployment resources, unavailable grant and food service revenue. Accordingly, the items, unavailable revenue, are reported in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

Pensions

The Virginia Retirement System (the "VRS") Teacher Retirement Plan is an independent agency of the Commonwealth of Virginia. The VRS Teacher Retirement Plan is a multiple employer cost-sharing plan, and the Nonprofessional Retirement Plan is a multi-employer agent plan. The Board of Trustees (the "Board") is responsible for the general administration and operation of the defined benefit pension plans and other employee benefit plans. The Boards has full power to invest and reinvest the trust funds of the VRS through the adoption of investment policies and guidelines that fulfill the Board's investment objective to maximize long-term investment returns while targeting an acceptable level of risk. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources, related to pensions and pension expense, information about the fiduciary net position of the VRS Teacher (Professional) Retirement Plan and the School Board Nonprofessional Retirement Plan, and the additions to/deductions from the VRS Teacher (Professional) Retirement Plan's and School Board Nonprofessional Retirement Plan's net fiduciary position, have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Postemployment Benefits (OPEB)

The VRS is an independent agency of the Commonwealth of Virginia. The VRS Group Life Insurance plan, Health Insurance Credit Plan, and Virginia Local Disability Plan are multiple employer cost-sharing plans. The Board of Trustees (the "Board") is responsible for the general administration and operation of the defined benefit pension plans and other employee benefit plans. The Board has full power to invest and reinvest the trust funds of the VRS through the adoption of investment policies and guidelines that fulfill the Board's investment objective to maximize long-term investment returns while targeting an acceptable level of risk. For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources, related to OPEB and OPEB expense, information about the fiduciary net position of the plans, and the additions to/deductions from the plans' net fiduciary position, have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The School Board administers a single-employer defined benefit healthcare plan. For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense, information about the fiduciary net position of the plan and additions to/deductions from the Employer's fiduciary net position is determined under GAAP. For this purpose, benefit payments are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Compensated Absences

School Board employees are granted vacation and sick pay in varying amounts as services are provided. They may accumulate, subject to certain limitations, unused vacation pay earned, and upon retirement, termination or death, may be compensated as salary related payments for certain amounts at their then current rates of pay. After five consecutive years of service, employees, upon retirement, termination or death, may be compensated at a daily rate of \$20 for each unused sick leave day earned, provided that the funds have been included in the approved annual budget.

Fund Balances/Net Position

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

- The *unassigned fund balance* is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

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

Minimum Fund Balance Policy

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

Statement of Cash Flows

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

Use of Estimates

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

NOTE 2. DEPOSITS AND INVESTMENTS

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

Deposits

At year-end, the carrying value of the School Board's deposits with banks and savings institutions was \$20,948,966 and the bank balance was \$24,384,320. The bank balances of the School Board's deposits were covered by Federal Depository Insurance or collateralized in accordance with the Virginia Security for Public Deposits Act (Act). Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. The State Treasury is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks. If any member financial institution fails, the entire collateral becomes available to satisfy claims of the School Board. If the value of the pool's collateral is inadequate to cover a loss, additional amounts would be assessed on a pro rata basis to the members (banks) of the pool. Therefore, these deposits are considered collateralized and, as a result, are considered insured.

NOTE 2. DEPOSITS AND INVESTMENTS (Continued)

Summary of Deposits and Investments

Cash and cash equivalents	\$ 20,162,457
Fiduciary fund cash and temporary investments	<u>786,509</u>
Total	<u>\$ 20,948,966</u>

The School Board has exposure to a number of risks as described below:

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by nationally recognized statistical rating organizations. Presented within this footnote are the specifically identified investment ratings as of June 30, 2018.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of the failure of a depository financial institution, the School Board will not be able to recover its deposits or collateral securities that are in the possession of an outside party. All deposits of the School Board are maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-400 et seq. of the Code of Virginia. The School Board does not have any policies related to this risk.

Custodial Credit Risk – Investments

Investment custodial credit risk is the risk that, in the event of the failure of the counterparty, the School Board will not be able to recover the value of its investments. The School Board does not have any policies related to this risk.

Concentrations of Credit Risk

Concentration of credit risk represents the risk of investments in any one issue that represents 5% or more of investments. The School Board does not have any policies related to this risk.

Interest Rate Risk

Interest rate risk is the risk of losses resulting from decreases in fair value due to increasing interest rates. See the School Board's policy for investing below.

Foreign Currency Risk

The School Board's OPEB Trust invests in U.S. dollars denominated through mutual funds that may invest in international stocks, bonds, and other assets. Although the assets of the funds are all held in U.S. dollars, the market value of the assets may fluctuate in part due to changes in foreign currency exchange rates. See the summary of the OPEB investments at the end of the investment policy section below.

NOTE 2. DEPOSITS AND INVESTMENTS (Continued)

Investments

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

Investment Policy

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

NOTE 2. DEPOSITS AND INVESTMENTS (Continued)

The School Board has \$12,541,363 in investments for the School OPEB Trust Fund. These investments include:

	Investment Type	Fair Value	Weighted Average Maturity (Years)	Average Credit Rating
Cash and money market funds:				
WF Treas Plus MM FD-SVC #454	n/a	\$ 5,266	n/a	Unavailable
Subtotal		5,266		
Equity mutual funds:				
Dreyfus Intl Stock Index FD #79	Equity	1,357,557	n/a	Unavailable
T Rowe Price Equity Inc-Adv #271	Equity	1,223,189	n/a	Unavailable
T Rowe Price Growth Stk Adv #240	Equity	1,671,597	n/a	Unavailable
Subtotal		4,252,343		
Corporate bond mutual funds:				
John Hancock Bond Fund-I #431	Bond	1,922,614	11.63	BB
PIMCO Real Income Fund Class P #1920	Bond	1,774,532	8.88	Not Rated
PIMCO Real Return Fund-INST #122	Bond	2,704	8.88	Not Rated
Subtotal		3,699,850		
Government mutual funds:				
Wells Fargo Adj Rate-ADM #3765	Bond	2,772,653	3.55	AA
Subtotal		2,772,653		
Fixed mutual funds:				
Wells Fargo CORE BD FD-ADM #943	Bond	1,811,251	8.29	AAA
Subtotal		1,811,251		
Total		\$ 12,541,363		

Fair Value of Investments

The School Board's investments for the OPEB Trust Fund are measured and recorded using fair value guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy as follows:

- *Level 1* - Quoted prices for identical investments in active markets;
- *Level 2* - Observable inputs other than quoted market prices; and,
- *Level 3* - Unobservable inputs.

Investments measured using Net Asset Value ("NAV") are not categorized by Level 1, 2, or 3.

NOTE 2. DEPOSITS AND INVESTMENTS (Concluded)

At June 30, 2018, the School Board had the following recurring fair value measurements:

	June 30, 2018	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level				
Debt Securities				
Corporate bond mutual funds	\$ 3,699,850	\$ 3,699,850	\$ -	\$ -
Government mutual funds	2,772,653	2,772,653	-	-
Fixed mutual funds	1,811,251	1,811,251	-	-
Total debt securities	8,283,754	8,283,754	-	-
Equity Securities				
Equity mutual funds	4,252,343	4,252,343	-	-
Total equity securities	4,252,343	3,769,081	-	-
Total investments by fair value level	\$ 12,536,097	\$ 12,536,097	\$ -	\$ -

Debt and equity securities classified in Level 1 are valued using prices quoted in active markets for those securities.

NOTE 3. CAPITAL ASSETS – NET

A summary of changes in capital assets for the year ended June 30, 2018 follows:

	Balance June 30, 2017	Increases	Decreases	Balance June 30, 2018
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 6,085,707	\$ -	\$ -	\$ 6,085,707
Total capital assets - not being depreciated	6,085,707	-	-	6,085,707
Capital assets being depreciated/amortized				
Buildings and improvements	93,535,748	-	-	93,535,748
Equipment	28,403,689	1,329,356	160,066	29,572,979
Intangible assets	422,270	-	-	422,270
Total capital assets - being depreciated/amortized	122,361,707	1,329,356	160,066	123,530,997
Less accumulated depreciation/amortization				
Buildings	45,013,665	2,738,192	-	47,751,857
Equipment	18,772,637	1,564,946	148,771	20,188,812
Intangible assets	422,270	-	-	422,270
Total accumulated depreciation/amortization	64,208,572	4,303,138	148,771	68,362,939
Other capital assets - being depreciated/amortized - net	58,153,135	(2,973,782)	11,295	55,168,058
Governmental activities capital assets - net	\$ 64,238,842	\$ (2,973,782)	\$ 11,295	\$ 61,253,765

NOTE 3. CAPITAL ASSETS – NET (Concluded)

Depreciation and amortization expense was charged to functions as follows:

Governmental activities

Instruction	\$ 3,214,733
Administration, attendance and health services	5,113
Pupil transportation	590,309
Operations and maintenance	235,579
Information technology	146,953
Food services	110,451
Total governmental activities depreciation expense	<u>\$ 4,303,138</u>

NOTE 4. LONG-TERM LIABILITIES

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

	Amounts Payable at Beginning of Year	Increase in Liabilities	Decrease in Liabilities	Amounts Payable at End of Year	Amounts Due Within One Year
Accrued vacation pay	\$ 2,531,012	\$ 1,421,475	\$ (1,632,520)	\$ 2,319,967	\$ 835,195
Accrued sick leave	1,482,252	462,926	(442,570)	1,502,608	420,762
Workmen's compensation claims payable	1,231,426	2,813,480	(3,398,606)	646,300	395,998
Medical claims payable	1,288,039	16,571,715	(16,490,176)	1,369,578	1,369,578
Net pension liability	155,894,507	-	(24,117,934)	131,776,573	-
OPEB liability*	25,795,200	-	(1,481,890)	24,313,310	-
Total	<u>\$ 188,222,436</u>	<u>\$ 21,269,596</u>	<u>\$ (47,563,696)</u>	<u>\$ 161,928,336</u>	<u>\$ 3,021,534</u>

* Restated for GASB 75

Long-term liabilities applicable to the School Board's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. All liabilities, both current and long-term, are reported in the statement of net position. Compensated absences, medical claims, and net pension liabilities and net other post-employment benefit liabilities are generally liquidated by the fund for which the employee works. In prior years, General, Grants and Food Services funds were used to liquidate net pension liability and post-employment liabilities. Workmen's compensation claims are generally liquidated by the Risk Management Fund.

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

NOTE 5. DEFINED BENEFIT PENSION PLANS

Plan Description

All full-time, salaried permanent (professional) employees of public school divisions are automatically covered by the VRS Teacher Retirement Plan upon employment and additional employees of participating employers are automatically covered by VRS (nonprofessional) Retirement Plan upon employment. Both plans are administered by the VRS along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

NOTE 5. DEFINED BENEFIT PENSION PLANS (Continued)

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

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

NOTE 5. DEFINED BENEFIT PENSION PLANS (Continued)

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p>	<p>Eligible Members Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p>	<p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • School division employees <p>Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 - April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.</p>
<p>Hybrid Opt-In Election VRS Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p>Hybrid Opt-In Election Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	

NOTE 5. DEFINED BENEFIT PENSION PLANS (Continued)

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.</p> <p>Some school divisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees.</p> <p>VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.</p> <p>Some school divisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016.</p>	<p>Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan.</p> <p>Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>
<p>Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p>Creditable Service Same as Plan 1.</p>	<p>Creditable Service Defined Benefit Component: Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>

NOTE 5. DEFINED BENEFIT PENSION PLANS (Continued)

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least 5 years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions they make.</p>	<p>Vesting Same as Plan 1.</p>	<p>Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach 5 years (60 months) of creditable service. Plan 1 or Plan 2 members with at least 5 years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u>Defined Contributions Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70½.</p>

NOTE 5. DEFINED BENEFIT PENSION PLANS (Continued)

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

NOTE 5. DEFINED BENEFIT PENSION PLANS (Continued)

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Earliest Unreduced Retirement Eligibility Age 65 with at least 5 years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility Normal Social Security retirement age with at least 5 years (60 months) of creditable service or when their age and service equal 90.</p>	<p>Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> Normal Social Security retirement age and have at least 5 years (60 months) of creditable service or when their age and service equal 90.</p> <p><u>Defined Contributions Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Reduced Retirement Eligibility VRS: Age 55 with at least 5 years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility VRS: Age 60 with at least 5 years (60 months) of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Members may retire with a reduced benefit as early as age 60 with at least 5 years (60 months) of creditable service.</p> <p><u>Defined Contributions Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><u>Eligibility:</u> Same as Plan 1.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as Plan 2.</p> <p><u>Defined Contributions Component:</u> Not applicable.</p> <p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p>

NOTE 5. DEFINED BENEFIT PENSION PLANS (Continued)

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p>	<p><u>Eligibility:</u> Same as Plan 1.</p>	<p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p>
<p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within 5 years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. 	<p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1.</p>	<p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p>

NOTE 5. DEFINED BENEFIT PENSION PLANS (Continued)

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Disability Coverage N/A	Disability Coverage N/A	Disability Coverage Employees of political subdivisions and school divisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program ("VLDP") unless their local governing body provides an employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work- related disability benefits.
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	Purchase of Prior Service Same as Plan 1.	Purchase of Prior Service Defined Benefit Component: Same as Plan 1, with the following exceptions: <ul style="list-style-type: none"> • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost. Defined Contributions Component: Not applicable.

NOTE 5. DEFINED BENEFIT PENSION PLANS (Continued)

Virginia Retirement System (VRS) Teacher (Professional) Retirement Plan Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5.00% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years, and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. Each school division's contractually required contribution rate, for the year ended June 30, 2018, was 16.32% of covered employee compensation. This rate was based on an actuarially determined rate, from an actuarial valuation as of June 30, 2015, adjusted for the transfer in June 2015 of \$192,884,000, as an accelerated payback of the deferred contribution in the 2010-12 biennium. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the Code of Virginia, as amended, the contributions were funded at 89.84% of the actuarial rate for the year ended June 30, 2018. Contributions to the pension plan from the school division were \$13,219,573 and \$11,589,359 for the years ended June 30, 2018 and June 30, 2017, respectively.

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

At June 30, 2018, the school division reported a liability of \$123,472,000 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2017 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The school division's proportion of the Net Pension Liability was based on the school division's actuarially determined employer contributions to the pension plan for the year ended June 30, 2016 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the school division's proportion was 1.00400% as compared to 1.04427% at June 30, 2016.

For the year ended June 30, 2018, the school division recognized pension expense of \$6,687,000. Since there was a change in proportionate share between the measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2018, the school division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 8,743,000
Net difference between projected and actual earnings on pension plan investments	-	4,486,000
Change in assumptions	1,802,000	-
Changes in proportion and difference between employer contributions and proportionate share of contributions	-	7,653,000
Employer contributions subsequent to the measurement date	13,219,573	-
Total	<u>\$ 15,021,573</u>	<u>\$ 20,882,000</u>

NOTE 5. DEFINED BENEFIT PENSION PLANS (Continued)

\$13,219,573 reported as deferred outflows of resources related to pensions resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2019	\$ (7,272,000)
2020	(2,507,000)
2021	(3,063,000)
2022	(5,210,000)
2023	(1,028,000)
	<u>\$ (19,080,000)</u>

Virginia Retirement System (VRS) Nonprofessional Retirement Plan Employees Covered by Benefit Terms

As of the June 30, 2017 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	<u>351</u>
Inactive members:	
Vested inactive members	31
Non-vested inactive members	116
Inactive members active elsewhere in VRS	<u>74</u>
Total inactive members	<u>221</u>
Active members	<u>385</u>
Total covered employees	<u>957</u>

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012, new employees were required to pay the 5.00% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The contractually required contribution rate for the year ended June 30, 2018 was 11.69% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarial rate for the plan was 11.98%.

NOTE 5. DEFINED BENEFIT PENSION PLANS (Continued)

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were \$899,130 and \$902,396 for the years ended June 30, 2018 and June 30, 2017, respectively.

Net Pension Liability

The School Board's net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Changes in Net Position Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at June 30, 2016	\$ 38,280,197	\$ 28,730,690	\$ 9,549,507
Changes during the Year			
Service Cost	763,448	-	763,448
Interest	2,600,444	-	2,600,444
Changes of assumptions	(44,324)	-	(44,324)
Difference between expected and actual experience	110,155	-	110,155
Contributions - employer	-	882,435	(882,435)
Contributions - employee	-	372,038	(372,038)
Net Investment Income	-	3,443,683	(3,443,683)
Benefit Payments; Including refunds of employee contributions	(2,261,995)	(2,261,995)	-
Administrative Expenses	-	(20,455)	20,455
Other Changes	-	(3,044)	3,044
Net Changes	<u>1,167,728</u>	<u>2,412,662</u>	<u>(1,244,934)</u>
Balance at June 30, 2017	\$ 39,447,925	\$ 31,143,352	\$ 8,304,573

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

For the year ended June 30, 2018, the political subdivision recognized pension expense of \$591,046. At June 30, 2018, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 69,805	\$ 93,760
Net difference between projected and actual earnings on pension plan investments	-	432,392
Change in assumptions	-	28,088
Employer contributions subsequent to the measurement date	899,130	-
Total	<u>\$ 968,935</u>	<u>\$ 554,240</u>

NOTE 5. DEFINED BENEFIT PENSION PLANS (Continued)

\$899,130 reported as deferred outflows of resources related to pensions resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2019	\$ (371,840)
2020	169,238
2021	11,892
2022	<u>(293,725)</u>
	<u>\$ (484,435)</u>

Actuarial Assumptions - VRS Teacher Retirement Plan

The total pension liability for the VRS Teacher Retirement Plan was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5%
Salary increases, including inflation	3.5% – 5.95%
Investment rate of return	7.0%, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.00%. However, since the difference was minimal, and a more conservative 7.00% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.00% to simplify preparation of pension liabilities.

Mortality rates:

Pre-Retirement:

RP-2014 White Collar Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020.

Post-Retirement:

RP-2014 White Collar Employee Rates to age 49, White Collar Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males 1% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2.0% increase compounded from ages 75 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with Scale BB to 2020; 115% of rates for males and females.

NOTE 5. DEFINED BENEFIT PENSION PLANS (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

Actuarial Assumptions – VRS Nonprofessional Retirement Plan

The total pension liability for General Employees in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5%
Salary increases, including inflation	3.5% – 5.35%
Investment rate of return	7.00%, net of pension plan investment expense, Including inflation*

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

Mortality rates:

(Non 10 Largest) – 15% of deaths are assumed to be service related.

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disabled Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

NOTE 5. DEFINED BENEFIT PENSION PLANS (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 15%

Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public equity	40.00%	4.54%	1.82%
Fixed income	15.00%	0.69%	0.10%
Credit strategies	15.00%	3.96%	0.59%
Real assets	15.00%	5.76%	0.86%
Private equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
	Inflation		2.50%
	* Expected arithmetic nominal return		7.30%

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows, used to determine the discount rate, assumed that member contributions will be made, per the VRS Statutes, and the employer contributions will be made, in accordance with the VRS funding policy, at rates equal to the difference between actuarially determined contribution rates, adopted by the VRS Board of Trustees, and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed, by the school division for the VRS Teacher Retirement Plan, will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, school divisions are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 5. DEFINED BENEFIT PENSION PLANS (Continued)***Sensitivity of the School Division's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate***

The following presents the school division's proportionate share of the net pension liability using the discount rate of 7.00%, as well as what the school division's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
School division's proportionate share of the VRS:			
Teacher (Professional) Employee Retirement Plan Net Pension Liability	\$ 184,385,000	\$ 123,472,000	\$ 73,085,000
School Division's (Nonprofessional) Employee Retirement Plan Net Pension Liability	\$ 12,707,727	\$ 8,304,573	\$ 4,584,959

Pension Plan Fiduciary Net Position

Additional financial information supporting the preparation of the VRS Political Subdivision Plan Schedules (including the financial statements and the unmodified audit opinion thereon, and required supplementary information) is presented in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR is publicly available through the *About VRS* link on the VRS website at www.varetire.org, or a copy may be obtained by submitting a request to the VRS Chief Financial Officer, P.O. Box 2500, Richmond, VA 23218-2500.

Payables to Pension Plan

There were no payables to the pension plans as of June 30, 2018.

NOTE 5. DEFINED BENEFIT PENSION PLANS (Concluded)***Combining Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

The VRS Professional plan and the VRS Nonprofessional plan are reported separately herein since each plan has distinctive characteristics, reporting requirements and valuations. The impact of total pension requirements on the net position of Portsmouth Public Schools is combined and summarized in the schedule:

	Virginia Retirement System		
	Professional Plan	Non-Professional Plan	Combined Totals
Net pension liability	\$ 123,472,000	\$ 8,304,573	\$ 131,776,573
Pension expense	6,687,000	591,046	7,278,046
<i>Deferred outflows of resources:</i>			
Difference between expected and actual experience	-	69,805	69,805
Changes of assumptions	1,802,000	-	1,802,000
Employer contributions subsequent to the measurement date	13,219,573	899,130	14,118,703
Total deferred outflows of resources	15,021,573	968,935	15,990,508
<i>Deferred inflows of resources:</i>			
Difference between expected and actual experience	8,743,000	93,760	8,836,760
Changes of assumptions	-	28,088	28,088
Net difference between projected and actual earnings on pension plan investments	4,486,000	432,392	4,918,392
Changes in proportion and difference between employer contributions and proportionate share of contributions	7,653,000	-	7,653,000
Total deferred inflows of resources	\$ 20,882,000	\$ 554,240	\$ 21,436,240

NOTE 6. OTHER LIABILITIES, COMMITMENTS AND CONTINGENCIES***Risk Management***

The School Board is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The School Board is self-insured for a portion of these risks. The self-insurance coverage for workers' compensation is \$500,000 per occurrence. Commercial insurance is purchased to cover any liability above these self-insured levels for specific losses. General liability, automobile, school security, and cyber risk are fully insured through the Virginia Association of Counties Group Self Insurance Risk Pool (VACoRP). This insurance coverage is substantially the same as in the prior fiscal year. There were no settlements within the past three years which exceeded coverage.

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

A loss analysis was conducted by Glicksman Consulting, LLC on this fund. The total actuarially computed liability as of June 30, 2018 was determined to be \$646,300 (undiscounted) and recorded in the internal service fund and the government-wide statements, accordingly.

NOTE 6. OTHER LIABILITIES, COMMITMENTS AND CONTINGENCIES (Continued)

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

	2018	2017
Claims payable - beginning of year	\$ 1,231,426	\$ 1,463,153
Claims and changes in estimates	2,813,480	3,323,620
Claims payments and changes in estimates	<u>(3,398,606)</u>	<u>(3,555,347)</u>
Claims payable - end of year	<u>\$ 646,300</u>	<u>\$ 1,231,426</u>

Self-Insured Health Care Benefits Plan

Effective January 1, 2015, the School Board established a Self-Insured Health Care Benefits Plan ("Self-Insured Health Plan") for all School Board employees and retirees. The Self-Insured Health Plan policy year is based on a calendar year. Beginning July 1, 2015, the Self-Insured Health Plan is accounted for within the Risk Management fund with employer and employee premiums, medical claims, administrative costs, wellness program costs, and other health plan costs and reserves recorded in the Risk Management fund. Prior to July 1, 2015, the Self Insured Health Plan was accounted for within the General fund.

Expenditures charged to various School Board departments are based on expected claims liability and administrative costs for a full calendar year as provided by the third-party healthcare benefit consultant. Medical claim expenses paid, on behalf of each individual employee covered during a single policy year, are covered by excess loss insurance with a specific stop loss limit of \$300,000. The Self-Insured Health Plan also has aggregate stop loss coverage at 120% of expected medical claims during a single policy year.

Claims processing and payments for all healthcare claims are made through a third-party administrator. The School Board uses information provided by the third-party administrator and healthcare benefit consultant to aid in the determination of health self-insurance liabilities. The computed liability as of June 30, 2018 was \$1,369,578 (undiscounted), as follows:

	Balance as of July 1	Claims and Changes in Estimates	Claim Payments	Balance as of June 30
Medical Claims				
2017-2018	\$ 1,288,039	\$ 16,571,715	\$ 16,490,176	\$ 1,369,578
2016-2017	1,178,501	15,566,867	15,457,329	1,288,039

Litigation

In May 2017, the Equal Employment Opportunity Commission (EEOC) issued a determination with respect to a complaint filed against the School Board. The EEOC determined that the School Board failed to provide reasonable accommodation to a former employee (plaintiff). The plaintiff demanded \$1,200,000 in lost wages. The School Board contested and the case was settled on September 24, 2018. The settlement amount is to remain confidential as part of the agreement.

The School Board has no pending litigations arising out of the ordinary course of operations.

Grants

The School Board received grant funds, principally from the State and Federal governments, for instructional and various other programs. Expenditures from these grants are subject to audit by the grantor, and the School Board is contingently liable to refund amounts received in excess of allowable expenditures. Based on prior experience, School Board management believes such refunds, if any, will not be significant.

NOTE 6. OTHER LIABILITIES, COMMITMENTS AND CONTINGENCIES (Concluded)***Encumbrance***

The School Board has outstanding purchase orders representing goods or services not received as of June 30, 2018. These amounts are encumbrances of FY2017-2018 budgeted funds and are not reflected in the accompanying financial statements. The encumbrances are as follows:

	Amounts
General Fund	\$ 604,074
School Grants Fund	71,068
	<u>\$ 675,142</u>

NOTE 7. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivable and payable balances at June 30, 2018, which are considered short-term in nature, are as follows:

	Due from Other Funds	Due to Other Funds
General Fund	\$ 3,738,083	\$ 1,035,360
School Grants Fund	1,031,930	2,907,221
School Food Services Fund	3,430	830,862
	<u>\$ 4,773,443</u>	<u>\$ 4,773,443</u>

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

Interfund transfers for the year ended June 30, 2018 consisted of the following:

	Transfers from Other Funds	Transfers to Other Funds
General Fund	\$ 636,000	\$ 1,555,833
School Grants Fund	1,159,626	-
School Food Services Fund	25,468	-
School Textbook Fund	370,739	-
Risk Management Fund	-	636,000
	<u>\$ 2,191,833</u>	<u>\$ 2,191,833</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and (3) account for excess charges for services to self-health insurance account over actual self-health insurance expenditures.

NOTE 8. POSTEMPLOYMENT HEALTHCARE BENEFITS

School Board OPEB Plan

Plan Description

The School Board administers a single-employer defined benefit healthcare plan. It provides medical insurance benefits to eligible retirees and their spouses in accordance with the school's personnel policies and procedures. A trust was established for the purpose of accumulating and investing assets to fund other postemployment benefits obligations. Amounts contributed to the Trust by the School Board are irrevocable and must be used solely to discharge the School Board's obligations for other postemployment benefits and pay for reasonable expenses of the Trust. The OPEB Trust is included as a fiduciary fund in the School Board's financial statements. Separate stand-alone statements are not issued for the plan.

Plan Membership

As of the June 30, 2018, membership consisted of the following:

Inactive employees currently receiving benefits	39
Active employees	<u>2,019</u>
	<u><u>2,058</u></u>

Benefits Provided

Retirees age 55 or older, with a minimum of 25 years of service with Portsmouth Public Schools, and employed as a regularly scheduled employee are eligible to participate in Retiree Health Insurance Premium Contribution Plan (RHIPCP). Effective July 1, 2018, eligible retiring employees receive \$3,000 to offset the cost of health insurance premiums in retirement.

Contributions

The contribution requirements of plan members and the School Board are established and may be amended by the School Board. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the School Board. For the year ended June 30, 2018, the School Board made no further contributions to the plan to pay current benefits and to prefund benefits.

Plan Investments

Investment Policy

The primary purpose of this statement of Investment Policy is to provide a clear understanding of policy of management and oversight of the School Board's OPEB Trust's (the "Trust") investment objectives, performance goals and risk tolerance.

Responsibilities

The OPEB Trust committee establishes investment policy and retains investment managers to implement asset class decisions and allocations.

The OPEB Trust committee has appointed Wells Fargo to assist in providing guidance of the administration of Trust's assets, investment selection, performance monitoring and evaluation.

NOTE 8. POSTEMPLOYMENT HEALTHCARE BENEFITS (Continued)

Objectives

Objectives of the Investment Policy are as follows:

1. To invest assets of the Trust in a judicious manner to provide retirement benefits to eligible participants.
2. To provide for funding and anticipated withdrawals on a continuing basis for payment of benefits and reasonable expenses of operation of Trust.
3. Subject to performance expectations over the long-term to minimize principal fluctuation.

Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of June 30, 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Real Rate of Return
Domestic equity	20.6%	7.8%
International equity	10.6%	7.5%
Intermediate fixed income	45.5%	3.1%
Short-term fixed income	22.7%	2.7%
Cash	0.6%	2.5%
	100.0%	

The sum of each target allocation times its long-term expected real rate is 4.44%. The long-term expected rate of return is 6.0% with inflation.

Net OPEB Liability

The components of the net OPEB liability of the School Board at June 30, 2018 calculated in accordance with GAAP, were as follows:

Total OPEB liability	\$ 16,980,673
Plan fiduciary net position	(12,541,363)
Net OPEB liability	<u>\$ 4,439,310</u>
Plan fiduciary net position as a percentage of the total OPEB liability	73.85%

The net OPEB liability shown above reflects presentation within the School Board's statement of net position based on GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, adopted in fiscal year 2018.

NOTE 8. POSTEMPLOYMENT HEALTHCARE BENEFITS (Continued)***Changes in Net OPEB Liability***

Changes in net OPEB liability calculated under GASB Statement No. 74 are as follows:

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance at June 30, 2017	\$ 16,043,164	\$ 12,081,964	\$ 3,961,200
Changes during the year:			
Service cost	625,456	-	625,456
Interest	997,917	-	997,917
Experience (gains/losses)	(4,735,709)	-	(4,735,709)
Change in benefit terms	459,794	-	459,794
Change in actuarial assumptions	3,663,387	-	3,663,387
Net investment income	-	532,735	(532,735)
Benefit payments, including refunds of employer contributions	(73,336)	(73,336)	-
Total changes	937,509	459,399	478,110
Balance at June 30, 2018	\$ 16,980,673	\$ 12,541,363	\$ 4,439,310

Actuarial Assumptions – Total OPEB Liability

The Employer's OPEB liability was measured as of as of June 30, 2018. The Total OPEB Liability was determined by an actuarial valuation as of June 30, 2018 and the following actuarial assumptions included in the measurement:

Inflation	2.5%
Healthcare Trend Rate	8.5% in 2019 graded down 0.25% per year to 4.5% per year thereafter
Salary increases	3.5% (for purposes of allocating liability)
Investment rate of return	4.44% (net of investment expense, including inflation)
20-year Aa Municipal bond rate	3.00%
Mortality	RP-2014 Headcount weighted, sex-distinct, annuitant and non-annuitant mortality table projected with improvement scale MP 2017

Long-Term Expected Rate of Return

The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

NOTE 8. POSTEMPLOYMENT HEALTHCARE BENEFITS (Continued)

Discount Rate

The discount rate used to measure the total OPEB liability was 4.44%. The projection of cash flows used to determine the discount rate assumed that Employer contributions will be made at rates equal to the most recent recommended contribution expressed as a percentage of covered payroll. Based on those assumptions, the Plan's fiduciary net position was projected to be sufficient to make all projected future benefit payments of current Plan participants. For projected benefits that are covered by projected assets, the long-term expected rate was used to discount the projected benefits. From the year that benefit payments were not projected to be covered by the projected assets (the "depletion date"), projected benefits were discounted at a discount rate reflecting a 20-year AA/Aa tax-exempt municipal bond yield. A single equivalent discount rate that yields the same present value of benefits is calculated. This discount rate is used to determine the Total OPEB Liability.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the School Board, as well as what the School Board's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	1% Decrease (3.44%)	Discount Rate (4.44%)	1% Increase (5.44%)
Net OPEB Liability	\$ 5,750,897	\$ 4,439,310	\$ 3,216,312

Sensitivity of the net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability of the School Board, as well as what the School Board's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease (7.5% decreasing to 3.5%)	Discount Rate (8.5% decreasing to 4.5%)	1% Increase (9.5% decreasing to 5.5%)
Net OPEB Liability	\$ 2,920,131	\$ 4,439,310	\$ 6,233,815

OPEB Expense and Deferred Outflows of Resources and Deferred inflows of Resources Related to OPEB

For the year ended June 30, 2018, the school division recognized OPEB expense of \$1,324,999. At June 30, 2018, the school division reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 4,411,345
Change in assumptions	3,412,470	-
Investment Earnings (Gains)/Losses	151,986	-
Total	<u>\$ 3,564,456</u>	<u>\$ 4,411,345</u>

NOTE 8. POSTEMPLOYMENT HEALTHCARE BENEFITS (Continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30:

2019	\$ (35,450)
2020	(35,450)
2021	(35,450)
2022	(35,452)
2023	(73,447)
Thereafter	(631,640)
	<u>\$ (846,889)</u>

Actuarial Methods

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the School Board's annual required contributions are subject to continued revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information as of July 1, 2018. In subsequent years, the schedule will provide additional multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

Significant Changes Since Prior Valuation

In the June 30, 2018 actuarial valuation, the discount rate was lowered from 6.0% to 4.44% based on mortality improvement updated from MP-2014. The Pre-65 Medical Inflation was updated from 6% graded to 5% based on updated costs and stipend.

Retirement benefit payments are typically concentrated at the beginning of the fiscal year with very few payments spread over the year. The annual stipend for eligible retirees increased from \$2,500 to \$3,000. Payments are made from the Wells Fargo Advantage Treasury Plus Money Market Fund. A Consumer Directed Health Plan (CDHP) option with high deductible was added to retiree plan option.

School Board VRS OPEB Plans

The School Division participates in a cost-sharing multiple employer Group Life Insurance Program, a Teacher Employee Health Insurance Credit Program, a Political Subdivision Employee Virginia Disability Program, and a Teacher Employee Virginia Local Disability Program offered by the Virginia Retirement System ("VRS").

VRS issues a publicly available Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org>, or by writing to VRS' Chief Financial Officer at P.O. Box 2500, Richmond, Virginia 23218-2500.

NOTE 8. POSTEMPLOYMENT HEALTHCARE BENEFITS (Continued)

The actuarial assumptions and long term expected rate of return are the same for the VRS OPEB programs. As such, the presentation of the actuarial assumptions and long term expected rate of return are combined below. Specific information for the OPEB plans will be presented after this section.

Actuarial Assumptions

The total OPEB liabilities for all VRS plans were based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5%
Salary increases, including inflation –	
General state employees	3.5% – 5.35%
Teachers	3.5% – 5.95%
SPORS employees	3.5% – 4.75%
VaLORS employees	3.5% – 4.75%
JRS employees	4.5%
Locality – General employees	3.5% – 5.35%
Locality – Hazardous Duty employees	3.5% – 4.75%
Investment rate of return	7.0 Percent, net of investment expenses, including inflation*

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

Mortality rates – Teachers

Pre-Retirement:

RP-2014 White Collar Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020.

Post-Retirement:

RP-2014 White Collar Employee Rates to age 49, White Collar Health Annuitant Rates at ages 50 and older projected with scale BB to 2020; males 1% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2.0% increase compounded from ages 75 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with Scale BB to 2020; 115% of rates for males and females.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

NOTE 8. POSTEMPLOYMENT HEALTHCARE BENEFITS (Continued)

Mortality rates – Non-Largest Ten Locality Employers - General Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016.

Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75.
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14 to 15%

Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
Inflation			2.50%
			<u>7.30%</u>

* Expected arithmetic nominal return

NOTE 8. POSTEMPLOYMENT HEALTHCARE BENEFITS (Continued)

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

VRS Group Life Insurance Program

Plan Description

All full-time, salaried permanent teachers and employees of participating political subdivisions are automatically covered by the VRS Group Life Insurance Program (GLIP) upon employment. This plan is administered by the VRS, along with pensions and other OBEB plans, for public employer groups in the Commonwealth of Virginia.

In addition to the Basic Group Life Insurance benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the GLIP OPEB liability

The specific information for GLIP, including eligibility, coverage and benefits is set out in the table below:

GLIP PLAN PROVISIONS	
Eligible Employees	<p>GLIP was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program.</p> <p>Basic group life insurance coverage is automatic upon employment. Coverage end for employees who leave their position before retirement eligibility or who take a refund of their member contributions and accrued interest.</p>
Benefit Amounts	<p>The benefits payable under GLIP have several components.</p> <ul style="list-style-type: none">• <u>Natural Death Benefit</u> – The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled.• <u>Accidental Death Benefit</u> – The accidental death benefit is double the natural death benefit.• <u>Other Benefit Provisions</u> – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include:<ul style="list-style-type: none">○ Accidental dismemberment benefit○ Safety belt benefit○ Repatriation benefit○ Felonious assault benefit○ Accelerated death benefit option
Reduction in benefit Amounts	<p>The benefit amounts provided to members covered under GLIP are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.</p>
Minimum Benefit Amount and Cost-of-Living Adjustment (COLA)	<p>For covered members with at least 30 years of creditable service, there is a minimum benefit payable under GLIP. The minimum benefit was set at \$8,000 by statute. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and is currently \$8,111.</p>

NOTE 8. POSTEMPLOYMENT HEALTHCARE BENEFITS (Continued)

Contributions

The contribution requirements for GLIP are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. The total rate for GLIP was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% X 60%) and the employer component was 0.52% (1.31% X 40%). Employers may elect to pay all or part of the employee contribution, however the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2018 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contribution to GLIP from the School Board for nonprofessional employees were \$40,441 and \$40,672 for the years ended June 30, 2018 and June 30, 2017, respectively. Contribution to GLIP from the School Board for professional employees were \$423,628 and \$413,340 for the years ended June 30, 2018 and June 30, 2017, respectively.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to GLIP

At June 30, 2018, the School Board reported a liability of \$638,000 for its proportionate share of the Net GLI OPEB Liability for nonprofessional employees. At June 30, 2018, the School Board reported a liability of \$6,485,000 for its proportionate share of the Net GLI OPEB Liability for professional employees. The Net GLI OPEB Liability was measured as of June 30, 2017 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to GLIP for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the participating employer's proportion was 0.04241% as compared to 0.04391% at June 30, 2016 for nonprofessional employees. At June 30, 2017, the participating employer's proportion was 0.43094% as compared to 0.44576% at June 30, 2016 for professional employees.

For the year ended June 30, 2018, the School Board recognized GLI OPEB expense of \$3,000 for nonprofessional employees. For the year ended June 30, 2018, the School Board recognized GLI OPEB expense of \$33,000 for professional employees. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the School Board reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB for professional employees from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 144,000
Net difference between projected and actual earnings on GLI OPEB program investments	-	244,000
Change in assumptions	-	334,000
Change in proportion	-	219,000
Employer contributions subsequent to the measurement date	423,628	-
Total	<u>\$ 423,628</u>	<u>\$ 941,000</u>

NOTE 8. POSTEMPLOYMENT HEALTHCARE BENEFITS (Continued)

\$423,628 reported as deferred outflows of resources related to GLIP resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the Fiscal Year ending June 30, 2019 for professional employees. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

Year Ending June 30:

2019	\$ (189,000)
2020	(189,000)
2021	(189,000)
2022	(189,000)
2023	(128,000)
Thereafter	(57,000)
	<u>\$ (941,000)</u>

At June 30, 2018, the School Board reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB for nonprofessional employees from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 14,000
Net difference between projected and actual earnings		
on pension plan investments	-	24,000
Change in assumptions	-	33,000
Changes in proportion	-	22,000
Employer contributions subsequent to the measurement date	40,441	-
Total	<u>\$ 40,441</u>	<u>\$ 93,000</u>

\$40,441 reported as deferred outflows of resources related to GLIP resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the Fiscal Year ending June 30, 2019 for nonprofessional employees. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

Year Ending June 30:

2019	\$ (19,000)
2020	(19,000)
2021	(19,000)
2022	(19,000)
2023	(13,000)
Thereafter	(4,000)
	<u>\$ (93,000)</u>

NOTE 8. POSTEMPLOYMENT HEALTHCARE BENEFITS (Continued)*Net Group Life insurance OPEB Liability – VRS*

The net OPEB liability (NOL) for the Group Life Insurance Program represents the program's total OPEB liability determined in accordance with GAAP, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the Group Life Insurance Program is as follows (amounts expressed in thousands):

	Group Life Insurance OPEB Program
Total GLI OPEB Liability	\$ 2,942,426
Plan Fiduciary Net Position	1,437,586
Employers' Net GLI OPEB Liability (Asset)	<u>\$ 1,504,840</u>

Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability 48.86%

The total GLI OPEB liability is calculated by the VRS's actuary, and each plan's fiduciary net position is reported in the VRS's financial statements. The net GLI OPEB liability is disclosed in accordance with the requirements of GAAP the VRS's notes to the financial statements and required supplementary information.

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

Sensitivity of the Employer's Proportionate Share of the Net GLI OPEB Liability to Changes in the Discount Rate

The following presents the employer's proportionate share of the net GLI OPEB liability for nonprofessional and professional employees using the discount rate of 7.00%, as well as what the employer's proportionate share of the net GLI OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
School Board's proportionate share of GLIP Net OPEB Liability - Professional	\$ 8,388,000	\$ 6,485,000	\$ 4,943,000
School Board's proportionate share of GLIP Net OPEB Liability – Nonprofessional	\$ 825,000	\$ 638,000	\$ 486,000

NOTE 8. POSTEMPLOYMENT HEALTHCARE BENEFITS (Continued)

VRS Health Insurance Credit Program

Plan Description

All full-time, salaried permanent (professional) employees of public school divisions are automatically covered by the VRS Teacher Employee Health Insurance Credit Program (HICP). This plan is administered by VRS. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The health insurance credit is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

The specific information for the HICP, including eligibility, coverage, and benefits is set out in the table below:

HICP PLAN PROVISIONS	
Eligible Employees	<p>HICP was established July 1, 1993 for retired Teacher Employees covered under VRS who retire with at least 15 years of service credit.</p> <p>Eligible employees are enrolled automatically upon employment. They include:</p> <ul style="list-style-type: none">• Full-time permanent (professional) salaried employees of public school divisions covered under VRS.
Benefit Amounts	<p>HICP provides the following benefits for eligible employees:</p> <ul style="list-style-type: none">• <u>At Retirement</u> – For Teacher and other professional school employees who retire, the monthly benefit is \$4.00 per year of service per month with no cap on the benefit amount.• <u>Disability Retirement</u> – For Teacher and other professional school employees who retire on disability or go on long-term disability under the Virginia Local Disability Program (VLDP), the monthly benefit is either:<ul style="list-style-type: none">○ \$4.00 per month, multiplied by twice the amount of service credit, or○ \$4.00 per month, multiplied by the amount of service earned had the employee been active until age 60, whichever is lower.
HICP Notes:	<ul style="list-style-type: none">• The monthly Health Insurance Credit (HIC) benefit cannot exceed the individual premium amount.• Employees who retire after being on long-term disability under VLDP must have at least 15 year of service credit to qualify for the HIC as a retiree.

Contributions

The contribution requirement for active employees is governed by §51.1-1401(E) of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Each school division's contractually required employer contribution rate for the year ended June 30, 2018 was 1.23% of covered employee compensation for employees HICP. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the school division to HICP were \$996,673 and \$878,236 for the years ended June 30, 2018 and June 30, 2017, respectively.

NOTE 8. POSTEMPLOYMENT HEALTHCARE BENEFITS (Continued)*OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to HICP*

At June 30, 2018, the School Division reported a liability of \$12,719,000 for its proportionate share of the net HICP OPEB Liability. The net HICP OPEB Liability was measured as of June 30, 2017 and the total HICP OPEB liability used to calculate the net HICP OPEB Liability was determined by an actuarial valuation as of that date. The School Division's proportion of the net HICP OPEB Liability was based on the school division's actuarially determined employer contributions to HICP for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the school division's proportion of HICP was 1.00254% as compared to 1.04420% at June 30, 2016.

For the year ended June 30, 2018, the school division recognized HICP OPEB expense of \$966,000. Since there was a change in proportionate share between June 30, 2016 and June 30, 2017 a portion of the HICP OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the school division reported deferred outflows of resources and deferred inflows of resources related to HICP from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on HIC OPEB program investments	\$ -	\$ 23,000
Change in assumptions	-	131,000
Changes in proportion	-	459,000
Employer contributions subsequent to the measurement date	996,673	-
Total	<u>\$ 996,673</u>	<u>\$ 613,000</u>

\$996,673 reported as deferred outflows of resources related to HICP resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the net HICP OPEB Liability in the Fiscal Year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the HICP will be recognized in the HICP OPEB expense in future reporting periods as follows:

Year Ending June 30:

2019	\$ (94,000)
2020	(94,000)
2021	(94,000)
2022	(94,000)
2023	(89,000)
Thereafter	(148,000)
	<u><u>\$ (613,000)</u></u>

NOTE 8. POSTEMPLOYMENT HEALTHCARE BENEFITS (Continued)

HICP OPEB Liability

The net HICP OPEB liability represents the program's total OPEB liability determined in accordance with GAAP, less the associated fiduciary net position. As of June 30, 2017, the amounts for the HICP is as follows (amounts expressed in thousands):

	Teacher Employee HIC OPEB Plan
Total Teacher Employee HIC OPEB Liability	\$ 1,364,702
Plan Fiduciary Net Position	96,091
Teacher employee Net HIC OPEB Liability (Asset)	<u>\$ 1,268,611</u>

Plan Fiduciary Net Position as a Percentage of the Total Teacher Employee HIC OPEB Liability	7.04%
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The total HICP liability is calculated by the System's actuary, and the plan's fiduciary net position is reported in the System's financial statements. The net HICP OPEB liability is disclosed in accordance with the requirements of GAAP in the System's notes to the financial statements and required supplementary information.

Discount Rate

The discount rate used to measure the total HICP OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by each school division for HICP will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, HICP's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total HICP OPEB liability.

Sensitivity of the School Board's Proportionate Share of the Net HICP OPEB Liability to Changes in the Discount Rate

The following presents the School Board's proportionate share of the net HICP OPEB liability using the discount rate of 7.00%, as well as what the School Board's proportionate share of the net HIC OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
School Board's proportionate share of HICP Net OPEB Liability	\$ 14,195,000	\$ 12,719,000	\$ 11,464,000

VRS Virginia Local Disability Program

Plan Description

All full-time, salaried permanent teachers and general employees; including local law enforcement officers, firefighters, or emergency medical technicians of political subdivisions who do not provide enhanced hazardous duty benefits; who are in the VRS Hybrid Retirement Plan benefit structure and whose employer has not elected to opt out of the VRS-sponsored program are automatically covered by the VRS Virginia Local Disability Program (VLDP). This plan is administered by VRS. Political subdivisions are required by Title 51.1 of the Code of Virginia, as amended to provide short-term and long-term disability benefits for their Hybrid employees either through a local plan or through VLDP.

NOTE 8. POSTEMPLOYMENT HEALTHCARE BENEFITS (Continued)

The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

VLDP PLAN PROVISIONS
<p>Eligible Employees</p> <p>VLDP was implemented January 1, 2014 to provide short-term and long-term disability benefits for non-work-related and work-related disabilities for employees with Hybrid retirement benefits</p> <p>Eligible employees are enrolled automatically upon employment, unless their employer has elected to provide comparable coverage. They include:</p> <ul style="list-style-type: none">• Political subdivision (nonprofessional) – Full-time general employees; including local law enforcement officers, firefighters, or emergency medical technicians who do not have enhanced hazardous duty benefits; of public political subdivisions covered under VRS.• Teachers (professional) – Teachers and other full-time permanent salaried employees of public school division covered under VRS.
<p>Benefit Amounts</p> <p>VLDP provides the following benefits for eligible employees:</p> <p><u>Short-Term Disability</u> –</p> <ul style="list-style-type: none">• The program provides a short-term disability benefit beginning after a seven-calendar-day waiting period from the first day of disability. Employees become eligible for non-work-related short-term disability coverage after one year of continuous participation in VLDP with their current employer.• During the first five years of continuous participation in VLDP with their current employer, employees are eligible for 60% of their pre-disability income if they go out on non-work-related of work-related disability.• Once the eligibility period is satisfied, employees are eligible for higher income replacement levels <p><u>Long-Term Disability</u> –</p> <ul style="list-style-type: none">• VLDP program provides a long-term disability benefit beginning after 125 workdays of short-term disability. Members are eligible if they are unable to work at all or are working fewer than 20 hours per week.• Members approved for long-term disability will receive 60% of their pre-disability income. If approved for work-related long-term disability, the VLDP benefit will be offset by the workers' compensation benefit. Members will not receive a VLDP benefit if their workers' compensation benefit is greater than the VLDP benefit.
<p>VLDP Notes:</p> <ul style="list-style-type: none">• Members approved for short-term or long-term disability at age 60 or older will be eligible for a benefit, provided they remain medically eligible.• VLDP Long-Term Care Plan is a self-funded program that assists with the cost of covered long-term care services.

Contributions

Professional – The contribution requirement for active Hybrid employees is governed by §51.1-1178(C) of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Each school board's contractually required employer contribution rate for the year ended June 30, 2018 was 0.31% of covered employee compensation for employees in VLDP. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions were \$53,333 and \$38,612 for the years ended June 30, 2018 and June 30, 2017, respectively.

NOTE 8. POSTEMPLOYMENT HEALTHCARE BENEFITS (Continued)

Nonprofessional – The contribution requirement for active Hybrid employees is governed by §51.1-1178(C) of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to political subdivisions by the Virginia General Assembly. Each school board's contractually required employer contribution rate for the year ended June 30, 2018 was 0.60% of covered employee compensation for employees in VLDP. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions were \$13,127 and \$9,310 for the years ended June 30, 2018 and June 30, 2017, respectively.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to VLDP

Professional – At June 30, 2018, the school board reported a liability of \$27,000 for its proportionate share of the net VLDP OPEB Liability. The net VLDP OPEB Liability was measured as of June 30, 2017 and the total VLDP OPEB liability used to calculate the net VLDP OPEB Liability was determined by an actuarial valuation as of that date. The school board's proportion of the net VLDP OPEB Liability was based on the school board's actuarially determined employer contributions to the VLDP OPEB plan for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the school board's proportion of VLDP was 4.42820% as compared to 4.27528%.

For the year ended June 30, 2018, the school board recognized VLDP OPEB expense of \$31,000. Since there was a change in proportionate share between June 30, 2016 and June 30, 2017 a portion of the VRS Teacher Employee Virginia Local Disability Program Net OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the school division reported deferred outflows of resources and deferred inflows of resources related VLDP from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	\$ 3,000	\$ -
Employer contributions subsequent to the measurement date	53,333	-
Total	<u>\$ 56,333</u>	<u>\$ -</u>

\$53,333 reported as deferred outflows of resources related to VLDP resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the net VLDP OPEB Liability in the Fiscal Year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to VLDP will be recognized in VLDP OPEB expense in future reporting periods as follows:

Year Ending June 30:

2019	<u>\$ 3,000</u>
Total	<u>\$ 3,000</u>

Nonprofessional – At June 30, 2018, the school board reported a liability of \$5,000 for its proportionate share of the net VLDP OPEB Liability. The net VLDP OPEB Liability was measured as of June 30, 2017 and the total VLDP OPEB liability used to calculate the net VLDP OPEB Liability was determined by an actuarial valuation as of that date. The school board's proportion of the net VLDP OPEB Liability was based on the school board's actuarially determined employer contributions to the VLDP OPEB plan for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the school board's proportion of VLDP was 0.84502% as compared to 0.93284%.

NOTE 8. POSTEMPLOYMENT HEALTHCARE BENEFITS (Continued)

For the year ended June 30, 2018, the school board's recognized VLDP OPEB expense of \$9,000. Since there was a change in proportionate share between June 30, 2016 and June 30, 2017 a portion of the VRS Political Subdivision Employee Virginia Local Disability Program Net OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the school board reported deferred outflows of resources and deferred inflows of resources related to VLDP from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	\$ -	\$ 1,000
Employer contributions subsequent to the measurement date	13,127	-
Total	<u>\$ 13,127</u>	<u>\$ 1,000</u>

\$13,127 reported as deferred outflows of resources related to VLDP resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the net VLDP OPEB Liability in the Fiscal Year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to VLDP will be recognized in VLDP OPEB expense in future reporting periods as follows:

Year Ending June 30:	
2019	<u>\$ (1,000)</u>
	<u>\$ (1,000)</u>

Net VLDP OPEB Liability

The net VLDP OPEB liabilities represents the program's total OPEB liability determined in accordance with GAAP, less the associated fiduciary net position. As of June 30, 2017, net VLDP OPEB liabilities are as follows (amounts expressed in thousands):

	Teacher Employee VLDP OPEB Plan	Political Subdivision Employee VLDP OPEB Plan
Total Employee VLDP OPEB Liability	\$ 873,000	\$ 914,000
Plan Fiduciary Net Position	279,000	351,000
Employee Net VLDP OPEB Liability (Asset)	<u>\$ 594,000</u>	<u>\$ 563,000</u>

Plan Fiduciary Net Position as a Percentage of the Total Employee VLDP OPEB Liability	31.96%	38.40%
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The total Teacher Employee VLDP OPEB liability is calculated by the VRS's actuary, and the plan's fiduciary net position is reported in the VRS's financial statements. The net Teacher Employee VLDP OPEB liability is disclosed in accordance with the requirements of GAAP in the VRS's notes to the financial statements and required supplementary information.

NOTE 8. POSTEMPLOYMENT HEALTHCARE BENEFITS (Continued)

Discount Rate

The discount rate used to measure the total VLDP OPEB liabilities was 7.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by the school division VLDP will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, VLDP OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total VLDP OPEB liabilities.

Sensitivity of the School Board's Proportionate Share of the VLDP OPEB Liability to Changes in the Discount Rate

The following presents the proportionate share of the net VLDP OPEB liability using the discount rate of 7.00%, as well as the net VLDP OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
School board's proportionate share of net VLDP OPEB liability - professional	\$ 31,000	\$ 27,000	\$ 22,000
School board's proportionate share of net VLDP OPEB liability - nonprofessional	\$ 5,000	\$ 5,000	\$ 4,000

NOTE 8. POSTEMPLOYMENT HEALTHCARE BENEFITS (Concluded)

Combining OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

	Virginia Retirement System						Combined
	HIC		GLI		VLDP		
	Trust	Profess.	Profess.	Non Profess.	Profess.	Non Profess.	
OPEB liability	\$ 4,439,310	\$ 12,719,000	\$ 6,485,000	\$ 638,000	\$ 27,000	\$ 5,000	\$ 24,313,310
OPEB expense	1,324,999	966,000	33,000	3,000	31,000	9,000	2,366,999
<i>Deferred outflows of resources:</i>							
Change in assumptions	3,412,470	-	-	-	3,000	-	3,415,470
Investment earnings (gains)/losses	151,986	-	-	-	-	-	151,986
Employer contributions subsequent to the measurement date	-	996,673	423,628	40,441	53,333	13,127	1,527,202
Total deferred outflows of resources	3,564,456	996,673	423,628	40,441	56,333	13,127	5,094,658
<i>Deferred inflows of resources:</i>							
Difference between expected and actual experience	4,411,345	-	144,000	14,000	-	-	4,569,345
Net difference between projected and actual earnings on pension plan investments	-	23,000	244,000	24,000	-	-	291,000
Change in assumptions	-	131,000	334,000	33,000	-	1,000	499,000
Changes in proportion	-	459,000	219,000	22,000	-	-	700,000
Total deferred inflows of resources	\$ 4,411,345	\$ 613,000	\$ 941,000	\$ 93,000	\$ -	\$ 1,000	\$ 6,059,345

NOTE 9. FUND BALANCES

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

	General	School Grants	School Food Services	School Textbooks	Total
Nonspendable					
Inventory	\$ 210,990	\$ -	\$ 31,879	\$ -	\$ 242,869
	<u>210,990</u>	<u>-</u>	<u>31,879</u>	<u>-</u>	<u>242,869</u>
Restricted					
Federal	-	978,263	-	-	978,263
State	-	-	-	-	-
Other	-	-	-	-	-
Elementary schools	-	-	598,826	2,111,909	2,710,735
Middle schools	-	-	145,861	509,771	655,632
High schools	-	-	292,979	1,019,542	1,312,521
	<u>-</u>	<u>978,263</u>	<u>1,037,666</u>	<u>3,641,222</u>	<u>5,657,151</u>
Assigned					
Instruction	195,118	-	-	-	195,118
Administration,					
Attendance, health	40,986	-	-	-	40,986
Pupil transportation	-	-	-	-	-
Operations	336,347	-	-	-	336,347
Information technology	31,623	-	-	-	31,623
	<u>604,074</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>604,074</u>
Unassigned	<u>(25,764)</u>	<u>(239,039)</u>	<u>-</u>	<u>-</u>	<u>(264,803)</u>
Total fund balances	<u>\$ 789,300</u>	<u>\$ 739,224</u>	<u>\$ 1,069,545</u>	<u>\$ 3,641,222</u>	<u>\$ 6,239,291</u>

NOTE 10. RESTATEMENT OF NET POSITION

During the year ended June 30, 2018, the School Division implemented Government Accounting Standards Board (GASB) No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

Implementation of GASB statement No. 75 established standards for recognizing net OPEB liabilities, deferred outflows and inflows and OPEB expense. This inclusion of the OPEB liabilities in the financial statements caused a restatement of prior period net position for fiscal year ended June 30, 2017. This restatement decreased prior period net position, added a net OPEB liability as well as deferred inflow and deferred outflow. The total effect of the restatement for the School division decreased net position by \$29,004,886.

	Governmental Activities
Net position as previously reported, June 30, 2017	\$ (65,944,339)
GASB 75 Restatement	(29,004,886)
Net position as restated, June 30, 2017	<u>\$ (94,949,225)</u>

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

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

Exhibit XI

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE (UNAUDITED)

Year Ended June 30, 2018

	Original Budget	Amended Budget	Actual (Budgetary Basis)	Variance with Amended Budget Positive (Negative)
Revenues				
Intergovernmental				
From City of Portsmouth	\$ 52,400,000	\$ 52,491,840	\$ 52,491,840	\$ -
From Commonwealth of Virginia	89,595,818	89,595,818	88,620,586	(975,232)
From federal government	600,000	600,000	537,565	(62,435)
Interest	-	-	62,744	62,744
Miscellaneous	1,707,495	1,707,495	2,256,316	548,821
Total revenues	144,303,313	144,395,153	143,969,051	(426,102)
Expenditures				
Education				
Instruction	106,446,910	105,967,750	104,832,055	1,135,695
Administration, attendance, and health services	8,619,319	8,029,319	7,628,373	400,946
Pupil transportation	6,433,474	6,731,974	6,319,740	412,234
Operations and maintenance	14,144,522	14,814,522	14,449,910	364,612
Information technology	5,572,166	5,839,666	5,813,331	26,335
Total education	141,216,391	141,383,231	139,043,409	2,339,822
Debt service	-	-	-	-
Total expenditures	141,216,391	141,383,231	139,043,409	2,339,822
Excess of revenues over expenditures	3,086,922	3,011,922	4,925,642	1,913,720
Other financing sources (uses)				
Transfers in	-	-	636,000	636,000
Transfers out	(3,086,922)	(3,011,922)	(5,225,669)	(2,213,747)
Total other financing sources (uses)	(3,086,922)	(3,011,922)	(4,589,669)	(1,577,747)
Excess of revenues over expenditures and other financing sources (uses)	\$ -	\$ -	335,973	\$ 335,973
Fund balance - beginning of year			2,678,460	
Less prior year unassigned fund balance reappropriated to current year			(91,840)	
Increase in encumbrances			(2,125,624)	
Decrease in inventory			(7,669)	
Fund balance - end of year			<u>\$ 789,300</u>	

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

Exhibit XII

SCHOOL GRANTS FUND
BUDGETARY COMPARISON SCHEDULE (UNAUDITED)

Year Ended June 30, 2018

	Original Budget	Amended Budget	Actual (Budgetary Basis)	Variance with Amended Budget Positive (Negative)
Revenues				
Intergovernmental				
From Commonwealth of Virginia	\$ 4,928,223	\$ 5,044,938	\$ 6,020,746	\$ 975,808
From federal government	11,781,236	11,781,236	12,383,250	602,014
Miscellaneous	988,140	1,199,872	232,632	(967,240)
Total revenues	17,697,599	18,026,046	18,636,628	610,582
Expenditures				
Education				
Instruction	16,148,814	16,477,261	16,073,825	403,436
Administration, attendance, and health	872,368	872,368	295,416	576,952
Pupil transportation	254,527	254,527	375,328	(120,801)
Technology	1,445,278	1,445,278	2,914,005	(1,468,727)
Operation and maintenance	146,513.00	146,513.00	310,039	(163,526)
Total education	18,867,500	19,195,947	19,968,613 *	(772,666)
Total expenditures	18,867,500	19,195,947	19,968,613	(772,666)
Excess (deficiency) of revenues over expenditures	(1,169,901)	(1,169,901)	(1,331,985)	(162,084)
Other financing sources (uses)				
Transfers in	1,169,901	1,169,901	1,159,626	(10,275)
Total other financing sources (uses)	1,169,901	1,169,901	1,159,626	(10,275)
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	\$ -	\$ -	\$ (172,359)	\$ (172,359)
Fund balance - beginning of year			911,583	
Fund balance - end of year			\$ 739,224	

* Note the carryover amounts are not included in the final budget. Therefore, the total expenditures exceed the amended budget, but it does not take into account \$5,115,696 of carryover grant funds.

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

Exhibit XIII

SCHOOL FOOD SERVICES FUND
BUDGETARY COMPARISON SCHEDULE (UNAUDITED)

Year Ended June 30, 2018

	Original Budget	Amended Budget	Actual (Budgetary Basis)	Variance with Amended Budget Positive Negative
Revenues				
Intergovernmental				
From Commonwealth of Virginia	\$ 95,966	\$ 95,966	\$ 123,712	\$ 27,746
From federal government	6,970,824	6,970,824	6,851,143	(119,681)
Donated commodities from the federal government	415,000	415,000	482,332	67,332
Charges for services	500,000	500,000	465,889	(34,111)
Interest	-	-	13,078	13,078
Miscellaneous	622,000	622,000	569,729	(52,271)
Total revenues	8,603,790	8,603,790	8,505,883	(97,907)
Expenditures				
Food services	8,618,790	8,618,790	8,334,680	284,110
Total expenditures	8,618,790	8,618,790	8,334,680	284,110
Excess (deficiency) of revenues over expenditures	(15,000)	(15,000)	171,203	186,203
Other financing sources (uses)				
Transfers in	15,000	15,000	25,468	10,468
Total other financing sources (uses)	15,000	15,000	25,468	10,468
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	\$ -	\$ -	196,671	\$ 196,671
Fund balance - beginning of year			852,714	
Increase in inventory			20,160	
Fund balance - end of year			\$ 1,069,545	

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

Exhibit XIV

SCHOOL TEXTBOOK FUND
BUDGETARY COMPARISON SCHEDULE (UNAUDITED)

Year Ended June 30, 2018

	Original Budget	Amended Budget	Actual (Budgetary Basis)	Variance with Amended Budget Positive (Negative)
Revenues				
Intergovernmental				
From Commonwealth of Virginia	\$ 1,122,495	\$ 3,687,657	\$ 1,108,665	\$ (2,578,992)
Miscellaneous	-	-	1,895	1,895
Total revenues	<u>1,122,495</u>	<u>3,687,657</u>	<u>1,110,560</u>	<u>(2,577,097)</u>
Expenditures				
Instruction	1,496,186	4,061,348	400,204	3,661,144
Total expenditures	<u>1,496,186</u>	<u>4,061,348</u>	<u>400,204</u>	<u>3,661,144</u>
Excess (deficiency) of revenues over expenditures	<u>(373,691)</u>	<u>(373,691)</u>	<u>710,356</u>	<u>1,084,047</u>
Other financing sources (uses)				
Transfers in	373,691	373,691	370,739	(2,952)
Total other financing sources (uses)	<u>373,691</u>	<u>373,691</u>	<u>370,739</u>	<u>(2,952)</u>
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>1,081,095</u>	<u>\$ 1,081,095</u>
Fund balance - beginning of year			2,560,127	
Fund balance - end of year			<u>\$ 3,641,222</u>	

**SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY AND RELATED RATIOS -
NONPROFESSIONAL EMPLOYEES (UNAUDITED)**

Year Ended June 30, 2018

	2018	2017	2016	2015
Total pension liability				
Service cost	\$ 763,448	\$ 695,895	\$ 729,606	\$ 743,215
Interest	2,600,444	2,552,232	2,501,150	2,434,509
Differences between expected and actual experience	110,155	(293,248)	(215,707)	-
Changes in assumptions	(44,324)	-	-	-
Benefit payments, including refunds of employee contributions	(2,261,995)	(2,270,264)	(2,300,353)	(2,151,081)
Net change in total pension liability	1,167,728	684,615	714,696	1,026,643
Total pension liability - beginning	38,280,197	37,595,582	36,880,886	35,854,243
Total pension liability - ending (a)	\$ 39,447,925	\$ 38,280,197	\$ 37,595,582	\$ 36,880,886
Plan fiduciary net position				
Contributions - employer	\$ 882,435	\$ 801,790	\$ 726,275	\$ 648,377
Contributions - employee	372,038	378,872	345,765	354,802
Net investment income	3,443,683	487,721	1,307,987	4,075,199
Benefit payments, including refunds of employee contributions	(2,261,995)	(2,270,264)	(2,300,353)	(2,151,081)
Administrative expense	(20,455)	(18,573)	(18,893)	(22,705)
Other	(3,044)	(211)	(276)	215
Net change in plan fiduciary net position	2,412,662	(620,665)	60,505	2,904,807
Plan fiduciary net position - beginning	28,730,690	29,351,355	29,290,850	26,386,043
Plan fiduciary net position - ending (b)	\$ 31,143,352	\$ 28,730,690	\$ 29,351,355	\$ 29,290,850
Net pension liability - ending (a) - (b)	\$ 8,304,573	\$ 9,549,507	\$ 8,244,227	\$ 7,590,036
Plan fiduciary net position as a percentage of the total pension liability	78.95%	75.05%	78.07%	79.42%
Covered payroll	7,719,383	8,465,913	8,498,497	8,647,732
Net pension liability as a percentage of covered payroll	108%	113%	97%	88%

Schedule is intended to show information for 10 years. Since 2018 is the fourth year for this presentation, only three additional years of data are available. However, additional years will be included as they become available. Per GAAP, net pension liabilities are reported using the measurement date, which is one year prior to the reporting date.

**SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY -
RETIREMENT PLAN - PROFESSIONAL EMPLOYEES (UNAUDITED)**

Year Ended June 30, 2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Employer's Proportion of the Net Pension Liability (Asset)	1.00%	1.04%	1.05%	1.08%
Employer's Proportionate Share of the Net Position Liability (Asset)	\$ 123,472,000	\$ 146,345,000	\$ 132,145,000	\$ 130,368,000
Employer's Covered Payroll	79,054,292	81,200,579	79,779,153	\$ 81,064,661
Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	156%	180%	166%	161%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.92%	68.28%	70.68%	70.88%

Schedule is intended to show information for 10 years. Since 2018 is the fourth year for this presentation, only three additional years of data are available. However, additional years will be included as they become available.

SCHEDULE OF EMPLOYER CONTRIBUTIONS - VRS (UNAUDITED)

Year Ended June 30, 2018

Date	(a) Contractually Required Contribution	(b) Contributions in Relation to Contractually Required Contribution	(c) Contribution Deficiency (Excess) (a) - (b)	(d) Employer's Covered Employee Payroll	(e) Contributions as a % of Covered Employee Payroll (b) / (d)
Professional					
June 30, 2018	\$ 11,874,935	\$ 13,219,573	\$ (1,344,638)	\$ 81,002,287	16.32%
June 30, 2017	\$ 12,198,613	\$ 11,589,359	\$ 609,254	\$ 79,054,292	14.66%
June 30, 2016	\$ 11,416,801	\$ 11,190,544	\$ 226,257	\$ 81,200,579	13.78%
June 30, 2015	\$ 11,567,977	\$ 11,317,000	\$ 250,977	\$ 79,779,153	14.19%
June 30, 2014	\$ 9,452,139	\$ 9,191,479	\$ 260,660	\$ 81,064,661	11.34%
June 30, 2013	\$ 9,542,186	\$ 9,213,695	\$ 328,491	\$ 81,836,929	11.26%
June 30, 2012	\$ 4,985,979	\$ 4,744,734	\$ 241,245	\$ 78,767,435	6.02%
June 30, 2011	\$ 3,186,436	\$ 3,044,252	\$ 142,184	\$ 81,079,797	3.75%
June 30, 2010	\$ 7,321,704	\$ 5,008,497	\$ 2,313,207	\$ 83,106,742	6.03%
June 30, 2009	\$ 7,385,729	\$ 7,080,639	\$ 305,090	\$ 83,833,474	8.45%
Nonprofessional					
June 30, 2018	\$ 921,435	\$ 899,130	\$ 22,305	\$ 7,691,444	11.69%
June 30, 2017	\$ 1,137,788	\$ 902,396	\$ 235,392	\$ 7,719,383	11.69%
June 30, 2016	\$ 882,148	\$ 813,358	\$ 68,790	\$ 8,465,913	9.61%
June 30, 2015	\$ 885,543	\$ 731,636	\$ 153,907	\$ 8,498,497	8.61%
June 30, 2014	\$ 789,538	\$ 649,001	\$ 140,537	\$ 8,647,732	7.50%
June 30, 2013	\$ 790,470	\$ 644,890	\$ 145,580	\$ 8,657,941	7.45%
June 30, 2012	\$ 766,574	\$ 603,630	\$ 162,944	\$ 8,508,035	7.09%
June 30, 2011	\$ 769,926	\$ 643,311	\$ 126,615	\$ 8,545,234	7.53%
June 30, 2010	\$ 755,369	\$ 685,941	\$ 69,428	\$ 9,078,953	7.56%
June 30, 2009	\$ 776,138	\$ 715,023	\$ 61,114	\$ 9,328,576	7.66%

SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS (UNAUDITED)

Year Ended June 30, 2018

	2018	2017
Total OPEB Liability		
Service cost	\$ 625,456	\$ 713,189
Interest	997,917	958,969
Changes of benefit terms	459,794	-
Differences between expected and actual experience	(4,735,709)	(747,036)
Change of assumptions	3,663,387	2,171,672
Benefit payments, including lump sum liability settlement for 114 participants	(73,336)	(80,005)
Net change in total OPEB liability	937,509	3,016,789
Total OPEB liability - beginning	16,043,164	13,026,375
Total OPEB liability - ending (a)	\$ 16,980,673	\$ 16,043,164
 Plan Fiduciary Net Position		
Contributions/benefit payments made from general operating funds	\$ -	\$ 80,005
Net investment income	532,735	743,975
Benefit payments, including refunds of employee contributions	(73,336)	(80,005)
Administrative expense	-	(7,000)
Net Change in Fiduciary Net Position	459,399	656,970
Plan Fiduciary Net Position - Beginning	12,081,964	11,424,994
Plan Fiduciary Net Position - Ending (b)	\$ 12,541,363	\$ 12,081,964
 Net OPEB Liability - Ending (a) - (b)	\$ 4,439,310	\$ 3,961,200
 Plan Fiduciary Net Position as a Percentage of Total OPEB Pension Liability	73.9%	75.3%
 Covered Employee Payroll	\$ 91,796,317	\$ 96,277,315
 Net OPEB Liability as Percentage of Payroll	4.84%	4.11%

Schedule is intended to show information for 10 years. Since 2018 is the second year for this presentation, only one additional year of information is available. However, additional years will be included as they become available.

SCHEDULE OF EMPLOYER OPEB CONTRIBUTIONS (UNAUDITED)

Year Ended June 30, 2018

	2018*	2017
Actuarially Determined Employer Contribution		
Service cost	\$ 662,983	\$ 763,112
Amortization of unfunded liability	350,393	171,131
Recommended contribution	1,013,376	934,243
Contribution/benefit payments made	(703,482)	(80,005)
Contribution deficiency (excess)	\$ 309,894	\$ 854,238
 Covered Employee Payroll	 \$ 91,796,317	 \$ 96,277,315
 Contribution as a Percentage of Covered Payroll	 1.10%	 0.89%

Schedule is intended to show information for 10 years. Since 2018 is the second year for this presentation, no other data, prior to 2017 is available. However, additional years will be included as they become available.

Notes to schedule:

Methods and Assumptions used to determine contribution rate:

Measurement Date	7/30/2018
Timing	Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the plan year.
Actuarial Cost Method	Projected Unit Credit (level dollar)
Amortization method	Level percent, open
Remaining amortization period	20 years
Discount rate	6% for 2017 liability and 2018 contribution; 4.44% for June 30, 2018 liability and 2018 contribution
Payroll growth	2.5%
Return on plan assets	6% for 2018 and 4.44% for 2019
Mortality rate	RPH-2014, sex-distinct, annuitant and non-annuitant mortality with mortality projection MP-2017
Asset valuation method	Market value

* Based on 6% discount, 15 year level percent of pay, amortization of unfunded liability.

SCHEDULE OF OPEB INVESTMENT RETURNS (UNAUDITED)

Year Ended June 30, 2018

	2018	2017
Annual money-weighted rate of return, net of investment expense	6.00%	6.00%

Schedule is intended to show information for 10 years. Since 2018 is the second year for this presentation, only one additional year of information is available. However, additional years will be included as they become available.

**SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY -
Group Life Insurance Program**

Year Ended June 30, 2018*

Employer's Proportion of Net GLI OPEB Liability (Asset)	Employer's Proportionate Share of Net GLI OPEB Liability (Asset)	Employer's Covered-Employee Payroll	Employer's Proportionate Share of Net GLI OPEB Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability
Professional				
0.04%	\$ 6,485,000	\$ 79,488,375	8.16%	48.86%
Nonprofessional				
0.04%	\$ 638,000	\$ 7,821,559	8.16%	48.86%

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, only one year of data is available. However, additional years will be included as they become available.

*The amounts presented have a measurement date of the previous fiscal year end.

SCHEDULE OF EMPLOYER CONTRIBUTIONS - OPEB (UNAUDITED)
Group Life Insurance Program

Year Ended June 30, 2018

Date	(a) Contractually Required Contribution	(b) Contributions in Relation to Contractually Required Contribution	(c) Contribution Deficiency (Excess) (a) - (b)	(d) Employer's Covered Employee Payroll	(e) Contributions as a % of Covered Employee Payroll (b) / (d)
Professional					
June 30, 2018	\$ 423,628	\$ 423,628	\$ -	\$ 81,466,826	0.52%
June 30, 2017	413,340	413,340	-	79,488,375	0.52%
June 30, 2016	384,497	384,497	-	80,103,513	0.48%
June 30, 2015	377,187	377,187	-	78,580,681	0.48%
June 30, 2014	380,015	380,015	-	79,169,887	0.48%
June 30, 2013	380,479	380,479	-	79,266,483	0.48%
June 30, 2012	210,699	210,699	-	75,249,805	0.28%
June 30, 2011	218,391	218,391	-	77,996,828	0.28%
June 30, 2010	154,509	154,509	-	57,225,707	0.27%
June 30, 2009	218,194	218,194	-	80,812,712	0.27%
Nonprofessional					
June 30, 2018	\$ 40,441	\$ 40,441	\$ -	\$ 7,777,114	0.52%
June 30, 2017	40,672	40,672	-	7,821,559	0.52%
June 30, 2016	37,875	37,875	-	7,890,684	0.48%
June 30, 2015	34,309	34,309	-	7,147,756	0.48%
June 30, 2014	34,829	34,829	-	7,256,059	0.48%
June 30, 2013	34,487	34,487	-	7,184,753	0.48%
June 30, 2012	18,904	18,904	-	6,751,453	0.28%
June 30, 2011	20,027	20,027	-	7,152,368	0.28%
June 30, 2010	16,405	16,405	-	6,076,093	0.27%
June 30, 2009	23,315	23,315	-	8,635,197	0.27%

VRS Group Life Insurance Program
Notes to Required Supplementary Information

Year Ended June 30, 2018

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Professional

Mortality Rates (Pre-retirement, postretirement healthy, and disabled)
Retirement Rates
Withdrawal Rates
Salary Scale

Updated to a more current mortality table – RP-2014 projected to 2020
Lowered rates at older ages and changed final retirement from 70 to 75
Adjusted rates to better fit experience at each year age and service through 9 years of service
No change

Nonprofessional

Mortality Rates (Pre-retirement, postretirement healthy, and disabled)
Retirement Rates
Withdrawal Rates
Salary Scale

Updated to a more current mortality table – RP-2014 projected to 2020
Lowered rates at older ages and changed final retirement from 70 to 75
Adjusted termination rates to better fit experience at each age and service year
No change

**SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY -
HEALTH INSURANCE CREDIT PROGRAM (HIC)
VRS RETIREMENT PLAN - PROFESSIONAL (UNAUDITED)**

Year Ended June 30, 2018

	2018
Employer's Proportion of the Net HIC OPEB Liability (Asset)	1.00%
Employer's Proportionate Share of the Net HIC OPEB Position Liability (Asset)	\$ 12,719,000
Employer's Covered-Employee Payroll	79,120,346
Employer's Proportionate Share of the Net HIC OPEB Liability (Asset) as a Percentage of its Covered-Employee Payroll	16%
Plan Fiduciary Net Position as a Percentage of the Total HIC OPEB Liability	7.04%

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, only one year of data is available. However, additional years will be included as they become available.

SCHEDULE OF EMPLOYER CONTRIBUTIONS - OPEB (UNAUDITED)
HEALTH INSURANCE CREDIT PROGRAM
VRS RETIREMENT PLAN - PROFESSIONAL (UNAUDITED)

Year Ended June 30, 2018

	(a)	(b)	(c)	(d)	(e)
		Contributions in	Contribution	Employer's	Contributions
	Contractually	Relation to	Deficiency	Covered	as a % of
	Required	Contractually	(Excess)	Employee	Covered
	Contribution	Required	(a) - (b)	Payroll	Employee
Date		Contribution			Payroll
					(b) / (d)
June 30, 2018	\$ 996,673	\$ 996,673	\$ -	\$ 81,030,323	1.23%
June 30, 2017	878,236	878,236	-	79,120,346	1.11%
June 30, 2016	843,986	843,986	-	79,621,342	1.06%
June 30, 2015	827,427	827,427	-	78,059,128	1.06%
June 30, 2014	875,707	875,707	-	78,892,500	1.11%
June 30, 2013	875,736	875,736	-	78,895,095	1.11%
June 30, 2012	449,738	449,738	-	74,956,305	0.60%
June 30, 2011	464,771	464,771	-	77,461,890	0.60%
June 30, 2010	591,241	591,241	-	56,850,139	1.04%
June 30, 2009	867,979	867,979	-	80,368,454	1.08%

Notes to Required Supplementary Information
For the Year Ended June 30, 2018

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Professional

Mortality Rates (Pre-retirement, postretirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

**SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY -
VIRGINIA LOCAL DISABILITY PROGRAM (VLDP)
VRS RETIREMENT PLAN - PROFESSIONAL (UNAUDITED)**

Year Ended June 30, 2018

	<u>2018</u>
Employer's Proportion of the Net VLDP OPEB Liability (Asset)	4.43%
Employer's Proportionate Share of the Net VLDP OPEB Liability (Asset)	\$ 27,000
Employer's Covered- Employee Payroll	12,496,408
Employer's Proportionate Share of the Net VLDP OPEB Liability (Asset) as a Percentage of its Covered-Employee Payroll	0%
Plan Fiduciary Net Position as a Percentage of the Total VLDP OPEB Liability	0.21%

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, only one year of data is available. However, additional years will be included as they become available.

**SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY -
VIRGINIA LOCAL DISABILITY PROGRAM (VLDP)
VRS RETIREMENT PLAN - NONPROFESSIONAL (UNAUDITED)**

Year Ended June 30, 2018

	<u>2018</u>
Employer's Proportion of the Net VLDP OPEB Liability (Asset)	0.85%
Employer's Proportionate Share of the Net VLDP OPEB Liability (Asset)	\$ 5,000
Employer's Covered-Employee Payroll	1,551,694
Employer's Proportionate Share of the Net VLDP OPEB Liability (Asset) as a Percentage of its Covered-Employee Payroll	0%
Plan Fiduciary Net Position as a Percentage of the Total VLDP OPEB Liability	0.21%

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, only one year of data is available. However, additional years will be included as they become available.

SCHEDULE OF EMPLOYER CONTRIBUTIONS - OPEB (UNAUDITED)
VIRGINIA LOCAL DISABILITY PROGRAM

Year Ended June 30, 2018

	(a)		(b)		(c)		(d)	(e)
								Contributions as a % of Employer's Covered Payroll (b) / (d)
Date	Contractually Required Contribution		Contributions in Relation to Contractually Required Contribution		Contribution Deficiency (Excess) (a) - (b)		Employer's Covered Payroll	

VRS Virginia Local Disability Program
Notes to Required Supplementary Information

Year Ended June 30, 2018

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Professional

Mortality Rates (Pre-retirement, postretirement healthy, and disabled)
Retirement Rates
Withdrawal Rates
Disability Rates
Salary Scale

Updated to a more current mortality table – RP-2014 projected to 2020
Lowered rates at older ages and changed final retirement from 70 to 75
Adjusted rates to better fit experience at each year age and service through 9 years of service
Adjusted rates to better match experience
No change

Nonprofessional

Mortality Rates (Pre-retirement, postretirement healthy, and disabled)
Retirement Rates
Withdrawal Rates
Disability Rates
Salary Scale
Line of Duty Disability

Updated to a more current mortality table – RP-2014 projected to 2020
Lowered rates at older ages and extended final retirement age from 70 to 75
Adjusted termination rates to better fit experience at each year age and service through 9 years of service
Lowered disability rates
No change
Increased rate from 14 to 15%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2018

1. BUDGETS AND BUDGETARY ACCOUNTING

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

- 1) The School Board submits to the City Council of the City a proposed operating budget for the General and Special Revenue Funds for the forthcoming fiscal year by April 1. The legal level of budgetary control rests at the fund level for the General and Special Revenue Funds. Management control is exercised over the budgets at the budgetary line item level.
- 2) The budgets are legally enacted through passage of an ordinance by the City Council forty-five days prior to the end of the current fiscal year.
- 3) The School Board is authorized to make transfers between budgetary line items; however, revisions that alter the total expenditures of the total budget must be approved by the City Council.
- 4) The General Fund and Special Revenue Fund have a legally adopted annual budget. The General Fund and Special Revenue Fund budgets are adopted on a basis consistent with accounting principles generally accepted in the United States, except for the recognition of encumbrances and inventory as expenditures. Budgets related to the School Construction Fund are adopted on a project basis.
- 5) The School Board employs encumbrance accounting under which obligations in the form of purchase orders, contracts and other commitments for the expenditure of funds are reported as reservations of fund balances, since they do not constitute expenditures or liabilities. Appropriations with outstanding commitments or encumbrances are requested for re-appropriation and carried forward into the subsequent year. According to the City of Portsmouth, Virginia Code, unexpended, unencumbered appropriations lapse at the end of the year.

OTHER SUPPLEMENTARY INFORMATION

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

Year Ended June 30, 2018

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
ASSETS				
Cash and temporary investments	\$ 782,452	\$ 1,468,220	\$ 1,469,429	\$ 781,243
LIABILITIES				
Due to students	\$ 782,452	\$ 1,468,220	\$ 1,469,429	\$ 781,243

STATISTICAL SECTION

(Unaudited)

This part of the City of Portsmouth, Virginia School Board's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health as shown on pages 71 through 85.

Financial Trends

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

Revenue Capacity

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

Debt Capacity

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

Demographic and Economic Information

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

Operating Information

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

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

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

	2018	2017**	2016	2015	2014*	2013	2012	2011	2010	2009
Governmental activities										
Net investment in capital assets	\$ 61,253,765	\$ 64,238,842	\$ 65,586,657	\$ 67,458,191	\$ 68,535,355	\$ 77,294,681	\$ 86,269,945	\$ 70,253,415	\$ 62,781,638	\$ 52,248,227
Restricted:										
Grant compliance	1,187,813	1,729,966	1,639,171	528,276	611,099	1,103,582	577,712	-	-	-
Capital projects	-	-	-	-	-	-	505,998	509,246	532,666	829,897
OPEB	-	4,566,686	-	-	-	-	-	-	-	-
School food services	1,132,315	840,998	653,034	893,933	1,710,238	1,804,974	2,036,930	-	-	-
Textbook	3,641,222	2,560,127	1,442,722	988,698	862,997	843,673	375,765	-	-	-
Unrestricted (deficit)	(165,682,925)	(168,885,841)	(132,759,892)	(133,270,921)	(144,218,024)	3,316,274	18,945,239	31,113,169	30,063,956	24,772,621
Total governmental activities										
net position (deficit)	\$ (98,467,810)	\$ (94,949,222)	\$ (63,438,308)	\$ (63,401,823)	\$ (72,498,335)	\$ 84,363,184	\$ 108,711,589	\$ 101,875,830	\$ 93,378,260	\$ 77,850,745

Source: Comprehensive Annual Financial Report for the relevant year

*Restated for GASB 68

**Restated for GASB 75

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Expenses										
Governmental activities										
Administration, attendance, and health services	\$ 8,814,368	\$ 9,108,781	\$ 8,087,764	\$ 8,509,930	\$ 7,702,994	\$ 7,060,682	\$ 7,482,355	\$ 8,171,430	\$ 8,860,166	\$ 9,258,278
Instruction	120,925,967	124,548,696	114,530,007	114,951,195	117,950,884	123,563,193	110,997,918	116,243,716	116,857,035	126,005,907
Pupil transportation	7,291,521	7,314,286	7,013,542	7,301,645	6,567,662	5,967,101	6,994,723	6,396,152	6,577,674	7,273,274
Unassigned	15,645,909	15,223,576	15,915,270	14,279,136	15,372,087	16,218,996	14,288,609	15,072,405	15,820,741	18,619,097
Information technology	8,813,988	5,711,520	9,601,034	6,978,045	4,159,832	4,691,124	3,917,235	3,179,565	3,493,477	5,703,015
Food service	8,066,102	8,236,369	8,093,226	7,817,357	8,015,665	7,916,123	7,173,854	7,011,115	6,453,576	7,258,248
Self insured health	-	-	-	9,073,104	-	-	-	-	-	-
Interest on long-term debt	-	30,410	77,612	113,167	146,251	178,945	210,763	233,957	254,075	258,233
Total primary government	<u>\$ 169,557,855</u>	<u>\$ 170,173,638</u>	<u>\$ 163,318,455</u>	<u>\$ 169,023,579</u>	<u>\$ 159,915,375</u>	<u>\$ 165,596,164</u>	<u>\$ 151,065,457</u>	<u>\$ 156,308,340</u>	<u>\$ 158,316,744</u>	<u>\$ 174,376,052</u>
Program Revenues										
Governmental activities										
Charges for services										
Food services	\$ 1,268,250	\$ 1,468,263	\$ 1,324,237	\$ 1,625,939	\$ 1,948,098	\$ 1,852,675	\$ 1,793,828	\$ 1,748,890	\$ 2,273,341	\$ 2,338,403
Pupil transportation	203,112	144,797	97,522	89,795	90,012	17,412	101,135	235,094	214,243	499,889
Self insured health	-	-	-	14,228,080	-	-	-	-	-	-
Other	903,613	524,007	54,141	788,541	472,193	378,526	170,489	276,896	328,609	451,267
Operating grants and contributions										
Instruction	27,267,039	24,142,951	23,193,044	23,666,175	25,061,820	24,326,281	21,395,573	42,216,751	49,136,211	46,544,936
Food services	6,851,143	6,527,103	6,384,446	5,424,966	5,467,899	5,528,135	5,444,996	5,178,450	4,951,631	4,951,412
Capital grants and contributions	1,029,558	984,456	-	-	-	-	-	-	-	1,455,056
Total governmental activities program revenue	<u>\$ 37,522,715</u>	<u>\$ 33,791,577</u>	<u>\$ 31,053,390</u>	<u>\$ 45,823,496</u>	<u>\$ 33,040,022</u>	<u>\$ 32,103,029</u>	<u>\$ 28,906,021</u>	<u>\$ 49,656,081</u>	<u>\$ 56,904,035</u>	<u>\$ 56,240,963</u>
Net Expense										
Governmental activities	<u>\$(132,035,140)</u>	<u>\$(136,382,061)</u>	<u>\$(132,265,065)</u>	<u>\$(123,200,083)</u>	<u>\$(126,875,353)</u>	<u>\$(133,493,135)</u>	<u>\$(122,159,436)</u>	<u>\$(106,652,259)</u>	<u>\$(101,412,709)</u>	<u>\$(118,135,089)</u>
General Revenues and Other Changes in Net Position										
Governmental activities										
Unrestricted grants and contributions	\$ 127,289,247	\$ 132,619,967	\$ 130,673,834	\$ 131,800,839	\$ 125,366,580	\$ 120,974,979	\$ 137,776,964	\$ 113,833,393	\$ 115,161,547	\$ 123,606,569
Investment earnings	75,822	10,387	4,923	463	6,345	30,439	25,317	55,597	270,797	498,527
Miscellaneous	1,151,486	1,245,676	442,551	239,964	596,709	888,601	1,136,711	1,260,839	1,507,880	1,607,268
Special item	-	-	-	-	(4,778,996)	-	-	-	-	-
Total governmental activities	<u>\$ 128,516,555</u>	<u>\$ 133,876,030</u>	<u>\$ 131,121,308</u>	<u>\$ 132,041,266</u>	<u>\$ 121,190,638</u>	<u>\$ 121,894,019</u>	<u>\$ 138,938,992</u>	<u>\$ 115,149,829</u>	<u>\$ 116,940,224</u>	<u>\$ 125,712,364</u>
To City of Portsmouth	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,750,269</u>	<u>\$ 9,943,797</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Change in Net Position										
Governmental activities	<u>\$ (3,518,585)</u>	<u>\$ (2,506,031)</u>	<u>\$ (1,143,757)</u>	<u>\$ 8,841,183</u>	<u>\$ (5,684,715)</u>	<u>\$ (15,349,385)</u>	<u>\$ 6,835,759</u>	<u>\$ 8,497,570</u>	<u>\$ 15,527,515</u>	<u>\$ 7,577,275</u>

Source: Comprehensive Annual Financial Report for the relevant year

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
General Fund										
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,254,071	\$ 4,445,477
Nonspendable	210,990	218,658	267,125	274,185	152,853	300,259	135,575	559,924	-	-
Assigned	578,310	1,827,694	453,425	12,450,267	2,359,913	397,077	8,582,212	6,370,824	-	-
Unassigned	-	632,108	5,034,127	972,097	2,361,295	-	-	-	-	-
Total General Fund	<u>\$ 789,300</u>	<u>\$ 2,678,460</u>	<u>\$ 5,754,677</u>	<u>\$ 13,696,549</u>	<u>\$ 4,874,061</u>	<u>\$ 697,336</u>	<u>\$ 8,717,787</u>	<u>\$ 6,930,748</u>	<u>\$ 7,254,071</u>	<u>\$ 4,445,477</u>
All Other Governmental Funds										
Reserved										
Food Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 733,982	\$ 153,171
Capital Projects	-	-	-	-	-	-	-	-	19,866,538	7,489,787
Textbook	-	-	-	-	-	-	-	-	193,393	297,614
Unreserved, reported in										
Grants	-	-	-	-	-	-	-	-	438,124	(2,087,325)
Food Services	-	-	-	-	-	-	-	-	1,559,686	1,471,298
Capital Projects	-	-	-	-	-	-	-	-	(1,618,469)	10,893,729
Textbook	-	-	-	-	-	-	-	-	1,448,082	1,833,731
Nonspendable										
Food Services	31,879	11,719	4,926	25,787	43,656	94,404	38,325	41,708	-	-
Textbook	-	-	-	-	-	346	61,027	144,567	-	-
Restricted										
Grants	978,263	911,583	246,363	332,976	526,847	296,628	527,586	449,844	-	-
Food Services	1,037,666	840,995	628,066	871,591	1,690,710	1,804,974	2,036,930	2,146,211	-	-
Textbook	3,641,222	2,560,127	1,442,722	988,698	862,997	843,673	375,765	1,181,316	-	-
Capital Projects	-	-	-	-	-	-	505,998	509,246	-	-
Committed										
Textbook	-	-	-	-	-	-	1,038,858	-	-	-
Capital Projects	-	-	-	-	-	1,156,185	6,778,417	11,368,937	-	-
Assigned										
Grants	-	-	-	-	665,444	124,215	244,606	-	-	-
Capital Projects	-	-	-	-	-	-	36,707	9,943,797	-	-
Unassigned										
Grants	(239,039)	-	(48,030)	(48,030)	-	-	-	(585,465)	-	-
Total all other governmental funds	<u>\$ 5,449,991</u>	<u>\$ 4,324,424</u>	<u>\$ 2,274,047</u>	<u>\$ 2,171,022</u>	<u>\$ 3,789,654</u>	<u>\$ 4,320,425</u>	<u>\$ 11,644,219</u>	<u>\$ 25,200,161</u>	<u>\$ 22,621,336</u>	<u>\$ 20,052,005</u>

Source: Comprehensive Annual Financial Report for the relevant year

Note:

The change in the classification of fund balance in 2011 is due to the implementation of GASB 54 in FY11.

See Management's Discussion and Analysis for explanation of the differences in current year fund balance from the prior year.

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Revenues										
Intergovernmental										
Federal grants	\$ 19,771,958	\$ 18,770,251	\$ 16,526,977	\$ 16,582,767	\$ 17,886,311	\$ 17,765,296	\$ 27,939,844	\$ 27,996,547	\$ 31,427,769	\$ 18,168,051
Federal donated commodities	482,332	441,514	414,936	322,654	435,202	431,169	355,290	-	420,343	386,720
State grants and other	95,873,709	92,329,074	90,909,892	91,451,610	87,987,549	87,867,810	86,894,924	85,452,502	91,264,467	109,377,771
Unassigned	50,746,364	52,400,000	51,200,000	52,400,000	50,257,282	44,008,292	49,571,413	48,171,651	48,171,651	49,862,858
Local										
Charges for services	465,889	479,228	454,957	14,780,846	799,064	913,852	1,137,316	1,149,376	1,243,708	1,316,139
Interest	75,822	10,387	4,923	463	6,345	30,439	25,317	48,237	244,345	388,622
Miscellaneous	3,060,572	2,903,515	1,463,494	2,191,473	2,307,948	2,223,363	2,064,847	2,370,760	3,079,234	3,497,614
Total Revenues	170,476,646	167,333,969	160,975,179	177,729,813	159,679,701	153,240,221	167,988,951	165,189,073	175,851,517	182,997,775
Expenditures										
Education										
Instruction	122,429,724	122,077,227	114,341,413	113,796,681	113,842,163	115,226,720	119,373,035	110,480,833	115,612,999	116,852,905
Administration, attendance, and health services	9,147,561	9,135,725	8,233,301	8,603,177	7,662,399	6,986,774	7,676,234	8,085,983	8,923,826	9,243,279
Pupil transportation	6,958,562	6,773,135	6,629,540	6,874,947	6,256,064	5,619,907	6,853,967	5,888,145	6,255,707	6,937,753
Operation and maintenance	15,389,992	15,596,604	16,171,373	15,400,181	15,303,513	15,901,140	14,647,181	14,903,276	15,903,972	18,479,476
Information technology	8,999,880	5,593,353	9,657,311	6,937,348	4,076,650	4,623,016	4,023,227	3,145,672	3,515,259	5,670,499
Food services	8,314,520	8,200,378	8,193,183	7,857,325	7,907,351	7,775,261	7,302,658	6,897,865	6,459,186	7,196,433
Debt service										
Principal	-	1,021,027	-	1,870,027	839,356	723,518	670,048	619,364	571,338	525,848
Interest	-	10,390	77,612	113,167	146,251	205,511	231,923	256,335	278,856	297,266
Self insured health	-	-	9,073,104	9,073,104	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	7,772,350	11,135,784	12,656,098	12,952,449	11,383,697
Total Expenditures	171,240,239	168,407,839	172,376,837	170,525,957	156,033,747	164,834,197	171,914,057	162,933,571	170,473,592	176,587,156
Excess (deficiency) of revenues over expenditures	(763,593)	(1,073,870)	(11,401,658)	7,203,856	3,645,954	(11,593,976)	(3,925,106)	2,255,502	5,377,925	6,410,619
Other financing sources (uses)										
To City of Portsmouth	(636,000)	-	-	-	-	(3,750,269)	(9,943,797)	-	-	-
From City of Portsmouth	-	-	-	-	-	-	2,100,000	-	-	-
Transfers in	2,191,833	1,826,129	1,959,906	2,157,946	1,700,474	3,371,474	4,938,382	12,341,708	8,240,115	11,720,790
Transfers out	(1,555,833)	(1,826,129)	(1,658,473)	(2,157,946)	(1,700,474)	(3,371,474)	(4,938,382)	(12,341,708)	(8,240,115)	(11,720,790)
Total Other Financing Sources (Uses)	-	-	301,433	-	-	(3,750,269)	(7,843,797)	-	-	-
Total Net Change in Fund Balances	\$ (763,593)	\$ (1,073,870)	\$ (11,100,225)	\$ 7,203,856	\$ 3,645,954	\$ (15,344,245)	\$ (11,768,903)	\$ 2,255,502	\$ 5,377,925	\$ 6,410,619
Ratio of debt service expenditures to noncapital expenditures	0.00%	0.62%	0.05%	1.24%	0.64%	0.60%	0.56%	0.59%	0.54%	0.50%

Source: Comprehensive Annual Financial Report for relevant year

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Enrollment										
Level										
Elementary	7,823	7,906	8,106	8,293	8,284	8,329	8,397	8,322	8,444	8,321
Middle	1,887	1,966	2,078	2,107	2,082	2,112	2,133	1,985	1,908	2,080
High	3,678	3,677	3,721	3,690	3,710	3,689	3,716	3,740	3,916	4,020
Unassigned	632	663	727	719	733	833	883	862	783	666
School Lunches										
Full	\$ 66,279	\$ 68,537	\$ 66,398	\$ 83,872	\$ 96,420	\$ 95,870	\$ 101,059	\$ 103,859	\$ 116,604	\$ 122,420
Reduced	132,140	137,933	150,210	106,442	228,263	261,196	244,129	293,913	295,092	313,566
Free	4,269,059	3,910,738	3,919,816	1,597,406	3,195,004	3,278,722	3,194,494	3,038,131	2,868,045	2,511,373
Total	<u>\$ 4,467,478</u>	<u>\$ 4,117,208</u>	<u>\$ 4,136,424</u>	<u>\$ 1,787,720</u>	<u>\$ 3,519,687</u>	<u>\$ 3,635,788</u>	<u>\$ 3,539,682</u>	<u>\$ 3,435,903</u>	<u>\$ 3,279,741</u>	<u>\$ 2,947,359</u>
School Breakfasts										
Full	\$ 53,235	\$ 61,744	\$ 56,977	\$ 86,640	\$ 88,996	\$ 96,489	\$ 106,502	\$ 111,361	\$ 106,848	\$ 99,421
Reduced	73,735	89,730	79,352	221,597	110,241	118,272	146,186	166,965	159,261	141,497
Free	2,065,140	2,073,085	1,983,937	3,180,389	1,552,544	1,560,571	1,551,953	1,394,510	1,343,457	1,174,088
Total	<u>\$ 2,192,110</u>	<u>\$ 2,224,559</u>	<u>\$ 2,120,266</u>	<u>\$ 3,488,626</u>	<u>\$ 1,751,781</u>	<u>\$ 1,775,332</u>	<u>\$ 1,804,641</u>	<u>\$ 1,672,836</u>	<u>\$ 1,609,566</u>	<u>\$ 1,415,006</u>
Meal Prices										
Breakfast										
Elementary	Free	Free	Free	Free	Free	Free	Free	Free	Free	Free
Middle	Free	Free	Free	Free	Free	Free	Free	Free	Free	Free
High	Free	Free	Free	Free	Free	Free	Free	Free	Free	Free
Adult Ed	A la carte	A la carte	A la carte	A la carte	A la carte	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00
Lunches										
Elementary	\$ 1.65	\$ 1.60	\$ 1.50	\$ 1.45	\$ 1.45	\$ 1.35	\$ 1.35	\$ 1.35	\$ 1.25	\$ 1.25
Middle	1.65	1.60	1.50	1.45	1.45	1.35	1.35	1.35	1.25	1.25
High	1.65	1.60	1.50	1.45	1.45	1.35	1.35	1.35	1.25	1.25
Reduced	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.30	0.30
Adult Ed	3.00	3.00	2.90	2.85	2.85	2.75	2.75	2.75	2.75	2.75

Source: Portsmouth Public Schools - Food Services Division

CAPITAL LEASES (unaudited)

	1		2		1÷2	Total	Percent	Per
Year	Principal	Interest	Total Payment	Guaranteed Savings per Year	Percentage of Guaranteed Savings per Year	Percentage of Guaranteed Savings	of Personal Income	Capita
2009	525,848	299,583	825,431	829,028	99.57%	8.69%		
2010	571,338	278,856	850,194	853,899	99.57%	8.95%		
2011	619,364	256,335	875,699	879,516	99.57%	9.21%		
2012	1,393,566	437,433	1,830,999	1,838,979	99.57%	19.27%		
2013	779,908	176,992	956,900	961,071	99.57%	10.07%		
2014	839,356	146,251	985,607	989,903	99.57%	10.37%		
2015	1,870,027	190,779	2,060,806	2,069,788	99.57%	21.68%		
2016	-	-	-	-	0.00%	0.00%		
2017	1,021,027	10,390	1,031,417	1,081,694	95.35%	10.85%		
2018	-	-	-	-	0.00%	0.00%		
	<u>\$ 7,620,434</u>	<u>\$ 1,796,619</u>	<u>\$ 9,417,053</u>	<u>\$ 9,503,878</u>			0.25%	\$ 99.58

Source: Personal income figure for total debt as % of per personal income is the latest available figure as of 2017 from the Bureau of Economic Analysis.

Source: Population figure for total debt per capita is the latest 2017 estimate from the U.S. Census Bureau.

Source: CitiMortgage Master Lease Rental Payment Schedule

DEMOGRAPHIC AND ECONOMIC STATISTICS (unaudited)
LAST TEN FISCAL YEARS

Year	Population (1)	Personal Income (thousands) (3)	Per Capita Personal Income (3)	Median Age (1)	School Enrollment (2)	Unemployment Rate (4)
2018	*	*	*	*	14,020	4.30%
2017	94,572	\$ 3,785,301	\$ 40,026	35.5	14,212	6.00%
2016	95,252	3,731,013	39,170	35.2	14,632	6.00%
2015	96,201	3,780,804	39,301	34.9	14,809	6.70%
2014	96,004	3,728,416	38,836	34.9	14,809	6.90%
2013	96,205	3,756,474	39,047	34.9	14,215	7.80%
2012	96,470	3,701,589	38,333	34.9	14,256	8.60%
2011	95,684	3,596,088	37,583	35.2	14,103	8.70%
2010	95,535	3,515,478	36,762	34.5	14,224	9.30%
2009	99,321	3,340,905	33,637	34.4	14,331	9.00%

* Information not available at this time

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

(2) Source: Portsmouth Public Schools Database Manager

(3) Source: Bureau of Economic Analysis.

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

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

Table 8

PRINCIPAL EMPLOYERS (unaudited)
CURRENT YEAR AND NINE YEARS AGO

Employer	2018			2009		
	Number of Employees	Rank	Percentage of Total City Employment	Number of Employees	Rank	Percentage of Total City Employment
Norfolk Naval Shipyard	11,000	1	41.35%	8,000	1	16.47%
Naval Medical Center, Portsmouth	5,070	2	19.05%	5,400	2	11.12%
US Coast Guard Command- Portsmouth	2,500	3	9.40%	1,500	6	3.09%
Portsmouth Public Schools	2,180	4	8.19%	2,400	4	4.94%
City of Portsmouth	1,858	5	6.98%	2,645	3	5.44%
Bon Secours Maryview Medical Center	1,300	6	4.89%	2,000	5	4.12%
Earl Industries	900	7	3.38%	571	8	1.18%
Virginia International Gateway	700	8	2.63%	-		-
Tidewater Community College	600	9	2.25%	-		0.00%
The Pines Residential Treatment Center	500	10	1.88%	-		0.00%
Smithfield of Portsmouth	-			500	9	1.03%
Alternative Behavior Services (FHC)	-		-	800	7	1.65%
Direct Home Healthcare, Inc.	-		-	375	10	0.77%
	<u>26,608</u>		<u>100.00%</u>	<u>24,191</u>		<u>49.81%</u>

Source: City of Portsmouth Comprehensive Annual Financial Report

EMPLOYEES BY CLASS CODE (unaudited)
LAST TEN FISCAL YEARS

	Employee Count									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
School board members	9	9	9	9	9	9	9	9	9	9
Superintendent	1	1	1	1	1	1	1	1	1	1
Assistant superintendents	3	2	1	2	2	1	1	2	2	2
Public Information Officer	-	1	1	-	-	-	-	-	-	-
Unassigned	7	6	6	11	8	12	13	12	12	11
Coordinators	16	15	12	5	6	7	7	8	8	8
Education specialists	30	20	20	18	18	17	17	15	14	14
Supervisors	28	26	26	27	27	29	30	32	32	38
Principals	24	24	22	25	25	25	25	25	25	25
Assistant principals	33	28	25	28	29	29	29	31	31	34
Deans	-	3	4	-	-	-	-	-	-	-
Teachers	1,070	918	974	1,002	982	1,016	1,014	1,015	1,019	1,144
Guidance and other counselors	36	31	33	36	36	35	36	38	42	47
Librarians	22	20	19	19	20	21	22	24	22	26
Speech therapists	19	18	18	19	19	18	18	19	19	27
School social workers	9	8	8	8	8	8	8	9	9	9
Home school liaisons	15	2	2	2	2	2	2	2	2	2
Medical staff	32	24	29	27	29	30	30	30	31	32
Psychologists	10	10	10	10	10	10	10	10	11	11
Secretaries	139	126	127	132	128	137	142	139	145	164
Instructional assistants	256	194	206	207	202	210	211	205	241	270
Bus drivers and monitors	162	146	146	147	157	167	154	153	153	173
Operations and maintenance staff	144	130	131	119	130	132	127	127	144	182
School crossing guards	22	23	25	27	27	28	29	32	28	44
In school suspension	9	7	7	6	7	7	6	7	7	8
Special police officers	-	-	-	-	-	-	-	-	-	23
Security officers	24	16	16	16	16	16	16	16	16	-
Attendance officers	4	4	3	3	3	3	3	3	3	-
Print shop personnel	-	-	-	1	3	4	4	4	4	5
Cafeteria staff	105	95	109	118	117	117	119	114	122	137
Purchasing personnel	4	3	2	2	2	2	2	2	2	2
Technology personnel	25	21	21	20	19	20	20	21	22	-
Other	13	12	13	14	16	17	17	16	14	34
	<u>2,271</u>	<u>1,943</u>	<u>2,026</u>	<u>2,061</u>	<u>2,058</u>	<u>2,130</u>	<u>2,122</u>	<u>2,121</u>	<u>2,190</u>	<u>2,482</u>

Sources: Portsmouth Public Schools - Finance Department
 Filled positions only

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

Table 10

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

	Number of Teachers	Average Teacher Age	Average Teacher Salary	Education Level			
				BA	MA	CAS	PHD
2018							
Elementary	542	45.0	\$ 53,197	247	247	43	5
Middle	154	44.0	52,099	90	55	7	2
High	277	46.0	54,677	142	116	17	2
Unassigned	43	48.0	55,105	20	20	3	0
2017							
Elementary	588	45.0	\$ 51,738	244	300	41	3
Middle	161	44.0	51,283	84	70	6	1
High	283	45.0	52,454	145	115	20	3
Unassigned	50	49.0	56,418	12	27	10	1
2016							
Elementary	545	45	\$ 51,128	239	264	39	3
Middle	146	42	49,315	80	57	7	2
High	251	45	51,602	136	98	15	2
Unassigned	28	51	49,096	11	16	1	0
2015							
Elementary	510	44.8	\$ 50,007	211	261	35	3
Middle	151	42.4	48,336	80	63	6	2
High	262	46.4	51,681	141	103	16	2
Unassigned	84	48.8	50,090	40	38	5	1
2014							
Elementary	517	43.5	\$ 51,552	217	265	33	2
Middle	141	42.7	49,479	56	62	4	3
High	259	45	52,700	135	106	15	3
Other	90	49.5	53,369	44	37	6	3
2013							
Elementary	510	43.3	\$ 51,618	181	294	33	2
Middle	144	41.8	50,269	65	69	9	1
High	265	46.8	53,259	125	118	19	3
Other	87	48	53,894	20	47	15	5
2012							
Elementary	509	43.9	\$ 51,198	184	297	27	1
Middle	140	43.3	49,802	66	66	7	1
High	255	46.1	52,669	113	122	18	2
Other	89	47.6	53,304	23	49	14	3
2011							
Elementary	518	43.6	\$ 46,304	215	278	25	0
Middle	139	44.3	45,426	72	60	7	0
High	266	46.2	48,384	140	110	14	2
Other	90	47.9	49,439	40	44	5	1
2010							
Elementary	558	43.7	\$ 48,381	299	234	24	1
Middle	145	44.0	47,453	95	43	7	0
High	266	46.6	50,732	156	97	11	2
Other	93	46.8	49,111	44	44	4	1
2009							
Elementary	577	44.0	\$ 47,740	238	314	24	1
Middle	159	45.0	47,503	36	115	8	0
High	268	47.0	50,656	202	52	12	2
Other	105	46.0	46,513	1	83	17	4

Source: Portsmouth Public Schools - Human Resource Department

CAPITAL ASSETS STATISTICS (unaudited)
LAST TEN FISCAL YEARS

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Building										
Elementary	13	13	13	13	13	13	13	14	14	14
Middle	3	3	3	3	3	3	3	3	3	3
Unassigned	3	3	3	3	3	3	3	3	3	3
Other	4	4	4	4	4	4	4	4	4	4
Fleet										
School Buses	171	159	147	143	138	147	147	149	149	141
Other	86	93	68	82	69	71	71	67	62	71
Athletics										
Football Fields	3	3	3	3	3	3	3	3	3	3
Running Tracks	3	3	3	3	3	3	3	3	3	3
Baseball/Softball	9	9	9	9	9	9	9	9	9	9
Playgrounds	17	17	17	17	17	16	16	17	17	17

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

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

Table 12

SCHOOL BUILDING INFORMATION (unaudited)
LAST TEN FISCAL YEARS

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Elementary Schools:										
Brighton										
Square feet	56,566	56,566	56,566	56,566	56,566	56,566	56,566	56,566	56,566	56,566
Capacity (Students)	650	650	650	650	650	650	650	650	650	650
Enrollment	471	486	492	504	553	501	487	542	612	598
Churchland Academy										
Square feet	83,000	83,000	83,000	83,000	83,000	83,000	83,000	83,000	96,000	96,000
Capacity (Students)	732	732	732	732	732	732	732	732	914	914
Enrollment	685	646	673	724	712	695	681	692	913	947
Churchland Elementary										
Square feet	76,734	76,734	76,734	76,734	76,734	76,734	76,734	66,586	66,586	66,586
Capacity (Students)	715	715	715	715	715	715	715	715	715	715
Enrollment	844	815	792	829	845	830	823	808	784	657
Churchland Primary										
Square feet	74,050	74,050	74,050	74,050	74,050	74,050	74,050	74,050	63,800	63,800
Capacity (Students)	600	600	600	600	600	600	600	600	600	600
Enrollment	525	601	606	576	562	606	620	637	542	529
Douglass Park										
Square feet	73,755	73,755	73,755	73,755	73,755	73,755	73,755	73,755	73,755	73,755
Capacity (Students)	800	800	800	800	800	800	800	800	800	800
Enrollment	690	735	724	784	771	707	680	584	613	520
Hodges Manor										
Square feet	50,133	50,133	50,133	50,133	50,133	50,133	50,133	50,133	50,133	50,133
Capacity (Students)	600	600	600	600	600	600	600	600	600	600
Enrollment	585	599	583	561	548	558	584	612	572	520
James Hurst										
Square feet	75,105	75,105	75,105	75,105	75,105	75,105	75,105	75,105	63,525	63,525
Capacity (Students)	775	775	775	775	775	775	775	775	775	775
Enrollment	569	643	681	715	707	706	736	666	615	635
John Tyler										
Square feet	61,040	61,040	61,040	61,040	61,040	61,040	61,040	106,749	106,749	106,749
Capacity (Students)	700	700	700	700	700	700	700	700	700	700
Enrollment	634	605	645	664	692	679	711	741	702	687
Lakeview										
Square feet	60,009	60,009	60,009	60,009	60,009	60,009	60,009	60,009	60,009	60,009
Capacity (Students)	660	660	660	660	660	660	660	660	660	660
Enrollment	453	456	470	514	526	541	546	544	590	592
Olive Branch										
Square feet	-	-	-	-	-	-	-	32,700	32,700	32,700
Capacity (Students)	-	-	-	-	-	-	-	455	455	455
Enrollment	-	-	-	-	-	-	-	367	367	347
Park View										
Square feet	79,998	79,998	79,998	79,998	79,998	79,998	79,998	79,998	79,998	79,998
Capacity (Students)	762	762	762	762	762	762	762	762	762	762
Enrollment	534	536	590	589	606	649	614	613	636	676

SCHOOL BUILDING INFORMATION (unaudited)
LAST TEN FISCAL YEARS

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Elementary Schools (continued):										
Simonsdale										
Square feet	81,165	81,165	81,165	81,165	81,165	81,165	81,165	33,300	33,300	33,300
Capacity (Students)	700	700	700	700	700	700	700	325	325	325
Enrollment	694	659	705	726	721	751	757	292	307	260
Victory Elementary										
Square feet	78,142	78,142	78,142	78,142	78,142	78,142	78,142	78,142	78,142	78,142
Capacity (Students)	540	540	540	540	540	540	540	540	540	540
Enrollment	582	555	570	538	495	561	571	622	640	533
Westhaven										
Square feet	65,077	65,077	65,077	65,077	65,077	65,077	61,040	61,040	65,077	65,077
Capacity (Students)	670	670	670	670	670	670	670	670	670	670
Enrollment	557	570	575	569	546	545	587	602	551	538
Port Norfolk										
Square feet	-	-	-	-	-	-	-	-	28,700	28,700
Capacity (Students)	-	-	-	-	-	-	-	-	-	-
Enrollment	-	-	-	-	-	-	-	-	-	-
Clarke Academy										
Square feet	108,200	108,200	108,200	108,200	108,200	108,200	108,200	108,200	108,200	108,200
Capacity (Students)	-	-	-	-	-	-	-	-	-	-
Enrollment	-	-	-	-	-	-	-	-	-	-
Middle Schools:										
Churchland										
Square feet	136,937	136,937	136,937	136,937	136,937	136,937	136,937	136,937	136,937	136,937
Capacity (Students)	1,141	1,141	1,141	1,141	1,141	1,141	1,141	1,141	1,141	1,141
Enrollment	859	871	901	908	893	912	921	841	861	949
Cradock										
Square feet	106,220	106,220	106,220	106,220	106,220	106,220	106,220	106,220	106,220	106,220
Capacity (Students)	885	885	885	885	885	885	885	885	885	885
Enrollment	491	530	579	589	607	612	616	599	525	521
William E. Waters										
Square feet	104,601	104,601	104,601	104,601	104,601	104,601	104,601	104,601	104,601	104,601
Capacity (Students)	872	872	872	872	872	872	872	872	872	872
Enrollment	537	565	598	610	582	588	596	545	522	582
Hunt/Mapp										
Square feet	-	-	-	-	-	-	-	-	235,946	235,946
Capacity (Students)	-	-	-	-	-	-	-	-	-	-
Enrollment	-	-	-	-	-	-	-	-	-	-

SCHOOL BUILDING INFORMATION (unaudited)
LAST TEN FISCAL YEARS

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
High Schools:										
Churchland										
Square feet	262,000	262,000	262,000	262,000	262,000	262,000	262,000	262,000	262,000	262,000
Capacity (Students)	1,871	1,871	1,871	1,871	1,871	1,871	1,871	1,871	1,871	1,871
Enrollment	1,322	1,357	1,344	1,304	1,300	1,318	1,308	1,375	1,477	1,546
I. C. Norcom										
Square feet	280,812	280,812	280,812	280,812	280,812	280,812	280,812	280,812	280,812	280,812
Capacity (Students)	2,006	2,006	2,006	2,006	2,006	2,006	2,006	2,006	2,006	2,006
Enrollment	1,051	1,032	1,058	1,117	1,112	1,086	1,187	1,238	1,269	1,271
Woodrow Wilson										
Square feet	261,665	261,665	261,665	261,665	261,665	261,665	261,665	261,665	261,665	261,665
Capacity (Students)	1,869	1,869	1,869	1,869	1,869	1,869	1,869	1,869	1,869	1,869
Enrollment	1,305	1,288	1,319	1,269	1,298	1,285	1,221	1,127	1,170	1,129
Enrollment - Excel Campus	138	198	246	164	179	186	162	143	143	100
Centers:										
Churchland Preschool										
Square feet	13,000	13,000	13,000	13,000	13,000	13,000	13,000	13,000	-	-
Capacity (Students)	182	182	182	182	182	182	182	182	-	-
Enrollment	148	160	169	181	184	174	175	172	-	-
DAC Preschool										
Square feet	31,500	31,500	31,500	31,500	31,500	31,500	31,500	31,500	31,500	31,500
Capacity (Students)	96	96	96	96	96	96	96	96	96	96
Enrollment	-	-	-	-	-	-	-	67	95	90
Emily Spong										
Square feet	30,206	30,206	30,206	30,206	30,206	30,206	30,206	30,206	30,206	30,206
Capacity (Students)	288	288	288	288	288	288	288	288	288	288
Enrollment	0	174	182	154	125	245	250	263	265	263
Mt. Hermon										
Square feet	36,317	36,317	36,317	36,317	36,317	36,317	47,349	47,349	47,349	47,349
Capacity (Students)	451	451	451	451	451	451	451	451	451	451
Enrollment	263	159	182	180	226	213	278	258	287	248
Olive Branch Preschool										
Square feet	32,700	32,700	32,700	32,700	32,700	32,700	32,700	-	-	-
Capacity (Students)	455	455	455	455	455	455	455	-	-	-
Enrollment	221	170	194	204	198	201	180	-	-	-

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

OPERATING STATISTICS (unaudited)
LAST TEN FISCAL YEARS

Year	Expenditures	Enrollment	Cost per Pupil	Percentage Change	Teaching Staff	Pupil/ Teacher Ratio
2018	\$ 171,240,239	14,020	\$ 12,214	6.07%	1,070	13.10
2017	168,407,839	14,212	11,850	13.27%	918	15.48
2016	163,303,733	14,632	11,161	-0.21%	974	15.02
2015	170,525,957	14,809	11,515	2.96%	1,002	14.78
2014	154,924,247	14,809	10,461	-6.46%	982	15.08
2013	158,984,466	14,215	11,184	-2.38%	1,016	13.99
2012	163,335,746	14,256	11,457	4.77%	1,014	14.06
2011	154,222,462	14,103	10,935	-3.90%	1,015	13.89
2010	161,856,233	14,224	11,379	-3.81%	1,019	13.96
2009	169,537,657	14,331	11,830	3.74%	1,144	12.53

Note: Expenditures only include General and Special Revenue Funds.

Source: Portsmouth Public Schools - Human Resource and Finance Departments
 Filled positions only

COMPLIANCE SECTION

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audit of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Portsmouth, Virginia School Board ("School Board"), a component unit of the City of Portsmouth, Virginia, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School Board's basic financial statements, and have issued our report thereon dated December 3, 2018. That report recognizes that the School Board implemented a new accounting standard effective July 1, 2017.

Internal Control over Financial Reporting

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

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

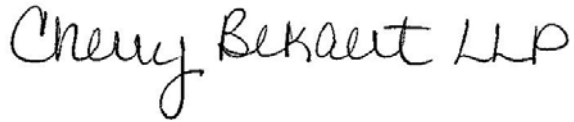
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School Board's financial statements are free 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* or the *Specifications for Audits of Counties, Cities, and Towns*.

Purpose of this Report

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

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

Virginia Beach, Virginia
December 3, 2018