



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, 2017



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, 2017

Prepared by the Department of Finance

Brittany T. Dortch, CPA
Chief Financial Officer

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**CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
COMPONENT UNIT OF THE CITY OF PORTSMOUTH, VIRGINIA
June 30, 2017**

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INTRODUCTORY SECTION

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December 7, 2017

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, 2017. 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 auditors' reports, 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 2017 report. According to the Institute, the economy in Hampton Roads (which includes the City of Portsmouth) continues to lag behind the state and the nation in terms of growth. The real gross regional product growth rate for Hampton Roads was 1.41% in 2017 (1.35% in 2016). The study estimates there are still 3,700 jobs that have not been recovered since the recession, but will recover all lost jobs by the end of the year if current trends continue. Unemployment rates have dropped to 4.3% in the area, but the number of people actively seeking a job has decreased. Within the City of Portsmouth, the latest unemployment rate is 5.3%.

Defense spending continues to be the major contributor to the Hampton Roads economy. Hampton Roads has seen defense spending continually decrease year over year. It is anticipated that federal defense spending will increase by \$1 billion in fiscal year 2018. 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 2015, the number of active duty personnel stationed in Hampton Roads decreased by 85,900. 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. However, as with any business, there are challenges facing the Port (i.e. competitors, facility and logistical constraints, etc.). The market share in 2017 was slightly lower in comparison to 2013. The Port also attracted an expansion project for the Norfolk International Terminal (NIT) South Optimization and Virginia International Gateway (VIG) that has brought in financial support of \$670 million. The outcome can provide a growth increase of 40% overall.

Hotels/tourism, which is considered the third major sector in the Hampton Road's economy, has continued to decline. This is largely in part by the downturn in economic activity and reduction of employer paid travel. During the period of 2010 to 2016, average available rooms in this area dropped 7%. Between 2007 and 2016, the revenue earned, per available room (REVPAR), declined by 3% in Hampton Roads and 12.6% in Portsmouth. Seasonally adjusted hotel sales fell \$194 million or 0.22% the first quarter of 2017. This performance stands in alignment with recent weakness in leisure and hospitality employment.

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, 2016 statistics from the U.S. Census Bureau, Portsmouth had a population of 95,252, of which 54.2% were African-American, 38.2% were Caucasian, and 7.6% 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 2,714 employees. PPS served 14,478 students (679 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 FY2017-18 is estimated to be 14,450. Along with general education, PPS serves special education needs. School-wide, approximately 11% of all students received special education services.

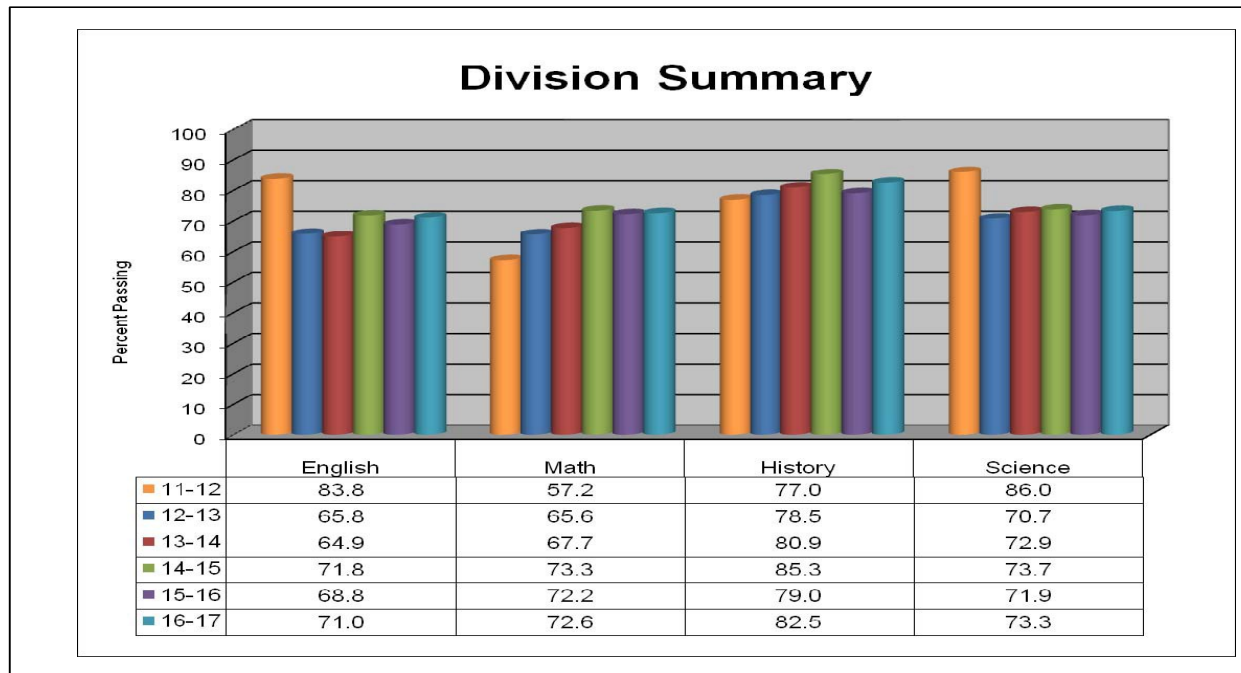
The average age of school buildings, within the district, is 49 years. Numerous school building additions and improvements have been completed subsequent to the initial construction of school buildings. The average school building addition and improvement is 11 years.

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.

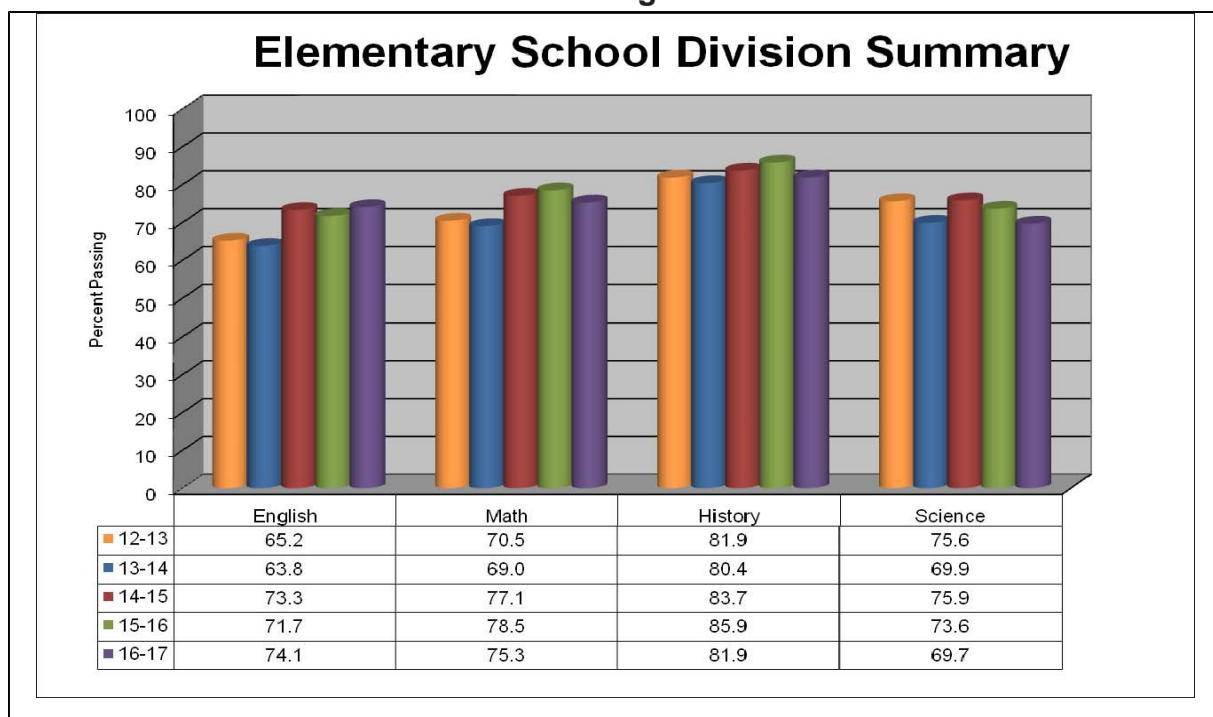
The most recent recession and slow recovery of the region's and state's economy continues to have an effect on the funding of the school division. State funding for FY2016-17 was below the funding levels experienced pre-recession. The outlook for FY2017-18 shows no change in City funding (to the level funding experienced in FY2016-17). A new state biennium budget begins in FY2018-19 and it is unknown what the direct financial impact will be for school funding. With proposed changes in the federal government for grant programs (i.e. Title II) and Medicaid funding, the school system could face decrease funding. Beyond FY2017-18, the economic outlook for PPS continues to pose challenges, however, PPS is committed and continues to be fiscally responsible in providing quality education to the students in the City of Portsmouth.

SOL Passing Rates Comparison

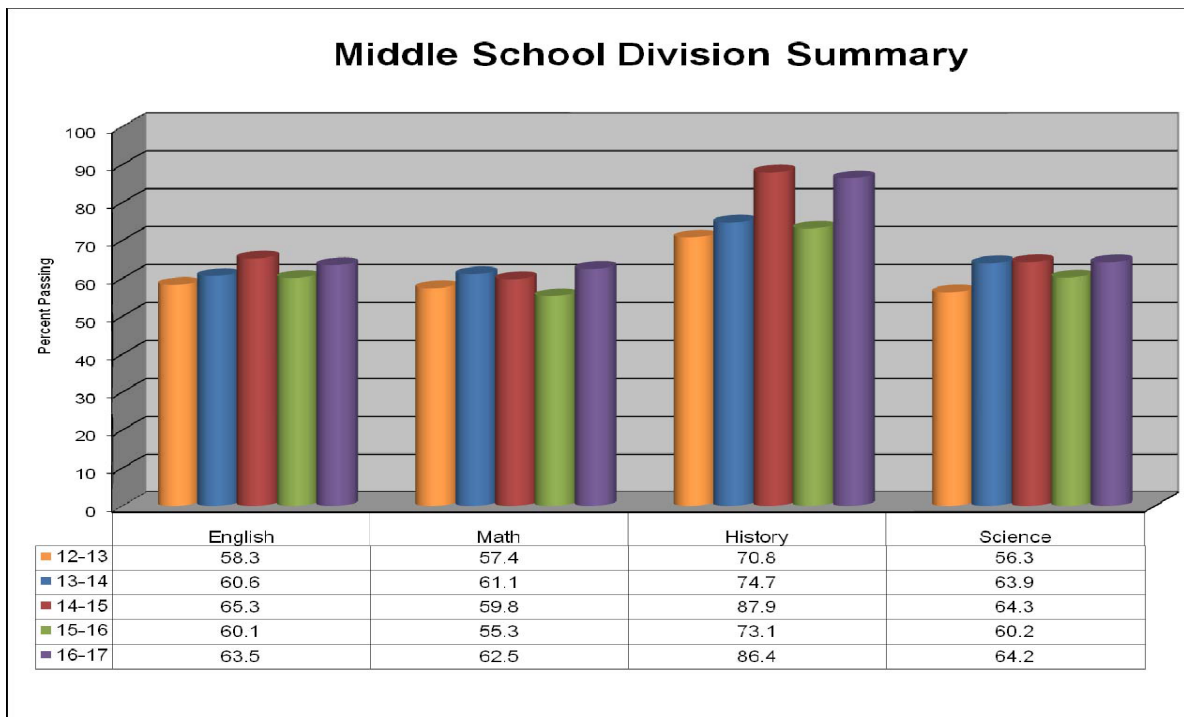
Division Summary Portsmouth Public Schools Standards of Learning Assessments



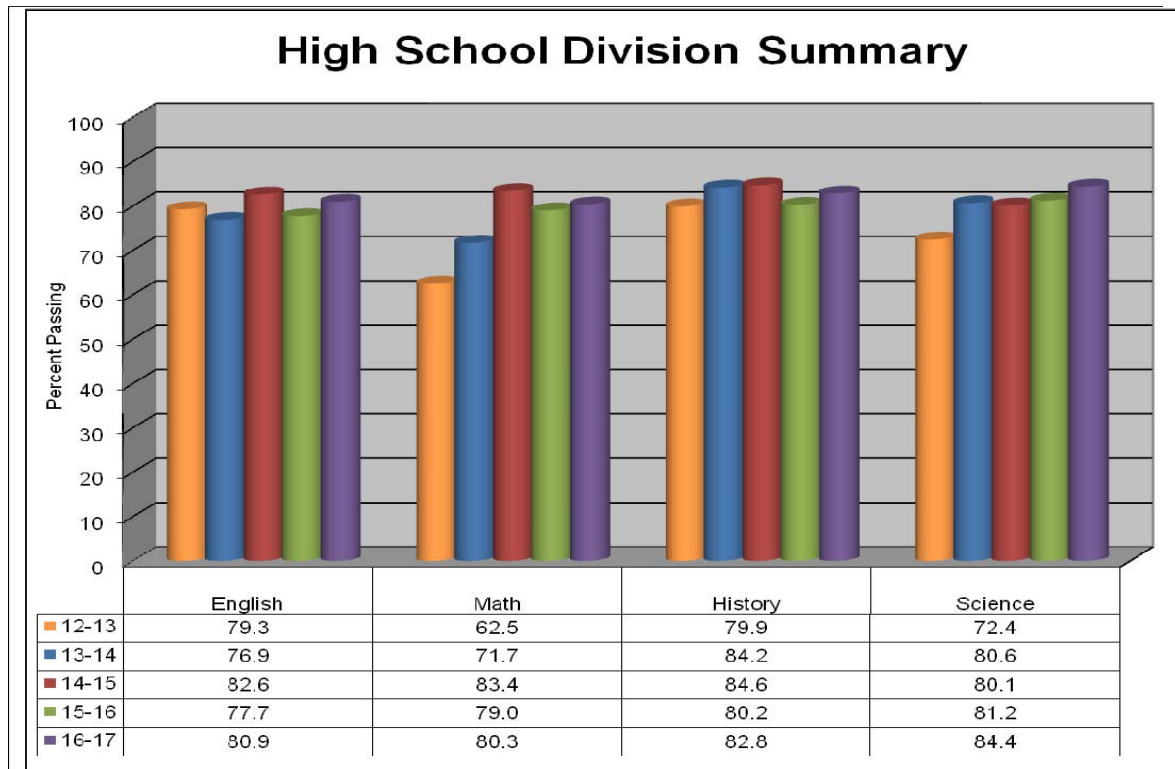
Elementary Schools Summary Portsmouth Public Schools Standards of Learning Assessments



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



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



Major Initiatives and Recognition

Special Education

The Special Education and Related Services Department welcomed Leslie Jewell back to PPS in 2016-2017. Ms. Jewell facilitated the reopening of our Parent Resource Center located in SH Clarke on Turnpike Road; the grand re-opening of the center took place in early September 2017. The center will provide workshops and information for parents of students with disabilities, and it will be opened on certain days and on one evening per week.

During the 2016-2017 school year, the special education program served over 1,600 students, each with a current Individualized Educational Plan, using 146 teachers. A total of 253 students were sent for eligibility to determine if they qualified for special education services and 72% were found eligible. All kindergarten students, new to the system, were screened for potential speech delays, as well as screening their sensory/hearing levels.

Four special education high school students participated in the Postsecondary Education Rehabilitation Transition (PERT) Summer Program. This highly effective school-to-work initiative is supported by the Virginia Department of Education (VDOE) and administered through Virginia Department of Aging and Rehabilitative Services (DARS) at the Wilson Workforce and Rehabilitation Center (WW RC) campus in Fishersville, Virginia. This program assists students in their transition from high school to post-secondary options.

Language! Live, a web-based program, expanded in 2016-17 to address Tier 2 and Tier 3 students in 5 of the schools. Ninety-one special education students participated in this program for the entire 2016-2017 school year in which 39 of these students made very significant gains. 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 32 general education three-year-olds, who served as role models to two and three-year-old children with disabilities in the early childhood special education classrooms.

The Special Education office provided 15 professional development sessions to PPS leaders during the school year 2016-2017.

On June 1, 2017, PPS hosted the second annual Special Olympics event. Three hundred students, which included 150 with disabilities, participated in Young Athletes Day promoting social inclusiveness through sports. In addition, there were many volunteers and community partners helping with the event, to include representatives from Head Start, Portsmouth Police Department, Portsmouth Sheriff's Department, and high school students from Wilson High School Early Childhood program and Churchland High School ROTC program. Portsmouth Parks and Recreation donated the use of Portsmouth City Park for the event and Portsmouth Schools Food Services and Operations helped set up and take down audio equipment and deliver coolers and ice. Kroger and Harris Teeter donated 300 bottles of water for the children and coupons for distribution.

Science – Technology – Engineering – Mathematics (STEM) Pathways

Elementary

STARBASE Victory, the elementary STEM Center, served 3,000 plus students in grade 4 SPACEBASE Atlas, grade 5 ENVIROBASE Aquarius, and grade 6 AEROBASE Atlantis. These programs are problem-based and inquiry-driven. The STEM teachers received training in the process of Argument-Driven Inquiry (ADI) from Victor Sampson and Patrick Enderly, nationally recognized trainers. ADI is now an integral practice in the three STARBASE programs.

In response to Virginia Department of Education's (VDOE) charge to drop the Standards of Learning (SOL) Assessments for science in grade 3 and writing in grade 5, the Office of Science continued to expand the development and implementation of Performance Based Assessments (PBA). These assessments blend the writing process into science content. The practice of PBAs was extended to grades 4, 6, and 7. Professional development for grade-level teachers, building principals, and assistant principals was held throughout the year. Division-wide scoring events encouraged grade-level teachers to collaborate while reviewing student-work.

Elementary CHROME (Cooperating Hampton Roads Organization for Minorities in Engineering) Clubs participated in Waste Wise competition using LEGO WEDO robots. During this school year, Portsmouth CHROME Club students engaged in a year-long investigation of the purposeful use of simple machines in efforts to be Waste Wise! Modeled after the Junior LEGO League event, the Portsmouth CHROME Waste Wise Competition is a showcase of constructed models of machines for use in recycling, reusing, or repurposing waste. The model machines were designed and constructed using our LEGO WeDo Robotics Kits. Students were charged to program robotic versions of simple and complex machines, and to create a "Show ME" poster display of research they conducted on the design, construction, and use of machines in efforts to be "waste wise."

A Mathematics-Science Partnership grant titled Building Bridges (YR #2), with Old Dominion University, offered teachers in grades 4 and 5 professional development opportunities to improve content knowledge and instructional capabilities through the practice of Argument-Driven Inquiry (ADI).

Middle

Another Mathematics and Science Partnership (MSP) grant opportunity titled KEYS – Knowledge through Experience in Science (YR #3), with Old Dominion University, focused on improving content knowledge and instructional capabilities through ADI-based lesson development. Teachers gained insight into ADI from Victor Sampson, a national leader in this field of study. The summer institute and school year sessions also focused on improving instructional capacity in the focus areas of scientific investigation, nature of science, Argument-Driven Inquiry (ADI), and performance-based assessment. Tidewater Community College also partnered with PPS.

High

PPS hosted two VEX Robotics Regional Competitions – one at I. C. Norcom High School and the other at Wilson High School. PPS sponsored multiple teams from each high school. One PPS team from Wilson High School qualified and competed at the state competition in Doswell, Virginia.

The PPS FIRST (For Inspiration and Recognition in Science and Technology) Robotics Team placed second at the FIRST Chesapeake District Southwest Virginia Event held in Blacksburg, Virginia on March 3-5, 2017. The PPS ROYAL ROBOTICS TEAM #3359 competed with over sixty (60) teams that included teams from Norfolk, Virginia Beach, Chesapeake, Suffolk, the Peninsula, Governor's schools, private schools, and homeschoolers.

PPS was the host site for the FIRST Chesapeake Regional Event for the second year at Churchland High School on March 17-18, 2017. This event was sponsored by Newport News Shipbuilding. A week later, on April 5-8, 2017, the team competed at the District Championship at Virginia Commonwealth University in Richmond, Virginia. As a result of their competitive efforts, FIRST TEAM #3359 was invited to compete at the National event in St. Louis, Missouri on April 5-8, 2017. This TEAM finished 23rd in their assigned sub-division. The game, STEAMWORKS, paid tribute to the age of STEAM power.

Four (4) Portsmouth Public School students, from Churchland and I.C. Norcom High Schools, qualified to present their research papers at the annual meeting of the Virginia Junior Academy of Science at Virginia Commonwealth University in Richmond, Virginia on May 16-18, 2017.

Eight (8) high school science and mathematics teachers participated in training in environmental stewardship and Sea Glide robotics through the NOAA BWET (YR #2) grant – a partnership grant with East Carolina University.

Division

The PreK-12 science curriculum was refreshed to reflect the VDOE Academic Review attributes. Core experiences include STEM activities that foster student engagement.

JASON Learning was added to the science instructional program. Five (5) selected high school teachers received professional development, and they became trainers for their respective schools. JASON Learning is an online curriculum resource that allows PPS to experience JASON'S "missions" and labs with exciting titles like, "ENERGY: INFINITE POTENTIAL," and "ECOLOGY: RESILIENT PLANET."

The Science Program Specialists received professional development in alternative assessments and instructional coaching through the Virginia Association of School Superintendents (VASS) and the Virginia Association of Supervision and Curriculum Development (VASCD). They also participated in the annual meeting of the Virginia Science Education Leadership Association (VSELA).

The Annual STEM EXPO on March 25, 2017 attracted over one thousand (1,000) PPS students and their parents for a morning that highlighted the STEM Pathways Program. Thirty-six STEM partners shared interactive sessions from 3-D printing to coding and robotics. Eighty (80) teachers, and science program specialists, organized and presented in this team effort.

Over five hundred (500) students attended free summer camps learning geospatial technologies, robotics, environmental stewardship, 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 all of the 6,591 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. Over the years, CTE has evolved to match the needs of the changing economy. CTE programs, which consist of, but are not limited to, AutoCAD, Childcare, Culinary, Certified Nursing Assistant, Horticulture, Hotel Marketing, Marine Electric, 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 FY2016-17, CTE offered the following industry certifications: Greenhouse Operations, Food Handling, CPR, Registered Pesticide Technician, W!SE, Microsoft Specialists, Customer Service/Sales, Workplace Readiness, Hospitality Management, and Adobe, with a total of 1,433 certifications earned.

Students involved in CTE clubs such as DECA (Marketing), FBLA (Business), TSA, HOSA and FCCLA (Family and Consumer Science) participated in local, state, and national competitions throughout the school year.

I.C. Norcom High School's DECA participated in the State Competition held in Virginia Beach, Virginia with four (4) students competing in Leadership Development Academy, Quick Service Restaurant Management, and Principles of Finance and Leadership Development Academy. Woodrow Wilson High School's FCCLA received a Silver Medal in Illustrated Talk as well as a Bronze Medal in Sports Nutrition. The Knowledge Bowl Team made it to the quarter final round at Nationals held in Nashville, Tennessee.

The Office of Career and Technical Education was awarded a Grant in the amount of \$10,000 to purchase textbooks, videos and CD sets for all three (3) high schools for Foundation in Personal Finance from Ramsey Education Solutions. These materials were used in Economic and Personal Finance classes. The First College program has grown from nineteen (19) students in 2006 to one hundred and ninety-seven (197) scholars this school year. Students achieved a 2.0 or higher in 85% of the courses they attempted and will be able to transfer the courses as college credits to a 4-year university.

The Welding Pathway Dual Enrollment for Career Studies Certificate in Maritime Welding was started in the fall of 2016. Upon completion, students will obtain a Career Studies Certificate in Maritime Welding with 19 credits towards a pathway into Maritime Technologies.

Early College is available to 9th grade students to allow students to earn an Associate's Degree in Social Science, in General Studies, or in Science, and to earn up to 61 credits.

The Dual enrollment/CTE program continues to grow offering students a chance to earn college credits. Out of four hundred and sixteen (416) Dual enrolled students, one hundred (100) students enrolled in the CTE program. CTE offers our teachers the opportunity to participate in local and out of district professional development conferences throughout the school year. CTE also provided teachers with a back to school in-service, with Ron Nash speaking on behalf of "From Seatwork to Feetwork, Engaging Students in Their Own Learning."

PPS/CTE continues to offer the only South Hampton Roads student-run bank branch at Woodrow Wilson High School. This program enhances financial literacy skills in students.

There was a new requirement for seniors, beginning this 2016-2017 school year, where seniors need a CTE credential to obtain a standard diploma and graduate from high school. By the end of 2016-17, 97.5% of the seniors that needed a CTE certification at the beginning of the school year met the requirements.

The School Board approved four (4) new CTE programs that will be offered in the fall of 2017. They are: Cybersecurity, Nail Technician I and II, Sports Medicine I and II, and TV Production I, II and III.

Social Studies

A Social Studies Program Specialist attended the Virginia Social Studies Leadership Consortium (VSSLC) in the fall, and the Social Studies Coordinator attended the spring session. Both events afforded the Office of Social Studies with information on the latest updates from the Virginia Department of Education.

The Office of Social Studies partnered with the Foodbank of Southeastern Virginia for a district wide food drive. PPS donated over 1,000 pounds of food.

All fourth grade students participated in the 14th Annual History Bowl at Woodrow Wilson High School. Teams demonstrated knowledge of the Virginia Studies curriculum in a history quiz competition. Churchland Elementary School received first place, and Simonsdale Elementary received second place honors.

Professional development workshops were held to increase the capacity of both our secondary and elementary teachers. Presentations were given based upon knowledge acquired at the SOL Institute, as well as collaborative sessions on SOL review best practices.

In an effort to increase technology in the classroom, a COPIA subscription was purchased for World History I, World History II, and US History. Teachers from each subject and high school were trained on the online interactive resource.

The Social Studies Supervisor's proposal, Teaching Students to Recognize Historical Agency, was accepted by the Virginia Council for Social Studies.

The Social Studies Program Specialist partnered, with the Office of Science, to attend the Level II Coaching and New Assessment, New Instruction Professional Development, to prepare for the implementation of Project based assessments.

Curriculum Writing was completed for all SOL tested subjects. Revisions were made to reflect the changes in the 2015 History and Social Science standards.

Mathematics

The Eighth Annual Grade Six Math Challenge took place this year. Each elementary school sent a team of four students to the Grade Six Math Challenge. Students solve math problems during three rounds of competition to determine the winner. During the event, the importance of mathematics and STEM was discussed with the students.

In April, Middle School Math Madness was held. Through a Portsmouth Schools Foundations (PSF) Grant, awarded to one of the mathematics program specialists, 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.

A total of 4,458 mathematics students, in the elementary, middle and high schools, 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.

Reading and English

The Office of Reading and English and the Office of Science collaborated in a scoring event to assess students' work with the performance-based assessment project entitled, "The Rock Cycle." Students used research, synthesizing, and writing skills to complete this rigorous task. This project ensured students have 21st century skills that are essential to their success.

In October, district staff and community leaders participated in Jumpstart's annual "Read for the Record" Day. Jumpstart's "Read for the Record" is a national event designed to help early learners develop language and literacy skills needed for academic success. On October 27, 2016 millions of students across the country gathered to hear adults read the same book, *The Bear Ate Your Sandwich*.

In December, 43 students were inducted into the Aaron McGlothlin Chapter of the National English Honor Society Chapter at Churchland High School. The dedication and hard work of these students aided in meeting rigorous English standards.

A seventh grader at Churchland Middle School won first place in the Region 8 "If I were a Mayor" essay contest sponsored by the Virginia Municipal League.

Graduation Results

Of the 890 members of the Class of 2017, 307 received Advanced Studies Diplomas and 330 graduated with Honors. The Class of 2017 earned 2,241 college credits. Merit-based scholarships were awarded in the amount of \$15,978,690.

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 \$250,000 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, 2016. The Certificate of Excellence is valid for a period of one year only. This is the eleventh 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, 2015. This is the tenth 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 FY2017-18. 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



Brittany T. Dortch, CPA
Chief Financial Officer

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
COMPONENT UNIT OF THE CITY OF PORTSMOUTH, VIRGINIA
June 30, 2017

Members of the School Board and School Board Officials

School Board

Mr. Claude C. Parent Chairman
Mrs. Costella B. Williams Vice Chairwoman
Ms. Angelia N. Allen (term began January 1, 2017)
Ms. Lakeesha S. “Klu” Atkinson (term began January 1, 2017)
Mr. James E. Bridgeford (retired December 31, 2016)
Rev. Joseph A. Fleming
Mrs. Sarah D. Hinds
Mr. Ted J. Lamb
Mr. B. Keith Nance, Sr. (Term ended December 31, 2016)
Rev. Cardell C. Patillo
Dr. Ingrid P. Whitaker

Officials

Elie Bracy, III, Ed.D. Division Superintendent
Dr. Anita W. Taylor 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 Steward Deputy Clerk of the School Board
Mr. James L. Williams 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

The School Board amended the Mission Statement above in September 2016. 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.



ASSOCIATION OF
SCHOOL BUSINESS OFFICIALS
INTERNATIONAL

**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, 2016.**

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



A handwritten signature in black ink, appearing to read 'Anthony N. Dragona', written over a horizontal line.

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

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

John D. Musso, CAE, RSBA
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

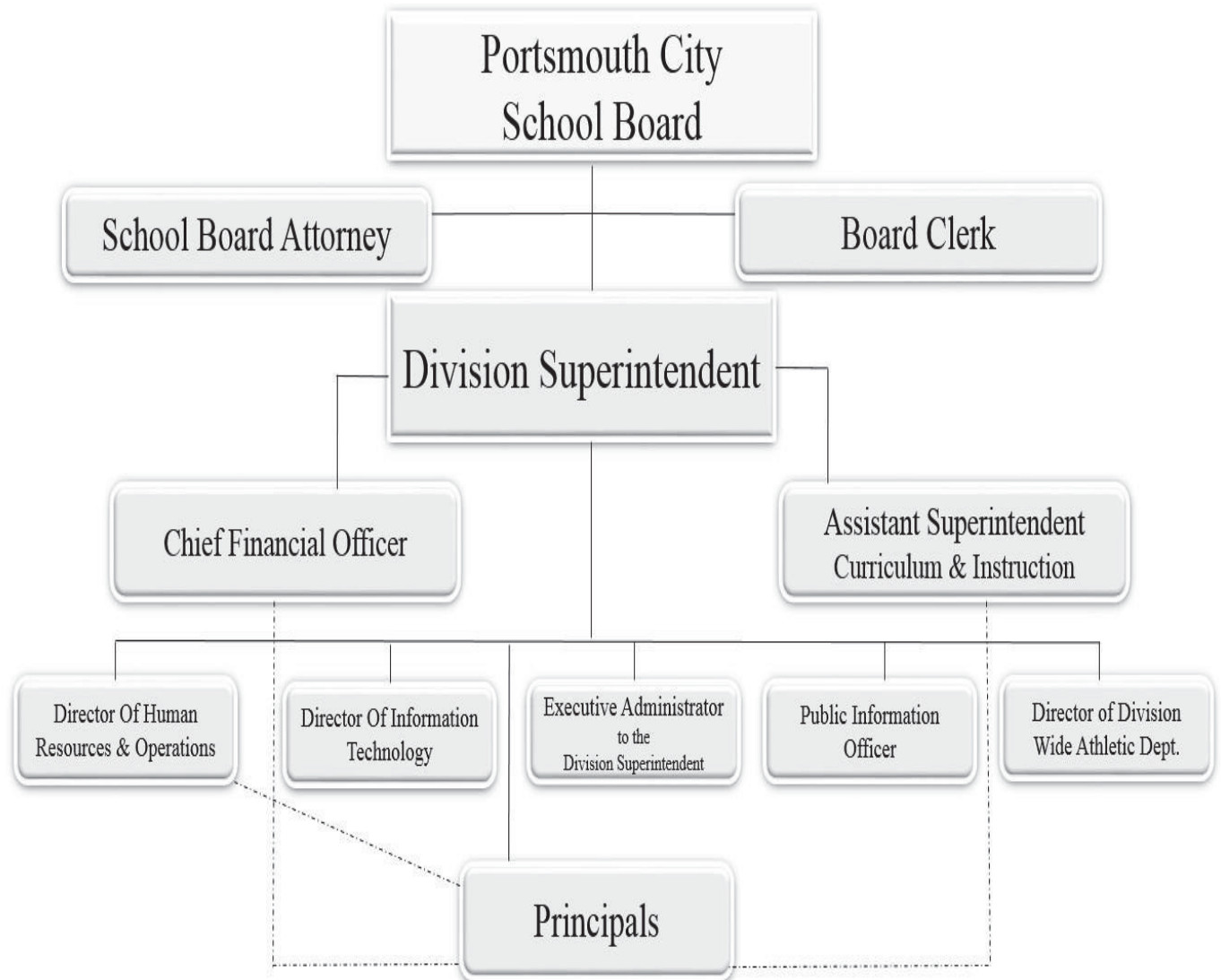
June 30, 2016

A handwritten signature in black ink, reading "Jeffrey R. Emen". The signature is fluid and cursive.

Executive Director/CEO

Division Organizational Chart

2016-17



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, 2017, and the related notes to the financial statements, which collectively comprise the School Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audits of Counties, Cities and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, 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, 2017, 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.

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

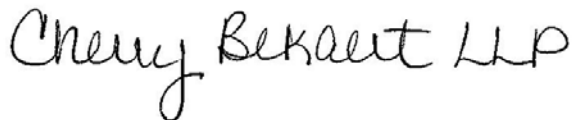
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Board's basic financial statements. The introductory section, other supplementary information, as listed in the table of contents, and statistical section are presented for purposes 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 relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 7, 2017, 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 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 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.

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

Virginia Beach, Virginia
December 7, 2017

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017

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, 2017. Please read it in conjunction with the financial statements, which follow this section.

Financial Highlights for Fiscal Year Ended June 30, 2017 (FY2017)

PPS' financial status, as reflected in total net position, decreased 4.0% to \$(65.9) million.

On the Statement of Net Position – Governmental Activities, total liabilities at June 30, 2017 totaled \$176.1 million. The bulk of the current liabilities of \$13.6 million are related to accrued payroll and accounts payable, while the majority of the non-current liabilities is related to the net pension liability.

On the Statement of Activities, total net position decreased from \$(63.4) million at June 30, 2016 to \$(65.9) million at June 30, 2017.

At the governmental fund level, all funds, except for the General Fund, experienced an increase in fund balance.

Total intergovernmental revenue was \$163.9 million. Of that, \$52.4 million was from the City of Portsmouth ("City"), \$92.3 million was from state aid from the Commonwealth of Virginia, and \$18.7 million was from the federal government. Interest and other charges were \$3.4 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, in the financial statements, 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	Governmental Funds	Fund Statements 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 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. The Print Shop Fund was closed during fiscal year 2016.
- *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

Net Position
June 30,
(in thousands of dollars)

	2017	2016
Current and other assets	\$ 33,857	\$ 35,939
Capital assets	64,239	66,588
Total assets	<u>98,096</u>	<u>102,527</u>
Deferred outflows related to pensions	21,586	12,004
Total deferred outflows of resources	<u>21,586</u>	<u>12,004</u>
Other liabilities	13,629	13,760
Long-term debt outstanding	162,427	148,123
Total liabilities	<u>176,056</u>	<u>161,883</u>
Deferred inflows related to pensions	9,570	16,086
Total deferred inflows of resources	<u>9,570</u>	<u>16,086</u>
Net position:		
Net investment in capital assets	64,239	65,587
Restricted	9,698	3,465
Unrestricted	(139,881)	(132,760)
Total net position	<u>\$ (65,944)</u>	<u>\$ (63,438)</u>

The School Board's net position, as of June 30, 2017, was \$(65.9) million, which was composed of \$(135.3) million in unrestricted net position, \$5.1 million in restricted for other purposes, and \$64.2 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 driver for the deficit is due to reporting the net pension liability.

The net pension liability for Portsmouth Public Schools as of June 30, 2017 is \$155.9 million.

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

Changes in Net Position

The breakdown of program revenue is as follows: 94% comes from operating contributions, while the remaining program revenue is from charges for services. In the prior year, operating contributions represented 95% of program revenue. Total general revenues for FY2017 were \$133.9 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.

Changes in Net Position

Years Ended June 30,
(in thousands of dollars)

	2017	2016
Revenues:		
Program revenues:		
Charges for services	\$ 2,137	\$ 1,476
Operating grants and contributions	30,670	29,578
Capital grants and contributions	984	987
General revenues:		
Interest and investment earnings	10	5
Grants and contributions not restricted	132,620	130,674
Miscellaneous	1,246	443
Total revenues	<u>167,667</u>	<u>163,163</u>
Program expenses:		
Instruction	124,549	114,530
Administration, attendance and health services	9,109	8,088
Pupil transportation	7,314	7,014
Operations and maintenance	15,224	15,918
Information technology	5,711	9,601
Food services	8,236	8,093
Interest on long-term debt	30	78
Total program expenses	<u>170,173</u>	<u>163,322</u>
Change in net position	(2,506)	(159)
Beginning net position	<u>(63,438)</u>	<u>(63,279)</u>
Ending net position	<u>\$ (65,944)</u>	<u>\$ (63,438)</u>

Charges for services increased by \$.7 million from the previous year. This increase is primarily due to the revenue generated from the Medicaid program of the state of Virginia. Grants and contributions not restricted, in the general revenues section, increased by \$1.9 million over the previous fiscal year. This increase is primarily due to the \$1.2 million increase in local funding from the City of Portsmouth.

Total program expenses increased by \$6.8 million from the previous fiscal year. The increase is primarily due to (1) increased pension contribution and pension expense; (2) increased payroll costs due to full year of an employee raise made effective in January 2016 and bonuses issued in second quarter of FY2017; and (3) \$3.3 million transferred to the City for capital projects purposes.

Financial Analysis of the School Board's Funds

Governmental Funds

The School Board's combined fund balance for the governmental funds was \$7 million as of June 30, 2017. The current year compared to last year is as follows:

Fund Balance Comparison

June 30,
(in thousands of dollars)

	2017	2016
Fund:		
General	\$ 2,678	\$ 5,755
Grants	912	246
Food Services	853	633
Textbook	2,560	1,443
Total combined fund balance	<u>\$ 7,003</u>	<u>\$ 8,077</u>

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

General Fund

End of the year assigned fund balance increased from \$0.5 million to \$1.8 million from the previous year while the unassigned fund balance decreased from \$5.0 million to \$0.6 million. The increase in the assigned fund balance is primarily due to acquisition of integrated library management system and summer facility projects, which included school paving services, and interior and exterior painting of schools. The majority of change in the unassigned fund balance between FY2017 and FY2016 was due to increase of instructional expenditures. Lastly, there was an additional \$4.7 million of expenditures in FY2017 as compared to FY2016. The majority consisted of \$3 million transfer to the City and \$1 million in Pre-K and Elementary schools wireless project upgrades.

Grants Fund

During FY2017, the School Board's Grants Fund (a multi-year fund) received \$16.4 million in revenues and \$1.2 million required local match from the General Fund for total funding of \$17.6 million. Total grant expenditures totaled \$16.9 million. The excess of revenues over expenditures (including local match requirements) caused fund balance to increase by approximately \$665 thousand from FY2017. This is due in part by (1) receipt of \$1.4 million in deferred revenue from FY16, and (2) procedural changes in processing of reimbursement billing to aid in reduction of timing lags with regards to revenue reimbursement.

Food Services Fund

During FY2017, the School Board's Food Services Fund received \$8.4 million in revenues and transfers in and incurred \$8.2 million in expenditures. The excess of revenues, (excluding transfers) over expenditures caused fund balance to increase by \$.2 million from FY2016. Fund balance increase is due to (1) greater federal funding received due to heightened participation in breakfast and lunch program, (2) reclassification of commodities which maximized fresh fruit and vegetables program, and (3) reclassification of staff positions.

Textbook Fund

During FY2017, 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 FY2016. This was primarily due to fewer textbook adoptions in FY2017.

Internal Service Funds

Risk Management Fund

The Risk Management Fund reserves increased from \$5.0 million in FY2016 to \$5.3 million in FY2017. The increase in reserves is directly related to the reduction in insurance claims and expenses.

General Fund Budgetary Highlights

Throughout FY2017, 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 2017
(in thousands of dollars)

	Original Budget	Amended Budget	Actual (Budgetary Basis)	Original Budget Versus Amended Budget Variance	Amended Budget Versus Actual Variance
Revenues:					
Intergovernmental	\$ 142,003	\$ 147,037	\$ 144,770	3.5%	-1.5%
Other	1,549	1,549	1,912	0.0%	23.4%
Total	143,552	148,586	146,682	3.5%	-1.3%
Expenditures and transfers:					
Instruction	106,467	108,468	107,308	1.9%	-1.1%
Administration, attendance, and health	8,192	8,174	7,683	-0.2%	-6.0%
Pupil transportation	6,405	6,739	6,506	5.2%	-3.5%
Operations and maintenance	14,472	15,599	15,571	7.8%	-0.2%
Information technology	4,891	4,993	4,856	2.1%	-2.7%
Debt service	-	1,031	1,031	100.0%	0.0%
Transfers in/out	3,125	3,582	3,095	14.6%	-13.6%
Total	143,552	148,586	146,050	3.5%	-1.7%
Change in fund balance	\$ -	\$ -	\$ 632	100.0%	100.0%

Actual intergovernmental revenues, as compared to the amended budget, decreased by 1.5% or \$2.2 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 23.4% or \$.4 million. This increase is primarily due to the reclassification of refunds received for Dual Enrollment and First College program.

Actual expenditures and transfers, as compared to the amended budget, decreased 1.7% or \$2.5 million. The General Fund budget is based on projected revenues. The decrease in expenditures is attributable to \$1.9 million of projected revenue not received and vacancy savings.

Capital Assets and Debt Administration Capital Assets

As of June 30, 2017, the School Board had \$64.2 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)

	2017	2016
Land	\$ 6,086	\$ 6,086
Buildings and improvements	48,522	51,283
Equipment	9,631	9,219
Total	<u>\$ 64,239</u>	<u>\$ 66,588</u>

Buildings decreased due to the FY2017 depreciation on existing building assets. Equipment increased due to the net of \$1.8 million of new assets, equipment disposals, and FY2017 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 2017, the School Board is required to implement the Governmental Accounting Standards Board (GASB) Statement 74, *Financial Reporting for Postemployment Benefit Plans 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 74 parallels the standards for pension plan accounting and financial reporting (GASB 67). GASB 74 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 level accounting, and requires OPEB plans administered, through a trust, to present a statement of fiduciary net position and a statement of changes in fiduciary net position. 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), the Commonwealth of Virginia (state), and the U.S. rates. In August 2017, the unemployment rate was 5.6% for Portsmouth, 3.8% for the state, and 4.9% for the U.S.

Portsmouth had a per capita income of \$39,301, in 2016 (most recent information available), which was 25% 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 2015, increased 3% to \$45,676. This is 29% less than the state's median household income at \$65,015, and is 15% less than the national median household income at \$53,889.

Factors Influencing Future Budgets

- Employee health care 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, and 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, 2017

ASSETS	
Current assets	
Cash and cash equivalents	\$ 25,355,281
Due from the federal government	1,911,470
Due from the Commonwealth of Virginia	1,414,410
Due from City of Portsmouth	75,221
Receivables - net	304,053
Inventory	230,377
Total current assets	<u>29,290,812</u>
Noncurrent assets	
Capital assets not depreciated	6,085,707
Other capital assets - net	58,153,135
Net OPEB asset	4,566,686
Total noncurrent assets	<u>68,805,528</u>
Total assets	\$ 98,096,340
DEFERRED OUTFLOWS OF RESOURCES	
Net difference between projected and actual investment earnings	\$ 9,094,035
Employer contributions subsequent to the measurement date	12,491,755
Total deferred outflows of resources	\$ 21,585,790
LIABILITIES	
Current Liabilities	
Accounts payable	\$ 1,905,554
Accrued payroll	7,821,478
Accrued payroll taxes	590,810
Due to City of Portsmouth	3,311,466
Total current liabilities	<u>13,629,308</u>
Noncurrent liabilities	
Due within one year	3,092,402
Due in more than one year	3,440,327
Net pension liability	155,894,507
Total noncurrent liabilities	<u>162,427,236</u>
Total liabilities	\$ 176,056,544
DEFERRED INFLOWS OF RESOURCES	
Difference between expected and actual experience	\$ 5,007,925
Changes in proportion and difference between employer contributions and proportionate share of contributions	4,562,000
Total deferred inflows of resources	\$ 9,569,925
NET POSITION	
Net investment in capital assets	\$ 64,238,842
Restricted	
Grants	1,729,966
OPEB	4,566,686
School food services	840,995
Textbook	2,560,127
Unrestricted	(139,880,955)
Total net position	\$ (65,944,339)

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

STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES

Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities					
Administration, attendance and health services	\$ 9,108,781	\$ 448,769	\$ -	\$ -	\$ (8,660,012)
Instruction	124,548,696	44,761	24,142,951	-	(100,360,984)
Pupil transportation	7,314,286	144,797	-	-	(7,169,489)
Operations and maintenance	15,223,576	30,477	-	984,456	(14,208,643)
Information technology	5,711,520	-	-	-	(5,711,520)
Food service	8,236,369	1,468,263	6,527,103	-	(241,003)
Interest on long-term debt	30,410	-	-	-	(30,410)
Total Primary Government	\$ 170,173,638	\$ 2,137,067	\$ 30,670,054	\$ 984,456	(136,382,061)
General revenues					
From primary government					52,400,000
Unrestricted grants and contributions					80,219,967
Investment earnings					10,387
Miscellaneous					1,245,676
Total general revenues					133,876,030
Change in net position					(2,506,031)
Net position - beginning of year					(63,438,308)
Net position - end of year					\$ (65,944,339)

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, 2017

	General	School Grants	School Food Services	School Textbook	Total Governmental Funds
ASSETS					
Cash and temporary investments	\$ 11,820,117	\$ 639,927	\$ 1,834,398	\$ 2,560,424	\$ 16,854,866
Receivables	101,817	74,309	49,983	53	226,162
Due from City of Portsmouth	75,221	-	-	-	75,221
Due from federal government	15,598	1,486,560	409,312	-	1,911,470
Due from Commonwealth of Virginia	1,238,460	175,950	-	-	1,414,410
Due from other funds	1,601,853	-	-	-	1,601,853
Inventory	218,658	-	11,719	-	230,377
Total assets	\$ 15,071,724	\$ 2,376,746	\$ 2,305,412	\$ 2,560,477	\$ 22,314,359
LIABILITIES					
Accounts payable	\$ 1,016,591	\$ 143,359	\$ 257,637	\$ 350	\$ 1,417,937
Accrued payroll	7,724,849	55,286	41,343	-	7,821,478
Accrued payroll taxes	590,810	-	-	-	590,810
Due to City of Portsmouth	3,058,838	-	-	-	3,058,838
Due to other funds	-	448,135	1,153,718	-	1,601,853
Total liabilities	12,391,088	646,780	1,452,698	350	14,490,916
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue	2,176	818,383	-	-	820,559
FUND BALANCES					
Nonspendable	218,658	-	11,719	-	230,377
Restricted	-	911,583	840,995	2,560,127	4,312,705
Assigned	1,827,694	-	-	-	1,827,694
Unassigned	632,108	-	-	-	632,108
Total fund balances	2,678,460	911,583	852,714	2,560,127	7,002,884
Total liabilities, deferred inflows, and fund balances	\$ 15,071,724	\$ 2,376,746	\$ 2,305,412	\$ 2,560,477	\$ 22,314,359

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, 2017

Total fund balances - governmental funds \$ 7,002,884

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 64,238,842

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. 820,559

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	\$ (6,532,729)	
Internal service funds - current portion	1,766,168	
Internal service funds - long-term portion	<u>753,297</u>	
		(4,013,264)

Amounts paid to the trust for other post-employment benefits in excess of the required contributions, the net OPEB asset, are not financial resources and, therefore, are not reported in the funds. 4,566,686

Contributions paid related to pension plan are expenditures in the governmental funds, but the contributions are deferred outflows of resources related to the pension plan in the statement of net position. 21,585,790

Changes in projected and actual pension investment earnings and changes between employer contributions and proportionate share of contributions (9,569,925)

Net Pension Liability is not due and payable in the current period therefore it is not reported as a liability in the governmental funds (155,894,507)

Internal service funds are used by management to charge the costs of certain activities, such as printing and insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. 5,318,596

Total net position - governmental activities \$ (65,944,339)

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, 2017

	General	School Grants	School Food Services	School Textbook	Total Governmental Funds
Revenues					
Intergovernmental					
From City of Portsmouth	\$ 52,400,000	\$ -	\$ -	\$ -	\$ 52,400,000
From Commonwealth of Virginia	86,502,610	4,583,864	114,419	1,128,181	92,329,074
From federal government	828,057	11,415,091	6,527,103	-	18,770,251
Donated commodities	-	-	441,514	-	441,514
Total intergovernmental	139,730,667	15,998,955	7,083,036	1,128,181	163,940,839
Charges for services	-	-	479,228	-	479,228
Interest	5,365	-	5,022	-	10,387
Miscellaneous	1,911,930	404,399	584,636	2,550	2,903,515
Total revenues	141,647,962	16,403,354	8,151,922	1,130,731	167,333,969
Expenditures					
Current					
Education					
Instruction	106,701,886	14,984,751	-	390,590	122,077,227
Administration, Attendance and health services	8,504,296	631,429	-	-	9,135,725
Pupil transportation	6,449,163	323,972	-	-	6,773,135
Operation and maintenance	15,469,481	127,123	-	-	15,596,604
Information technology	4,741,807	851,546	-	-	5,593,353
Food services	-	-	8,200,378	-	8,200,378
Debt service					
Principal	1,021,027	-	-	-	1,021,027
Interest	10,390	-	-	-	10,390
Total expenditures	142,898,050	16,918,821	8,200,378	390,590	168,407,839
Excess (deficiency) of revenues over (under) expenditures	(1,250,088)	(515,467)	(48,456)	740,141	(1,073,870)
Other financing sources (uses)					
Transfers in	-	1,180,687	268,178	377,264	1,826,129
Transfers out	(1,826,129)	-	-	-	(1,826,129)
Total other financing sources (uses)	(1,826,129)	1,180,687	268,178	377,264	-
Net change in fund balances	(3,076,217)	665,220	219,722	1,117,405	(1,073,870)
Fund balances - beginning of year	5,754,677	246,363	632,992	1,442,722	8,076,754
Fund balances - end of year	\$ 2,678,460	\$ 911,583	\$ 852,714	\$ 2,560,127	\$ 7,002,884

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

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

Year Ended June 30, 2017

Net change in fund balances - total governmental funds **\$ (1,073,870)**

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	\$ 1,881,771	
Depreciation of general government assets, net of amount reported in internal service funds	(4,230,593)	(2,348,822)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(650,818)
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Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Add debt repayment		1,001,007
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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	77,089	
Change in net OPEB asset	(465,112)	(388,023)

Change in deferred outflows related to pensions		9,581,888
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Change in deferred inflows related to pensions		6,516,154
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Change in net pension liability		(15,505,280)
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Internal service funds are used by management to charge the cost of certain activities, such as printing and insurance, to individual funds. The net revenue of certain internal service funds is reported with governmental activities.

	361,733	
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Change in net position of governmental activities		\$ (2,506,031)
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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 V

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

June 30, 2017

	Governmental Activities - Internal Service Funds
ASSETS	
Current assets	
Cash and temporary investments	\$ 8,500,415
Accounts receivable	77,891
Total current assets	<u>8,578,306</u>
Total assets	<u>\$ 8,578,306</u>
LIABILITIES AND NET POSITION	
Current liabilities	
Claims payable - current portion	\$ 1,766,168
Accounts payable and accrued expenses	487,617
Due to City of Portsmouth	252,628
Total current liabilities	<u>2,506,413</u>
Noncurrent liabilities	
Claims payable - net of current portion	753,297
Total noncurrent liabilities	<u>753,297</u>
Total liabilities	<u>3,259,710</u>
Net position	
Unrestricted	5,318,596
Total net position	<u>5,318,596</u>
Total liabilities and net position	<u>\$ 8,578,306</u>

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 VI

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

Year Ended June 30, 2017

	Governmental Activities - Internal Service Funds
Operating revenues	
Insurance recoveries	\$ 348,033
Charges for services	19,157,494
Total operating revenues	<u>19,505,527</u>
Operating expenses	
Insurance claims and expenses	18,891,166
Total operating expenses	<u>18,891,166</u>
Net operating income	614,361
Nonoperating revenues/(expenses)	
To local government	(252,628)
Total nonoperating expenses	<u>(252,628)</u>
Change in net position	361,733
Net position - beginning of year	4,956,863
Net position - end of year	<u>\$ 5,318,596</u>

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

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year Ended June 30, 2017

	Governmental Activities - Internal Service Funds
Cash flows from operating activities	
Received from customers and users	\$ 19,202,892
Insurance recovery	348,033
Payments to suppliers for goods and services	(18,526,417)
Net cash provided by operating activities	1,024,508
Net change in cash and temporary investments	1,024,508
Cash and temporary investments - beginning of year	7,475,907
Cash and temporary investments - end of year	\$ 8,500,415
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 614,361
Adjustments to reconcile operating income to net cash provided by operating activities	
Change in assets and liabilities	
Accounts receivable	45,398
Accounts payable and accrued expenses	487,617
Claims payable	(122,868)
Total adjustments	410,147
Net cash provided by operating activities	\$ 1,024,508
Supplemental information on significant non-cash transactions	
There were no significant non-cash transactions.	

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 VIII

STATEMENT OF NET POSITION - FIDUCIARY FUNDS

June 30, 2017

	School OPEB Trust Fund	Agency Fund
ASSETS		
Cash and temporary investments	\$ 68,313	\$ 782,452
Investments:		
Equity mutual funds	3,769,081	-
Corporate bond mutual funds	3,673,093	-
Government mutual funds	2,741,434	-
Fixed mutual funds	1,830,043	-
Total assets	\$ 12,081,964	\$ 782,452
LIABILITIES AND NET POSITION		
Liabilities		
Due to students	\$ -	\$ 782,452
Net position		
Restricted for post-employment benefits other than pensions	12,081,964	-
Total liabilities and net position	\$ 12,081,964	\$ 782,452

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

STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUNDS

Year Ended June 30, 2017

	School OPEB Trust Fund
Additions	
Investment income:	
Investment earnings	\$ 204,269
Net realized and unrealized gain on investments	539,706
Net investment income	743,975
Total additions	743,975
Deductions	
Benefit and withdrawal payments	
Benefits - health insurance	80,005
Administrative expenses	7,000
Total benefits	87,005
Total deductions	87,005
Change in net position	656,970
Net position - beginning of year	11,424,994
Net position - end of year	\$ 12,081,964

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

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

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.

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.

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 non-operating 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.

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 \$81,585,055, 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 two items, arising from pension, which qualify for reporting in this category. Accordingly, the item, deferred outflows related to pension, is 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 three items, which qualify for reporting in this category. One arises under the modified accrual basis of accounting. The other two arise from the pension. Accordingly, the item, unavailable revenue, is 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. The items, deferred inflows related to pension, is reported in the statement of net position.

Pensions

The Virginia Retirement System (VRS) Teacher Retirement Plan is a multiple employer cost-sharing plan, and the Political Subdivision Retirement Plan is a multi-employer agent plan. 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 Virginia Retirement System (VRS) Teacher (Professional) Retirement Plan and the School Board Non- Professional Retirement Plan, and the additions to/deductions from the VRS Teacher (Professional) Retirement Plan's and School Board Non-Professional 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.

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.
- 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 \$26,206,046 and the bank balance was \$28,446,100. 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.

Summary of Deposits and Investments

Cash and cash equivalents	\$ 25,355,281
Fiduciary fund cash and temporary investments	850,765
Total	<u><u>\$ 26,206,046</u></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, 2017.

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.

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.

The School Board has \$12,081,964 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	\$ 68,313	n/a	Unavailable
Subtotal		68,313		
Equity mutual funds:				
Dreyfus Intl Stock Index FD #79	Equity	1,276,118	n/a	Unavailable
T Rowe Price Equity Inc-Adv #271	Equity	1,120,456	n/a	Unavailable
T Rowe Price Growth Stk Adv #240	Equity	1,372,507	n/a	Unavailable
Subtotal		3,769,081		
Corporate bond mutual funds:				
John Hancock Bond Fund-I #431	Bond	1,922,591	11.63	BB
PIMCO Real Income Fund Class P #1920	Bond	1,747,841	8.88	Not Rated
PIMCO Real Return Fund- INST #122	Bond	2,661	8.88	Not Rated
Subtotal		3,673,093		
Government mutual funds:				
Wells Fargo Adj Rate-ADM #3765	Bond	2,741,434	3.55	AA
Subtotal		2,741,434		
Fixed mutual funds:				
Wells Fargo CORE BD FD-ADM #943	Bond	1,830,043	8.29	AAA
Subtotal		1,830,043		
Total		\$ 12,081,964		

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.

At June 30, 2017, the School Board had the following recurring fair value measurements:

	June 30, 2017	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level				
Debt Securities				
Corporate bond mutual funds	\$ 3,673,093	\$ 3,673,093	\$ -	\$ -
Government mutual funds	2,741,434	2,741,434	-	-
Fixed mutual funds	1,830,043	1,830,043	-	-
Total debt securities	8,244,570	8,244,570	-	-
Equity Securities				
Equity mutual funds	3,769,081	3,089,972	-	-
Total equity securities	3,769,081	3,769,081	-	-
Total investments by fair value level	\$ 12,013,651	\$ 12,013,651	\$ -	\$ -

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, 2017 follows:

	Balance June 30, 2016	Increases	Decreases	Balance June 30, 2017
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 6,085,707	\$ -	\$ -	\$ 6,085,707
Total capital assets - not being depreciated	<u>6,085,707</u>	<u>-</u>	<u>-</u>	<u>6,085,707</u>
Capital assets being depreciated/amortized				
Buildings and improvements	93,535,748	-	-	93,535,748
Equipment	26,534,138	1,881,771	12,220	28,403,689
Intangible assets	422,270	-	-	422,270
Total capital assets - being depreciated/amortized	<u>120,492,156</u>	<u>1,881,771</u>	<u>12,220</u>	<u>122,361,707</u>
Less accumulated depreciation/amortization				
Buildings	42,252,727	2,760,938	-	45,013,665
Equipment	17,315,202	1,469,655	12,220	18,772,637
Intangible assets	422,270	-	-	422,270
Total accumulated depreciation/amortization	<u>59,990,199</u>	<u>4,230,593</u>	<u>12,220</u>	<u>64,208,572</u>
Other capital assets - being depreciated/amortized - net	<u>60,501,957</u>	<u>(2,348,822)</u>	<u>-</u>	<u>58,153,135</u>
Governmental activities capital assets - net	<u>\$ 66,587,664</u>	<u>\$ (2,348,822)</u>	<u>\$ -</u>	<u>\$ 64,238,842</u>

Depreciation and amortization expense was charged to functions as follows:

Governmental activities:	
Instruction	\$ 3,241,798
Administration, attendance, and health services	3,975
Pupil transportation	564,074
Operations and maintenance	175,991
Information technology	137,097
Food services	107,658
Total governmental activities depreciation expense	<u>\$ 4,230,593</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
Capital leases	\$ 1,001,007	\$ -	\$ (1,001,007)	\$ -	\$ -
Accrued vacation pay	2,444,234	1,380,707	(1,293,929)	2,531,012	911,172
Accrued sick leave	1,646,798	415,547	(580,093)	1,482,252	415,062
Workmen's compensation claims payable	1,463,153	3,323,620	(3,555,347)	1,231,426	478,129
Medical claims payable	1,178,501	15,566,867	(15,457,329)	1,288,039	1,288,039
Net pension Liability	140,389,227	15,505,280	-	155,894,507	-
Total	\$148,122,920	\$ 36,192,021	\$ (21,887,705)	\$162,427,236	\$ 3,092,402

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 and medical claims are generally liquidated by General, Grants, and Food services fund. Workmen's compensation claims are generally liquidated by the General Fund.

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

Leases

There are no future minimum lease payments under capital leases as of June 30, 2017.

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 (non-professional) Retirement Plan upon employment. Both plans are administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees 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 below:

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>About Plan 1</p> <p>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</p> <p>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</p> <p>The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as 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.
<p>Eligible Members</p> <p>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</p> <p>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</p> <p>Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • School division employees • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 - April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<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>	
<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. 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>

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<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 <u>Defined Benefit Component:</u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><u>Defined Contributions Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>
<p>Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement 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>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>

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Members are always 100% vested in the contributions that they make.		<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 that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70½.</p>
<p>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>Defined Contribution Component: The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
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%.	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.	Service Retirement Multiplier Defined Benefit Component: The retirement multiplier for the defined benefit component is 1.00%. 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. Defined Contribution Component: Not applicable.
Normal Retirement Age Age 65.	Normal Retirement Age Normal Social Security retirement age.	Normal Retirement Age Defined Benefit Component: Same as Plan 2. Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.
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.	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.	Earliest Unreduced Retirement Eligibility Defined Benefit Component: Normal Social Security retirement age and have at least 5 years (60 months) of creditable service or when their age and service equal 90. Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Earliest Reduced Retirement Eligibility</p> <p>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</p> <p>VRS: Age 60 with at least 5 years (60 months) of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility</p> <p>Defined Benefit Component: VRS: Age Members may retire with a reduced benefit as early as age 60 with at least 5 years (60 months) of creditable service.</p> <p>Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Cost-of-Living Adjustment (COLA) in Retirement</p> <p>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</p> <p>The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p>Eligibility: Same as Plan 1</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement</p> <p>Defined Benefit Component: Same as Plan 2.</p> <p>Defined Contribution Component: Not applicable.</p> <p>Eligibility: Same as Plan 1 and Plan 2.</p>
<p>Eligibility: For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p>	<p>Eligibility: Same as Plan 1</p>	<p>Eligibility: Same as Plan 1 and Plan 2.</p>

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 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>
<p>Disability Coverage N/A</p>	<p>Disability Coverage N/A</p>	<p>Disability Coverage Employees of political subdivisions and school divisions (including Plan 1 and Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work- related disability benefits.</p>

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
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 on- year period, the rate for most categories of service will change to actuarial cost. Defined Contribution Component: Not applicable.

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% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% 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, 2017, was 14.66% of covered employee compensation. This rate was based on an actuarially determined rate, from an actuarial valuation as of June 30, 2015, 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 actuarial rate for the Teacher Retirement Plan was 16.32%. 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, 2017. Contributions to the pension plan from the school division were \$11,589,359 and \$11,190,544 for the years ended June 30, 2017 and June 30, 2016, respectively.

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

At June 30, 2017, the school division reported a liability of \$146,345,000 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2016 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The school 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, 2016, the school division's proportion was 1.04427% as compared to 1.04990% at June 30, 2015.

For the year ended June 30, 2017, the school division recognized pension expense of \$11,099,000. 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, 2017, 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	\$ -	\$ 4,743,000
Net difference between projected and actual earnings on pension plan investments	8,360,000	-
Changes in proportion and difference between Employer contributions and proportionate share of contributions	-	4,562,000
Employer contributions subsequent to the measurement date	11,589,359	-
Total	<u>\$ 19,949,359</u>	<u>\$ 9,305,000</u>

\$11,589,359 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, 2017. 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:

2018	\$ (2,464,000)
2019	\$ (2,464,000)
2020	\$ 2,482,000
2021	\$ 1,876,000
2022	\$ (375,000)

Virginia Retirement System (VRS) Non-Professional Retirement Plan Employees Covered by Benefit Terms

As of the June 30, 2016 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	343
Inactive members:	
Vested inactive members	31
Non-vested inactive members	104
Inactive members active elsewhere in VRS	72
Total inactive members	207
Active members	384
Total covered employees	934

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% 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, 2017 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%.

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 \$902,396 and \$813,358 for the years ended June 30, 2017 and June 30, 2016, respectively.

Net Pension Liability

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

Changes in Net Position Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at June 30, 2015	<u>\$ 37,595,582</u>	<u>\$ 29,351,355</u>	<u>\$ 8,244,227</u>
Change for the year:			
Service cost	695,895	-	695,895
Interest	2,552,232	-	2,552,232
Differences between expected and actual experience	(293,248)	-	(293,248)
Contributions - employer	-	801,790	(801,790)
Contributions - employee	-	378,872	(378,872)
Net investment income	-	487,721	(487,721)
Benefit payments, including refunds of employee contributions	(2,270,264)	(2,270,264)	-
Administrative expenses	-	(18,573)	18,573
Other changes	-	(211)	211
Net changes	<u>684,615</u>	<u>(620,665)</u>	<u>1,305,280</u>
Balance at June 30, 2016	<u>\$ 38,280,197</u>	<u>\$ 28,730,690</u>	<u>\$ 9,549,507</u>

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

For the year ended June 30, 2017, the political subdivision recognized pension expense of \$691,881. At June 30, 2017, 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	\$ -	\$ 264,925
Net difference between projected and actual earnings on pension plan investments	734,035	-
Employer contributions subsequent to the measurement date	902,396	-
Total	<u>\$ 1,636,431</u>	<u>\$ 264,925</u>

\$902,396 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, 2017. 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:

2018	\$	(179,635)
2019	\$	(102,230)
2020	\$	445,359
2021	\$	305,616

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, 2015, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

Inflation	2.5%
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 7.0%. 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:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 3 years and females were set back 5 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females were set back 3 years.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 1 year and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Update mortality table
- Adjustments to the rates of service retirement
- Decrease in rates of withdrawals for 3 through 9 years of service
- Decrease in rates of disability
- Reduce rates of salary increase by 0.25% per year

Actuarial Assumptions – VRS Non-Professional 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, 2015, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

Inflation 2.5%

Salary increases, including inflation 3.5% – 5.35%

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 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates: 14% of deaths are assumed to be service related Largest 10 – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females were set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.

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

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females were set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-LEOS:

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

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

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

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	Average Long-Term Expected Rate of Return
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S. Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	100.00%		5.83%
	Inflation		2.50%
			8.33%

* Expected arithmetic nominal return

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

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, 2018, 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, 2018 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.

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:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
School division's proportionate share of the VRS Teacher (Professional) Employee Retirement Plan Net Pension Liability	\$ 208,615,000	\$ 146,345,000	\$ 95,049,000
School division's Non-professional Employee Retirement Plan Net Pension Liability	\$ 13,754,140	\$ 9,549,507	\$ 5,993,523

Pension Plan Fiduciary Net Position

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

Payables to Pension Plan

There were no payables to the pension plans as of June 30, 2017.

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

The VRS Professional plan and the VRS Non-Professional 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	\$ 146,345,000	\$ 9,549,507	\$ 155,894,507
Pension expense	11,099,000	691,881	11,790,881
<i>Deferred outflows of resources:</i>			
Changes in proportion and difference between employer contributions and proportionate share of contributions	8,360,000	734,035	9,094,035
Employer contributions subsequent to the measurement date	11,589,359	902,396	12,491,755
Total deferred outflows of resources	19,949,359	1,636,431	21,585,790
<i>Deferred inflows of resources:</i>			
Difference between expected and actual experience	4,743,000	264,925	5,007,925
Changes in proportion and difference between employer contributions and proportionate share of contributions	4,562,000	-	4,562,000
Total deferred inflows of resources	\$ 9,305,000	\$ 264,925	\$ 9,569,925

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, 2017 was determined to be \$1,231,426 (undiscounted) and recorded in the internal service fund and the government-wide statements, accordingly.

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

	2017	2016
Claims payable - beginning of year	\$ 1,463,153	\$ 1,814,555
Claims and changes in estimates	3,323,620	280,059
Claims payments and changes in estimates	(3,555,347)	(631,461)
Claims payable - end of year	<u>\$ 1,231,426</u>	<u>\$ 1,463,153</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 health care 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 \$150,000. 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 health care claims are made through a third party administrator. The School Board uses information provided by the third party administrator and health care benefit consultant to aid in the determination of health self-insurance liabilities. The computed liability as of June 30, 2017 is \$1,288,039 (undiscounted), as follows:

	Balance as of July 1	Claims and Changes in Estimates	Claim Payments	Balance as of June 30
Medical Claims				
2016-2017	\$ 1,178,501	\$ 15,566,867	\$ 15,457,329	\$ 1,288,039
2015-2016	912,670	19,363,691	19,097,860	1,178,501

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 is demanding \$1,200,000 in lost wages. The School Board intends to contest the case.

The EEOC determination is not binding on any court, and a jury is free to find that there was no failure to accommodate the plaintiff. The School Board is unable to predict the outcome of this matter at this time.

The School Board is involved in other lawsuits arising in the ordinary course of operations.

It is the opinion of the School Board's management, based on the advice of the School Board's attorney, that any losses incurred as a result of claims existing as of June 30, 2017 will not be material to the financial statements.

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.

Encumbrance

The School Board has outstanding purchase orders representing goods or services not received as of June 30, 2017. These amounts are encumbrances of FY2016-2017 budgeted funds and are not reflected in the accompanying financial statements. The encumbrances are as follows:

	Amounts
General Fund	\$ 1,827,694
School Grants Fund	1,177,815
	<u>\$ 3,005,509</u>

NOTE 7. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivable and payable balances at June 30, 2017, which are considered short-term in nature, are as follows:

	Due From Other Funds	Due To Other Funds
General Fund	\$ 1,601,853	\$ -
School Grants Fund	-	448,135
School Food Services Fund	-	1,153,718
	<u>\$ 1,601,853</u>	<u>\$ 1,601,853</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, 2017, consisted of the following:

	Transfers From Other Funds	Transfers To Other Funds
General Fund	\$ -	\$ 1,826,129
School Grants Fund	1,180,687	-
School Food Services Fund	268,178	-
School Textbook Fund	377,264	-
	<u>\$ 1,826,129</u>	<u>\$ 1,826,129</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 HEALTH CARE BENEFITS

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 July 1, 2016 actuarial valuation, membership consisted of the following:

Inactive employees currently receiving benefits	42
Active employees	1,852
	<hr/>
	1,894
	<hr/>

Benefits Provided

Retirees age 55 or more, 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). Eligible retiring employees receive \$2,500 to offset the cost of health insurance premiums in retirement.

Significant Accounting Policies

For purposes of measuring the net Other Postemployment Benefits (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expenses, information about the fiduciary net position of the Plan and additions to/deductions from the Employer's fiduciary net position will be determined for 2018 accounting under GASB No. 75. For this purpose, benefits payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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, 2017, 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.

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, 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Real Rate of Return
Domestic equity	20.6%	7.72%
International equity	10.6%	7.47%
Intermediate fixed income	45.5%	3.12%
Short-term fixed income	22.7%	2.60%
Cash	0.6%	0.00%
	<u>100.0%</u>	

The sum of each target allocation times its long-term expected real rate is 4.39%. 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, 2017 calculated in accordance with GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, were as follows:

Total OPEB liability	\$ 16,043,164
Plan fiduciary net position	<u>(12,081,964)</u>
Net OPEB liability	<u>\$ 3,961,200</u>
Plan fiduciary net position as a percentage of the total OPEB liability	75.31%

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

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, 2016	\$ 13,026,375	\$ 11,424,994	\$ 1,601,381
Changes during the year:			
Service cost	713,189	-	713,189
Interest	958,969	-	958,969
Experience (gains/losses)	(747,036)	-	(747,036)
Change in actuarial assumptions	2,171,672	-	2,171,672
Contributions to OPEB trust	-	-	-
Contributions/benefits paid from general operating funds	-	-	-
Net investment income	-	743,975	(743,975)
Benefit payments, including lump sum payment of liability for 141 participants	(80,005)	(80,005)	-
Administrative expenses	-	(7,000)	7,000
Other changes	-	-	-
Total changes	3,016,789	656,970	2,359,819
Balance at June 30, 2017	\$ 16,043,164	\$ 12,081,964	\$ 3,961,200

Actuarial Assumptions – Total OPEB Liability

The Employer's OPEB liability was measured as of as of June 30, 2017. The Total OPEB Liability was determined by an actuarial valuation as of July 1, 2016 recalculated with the following assumptions and rolled forward to June 30, 2017 and the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	1.61%
Salary increases	3.50% (for purposes of allocating liability)
Investment rate of return	6.00% (net of investment expense, including inflation)
20-year Aa Municipal bond rate	3.10%
Mortality	RP Mortality table with MP 2015 dynamic projection

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.

Discount Rate

The discount rate used to measure the total OPEB liability was 6.00%. 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. While June 30, 2017 is the first year of required compliance with GASB 74 and there is no required discount rate change to disclose, the beginning of year liability from the prior statement was calculated at 7.0%

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:

	1.00% Decrease (5.00%)	Current Discount Rate (6.00%)	1.00% Increase (7.00%)
Net OPEB liability	\$ 2,501,393	\$ 3,961,200	\$ 5,681,522

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

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:

	1.00% Decrease (5.00%)	Current Discount Rate (6.00%)	1.00% Increase (7.00%)
Net OPEB liability	\$ 5,150,938	\$ 3,961,200	\$ 2,861,381

Annual OPEB Cost and Net OPEB Obligation

The School Board's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters established in GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities, or funding excess, over a period not to exceed thirty years.

OPEB Calculation Based on Projected Unit Cost and Level Percentage of Pay Amortization

The following table shows the components of the School Board's annual OPEB cost for the year and the amount actually contributed to the plan, as well as the changes in the School Board's net OPEB obligation, calculated in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*.

Annual required contribution	\$ 713,189
Interest on net OPEB obligation	(352,226)
Adjustment to annual required contribution	350,262
Annual OPEB cost (expense)	<u>711,225</u>
Contributions made	<u>(246,113)</u>
Increase in net OPEB asset	465,112
Net OPEB asset - beginning of year	<u>(5,031,798)</u>
Net OPEB asset - end of year	<u><u>\$ (4,566,686)</u></u>

The School Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB asset for 2017 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
June 30, 2017	\$ 711,225	\$ (246,113)	34.6%	\$ 4,566,686
June 30, 2016	\$ 468,072	\$ (521,798)	111.0%	\$ (5,031,798)
June 30, 2015	\$ 416,350	\$ -	0.0%	\$ (4,978,072)

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, 2017. 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 July 1, 2016 actuarial valuation, the projected unit cost credit (level dollar) actuarial method and level percentage amortization method was used. The actuarial assumptions included a 7% investment rate of return (discount rate) and amortization of the School Board's unfunded actuarial accrued liabilities (UAAL) over a period of twenty years as a level percent of payroll, which closely matches the cash flow duration. Healthcare cost trend rates ranged from 7% initially to an ultimate rate of 5% per year in 2021 and thereafter. Payroll is projected to increase at 3.5%. The inflation rate is implicitly included in other assumptions, such as the discount rate, and the medical trend rates, as it is just one component among many components that comprise the makeup of those assumptions. Mortality assumptions changes were updated based on the use of contemporary table -RP Mortality table with MP 2015 dynamic projection.

Retirement benefit payments are typically concentrated at the beginning of the fiscal year with very few payments spread over the year. Payments are made from the Wells Fargo Advantage Treasury Plus Money Market Fund.

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	\$ 218,658	\$ -	\$ 11,719	\$ -	\$ 230,377
	218,658	-	11,719	-	230,377
Restricted					
Federal	-	740,915	-	-	740,915
State	-	151,243	-	-	151,243
Other	-	19,425	-	-	19,425
Elementary schools	-	-	485,182	1,484,874	1,970,056
Middle schools	-	-	120,563	358,418	478,981
High schools	-	-	235,250	716,835	952,085
	-	911,583	840,995	2,560,127	4,312,705
Assigned					
Instruction	899,989	-	-	-	899,989
Administration,					
Attendance, health	69,498	-	-	-	69,498
Pupil transportation	108,029	-	-	-	108,029
Operations	635,833	-	-	-	635,833
Information technology	114,345	-	-	-	114,345
	1,827,694	-	-	-	1,827,694
Unassigned	632,108	-	-	-	632,108
Total fund balances	\$ 2,678,460	\$ 911,583	\$ 852,714	\$ 2,560,127	\$ 7,002,884

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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, 2017

	Original Budget	Amended Budget	Actual (Budgetary Basis)	Variance with Amended Budget Positive (Negative)
Revenues				
Intergovernmental				
From City of Portsmouth	\$ 52,400,000	\$ 57,434,127	\$ 57,434,127	\$ -
From Commonwealth of Virginia	89,002,508	89,002,508	86,502,610	(2,499,898)
From federal government	600,000	600,000	828,057	228,057
Interest	-	-	5,365	5,365
Miscellaneous	1,548,995	1,548,995	1,911,930	362,935
Total revenues	143,551,503	148,585,630	146,682,089	(1,903,541)
Expenditures				
Education				
Instruction	106,467,206	108,467,574	107,307,954	1,159,620
Administration, Attendance and health services	8,191,512	8,173,554	7,682,712	490,842
Pupil transportation	6,404,615	6,739,374	6,506,463	232,911
Operations and maintenance	14,472,059	15,598,837	15,571,318	27,519
Information technology	4,891,279	4,992,429	4,855,590	136,839
Total education	140,426,671	143,971,768	141,924,037	2,047,731
Debt service	-	1,031,417	1,031,417	-
Total expenditures	140,426,671	145,003,185	142,955,454	2,047,731
Excess of revenues over expenditures	3,124,832	3,582,445	3,726,635	144,190
Other financing sources (uses)				
Transfers out	(3,124,832)	(3,582,445)	(3,094,527)	487,918
Total other financing sources (uses)	(3,124,832)	(3,582,445)	(3,094,527)	487,918
Excess of revenues over expenditures and other financing sources (uses)	\$ -	\$ -	632,108	\$ 632,108
Fund balance - beginning of year			5,754,677	
Less: Prior year unassigned fund balance reappropriated to current year			(5,034,127)	
Increase in encumbrances			1,374,269	
Decrease in inventory			(48,467)	
Fund balance - end of year			<u>\$ 2,678,460</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, 2017

	Original Budget	Amended Budget	Actual (Budgetary Basis)	Variance with Amended Budget Positive (Negative)
Revenues				
Intergovernmental				
From Commonwealth of Virginia	\$ 4,921,464	\$ 4,951,464	\$ 4,583,864	\$ (367,600)
From federal government	11,668,429	12,214,954	11,415,091	(799,863)
Miscellaneous	684,432	1,653,518	404,399	(1,249,119)
Total revenues	17,274,325	18,819,936	16,403,354	(2,416,582)
Expenditures				
Education				
Instruction	15,050,379	16,150,579	14,984,751	1,165,828
Administration, attendance, and health	1,380,708	1,386,456	631,429	755,027
Pupil transportation	274,085	348,845	323,972	24,873
Technology	1,908,418	1,938,418	851,546	1,086,872
Operation and maintenance	36,527.00	371,430.00	127,123	244,307
Total education	18,650,117	20,195,728	16,918,821	3,276,907
Total expenditures	18,650,117	20,195,728	16,918,821	3,276,907
Excess (deficiency) of revenues over expenditures	(1,375,792)	(1,375,792)	(515,467)	860,325
Other financing sources (uses)				
Transfers in	1,375,792	1,375,792	1,180,687	(195,105)
Total other financing sources (uses)	1,375,792	1,375,792	1,180,687	(195,105)
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	\$ -	\$ -	\$ 665,220	\$ 665,220
Fund balance - beginning of year			246,363	
Fund balance - end of year			\$ 911,583	

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, 2017

	Original Budget	Amended Budget	Actual (Budgetary Basis)	Variance with Amended Budget Positive (Negative)
Revenues				
Intergovernmental				
From Commonwealth of Virginia	\$ 110,000	\$ 110,000	\$ 114,419	\$ 4,419
From federal government	6,654,600	6,654,600	6,527,103	(127,497)
Donated commodities from the federal government	400,000	400,000	441,514	41,514
Charges for services	675,000	675,000	479,228	(195,772)
Interest	500	500	5,022	4,522
Miscellaneous	580,000	580,000	584,636	4,636
Total revenues	8,420,100	8,420,100	8,151,922	(268,178)
Expenditures				
Food services	8,420,100	8,420,100	8,207,171	212,929
Total expenditures	8,420,100	8,420,100	8,207,171	212,929
Excess (deficiency) of revenues over expenditures	-	-	(55,249)	(55,249)
Other financing sources (uses)				
Transfers in	-	-	268,178	268,178
Total other financing sources (uses)	-	-	268,178	268,178
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	\$ -	\$ -	212,929	\$ 212,929
Fund balance - beginning of year			632,992	
Increase in inventory			6,793	
Fund balance - end of year			\$ 852,714	

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, 2017

	Original Budget	Amended Budget	Actual (Budgetary Basis)	Variance with Amended Budget Positive (Negative)
Revenues				
Intergovernmental				
From Commonwealth of Virginia	\$ 1,148,411	\$ 2,702,503	\$ 1,128,181	\$ (1,574,322)
Miscellaneous	-	-	2,550	2,550
Total revenues	<u>1,148,411</u>	<u>2,702,503</u>	<u>1,130,731</u>	<u>(1,571,772)</u>
Expenditures				
Instruction	1,532,441	3,086,533	390,590	2,695,943
Total expenditures	<u>1,532,441</u>	<u>3,086,533</u>	<u>390,590</u>	<u>2,695,943</u>
Excess (deficiency) of revenues over expenditures	<u>(384,030)</u>	<u>(384,030)</u>	<u>740,141</u>	<u>1,124,171</u>
Other financing sources (uses)				
Transfers in	384,030	384,030	377,264	(6,766)
Total other financing sources (uses)	<u>384,030</u>	<u>384,030</u>	<u>377,264</u>	<u>(6,766)</u>
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>1,117,405</u>	<u>\$ 1,117,405</u>
Fund balance - beginning of year			1,442,722	
Fund balance - end of year			<u>\$ 2,560,127</u>	

**SCHEDULE OF FUNDING PROGRESS FOR OTHER
 POSTEMPLOYMENT BENEFIT PLAN (UNAUDITED)**

Year Ended June 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Overfunded (Unfunded) Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2017	\$ 12,081,964	\$ 16,043,164	\$ (3,961,200)	75.31%	\$ 96,277,315	4.11%
June 30, 2016	\$ 11,424,994	\$ 13,026,375	\$ (1,601,381)	87.71%	\$ 92,589,250	1.73%
June 30, 2015	\$ 11,468,684	\$ 11,273,969	\$ 194,715	101.73%	\$ 91,342,343	-0.21%

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

Year Ended June 30, 2017

	2017	2016	2015
Total pension liability			
Service cost	\$ 695,895	\$ 729,606	\$ 743,215
Interest	2,552,232	2,501,150	2,434,509
Differences between expected and actual experience	(293,248)	(215,707)	-
Benefit payments, including refunds of employee contributions	(2,270,264)	(2,300,353)	(2,151,081)
Net change in total pension liability	684,615	714,696	1,026,643
Total pension liability - beginning	37,595,582	36,880,886	35,854,243
Total pension liability - ending (a)	\$ 38,280,197	\$ 37,595,582	\$ 36,880,886
 Plan fiduciary net position			
Contributions - employer	\$ 801,790	\$ 726,275	\$ 648,377
Contributions - employee	378,872	345,765	354,802
Net investment income	487,721	1,307,987	4,075,199
Benefit Payments, including refunds of employee contributions	(2,270,264)	(2,300,353)	(2,151,081)
Administrative expense	(18,573)	(18,893)	(22,705)
Other	(211)	(276)	215
Net change in plan fiduciary net position	(620,665)	60,505	2,904,807
Plan fiduciary net position - beginning	29,351,355	29,290,850	26,386,043
Plan fiduciary net position - ending (b)	\$ 28,730,690	\$ 29,351,355	\$ 29,290,850
 Net pension liability - ending (a) - (b)	\$ 9,549,507	\$ 8,244,227	\$ 7,590,036
 Plan fiduciary net position as a percentage of the total Pension liability	75.05%	78.07%	79.42%
 Covered - employee payroll	7,719,383	8,465,913	8,517,527
 Net pension liability as a percentage of covered-employee payroll	124%	97%	89%

Schedule is intended to show information for 10 years. Since 2017 is the third year for this presentation, no other data, prior to 2014 is available. However, additional years will be included as they become available.

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

Year Ended June 30, 2017

	2017	2016	2015
Employer's Proportion of the Net Pension Liability (Asset)	1.04%	1.05%	1.08%
Employer's Proportionate Share of the Net Position Liability (Asset)	\$ 146,345,000	\$ 132,145,000	\$ 130,368,000
Employer's Covered- Employee Payroll	79,054,292	81,200,579	79,779,153
Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	185%	163%	163%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.28%	70.68%	70.88%

Schedule is intended to show information for 10 years. Since 2017 is the third year for this presentation, only one additional year of data is available. However, additional years will be included as they become available.

SCHEDULE OF EMPLOYER CONTRIBUTIONS - VRS (UNAUDITED)

Year Ended June 30, 2017

	(a)	(b)	(c)	(d)	(e)
	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess) (a) - (b)	Employer's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll (b) / (d)
Date					
Professional					
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%
June 30, 2008	\$ 6,831,988	\$ 5,725,611	\$ 1,106,377	\$ 77,548,099	7.38%
Non-Professional					
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%
June 30, 2008	\$ 727,356	\$ 585,079	\$ 142,277	\$ 8,742,264	6.69%

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

Year Ended June 30, 2017

Total OPEB Liability	
Service cost	\$ 713,189
Interest	958,969
Differences between expected and actual experience	(747,036)
Change of assumptions	2,171,672
Benefit payments, including lump sum liability settlement for 114 participants	(80,005)
Net change in total OPEB liability	3,016,789
Total OPEB liability - beginning	13,026,375
Total OPEB liability - ending (a)	<u><u>\$ 16,043,164</u></u>
 Plan Fiduciary Net Position	
Contributions to OPEB trust	\$ -
Contributions/benefit payments made from general operating funds	80,005
Net investment income	743,975
Benefit payments, including refunds of employee contributions	(80,005)
Administrative expense	(7,000)
Net Change in Fiduciary Net Position	656,970
Plan Fiduciary Net Position - Beginning	11,424,994
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 12,081,964</u></u>
 Net OPEB Liability - Ending (a) - (b)	<u><u>\$ 3,961,200</u></u>
 Plan Fiduciary Net Position as a Percentage of Total OPEB Pension Liability	75.3%
 Covered Employee Payroll	\$ 96,277,315
 Net OPEB Liability as Percentage of Payroll	4.11%

Schedule is intended to show information for 10 years. Since 2017 is the first year for this presentation, no other data, prior to 2016 is available. However, additional years will be included as they become available.

SCHEDULE OF EMPLOYER OPEB CONTRIBUTIONS (UNAUDITED)

Year Ended June 30, 2017

Actuarially Determined Employer Contribution

Service cost	\$ 763,112
Amortization of unfunded liability	171,131
Recommended contribution	934,243
Contribution/benefit payments made	(80,005)
Contribution deficiency (excess)	\$ 854,238

Covered Employee Payroll \$ 96,277,315

Contribution as a Percentage of Covered Payroll 0.89%

Schedule is intended to show information for 10 years. Since 2017 is the first 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	7/1/2016
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	7%
Payroll growth	3.5%
Return on plan assets	7%
Mortality rate	RP Mortality table with MP-2015
Asset valuation method	Market value

SCHEDULE OF OPEB INVESTMENT RETURNS (UNAUDITED)

Year Ended June 30, 2017

Annual money-weighted rate of return, net of investment expense

6.00%

Schedule is intended to show information for 10 years. Since 2017 is the first year for this presentation, no other data, prior to 2016 is available. However, additional years will be included as they become available.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2017

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, 2017

	Balance			Balance
ASSETS	July 1, 2016	Additions	Deductions	June 30, 2017
Cash and temporary investments	<u>\$ 817,432</u>	<u>\$ 1,371,105</u>	<u>\$ 1,406,085</u>	<u>\$ 782,452</u>
LIABILITIES				
Due to students	<u>\$ 817,432</u>	<u>\$ 1,371,105</u>	<u>\$ 1,406,085</u>	<u>\$ 782,452</u>

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

Table 1

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

	2017	2016	2015	2014*	2013	2012	2011	2010	2009	2008
Governmental activities										
Net investment in capital assets	\$ 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	\$ 49,912,031
Restricted:										
Grant compliance	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	4,203,589
OPEB	4,566,686	-	-	-	-	-	-	-	-	-
School food services	840,995	653,034	893,933	1,710,238	1,804,974	2,036,930	-	-	-	-
Textbook	2,560,127	1,442,722	988,698	862,997	843,673	375,765	-	-	-	-
Unrestricted	(139,880,955)	(132,759,892)	(133,270,921)	(144,218,024)	3,316,274	18,945,239	31,113,169	30,063,956	24,772,621	16,157,850
Total governmental activities net position	<u>\$(65,944,339)</u>	<u>\$(63,438,308)</u>	<u>\$(63,401,823)</u>	<u>\$(72,498,335)</u>	<u>\$ 84,363,184</u>	<u>\$108,711,589</u>	<u>\$101,875,830</u>	<u>\$ 93,378,260</u>	<u>\$ 77,850,745</u>	<u>\$ 70,273,470</u>

Source: Comprehensive Annual Financial Report for the relevant year

*Restated for GASB 68

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

Table 2

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Expenses										
Governmental activities										
Administration, attendance, and health services	\$ 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	\$ 8,493,316
Instruction	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	118,518,877
Pupil transportation	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	7,359,321
Unassigned	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	15,492,941
Information technology	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	5,998,593
Food service	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	6,940,737
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	296,789
Total primary government	<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>	<u>\$ 163,100,574</u>
Program Revenues										
Governmental activities										
Charges for services										
Food services	\$ 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	\$ 1,731,977
Pupil transportation	144,797	97,522	89,795	90,012	17,412	101,135	235,094	214,243	499,889	496,259
Self insured health	-	-	14,228,080	-	-	-	-	-	-	-
Other	524,007	54,141	788,541	472,193	378,526	170,489	276,896	328,609	451,267	399,121
Operating grants and contributions										
Instruction	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	51,935,625
Food services	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	4,891,034
Capital grants and contributions	984,456	-	-	-	-	-	-	-	1,455,056	1,879,933
Total governmental activities program revenue	<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>	<u>\$ 61,333,949</u>
Net (Expense)/Revenue										
Governmental activities	<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>	<u>\$ (101,766,625)</u>
General Revenues and Other Changes in Net Position										
Governmental activities										
Unrestricted grants and contributions	\$ 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	\$ 111,806,654
Investment earnings	10,387	4,923	463	6,345	30,439	25,317	55,597	270,797	498,527	945,002
Miscellaneous	1,245,676	442,551	239,964	596,709	888,601	1,136,711	1,260,839	1,507,880	1,607,268	589,871
Special item	-	-	-	(4,778,996)	-	-	-	-	-	-
Total governmental activities	<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>	<u>\$ 113,341,527</u>
Transfer to City of Portsmouth	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,750,269</u>	<u>\$ 9,943,797</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Change in Net Position										
Governmental activities	<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>	<u>\$ 11,574,902</u>

Source: Comprehensive Annual Financial Report for the relevant year

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

Table 3

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
General Fund										
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,254,071	\$ 4,445,477	\$ 5,831,280
Nondisposable	218,658	267,125	274,185	152,853	300,259	135,575	559,924	-	-	-
Assigned	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	\$ 2,678,460	\$ 5,754,677	\$ 13,696,549	\$ 4,874,061	\$ 697,336	\$ 8,717,787	\$ 6,930,748	\$ 7,254,071	\$ 4,445,477	\$ 5,831,280
All Other Governmental Funds										
Reserved										
Grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Food Services	-	-	-	-	-	-	-	733,982	153,171	76,521
Capital Projects	-	-	-	-	-	-	-	19,866,538	7,489,787	9,527,957
Textbook	-	-	-	-	-	-	-	193,393	297,614	330,263
Unreserved, reported in										
Grants	-	-	-	-	-	-	-	438,124	(2,087,325)	(3,155,944)
Food Services	-	-	-	-	-	-	-	1,559,686	1,471,298	1,933,852
Capital Projects	-	-	-	-	-	-	-	(1,618,469)	10,893,729	2,877,337
Textbook	-	-	-	-	-	-	-	1,448,082	1,833,731	665,597
Nondisposable										
Food Services	11,719	4,926	25,787	43,656	94,404	38,325	41,708	-	-	-
Textbook	-	-	-	-	346	61,027	144,567	-	-	-
Restricted										
Grants	911,583	246,363	332,976	526,847	296,628	527,586	449,844	-	-	-
Food Services	840,995	628,066	871,591	1,690,710	1,804,974	2,036,930	2,146,211	-	-	-
Textbook	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	-	(48,030)	(48,030)	-	-	-	(585,465)	-	-	-
Total all other governmental funds	\$ 4,324,424	\$ 2,274,047	\$ 2,171,022	\$ 3,789,654	\$ 4,320,425	\$ 11,644,219	\$ 25,200,161	\$ 22,621,336	\$ 20,052,005	\$ 12,255,583

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)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Revenues										
Intergovernmental										
Federal grants	\$ 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	\$ 15,003,073
Federal donated commodities	441,514	414,936	322,654	435,202	431,169	355,290	-	420,343	386,720	-
State grants and other	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	102,341,706
Unassigned	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	50,002,154
Local										
Charges for services	479,228	454,957	14,780,846	799,064	913,852	1,137,316	1,149,376	1,243,708	1,316,139	1,255,369
Interest	10,387	4,923	463	6,345	30,439	25,317	48,237	244,345	388,622	822,311
Miscellaneous	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	2,256,972
	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	171,681,585
Expenditures										
Education										
Instruction	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	115,371,028
Administration, attendance, and health services	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	8,540,819
Pupil transportation	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	7,110,037
Operation and maintenance	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	15,506,446
Information technology	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	6,011,697
Food services	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	6,833,774
Debt service										
Principal	1,021,027	-	1,870,027	839,356	723,518	670,048	619,364	571,338	525,848	482,776
Interest	10,390	77,612	113,167	146,251	205,511	231,923	256,335	278,856	297,266	296,789
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	8,862,849
Total Expenditures	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	169,016,215
Excess (deficiency) of revenues over expenditures	(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	2,665,370
Other financing sources (uses)										
To local government	-	-	-	-	(3,750,269)	(9,943,797)	-	-	-	-
From local government	-	-	-	-	-	2,100,000	-	-	-	-
Transfers in	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	7,296,159
Transfers out	(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)	(7,296,159)
Total Other Financing Sources (Uses)	-	301,433	-	-	(3,750,269)	(7,843,797)	-	-	-	-
Total Net Change in Fund Balances	\$ (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	\$ 2,665,370
Ratio of debt service expenditures to noncapital expenditures	0.62%	0.05%	1.24%	0.64%	0.60%	0.56%	0.59%	0.54%	0.50%	0.49%

Source: Comprehensive Annual Financial Report for relevant year

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

Table 5

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Enrollment Level										
Elementary	7,906	8,106	8,293	8,284	8,329	8,397	8,322	8,444	8,321	8,193
Middle	1,966	2,078	2,107	2,082	2,112	2,133	1,985	1,908	2,080	2,031
High	3,677	3,721	3,690	3,710	3,689	3,716	3,740	3,916	4,020	3,982
Unassigned	663	727	719	733	833	883	862	783	666	697
School Lunches										
Full	\$ 68,537	\$ 66,398	\$ 83,872	\$ 96,420	\$ 95,870	\$ 101,059	\$ 103,859	\$ 116,604	\$ 122,420	\$ 637,770
Reduced	137,933	150,210	106,442	228,263	261,196	244,129	293,913	295,092	313,566	140,030
Free	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	972,755
Total	\$ 4,117,208	\$ 4,136,424	\$ 1,787,720	\$ 3,519,687	\$ 3,635,788	\$ 3,539,682	\$ 3,435,903	\$ 3,279,741	\$ 2,947,359	\$ 1,750,555
School Breakfasts										
Full	\$ 61,744	\$ 56,977	\$ 86,640	\$ 88,996	\$ 96,489	\$ 106,502	\$ 111,361	\$ 106,848	\$ 99,421	\$ 430,486
Reduced	89,730	79,352	221,597	110,241	118,272	146,186	166,965	159,261	141,497	107,301
Free	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	730,901
Total	\$ 2,224,559	\$ 2,120,266	\$ 3,488,626	\$ 1,751,781	\$ 1,775,332	\$ 1,804,641	\$ 1,672,836	\$ 1,609,566	\$ 1,415,006	\$ 1,268,688
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	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 0.60
Lunches										
Elementary	\$ 1.60	\$ 1.50	\$ 1.45	\$ 1.45	\$ 1.35	\$ 1.35	\$ 1.35	\$ 1.25	\$ 1.25	\$ 1.25
Middle	1.60	1.50	1.45	1.45	1.35	1.35	1.35	1.25	1.25	1.25
High	1.60	1.50	1.45	1.45	1.35	1.35	1.35	1.25	1.25	1.25
Reduced	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.30	0.30	0.30
Adult Ed	3.00	2.90	2.85	2.85	2.75	2.75	2.75	2.75	2.75	2.75

Source: Portsmouth Public Schools - Food Services Division

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

Table 6

CAPITAL LEASES (unaudited)

	1		2		1÷2	Total Percentage of Guaranteed Savings	Percent of Personal Income	Per Capita
Year	Principal	Interest	Total Payment	Guaranteed Savings per Year	Percentage of Guaranteed Savings per Year			
2008	\$ 482,776	\$ 318,612	\$ 801,388	\$ 804,882	99.57%	7.77%		
2009	525,848	299,583	825,431	829,028	99.57%	8.01%		
2010	571,338	278,856	850,194	853,899	99.57%	8.25%		
2011	619,364	256,335	875,699	879,516	99.57%	8.49%		
2012	1,393,566	437,433	1,830,999	1,838,979	99.57%	17.76%		
2013	779,908	176,992	956,900	961,071	99.57%	9.28%		
2014	839,356	146,251	985,607	989,903	99.57%	9.56%		
2015	1,870,027	190,779	2,060,806	2,069,788	99.57%	19.99%		
2016	-	-	-	-	0.00%	0.00%		
2017	1,021,027	10,390	1,031,417	1,081,694	95.35%	10.01%		
	<u>\$ 8,103,210</u>	<u>\$ 2,115,231</u>	<u>\$ 10,218,441</u>	<u>\$ 10,308,760</u>			0.27%	\$ 107.28

Source: Personal income figure for total debt as % of per personal income is the latest available figure as of 2015 from the Bureau of Economic Analysis.

Source: Population figure for total debt per capita is the latest 2015 estimate from the U. S. Census bureau.

Source: CitiMortgage Master Lease Rental Payment Schedule

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

Table 7

DEMOGRAPHIC AND ECONOMIC STATISTICS (unaudited)
LAST TEN FISCAL YEARS

Year	Population	Personal Income (thousands if dollars)	Per Capita Personal Income	Median Age	School Enrollment	Unemployment Rate
	(1)	(3)	(3)	(1)	(2)	(4)
2017	*	*	*	*	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%
2008	99,542	3,327,167	33,425	34.9	14,287	5.10%

* Information not available at this time

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

(2) Source: Portsmouth Public Schools Database Manger

(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	2017			2008		
	Number of Employees	Rank	Percentage of Total City Employment	Number of Employees	Rank	Percentage of Total City Employment
Norfolk Naval Shipyard	14,000	1	32.62%	7,500	1	16.63%
Naval Medical Center, Portsmouth	7,000	2	16.31%	5,400	2	11.97%
City of Portsmouth	2,585	3	6.02%	2,605	3	5.78%
US Coast Guard Command - Portsmouth	2,500	4	5.83%	1,500	6	3.33%
Portsmouth Public Schools	2,192	5	5.11%	2,507	4	5.56%
Bon Secours Maryview Medical Center	2,000	6	4.73%	2,200	5	4.88%
Earl Industries	900	7	2.10%	615	8	1.36%
Tidewater Community College	622	8	1.45%	-	-	-
Smithfield of Portsmouth	435	9	1.01%	500	9	1.11%
Wal-Mart Supercenter	300	10	0.71%	386	10	0.86%
Alternative Behavior Services (FHC)	-	-	-	800	7	1.77%
	<u>32,534</u>		<u>75.89%</u>	<u>24,013</u>		<u>53.25%</u>

Source: City of Portsmouth Comprehensive Annual Financial Report

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

Table 9

EMPLOYEES BY CLASS CODE (unaudited)
LAST TEN FISCAL YEARS

	Employee Count									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
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	2	1	2	2	1	1	2	2	2	2
Public Information Officer	1	1	-	-	-	-	-	-	-	-
Unassigned	6	6	11	8	12	13	12	12	11	10
Coordinators	15	12	5	6	7	7	8	8	8	8
Education specialists	20	20	18	18	17	17	15	14	14	17
Supervisors	26	26	27	27	29	30	32	32	38	40
Principals	24	22	25	25	25	25	25	25	25	25
Assistant principals	28	25	28	29	29	29	31	31	34	34
Deans	3	4	-	-	-	-	-	-	-	-
Teachers	918	974	1,002	982	1,016	1,014	1,015	1,019	1,144	1,094
Guidance and other counselors	31	33	36	36	35	36	38	42	47	47
Librarians	20	19	19	20	21	22	24	22	26	25
Speech therapists	18	18	19	19	18	18	19	19	27	24
School social workers	8	8	8	8	8	8	9	9	9	9
Home school liaisons	2	2	2	2	2	2	2	2	2	2
Medical staff	24	29	27	29	30	30	30	31	32	33
Psychologists	10	10	10	10	10	10	10	11	11	11
Secretaries	126	127	132	128	137	142	139	145	164	156
Instructional assistants	194	206	207	202	210	211	205	241	270	258
Bus drivers and monitors	146	146	147	157	167	154	153	153	173	161
Operations and maintenance staff	130	131	119	130	132	127	127	144	182	189
School crossing guards	23	25	27	27	28	29	32	28	44	37
In school suspension	7	7	6	7	7	6	7	7	8	8
Special police officers	-	-	-	-	-	-	-	-	23	18
Security officers	16	16	16	16	16	16	16	16	-	-
Attendance officers	4	3	3	3	3	3	3	3	-	-
Print shop personnel	-	-	1	3	4	4	4	4	5	4
Cafeteria staff	95	109	118	117	117	119	114	122	137	136
Purchasing personnel	3	2	2	2	2	2	2	2	2	1
Technology personnel	21	21	20	19	20	20	21	22	-	-
Other	12	13	14	16	17	17	16	14	34	7
	1,943	2,026	2,061	2,058	2,130	2,122	2,121	2,190	2,482	2,366

Source: Portsmouth Public Schools - Budget and Planning Department (2004 - 2007)
 Portsmouth Public Schools - Finance Department (2008 - present)
 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
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
2008							
Elementary	625	43.4	\$ 47,149	317	285	22	1
Middle	169	45.9	47,720	102	63	4	0
High	286	46.7	49,210	164	107	13	2
Other	68	48.2	54,040	27	26	13	2

Source: Portsmouth Public Schools - Human Resource Department

CAPITAL ASSETS STATISTICS (unaudited)
LAST TEN FISCAL YEARS

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Building										
Elementary	13	13	13	13	13	13	14	14	14	17
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	3
Fleet										
School Buses	159	147	143	138	147	147	149	149	141	132
Other	93	68	82	69	71	71	67	62	71	69
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	16	16	17	17	17	17

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

SCHOOL BUILDING INFORMATION (unaudited)
LAST TEN FISCAL YEARS

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
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	486	492	504	553	501	487	542	612	598	669
Churchland Academy										
Square feet	83,000	83,000	83,000	83,000	83,000	83,000	83,000	96,000	96,000	96,000
Capacity (Students)	732	732	732	732	732	732	732	914	914	914
Enrollment	646	673	724	712	695	681	692	913	947	999
Churchland Elementary										
Square feet	76,734	76,734	76,734	76,734	76,734	76,734	66,586	66,586	66,586	66,586
Capacity (Students)	715	715	715	715	715	715	715	715	715	715
Enrollment	815	792	829	845	830	823	808	784	657	710
Churchland Primary										
Square feet	74,050	74,050	74,050	74,050	74,050	74,050	74,050	63,800	63,800	63,800
Capacity (Students)	600	600	600	600	600	600	600	600	600	600
Enrollment	601	606	576	562	606	620	637	542	529	514
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	735	724	784	771	707	680	584	613	520	697
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	599	583	561	548	558	584	612	572	520	582
James Hurst										
Square feet	75,105	75,105	75,105	75,105	75,105	75,105	75,105	63,525	63,525	63,525
Capacity (Students)	775	775	775	775	775	775	775	775	775	775
Enrollment	643	681	715	707	706	736	666	615	635	734
John Tyler										
Square feet	61,040	61,040	61,040	61,040	61,040	61,040	106,749	106,749	106,749	106,749
Capacity (Students)	700	700	700	700	700	700	700	700	700	700
Enrollment	605	645	664	692	679	711	741	702	687	641
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	456	470	514	526	541	546	544	590	592	623
Olive Branch										
Square feet	-	-	-	-	-	-	32,700	32,700	32,700	32,700
Capacity (Students)	-	-	-	-	-	-	455	455	455	455
Enrollment	-	-	-	-	-	-	367	367	347	430
Park View										
Square feet	79,998	79,998	79,998	79,998	79,998	79,998	79,998	79,998	79,998	31,748
Capacity (Students)	762	762	762	762	762	762	762	762	762	500
Enrollment	536	590	589	606	649	614	613	636	676	409

SCHOOL BUILDING INFORMATION (unaudited)
LAST TEN FISCAL YEARS

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Elementary Schools (continued):										
Simonsdale										
Square feet	81,165	81,165	81,165	81,165	81,165	81,165	33,300	33,300	33,300	33,300
Capacity (Students)	700	700	700	700	700	700	325	325	325	325
Enrollment	659	705	726	721	751	757	292	307	260	311
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	555	570	538	495	561	571	622	640	533	264
Westhaven										
Square feet	65,077	65,077	65,077	65,077	65,077	61,040	61,040	65,077	65,077	65,077
Capacity (Students)	670	670	670	670	670	670	670	670	670	670
Enrollment	570	575	569	546	545	587	602	551	538	610
Port Norfolk										
Square feet	-	-	-	-	-	-	-	28,700	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	871	901	908	893	912	921	841	861	949	889
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	530	579	589	607	612	616	599	525	521	590
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	565	598	610	582	588	596	545	522	582	552
Hunt/Mapp										
Square feet	-	-	-	-	-	-	-	235,946	235,946	235,946
Capacity (Students)	-	-	-	-	-	-	-	-	-	-
Enrollment	-	-	-	-	-	-	-	-	-	-

SCHOOL BUILDING INFORMATION (unaudited)
LAST TEN FISCAL YEARS

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
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	1,357	1,344	1,304	1,300	1,318	1,308	1,375	1,477	1,546	1,562
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	1,032	1,058	1,117	1,112	1,086	1,187	1,238	1,269	1,271	1,300
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	1,288	1,319	1,269	1,298	1,285	1,221	1,127	1,170	1,129	1,120
Enrollment - Excel Campus	198	246	164	179	186	162	143	143	100	113
Centers:										
Churchland Preschool										
Square feet	13,000	13,000	13,000	13,000	13,000	13,000	13,000	-	-	-
Capacity (Students)	182	182	182	182	182	182	182	-	-	-
Enrollment	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	76
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	174	182	154	125	245	250	263	265	263	236
Mt. Hermon										
Square feet	36,317	36,317	36,317	36,317	36,317	47,349	47,349	47,349	47,349	47,349
Capacity (Students)	451	451	451	451	451	451	451	451	451	451
Enrollment	159	182	180	226	213	278	258	287	248	272
Olive Branch Preschool										
Square feet	32,700	32,700	32,700	32,700	32,700	32,700	-	-	-	-
Capacity (Students)	455	455	455	455	455	455	-	-	-	-
Enrollment	170	194	204	198	201	180	-	-	-	-

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

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

Table 13

OPERATING STATISTICS (unaudited)
LAST TEN FISCAL YEARS

Year	Expenditures	Enrollment	Cost per Pupil	Percentage Change	Teaching Staff	Pupil/ Teacher Ratio
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
2008	162,921,752	14,287	11,403	7.40%	1,094	13.06

Note: Expenditures only include General and Special Revenue Funds.

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

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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, 2017, and the related notes to the financial statements, which collectively comprise the School Board's basic financial statements, and have issued our report thereon dated December 7, 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies 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. We did identify a deficiency in internal control that we consider to be a significant deficiency:

Criteria:

Cafeteria receipts should be reconciled on a daily basis between the cafeteria system reports and the deposits slips, and then properly recorded in the general ledger.

Condition:

In the current year, management was unable to provide documentation to support the resolution of discrepancies for the reconciliation between cafeteria daily sales reports and deposit slips.

Cause:

The employee who performed the reconciliation left the School Board. There was no evidence either in hard copy or electronic form to document the resolution of discrepancies noted during the reconciliation process. Additionally, there was not another person who was trained to perform the reconciliation in the case that that employee was not able to, and as such no one was able to explain how the reconciliation was performed.

Effect:

There was no evidence of reconciliation or follow up on discrepancies, and there is the potential for misstatements to occur within the cafeteria receipts due to lack of knowledge about the cafeteria receipts reconciliation process within the finance department.

Auditor's Recommendation:

The School Board should ensure that there is cross training amongst employees and that there is access to important documents and reconciliation upon an employee's resignation or termination.

Management's Response:

The School Board concurs. The School Board's finance department has identified processes to account for discrepancies. The following process change will be implemented:

The cafeteria manager's signature on the VDOE School Nutrition Program's daily cash income received record will be added as verification of funds received. This report is already submitted to the finance department as part of monthly reconciliation process. The cafeteria manager's daily completion of the newly implemented variance report to account for discrepancies in excess of \$2.00 will be submitted to the finance department weekly. A new accountant will be fully trained and acclimated with recordation, reconciliation and analysis of the operation of the food services division; with the senior accountant serving as backup in all capacities.

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 an instance of noncompliance that is required to be reported under Government Auditing Standards:

Criteria:

The *Code of Virginia*, Section 2.2-3115(A), requires persons holding positions of trust appointed or employed by the governing body file and submit a State and Local Statement of Economic Interest (SOEI) annually by January 15th.

Condition:

While performing our audit procedures to ensure compliance with Section 3-15 of the *Specifications for Audits of Counties, Cities, and Towns*, we noted one instance where a board member did not file his SOEI in its entirety by the specified deadline.

Cause:

Procedures were not in place to ensure the board members' SOEI were filled out in their entirety and within the specified deadline.

Effect:

The City of Portsmouth School Board is potentially at risk for board members having undue influence due to nondisclosed conflicts of interest. Additionally, the School Board is not in compliance with the State's conflict of interest filing requirements.

Auditor's Recommendation:

We recommend a procedure be put in place to ensure the reports for all local officials are properly signed, completed, and filed by January 15th each year.

Management's Response:

The School Board concurs. The following process change will be implemented:

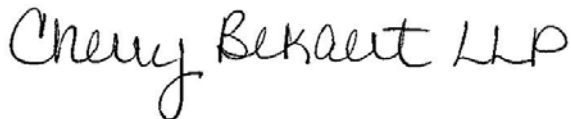
The School Board Clerk will add to the current communication that the form must be filled out in its entirety and that anything that is not applicable to the School Board member should be stated "N/A." The School Board Clerk will also review the forms as a second check to make sure the form is filled out completely.

The School Board's Response to Findings

The School Board's responses to the findings identified in our audit are described above. The School Board's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

A handwritten signature in cursive script that reads "Cheryl Bekaert LLP".

Virginia Beach, Virginia
December 7, 2017

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