

The New Portsmouth
**2018 Comprehensive Annual
FINANCIAL REPORT**

For The Fiscal Year Ended June 30, 2018
PORTSMOUTH, VIRGINIA



**COMPREHENSIVE ANNUAL FINANCIAL REPORT
CITY OF PORTSMOUTH, VIRGINIA**

YEAR ENDED JUNE 30, 2018

Prepared by:

DEPARTMENT OF FINANCE



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CITY OF PORTSMOUTH, VIRGINIA

Comprehensive Annual Financial Report
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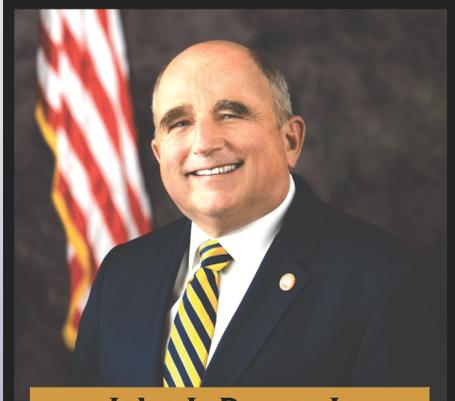
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INTRODUCTORY SECTION

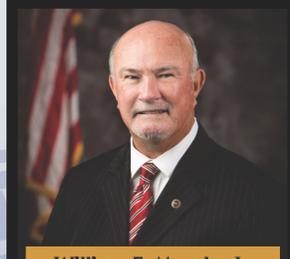


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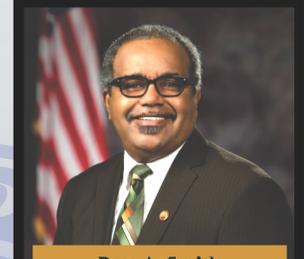
Portsmouth City Council Members



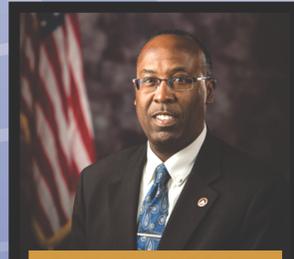
John L. Rowe, Jr.
Mayor
Term Expires: 12/31/2020



William E. Moody, Jr.
Term Expires: 12/31/2018



Ray A. Smith
Term Expires: 12/31/2018



Dr. Mark M. Whitaker
Term Expires: 12/31/2018



Elizabeth M. Psimas
Vice Mayor
Term Expires: 12/31/2020



Nathan J. Clark
Term Expires: 12/31/2020



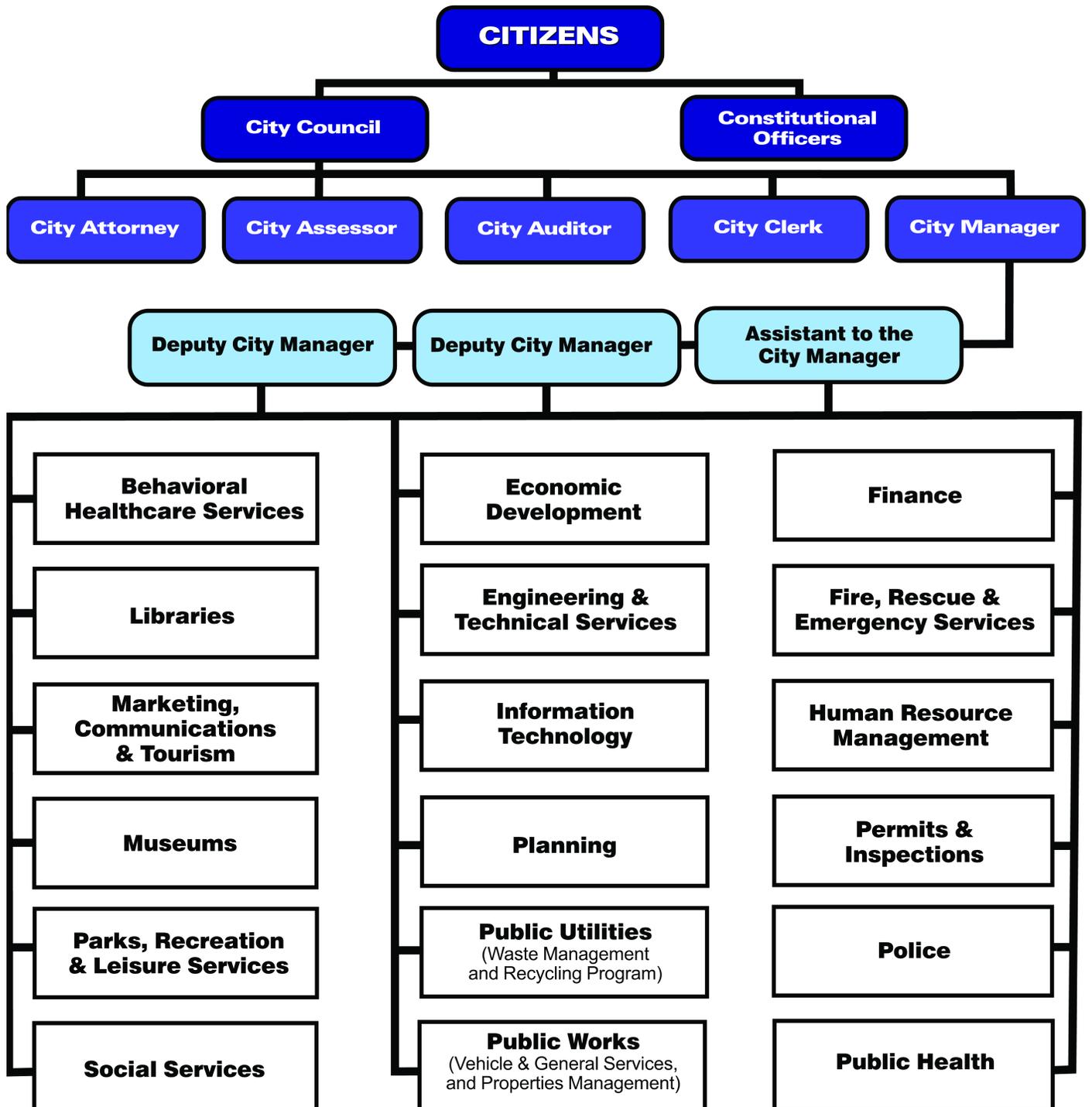
Lisa Lucas-Burke
Term Expires: 12/31/2020

City Council Appointments
City Manager, Dr. L. Pettis Patton
Holt “Billy” Butt, City Assessor
Debra Y. White, City Clerk
Soloman Ashby, City Attorney

Constitutional Officers
Stephanie N. Morales, Commonwealth’s Attorney
Cynthia P. Morrison, Clerk of the Circuit Court
Franklin D. Edmondson, Commissioner of the Revenue
Michael A. Moore, Sheriff
Paige D. Cherry, City Treasurer



THE MUNICIPAL ORGANIZATION OF THE CITY OF PORTSMOUTH, VA





Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**City of Portsmouth
Virginia**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morill

Executive Director/CEO



February 25 2019

Dear Mayor, Vice Mayor, Members of City Council and Portsmouth Citizens:

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the city of Portsmouth, Virginia (city) for the fiscal year ended June 30, 2018, in accordance with State Statutes and City Code. The city's Department of Finance prepared this report in accordance with accounting principles generally accepted in the United States of America. (GAAP).

City management is responsible for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, based on a comprehensive framework of internal controls established for that purpose. The cost of internal control should not exceed anticipated benefits; the objective is to provide reasonable rather than absolute assurance that the financial statements are free of any material misstatements.

The CAFR has been compiled in a manner designed to fairly set forth the financial positions and results of operations of the city. The CAFR includes disclosures designed to enable the reader to gain an understanding of the city's financial affairs.

In accordance with GAAP, a narrative overview and analysis of the basic financial statements in the form of Management's Discussion and Analysis (MD&A) is provided and can be found immediately following the independent auditor's report. This letter of transmittal complements the MD&A and should be read in conjunction with it.

PROFILE OF THE CITY

The city of Portsmouth was settled in 1752 and incorporated by the Virginia General Assembly in 1858. The city lies in the center of the Hampton Roads Region situated at one of the world's greatest natural harbors, at the confluence of the James, Nansemond, and Elizabeth Rivers where they empty into the Chesapeake Bay. The city is bordered by the cities of Suffolk, Chesapeake, and Norfolk. The city's land area of approximately 33.65 square miles is mostly developed, with an estimated population of 95,440 in 2018.

With 90 miles of shoreline at the zero-mile post of the Intracoastal Waterway, which runs from Canada to Florida, Portsmouth's location on navigable waterways has proven a dominant force in the city's history and economy. Its location on the 50 plus foot deep Hampton Roads shipping channel, and the presence of both the CSX and Norfolk Southern Railroads, supports the national and international port commerce activities and military presence in the region.

Portsmouth is home to the Norfolk Naval Shipyard, a government facility with approximately 16,000 people on base, the Atlantic Area Command and United States Coast Guard (USCG) Fifth

District Headquarters with approximately 2,500 employees, and the Naval Regional Medical Center with approximately 7,000 employees. The USCG Atlantic Area command provides the operational leadership for all USCG missions from the Rocky Mountains to the Arabian Gulf, spanning across five Coast Guard Districts and 40 states.

Although economic activity in the city has been historically associated with the port and military activities in the region, Portsmouth's economy has diversified in recent years with increasing employment in the service, manufacturing, and professional sectors.

Structure of the Government and Its Services

Portsmouth is an independent, full-service city with sole local governmental taxing power within its boundaries. It derives its governing authority from a charter granted by the General Assembly of the Commonwealth of Virginia.

The City Council is the governing body of the city, which formulates policies for the administration of the city of Portsmouth. The city operates under the Council-Manager form of government, with the City Council consisting of a mayor and six other council members. The mayor is elected directly by the voters on an at-large, nonpartisan basis, as are the remaining members of the City Council. The City Council is the legislative policy-making body, and the City Manager, who is appointed by the City Council, serves as the city's chief executive officer. The City Manager reports directly to the City Council, appoints department heads, conducts the financial business of the city, and performs other duties as required by the governing body.

The operation of public schools in Portsmouth is the responsibility of the School Board, consisting of nine members elected by the citizens at-large for four-year terms. By State law, the School Board operates independently from the City Council, but is fiscally dependent on it.

The City Council appropriates an annual sum for education, which may be appropriated by category; however, the School Board determines how the funds are spent. Taxing and appropriation authority remain with the City Council.

In accordance with the requirements of the Governmental Accounting Standards Board (GASB), the financial reporting entity consists of the Primary Government (the city) as well as its component units, which are legally separate organizations for which the City Council is financially accountable. The component units qualifying for inclusion in this report are the Portsmouth City Public Schools, Economic Development Authority (EDA), and the Port and Industrial Commission. Financial accountability for these component units was determined on the basis of City Council's selection of governing authority, designation of management, ability to influence operations, and/or accountability for fiscal matters. The discretely presented component units are reported in a separate column in the financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position, results of operations, and cash flows from those of the primary government.

The city provides a full range of municipal services to meet the needs of its citizens including police and fire protection, collection and disposal of refuse and recycling, water, sewer and storm water services, street and highway maintenance, parks and recreation, libraries and cultural resources, city planning, health and social services, parking and general administration. The city budget appropriates city, state and federal pass-through funds for education, health, mental health assistance, social services, judicial activities and other programs.

Cities in Virginia have sole jurisdiction over the entire area within their boundaries and operate independently of any county government. There are no overlapping jurisdictions and, consequently, citizens of Virginia cities are not subject to overlapping debt or taxation.

Trends in Portsmouth

Old Dominion University publishes a *State of the Region* report on an annual basis; this report outlines current trends which the city identifies to capitalize on or avoid in the current year. As the region is just now recovering its jobs since the Great Recession, Portsmouth has had a net gain in jobs since 2011, but the city still struggles with unemployment, which has not yet recovered. As Defense Spending has been a strong indicator of a vibrant economy for the region, we have reason to be optimistic as defense expenditures have shown healthy growth in the prior two budgets.

Another important metric in the region is cargo shipping. The Port of Virginia is a major stakeholder in the regional economy that has a large presence in Portsmouth. General cargo shipments have been steadily increasing since 2009, up to 22.0 million tons in 2017 from 14.9 million tons. This number should be bolstered by improvements to the Virginia International Gateway, which have enabled even-larger cargo ships that have driven up average shipment size from 1,514 twenty-foot equivalent units (TEUs) in 2016 to 1,798 TEUs in 2017.

Budget Process

The Commonwealth of Virginia and City Charter mandate a balanced budget. The annual budget serves as the foundation for the city's financial planning and control. The City Manager proposes the budget to City Council at least 90 days before the end of each fiscal year and it is adopted by City Council at least 45 days before the close of the fiscal year. The budget is prepared by fund (e.g. general, special revenue, capital projects), function (e.g. public safety) and department (e.g. police, parks and recreation). Budget to actual comparisons are provided in this report for governmental funds where an appropriated annual budget has been adopted. These comparisons are presented in the Other Required Supplementary Information Section of this report.

Economic Development Activity

Economic Development in Portsmouth continues to experience a major increase in activity especially in critical sectors such as retail, multifamily, and port-related developments. The private sector is currently investing over \$160 million in new construction or redevelopment. The city recently relocated its Economic Development to a more central location in Downtown Portsmouth in the Towne Bank building on High Street.

Below are examples of just a few of the projects currently being facilitated and driven by Economic Development in conjunction with the city's related private and public partners.

Retail Development

In July 2017, the craft brewery and distillery scene arrived in Portsmouth. MoMac Brewing Company became the city's first micro-brewery locating in the Churchland Section of the city, very close to the Portsmouth-Chesapeake line. This brewery pays homage to the Monitor Merrimac Memorial Bridge-Tunnel where the confluence of the James, Nansemond, and Elizabeth Rivers come together. Richmond-based Legend Brewing Company opened on the ground floor of the Seaboard Building in Portsmouth's downtown district located near the High Street Ferry Landing along the Elizabeth River. Stellar Wine Bar also opened in the downtown district, adjacent to the Commodore Theater. The city welcomed its first micro-distillery, Cooper & Oak Craft Spirits, in late October 2017 in the downtown section of the city.

The city established a new Cultural Arts District along High Street in Downtown Portsmouth. The district was created to help downtown businesses create a coherent identity, foster community spirit, and

entice locals who may not have visited that area recently to return and see the progress being made. The Crawford Gateway Revitalization is an array of economic development, infrastructure and marketing efforts to bring new life to the Portsmouth Waterfront. The project will result in more private economic activity, more regional interest in Portsmouth's Downtown and creating a diverse population within the city center.

Multi-family Development

The EDA has sold one site and has another under contract for multi-family development by The Breeden Company. In December 2016, the \$17.1 million, 134-unit Harbor Vista development was completed.

Port-Related Activity

The Virginia International Gateway (VIG) is a public-private partnership between the Port of Virginia and its private subsidiary, Virginia International Terminals. This partnership has enabled an expansion of the facility that will, in the long term, improve personal property tax rolls, and create new economic development activity. While the city anticipates a meaningful and deep cut in property tax revenues during this period, and it is unclear that the city will ever be able to recover that money due to litigious operators, the city is proud of the enhancements and expansion currently taking place at the VIG. These improvements total \$320 million, will greatly improve efficiency and capacity, and will be completed in spring 2019.

Other Development Projects

Greenwood/Elmhurst Industrial Corridor

The Greenwood/Elmhurst Industrial Corridor is an industrial area between Airline Boulevard and Interstate 264. The area generally contains Airline Boulevard and Elmhurst Lane industrial properties, Airline Industrial Park, and Greenwood Industrial Park.

One of the key sites in this corridor is the former Gwaltney Plant which closed in 2013. In late 2015, this 13-acre site was sold to Interchange, a third-party logistics company. Interchange has demolished the old plant and invested over \$11 million to construct 200,000 square-feet of new warehouse space. The facility opened in November 2017.

Incentive Programs

In 2014, the city was awarded and activated its second state-designated Enterprise Zone. A highly coveted designation, the Virginia Enterprise Zone Program is a state and local partnership and is one of the most effective methods of using incentives to stimulate economic development. This second zone adds additional geography to this statutory program and is utilized as a business attraction tool for the city's industrial waterfront areas of West Norfolk and Pinners Point along the Western Branch of the Elizabeth River and the Paradise Creek/Elm Avenue Corridor along the Southern Branch of the Elizabeth River.

While the state incentives are the same for both zones, the city's incentives are tailored to each Zone's respective land use and development strategy.

In September 2013, the EDA established a Local Incentives Program for small businesses/property owners as a means of leveraging private investment for façade, interior and safety improvements. The program continues and is well funded and well received by property owners and businesses.

Eggleston Services

As of publication of this report, the newest industrial sector addition to the city of Portsmouth is Eggleston Services. This nonprofit not only provides laundry services to the Hampton Roads military sector, but also provides employment opportunities to the differently abled. This strategy not only employs an underserved, underutilized working population, but provides those people with skills and experience. These workers can now find work elsewhere in the area, giving them social/professional networks and financial independence that will enrich the rest of their lives.

Build One Portsmouth

The city recently adopted its new comprehensive plan, *Build One Portsmouth*. This document is the culmination of years of work on the part of our Planning Commission and Planning Department. The plan places an emphasis on resiliency and sustainability, two values Portsmouth must ingrain as climate change and disaster preparedness are two of the city's most persistent threats.

The plan considered what the residents of Portsmouth value most about the city: cohesive neighborhoods, bonds developed by tenure of residency, and its central location. *Build One Portsmouth* provides the city with a pathway towards a future that residents will value by encouraging dense development, rezoning to multi-family in downtown areas, and multi-use development.

General Fund Performance

The General Fund accounts for all revenues and expenditures that are not accounted for in specific purpose funds. It finances the regular day-to-day operations of the city.

A strong unassigned fund balance is an indication of financial flexibility and fiscal strength. The city's general unassigned fund balance at June 30, 2018 was \$56,699,726 which represents 23.9% of fiscal year 2018 General Fund's total revenues and transfers. This exceeded the city's adopted financial policy of 15%.

The following table presents the city's General Fund ratio of unassigned fund balance to total revenues for the previous five fiscal years

Fiscal Year	General Fund Unassigned Fund Balance	General Fund Total Revenues	Ratio
2018	56,699,726	236,805,248	23.9%
2017	57,358,331	222,284,865	25.8%
2016	58,427,712	221,711,369	26.4%
2015	54,088,231	218,836,434	24.7%
2014	52,168,051	216,678,591	24.1%

Financial Policies

The financial integrity of our city government is of the utmost importance. The city's comprehensive established financial policies address appropriate financial management, debt administration, budget and capital plan development, and long-range planning.

Written, adopted financial policies have many benefits, such as assisting the elected officials and staff in the financial management of the city, saving time and energy when discussing financial matters, engendering public confidence, and providing continuity over time as elected officials and staff members change. City management will annually review the city's financial policies, and City Council will reaffirm them at least once every three years. The policies discussed below had a significant impact on the financial results reported for fiscal year 2018.

Use of Fund Balance

While accumulated fund balance in the General Fund may legally be used as revenue to support the budget, the city's intention is not to use fund balance to fund recurring operating expenditures. Accumulated fund balance over and above the city's fund balance target may be considered for funding one-time expenditures. During fiscal year 2018, the city remained in compliance with this policy by using the general fund balance to only fund one-time expenditures and not recurring expenditures.

The total fund balance in the General Fund increased from \$65,408,735 (restated) in fiscal year 2017 to \$71,085,872, an increase of 8.7%. The majority of the increase in fund balance was a result of the October 2018 appropriation of \$5,189,613 in unexpended funds from the FY 2018 Risk Management Fund Budget for the Portsmouth Public Schools (PPS) to the City's FY 2019 School Board Risk Management and Insurance Fund for the sole purpose of serving as a reserve for the PPS Health Self Insurance and Workers Compensation and General Liability Programs and the appropriation of \$1,653,636 of unexpended funds from the PPS FY 2018 General Fund to the City's FY 2019 Capital Improvement Budget for PPS capital projects. Because the appropriations were approved after June 30, 2018, the combined \$6,843,249 is presented as General Fund assigned fund balance at June 30, 2018 and moved to the Risk Management and Capital Projects Funds in October 2018, which is fiscal year 2019.

Fund Balance Policy Minimum

The city will maintain an unassigned general fund balance equal to 15% of General Fund revenues and transfers. During fiscal year 2018, the city remained in compliance with this policy. The general fund unassigned fund balance equaled 23.9% of General Fund revenues and transfers.

Cash Management

The city uses a pooled cash concept to allow greater investment flexibility and maximize its return on investment. The city pools cash from all funds, except those restricted for specific purposes or managed by fiscal agents, for investment purposes. The city may invest idle cash in overnight repurchase agreements and other investments ranging from one to 180 days to maturity. During the 2018 fiscal year, the city was able to manage its current resources to properly meet its operating cash requirements and issued debt of \$4,117,195 for Qualified Zone Academy Bonds for specific school projects.

Independent Audit

State law requires that a certified public accountant selected by the City Council audit the city's annual financial statements. Cherry Bekaert LLP Certified Public Accountants performed this annual audit of the financial records and transactions of all funds, component units, and departments of the city for the fiscal year ending June 30, 2018.

The auditor's report, which includes their opinion on the basic financial statements of the city, is contained in this report on page 1.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the city for its comprehensive annual financial report for the fiscal year ended June 30, 2017.

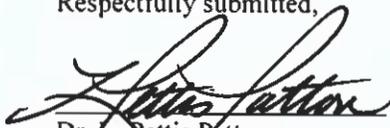
This was the 42nd consecutive year that the city has earned this prestigious award. To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

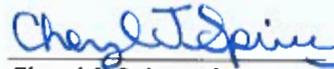
Acknowledgments

We would like to acknowledge the dedicated city staff for their contributions and commitment to maintaining the accounting and financial reporting systems of the city of Portsmouth. Special recognition is merited for the Department of Finance employees for the preparation of a high quality Comprehensive Annual Financial Report for use by the City Council, citizens and other interested parties. We also would like to express our sincere appreciation for the City Council's leadership in establishing financial policies and support for financial operations of the city.

Respectfully submitted,



Dr. L. Pettis Patton
City Manager



Cheryl J. Spivey, CPA
Chief Financial Officer

FINANCIAL SECTION



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Report of Independent Auditor

The Honorable Members of the City Council
City of Portsmouth, Virginia

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Change in Accounting Principle

As described in Note 17 to the financial statements, the City adopted new accounting guidance, Governmental Accounting Standards Board (the "GASB") Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective July 1, 2017. Our opinions are not modified with respect to this matter.

Correction of an Error

As described in Note 17 to the financial statements, certain errors resulting in the overstatement of previously reported capital assets and operating transfers at June 30, 2017 were discovered by management of the City during the current fiscal year. Accordingly, adjustments have been made to related net position and fund balance as of June 30, 2017 to correct these errors. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information 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 GASB, 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 City's basic financial statements. The Introductory Section, Supplementary Information, and Statistical Section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"), and is also not a required part of the basic financial statements.

The Supplementary Information and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this 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 February 25, 2019, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Cherry Bekaert LLP

Virginia Beach, Virginia
February 25, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the city of Portsmouth's (city's) Comprehensive Annual Financial Report (CAFR) presents Management's Discussion and Analysis (MD&A) of the city's financial performance during the fiscal year ended June 30, 2018. The MD&A should be read in conjunction with the transmittal letter found in the Introductory Section of this report and the city's financial statements that follow this section.

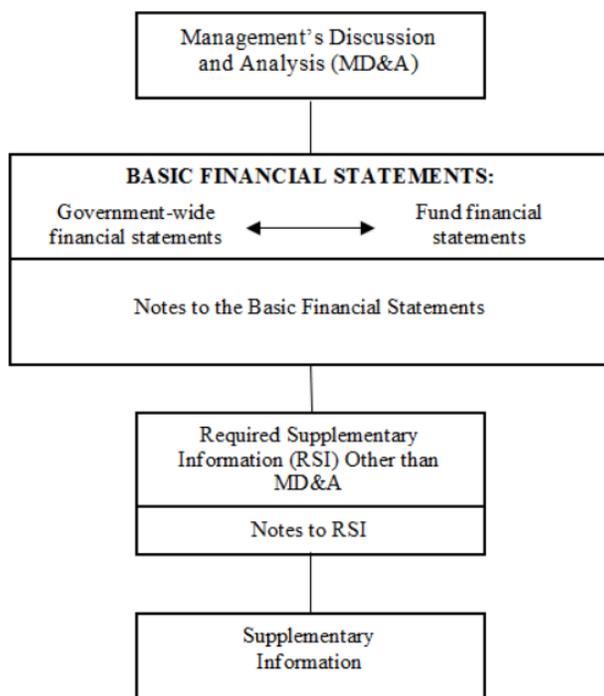
FINANCIAL HIGHLIGHTS

- ◆ Effective July 1, 2017, the city adopted the provisions of Governmental Accounting Standards Boards (GASB) Statements No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and No. 89 *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The implementation of GASB 75 required the City to present more extensive note disclosures and required supplementary information about the city's OPEB liabilities and adjust the beginning net position accordingly.
- ◆ The city's net position totaled \$259.0 million at June 30, 2018, increasing \$30.3 million over June 30, 2017 as restated.
- ◆ The city's negative unrestricted net position totaled \$(143.2) million, which was comprised of a deficit of \$(194.5) million resulting from governmental activities and \$51.3 million resulting from business-type activities.
- ◆ Government-wide current assets totaled \$242.3 million, of which \$162.5 million was attributable to governmental activities and \$79.8 million was attributable to business-type activities; while current liabilities totaled \$66.7 million, with \$47.2 million from governmental activities and \$19.5 million from business-type activities. The ratio of current assets to current liabilities was 3.6:1 overall – 3.4:1 for governmental activities and 4.1:1 for business-type activities.
- ◆ The city's long-term indebtedness at June 30, 2018 totaled \$705.3 million, a decrease of \$(60.7) million from the prior year. The long-term indebtedness includes \$522.6 bonds, \$3.4 VDOT loan, \$1.8 capital leases, \$34.5 OPEB liability, landfill closure and post-closure care of \$5.3 million, \$5.6 claims payable, compensated absences of \$4.7 million and net pension liabilities of \$127.3 million.
- ◆ The city's governmental general revenues and transfers of \$195.9 million were \$27.0 million more than expenses, net of program revenues of \$89.5 million. Taxes funded 85.6% of general revenues and transfers.
- ◆ The General Fund total fund balance increased 8.7% during the current year to \$71.1 million from \$65.4 million in the prior year. Unassigned fund balance of \$56.7 decreased \$(0.7) from prior year.
- ◆ Total net position for the Public Utility Fund increased 0.9% from \$182.1 million, restated, at June 30, 2017 to \$183.8 million at June 30, 2018.

FINANCIAL SECTION OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

This Comprehensive Annual Financial Report consists of four sections: introductory, financial, statistical, and compliance. As the following chart shows, the financial section of this report has four components – *management’s discussion and analysis* (this section), the *basic financial statements*, the *required supplementary information*, and the *supplementary information*. The basic financial statements have three components – *government-wide financial statements*, *fund financial statements*, and *notes to the basic financial statements*.

Components of the Financial Section



The city’s financial statements present two kinds of statements each with a different snapshot of the city’s finances. The government-wide financial statements provide both long-term and short-term information about the city’s overall financial status. The fund financial statements focus on the individual parts of the city government, reporting the city’s operations in more detail than the government-wide statements. Both perspectives (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison, and enhance the city’s accountability.

Government-wide Financial Statements

The government-wide statements report information about the city as a whole using accounting methods similar to those used by private-sector companies. One of the most important questions asked about the city’s finances is, “Is the city, as a whole, better off or worse off as a result of the year’s activities?” The Statement of Net Position and the Statement of Activities, which are the government-wide statements, report information about the city as a whole and about its activities in a manner that provides an answer to this question. These statements include all assets and liabilities as well as deferred outflows/inflows using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year’s revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the city’s net position and changes in net position. The city’s net position, which is the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources, is one

way to measure the city's overall financial health and its current financial position. Over time, increases or decreases in the city's net position are one indicator of whether its financial condition is improving or deteriorating. Other non-financial factors will need to be considered, however, such as changes in the city's property tax base and the condition of the city's roads, to assess the overall health of the city.

In the Statement of Net Position and the Statement of Activities, the city is divided into the following:

Governmental activities - The city's basic municipal services, such as public safety (police and fire), public works, parks and recreation, and general administration, are reported herein. Property taxes, other local taxes, and state and federal grants finance most of these activities.

Business-type activities - Activities for which the city charges customers to provide. The city's water and sewer system, waste management services, golf courses and parking services provided to the city, citizens, and customers are reported herein.

Component units - The city includes three other separate legal entities in its report – the School Board, the Economic Development Authority (EDA), and the Portsmouth Port and Industrial Commission (PPIC), all discretely presented. Although legally separate, these “component units” are important in that the city is financially accountable for providing operating and capital funding to them.

Fund Financial Statements

The focus of the fund financial statement presentation is on the city's most significant funds. The fund financial statements provide more information about the city's most significant funds – not the city as a whole. Funds are accounting units that the city uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and by bond covenants. Other funds are established to control and manage money for particular purposes or to demonstrate certain tax and grant revenues are properly used.

The city has three types of funds:

Governmental funds - Most of the city's basic services are included in governmental funds, which focus on (1) the inflows and outflows of cash and other financial assets that can readily be converted into cash and (2) the balances remaining at year end that are available for future spending. Consequently, the governmental funds financial statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the city's programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, additional information is provided on the subsequent page of the governmental funds financial statement that explains the relationship (or differences) between these statements. The city has three major governmental funds: the General Fund, the Debt Service Fund, and the Capital Improvements Fund.

Proprietary funds - Services for which the city charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide financial statements, provide both long and short-term financial information.

In fact, the city's enterprise funds (one type of proprietary fund) are the same as business-type activities, but the fund financial statements provide more detailed and additional information, such as cash flows. The city has two major enterprise funds: the Public Utility Fund and the Parking Authority.

The city uses internal service funds (another type of proprietary fund) to report activities that provide supplies and services for other city programs and activities, such as the city Garage Fund, the Information Technology Fund, the Risk Management Fund, and the Health Insurance Fund.

Fiduciary funds - The city is the trustee, or fiduciary, for its employees' pension plans and Other Postemployment Benefit plan and is responsible for the plans' assets, which can be used only to benefit the trust beneficiaries as part of a trust arrangement. The city is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the city's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. The city excludes these activities from the city's government-wide financial statements in that the city cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE CITY ENTITY

Statements of Net Position

The following table reflects the condensed Statements of Net Position:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017*	2018	2017*	2018	2017*
Current assets	\$ 162.5	165.4	79.8	98.5	242.3	263.9
Capital assets	474.7	468.3	287.2	271.4	761.9	739.7
Total assets	637.3	633.7	366.9	369.9	1,004.2	1,003.6
Deferred outflows of resources	38.7	50.8	7.2	7.0	45.9	57.8
Total assets and deferred outflows of resources	675.9	684.5	374.1	376.9	1,050.1	1,061.4
Current liabilities	47.2	46.5	19.5	17.0	66.7	63.5
Long-term liabilities	557.0	609.2	148.2	156.8	705.3	766.0
Total liabilities	604.2	655.8	167.7	173.7	771.9	829.5
Deferred inflows of resources	17.6	26.6	1.5	0.3	19.1	26.8
Net position:						
Net investment in capital assets	220.5	195.8	153.6	130.3	374.1	326.1
Restricted	28.1	55.4	-	2.5	28.1	57.9
Unrestricted (deficit)	(194.5)	(224.1)	51.3	68.8	(143.2)	(155.3)
Total net position	54.1	27.1	204.9	201.6	259.0	228.7
Total liabilities, deferred inflows of resources and net position	\$ 675.9	684.5	374.1	376.9	1,050.1	1,061.4

* Restated as described in Note 17.

Net position (assets plus deferred outflows minus liabilities plus deferred inflows) may serve over time as a useful indicator of a government's financial position. The city of Portsmouth's net position was \$259.0 million at June 30, 2018. By far, the largest portion of the city's net position is reflected in its net investment in capital assets (land, buildings, improvements, etc.). The city uses these assets to provide services to its citizens and, consequently, these assets are not available for future spending. The resources needed to repay the debt related to these capital assets must be provided from other sources. \$28.1 million of the city's net position is currently subject to various external restrictions.

The net position of the city's governmental activities increased by \$27.0 million from \$27.1 million to \$54.1 million, as reflected in the Statement of Activities.

The net position of the city's business-type activities increased by \$3.3 million from \$201.6 million to \$204.9 million, as reflected in the Statement of Activities.

Statements of Activities

The following table shows the revenues and expenses of the governmental and business-type activities:

Table 2

Summary of Changes in Net Position

Years ended June 30, 2018 and 2017 (in millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Revenues						
<u>Program revenues:</u>						
Charges for services	\$ 21.7	20.3	55.1	56.9	76.8	77.2
Operating grants and contributions	64.7	67.3	-	-	64.7	67.3
Capital grants and contributions	3.1	2.2	-	-	3.1	2.2
General revenues:						
Taxes	167.6	166.0	-	-	167.6	166.0
Other	19.6	13.6	1.7	2.4	21.4	16.0
Total revenues	276.7	269.5	56.8	59.3	333.5	328.7
Expenses						
General government	42.4	37.9	-	-	42.4	37.9
Judicial	20.4	23.8	-	-	20.4	23.8
Public safety	55.8	56.5	-	-	55.8	56.5
Public works	35.2	30.3	-	-	35.2	30.3
Health and welfare	29.2	30.2	-	-	29.2	30.2
Parks, recreational, and cultural	6.8	10.8	-	-	6.8	10.8
Community development	6.4	8.3	-	-	6.4	8.3
Education**	46.6	55.2	-	-	46.6	55.2
Public Utility	-	-	32.1	22.7	32.1	22.7
Golf	-	-	2.1	1.7	2.1	1.7
Parking Authority	-	-	1.1	1.2	1.1	1.2
Waste Management	-	-	9.7	10.2	9.7	10.2
Interest on long-term debt	15.6	15.5	-	-	15.6	15.5
Total expenses	258.4	268.4	44.9	35.8	303.3	304.2
Excess before transfers	18.3	1.1	11.9	23.5	30.2	24.6
Transfers	8.7	10.1	(8.7)	(10.1)	-	-
Change in net position	27.0	11.2	3.3	13.4	30.7	24.6
Net position, beginning of year, as restated	27.1	38.7	201.6	197.9	228.7	236.6
Prior year adjustment*	-	(22.8)	-	(9.7)	-	(32.5)
Net position, end of year	\$ 54.1	27.1	204.9	201.6	259.0	228.7

* Restated as described in Note 17

**The decrease in Education expenses primarily relates to the movement of \$5.2 million unspent funds from PPS Risk Management Fund to the city's School Board Risk Management and Insurance Fund, and \$1.6 million unspent funds from PPS General Fund to the city's Capital Projects Fund for school projects. Because the related appropriations occurred after June 30, 2018, these amounts are reported in the city's General Fund net position rather than in the Risk Management and Capital Projects Funds. The funds were moved to the Risk Management and Capital Projects Funds in October 2018, which is fiscal year 2019.

Governmental Activities

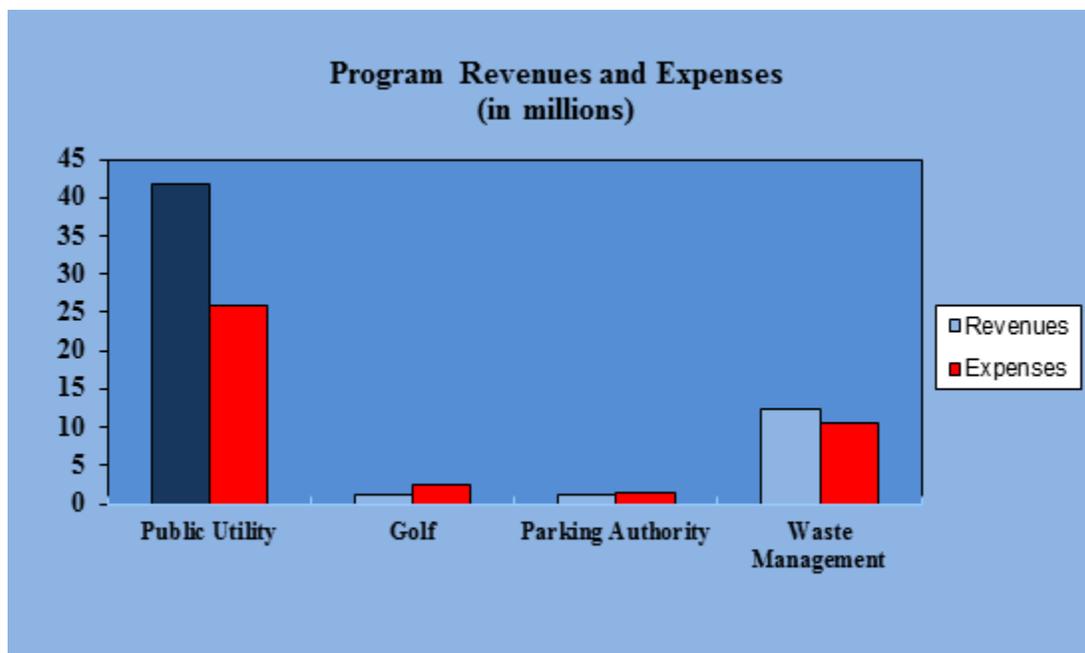
The city's total revenues from governmental activities were \$276.7 million for the fiscal year ended June 30, 2018, which represents an increase of \$7.2 million from the prior year. The largest source of revenue is taxes, which represents 60.6% of the total and is comprised of property taxes, other local taxes, and utility taxes. The city's assessed real property value increased 0.5% from the prior year.

Program revenues are derived from the program itself and reduce the cost of the function to the city. Total program revenues for governmental activities were \$89.5 million. The largest component of program revenues for governmental activities is operating grants and contributions totaling \$64.7 million, representing 72.3% of total program revenues for governmental activities.

For the fiscal year ended June 30, 2018, expenses for the city's governmental activities totaled \$258.4 million. The city's expenses cover a wide range of services, with 21.6% related to public safety, 18.0% related to education, 16.4% general government, 13.6% public works, and 11.3% related to health and welfare.

Business-Type Activities

The total net position for business-type activities increased \$3.3 million from \$201.6 million, restated, in fiscal year 2017 to \$204.9 million in fiscal year 2018, primarily due to Public Utilities and Waste Management activities. Charges for services, including water and sewer utility fees, waste management fees, parking fees, and golf fees, represent 97.0% of total revenues for business-type activities. The following graph compares the program revenues and expenses of the business-type activities.



FINANCIAL ANALYSIS OF THE CITY FUNDS

Governmental Funds

The focus of the City's governmental funds is to provide information on current inflows, outflows, and balances of available resources. Such information is useful in assessing the city's financing requirements. For the fiscal year ended June 30, 2018, the governmental funds reflected a combined fund balance of \$107.8 million. The General Fund's fund balance totaled \$71.1 million at June 30, 2018, an increase of \$5.7 million from the prior year's \$65.4 million, restated. The General Fund's unassigned fund balance totaled \$56.7 million at June 30, 2018.

General Fund Budgetary Highlights

General Fund Budgetary Highlights

General Fund

Fiscal Year Ended June 30, 2018 (in millions)

	Original Budget	Final Budget	Actual
Revenues and transfers			
Taxes	\$ 166.6	166.6	166.1
Intergovernmental	38.8	38.8	39.0
Transfers	9.8	11.3	11.3
Appropriated fund balance	5.8	6.8	-
Other	18.1	18.2	20.5
Total	\$ 239.1	241.7	236.8
Expenditures and transfers			
Expenditures	\$ 192.4	194.1	183.7
Transfers	46.7	47.6	47.5
Total	\$ 239.1	241.7	231.2

Actual expenditures in the above chart are shown on the budgetary basis (see Schedule I-2). The General Fund had a \$5.7 million increase in fund balance.

Actual General Fund revenues and transfers exceeded final budgeted revenues and transfers during fiscal year 2018. Actual general fund expenditures and transfers were \$10.5 million less than the final budget.

The city spent \$30.5 million in the Capital Improvements Fund to fund major projects, including city and PPS fleet, public safety radio system, seawall reinforcement, Virginia Pollutant Discharge Elimination System (VPDES) permit compliance, school roof replacements, and various drainage and street improvement projects. The Capital Improvements Fund has a \$17.1 million fund balance at June 30, 2018, all of which is restricted or committed for future capital project costs.

As of June 30, 2018, Debt Service fund has assets of \$4.0 million, an increase of \$0.7 and Total Net Position of \$4.0 million. Total expenditures were \$37.3 million, with debt service of \$36.6 million and cost of issuance at \$0.7 million.

Proprietary Funds

Total net position of the Public Utility Fund increased \$1.7 million during fiscal year 2018 from \$182.1 million, restated, to \$183.8 million. Of the total net position, \$133.9 million represents its net investment in capital assets. Unrestricted net position totaled \$49.9 million.

Total net position of the Parking Authority increased slightly from the prior year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2018, the city had invested \$761.9 million net of depreciation in a broad range of capital assets, including machinery and equipment, buildings, park and golf facilities, roads, bridges, and water and sewer lines, as reflected in the following schedule:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017*	2018	2017*	2018	2017*
Land	\$ 20.2	20.3	13.6	13.6	33.8	33.9
Buildings	359.6	355.2	21.7	21.7	381.3	376.9
Improvements other than buildings	534.9	533.3	306.1	300.1	841.0	833.4
Machinery, furniture, and equipment	67.9	63.5	42.2	39.9	110.1	103.4
Intangibles	3.1	3.1	-	-	3.1	3.1
Construction in progress	28.3	20.8	59.0	41.9	87.3	62.7
Total	\$ 1,014.0	996.3	442.6	417.2	1,456.6	1,413.5

* Restated as described in Note 17

Major capital asset activity for the fiscal year ended June 30, 2018 included:

- ◆ Capital asset changes for governmental activities totaled an decrease of \$(0.1) million for land; an increase of \$4.4 million for buildings; an increase of \$1.6 million for improvements other than buildings/infrastructure; an increase of \$4.4 million for machinery, furniture, and equipment and an increase of \$7.5 million for construction in progress in the fiscal year.
- ◆ Capital asset changes for business-type activities totaled an increase of \$6.0 million for improvements other than buildings/infrastructure; an increase of \$2.3 million for machinery, furniture and equipment and an increase of \$17.1 million for construction in progress in the fiscal year.
- ◆ Depreciation expense totaled \$16.6 million and \$10.5 million for governmental and business-type activities, respectively.
- ◆ Construction in progress totaled \$28.3 million for governmental activities at June 30, 2018
- ◆ Construction in progress totaled \$59.0 million for business-type activities at June 30, 2018

More detailed information about the city's capital assets is presented in Note 4 to the basic financial statements as well as Exhibit M in Other Supplementary Information.

The city's adopted fiscal year 2019-2023 Capital Improvement Program established a five year program totaling \$309.6 million. The major projects include \$110.6 million for water and \$71.3 million for sewer improvements, \$47.7 million for drainage and street improvements, \$46.8 million for education, \$26.7 million for municipal facilities, \$3.5 million for fleet management, \$1.2 million for industrial and economic development projects, \$1.6 million for leisure services projects, and \$250,000 for parking authority projects.

Long-term Debt

At year-end, the city had \$556.4 million in outstanding debt, excluding claims payable, other post employment benefit obligations, compensated absences, landfill closure and post closure care costs, and net pension obligations. General obligation bonds outstanding represented \$553.5 million of this total, as reflected in the following schedule:

Outstanding Debt

As of June 30, 2018 and 2017 (in millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
General obligation bonds	\$ 414.6	429.1	138.9	144.1	553.5	573.2
Obligation under capital leases	2.9	4.4	-	-	2.9	4.4
Literary loans	-	0.2	-	-	-	0.2
Total	\$ 417.5	433.6	138.9	144.1	556.4	577.7

The state limits the amount of general obligation debt the city can legally issue to 10% of the assessed value of real property within the city. The city's outstanding debt, not all of which is applicable to the state limits, is below this limit, which is currently \$730.7 million.

The city maintains bond ratings on general obligation debt of "Aa2", "AA," and "AA," from Moody's Investors Service, Standard & Poor's Ratings Services and Fitch, Inc., respectively.

More detailed information about the city's long-term liabilities is presented in Note 5 to the basic financial statements.

ECONOMIC FACTORS

The city's unemployment rate for June 2018 was 4.3%, which compares to the national unemployment rate of 4.0% for June 2018. Per capita income as of 2017 (latest data available from the Bureau of Economic Analysis) was \$40,026, a increase of 4.1% from what was reported for 2016. Average per capita income in 2017 was \$55,105 for Virginia and \$51,640 for the United States as a whole.

FINANCIAL INQUIRIES

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the city's finances and to demonstrate the city's accountability for the money it receives. Questions concerning this report or requests for additional financial information should be directed to the Chief Financial Officer, 801 Crawford Street, Portsmouth, VA 23704.

Basic Financial Statements



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CITY OF PORTSMOUTH, VIRGINIA
Statement of Net Position
June 30, 2018

Exhibit A

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Assets:				
Current assets:				
Cash and temporary investments (note 3)	\$ 108,759,904	73,964,945	182,724,849	23,167,696
Restricted cash and temporary investments (note 3)	7,060,338	-	7,060,338	-
Receivables (net of allowance for uncollectibles):				
Taxes	13,131,329	-	13,131,329	-
Accounts	7,309,870	9,274,203	16,584,073	1,145,946
Other	-	-	-	2,576
Internal balances	4,097,136	(4,097,136)	-	-
Due from component units (note 10)	6,969,599	-	6,969,599	-
Due from other governments (note 11)	14,247,091	-	14,247,091	4,371,219
Due from Primary Government	-	-	-	75,221
Deposits held by others	240,000	-	240,000	-
Inventory of supplies	709,608	642,856	1,352,464	242,869
Total current assets	162,524,875	79,784,868	242,309,743	29,005,527
Noncurrent assets:				
Property held for resale	-	-	-	10,288,671
Restricted cash	-	-	-	1,007,087
Capital assets (note 4):				
Land	20,227,838	13,598,078	33,825,916	7,291,368
Buildings	359,566,455	21,709,262	381,275,717	93,535,748
Improvements other than buildings	534,897,044	306,063,418	840,960,462	-
Machinery, furniture, and equipment	67,928,335	42,206,960	110,135,295	29,572,979
Intangibles	3,066,238	-	3,066,238	422,270
Construction in progress	28,349,108	58,994,605	87,343,713	-
Total capital assets	1,014,035,018	442,572,323	1,456,607,341	130,822,365
Less accumulated depreciation	(539,304,239)	(155,421,830)	(694,726,069)	(68,362,939)
Total capital assets, net	474,730,779	287,150,493	761,881,272	62,459,426
Total noncurrent assets	474,730,779	287,150,493	761,881,272	73,755,184
Total assets	637,255,654	366,935,361	1,004,191,015	102,760,711
Deferred outflows of resources:				
Deferred outflows from debt refundings	15,790,483	5,349,851	21,140,334	-
Deferred outflows related to pensions	22,067,375	1,799,532	23,866,907	15,990,508
Deferred outflows related to OPEB	817,754	34,244	851,998	5,094,658
Total outflows of resources	38,675,612	7,183,627	45,859,239	21,085,166
Total assets and deferred outflows of resources	\$ 675,931,266	374,118,988	1,050,050,254	123,845,877

(continued)

CITY OF PORTSMOUTH, VIRGINIA
Statement of Net Position
June 30, 2018

Exhibit A (continued)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Liabilities:				
Current liabilities:				
Accounts payable	\$ 11,805,713	6,413,361	18,219,074	1,995,018
Accrued payroll	258,869	27,471	286,340	8,237,546
Accrued interest payable	5,530,117	2,958,327	8,488,444	-
Deposits	130,846	1,433,501	1,564,347	5,000
Due to Primary Government	-	-	-	6,969,599
Due to component units	75,221	-	75,221	-
Unearned revenues (note 12)	-	27,961	27,961	-
Claims payable (note 15)	3,039,609	-	3,039,609	1,369,578
Compensated absences (note 5)	2,800,172	239,348	3,039,520	1,255,957
Workers' compensation claims	-	-	-	395,998
General obligation bonds, net (note 5)	22,479,353	8,377,347	30,856,700	-
Obligations under capital leases (notes 5 and 6)	1,079,508	-	1,079,508	-
Total current liabilities	47,199,408	19,477,316	66,676,724	20,228,696
Noncurrent liabilities:				
Claims payable (note 15)	5,568,191	-	5,568,191	-
Other postemployment benefit obligation	-	-	-	24,313,310
Compensated absences (note 5)	4,243,873	432,347	4,676,220	2,566,618
Noncurrent workers' compensation claims	-	-	-	250,302
General obligation bonds, net (note 5)	392,150,192	130,494,839	522,645,031	-
Obligations under capital leases (notes 5 and 6)	1,786,023	-	1,786,023	-
Landfill closure and postclosure care (notes 5 and 13)	-	5,322,491	5,322,491	-
Noncurrent loan payable	3,400,000	-	3,400,000	-
Net OPEB liability	31,738,381	2,775,184	34,513,565	-
Net pension liability	118,161,198	9,184,835	127,346,033	131,776,573
Total noncurrent liabilities	557,047,858	148,209,696	705,257,554	158,906,803
Total liabilities	604,247,266	167,687,012	771,934,278	179,135,499
Deferred inflows of resources				
Deferred inflows related to pensions	9,526,995	776,899	10,303,894	21,436,240
Deferred inflows related to OPEB	8,043,550	769,024	8,812,574	6,059,345
Total inflows of resources	17,570,545	1,545,923	19,116,468	27,495,585
Net position:				
Net investment in capital assets	220,454,135	153,628,157	374,082,292	62,459,426
Restricted for:				
Capital projects	6,464,416	-	6,464,416	-
Behavioral health services	9,250,791	-	9,250,791	-
Grants and donations	6,326,244	-	6,326,244	1,187,813
Other purposes	-	-	-	6,096,706
Restricted for Debt Service	3,955,971	-	3,955,971	-
Nonspendable	2,129,537	-	2,129,537	-
Unrestricted (deficit)	(194,467,639)	51,257,896	(143,209,743)	(152,529,152)
Total net position	54,113,455	204,886,053	258,999,508	(82,785,207)
Total liabilities and net position	\$ 675,931,266	374,118,988	1,050,050,254	123,845,877

See accompanying notes to basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA

Exhibit B

Statement of Activities

Year ended June 30, 2018

Function/Program Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental:								
General government	\$ 42,436,115	3,202,906	11,314,741	-	(27,918,468)	-	(27,918,468)	-
Judicial	20,427,454	159,077	9,926,106	-	(10,342,271)	-	(10,342,271)	-
Public safety	55,762,645	3,299,769	7,011,767	135,067	(45,316,042)	-	(45,316,042)	-
Public works	35,206,810	8,659,518	12,239,781	1,426,163	(12,881,348)	-	(12,881,348)	-
Health and welfare	29,216,518	1,884,948	23,617,340	1,492,642	(2,221,588)	-	(2,221,588)	-
Parks, recreational, and cultural	6,781,419	2,455,855	521,187	91,274	(3,713,103)	-	(3,713,103)	-
Community development	6,364,265	1,988,338	39,008	-	(4,336,919)	-	(4,336,919)	-
Education	46,578,589	-	-	-	(46,578,589)	-	(46,578,589)	-
Interest on long-term debt	15,649,378	-	-	-	(15,649,378)	-	(15,649,378)	-
Total governmental activities	258,423,193	21,650,411	64,669,930	3,145,146	(168,957,706)	-	(168,957,706)	-
Business-type:								
Public Utility	32,062,023	41,663,524	-	-	-	9,601,501	9,601,501	-
Golf	2,067,354	1,095,721	-	-	-	(971,633)	(971,633)	-
Parking Authority	1,119,619	973,460	-	-	-	(146,159)	(146,159)	-
Waste Management	9,652,409	11,397,440	-	-	-	1,745,031	1,745,031	-
Total business-type activities	44,901,405	55,130,145	-	-	-	10,228,740	10,228,740	-
Total Primary Government	303,324,598	76,780,556	64,669,930	3,145,146	(168,957,706)	10,228,740	(158,728,966)	-
Component Units:								
School Board	169,557,855	2,374,975	34,118,182	1,029,558	-	-	-	(132,035,140)
Economic Development Authority	463,949	533,933	-	-	-	-	-	69,984
Port and Industrial Commission	19,009	2,215	-	-	-	-	-	(16,794)
Total component units	\$ 170,040,813	2,911,123	34,118,182	1,029,558	-	-	-	(131,981,950)
General Revenues:								
Taxes:								
General property taxes					\$ 120,322,381	-	120,322,381	-
Business and occupational license taxes					6,705,156	-	6,705,156	-
Restaurant food taxes					8,066,771	-	8,066,771	-
Sales and Use Tax					7,468,580	-	7,468,580	-
Telecommunications					7,614,651	-	7,614,651	-
Other local taxes					9,289,659	-	9,289,659	-
Utility taxes					8,154,958	-	8,154,958	-
Grants and contributions not restricted to specific programs					-	-	-	76,542,883
Investment earnings					2,438,303	1,371,144	3,809,447	80,167
Miscellaneous					17,197,309	369,061	17,566,370	1,466,987
Payment from Primary Government					-	-	-	50,746,364
Transfers					8,722,105	(8,722,105)	-	-
Total General Revenues and Transfers					195,979,873	(6,981,900)	188,997,973	128,836,401
Change in Net Position					27,022,167	3,246,840	30,269,007	(3,145,549)
Net position, beginning of year, as restated (Note 17)					27,091,288	201,639,213	228,730,501	(79,639,658)
Net position, end of year					\$ 54,113,455	204,886,053	258,999,508	(82,785,207)

See accompanying notes to basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA

Exhibit C

**Balance Sheet
Governmental Funds
June 30, 2018**

	General	Debt Service	Capital Improvements	Other Governmental Funds	Total
Assets:					
Cash and temporary investments (note 3)	\$ 43,201,570	3,977,529	14,715,594	15,634,552	77,529,245
Restricted cash and temporary investments (note 3)	595,922	-	6,464,416	-	7,060,338
Receivables (net of allowance for uncollectibles):					
Taxes	13,131,329	-	-	-	13,131,329
Accounts	6,495,270	-	-	687,712	7,182,982
Due from other funds (note 10)	4,551,198	-	-	-	4,551,198
Due from component units (note 10)	6,969,599	-	-	-	6,969,599
Due from other governments (note 11)	11,880,521	-	11,621	2,354,949	14,247,091
Inventory of supplies	114,135	-	-	277	114,412
Advances receivable	1,015,125	-	-	-	1,015,125
Total assets	87,954,669	3,977,529	21,191,631	18,677,490	131,801,319
Liabilities:					
Accounts payable	5,381,189	21,556	4,008,723	1,295,455	10,706,923
Accrued payroll	243,734	-	-	14,795	258,529
Deposits	130,846	-	-	-	130,846
Due to other funds (note 10)	-	-	-	1,444,187	1,444,187
Due to component units (note 10)	-	-	75,221	-	75,221
Total liabilities	5,755,769	21,556	4,083,944	2,754,437	12,615,706
Deferred inflows of resources:					
Deferred inflows from unavailable revenues	11,113,028	-	-	227,180	11,340,208
Total inflows of resources	11,113,028	-	-	227,180	11,340,208
Total liabilities and deferred inflows of resources	16,868,797	21,556	4,083,944	2,981,617	23,955,914
Fund balances:					
Nonspendable	1,129,260	-	-	1,000,277	2,129,537
Restricted	595,922	3,955,973	6,464,416	14,981,113	25,997,424
Committed	5,817,715	-	10,643,271	-	16,460,986
Assigned	6,843,249	-	-	-	6,843,249
Unassigned	56,699,726	-	-	(285,517)	56,414,209
Total fund balances	71,085,872	3,955,973	17,107,687	15,695,873	107,845,405
Total liabilities, deferred inflows of resources, and fund balances	\$ 87,954,669	3,977,529	21,191,631	18,677,490	131,801,319

See accompanying notes to basic financial statements.

(continued)

**Balance Sheet - Reconciliation of the Balance Sheet
to the Statement of Net Position**

Governmental Funds

June 30, 2018

Amounts reported for governmental activities in the Statement of Net Position are different because:

Total fund balances for governmental funds	\$	107,845,405
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Internal Service Funds are included below. Those assets consist of:

Land	20,212,790	
Buildings	358,873,372	
Machinery, furniture and equipment	40,808,850	
Improvements other than buildings	534,897,044	
Construction in progress	28,349,108	
Accumulated depreciation	(514,248,787)	468,892,377

Some of the city's taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and therefore are reported as deferred inflow in the funds.

11,340,208

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds. Those liabilities consist of:

Compensated absences	(6,668,020)	
Accrued interest payable	(5,530,117)	
General obligation bonds	(414,629,545)	
Long-term loan payable	(3,400,000)	
Obligations under capital leases	(2,865,531)	
Deferred inflows related to pension	(9,526,995)	
Deferred inflows related to OPEB	(7,695,998)	
Net pension liability	(118,161,198)	
Net OPEB liability	(30,935,038)	(599,412,442)

Deferred outflows from debt refunding as a result of bond refunding, which is not reported on governmental funds

15,790,483

Deferred outflows related to OPEB expenses, which is not reported on governmental funds

796,462

Deferred outflows related to pension earnings, which is not reported on governmental funds

22,067,375

38,654,320

Internal service funds are used by the city to charge costs of certain activities to individual funds. The assets, liabilities and deferred flows of resources of the internal service funds are reported

as components of other governmental funds.

26,793,587

Net position of governmental activities

\$

54,113,455

See accompanying notes to basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA

Exhibit D

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year ended June 30, 2018

	General	Debt Service	Capital Improvements	Other Governmental Funds	Total
Revenues:					
Taxes	\$ 166,143,061	-	-	-	166,143,061
Intergovernmental	38,954,911	-	1,534,804	30,113,521	70,603,236
Charges for services	4,989,140	-	-	8,831,704	13,820,844
Investment income	1,658,890	-	13,184	206,759	1,878,833
Recovered costs	3,110,639	-	-	140,108	3,250,747
Fines and forfeitures	407,379	-	-	-	407,379
Licenses and permits	1,184,721	-	-	-	1,184,721
Use of property	1,699,186	-	-	36,504	1,735,690
Program income	-	-	-	326,162	326,162
Miscellaneous	4,000,511	-	579,387	127,546	4,707,444
Total revenues	222,148,438	-	2,127,375	39,782,304	264,058,117
Expenditures:					
Current:					
General government	18,696,805	-	124,888	10,000	18,831,693
Nondepartmental	11,230,129	-	-	-	11,230,129
Judicial	18,033,124	-	-	954,288	18,987,412
Public safety	58,305,976	-	-	696,514	59,002,490
Public works	14,363,983	-	2,149,422	1,875,916	18,389,321
Health and welfare	1,347,646	-	-	28,813,591	30,161,237
Parks, recreational, cultural	11,030,565	-	-	849,097	11,879,662
Community development	4,644,283	-	-	499,059	5,143,342
Education	45,556,751	-	-	-	45,556,751
Debt service	-	25,601,794	-	-	25,601,794
Debt service - principal	-	10,959,457	-	-	10,959,457
Fiscal charges	-	6,455	-	-	6,455
Costs of issuance	-	727,100	-	-	727,100
Capital outlay	468,014	-	28,219,285	1,028,894	29,716,193
Total expenditures	183,677,276	37,294,806	30,493,595	34,727,359	286,193,036
Revenues over (under) expenditures	38,471,162	(37,294,806)	(28,366,220)	5,054,945	(22,134,919)
Other financing sources (uses):					
Transfers from other funds (note 10)	11,131,810	39,068,235	11,677,535	4,719,927	66,597,507
Transfers to other funds (note 10)	(47,450,835)	(1,485,800)	-	(8,155,634)	(57,092,269)
Transfers from component units	125,000	-	636,000	-	761,000
Issuance of general obligation bonds (note 5)	-	81,914,524	3,606,255	-	85,520,779
Refunding payments made to escrow agent	-	(81,531,318)	-	-	(81,531,318)
Bridge Loan	3,400,000	-	-	-	3,400,000
Total other financing sources (uses), net	(32,794,025)	37,965,641	15,919,790	(3,435,707)	17,655,699
Net change in fund balances	5,677,137	670,835	(12,446,430)	1,619,238	(4,479,220)
Fund balances, beginning of year, as restated (Note 17)	65,408,735	3,285,138	29,554,117	14,076,635	112,324,625
Fund balances, end of year	\$ 71,085,872	3,955,973	17,107,687	15,695,873	107,845,405

See accompanying notes to basic financial statements.

(continued)

**Statement of Revenues, Expenditures, and Changes in Fund Balances - Reconciliation of the
Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities**

Governmental Funds

Year ended June 30, 2018

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in fund balances - total governmental funds	\$	(4,479,220)
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Donated assets and loss on disposal of assets are not reported in the governmental funds, but are reflected in the Statement of Activities.

Purchases of assets	24,209,207	
Disposal of assets	(1,154,138)	
Depreciation expense (not including Internal Service Funds)	(15,198,900)	7,856,169

The issuance of long term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Proceeds from debt issued	(88,920,779)	
Principal payments and retirement of debt	100,283,917	
Amortization expense	926,837	12,289,975

Some revenues in the Statement of Activities do not provide the use of current financial resources and, therefore, are not reported as revenues in the governmental funds.

889,451

Some expenses in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Change in deferred outflows - debt	1,229,479	
Change in deferred outflows - pensions	(14,148,704)	
Change in deferred outflows - OPEB	58,078	
Change in deferred inflows - pensions	(6,241,491)	
Change in deferred inflows - OPEB	(7,695,998)	
Change in compensated absences	170,722	
Change in net pension liability	24,688,358	
Change in OPEB liability	11,077,750	
Change in accrued interest	1,195,427	10,333,621

Internal service funds are used by the City to charge costs of certain activities to individual funds. The net revenue of internal service funds is reported as a component of governmental funds.

132,171

Change in net position of governmental activities	\$	27,022,167
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See accompanying notes to basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA

Exhibit E-1

Statement of Net Position

Proprietary Funds

June 30, 2018

	Public Utility	Parking Authority	Nonmajor Enterprise Funds	Total	Governmental Activities - Internal Service Funds
Assets					
Current assets:					
Cash and temporary investments (note 3)	\$ 59,946,499	544,879	13,473,567	73,964,945	31,230,659
Accounts receivable (net of allowance for uncollectibles)	6,909,923	11,829	2,352,451	9,274,203	126,888
Inventory of supplies	583,288	-	59,568	642,856	595,196
Deposits-held by others	-	-	-	-	240,000
Total current assets	67,439,710	556,708	15,885,586	83,882,004	32,192,743
Noncurrent assets:					
Capital assets (note 4):					
Land	403,834	679,680	12,514,564	13,598,078	15,048
Buildings	692,687	18,728,751	2,287,824	21,709,262	693,083
Improvements other than buildings	305,464,837	284,508	314,073	306,063,418	-
Machinery, furniture, and equipment	29,122,274	422,435	12,662,251	42,206,960	27,119,485
Intangible assets	-	-	-	-	3,066,238
Construction in progress	58,763,858	230,747	-	58,994,605	-
Total capital assets	394,447,490	20,346,121	27,778,712	442,572,323	30,893,854
Less accumulated depreciation	(134,191,380)	(13,565,970)	(7,664,480)	(155,421,830)	(25,055,452)
Total capital assets, net	260,256,110	6,780,151	20,114,232	287,150,493	5,838,402
Deferred outflows of resources:					
Deferred outflows from debt refunding	5,012,246	65,447	272,158	5,349,851	-
Deferred outflows related to pensions	1,118,671	29,950	650,911	1,799,532	-
Deferred outflows related to OPEB	22,140	458	11,646	34,244	21,294
Total outflows of resources	6,153,057	95,855	934,715	7,183,627	21,294
Total assets and deferred outflows of resources	333,848,877	7,432,714	36,934,533	378,216,124	38,052,439
Liabilities:					
Current liabilities:					
Accounts payable	5,816,667	61,913	534,781	6,413,361	1,080,637
Accrued interest payable	2,850,375	40,185	67,767	2,958,327	-
Accrued payroll	18,736	1,253	7,482	27,471	340
Flex spending benefits	-	-	-	-	18,155
Deposits	1,416,935	-	16,566	1,433,501	-
Due to other funds (note 10)	-	1,964,187	1,117,824	3,082,011	25,000
Unearned revenues (note 12)	-	27,961	-	27,961	-
Compensated absences (note 5)	134,839	4,819	99,690	239,348	148,154
General obligation bonds (note 5)	7,216,769	478,717	681,861	8,377,347	-
Claims payable (note 15)	-	-	-	-	3,039,609
Total current liabilities	17,454,321	2,579,035	2,525,971	22,559,327	4,311,895
Noncurrent liabilities:					
Claims payable (note 15)	-	-	-	-	5,568,191
Compensated absences (note 5)	210,509	12,967	208,871	432,347	227,871
Landfill closure and postclosure liability (notes 5 and 13)	-	-	5,322,491	5,322,491	-
Advances payable	-	1,015,125	-	1,015,125	-
General obligation bonds (note 5)	124,117,507	2,719,725	3,657,607	130,494,839	-
Net pension liability (notes 5 and 7)	5,544,511	141,555	3,498,769	9,184,835	-
Net OPEB liability (note 8)	1,764,820	75,464	934,900	2,775,184	803,343
Total noncurrent liabilities	131,637,347	3,964,836	13,622,638	149,224,821	6,599,405
Deferred inflows of resources:					
Deferred inflows related to pensions	482,956	12,930	281,013	776,899	-
Deferred inflows related to OPEB	449,160	14,010	305,854	769,024	347,552
Total liabilities and deferred inflows of resources	150,023,784	6,570,811	16,735,476	173,330,071	11,258,852
Net position:					
Investment in capital assets	133,934,080	3,647,156	16,046,921	153,628,157	5,838,402
Unrestricted	49,891,013	(2,785,253)	4,152,136	51,257,896	20,955,185
Total net position	183,825,093	861,903	20,199,057	204,886,053	26,793,587
Total liabilities, deferred inflows of resources, and net position	333,848,877	7,432,714	36,934,533	378,216,124	38,052,439

See accompanying notes to basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA

Exhibit E-2

Statement of Revenues, Expenses, and Changes in Fund Net Position

Proprietary Funds

Year ended June 30, 2018

	Public Utility	Parking Authority	Nonmajor Enterprise Funds	Total	Governmental Activities - Internal Service Funds
Operating revenues:					
Charges for services	\$ 41,663,524	973,460	12,259,242	54,896,226	36,699,731
Use of property	56,181	-	-	56,181	-
Other	208,557	87,239	128,664	424,460	95,203
Total operating revenues	41,928,262	1,060,699	12,387,906	55,376,867	36,794,934
Operating expenses:					
Personnel services	4,813,315	166,514	2,972,106	7,951,935	4,357,078
Contractual services	5,198,590	171,583	4,543,895	9,914,068	4,186,585
Supplies and materials	2,937,866	16,888	274,899	3,229,653	3,874,234
Utilities	1,350,213	123,765	130,150	1,604,128	185,871
Internal charges	1,036,976	44,011	1,658,014	2,739,001	68,029
Claims, settlements, and refunds	202,197	-	13,307	215,504	16,888,249
Insurance premiums	-	-	-	-	1,245,127
Payments in lieu of taxes	1,161,598	-	-	1,161,598	-
Rent	-	-	123,773	123,773	-
Depreciation and amortization	8,946,685	455,229	1,056,632	10,458,546	1,427,670
Closure/postclosure	-	-	124,988	124,988	-
Other	152,049	82,435	620,673	855,157	3,693,349
Total operating expenses	25,799,489	1,060,425	11,518,437	38,378,351	35,926,192
Operating income	16,128,773	274	869,469	16,998,516	868,742
Nonoperating revenues (expenses):					
Investment income	1,163,657	-	207,487	1,371,144	-
Loss on disposal of capital assets	(7,893)	-	(103,687)	(111,580)	18,959
Interest expense and fiscal charges	(6,262,534)	(59,194)	(201,326)	(6,523,054)	-
Net nonoperating revenues (expenses)	(5,106,770)	(59,194)	(97,526)	(5,263,490)	18,959
Net income (loss) before transfers	11,022,003	(58,920)	771,943	11,735,026	887,701
Transfers from other funds (note 10)	6,004,000	133,372	843,509	6,980,881	41,978
Transfers to other funds (note 10)	(15,290,222)	(8,785)	(403,979)	(15,702,986)	(825,111)
Capital contributions	-	-	233,919	233,919	27,603
Change in net position	1,735,781	65,667	1,445,392	3,246,840	132,171
Net position, beginning of year, as restated (Note 17)	182,089,312	796,236	18,753,665	201,639,213	26,661,416
Net position, end of year	\$ 183,825,093	861,903	20,199,057	204,886,053	26,793,587

See accompanying notes to basic financial statements.

Statement of Cash Flows

Proprietary Funds

Year ended June 30, 2018

	Public Utility	Parking Authority	Nonmajor Enterprise Funds	Total	Governmental Activities - Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	\$ 41,468,639	1,074,647	12,502,012	55,045,298	36,913,852
Cash payments to suppliers for goods and services	(10,376,601)	(433,259)	(6,823,470)	(17,633,330)	(32,764,374)
Cash payments to employees for services	(5,343,979)	(180,117)	(3,264,125)	(8,788,221)	(4,545,745)
Net cash provided by (used in) operating activities	25,748,059	461,271	2,414,417	28,623,747	(396,267)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Transfers in from other funds	6,004,000	133,372	843,509	6,980,881	(783,133)
Transfers out to other funds	(15,290,222)	(8,785)	(403,979)	(15,702,986)	-
Net cash provided by (used in) noncapital financing activities	(9,286,222)	124,587	439,530	(8,722,105)	(783,133)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition and construction of capital assets	(24,631,274)	(141,622)	(2,692,763)	(27,465,659)	(147,940)
Cash proceeds from disposal of capital assets	52,595	-	-	52,595	161,273
Capital contributions	-	-	168,474	-	-
Proceeds from long-term debt	46,806,300	96,578	825,000	47,727,878	-
Principal paid on long-term debt	(51,092,548)	(545,353)	(1,316,155)	(52,954,056)	(497,223)
Interest paid	(7,120,670)	(63,254)	(186,029)	(7,369,953)	-
Net cash used in capital and related financing activities	(35,985,597)	(653,651)	(3,201,473)	(39,840,721)	(483,890)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest received	1,163,657	-	207,487	1,371,144	-
Net cash provided by investing activities	1,163,657	-	207,487	1,371,144	-
Net decrease in cash and temporary investments	(18,360,103)	(67,793)	(140,039)	(18,567,935)	(1,663,290)
Cash and temporary investments, beginning of year	78,306,602	612,672	13,613,606	92,532,880	32,893,949
Cash and temporary investments, end of year	59,946,499	544,879	13,473,567	73,964,945	31,230,659
Reconciliation of operating income to net cash provided by operating activities					
Operating income	16,128,773	274	869,469	16,998,516	868,742
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:					
Depreciation	8,946,685	455,229	1,056,632	10,458,546	1,427,670
Decrease (increase) in:					
Accounts receivable	(468,321)	13,207	110,023	(345,091)	118,468
Inventory of supplies	(14,268)	-	(3,575)	(17,843)	(83,084)
Prepaid expenses	-	-	-	-	15,000
Deposits	8,698	-	4,083	12,781	-
Deferred outflows	583,487	13,680	421,006	1,018,173	(3,830)
Increase (decrease) in:					
Accounts payable	1,677,157	(5,972)	14,435	1,685,620	144,641
Accrued payroll and expense	3,617	318	6,292	10,227	65
Due to other funds	-	207,519	530,383	737,902	(250)
Advance payable and other liabilities	-	(196,125)	124,988	(71,137)	-
Compensated absences	164	2,341	5,739	8,244	14,057
Flexible spending benefits	-	-	-	-	(61,039)
Net pension liability	(1,184,614)	(30,682)	(730,237)	(1,945,533)	-
Net OPEB liability	(710,667)	(22,239)	(484,422)	(1,217,328)	(546,511)
Deferred inflows	777,348	22,980	489,601	1,289,929	347,552
Unearned revenues	-	741	-	741	-
Claims payable	-	-	-	-	(2,637,748)
Total adjustments	9,619,286	460,997	1,544,948	11,625,231	(1,265,009)
Net cash provided by (used in) operating activities	\$ 25,748,059	461,271	2,414,417	28,623,747	(396,267)

See accompanying notes to basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2018

Exhibit F-1

	Pension and OPEB Trusts	Agency Special Welfare Fund
Assets		
Cash and temporary investments (note 3)	\$ 2,478,152	(6,442)
Investments (note 3):		
Cash equivalents	639,760	-
Stocks	89,656,285	-
Bonds	51,066,207	-
International investments	67,500,642	-
Real estate	6,768,005	-
Other investments	4,047,738	-
Total investments	219,678,637	-
Total assets	222,156,789	(6,442)
LIABILITIES		
Liabilities - Cash held for others	-	(6,442)
TOTAL LIABILITIES	-	(6,442)
Net position -		
Net position restricted for pensions and OPEB	222,156,789	

See accompanying notes to basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year ended June 30, 2018

Exhibit F-2

	Pension and OPEB Trust Funds
Additions:	
Contributions	
Employers' contributions	\$ 12,327,755
Investment income -	
Interest	5,881,345
Realized gains	2,014,480
Unrealized gains	2,290,223
Net investment income	10,186,048
Total additions	22,513,803
Deductions	
Benefit payments	30,767,085
Administrative expenses	195,897
Net increase	30,962,982
Change in net position	(8,449,179)
Net plan position held in trust for pension OPEB benefits, beginning of year	230,605,968
Net plan position held in trust for pension OPEB benefits, end of year	\$ 222,156,789

See accompanying notes to basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA

Exhibit G-1

Statement of Net Position

Component Units

June 30, 2018

	School Board	Economic Development Authority	Port and Industrial Commission	Total
Assets:				
Current assets:				
Cash and temporary investments (note 3)	\$ 20,162,457	1,954,452	1,050,787	23,167,696
Receivables (net of allowance for uncollectibles)				
Accounts	829,864	-	-	829,864
Other	-	-	2,576	2,576
Due from other governments	4,371,219	-	-	4,371,219
Due from Primary Government	75,221	-	-	75,221
Inventory of supplies	242,869	-	-	242,869
Total current assets	25,681,630	1,954,452	1,053,363	28,689,445
Noncurrent assets:				
Property held for resale	-	9,835,033	453,638	10,288,671
Restricted Cash	-	1,007,087	-	1,007,087
Restricted receivable	-	316,082	-	316,082
Capital assets (note 4):				
Land	6,085,707	1,205,661	-	7,291,368
Buildings	93,535,748	-	-	93,535,748
Machinery, furniture, and equipment	29,572,979	-	-	29,572,979
Intangible	422,270	-	-	422,270
Total capital assets	129,616,704	1,205,661	-	130,822,365
Less accumulated depreciation	(68,362,939)	-	-	(68,362,939)
Total capital assets, net	61,253,765	1,205,661	-	62,459,426
Total noncurrent assets	61,253,765	12,363,863	453,638	74,071,266
Deferred outflows of resources:				
Deferred outflows related to pensions	15,990,508	-	-	15,990,508
Deferred outflows related to OPEB	5,094,658	-	-	5,094,658
Total deferred outflows of resources	21,085,166	-	-	21,085,166
Total assets and deferred outflows of resources	\$ 108,020,561	14,318,315	1,507,001	123,845,877

(continued)

CITY OF PORTSMOUTH, VIRGINIA

Exhibit G-1 (continued)

Statement of Net Position

Component Units

June 30, 2018

	School Board	Economic Development Authority	Port and Industrial Commission	Total
Liabilities:				
Current liabilities:				
Deposits	\$ -	5,000	-	5,000
Accounts payable	1,983,655	11,363	-	1,995,018
Accrued payroll	7,687,300	-	-	7,687,300
Accrued payroll taxes	550,246	-	-	550,246
Due to Primary Government (note 10)	6,843,249	124,877	1,473	6,969,599
Claims payable (note 15)	1,369,578	-	-	1,369,578
Compensated absences (note 5)	1,255,957	-	-	1,255,957
Workers' compensation claims	395,998	-	-	395,998
Total current liabilities	20,085,983	141,240	1,473	20,228,696
Noncurrent liabilities:				
Compensated absences (note 5)	2,566,618	-	-	2,566,618
Noncurrent workers' compensation claims	250,302	-	-	250,302
Net pension liability	131,776,573	-	-	131,776,573
Net OPEB liability	24,313,310	-	-	24,313,310
Total noncurrent liabilities	158,906,803	-	-	158,906,803
Total liabilities	178,992,786	141,240	1,473	179,135,499
Deferred inflows of resources				
Deferred inflows related to pensions	21,436,240	-	-	21,436,240
Deferred inflows related to OPEB	6,059,345	-	-	6,059,345
Total deferred inflows of resources	27,495,585	-	-	27,495,585
Net position:				
Investment in capital assets	61,253,765	1,205,661	-	62,459,426
Restricted for grants	1,187,813	-	-	1,187,813
Restricted for other purposes	4,773,537	1,323,169	-	6,096,706
Unrestricted (deficit)	(165,682,925)	11,648,245	1,505,528	(152,529,152)
Total net position	(98,467,810)	14,177,075	1,505,528	(82,785,207)
Total liabilities and net position	\$ 108,020,561	14,318,315	1,507,001	123,845,877

See accompanying notes to basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA
Statement of Activities
Component Units
Year ended June 30, 2018

Exhibit G-2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	School Board	Economic Development Authority	Port and Industrial Commission	Total
School Board								
Administration, attendance, and health services	\$ 8,814,368	742,231	-	-	(8,072,137)	-	-	(8,072,137)
Instruction	120,925,967	81,819	27,267,039	-	(93,577,109)	-	-	(93,577,109)
Pupil transportation	7,291,521	203,112	-	-	(7,088,409)	-	-	(7,088,409)
Operations and maintenance	15,645,909	79,563	-	1,029,558	(14,536,788)	-	-	(14,536,788)
Information technology	8,813,988	-	-	-	(8,813,988)	-	-	(8,813,988)
Food services	8,066,102	1,268,250	6,851,143	-	53,291	-	-	53,291
Total School Board	169,557,855	2,374,975	34,118,182	1,029,558	(132,035,140)	-	-	(132,035,140)
Economic Development Authority								
Economic Development Authority	463,949	533,933	-	-	-	69,984	-	69,984
Port and Industrial Commission								
Port and Industrial Commission	19,009	2,215	-	-	-	-	(16,794)	(16,794)
Total Component Units	\$ 170,040,813	2,911,123	34,118,182	1,029,558	(132,035,140)	69,984	(16,794)	(131,981,950)
General Revenues:								
Grants and contributions not restricted to specific programs					\$ 76,542,883	-	-	76,542,883
Investment earnings					75,822	2,988	1,357	80,167
Miscellaneous					1,151,486	315,501	-	1,466,987
Payment from Primary Government					50,746,364	-	-	50,746,364
Total General Revenues					128,516,555	318,489	1,357	128,836,401
Change in net position					(3,518,585)	388,473	(15,437)	(3,145,549)
Net position, beginning of year, as restated (Note 17)					(94,949,225)	13,788,602	1,520,965	(79,639,658)
Net position, end of year					\$ (98,467,810)	14,177,075	1,505,528	(82,785,207)

See accompanying notes to basic financial statements.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The city of Portsmouth, Virginia (the city) was established by act of the Virginia General Assembly in 1858. It is a political subdivision of the Commonwealth of Virginia operating under the Council-Manager form of government. City Council consists of a mayor and six other council members. The city is not part of a county and has taxing powers subject to statewide restrictions and tax limits.

The city provides a full range of municipal services including police and fire, sanitation, health and social services, public improvements, planning and zoning, parks and recreation, public libraries, education, water, sewer and storm water systems, and general administrative services.

The following is a summary of the more significant policies:

A. Financial Reporting Entity

The city's financial reporting entity is defined and its financial statements are presented in accordance with accounting principles generally accepted in the United States of America (GAAP), which defines the distinction between the city as a Primary Government and its related entities. The financial reporting entity consists of the Primary Government and its component units, which are legally separate organizations for which the elected officials of the Primary Government are financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either a) the ability of the Primary Government to impose its will, or b) the possibility that the component unit will provide a financial benefit or impose a financial burden on the Primary Government. The Primary Government may also be financially accountable if the component unit is fiscally dependent on the Primary Government, regardless of whether the component unit has a separately elected governing board. The Primary Government is hereafter referred to as the "city" and the reporting entity, which includes the city and its component units, is hereafter referred to as the "reporting entity".

As required by GAAP, the accompanying financial statements include all activities of the city, such as general operation and support services. The governmental operations of the School Board and the proprietary operations of both the Economic Development Authority (EDA) and the Portsmouth Port and Industrial Commission (PPIC) are separately disclosed on Exhibit G-2.

Discretely Presented Component Units

The component unit columns in the basic financial statements include the financial data of the city's three discretely presented component units. The discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government. These component units are fiscally dependent on the city and provide services primarily to the citizens of Portsmouth. All component units have a year end of June 30. A description of the discretely presented component units follows:

1. Portsmouth Public Schools (PPS) - The School Board of PPS is a separate legal entity comprising the governing body responsible for providing public education in the city for grades kindergarten through twelve. The members of the board are elected by voters; however, the School Board is fiscally dependent on the city as the City Council must approve its annual budget and appropriations, as well as all tax levies and borrowings to support its financial operations. Since there is the possibility that the School Board may provide a financial benefit or impose a financial burden on the city, the School Board is reported herein as a discretely presented component unit. The audited financial statements for the School Board may be obtained at the following address:

Portsmouth School Board
Department of Business Affairs
City Hall Building, Third Floor
801 Crawford Street
Portsmouth, Virginia 23704

2. EDA - The EDA was established under the Industrial Development and Revenue Bond Act of the Commonwealth of Virginia to facilitate economic development activity in the community to provide financial benefits to the city of Portsmouth. EDA is authorized to acquire, own, lease, and dispose of properties to the extent that such activities may promote industry and develop trade by inducing enterprises to locate and remain in Portsmouth. The EDA has only one fund and the board is appointed by the City Council. Since there is the possibility that the EDA may provide a financial benefit or impose financial burden on the city it is reported as a discretely presented component unit. The audited financial statements for the EDA may be obtained at the following address:

Economic Development Authority
c/o Department of Economic Development
200 High Street, Suite 200
Portsmouth, Virginia 23704

3. PPIC - The PPIC was created by the General Assembly in 1954 as a political subdivision of the Commonwealth of Virginia and is authorized to acquire, own, lease, and dispose of properties in and around the various ports within the city to the extent that such activities may promote industry and develop trade by inducing enterprises to locate and remain in Portsmouth. The PPIC has only one fund and the board is appointed by the City Council. Since there is the possibility that the PPIC may provide a financial benefit or impose financial burden on the city it is reported as a discretely presented component unit. The audited financial statements for the PPIC may be obtained at the following address:

Portsmouth Port and Industrial Commission
c/o Department of Economic Development
200 High Street, Suite 200
Portsmouth, Virginia 23704

Blended Component Unit

The Parking Authority is considered to be a blended component unit in the city's financial statements under the guidelines of GAAP. Blended component units are entities that are legally separate from the city, but which provide services entirely, or almost entirely, to the city or otherwise exclusively benefit the city. Activities of blended component units are considered to be so intertwined with the city's that they are, in substance, part of the city's operations. The Parking Authority is fiscally dependent on the city. The Parking Authority's resources and services provided are almost entirely for the direct benefit of the primary government. The City Council appoints all of the members of the Board of Directors and appropriates funds annually to the Authority. The City Council can also remove members at will, modify or approve the budget, set rates/fees, and hire or dismiss those persons responsible for the day-to-day operations of the Authority. The city and the Parking Authority have a financial benefit/burden relationship and management (below the level of the elected officials) of the city has operational responsibilities for the activities of the Parking Authority. The city is legally entitled to or can otherwise access the Authority's resources and is also obligated for the debt of the Authority. The Parking Authority's outstanding debt is expected to be repaid entirely with resources of the city. No distinction is made between the activities of the Parking Authority and the city. As a result, the Parking

Authority is reported as an enterprise fund in the city's financial statements. Separately audited financial statements are not available for the Parking Authority.

B. Basis of Financial Statement Presentation

Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the city as a whole) and fund financial statements. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business-type. In the government-wide Statement of Net Position, both the governmental and business-type activities are a) reported by columns, and b) reflected on a full accrual, economic resources basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information. For the most part, the effect of interfund activity has been removed from the government-wide financial statements.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, health and welfare, etc.) that is otherwise being supported by general government revenues (property taxes, utility taxes, and other local taxes, etc.). The Statement of Activities reduces gross expenses (including depreciation) by directly related program revenues. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not specifically restricted to the various programs are reported as general revenues. The city 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.

In the fund financial statements, financial transactions and accounts of the city are organized on the basis of funds. Each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. Major individual governmental funds and major individual enterprise funds, those comprising a significant portion of the city's financial activity, are reported in separate columns in the fund financial statements. The nonmajor funds are combined in a single column in the fund financial statements and detailed in the combining statements.

Internal service funds of the city (which traditionally provide services primarily to other funds of the government) are presented in summary form as part of the proprietary fund financial statements. Since the principal users of the internal services are the city's governmental activities, financial statements of internal service funds are consolidated into the governmental activities column when presented at the government-wide level. To the extent possible, the costs of these services are reflected in the appropriate functional activity (public safety, judicial, health and welfare, etc.).

The city's fiduciary funds are presented in the fund financial statements by type (pension and OPEB trust funds and agency). Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the city, these funds are not incorporated into the government-wide statements. The following is a brief description of the specific funds used by the city.

Governmental Fund Types

Governmental funds are those through which most governmental functions of the city are financed. The acquisition, use, and balances of the city's expendable financial resources and the related liabilities are accounted for through governmental funds, except those accounted for in proprietary funds and similar trust funds.

The city reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the city. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Projects Fund - The Capital Improvements Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of principal, interest and related costs on long-term debt of governmental funds.

The city reports the following nonmajor governmental funds:

Special Revenue Funds - Special revenue funds are used to account for the proceeds of certain specific revenue sources that are restricted to expenditures for specified purposes.

Permanent Fund - Cemetery Fund - The Cemetery Fund is used to account for the sale of cemetery lots, perpetual care payments, and donations and legacies made for the care of cemetery lots. The principal of such funds shall not be expended for any purpose.

Proprietary Fund Types

Proprietary funds are used to account for the city's ongoing organizations and activities which are similar to those often found in the private sector. The measurement focus is upon determination of net income. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating revenues include charges for services, certain rental fees, and recovered costs. Operating expenses include the cost of sales and services, administrative expenses, and depreciation. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Enterprise Funds - Enterprise funds are used to account for operations a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The city has two major enterprise funds: (1) the Public Utility Fund, which accounts for the utility activity provided to the city, and (2) the Parking Authority, a blended component unit, which is responsible for the operation and maintenance of parking garages, parking lots, and all street parking meters for the city.

The two nonmajor enterprise funds are: (1) the Golf Fund, which accounts for ownership and operation of three golf courses, and (2) the Waste Management Fund, which accounts for waste disposal services and operation of the Craney Island landfill.

Internal Service Funds - Internal service funds are used to account for the financing of goods or services provided by one department to other departments or agencies of the city, or to some agencies external to the city, on a cost-reimbursement basis. The city has four nonmajor internal service funds: the City Garage Fund, the Information Technology Fund, the Health Insurance and the Other Postemployment Benefit Fund (OPEB), and the Risk Management Fund.

Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the city in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The city maintains two pension trusts and other postemployment trust and agency funds. The pension trust funds account for the assets of the city's retirement plans. Agency funds are custodial in nature (assets equal liabilities) and do not measure the results of operations. The city's agency fund accounts for assets held on behalf of Social Services Department clients. Fiduciary funds are not included in the government-wide financial statements.

Reconciliation of Government-Wide and Fund Financial Statements

A summary reconciliation of the difference between total fund balances as reflected on the governmental funds Balance Sheet and total net position for governmental activities as shown on the government-wide Statement of Net Position is presented in a schedule accompanying the governmental funds' Balance Sheet. A summary reconciliation of the differences between net change in total fund balances as reflected on the governmental funds' Statement of Revenues, Expenditures, and Changes in Fund Balances, and the change in net position for governmental activities as shown on the government-wide Statement of Activities, is presented in a schedule accompanying the governmental funds' Statement of Revenues, Expenditures, and Changes in Fund Balances. The reconciliation differences stem from governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting while the government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements (i.e., Statement of Net Position and Statement of Activities) are reported using a full economic resources measurement focus and the accrual basis of accounting and include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with governmental and business-type activities. Assets and liabilities associated with fiduciary activities are included on the Statement of Fiduciary Net Position. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. The pension and OPEB trust funds' contributions from members are recorded when the employer makes payroll deductions from plan members. Nonexchange transactions, in which the city either gives or receives value without directly receiving or giving equal value in exchange, include sales taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from sales taxes is recognized when the underlying exchange transaction takes place. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

All governmental funds are accounted for using the current financial resources measurement focus wherein only current assets and current liabilities are included on the Balance Sheet in the fund statements and the focus is on the determination of, and changes in, financial position. Operating statements of governmental funds present increases (i.e., revenues and other financial sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The governmental funds utilize the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of

the fiscal period. Measurable means the amount of the transaction can be determined; available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the city. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the accrual eligibility criteria are met. Real estate and personal property taxes are recorded as revenues and receivables when levied and billed, net of allowances for uncollectible amounts. Property taxes levied but not collected within 45 days after year-end are reflected as unearned revenues. Sales and utility taxes, which are collected by the State or utility companies and subsequently remitted to the city, are recognized as revenues and receivables upon collection by the State or utility companies, which is generally in the month preceding receipt by the city, because they are generally not measurable until actually received. Licenses and permits, fines and forfeitures, charges for services (except those charges for services recognized when billed) and miscellaneous revenues (except interest on temporary investments) are recorded as revenues when received in cash because they are generally not measurable until actually received. Stormwater management fees are also recognized as revenue when earned. Expenditures are recorded when the related liability is incurred and payment is due, except for principal and interest on long-term debt which is recorded when due.

The Agency Fund uses the accrual basis of accounting and does not measure the results of operations.

The accrual basis of accounting is followed by the proprietary funds, pension and OPEB trust funds. Accordingly, their revenues are recognized when earned and expenses are recognized when they are incurred. Unbilled utility service receivables are recorded in the enterprise funds when earned.

D. Property Taxes

The city's two major sources of property taxes are described below:

Real Estate Taxes

The city levies real estate taxes on all real estate within its boundaries, except those exempted by statute, each year as of July 1st on the estimated market value of the property. Real estate taxes become a lien on real property the first day of the levy year. The city, as required by state statute, follows the practice of reassessing all property annually. Real estate taxes are collected in equal quarterly payments due September 30, December 31, March 31, and June 30, and are considered delinquent after each due date. The real estate tax rate during 2018 was \$1.30 per \$100 of assessed value.

Personal Property Taxes

The city levies personal property taxes on motor vehicles and business and other tangible personal property. Personal property taxes do not create a lien on property. These levies are made each year as of January 1 with payment due the following June 5. Taxes on motor vehicles bought and sold after January 1 are prorated and the tax levies are adjusted. During the fiscal year, the personal property taxes reported as revenue are the adjusted levies less an allowance for uncollectibles. Personal property taxes are considered delinquent after the June 5 due date or, in the case of supplemental levies, thirty days after the taxes are levied and billed. The personal property tax rate for 2018, excluding machinery and tools, boats, and recreational vehicles, was \$5.00 per \$100 of assessed value. The personal property tax rate on machinery and tools, boats, and mobile homes was \$3.00, \$0.50, and \$1.30 per \$100 of assessed value, respectively.

E. Allowance for Uncollectibles

Provision for uncollectible property taxes is based on a historical percentage of accounts written off applied to the total levies of all years carried in taxes receivable. Provision for uncollectible accounts receivable is based on an evaluation of delinquent accounts and adequacy of the allowance.

Governmental Activities:

General Fund:

Allowance for uncollectibles (taxes)	\$ 3,755,636
Allowance for uncollectibles	2,478,022
Total General Fund	6,233,658

Special Revenue Funds:

Stormwater Management Fund - allowance for uncollectibles	627,144
Behavioral Health Services Fund - allowance for uncollectibles	32,381
Total Special Revenue Funds	659,525

Total governmental activities	6,893,183
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Business-Type Activities:

Enterprise Funds:

Public Utility Fund - allowance for uncollectibles	309,041
Parking Authority Fund - allowance for uncollectibles	6,678
Waste Management Fund - allowance for uncollectibles	924,330

Total business-type activities	\$ 1,240,049
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F. Cash and Temporary Investments

Cash and temporary investments from certain funds are combined and invested in local bank repurchase agreements and certificates of deposit. Each fund's share of the pooled cash is accounted for within the individual fund. Pooled cash overdrafts have been reclassified as interfund receivables and payables. The income from the pooled monies has been allocated to the respective funds based on the pooled cash balances of each fund at the end of each month. For purposes of the Statement of Cash Flows, investments with original maturities of three months or less from date of purchase are considered cash equivalents and are reported as cash and temporary investments.

G. Investments

Investments are carried at fair value. Fair value is determined by quoted market prices. Investments in corporate bonds and commercial paper are valued at amortized cost if the maturity date is less than one year.

H. Inventories

Inventories consist of expendable materials and supplies held for future consumption and are valued at cost using the first-in, first-out (FIFO) basis. All inventories are recorded under the purchases method, as expenditures or expenses when purchased, rather than when consumed.

I. Fund Balances

Fund balance consists of five classifications based on the extent of the constraints imposed upon the use of the resources in the governmental funds. The fund balance classifications are as follows:

Nonspendable - Fund balance is reported as nonspendable when it is either a) not in spendable form or legally or contractually required to be maintained intact.

Restricted - Fund balance is reported as restricted when constraints placed on the use of the resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed - Fund balance is reported as committed when the use of amounts is constrained by limitations that the government imposes upon itself through formal action of City Council, the highest level of decision making authority for the city, and remains legally binding unless removed in the same manner. Limitations of spending imposed by the annual operating budget lapse with the passage of time and thus do not remain binding indefinitely and therefore is not sufficient to commit fund balance. Committed fund balance also incorporates contractual obligations to the extent existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Fund balance is reported as assigned when amounts are intended to be used for specific purposes. Assigned fund balance does not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, the reported assigned fund balance represents the amount of fund balance that is neither restricted nor committed. In the general fund, intent is expressed by the City Council or an official to whom the City Council has delegated this authority through the annual budget ordinance. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amounts (except for negative balances) that are not classified as nonspendable and are neither restricted nor committed.

Unassigned - Fund balance is reported as unassigned in the General Fund for funds that are available for any purpose. The unassigned fund balance represents the residual classification for the General Fund and contains the amounts not specified in other classifications.

The city applies restricted resources first when expenditures are incurred for purposes for which either restricted or committed, assigned, and unassigned amounts are available. Following the restricted spending for expenditures, committed, assigned, and unassigned are utilized in that order for purposes of spending in all other fund balance classifications other than restricted.

Fund Balance Policy Minimum – The city will maintain in the General Fund an unassigned fund balance equal to 15% of total revenues in accordance with its fund balance policy as approved by City Council.

J. Capital Assets

Capital assets and improvements include substantially all land, buildings, equipment, water distribution and sewage collection systems, and other elements of the city's infrastructure having a useful life of more than one year with a cost of more than \$5,000 with the exception of infrastructure assets and intangibles, having a threshold of \$100,000 and internally generated computer software, which has a \$1,000,000 threshold.

Capital assets which are used for general governmental purposes and are not available for expenditure are accounted for and reported in the government-wide financial statements. Major infrastructure assets include the roads, bridges, curbs and gutters, streets and sidewalks, parks and improvements, and tunnels.

Capital assets are generally stated at historical cost, or at estimated historical cost based on appraisals or on other acceptable methods when historical cost is not available. Donated capital assets are stated at their acquisition value. Capital leases are classified as capital assets in amounts equal to the lesser of the fair market value or the present value of net minimum lease payments at the inception of the lease. Accumulated depreciation and amortization are reported as reductions of capital assets.

Capital asset depreciation has been provided over the estimated useful lives using the straight-line method annually as follows:

	Estimated Useful Life in Years
Primary Government:	
Buildings	20 - 50
Improvements other than buildings	10 - 50
Machinery, furniture, and equipment	5 - 15
Intangibles	10 - 20
Component unit - School Board:	
Buildings	20 - 50
Machinery, furniture, and equipment	5 - 30

K. Compensated Absences

City employees are granted annual leave time in varying amounts based on length of service. They may accumulate unused annual leave earned and, upon retirement, termination, or death, may be compensated for the accumulated amounts at their current rates of pay not to exceed 44 days. City employees accrue sick leave at the rate of eight hours for each full calendar month of work completed. Sworn Fire employees who work a 27-day cycle accrue 12 hours of paid sick leave for each full calendar month worked. Sick leave may be accumulated and carried forward until the time of retirement, termination, or death when the leave is forfeited except for those employees eligible for retirement under the Portsmouth Supplemental or Portsmouth Fire and Police retirement systems. For employees eligible to retire under the Portsmouth Retirement Systems under regular service retirement and excluding deferred or vested retirement, one-half of unused sick leave as of the effective date of retirement shall be added to creditable service for retirement purposes.

The liability for compensated absences has been recorded in accordance with the provisions of GAAP. The cost of the compensated absences expected to be paid from future expendable financial resources is accounted for as a liability. In the governmental funds, the amount of compensated absences recorded as an expenditure in the General Fund and Special Revenue Funds is the amount used by and paid to employees during the fiscal year. In the government-wide and proprietary funds' financial statements, the amount of compensated absences recorded as an expense is the net amount earned during the fiscal year. A liability for compensated absences is reported in the governmental funds only if the compensated absences have matured as a result of employee resignations and terminations.

L. Intra-entity Activity

Payments from a fund receiving revenue to a fund through which the revenue is to be expended are reported as transfers. Such payments include transfers for debt service and capital construction. Resource flows between the Primary Government and the discretely presented component units are reported as if they were external transactions.

M. Deferred Outflows/Inflows of Resources

The city reports deferred outflows and inflows of resources. A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period. A deferred inflow of resources represents an acquisition of net position by the government that is applicable to a future period.

Examples of deferred outflows and inflows of resources include property taxes received in advance, unavailable revenue, unamortized losses and gains on refunding of long-term debt, pension and OPEB

related deferrals. Pension and OPEB related deferred outflows and inflows of resources include changes in proportionate share and differences between the city's contributions and proportionate share of contributions, changes in assumptions or other inputs, contributions to the pension and OPEB plans subsequent to the measurement date, differences between expected and actual experience in the total pension and OPEB liabilities and net difference between projected and actual earnings on pension and OPEB plans investments.

When the city refunds some of its existing debt, the difference between the funds required to retire the refunded debt and the net carrying amount of refunded debt results in a deferred amount on refunding. If there is an excess of the reacquisition price of refunded debt over its net carrying amount, it is treated as a deferred outflow of resources. If there is an excess net carrying value amount of refunded debt over its reacquisition price, it is treated as a deferred inflow of resources.

N. Pensions

The GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions made subsequent to the Measurement Date* (an amendment of GASB Statement No. 68) effective for financial statements issued for fiscal years beginning after June 15, 2014. The city has included the required financial information in the basic financial statements, Note 7 "Retirement Plans", and Exhibit I-4 for fiscal year 2018.

For purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the pension plans' fiduciary net position, and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plans. 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 within the fair value hierarchy established by GAAP.

O. Other Postemployment Plan

The GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The city has included the required financial information in the basic financial statements, Note 8 "Other Postemployment Benefits", and Exhibit I-5 for fiscal year 2018.

For purpose of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the OPEB plans' fiduciary net position, and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plans. 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.

P. Estimates and Assumptions

A number of estimates and assumptions relating to the reporting of revenues, expenses, expenditures, assets, and liabilities, and the disclosure of contingent liabilities were used to prepare these financial statements in conformity with GAAP. Actual results may differ from those estimates.

Q. Budgets

By City Charter and the *Code of Virginia*, the City Manager is required to present to City Council an operating budget on or before April 1 before the beginning of the next fiscal year on July 1. Prior to adoption of the budget by City Council, a public hearing is required to be conducted seven days prior to adoption of the budget and the public hearing is required to be advertised seven days prior to the public

hearing. The City Council is required to adopt the budget on or before June 30. The legal level of budgetary control is set at the fund level with the exception of the General Fund, which is set at the activity or function level. The City Code provides that the City Manager may transfer any unencumbered appropriation balance less than \$100,000 from one department, project, program, or purpose to another within the same fund. The City Manager is required to make a monthly report to the City Council of all budget transfers greater than \$50,000. Also, the City Manager may transfer any or all of the unencumbered balance of the emergency contingency account budget to any item in the budget provided that any utilization of the emergency contingency account budget is reported to the City Council at its next regular meeting.

The General, Special Revenue, and all proprietary funds have legally adopted annual budgets. Project length (multi-year) budgets are adopted for the Capital Projects Fund, the Community Development Fund, and the Grants Fund in lieu of annual budgets and appropriations.

Notes to Basic Financial Statements, Continued
June 30, 2018

(2) FUND BALANCE

The fund balances of the governmental funds at June 30, 2018 were composed of the following:

	General Fund	Debt Service	Capital Improvements	Other Nonmajor
Nonspendable:				
Inventory of supplies	\$ 114,135	-	-	277
Advances receivable	1,015,125	-	-	-
Permanent - cemetery care	-	-	-	1,000,000
Total nonspendable fund balances	1,129,260	-	-	1,000,277
Restricted:				
Restricted cash	595,922	-	6,464,416	-
Restricted for debt service	-	3,955,973	-	-
Behavioral health services	-	-	-	9,250,791
Public law library	-	-	-	63,715
Stormwater management infrastructure maintenance	-	-	-	2,729,708
Grants	-	-	-	1,265,607
Children's services	-	-	-	158,930
Willett Hall	-	-	-	502,319
Asset forfeitures	-	-	-	301,867
Permanent - cemetery care	-	-	-	708,176
Total restricted fund balances	595,922	3,955,973	6,464,416	14,981,113
Committed:				
FY 2019 Budget	5,768,000	-	-	-
Encumbrance carried forward	49,715	-	10,643,271	-
Total committed fund balances	5,817,715	-	10,643,271	-
Assigned:				
Planned use of fund balance	6,843,249	-	-	-
Total assigned fund balances	6,843,249	-	-	-
Unassigned:				
General Fund	56,699,726	-	-	-
Community development - (HUD) Housing assistance	-	-	-	(204,962)
Social Services	-	-	-	(80,555)
Total unassigned fund balance	56,699,726	-	-	(285,517)
Total fund balances	\$ 71,085,872	3,955,973	17,107,687	15,695,873

(3) DEPOSITS AND INVESTMENTS

Deposits and Restricted Cash

At June 30, 2018, the carrying value of the city’s deposits with banks and savings institutions was \$182,724,849. All cash of the city except petty cash of \$92,417 is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Sec. 2.2-4400 et seq. of the *Code of Virginia* or covered by federal depository insurance. As of June 30, 2018 restricted cash totaled \$7,060,338, which represents sheriff funds and bond proceeds.

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 and OPEB 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 Investors Service, Inc., Standard and Poor’s Financial Services, LLC, or Fitch Investors Service 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. 2.2-4400 et seq. of the *Code of Virginia*. The City Treasurer 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 Commonwealth 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 the Moody’s Investors Services, Inc. within its ratings of prime 1 or prime 2, 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.

As of June 30, 2018, the city's investment balances were as follows:

	Carrying Amount	Actual Credit Ratings	Required Credit Ratings	Average Days/Years to Maturity
Certificates of Deposit/Money	\$ 15,163,618	AAAm	N/A	1 day
Market/Commercial Paper	\$ 129,189,116	AAAm	N/A	1 day

Pension Investments - Common Collective Retirement Trust Fund

As of June 30, 2018, the pension investments in the city's common collective retirement trust fund were professionally managed by John Hancock Trust Company LLC and primarily invested in equity funds. The fair value of the pension investments are primarily determined by the quoted prices of securities on the various exchange markets. The allocation of the investment accounts are authorized between the Board of Trustees of the Portsmouth Supplemental Retirement System (which acts on behalf of and administers the retirement plan for the Portsmouth Fire and Police Retirement System), Morgan Stanley PWM (Private Wealth Management), and John Hancock Trust Company LLC. The target allocation for all pension investment funds is 65.0% for equity securities, 30.0% for fixed income (bond) securities, 2.0% for real estate trust securities, and 2% for alternative investments. None of the city's pension investments have credit ratings.

At June 30, 2018, the fair value of the pension investment in the city's retirement trust fund was as follows:

Name of Brokerage Account or Mutual Fund	Investment Type	Weighted Average Maturity/Liquidation	Fair Value
John Hancock Trust Company LLC:			
Goldman Sachs Sm Cap Val Inst MF	MF Equity	1 day	\$ 8,822,224
AQR Managed Futures Strategy I MF	MF Futures	1 day	3,499,371
Artisan Developing World Inst	MF Equity	1 day	22,775,468
Principal Glob Real Est Sec I MF	MF Equity	1 day	3,316,917
American EurPacific Growth R6 MF	MF Equity	1 day	32,864,603
Lord Abbett Short Dur Inc I MF	MF Equity	1 day	13,337,786
Carillon Reams Unconst Bond I	MF Equity	1 day	13,128,118
BlackRock Managed Account MF	MF Equity	1 day	15,402,102
S hafer Cullen Div Ops Inv BA	BA Equity	1 day	33,585,018
Templeton Global Bond Fund R6 MF	MF Equity	1 day	9,198,201
Lazard Intl Eq Concentrated Pt	MF Equity	1 day	11,860,571
Vanguard Real Estate Index Adm	MF Equity	1 day	3,237,835
Vanguard Instit Indez (Inst)	MF Equity	1 day	34,376,381
Rice James fund	MF Equity	1 day	11,227,567
			\$ 216,632,162

At June 30, 2018, the fair value of the OPEB Investments was as follows:

Investments	June 30, 2018
Fixed Income	\$ 639,760
Stocks	1,645,096
Real Estate	213,253
Alternative Investments	548,366
	\$ 3,046,475

Fair Value Measurement

The city categorizes fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and, Level 3 inputs are significant unobservable inputs (the city does not currently value any of its pension investments using Level 3 inputs).

The recurring fair value measurement hierarchy (by fair value level of valuation inputs) and the readily determinable fair value amount (by type of security or asset) of the pension and OPEB investments in the city's retirement trust funds as of June 30, 2018 are as follows:

	Fair Value (FV) Measurements Using			
Fair Value at 6/30/2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments measured at FV Level:				
Debt securities				
Bonds in mutual funds	\$ 50,840,732	\$ 50,840,732	-	-
Total debt securities	\$ 50,840,732	\$ 50,840,732	-	-
Equity securities				
Common stock & stock options in brokerage account	\$ 32,341,802	\$ 32,341,802	-	-
Common stock in mutual funds	122,039,244	122,039,244	-	-
Total equity securities	\$ 154,381,047	\$ 154,381,047	-	-
Other assets (futures contracts, etc.) in mutual funds	5,515,238	5,515,238	-	-
Cash in brokerage account and mutual funds	8,941,620	8,941,620	-	-
Total investments by fair value level	\$ 219,678,637	\$ 219,678,637	-	-

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board of Trustees' policy for managing its exposure to fair value loss arising from increasing interest rates is to consult with its investment advisor regarding the options available for limiting the remaining term to maturity of the investment(s) with such an exposure as the circumstances of each situation warrants.

Credit Risk

Credit risk is the risk that an insurer or other counterparty to an investment will not fulfill its obligations. The Board of Trustees' policy for reducing its exposure to credit risk is to consult with its investment advisors to determine whether or not to hold or liquidate the investment(s) with such an exposure as the circumstances of each situation warrants. At June 30, 2018, the Board of Trustees' pension investments had no quality ratings.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single credit issuer. The Board of Trustees' policy for reducing risk is to consult its investment advisors and implement mutually agreeable strategies aimed at minimizing or eliminating the risk as the circumstances of each situation warrants.

Custodial Credit Risk

For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the Board of Trustees will not be able to recover the value of its investments or collateral securities that are in the possession of an outside third party. The Board of Trustees does not have a policy for custodial credit risk.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Board of Trustees does not have a formal policy for foreign currency risk.

Component Unit - School Board

All of the deposits of the School Board, a discretely presented component unit, of \$20,162,457 are maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the *Code of Virginia* or covered by Federal depository insurance. The School Board has \$12,541,363 invested in the School OPEB Trust Fund. The City Treasurer's policies on deposits and investments, as noted above, also apply to the School Board.

Component Unit - Economic Development Authority

At year end, the carrying value of deposits with banks for the Economic Development Authority, a discretely presented component unit, was \$1,954,452. All cash is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the *Code of Virginia* or covered by federal depository insurance.

Component Unit - Portsmouth Port and Industrial Commission

At year end, the carrying value of deposits with banks for the Portsmouth Port and Industrial Commission, a discretely presented component unit, was \$1,050,787. All cash of the Commission is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the *Code of Virginia* or covered by federal depository insurance.

(4) CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 was as follows:

**Primary Government -
Governmental Activities**

	Restated Balance July 1, 2017*	Additions	Deletions	Balance June 30, 2018
Capital assets not being depreciated:				
Land	\$ 20,340,118	-	(112,280)	20,227,838
Construction in progress (CIP)	20,834,505	30,616,078	(23,101,475)	28,349,108
Total capital assets not being depreciated or amortized	<u>41,174,623</u>	<u>30,616,078</u>	<u>(23,213,755)</u>	<u>48,576,946</u>
Capital assets being depreciated:				
Buildings	355,208,826	8,381,314	(4,023,685)	359,566,455
Improvements other than buildings	5,413,690	10,907	-	5,424,597
Improvements other than buildings (Infrastructure)	527,902,561	1,569,886	-	529,472,447
Machinery, furniture, and equipment	63,545,447	6,908,040	(2,525,152)	67,928,335
Intangibles	3,066,238	-	-	3,066,238
Total capital assets being depreciated or amortized	<u>955,136,762</u>	<u>16,870,147</u>	<u>(6,548,837)</u>	<u>965,458,072</u>
Less accumulated depreciation for:				
Buildings	(115,890,003)	(8,164,702)	2,981,876	(121,072,829)
Improvements other than buildings	(873,120)	(312,232)	-	(1,185,352)
Improvements other than buildings (Infrastructure)	(366,986,651)	(4,371,509)	-	(371,358,160)
Machinery, furniture, and equipment	(43,438,186)	(3,561,205)	2,382,789	(44,616,602)
Intangibles	(854,374)	(216,922)	-	(1,071,296)
Total accumulated depreciation	<u>(528,042,334)</u>	<u>(16,626,570)</u>	<u>5,364,665</u>	<u>(539,304,239)</u>
Total capital assets being depreciated or amortized, net	<u>427,094,428</u>	<u>243,577</u>	<u>(1,184,172)</u>	<u>426,153,833</u>
Governmental activities capital assets, net	<u>\$ 468,269,051</u>	<u>30,859,655</u>	<u>(24,397,927)</u>	<u>474,730,779</u>

*See note 17

Under Virginia Law, localities have a tenancy-in-common with the school board whenever a locality incurs a financial obligation for school property which is payable over more than one fiscal year. The school board and city have agreed that such property, with a net book value of \$79,115,587, will be carried on the city's financial statements until the outstanding debt is repaid.

	CIP	Outstanding	Unobligated
	June 30, 2018	Commitments	Balance
Governmental Activities Projects	<u>\$ 28,349,108</u>	<u>17,095,397</u>	<u>74,233,063</u>

Capital Asset Activity for the year ended June 30, 2018 (continued)

Depreciation/amortization expense was charged to functions as follows:

General government	\$	168,672
Judicial		1,940,257
Public safety		1,380,414
Public works		7,103,482
Health and welfare		290,057
Parks, recreation and cultural		1,051,659
Community development		826,607
Education		2,437,752
		<hr/>
Total governmental activities, excluding internal service funds		15,198,900

Depreciation/amortization on capital assets of internal service funds (see Exhibit E-2) charged to various functions based on usage of the capital assets.

		<hr/>
		1,427,670
		<hr/>
Total governmental activities	\$	16,626,570

Primary Government - Business-Type Activities	Restated Balance July 1, 2017*	Additions	Deletions	Balance June 30, 2018
Capital assets not being depreciated:				
Land	\$ 13,598,078	-	-	13,598,078
Construction in progress	41,889,013	23,544,993	(6,439,401)	58,994,605
Total capital assets not being depreciated	55,487,091	23,544,993	(6,439,401)	72,592,683
Capital assets being depreciated:				
Buildings	21,709,262	-	-	21,709,262
Improvements other than buildings	524,885	73,696	-	598,581
Improvements other than buildings (Infrastructure)	299,587,751	5,877,086	-	305,464,837
Machinery, furniture, and equipment	39,902,016	4,474,729	(2,169,785)	42,206,960
Total capital assets being depreciated	361,723,914	10,425,511	(2,169,785)	369,979,640
Less accumulated depreciation for:				
Buildings	(14,318,706)	(549,308)	-	(14,868,014)
Improvements other than buildings	(334,368)	(16,010)	-	(350,378)
Improvements other than buildings (Infrastructure)	(110,801,252)	(7,798,022)	-	(118,599,274)
Machinery, furniture, and equipment	(21,514,568)	(2,095,206)	2,005,610	(21,604,164)
Total accumulated depreciation	(146,968,894)	(10,458,546)	2,005,610	(155,421,830)
Total capital assets being depreciated, net	214,755,020	(33,035)	(164,175)	214,557,810
Business-Type activities capital assets, net	\$ 270,242,111	23,511,958	(6,603,576)	287,150,493

*See note 17

Depreciation expense was charged to business-type activities as follows:

Public utilities	\$ 8,946,685
Parking authority	455,229
Golf	117,620
Waste management	939,012
Total business-type activities	\$ 10,458,546

	CIP 6/30/2018	Outstanding Commitments	Unobligated Balance
Business Activities	\$ 69,688,436	48,718,210	56,034,033

CITY OF PORTSMOUTH, VIRGINIA
Notes to Basic Financial Statements
June 30, 2018

Exhibit H (continued)

Capital Assets – business-type activities (continued)

**Primary Government -
Major Enterprise Funds**

	Restated Balance July 1, 2017*	Additions	Deletions	Balance June 30, 2018
Public Utility Fund				
Capital assets not being depreciated:				
Land	\$ 403,834	-	-	403,834
Construction in progress	41,799,888	23,403,371	(6,439,401)	58,763,858
Total capital assets not being depreciated	42,203,722	23,403,371	(6,439,401)	59,167,692
Capital assets being depreciated:				
Buildings	692,687	-	-	692,687
Improvements other than buildings (Infrastructure)	299,587,751	5,877,086	-	305,464,837
Machinery, furniture, and equipment	27,806,289	1,790,217	(474,232)	29,122,274
Total capital assets being depreciated	328,086,727	7,667,303	(474,232)	335,279,798
Less accumulated depreciation for:				
Buildings	(196,489)	(17,158)	-	(213,647)
Improvements other than buildings (Infrastructure)	(110,801,252)	(7,798,022)	-	(118,599,274)
Machinery, furniture, and equipment	(14,660,698)	(1,131,505)	413,744	(15,378,459)
Total accumulated depreciation	(125,658,439)	(8,946,685)	413,744	(134,191,380)
Total capital assets being depreciated, net	202,428,288	(1,279,382)	(60,488)	201,088,418
Public Utility Fund capital assets, net	\$ 244,632,010	22,123,989	(6,499,889)	260,256,110
Parking Authority				
Capital assets not being depreciated:				
Land	\$ 679,680	-	-	679,680
Construction in progress	89,125	141,622	-	230,747
Total capital assets not being depreciated	768,805	141,622	-	910,427
Capital assets being depreciated:				
Buildings	18,728,751	-	-	18,728,751
Improvements other than buildings	284,508	-	-	284,508
Machinery, furniture, and equipment	422,435	-	-	422,435
Total capital assets being depreciated	19,435,694	-	-	19,435,694
Less accumulated depreciation for:				
Buildings	(12,597,597)	(430,889)	-	(13,028,486)
Improvements other than buildings	(211,816)	(5,890)	-	(217,706)
Machinery, furniture, and equipment	(301,328)	(18,450)	-	(319,778)
Total accumulated depreciation	(13,110,741)	(455,229)	-	(13,565,970)
Total capital assets being depreciated, net	6,324,953	(455,229)	-	5,869,724
Parking Authority capital assets, net	\$ 7,093,758	(313,607)	-	6,780,151

*See note 17

CITY OF PORTSMOUTH, VIRGINIA
Notes to Basic Financial Statements
June 30, 2018

Exhibit H (continued)

School Board Component Unit				
	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Capital assets not being depreciated:				
Land	\$ 6,085,707	-	-	6,085,707
Total capital assets not being depreciated	6,085,707	-	-	6,085,707
Capital assets being depreciated:				
Buildings	93,535,748	-	-	93,535,748
Machinery, furniture, and equipment	28,403,689	1,329,356	(160,066)	29,572,979
Intangibles	422,270	-	-	422,270
Total capital assets being depreciated	122,361,707	1,329,356	(160,066)	123,530,997
Less accumulated depreciation for:				
Buildings	(45,013,665)	(2,738,192)	-	(47,751,857)
Machinery, furniture, and equipment	(18,772,637)	(1,564,946)	148,771	(20,188,812)
Intangibles	(422,270)	-	-	(422,270)
Total accumulated depreciation	(64,208,572)	(4,303,138)	148,771	(68,362,939)
Capital assets being depreciated/amortized				
Total capital assets - being depreciated	58,153,135	(2,973,782)	(11,295)	55,168,058
School Board capital assets, net	\$ 64,238,842	(2,973,782)	(11,295)	61,253,765
Economic Development Authority Component Unit				
	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Capital assets not being depreciated:				
Land	\$ 1,205,661	-	-	1,205,661
Total capital assets not being depreciated	1,205,661	-	-	1,205,661
Economic development authority capital assets	\$ 1,205,661	-	-	1,205,661

(5) LONG - TERM DEBT

Details of Long-Term Indebtedness

At June 30, 2018, the long-term indebtedness of the city consisted of the following:

	Maturity Date	Interest Rate	Amount Outstanding
Governmental Activities			
General obligation bonds, net:			
2001B VPSA School Financing Bonds	7/15/2021	3.10 - 5.10%	\$ 762,732
2006B VPSA School Financing Bonds	7/15/2026	4.35 - 4.60%	3,040,347
2009A G.O. Refunding Bonds	7/15/2022	4.00 - 4.75%	3,715,000
2009B G.O. Refunding Bonds	7/15/2020	4.00 - 5.25%	1,155,000
2009C Taxable G.O. Refunding Bonds	7/15/2019	5.623 - 6.40%	3,460,000
2009D G.O. Refunding Bonds	12/1/2020	3.50 - 4.00%	995,000
2009 VPSA Qualified School Construction Bonds	9/1/2026	0.00%	12,440,000
2010B Taxable G.O. Public Improvement Bonds (BAB)	1/15/2040	4.685-6.270%	2,610,000
2010D G.O. & Refunding Bonds	7/15/2024	3.00 - 5.25%	190,000
2011 G.O. Refunding Bonds	7/15/2024	2.50 - 5.00%	9,305,000
2012A G.O. Public Utility & Refunding Bonds	7/15/2030	2.00 - 5.00%	18,940,000
2012B Taxable G.O. Refunding Bonds	7/15/2030	1.85 - 3.85%	6,840,000
2012C G.O. Public Improvement & Refunding Bonds	7/15/2032	2.00 - 4.00%	13,250,000
2012D Taxable G.O. & Refunding Bonds	7/15/2018	1.40-1.65%	655,000
2013A G.O. Public Improvement & Refunding Bonds	2/1/2035	4.00 - 5.00%	14,485,000
2013B Taxable G.O. & Refunding Bonds (includes pension)	2/1/2037	1.980 - 4.541%	142,405,000
2015A G.O. Refunding Bonds	8/1/2030	3.00 - 5.00%	9,046,659
2015B Taxable G.O. Refunding Bonds	8/1/2028	3.00 - 3.30%	19,365,000
2016A G.O. Refunding Bonds	8/1/2035	2.00 - 5.00%	35,880,000
2016B Taxable G.O. Refunding Bonds	8/1/2025	2.00 - 2.20%	14,980,000
2016QZAB Virginia G.O. Qualified Zone Academy Bonds	9/15/2031	0.00%	6,123,000
2017QZAB Virginia G.O. Qualified Zone Academy Bonds	9/15/2029	0.00%	4,117,195
2017A G.O. Cross Refunding Bonds	7/15/2041	3.50-5.00%	23,565,000
2017A G.O. Refunding Bonds	7/15/2041	3.50-5.00%	39,605,000
2017B G.O. Taxable Refunding Bonds	7/15/2035	2.00-3.90%	5,895,000
Total general obligation bonds			<u>\$ 392,824,933</u>

General obligation bonds are stated exclusive of premiums and discounts.

Details of Long-Term Indebtedness (continued)

		Maturity Date	Interest Rate	Amount Outstanding
Business-Type Activities				
General obligation bonds, net:				
Public Utilities:				
2009D	G.O. Refunding Bonds	12/1/2025	3.50 - 4.00%	\$ 1,050,000
2009E	Prentis Park Bonds	7/15/2041	0.00%	1,843,162
2010B	Taxable G.O. Public Improvement Bonds (BAB)	1/15/2020	4.685 - 6.270%	1,555,000
2011	G.O. Refunding Bonds	7/15/2024	2.50 - 5.00%	5,570,000
2012A	G.O. Public Utility & Refunding Bonds	7/15/2041	2.00 - 5.00%	28,585,000
2012C	G.O. Public Improvement & Refunding Bonds	7/15/2031	2.00 - 4.00%	8,840,000
2013A	G.O. Public Improvement & Refunding Bonds	2/1/2019	5.00%	275,000
2013B	Taxable G.O. & Refunding Bonds	2/1/2022	1.980-2.839%	11,905,000
2015A	G.O. Refunding Bonds	8/1/2030	3.00 - 5.00%	11,990,000
2015B	Taxable G.O. Refunding Bonds	8/1/2028	3.00 - 3.30%	6,860,000
2017A	G.O. Refunding Bonds	7/15/2041	3.00-5.00%	19,780,000
2017A	G.O. Cross Refunding Bonds	7/15/2041	3.00-5.00%	21,790,000
				\$ 120,043,162
Parking Authority:				
2009A	G.O. Refunding Bonds	7/15/2025	4.00 - 4.75%	45,000
2011	G.O. Refunding Bonds	7/15/2024	2.50 - 5.00%	110,000
2012A	G.O. Public Utility & Refunding Bonds	7/15/2041	2.25- 5.00%	145,000
2012C	G.O. Public Improvement & Refunding Bonds	7/15/2020	3.50 - 4.00%	45,000
2013B	Taxable G.O. & Refunding Bonds	2/1/2024	1.980-3.939%	2,700,000
2015A	G.O. Refunding Bonds	8/1/2030	3.00 - 5.00%	23,341
2017B	G.O. Taxable Refunding Bonds	7/15/2035	2.00-3.90%	55,000
2017A	G.O. Refunding Bonds	7/15/2041	3.00 - 5.00%	35,000
				\$ 3,158,341
Golf:				
2009B	G.O. Refunding Bonds	7/15/2035	4.00 - 5.25%	365,000
2011	G.O. Refunding Bonds	7/15/2020	2.50 - 5.00%	1,315,000
2012A	G.O. Public Utility & Refunding Bonds	7/15/2022	2.25- 5.00%	1,005,000
2013B	Taxable G.O. & Refunding Bonds	2/1/2021	1.98-2.58%	290,000
2015A	G.O. Refunding Bonds	8/1/2030	3.00 - 5.00%	385,000
2017B	G.O. Taxable Refunding Bonds	7/15/2035	2.00-3.90%	825,000
				\$ 4,185,000
Total general obligation bonds - Total business type activities				\$ 127,386,503

General obligation bonds are stated exclusive of premiums and discounts.

CITY OF PORTSMOUTH, VIRGINIA
Notes to Basic Financial Statements
June 30, 2018

Exhibit H (continued)

At June 30, 2018, the long-term indebtedness of the School Board component unit consisted of the following:

	Amount Outstanding
School Board:	
Compensated absences	\$ 3,822,575
Claims payable	1,369,578
Net pension liability	131,776,573
Net OPEB liability	24,313,310
Total long-term liabilities	\$ 161,282,036

The following is a summary of changes in long-term indebtedness of the city for the year ended June 30, 2018:

	Balance June 30, 2017	Increases	Decreases	Balance June 30, 2018	Due Within One Year
Primary Government -					
Governmental Activities:					
General obligation bonds	\$ 413,305,034	73,182,195	(93,662,296)	392,824,933	21,308,181
Bond premiums/(discounts)	15,772,059	12,338,584	(6,306,031)	21,804,612	1,171,172
	<u>429,077,093</u>	<u>85,520,779</u>	<u>(99,968,327)</u>	<u>414,629,545</u>	<u>22,479,353</u>
Capital leases	4,355,179	-	(1,489,648)	2,865,531	1,079,508
Literary loans	250,000	-	(250,000)	-	-
VDOT loans	-	3,400,000	-	3,400,000	-
Compensated absences	7,200,710	4,425,519	(4,582,184)	7,044,045	2,800,172
Net OPEB Liability*	43,363,682	-	(11,625,301)	31,738,381	-
Net pension liability	142,849,556	-	(24,688,358)	118,161,198	-
Total Governmental Activities	\$ 627,096,220	93,346,298	(142,603,818)	577,838,700	26,359,033
Business Type Activities:					
General obligation bonds	\$ 135,366,641	42,485,000	(50,465,138)	127,386,503	7,690,138
Bond premiums/(discounts)	8,738,238	5,242,878	(2,495,433)	11,485,683	687,209
	<u>144,104,879</u>	<u>47,727,878</u>	<u>(52,960,571)</u>	<u>138,872,186</u>	<u>8,377,347</u>
Landfill closure and post closure care	5,197,503	124,988	-	5,322,491	-
Compensated absences	663,451	356,495	(348,251)	671,695	239,348
Net OPEB Liability*	3,992,512	-	(1,217,328)	2,775,184	-
Net pension liability	11,130,368	-	(1,945,533)	9,184,835	-
Total Business Type Activities	\$ 165,088,713	48,209,361	(56,471,683)	156,826,391	8,616,695
Major Enterprise Funds:					
Public Utility Fund					
General obligation bonds	\$ 127,133,300	41,570,000	(48,660,138)	120,043,162	6,575,138
Bond premiums/(discounts)	8,487,224	5,236,300	(2,432,410)	11,291,114	641,631
	<u>135,620,524</u>	<u>46,806,300</u>	<u>(51,092,548)</u>	<u>131,334,276</u>	<u>7,216,769</u>
Compensated absences	345,184	202,943	(202,779)	345,348	134,839
Net OPEB Liability*	2,475,487	-	(710,667)	1,764,820	-
Net pension liability	6,729,125	-	(1,184,614)	5,544,511	-
Total Public Utility Fund	\$ 145,170,320	\$ 47,009,243	\$ (53,190,608)	\$ 138,988,955	7,351,608
Parking Authority					
General obligation bonds	\$ 3,613,341	90,000	(545,000)	3,158,341	475,000
Bond premiums/(discounts)	40,392	6,578	(6,869)	40,101	3,717
	<u>3,653,733</u>	<u>96,578</u>	<u>(551,869)</u>	<u>3,198,442</u>	<u>478,717</u>
Compensated absences	15,445	8,861	(6,520)	17,786	4,819
Net OPEB Liability*	97,703	-	(22,239)	75,464	-
Net pension liability	172,237	-	(30,682)	141,555	-
Total Parking Authority	\$ 3,939,118	\$ 105,439	\$ (611,310)	\$ 3,433,247	483,536

*Restated (see note 17)

Long-term liabilities applicable to the city's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the government-wide Statement of Net Position. The amount due within one year for compensated absences has been estimated and is generally liquidated by the fund for which the employee works.

Section 148 of the Internal Revenue Code of 1986 requires public entities to refund interest earned in excess of interest paid over the first five years outstanding on tax exempt borrowings. The regulations are applicable to borrowings incurred subsequent to August 1986. The city has calculated the rebate due as of June 30, 2018 was the settlement date, and reflected the liability, if any, in either the Public Utility Fund or the governmental activities column of the Statement of Net Position, depending on the bond issue and timing of payment.

The following is a summary of changes in long-term indebtedness of the School Board component unit for the year ended June 30, 2018:

	Balance			Balance	Due Within
	July 1, 2017	Increases	Decreases	June 30, 2018	One Year
School Board:					
Compensated absences	4,013,264	1,884,401	(2,075,090)	3,822,575	1,255,957
Claims Payable	2,519,465	19,385,195	(19,888,782)	2,015,878	1,765,576
Net OPEB Liability*	25,795,200	-	(1,481,890)	24,313,310	-
Net pension liability	155,894,507	-	(24,117,934)	131,776,573	-
Total School Board	\$ 188,222,436	21,269,596	(47,563,696)	161,928,336	3,021,533

* Restated

The debt recorded in the enterprise and internal service funds is paid from revenues earned in those funds. General obligation debt is paid from the General Fund for which the primary funding sources are general property taxes and other local taxes.

Issuance of Bonds

On November 17, 2017, the city issued General Obligation Qualified Zone Academy Bond of \$4,117,195 to finance the renovation of school buildings and replace equipment. Branch Bank and Trust (BB&T) won a competitive bidding process to provide the QZAB funding. The bonds are 0% interest over 12 years and a tax credit will be paid to the lender. Payments will be made to a sinking fund so that as funds accumulate until the bond matures, the city will earn interest on the account.

On November 17, 2017, the city entered a loan agreement with the Commonwealth of Virginia for an interest free loan of \$3,400,000 to cover the loss of personal property tax revenue resulting from certain personal property to be transferred from Virginia International Gateway Inc. to the Virginia Port Authority. The repayment of the loan will start in the fiscal year 2022.

On December 19, 2017, the City issued \$104,775,000 general obligation refunding bonds (Tax-Exempt) and \$6,775,000 General Obligation refunding bonds (Taxable). The bonds were issued to advance refund certain outstanding general obligation refunding bonds, Series 2009A, 2009B, 2010B, 2010D, 2012A and 2013A. The net proceeds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds which are considered defeased and the liabilities have been removed from both the governmental activities and the business-type activities column of the Statement of Net Position and from the Statement of Net Position of the Public Utilities Fund.

Debt Limit

The Commonwealth of Virginia imposes a legal limit of 10 percent of the assessed valuation of taxed real property as a ceiling in the amount of the general obligation borrowings, which may be issued by the city without referendum. At June 30, 2018, the city's debt limit was \$730,726,802 of which \$169,179,834 is available for the issuance of additional debt. There are no overlapping tax jurisdictions. However, the city has adopted three debt affordability policies that restrict the amount of debt beyond the amount indicated by the legal debt margin. These policies require that the ratio of all net tax supported Debt Service to combined General Fund and School revenues should not exceed 10%, the ratio of net tax supported Debt to Market Value should not exceed four percent, and the 10 year debt payout ratio of net tax supported Debt should be greater than or equal to 50%.

Debt Compliance and Repayment

The annual requirements to pay all outstanding long-term bonds as of June 30, 2018, including interest payments, are summarized as follows:

Governmental Activities:

Fiscal Year Ending	General Obligation Bonds		Capital Leases	
	Principal	Interest	Principal	Interest
2019	\$ 21,308,181	16,170,797	1,079,508	329,031
2020	22,024,785	15,286,143	1,174,231	180,750
2021	23,357,824	12,977,046	611,792	30,536
2022	23,999,659	12,206,778	-	-
2023	23,959,650	11,457,206	-	-
2024-2028	119,750,192	44,716,397	-	-
2029-2033	98,744,642	23,955,231	-	-
2034-2038	59,680,000	5,438,042	-	-
	\$ 392,824,933	142,207,640	2,865,531	540,317

Business-Type Activities:

Fiscal Year Ending	General Obligation Bonds	
	Principal	Interest
2019	\$ 7,690,138	6,433,263
2020	7,915,138	6,077,050
2021	7,595,138	4,358,614
2022	7,757,632	4,065,171
2023	7,505,138	3,754,020
2024-2028	32,430,688	14,095,247
2029-2033	25,121,533	8,130,277
2034-2038	17,955,688	4,092,013
2039-2042	13,415,413	917,819
	\$ 127,386,503	51,923,474

Authorized but Unissued Bonds

A summary of general obligation bonds authorized but unissued for governmental funds, listed by project, as of June 30, 2018 are listed below.

General Fund Projects	Total
Victory Blvd / Paradise Creek Bridge	\$ 250,000
Public Safety New Radio System	4,000,000
Seawall Reinforcement	18,500,000
Midtown Corridor	913,170
Primrose / Hatton Street	405,000
Churchland Bridge	6,400,000
801 Water Street	750,000
County Street Parking Garage	1,500,000
Lincoln Park Redevelopment	350,000
Churchland HVAC	666,783
Mt Hermon Preschool Roof Replacement	932,000
Fleet Vehicles	3,690,771
Fleet Vehicles 2018	4,033,209
Command/E-911 backup	703,791
Permitting System	150,000
Election System Software	540,241
City Fiber Network	750,000
Ballard Ave/Hyman Street	670,500
Burton's Point Road	1,225,000
Bridge Repairs	200,000
Portside Festival Site	621,350
Cavalier Manor Athletic Complex	875,000
Waste Management Building	1,300,000
Roof Replacement	400,000
Various Building Renovations	300,000
Total Authorized and Unissued Bonds - Governmental Funds	<u>\$ 50,126,815</u>

A summary of public utility bonds authorized but unissued by project as of June 30, 2018 are listed below. These projects are self-supporting and debt service will be paid from the public utility fund revenue.

Public Utility Projects	Total
Sewer Pump Station	\$ 8,000,000
Sewer Cave-in Repairs	1,000,000
Sanitary Sewer Overflow Elimination Program	9,973,284
Infrastructure Improvements	6,500,000
Dam Upgrades	2,900,000
Replacement of Water Plant Equipment	1,500,000
Automated Meter Reading	1,000,000
Miscellaneous Water Work	500,000
Replace 2" Water Mains	122,500
Downtown Master Utility Plan	19,000,000
Low Pressure Transmission	14,000,000
Lake Kilby Replacement Filters	39,000,000
Total Authorized and Unissued Bonds - Public Utilities Fund	<u>\$ 103,495,784</u>
Total Authorized and Unissued Bonds June 30, 2018	<u>\$ 153,622,599</u>

(6) LEASING ARRANGEMENTS

As a lessee, the city leases certain land, buildings, equipment and vehicles under capital leases and certain facilities under operating leases that expire in fiscal years through 2021. Included in capital assets are the following amounts applicable to capital leases:

	Governmental	Internal Service	Enterprise
Buildings	\$ 12,347,181	-	-
Machinery, furniture, and equipment	2,115,395	11,552,913	2,583,228
Less accumulated depreciation	(7,352,862)	(8,947,358)	(2,261,556)
Capital assets, net	\$ 7,109,714	2,605,555	321,673

Depreciation expense on leased assets was \$1,964,395.15 for the fiscal year ended June 30, 2018.

The projected minimum capital and operating lease payments of the city as of June 30, 2018 is as follows:

Fiscal Year Ending	Capital	Operating
2019	1,408,538	449,180
2020	1,354,982	-
2021	642,328	-
Total minimum lease payments	3,405,848	449,180
Less amount representing interest	(540,317)	
Present value of minimum capital lease payments	\$ 2,865,531	

Total operating lease payments for the year ended June 30, 2018 were \$411,450.

(7) RETIREMENT PLANS

Most full-time employees of the city are eligible for benefits in the event of retirement, death, or disability under the State administered Virginia Retirement System (VRS) or under one of the two retirement systems administered by the city.

In addition, professional and nonprofessional employees of the school board are covered by VRS. All professional employees participate in the statewide teacher ("cost-sharing pool") retirement system, and nonprofessional employees participate as a separate group in the agent multiple-employee retirement system.

The policies and plans for all three retirement systems are described below.

Portsmouth Retirement Systems

Summary of Significant Accounting Policies

Measurement focus and basis of accounting. The city accounts for the Portsmouth Supplemental Retirement System and the Fire and Police Retirement System (FPRS) as pension trust funds and does not separately issue financial reports for these plans. The financial statements of the pension trust funds are prepared using the accrual basis of accounting. Contributions to each plan are recognized when due. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Method used to value investments. Investments are reported at fair value in accordance with GAAP. Investments are measured using fair value hierarchy. Securities traded on a national exchange are reported at fair value based on the closing market prices quoted each business day, which are published and represent verifiable valuation (Level 1) inputs. Securities that do not have a readily determinable market value are reported at estimated fair value based on appropriate market valuation measurement techniques (using a market, cost or income approach), which are recognized and represent observable valuation (Level 2) inputs.

Plan Description - Portsmouth Supplemental Retirement System

Plan description and membership. The Portsmouth Supplemental Retirement System (PSRS) is a single-employer non-contributory retirement system that was established on October 1, 1953. It was designed to provide retirement, death, or disability benefits for all regular full-time, permanent employees who were not eligible for membership in VRS or the Portsmouth FPRS. On December 1, 1984, the city offered an option to all employees of the PSRS to either remain with their current system or transfer to VRS. All regular full-time employees hired after December 1, 1984, with the exception of City Council members, are members of VRS as required by State statutes. City Council members are no longer eligible for membership as of December 31, 2016, except for former City Council members returning to service. Therefore, the PSRS has become a "closed" system.

Benefits provided. All regular full-time permanent employees (except those eligible for membership in the Virginia Retirement System and the Portsmouth Fire and Police Retirement System as noted above) who were hired prior to December 1, 1984 were eligible to participate in the PSRS. Employees who have attained age 50 with five years of service are eligible for a retirement benefit payable monthly during the lifetime of the member that is equal to 2% of their average final compensation (AFC) multiplied by their years of creditable service. AFC is the average annual compensation during the 36 consecutive months of creditable service that yields the highest average.

Benefits may be increased from time to time by cost of living adjustments approved by City Council. Effective July 1, 1994, retirees who retire on Normal Service Retirement may be eligible to receive an additional

allowance of \$200 per month until age 65. The married member shall be provided a 50% spousal option at no cost if the spouse is no more than 5 years younger than the member. The PSRS plan also provides death and disability benefits. These benefit provisions and all other requirements of the PSRS are established by City Council.

The city (employer) is required by city code to contribute the amounts necessary to fund the system based on an actuarially determined percentage of payroll. There are no required contributions due from employees.

Plan Description - Portsmouth Fire and Police Retirement System

The FPRS is a single-employer retirement system that was established on January 1, 1957. Its membership is comprised of every firefighter or police officer, hired prior to July 1, 1995, who is a full-time permanent employee. All full-time firefighters and police officers hired after June 30, 1995 are members of the VRS Law Enforcement Officers (LEO) retirement system as required by State statutes. Therefore, the FPRS has become a “closed” system.

Benefits vest after five years of service. Employees may retire at any time with 20 years of service, regardless of age. Employees 50 or older may retire at any time with less than 20 years of service provided the vesting requirement has been satisfied. Employees are entitled to an annual retirement benefit payable in an amount equal to 3% of the average final compensation (AFC) for the first 20 years and 2% for each of the next 5 years of service and 1% for each year thereafter multiplied by their years of creditable service. AFC is defined as the highest consecutive 36 months of compensation. Benefits begin at age 60, upon written request, for members who terminate employment prior to age 50 with less than 20 years of creditable service.

Benefits may be increased from time to time by percentage adjustments approved by City Council. Effective July 1, 1994, retirees receive a supplement of \$200 per month until age 65. In addition, an automatic 50% survivor option has been added for all retirees at no cost to the retirees. The FPRS also provides death and disability benefits. These benefit provisions and all other requirements of the FPRS are established by City Council.

The city (employer) is required by city code to contribute the amounts necessary to fund the system based on an actuarially determined percentage of payroll. There are no required contributions due from employees.

Plan Participants

Participation in the Portsmouth Supplemental Retirement System and the Fire and Police Retirement System consisted of the following as of June 30, 2018:

	<u>Total</u>	<u>PSRS</u>	<u>FPRS</u>
Retirees and beneficiaries	1,003	360	643
Vested terminated employees not yet receiving benefits	59	17	42
Current vested employees	36	16	20
	<u>1,098</u>	<u>393</u>	<u>705</u>

Contributions

The funding policy of PSRS and FPRS provides for periodic employer contributions at actuarially determined rates which will remain relatively level over time as a percentage of payroll and will accumulate sufficient assets to meet the cost of all basic benefits when due. Rates necessary to support post-retirement supplements which may be payable in addition to the basic benefits are determined separately on a pay-as-you-go basis.

Total actuarially determined employer contributions to the PSRS and FPRS for fiscal year 2018 were \$1,867,696 and \$6,449,059, respectively or \$8,316,755 in total. An additional \$1,011,000 (\$649,500 and

\$361,500, FPRS and PSRS respectively) was deposited into the trust fund to provide a supplement in July 2017 and January and March 2018 of \$556 payable to each retiree or beneficiary. This supplement did not have an impact on the pension liability or actuarially determined contribution.

Plan Investments

Investment policy. This Statement of Investment Policy defines the investment policies for the management and oversight of the Portsmouth Retirement System (the “Plan”). It establishes objectives, strategies to achieve them, procedures for monitoring and control, and identifies responsibilities for the oversight and management of Plan assets.

The Board of Trustees of the city of Portsmouth Fire Supplemental Retirement Systems (the Board) is responsible for the Investment Policy of both systems and may amend it from time to time.

Responsibilities. Responsibilities for the oversight and management of Plan assets are specified as follows:

The Board establishes investment policy, makes asset allocation decisions, determines asset class strategies and retains investment managers to implement asset allocation and asset class strategy decisions.

The Board has engaged Graystone Consulting to assist the Board in areas of asset allocation, investment policy, portfolio strategy implementation, performance monitoring and evaluation, and rebalancing policy implementation.

Graystone Consulting is responsible for investing Plan assets in a manner consistent with the Plan's Investment Policy within the John Hancock Retirement Plans Services Investment Platform.

Objectives. Objectives of the Investment Policy are as follows:

1. Invest Plan assets prudently to provide retirement benefits for qualified participants.
2. Maximize long-term return by investing to achieve the rate of return specified by the Plan’s actuarial assumptions.
3. Diversify investments by asset type, class, capitalization, and style to minimize risk.
4. Minimize management and custodial costs.

Performance Objectives. In achieving the Plan’s objectives, the Plan’s performance objective is to outperform the Policy Portfolio return after fees at a comparable level of risk. This investment objective is expected to be achieved over the long term and is measured over rolling five-year periods.

Policy Portfolio. Asset allocation policy is the principal method for achieving the investment objectives stated above. The Plan’s policy targets and ranges are as follows:

	<u>Target</u>	<u>Range</u>
Equities	65%	50% - 90%
Fixed Income	30%	10% - 50%
Real Estate	2%	0% - 5%
Alternatives	2%	0% - 5%

US equities are held for their long-term expected return premium over fixed income investments and inflation. Non-US equities are held for their expected return premium (along with US equities), as well as diversification relative to equities. Cash equivalents are held solely to meet the Plan’s liquidity requirements.

The asset allocation policy is reviewed by the Board at a high level regularly. A detailed review may be conducted if significant changes occur in the Plan’s financial position or spending policy.

Rebalancing policy. The portfolio shall be rebalanced by John Hancock Retirement Plan Services quarterly to reflect target asset allocation percentages by fund manager listed on the approved lineup.

Monitoring and control. The Investment portfolio shall be reviewed on demand and at a minimum of once each quarter. Specific guidelines by investment medium include:

1. Equities:

- A. Investments shall be diversified by number within each approved class.
- B. Management employed shall have demonstrated historical performance and risk proficiency.
- C. Performance review shall include third-party publications.
- D. Performance review shall include peer comparisons.
- E. Appropriate benchmarks for returns comparisons include, but are not limited to, the following:

U.S. Large Cap Value	Russell 1000 Value Index
U.S. Large Cap Growth	Russell 1000 Growth Index
U.S. Large Cap Core	Russell 1000 Index and S&P 500 Index
U.S. Mid Cap Value	Russell Mid Cap Value Index
U.S. Mid Cap Growth	Russell Mid Cap Growth Index
U.S. Small Cap Value	Russell 2000 Value Index
U.S. Small Cap Growth	Russell 2000 Growth Index
International Equity	MSCI EAFE Index

2. Fixed Income:

- A. Investments shall be diversified by type and number.
- B. Average duration of the portfolio shall not exceed 10 years.
- C. U.S.-guaranteed issues shall constitute the largest percentage of holdings.
- D. Credit quality shall average a minimum of an S&P "A" rating.
- E. Performance review shall include third-party publications.
- F. Performance reviews shall include peer comparisons, when possible.
- G. A benchmark for returns comparisons includes, but is not limited to the Barclays Capital Aggregate Bond Index.

3. Alternative Investments:

As the name implies, this general investment classification includes markets other than the traditional markets, such as Equities, Fixed Income, and Cash Equivalents. Extensive research and empirical evidence has verified that investment diversification among a number of different, non-correlated asset classes has the potential to reduce overall portfolio volatility and improve returns. Rather than taking direct positions in alternative markets, such as Real Estate, Agricultural Products, Energy, Metals, Currencies, etc. or, investing in Limited Partnerships, which can lack liquidity and/or transparency, latitude will be retained to access these markets/assets through Mutual Funds.

A. Real Estate:

- 1. The investment medium shall be equity real estate.
- 2. Investments shall provide asset class diversification to reduce portfolio standard deviation.
- 3. The funds will be invested publicly traded real estate mutual funds and not in real estate limited partnerships.

4. Investments shall be diversified and of high quality; core assets will comprise a majority of the allocation.
 5. A benchmark for returns comparisons includes, but is not limited to, the Russell Open-End Real Estate Universe.
- B. Managed Futures:
1. Fund Managers shall access the respective markets via Managed Futures, which eliminates such concerns as storage and insurance costs, or, unwanted delivery.
 2. Investments shall provide asset class diversifications to reduce portfolio standard deviation.
 3. The funds will be invested in Managed Futures Mutual Funds and not Managed Futures Limited Partnerships.
 4. Investments shall be diversified and of high quality. Fund Managers have the latitude to take long or small positions in the representative markets, based upon their professional evaluation of relevant trends.
 5. A benchmark for returns comparisons includes, but is not limited to, the Morningstar Diversified Futures Index TR.

Underperformance of investments in any of the above media, as measured by comparisons with peers and benchmarks for two consecutive quarters, shall trigger a review by the Investment Committee. This review shall continue quarterly until either performance has improved or management has been replaced.

Any recommended changes to investment management shall include comparisons of management and custodial costs.

Concentrations

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

Rate of Return

For the year ended June 30, 2018, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 4.64% and 4.66%, for FPRS and PSRS, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability of the Portsmouth Retirement Systems

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

Changes in Net Pension Liability - FPRS

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at June 30, 2016	\$ 253,182,590	169,817,183	83,365,407
Change for the year:			
Service Cost	288,723	-	288,723
Interest	17,571,555	-	17,571,555
Differences between expected and actual experience	1,548,069	-	1,548,069
Contributions - employer	-	6,566,389	(6,566,389)
Net investment income	-	16,820,681	(16,820,681)
Benefit payments, including refunds of employee contributions	(22,016,787)	(22,016,787)	-
Administrative expenses	-	(254,463)	254,463
Changes of assumptions	(2,060,009)	-	(2,060,009)
Net changes	(4,668,449)	1,115,820	(5,784,269)
Balance at June 30, 2017	\$ 248,514,141	170,933,003	77,581,138

Changes in Net Pension Liability - PSRS

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at June 30, 2016	\$ 87,202,130	60,261,330	26,940,800
Change for the year:			
Service Cost	54,347	-	54,347
Interest	6,021,175	-	6,021,175
Differences between expected and actual experience	(180,994)	-	(180,994)
Contributions - employer	-	2,005,017	(2,005,017)
Net investment income	-	5,916,252	(5,916,252)
Benefit payments, including refunds of employee contributions	(8,378,061)	(8,378,061)	-
Administrative expenses	-	(106,586)	106,586
Changes of assumptions	(966,754)	-	(966,754)
Net changes	(3,450,287)	(563,378)	(2,886,909)
Balance at June 30, 2017	\$ 83,751,843	59,697,952	24,053,891

Actuarial Assumptions.

The total pension liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Measurement Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal – Level Percentage of Pay
Interest Rate	7.25%
Annual Rates of Increase:	
Salaries	3.00%
Future Social Security Wage Bases	3.00%
Future Social Security Cost of Living Increases	2.50%
Statutory Limits on Compensation and Benefits	2.50%

Mortality rates were based on the RP-2014 Mortality Table Adjusted to 2006 with Generational Projection (Scale MP-2016).

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2016 through June 30, 2017.

The long-term expected rate of return on pension plan investments was derived using estimates of hypothetical average returns from statistical models. Actual returns may vary from the expected returns.

Discount rate. The discount rate used to measure the total pension liability was 7.25 percent. The pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the city’s pension plans, calculated using the discount rate of 7.25 percent, as well as what the city’s net pension liability would be if it were calculated on a sensitivity basis using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease 6.25%	Current Discount 7.25%	1% Increase 8.25%
PSRS			
Total Pension Liability	\$ 90,688,902	83,751,843	77,738,084
Less: Fiduciary Net Position	59,697,952	59,697,952	59,697,952
Net Pension Liability	\$ 30,990,950	24,053,891	18,040,132
FPRS			
Total Pension Liability	\$ 272,740,198	248,514,141	228,044,948
Less: Fiduciary Net Position	170,933,003	170,933,003	170,933,003
Net Pension Liability	\$ 101,807,195	77,581,138	57,111,945

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

For the year ended June 30, 2018 the city recognized total pension expenses of \$9,116,792 (\$1,559,522 for PSRS and \$7,557,270 for FPRS). At June 30, 2017, the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources for both the PSRS and the FPRS:

	PSRS		FPRS	
	Deferred	Deferred	Deferred	Deferred
	Outflows of	Inflows of	Outflows of	Outflows of
	Resources	Resources	Resources	Resources
Net difference between projected and actual earnings on pension plan investments	\$ 1,915,235	-	5,095,560	
Employer contribution subsequent to the measurement date	2,229,196		7,098,559	
Total	\$ 4,144,431	-	12,194,119	

Deferred outflows of resources for contributions subsequent to measurement date will be recognized in net pension liability/collective net pension liability in fiscal year ended 2019. The amounts reported as deferred outflows of resources related to PSRS and FPRS pensions will be recognized in pension expense as follows:

Year ended June 30

	PSRS		FPRS	
2018	\$ 655,629	\$	1,692,154	
2019	1,260,336		3,457,905	
2020	356,427		962,101	
2021	(357,157)		(1,016,600)	
	\$ 1,915,235	\$	5,095,560	

John Hancock does not provide any independently verified audited statements for the pension plans. Below is the financial statement for the city's plans. Additional information can be seen on Exhibit F-1 and F-2, pages 23 and 24 and Exhibit N-1 and N-2.

	Portsmouth Pension Trust Fund
Assets	
Cash and temporary investments	\$ 2,478,152
Investments	216,632,162
Total assets	219,110,314
Net position restricted for pensions	219,110,314

Virginia Retirement System

Plan Description

Name of Plan:	Virginia Retirement System (VRS)
Identification of Plan:	Agent and Cost-Sharing, Multiple Employer Defined Benefit Pension Plan
Administering Entity:	Virginia Retirement System (System)

The city is a separate cost pool within VRS, and makes contributions based on rates set by VRS's actuarial calculations of the annual required contributions. All full-time, salaried permanent employees of the city and the Portsmouth public school division are automatically covered by VRS upon employment. This plan is administered by the Virginia Retirement System.

Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and for which they and the city are paying contributions to VRS. Members are eligible to purchase prior public service based on specific criteria as defined in the Code of Virginia as amended.

The VRS administers three different benefit plans for local government employees – Plan 1, Plan 2, and Hybrid Retirement Plan. Each plan has a different eligibility and benefit structure as set out in the following table:

Within the VRS Plan, the System administers three different benefit structures for covered employees – Plan 1, Plan 2 and Hybrid. Each of these benefit structures has a different eligibility criteria. The specific information for each plan and eligibility for covered groups within each plan are set out below:

VRS PLAN 1

About VRS Plan 1

VRS Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 1 if their membership date is before July 1, 2010 and they were vested as of January 1, 2013.

Eligible Members

Employees are in VRS Plan 1 if their membership date is before July 1, 2010 and they were vested as of January 1, 2013.

Hybrid Opt-In Election

VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible VRS Plan 1 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

Members who were eligible for an optional retirement plan (ORP) and had prior service under VRS Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 1 or ORP.

Retirement Contributions

Members contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. 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. VRS invests both member and employer contributions to provide funding for the future benefit payment.

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.

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 five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.

Members are always 100% vested in the contributions that they make.

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.

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.

Average Final Compensation

A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.

Service Retirement Multiplier

The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.

The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.

The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.

Retirement Age

Normal retirement: Age 65. Political subdivision hazardous duty employees: Age 60.

Earliest Unreduced Retirement Eligibility

Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.

Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years (60 months) of creditable service or age 50 with at least 25 years of creditable service.

Earliest Reduced Retirement Eligibility

Members may retire with a reduced benefit as early as age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.

Political subdivision hazardous duty employees may retire with a reduced benefit as early as age 55 with at least five years of creditable service.

Cost-of-Living Adjustment (COLA) in Retirement

The 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%.

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.

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.

Exceptions to COLA Effective Dates:

The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:

- The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
- The member retires on disability.
- The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
- The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
- The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.

Disability Coverage

Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.70% on all service, regardless of when it was earned, purchased or granted.

VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

Purchase of Prior Service

Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.

VRS PLAN 2

About VRS Plan 2

VRS Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010 and they were not vested as of January 1, 2013.

Eligible Members

Employees are in VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010 and they were not vested as of January 1, 2013.

Hybrid Opt-In Election

Eligible VRS Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible VRS Plan 2 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

Members who were eligible for an ORP and have prior service under VRS Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 2 or ORP.

Retirement Contributions

Same as VRS Plan 1.

Creditable Service

Same as VRS Plan 1.

Vesting

Same as VRS Plan 1.

Calculating the Benefit

See definition under VRS Plan 1.

Average Final Compensation

A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.

Service Retirement Multiplier

Same as VRS Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.

Sheriffs, regional jail superintendents and political subdivision hazardous duty employees: Same as Plan 1.

Normal Retirement Age

Normal Social Security retirement age. Political subdivision hazardous duty employees: Same as VRS Plan 1.

Earliest Unreduced Retirement Eligibility

Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.

Political subdivision hazardous duty employees: Same as VRS Plan 1.

Earliest Reduced Retirement Eligibility

Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.

Political subdivision hazardous duty employees: Same as VRS Plan 1.

COLA in Retirement

The 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%.

Eligibility:

Same as VRS Plan 1.

Exceptions to COLA Effective Dates:

Same as VRS Plan 1.

Disability Coverage

Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.

VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

Purchase of Prior Service

Same as VRS Plan 1.

VRS HYBRID RETIREMENT PLAN

About VRS Hybrid Retirement Plan

The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as VRS Plan 1 and VRS Plan 2 members who were eligible and opted into the plan during a special election window. (See “Eligible Members”)

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.

Eligible Members

Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:

- Political subdivision employees*
- School division employees
- Members in VRS Plan 1 or VRS Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014

*Non-Eligible Members – Some employees are not eligible to participate in the Hybrid Retirement Plan. They include political subdivision employees who are covered by enhanced benefits for hazardous duty employees.

Those employees eligible for an ORP must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under VRS Plan 1 or VRS Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.

Retirement Contributions

A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. 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.

Creditable Service

Defined Benefit Component:

Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

Defined Contributions Component:

Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

Vesting

Defined Benefit Component:

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 five years (60 months) of creditable service. VRS Plan 1 or VRS Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

Defined Contributions Component:

Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make.

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.

- 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.

Distribution is not required by law until age 70½.

Calculating the Benefit

Defined Benefit Component:

See definition under VRS Plan 1.

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.

Average Final Compensation

Same as VRS Plan 2. It is used in the retirement formula for the defined benefit component of the plan.

Service Retirement Multiplier

Defined Benefit Component:

The retirement multiplier for the defined benefit component is 1.0%.

For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

Defined Contribution Component:

Not applicable.

Normal Retirement Age

Defined Benefit Component: Same as VRS Plan 2.

Defined Contribution Component:

Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Earliest Unreduced Retirement Eligibility

Defined Benefit Component:

Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.

Defined Contribution Component:

Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Earliest Reduced Retirement Eligibility

Defined Benefit Component:

Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.

Defined Contribution Component:

Members are eligible to receive distributions upon leaving employment, subject to restrictions.

COLA in Retirement

Defined Benefit Component: Same as VRS Plan 2.

Defined Contribution Component:
Not applicable.

Eligibility:
Same as VRS Plan 1 and VRS Plan 2.

Exceptions to COLA Effective Dates:
Same as VRS Plan 1 and VRS Plan 2.

Disability Coverage

Eligible political subdivision and school division (including VRS Plan 1 and VRS Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer- paid comparable program for its members.

Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

Purchase of Prior Service

Defined Benefit Component:

Same as VRS Plan 1, with the following exceptions:

- Hybrid Retirement Plan members are ineligible for ported service.
- The cost of purchasing refunded service is the higher of 4% of creditable compensation or average final compensation.
- Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one year period, the rate for most categories of service will change to actuarial cost.

Defined Contribution Component:
Not applicable.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report is available from the VRS web site at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf> or obtained by writing the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Employees Covered by Benefit Terms

As of the June 30, 2017 actuarial valuation, the following city and School Board employees were covered by the benefit terms of both the city's and School Board's VRS pension plans:

	City	School Board - Non- Professional
Inactive members or their beneficiaries currently receiving benefits	935	351
Inactive members:		
Vested inactive members	351	31
Non-vested Inactive members	600	116
Inactive members active elsewhere in VRS	725	74
Total inactive members	1,676	221
Active members	1,486	385
Total covered employees	4,097	957

The total number of employees covered by the School Board's- Professional VRS pension plan was not available for this report.

Contributions

All full-time, salaried permanent employees of the city are automatically covered by VRS Retirement Plan upon employment. This plan is administered by the Virginia Retirement System. Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual reported compensation to the VRS. Prior to July 1, 2012 all or part of the 5% 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. In addition, the city of Portsmouth and the School Board component unit are required to contribute the remaining amounts necessary to fund their participation in VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees.

The city's contractually required contribution rate for the year ended June 30, 2017 was 10.29 percent of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2016. The actuarial rate for the plan was 9.93 percent. 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 VRS pension plan from the city were \$7,052,500 and \$6,794,955 for the years ended June 30, 2018 and June 30, 2017, respectively.

The School Board (Non-Professional) VRS pension plan's contractually required contribution rate for the fiscal year ended June 30, 2018 was 11.69 percent of annual covered payroll. The actuarial rate for this plan was 11.98 percent. 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 School Board for the Non-Professional VRS pension plan were \$899,130 and \$902,396 for the years ended June 30, 2018 and June 30, 2017, respectively.

The School Board Professional VRS plan's contractually required contribution rate for the fiscal year ended June 30, 2018 was 16.32 percent of annual covered payroll. The actuarial rate for this plan was 16.32 percent. 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. Based on the provisions of §51.1-145 of the *Code of Virginia*, as amended, the contributions were funded at 89.84% of the actuarial rate for the year ended June 30, 2018. Contributions to the pension plan from the School Board for the Professional VRS plan were \$13,219,573 and \$11,589,359 for the years ended June 30, 2018 and June 30, 2017, respectively.

Net Pension Liability

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

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

Actuarial Assumptions – General Employees

The total pension liability for general employees in the city's VRS 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, 2017.

Inflation	2.5 percent
Salary increases, including inflation - city & School Board - Non-Prof	3.5 percent – 5.35%
Salary increases, including inflation - School Board -Professional	3.5 percent -- 5.95%
Investment rate of return plan investment	7.0 percent, net of pension 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 GAAP purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of 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 with a scale AA 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 with a Scale AA to 2020 with males set back 3 years and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2014 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	Weighted Average Long-Term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
	Inflation		2.50%
	* Expected arithmetic nominal return		7.30%

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

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the city for the VRS Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, the city is 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.

Changes in Net Pension Liability - City VRS Plan

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at June 30, 2016	\$ 316,422,988	272,749,271	43,673,717
Change for the year:			
Service Cost	8,380,639	-	8,380,639
Interest	21,674,217	-	21,674,217
Differences between expected and actual experience	(5,377,366)	-	(5,377,366)
Contributions - employer	-	6,776,993	(6,776,993)
Contributions - employee	-	3,398,847	(3,398,847)
Net investment income	-	33,161,239	(33,161,239)
Benefit payments, including refunds of employee contributions	(13,582,645)	(13,582,645)	-
Administrative expenses	-	(190,996)	190,996
Changes of assumptions	476,225	-	476,225
Other changes	-	(29,655)	29,655
Net changes	11,571,070	29,533,783	(17,962,713)
Balance at June 30, 2017	\$ 327,994,058	302,283,054	25,711,004

Changes in Net Pension Liability - School Board Non-Professional VRS Plan

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at June 30, 2016	\$ 38,280,197	28,730,690	9,549,507
Change for the year:			
Service Cost	763,448	-	763,448
Interest	2,600,444	-	2,600,444
Differences between expected and actual experience	110,155	-	110,155
Contributions - employer	-	882,435	(882,435)
Contributions - employee	-	372,038	(372,038)
Net investment income	-	3,443,683	(3,443,683)
Benefit payments, including refunds of employee contributions	(2,261,995)	(2,261,995)	-
Administrative expenses	-	(20,455)	20,455
Changes in Assumptions	(44,324)	-	(44,324)
Other changes	-	(3,044)	3,044
Net changes	1,167,728	2,412,662	(1,244,934)
Balance at June 30, 2017	\$ 39,447,925	31,143,352	8,304,573

Financial disclosure with regards to Changes in Net Pension Liability as it relates to the School Board's

Professional VRS plan was not available at the time of reporting.

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

The following presents the net pension liability of the political subdivision using the discount rate of 7.00%, as well as what the political subdivision's 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	Current Discount Rate	1.00% Increase
	(6.00%)	(7.00%)	(8.00%)
VRS - City	\$ 68,709,630	\$ 25,711,004	\$(10,053,924)
Net Pension Liability			
School Board's proportionate share of the VRS Teacher (Professional) Employee Retirement Plan			
Net Pension Liability	\$ 184,385,000	\$ 123,472,000	\$ 73,085,000
School Board's (Non-Professional) Employee Retirement Plan			
Net Pension Liability	\$ 12,707,727	\$ 8,304,573	\$ 4,584,959

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

For the year ended June 30, 2017, the city recognized pension expense of \$2,525,788.

For the year ended June 30, 2017, the School Board recognized for its Professional VRS plan pension expense of \$6,687,000. Since there was a change in proportionate share between the measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

The School Board recognized for its Non-Professional VRS plan pension expense of \$591,046.

At June 30, 2017, both the city's and School Board's Professional and Non-Professional VRS plans reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	City		School Board - Professional		School Board - Non-Professional	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 145,267	5,952,956	-	8,743,000	69,805	93,760
Change in assumptions	330,590	-	1,802,000	-	-	28,088
Net difference between projected and actual earnings on pension plan investments	-	4,350,938	-	4,486,000	-	432,392
Changes in proportion and difference between Employer contributions and proportionate share of contributions	-	-	-	7,653,000	-	-
Employer contributions subsequent to the measurement date	7,052,500	-	13,219,573	-	899,130	-
Total	\$ 7,528,357	10,303,894	15,021,573	20,882,000	968,935	554,240

Deferred outflows of resources for contributions subsequent to measurement date will be recognized in pension expense in fiscal year 2019. Amounts reported as deferred outflows and inflows of resources related to both the city and School Board VRS plans and will be recognized in pension expense as follows:

Year ended June 30	City	School Board - Professional	School Board - Non-Professional
2019	\$(5,413,055)	(7,272,000)	(371,840)
2020	(1,158,541)	(2,507,000)	169,238
2021	(417,290)	(3,063,000)	11,892
2022	(2,839,151)	(5,210,000)	(293,725)
Thereafter	-	(1,028,000)	-
	\$(9,828,037)	(19,080,000)	(484,435)

Payables to the Pension Plans

At June 30, 2018, the city and the school division both reported a liability of \$0 for legally required contributions to the pension plans.

(8) OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description - The City of Portsmouth Retired Employees Health Care Program

The City of Portsmouth Retired Employee Health Care Program is a single-employer defined benefit healthcare program administered by the city of Portsmouth. The defined benefit plan for the city's Program was established to provide post-employment benefits other than pensions as defined by and in accordance with Section 15.2-1545 of the Code of Virginia.

In accordance with Article 8, Chapter 15, subtitled II of Title 15.2 of the Virginia Code, the city has elected to establish a trust for the purpose of accumulating and investing assets to fund other postemployment benefits obligations. The city joined the Virginia Pooled OPEB Trust Fund (Trust), which was established by the Virginia Municipal League and the Virginia Association of Counties in 2018.

The Trust's Board of Trustees has fiduciary responsibility for the investment of monies and administration of the Trust pursuant to the Trust Agreement. The Board of Trustees is composed of nine members. Trustees are members of Local Finance Boards of participating employers and are elected for staggered three-year terms by the participants in the Trust.

The Portsmouth City Public Schools School Board administers a similar defined benefit healthcare plan.

Plan Membership

The membership as of January 1, 2018 includes:

	<u>City</u>	<u>School Board</u>
Active Participants	1,486	2,019
Retirees and Spouses	580	39
Total	<u>2,066</u>	<u>2,058</u>

Benefits Provided

The Program provides medical (health), dental and vision insurance benefits as well as a legal services plan to eligible retirees and their families through the same self-insured program that provides coverage to active city employees. Effective, July 1, 2014, the city established the eligibility requirement of 10 years of continuous city service as of July 1, 2014 for employees to be eligible for retiree health coverage and a fixed monthly city contribution. After that date, the requirement is 15 years of continuous city service for employees to be eligible for retiree health coverage with no city contribution unless an employee has 25 years or more of continuous city service. In addition, post-65 retiree health coverage was eliminated for future retirees on June 30, 2015.

Significant Accounting Policies

The OPEB Trust is a fiduciary-type component unit of the City. The measurement focus of the OPEB Trust is on the flow of economic resources. This focus emphasizes the determination of changes in the OPEB trust's net position. With this measurement focus, all assets and liabilities associated with the operation of this fiduciary fund are included on the *Statement of Fiduciary Net Position*. This fund uses the accrual basis of accounting whereby contributions are recognized when due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Contributions

Contribution requirements of the city and plan members are established and may be amended by the respective legislative bodies. The School Board has the authority to establish and amend the funding policy of

their plan. The required contribution is based on projected pay-as-you-go financing requirements, with the potential for additional amounts to prefund benefits as determined annually by the City Council. For fiscal year 2018, the city contributed \$4,826,247 to the program, all for current premiums, and there was no additional prefunding contribution. Retired employees receiving benefits contributed \$1,970,562 through required monthly contributions that vary from \$535.70 to \$1,972.80 depending on the retiree's choice of Health Maintenance Organization or Preferred Provider coverage, the retiree's age, and whether the coverage is for the retiree only or includes other family members.

Contribution requirements of the Portsmouth City Public School Board and plan members are established and may be amended by the Portsmouth City Public 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 Portsmouth City Public School Board. For the year ended June 30, 2018, the Portsmouth City Public School Board made no further contributions to the plan to pay current benefits and to prefund benefits.

Investment

The OPEB's plan investment policy in regard to the allocation of invested assets is established and may be amended by the Virginia Pooled OPEB Trust Fund Board of Trustees. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the OPEB plan.

Net OPEB Liability

The components of the net OPEB liability of the city and the Portsmouth City Public School Board at June 30 were as follows:

	<u>City</u>	<u>School Board</u>
Total OPEB Liability	\$ 22,376,040	\$ 16,980,673
Fiduciary Net Position	<u>(3,046,475)</u>	<u>(12,541,363)</u>
Net OPEB Liability	\$ 19,329,565	\$ 4,439,310
Fiduciary Net Position as a % of Total OPEB Liability	13.61%	73.86%

Changes in Net OPEB Liability of the city:

<u>City</u>	<u>Total OPEB Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net OPEB Liability</u>
Balance as of June 30, 2017	\$ 30,451,194	\$ -	\$ 30,451,194
Service cost	1,150,539	-	1,150,539
Interest on total OPEB liability	1,098,940	-	1,098,940
Effect of assumptions changes or inputs	(8,498,386)	-	(8,498,386)
Benefits payments	(1,826,247)	(1,826,247)	-
Employer contributions	-	4,826,247	(4,826,247)
Net investment income	-	46,475	(46,475)
Balance as of June 30, 2018	<u>\$ 22,376,040</u>	<u>\$ 3,046,475</u>	<u>\$ 19,329,565</u>

Changes in Net OPEB Liability of the Portsmouth City Public School Board:

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

Actuarial Assumptions

The net OPEB liability for the city was measured as of January 1, 2018. The net OPEB liability for the Portsmouth City Public School Board was measured as of June 30, 2018. The following actuarial assumptions were included in the measurements:

	City	Portsmouth City Public School Board
Inflation	2.50%	2.50%
Salary increase	3.00%	3.50%
Investment rate of return	7.00%	4.44%
20-year Aa Municipal bond rate	3.0%	3.0%
Mortality	RP-2014 Headcount weighted, sex-distinct, annuitant and non-annuitant mortality table projected with improvement scale MP 2017	RP-2014 Headcount weighted, sex-distinct, annuitant and non-annuitant mortality table projected with improvement scale MP 2017

Long Term Expected Rate of Return

City's OPEB Plan

The best-estimate range for the long term expected rate of return is determined by taking the annual average long-term future inflation and real return components, with each component being reasonable in our professional opinion, include the anticipated effects of return volatility and correlation among various asset classes. The data used in the assessment of reasonability were the 2017 Horizon Survey of Capital Market Assumptions (consensus 10-year real returns) and the 2018 Social Security Trustees Report (inflation).

Portsmouth City Public School Board's OPEB Plan

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 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 for the city was 7.00%. The projection of cash flows used to determine the discount rate assumed that Employer contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the Total OPEB Liability is equal to the long-term expected rate of return.

The discount rate used to measure the total OPEB liability for the Portsmouth City Public School Board was 4.44%. The projection of cash flows used to determine the discount rate assumed that Employer contribution will be made at rates equal to the most recent recommended contribution expressed as a percentage of covered payroll. Based on those assumptions, the OPEB 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. The discount rate is used to determine the Total OPEB Liability.

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

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

	City of Portsmouth		
	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Net OPEB liability	\$ 21,085,285	\$ 19,329,565	\$ 17,750,942

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

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

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

The following table presents the city's net OPEB liability and service cost, calculated using the current healthcare trend rates, as well as what the net other postemployment benefit liability and service cost would be if it were calculated using a healthcare trend rate that is 1-percentage-point lower or 1-percentage-point higher.

	City of Portsmouth		
	1% Decrease (4.80%)	Current Trend Rate (5.80%)	1% Increase (6.80%)
Net OPEB liability	\$ 17,628,696	\$ 19,329,565	\$ 21,299,968

The following presents the net OPEB liability of the Portsmouth City Public School Board, as well as what the Portsmouth City Public 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.

	Portsmouth City Public School Board		
	1% Decrease (7.50% decreasing to 3.50%)	Discount Rate (8.50% decreasing to 4.50%)	1% Increase (9.50% decreasing to 5.50%)
Net OPEB liability	\$ 2,920,131	\$ 4,439,310	\$ 6,233,815

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

At June 30, 2018, the city reported a liability of \$19,329,565. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

For the year ended June 30, 2018, the city recognized OPEB expense of \$639,192. At June 30, 2018, the city reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

City of Portsmouth

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in actuarial assumptions	\$ -	(6,924,611)
Net difference between projected and actual investment earnings	-	(9,963)
Total	\$ -	(6,934,574)

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

Year ended June 30:		
2019	\$	(1,576,266)
2020		(1,576,266)
2021		(1,576,266)
2022		(1,576,265)
2023		(629,511)
Total	\$	<u>(6,934,574)</u>

Portsmouth City Public School Board

At June 30, 2018, the Portsmouth City Public School Board reported a liability of \$4,439,310. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

For the year ended June 30, 2018, the Portsmouth City Public School Board recognized OPEB expense of \$1,324,999. At June 30, 2018, the city reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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

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

Year Ended June 30:		
2019	\$	(35,450)
2020		(35,450)
2021		(35,450)
2022		(35,452)
2023		(73,447)
Thereafter		(631,640)
Total	\$	<u>(846,889)</u>

Significant Changes

The city established an OPEB trust in April 2018 with an initial deposit of \$3,000,000. Therefore, the interest assumption was increased from a municipal bond rate of 3.58% as of June 30, 2017 to 7.00% as of June 30, 2018. The 7.00% rate represents a long-term expected rate of return based on the OPEB trust's asset allocation as of June 30, 2018.

In the July 1, 2018 actuarial valuation, the projected unit cost credit (level dollar) actuarial method and level percentage amortization method was used. The actuarial assumptions included a 6% investment rate of return (discount rate) and amortization of the Portsmouth City Public 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 6% initially to an ultimate rate of 4.44% per year in 2021 and thereafter. Payroll is projected to increase at 2.5%. 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 – RPH-2014 Mortality table with MP 2017 mortality projection.

Retirement benefit payments are typically concentrated at the beginning of the fiscal year with very few payments spread over the year. The annual stipend for eligible retirees increased from \$2500 to \$3000. Payments are made from the Wells Fargo Advantage Treasury Plus Money Market Fund. A Consumer Directed Health Plan (CDHP) option with high deductible was added to retiree plan option.

Portsmouth City Public Schools: In the June 30, 2018 actuarial valuation, the discount rate was lowered from 6.0% to 4.44% based on mortality improvement updated from MP-2014. The Pre-65 Medical Inflation was updated from 6% graded to 5% based on updated costs and stipend. Retirement benefit payments are typically concentrated at the beginning of the fiscal year with very few payments spread over the year. The annual stipend for eligible retirees increased from \$2,500 to \$3,000. Payments are made from the Wells Fargo Advantage Treasury Plus Money Market Fund. A Consumer Directed Health Plan (CDHP) option with high deductible was added to retiree plan option. Below is the city's OPEB plan financial statement. Additional detail can be seen on Exhibit N-1 and N-2.

	OPEB Trust Fund
Assets	
Cash and temporary investments	\$ -
Investments	<u>3,046,475</u>
Total Assets	<u>3,046,475</u>
Net position restricted for OPEB	<u>3,046,475</u>

VRS Directed OPEB Plans for City and Portsmouth City Public Schools

VRS directs other employee and postemployment benefit plans for City and Portsmouth City Public Schools active, deferred and retired members of VRS. These plans include the Group Life Insurance Program (GLIP), the Virginia Local Disability Programs (VLDP), the Line of Duty Act (LODA), the Teacher Employee Health Insurance Credit Program (THICP). Contributions and payments for other employee benefit plans for active VRS members occur on a current basis; therefore, the net position of these plans is not reported.

City of Portsmouth:

Actuarial Assumptions – Total OPEB Liability

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

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

Long-Term Expected Rate of Return

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

VRS Group Life Insurance

The VRS GLIP is a multiple employer, cost-sharing plan. It provides coverage to state employees, teachers, and employees of participating political subdivisions. The GLIP was established pursuant to §51.1-500 et seq. of the *Code of Virginia*, as amended, and which provides the authority under which benefit terms are established or may be amended. The GLIP is a defined benefit plan that provides a basic group life insurance benefit for employees of participating employers. For purposes of measuring the net GLIP OPEB liability, deferred outflows of resources and deferred inflows of resources related to the GLIP OPEB, and GLIP OPEB expense, information about the fiduciary net position of the VRS GLIP OPEB and the additions to/deductions from the VRS GLIP OPEB's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Information about the Group Life Insurance Program

Plan Description

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

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

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

GLIP PLAN PROVISIONS
<p>Eligible Employees</p> <p>The GLIP was established July 1, 1960, for state employees, teachers and employees of political sub divisions that elect the program, including the following employers that do not participate in VRS for retirement:</p> <ul style="list-style-type: none"> • City of Richmond • City of Portsmouth • City of Roanoke • City of Norfolk • Roanoke City Schools Board <p>Basic group life insurance coverage is automatic upon employment. Coverage end for employees who leave their position before retirement eligibility or who take a refund of their member contribution and accrued interest.</p>
<p>Benefit Amounts</p> <p>The benefits payable under the GLIP have several components.</p> <ul style="list-style-type: none"> • Natural Death Benefit - The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. • Accidental Death Benefit - The accident death benefit is double the natural death benefit • Other Benefit Provisions - In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include: <ul style="list-style-type: none"> o Accidental dismemberment benefit o Safety belt benefit o Repatriation benefit o Felonious assault benefit o Accelerated death benefit option
<p>Reduction in benefit Amounts</p> <p>The benefit amounts provided to members covered under the GLIP are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value</p>
<p>Minimum Benefit Amount and Cost of Living Adjustment (COLA)</p> <p>For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the GLIP. The minimum benefit was set at \$8,000 by statute. This amount is increased annually based on the VRS Plan 2 cost of living adjustment and is currently \$8,111.</p>

Contributions

The contribution requirements for the GLIP are governed by §51.1-506 and §51.1-508 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the GLIP was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% X 60%) and the employer component was 0.52% (1.31% X 40%). Employers may elect to pay all or part of the employee contribution, however the employer must pay all of the employer contribution. Each employer’s contractually required employer contribution rate for the year ended June 30, 2018 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contribution to the GLIP from the City were \$367,170 and \$360,673 for the years ended June 30, 2018 and June 30, 2017, respectively. Portsmouth City Public School Board contributions were \$40,441 and \$40,672 for the years ended June 30, 2018 and June 30, 2017, respectively for nonprofessional and \$423,628 and \$413,340 for the years ended June 30, 2018 and June 30, 2017, respectively for nonprofessional

***Portsmouth City Public School Board:
Actuarial Assumptions***

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

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

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

Mortality rates – Teachers

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final

	retirement age from 70 to 75.
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14 to 15%

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

City - At June 30, 2018, the city reported a liability of \$5,658,000 for its proportionate share of the Net GLIP OPEB Liability. The Net GLIP OPEB Liability was measured as of June 30, 2017 and the total GLIP OPEB liability used to calculate the Net GLIP OPEB Liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the Net GLIP OPEB Liability was based on the covered employer's actuarially determined employer contributions to the GLIP for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the participating city's proportion was 0.35995% as compared to 0.37083% at June 30, 2016. For insurance only employees, the participating employer's proportion was 0.01608% as compared to 0.02189% at June 30, 2016.

For the year ended June 30, 2018, the participating employer recognized GLI OPEB expense of \$19,000. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

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

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

At June 30, 2018, the employers reported deferred outflows of resources and deferred inflows of resources related to the GLIP OPEB from the following sources:

	City		School Board - Professional		School Board - non professional	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	-	126,000	-	144,000	-	14,000
Net difference between projected and actual earnings						
on GLIP OPEB program investment	-	213,000	-	244,000	-	24,000
Changes in assumptions	-	291,000	-	334,000	-	33,000
Changes in proportion	-	247,000	-	219,000	-	22,000
Employer contributions subsequent to the measurement date	367,170	-	423,628		40,441	-
Total	\$ 367,170	\$ 877,000	\$ 423,628	\$ 941,000	\$ 40,441	\$ 93,000

City - \$367,170 reported as deferred outflows of resources related to the GLIP OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLIP OPEB Liability in the Fiscal Year ending June 30, 2019.

Portsmouth City Public School Board - \$423,628 reported as deferred outflows of resources related to GLIP resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLIP OPEB Liability in the Fiscal Year ending June 30, 2019 for professional employees.

\$40,441 reported as deferred outflows of resources related to GLIP resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLIP OPEB Liability in the Fiscal Year ending June 30, 2019 for nonprofessional employees.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLIP OPEB expense in future reporting periods as follows:

Year ended June 30

	City	School Board - Professional	School Board - non professional
FY 2019	\$(175,000)	\$(189,000)	\$(19,000)
FY 2020	(175,000)	(189,000)	(19,000)
FY 2021	(175,000)	(189,000)	(19,000)
FY 2022	(175,000)	(189,000)	(19,000)
FY 2023	(121,000)	(128,000)	(13,000)
Thereafter	(56,000)	(57,000)	(4,000)
	\$(877,000)	\$(941,000)	\$(93,000)

Net GLIP OPEB Liability

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

	Group Life Insurance OPEB Program
Total GLIP OPEB Liability	\$ 2,942,426
Plan Fiduciary Net Position	(1,437,586)
Employer's Net GLIP OPEB Liability	<u>\$ 1,504,840</u>
 Plan Fiduciary Net Position as a Percentage of the Total GLIP OPEB Liability	 <u>48.86%</u>

	<u>VRS Collective Liability</u>	<u>Percentage of Liability</u>	<u>City</u>
Total GLIP OPEB Liability	\$ 1,504,840,000	0.38%	\$ 5,658,000

Long-Term Expected Rate of Return

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

The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

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

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

Discount Rate

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

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

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

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

	1.00% Decrease	Current Discount	1.00% Increase
	6.00%	Rate 7.00%	8.00%
City's proportionate share of the GLIP	\$ 7,318,000	\$ 5,658,000	\$ 4,313,000
School Board's proportionate share of the GLIP - Professional	\$ 8,388,000	\$ 6,485,000	\$ 4,943,000
School Board's proportionate share of the GLIP - Nonprofessional	\$ 825,000	\$ 638,000	\$ 486,000

GLIP Fiduciary Net Position

Detailed information about the GLIP's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR).

A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Political Subdivision Employee Virginia Local Disability Program

The VRS Political Subdivision Employee VLDP is a multiple-employer, cost-sharing plan. For purposes of measuring the net Political Subdivision Employee VLDP OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Political Subdivision Employee VLDP OPEB, and the Political Subdivision Employee VLDP OPEB expense, information about the fiduciary net position of the VRS Political Subdivision Employee VLDP; and the additions to/deductions from the VRS Political Subdivision Employee VLDP's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan Description

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

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

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

Contributions

City - The contribution requirement for active Hybrid employees is governed by §51.1-1178(C) of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to political subdivisions by the Virginia General Assembly. Each political subdivision's contractually required employer contribution rate for the year ended June 30, 2018 was 0.60% of covered employee compensation for employees in the VRS Political Subdivision Employee Virginia Local Disability Program. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the political subdivision to the VRS Political Subdivision Employee VLDP were \$64,683 and \$48,589 for the years ended June 30, 2018 and June 30, 2017, respectively.

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

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

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

At June 30, 2018, the political subdivision reported a liability of \$25,000 for its proportionate share of the VRS Political Subdivision Employee VLDP Net OPEB Liability. The Net VRS Political Subdivision Employee VLDP OPEB Liability was measured as of June 30, 2017 and the total VRS Political Subdivision Employee VLDP OPEB liability used to calculate the Net VRS Political Subdivision Employee VLDP OPEB Liability was determined by an actuarial valuation as of that date. The political subdivision's proportion of the Net VRS Political Subdivision Employee VLDP OPEB Liability was based on the political subdivision's actuarially determined employer contributions to the VRS Political Subdivision Employee VLDP OPEB plan for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the political subdivision's proportion of the VRS Political Subdivision Employee VLDP was 4.40350% as compared to 4.45072%.

For the year ended June 30, 2018, the political subdivision recognized VRS Political Subdivision Employee VLDP OPEB expense of \$45,000. Since there was a change in proportionate share between June 30, 2016 and June 30, 2017 a portion of the VRS Political Subdivision Employee VLDP Net OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to the VRS Political Subdivision Employee VLDP OPEB from the following sources:

	City		School Board - Professional		School Board - Non professional	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	\$ -	4,000	3,000	-	-	1,000
Employer contributions subsequent to the measurement date	64,683	-	53,333	-	13,127	-
Total	\$ 64,683	4,000	56,333	-	13,127	1,000

City - \$64,683 reported as deferred outflows of resources related to the Political Subdivision Employee VLDP OPEB resulting from the political subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Political Subdivision Employee VLDP OPEB Liability in the Fiscal Year ending June 30, 2019.

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

For the year ended June 30, 2018, the Portsmouth City Public School board recognized VLDP OPEB expense of \$31,000. Since there was a change in proportionate share between June 30, 2016 and June 30, 2017 a portion of the VRS Teacher Employee Virginia Local Disability Program Net OPEB expense was related to deferred amounts from changes in proportion. \$53,333 reported as deferred outflows of resources related to VLDP resulting from the Portsmouth City Public School division's contributions subsequent to the measurement date will be recognized as a reduction of the net VLDP OPEB Liability in the Fiscal Year ending June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to VLDP will be recognized in VLDP OPEB expense in future reporting periods as follows on the next chart.

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

For the year ended June 30, 2018, the Portsmouth City Public School board's recognized VLDP OPEB expense of \$9,000. Since there was a change in proportionate share between June 30, 2016 and June 30, 2017

a portion of the VRS Political Subdivision Employee Virginia Local Disability Program Net OPEB expense was related to deferred amounts from changes in proportion. \$13,127 reported as deferred outflows of resources related to VLDP resulting from the Portsmouth City Public School division' contributions subsequent to the measurement date will be recognized as a reduction of the net VLDP OPEB Liability in the Fiscal Year ending June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to VLDP OPEB will be recognized in the city's and Portsmouth City Public School Board's VLDP OPEB expense in future reporting periods as follows:

Year ended June 30	City	School Board - professional	School Board - non professional
FY 2019	\$ (4,000)	\$ 3,000	\$ (1,000)
	\$ (4,000)	\$ 3,000	\$ (1,000)

Actuarial Assumptions

The total Political Subdivision Employee VLDP OPEB liability for the VRS Political Subdivision Employee Virginia Local Disability Program was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5 percent
Salary increases, including inflation – Political Subdivision Employees	3.5 percent – 5.35 percent
Investment rate of return	7.0 percent, net of plan investment expenses, including inflation*

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

Mortality rates – Non-Largest Ten Locality Employers - General and Non-Hazardous Duty Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

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

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

Net VLDP OPEB Liability

The net OPEB liability (NOL) for the Political Subdivision Employee Virginia Local Disability Program represents the program’s total OPEB liability determined in accordance with GAAP, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the city's and the Portsmouth City Public School Board's Virginia Local Disability Program is as follows (amounts expressed in thousands):

	Teacher Employer VLDP OPEB Plan	Political Subdivision Employee VLDP OPEB Plan
Total Employee VLDP OPEB Liability	\$ 873,000	\$ 914,000
Plan Fiduciary Net Postion	279,000	351,000
Employee Net VLDP OPEB Liability	594,000	563,000
Plan Fiduciary Net Position as a Percentage of the Total Employee VLDP OPEB Liability	31.96%	38.40%

Long-Term Expected Rate of Return

The long-term expected rate of return on VRS 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 VRS System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	6.90%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
	Inflation		2.50%
	* Expected arithmetic nominal return		7.30%

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

Discount Rate

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

Sensitivity of the Political Subdivision's Proportionate Share of the Political Subdivision Employee VLDP Net OPEB Liability to Changes in the Discount Rate

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
City's proportionate share of net VLDP OPEB Liability	\$ 29,000	\$ 25,000	\$ 22,000
School Board's proportionate share of net VLDP OPEB liability - professional	\$ 31,000	\$ 27,000	\$ 22,000
School Board's proportionate share of net VLDP OPEB liability - non-professional	\$ 5,000	\$ 5,000	\$ 4,000

Political Subdivision Employee VLDP OPEB Fiduciary Net Position

Detailed information about the VRS Political Subdivision Employee VLDP's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

VRS Line of Duty Act Program

The VRS Line of Duty Act Program (LODA) is a multiple-employer, cost-sharing plan. The LODA was established pursuant to §9.1-400 et seq. of the *Code of Virginia*, as amended, and which provides the authority under which benefit terms are established or may be amended. The LODA provides death and health insurance benefits to eligible state employees and local government employees, including volunteers, who die or become disabled as a result of the performance of their duties as a public safety officer. In addition, health insurance benefits are provided to eligible survivors and family members. For purposes of measuring the net LODA OPEB liability, deferred outflows of resources and deferred inflows of resources related to the LODA OPEB, and LODA OPEB expense, information about the fiduciary net position of the VRS LODA OPEB Plan and the additions to/deductions from the VRS LODA OPEB Plan's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan Description

All paid employees and volunteers in hazardous duty positions in Virginia localities and hazardous duty employees who are covered under the VRS, the State Police Officers' Retirement System (SPORS), or the Virginia Law Officers' Retirement System (VaLORS) are automatically covered by the LODA. As required by statute, the Virginia Retirement System (the System) is responsible for managing the assets of the program. Participating employers made contributions to the program beginning in FY 2012. The employer contributions are determined by the System's actuary using anticipated program costs and the number of covered individuals associated with all participating employers.

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

LODA PLAN PROVISIONS
<p>Eligible Employees The eligible employees of the LODA are paid employees and volunteers in hazardous duty positions in Virginia localities and hazardous duty employees who are covered under the VRS, the SPORS, or the VaLORS.</p>
<p>Benefit Amounts The LODA provides death and health insurance benefits for eligible individuals:</p> <ul style="list-style-type: none"> • Death – The LODA death benefit is a one-time payment made to the beneficiary or beneficiaries of a covered individual. Amounts vary as follows: <ul style="list-style-type: none"> ○ \$100,000 when a death occurs as the direct or proximate result of performing duty as of January 1, 2006, or after. ○ \$25,000 when the cause of death is attributed to one of the applicable presumptions and occurred earlier than five years after the retirement date. ○ An additional \$20,000 benefit is payable when certain members of the National Guard and U.S. military reserves are killed in action in any armed conflict on or after October 7, 2001. • Health Insurance – The LODA provides health insurance benefits. <ul style="list-style-type: none"> ○ Prior to July 1, 2017, these benefits were managed through the various employer plans and maintained the benefits that existed prior to the employee’s death or disability. These premiums were reimbursed to the employer by the LODA. ○ Beginning July 1, 2017, the health insurance benefits are managed through the DHRM. The health benefits are modeled after the State Employee Health benefits Program plans and provide consistent, premium-free continued health plan coverage for LODA-eligible disabled individuals, survivors and family members. Individuals receiving the health insurance benefits must continue to meet eligibility requirements as defined by the LODA.

Contributions

The contribution requirements for the LODA are governed by §9.1-400.1 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each employer’s contractually required employer contribution rate for the LODA for the year ended June 30, 2018 was \$567.37 per covered full-time-equivalent employee. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015 and represents the pay-as-you-go funding rate and not the full actuarial cost of the benefits under the program. The actuarially determined pay-as-you-go rate was expected to finance the costs and related expenses of benefits payable during the year. Contributions to the LODA from the entity were \$379,145 and 389,925 for the years ended June 30, 2018 and June 30, 2017, respectively.

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

At June 30, 2018, the entity reported a liability of \$9,501,000 for its proportionate share of the Net LODA OPEB Liability. The Net LODA OPEB Liability was measured as of June 30, 2017 and the total LODA OPEB liability used to calculate the Net LODA OPEB Liability was determined by an actuarial valuation as of that date. The entity’s proportion of the Net LODA OPEB Liability was based on the entity’s actuarially

determined pay-as-you-go employer contributions to the LODA OPEB plan for the year ended June 30, 2017 relative to the total of the actuarially determined pay-as-you-go employer contributions for all participating employers. At June 30, 2017, the entity's proportion was 3.61539% as compared to 3.59878 % at June 30, 2016.

For the year ended June 30, 2018, the entity recognized LODA OPEB expense of \$839,000. Since there was a change in proportionate share between measurement dates, a portion of the LODA OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the agency reported deferred outflows of resources and deferred inflows of resources related to the LODA OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on LODA OPEB plan investments	\$ -	16,000
Change in assumptions	-	981,000
Changes in proportion	41,000	-
Employer contribution subsequent to the measurement date	379,145	-
Total	<u>\$ 420,145</u>	<u>997,000</u>

\$379,145 reported as deferred outflows of resources related to the LODA OPEB resulting from the entity's contributions subsequent to the measurement date will be recognized as a reduction of the Net LODA OPEB Liability in the Fiscal Year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the LODA OPEB will be recognized in LODA OPEB expense in future reporting periods as follows:

Year Ended June 30	
FY 2019	\$ (120,000)
FY 2020	(120,000)
FY 2021	(120,000)
FY 2022	(120,000)
FY 2023	(116,000)
Thereafter	(360,000)
	<u>\$ (956,000)</u>

Actuarial Assumptions

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

Inflation	2.50 percent
Salary increases, including Inflation –	
General state employees	3.50 percent – 5.35 percent
SPORS employees	3.50 percent – 4.75 percent
VaLORS employees	3.50 percent – 4.75 percent
Locality employees	3.50 percent – 4.75 percent

Medical cost trend rates assumption –	
Under age 65	7.75 percent – 5.00 percent
Ages 65 and older	5.75 percent – 5.00 percent
Investment rate of return	3.56 Percent, net of OPEB plan
Investment expenses, including inflation	

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GAAP purposes of slightly more than the assumed 3.56%. However, since the difference was minimal, a more conservative 3.56% investment return assumption has been used. Since LODA is funded on a current-disbursement basis, the assumed annual rate of return of 3.56% was used since it approximates the risk-free rate of return.

Mortality rates – Non- Largest Ten Locality Employers With Public Safety Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

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

Mortality Rates (Pre-retirement, post-retirement and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

Changes to the LODA Program Associated with HB 1345 (2016) and HB 2243 (2017)

The following changes were made to the LODA Program as a result of legislation in 2016 and 2017, but were specifically not considered in the June 30, 2016 actuarial valuation results which were rolled forward to the measurement date of June 30, 2017. There was no current actuarial experience on which to base the adjustments and the combined impact of the changes was not considered to be material to the final results. These changes will be factored into future actuarial valuations for the LODA Program.

- The discontinuance of spouse health care coverage, if a covered spouse divorces a disabled employee or a covered surviving spouse remarries.
- The potential for VRS’s periodic review of the disability status of a disabled employee.
- For those beneficiaries who become eligible for health care benefits as the result of a disability occurring after June 30, 2017, the suspension of health care benefits in years when VRS certifies current income exceeds salary at the time of the disability, indexed for inflation.
- The extension of health care benefits for dependent children to age 26.
- The expansion of the definition of presumption of death or disability to include infectious diseases.

Net LODA OPEB Liability

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

	<u>Line of Duty Act Program</u>
Total LODA OPEB Liability	\$ 266,252
Plan Fiduciary Net Postition	<u>3,461</u>
Employers' Net OPEB Liability	<u>\$ 262,791</u>
Plan Fiduciary Net Position as a Percentage of the Total LODA OPEB Liability	1.30%

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

Long-Term Expected Rate of Return

The long-term expected rate of return on LODA OPEB Program’s investments was set at 3.56% for this valuation. Since LODA is funded on a current-disbursement basis, it is not able to use the VRS Pooled Investments 7.00% assumption. Instead, the assumed annual rate of return of 3.56% was used since it approximates the risk-free rate of return. This Single Equivalent Interest Rate (SEIR) is the applicable municipal bond index rate based on the Bond Buyer General Obligation 20-year Municipal Bond Index published monthly by the Board of Governors of the Federal Reserve System as of the measurement date of June 30, 2017.

Discount Rate

The discount rate used to measure the total LODA OPEB liability was 3.56%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made per the VRS Statutes and that they will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by participating employers to the LODA OPEB Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly.

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

The following presents the covered employer's proportionate share of the net LODA OPEB liability using the discount rate of 3.56%, as well as what the covered employer's proportionate share of the net LODA OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.56%) or one percentage point higher (4.56%) than the current rate:

	1.00% Decreases (2.56%)	Current Discount Rate (3.56%)	1.00% Increase (4.56%)
Covered employer's proportionate share of the total LODA			
Net OPEB Liability	\$ 10,773,000	\$ 9,501,000	\$ 8,437,000

Sensitivity of the Covered Employer's Proportionate Share of the Net LODA OPEB Liability to Changes in the Health Care Trend Rate

Because the LODA contains a provisions for the payment of health insurance premiums, the liabilities are also impacted by the health care trend rates. The following presents the covered employer's proportionate share of the net LODA OPEB liability using health care trend rate of 7.75% decreasing to 5.00%, as well as what the covered employer's proportionate share of the net LODA OPEB liability would be if it were calculated using a health care trend rate that is one percentage point lower (6.75% decreasing to 4.00%) or one percentage point higher (8.75% decreasing to 6.00%) than the current rate:

	1.00% Decrease (6.75% decreasing to 4.00%)	Health Care Trend Rates (7.75% decreasing to 5.00%)	1.00% Increase (8.75% decreasing to 6.00%)
Covered employer's proportionate share of the total LODA			
Net OPEB Liability	\$ 8,062,000	\$ 9,501,000	\$ 11,285,000

LODA OPEB Plan Fiduciary Net Position

Detailed information about the LODA Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Teacher Employee Health Insurance Credit Program

The Teacher Employee Health Insurance Credit Program (THICP) is a cost-sharing, multiple-employer plan. This is a defined benefit plan that provides a credit towards the cost of health insurance coverage for retired teachers. The THICP was established pursuant to §51.1-1400 et seq. of the *Code of Virginia*, as amended and which provides the authority under which benefit terms are established or may be amended.

Plan Description:

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

Eligibility:

The THICP was established July 1, 1993 for retired Teacher Employees covered under VRS who retire with at least 15 years of service credit. Full-time permanent (professional) salaried employees of public school divisions covered under VRS are enrolled automatically upon employment.

Benefit Amounts:

The THICP provides the following benefits for eligible employees:

At Retirement - For teachers and other professional school employees who retire, the monthly benefit is \$4.00 per year of service per month with no cap on the benefit amount.

Disability Retirement - For teachers and other professional school employees who retire on disability or go on long-term disability under the VLDP Program, the monthly benefit is either:

- \$4.00 per month, multiplied by twice the amount of service credit, or
- \$4.00 per month, multiplied by the amount of service earned had the employee been active until age 60, whichever is lower.

Other Plan Information:

The monthly Health Insurance Credit benefit cannot exceed the individual premium amount. Employees who retire after being on long-term disability under VLDP must have at least 15 years of service credit to qualify for the health insurance credit as a retiree.

Contributions

The contribution requirement for active employees is governed by §51.1-1402(E) of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Each school division's contractually required employer contribution rate for the year ended June 30, 2018 was 1.23% of covered employee compensation for employees in the HICP. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the Portsmouth City Public School Board to THICP were \$996,673 and \$878,236 for the years ended June 30, 2018 and June 30, 2017, respectively.

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

At June 30, 2018, the Portsmouth City Public School Division reported a liability of \$12,719,000 for its

proportionate share of the net THICP OPEB Liability. The net THICP OPEB Liability was measured as of June 30, 2017 and the total THICP OPEB liability used to calculate the net THICP OPEB Liability was determined by an actuarial valuation as of that date. The Portsmouth City Public School Division's proportion of the net THICP OPEB Liability was based on the Portsmouth City Public School Board's actuarially determined employer contributions to THICP for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the Portsmouth City Public School Board's proportion of THICP was 1.00254% as compared to 1.04420% at June 30, 2016.

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

At June 30, 2018, the Portsmouth City Public School Board reported deferred outflows of resources and deferred inflows of resources related to THICP from the following sources:

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

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

Year Ended June 30:	
2019	\$ (94,000)
2020	(94,000)
2021	(94,000)
2022	(94,000)
2023	(89,000)
Thereafter	(148,000)
	\$ (613,000)

THICP OPEB Liability

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

	Teacher Employee HIC OPEB Plan
Total Teacher Employer THICP OPEB liability	\$ 1,364,702
Plan fiduciary net position	96,091
Teacher employee Net THICP OPEB Liability	<u>\$ 1,268,611</u>
Plan fiduciary net position as a percentage of the Total Teacher THICP OPEB liability	7.04%

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

Discount Rate

The discount rate used to measure the total THICP OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by each school division for THICP will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, THICP’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 THICP OPEB liability.

Sensitivity of the Portsmouth City Public School Board’s Proportionate Share of the Net THICP OPEB Liability to Changes in the Discount Rate

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

	Discount Rate		
	1% Decrease (6%)	(7.0%)	1% Increase (8.0%)
School Board's proportionate share of THICP net OPEB Liability	\$ 14,195,000	\$ 12,719,000	\$ 11,464,000

(9) DEFERRED COMPENSATION PLAN

The city offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all full-time benefit-eligible city employees, permits employees to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation balance is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are held in trust for the participants. The assets are not included in the accompanying financial statements.

(10) INTERFUND BALANCES AND TRANSFERS

Due From/To Other Funds

Individual fund interfund receivable and payable balances at June 30, 2018 are as follows:

Due to:	Due From:					Total
	Nonmajor Governmental Funds	Parking Authority	Nonmajor Enterprise Funds	Internal Service Funds		
General Fund	\$ 1,444,187	1,964,187	1,117,824	25,000		4,551,198

These interfund balances result from short-term operational borrowings and are due within one year.

Due From/To Primary Government/Component Units

Amounts due at June 30, 2018 between the city and the component units are as follows:

Due from (to) component units	Primary Government				Total
	School Board	Economic Development Authority	Port and Industrial Commission	Capital Projects Fund	
General Fund	\$ 6,843,249	124,877	1,473	-	6,969,599
School Board	\$ -	-	-	75,221	75,221

The Statement of Net Position reflects \$6,969,599 as due from component units with obligations to component units as noted in the above table.

Transfers From/To Other Funds

Individual interfund transfers within the Primary Government were made for operating and as capital purposes. The total interfund transfers for the fiscal year ended June 30, 2018 were as follows:

Transfers to:	Transfers from:							Total
	General Fund	Nonmajor Governmental Funds	Debt Service Fund	Nonmajor Enterprise Fund	Parking Authority Fund	Internal Service Funds	Public Utility Fund	
General Fund	\$ -	771,010	1,485,800	-	-	-	8,875,000	11,131,810
Capital Improvements Fund	5,477,160	6,100,375	-	-	-	-	100,000	11,677,535
Nonmajor Governmental Funds	4,676,852	43,075	-	-	-	-	-	4,719,927
Public Utility CIP Fund	-	-	-	-	-	-	6,004,000	6,004,000
Nonmajor Enterprise Funds	843,509	-	-	-	-	-	-	843,509
Debt Service	36,319,942	1,199,196	-	403,979	8,785	825,111	311,222	39,068,235
Parking Authority	133,372	-	-	-	-	-	-	133,372
Internal Service Funds	-	41,978	-	-	-	-	-	41,978
Total	\$ 47,450,835	8,155,634	1,485,800	403,979	8,785	825,111	15,290,222	73,620,366

Payments Between Component Units

Significant transactions between the primary government and component units during fiscal year 2018 were as follows:

Payments from the city to the School Board for school operations; Statement of Activities - Payment from Primary Government	\$ 50,746,364
The city received rental income from the Economic Development Authority for the air rights and conference center.	\$ 125,000
The city received income from Portsmouth Public Schools for CIP construction.	\$ 636,000

Notes to Basic Financial Statements
June 30, 2018

(11) DUE FROM/TO OTHER GOVERNMENTS**Due From Other Governments**

Amounts due from other governments at June 30, 2018 are as follows:

	Federal	State	Total
Governmental activities:			
General Fund:			
Personal property tax relief	\$ -	9,862,962	9,862,962
Constitutional officers' support	-	674,064	674,064
Other	-	1,343,495	1,343,495
Total General Fund	\$ -	11,880,521	11,880,521
Capital Improvements Projects Fund:			
VDOT Reimbursements	-	11,621	11,621
Total Capital Improvements Projects Fund	\$ -	11,621	11,621
Nonmajor governmental funds:			
Children's Services Act Fund	-	454,659	454,659
Social Services Fund	-	1,229,063	1,229,063
Grants Fund	342,025	107,014	449,039
Asset Forfeiture Fund	-	1,553	1,553
Community Development Fund	220,635	-	220,635
Total nonmajor governmental funds	\$ 562,660	1,792,289	2,354,949
Total governmental activities	\$ 562,660	13,684,431	14,247,091

(12) UNEARNED REVENUE AND DEFERRED INFLOWS

Unearned revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. Deferred inflows represent an acquisition of net position that will not be recognized as revenue until a future period. At June 30, 2018, unearned revenues and deferred inflows are provided in the table below.

	Governmental Funds				Governmental Activities	Business-Type Activities
	General Fund	Capital Improvements Fund	Nonmajor Governmental Funds	Total		
Unearned Revenue						
Parking space rentals	\$ -	-	-	-	-	27,961
Total Unearned Revenue	\$ -	-	-	-	-	27,961
Deferred Inflows						
Deferred taxes, fees and unavailable revenue	\$ 10,471,020	-	-	10,471,020		
Deferred revenue-other	642,008	-	-	642,008		
BHS fees	-	-	64,543	64,543		
Stormwater fees	-	-	162,637	162,637		
Total Deferred Inflows	\$ 11,113,028	-	227,180	11,340,208		

(13) COMMITMENTS

Landfill Closure and Postclosure Care Costs and Liability

State and federal laws and regulations require the city to place a final cover on its Craney Island landfill site when it stops accepting waste and then perform certain maintenance and monitoring functions at the site for thirty years after closure. The \$5,322,491 reported as landfill closure and postclosure care liability at June 30, 2018 represents the cumulative amount reported to date based on the use of 50.8% of the estimated capacity of the landfill. The city will recognize the remaining estimated cost of closure and post-closure care of \$5,154,853 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care in 2018. Actual costs may be higher due to inflation, changes in technology, or changes in laws and regulations. The remaining landfill life is estimated to be 60.3 years. The city is required by Federal and State statutes to prepare a Local Government Financial Test Worksheet to demonstrate how the landfill's closure and postclosure care financial assurance requirements will be met.

Encumbrances

Encumbrances outstanding at year end represent the estimated amount of the expenditures required to complete contracts, purchase orders and other commitments in process of completion at fiscal year-end. Outstanding encumbrances at June 30, 2018 for the City and Schools are as follows:

City		Schools	
Governmental Funds		Governmental Funds	
General Fund	\$ 49,715	General Fund	\$ 604,074
Capital Projects Fund	17,044,313	Schools Grants Fund	<u>71,068</u>
Other Governmental Funds	<u>2,016,889</u>	Total	<u>\$ 675,142</u>
Total	<u>\$ 19,110,917</u>		

Notes to Basic Financial Statements
June 30, 2018

(14) LITIGATION AND CONTINGENT LIABILITIES

Litigation

Latricia Pittman v. City of Portsmouth and Michael Stockton

(Case No. 15001798-00)

On May 19, 2015, a lawsuit was filed against Portsmouth Deputy Fire Chief Michael Stockton for a brain injury as a result of a car accident. The nature of the Plaintiff's damages suggest that the city may pay its insurance limits (\$1 million) in order to resolve this matter. The city is seeking a reasonable settlement once all relevant discovery is completed.

Jesse Andre Thomas v. Elizabeth Psimas

(Case No. 17002351-00)

Filed on February 17, 2017. Plaintiff filed a defamation suit against Councilwoman Elizabeth Psimas in the City of Norfolk that centers around events occurring in Portsmouth just prior to his termination. The Plaintiff seeks \$750,000 in compensatory damages and \$750,000 in punitive damages. The trial of the case resulted in a verdict of approximately \$335,000 compensatory damages and \$440,000 in punitive damages. Post-trial motions are due. The city intends to press for an appeal of this matter.

Federally Assisted Grant Programs

The city participates in a number of federally assisted grant programs. Although the city has been audited in accordance with the provisions of the Uniform Guidance, these programs are still subject to financial and compliance audits by the grantors or their representatives. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grant. Based on prior experience, city management believes such disallowances, if any, will not be significant.

(15) SELF-INSURANCE PROGRAMS

City

The city is self-insured for exposures to various risks of loss related to: torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; terrorist acts; and, natural disasters. The city uses two internal service funds. The Risk Management Fund accounts for and finances its uninsured risks of loss and the Health Insurance and OPEB Fund account for and pays its health insurance premiums and claims costs. The Risk Management Fund pays insurance premiums and provides for payment of approved claims for workers' compensation, general liability, fidelity, wharfingers, hull and machinery, and property. The property deductible is \$100,000 per occurrence with a \$100,000,000 loss limit per occurrence. The city purchases commercial excess insurance policies for workers' compensation and general liability. For the fiscal years ending June 30, 2017 and June 30, 2018, property damage claims did not exceed \$75,000.

All funds of the city participate in the program and make payments to the Risk Management Fund based on actuarial estimates of the amounts needed to pay prior and current year claims and to establish a reserve for catastrophic losses. The risk management claims liability of \$7,629,076 (undiscounted) reported in the fund at June 30, 2018 is based on GAAP, which requires that a liability for claims be reported if information available prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount of the risk management claims liability due within one year is \$2,060,885. A loss analysis, which included an estimate of claims incurred but not reported (IBNR), was conducted by Glicksman Consulting LLC to compute this liability as of June 30, 2018.

Changes in the risk management claims liability amount in fiscal years 2018 and 2017, respectively, were as follows:

Risk Management:	2018	2017
Claims payable, beginning of year	\$ 10,186,768	13,601,354
Claims expense and changes in estimates	849,871	298,966
Claims payments	(3,407,563)	(3,713,552)
Claims payable, end of year	\$ 7,629,076	10,186,768

The city is also exposed to the risk of loss for employee and retired employee medical benefits. Effective January 1, 2001, the city established a self-insured health care benefits program for all city employees and retired employees. These benefits are accounted for in the Health Insurance and OPEB Fund, which is an internal service fund. Certain claims expenses paid on behalf of each employee during a single policy year are covered by excess loss insurance with a specific stop-loss limit of \$175,000 depending on the specific medical plan. Claims processing and payments for all medical claims are made through third party administrators. The computed medical claims liability as of June 30, 2018 is \$978,724 (undiscounted) and is due within one year. A loss analysis, which included an estimate of incurred but not reported claims, was conducted by Willis Tower Watson to compute the liability as of June 30, 2018.

Changes in the medical claim liability amount in fiscal years 2018 and 2017, respectively, were as follows:

Medical:	2018	2017
Claims payable, beginning of year	\$ 1,058,780	2,884,472
Claims expense and changes in estimates	11,626,919	10,424,630
Claims payments	(11,706,975)	(12,250,322)
Claims payable, end of year	\$ 978,724	\$ 1,058,780

School Board

The school board uses its Risk Management and Insurance Fund, an internal service fund, to account for and finance its uninsured risks of loss and to pay insurance premiums. The fund services all claims for risk of loss to which the school board is exposed, including workers' compensation, automobile, and general liability. A loss analysis was conducted by Glicksman Consulting, LLC to compute the liability for the fund. The actuarially computed liability as of June 30, 2018 was determined to be \$646,300 (undiscounted), of which \$395,998 due within one year. The non-current portion is \$250,302.

Changes in the school's claim liability amount in fiscal years 2018 and 2017 were:

School Board:	2018	2017
Claims payable, beginning of year	\$ 1,231,426	1,463,153
Claims and changes in estimates	2,813,480	3,323,620
Claim payments and changes in estimates	(3,398,606)	(3,555,347)
Claims payable, end of year	\$ 646,300	1,231,426

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. The Self-Insured Health Plan is accounted for within the General Fund with employer and employee premiums, medical claims, administrative costs, wellness program costs, and other health plan costs recorded in the General Fund. Expenditures charged to various School Board departments are based 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 \$300,000. The Self-Insured Health Plan also has aggregate stop loss coverage at 120% of expected medical claims during a single policy year.

Claim 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 current liability as of June 30, 2018 is \$1,369,578 (undiscounted), as follows:

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

**Notes to Basic Financial Statements
June 30, 2018**

(16) RELATED PARTIES*Jointly Governed Organizations***Hampton Roads Regional Jail Authority (HRRJA)**

HRRJA is a regional organization which includes the cities of Chesapeake, Hampton, Newport News, Norfolk, and Portsmouth and is governed by a 15 member Board of Directors, consisting of three representatives appointed by each of the member cities. HRRJA is a primary government with no component units created pursuant to Article #3 Chapter 3 Title 53 of the Code of Virginia. The Authority was created for the purpose of providing, operating and maintaining a regional jail facility for the correctional overflow from each community. The participating governments do not have an equity interest in HRRJA and accordingly no equity interest has been reflected in the city's financial statements at June 30, 2018. Completed financial statements of the Commission can be obtained from HRRJA, 2690 Elmhurst Lane, Portsmouth, Virginia 23701-2745.

Hampton Roads Planning District Commission (the Commission)

A regional planning agency authorized by the Virginia Area Development Act of 1968, it was created by the merger of the Southeastern Virginia Planning District Commission and the Peninsula Planning District Commission on July 1, 1990. The Commission performs various planning services for the cities of Chesapeake, Franklin, Hampton, Newport News, Norfolk, Portsmouth, Poquoson, Suffolk, Williamsburg and Virginia Beach, plus the counties of Gloucester, Isle of Wight, James City, Southampton, and York. Revenue of the Commission is received primarily from local governmental (member) contributions and various state and federal grant programs. The participating governments do not have an equity interest in the Commission and accordingly no equity interest has been reflected in the city's financial statements at June 30, 2018. Completed financial statements of the Commission can be obtained from the Commission.

Transportation District Commission (TDC)

The TDC was formed on June 29, 1999 to effect the merger of the Peninsula Transportation District Commission and the Tidewater Transportation District Commission effective October 1, 1999. The TDC was established in accordance with the Chapter 45 of Title 15.2 of the Code of Virginia. The TDC provides public transportation facilities and services within the cities of Chesapeake, Hampton, Norfolk, Portsmouth, Newport News and Virginia Beach. Oversight responsibility is exercised by all of the participating localities through their designated representatives. Responsibility for the day-to-day operations of the TDC rests with professional management. The TDC is the governing body of Hampton Roads Transit (HRT).

Hampton Roads Economic Development Alliance (HREDA)

The HREDA is a non-profit, public-private partnership that aggressively markets Virginia's Hampton Roads attraction initiatives and activities are designed to promote the jurisdictions of Chesapeake, Franklin, Hampton, Isle of Wight, Newport News, Norfolk, Poquoson,, Portsmouth, Southampton County, Suffolk and Virginia Beach, Virginia. The business affairs are managed by a Board of not less than 50 or more than 300 Directors. Separate financial statements are available from the HREDA, 500 Main Street, Suite 1300, Norfolk, Virginia 23510.

*Related Organizations***Portsmouth Redevelopment and Housing Authority (PRHA)**

The City Council is responsible for appointing members of the board of the Portsmouth Redevelopment and Housing Authority, but the city's accountability for the Authority does not extend beyond making these appointments and PRHA is both operationally and financially independent of the city.

Notes to Basic Financial Statements
June 30, 2018

New Port Community Development Authority

The City Council is responsible for appointing members of the board of the New Port Community Development Authority, but the city's accountability for the Authority does not extend beyond making these appointments and the Authority is both operationally and financially independent of the city.

Notes to Basic Financial Statements
June 30, 2018

(17) FUND RESULTS AND RECONCILIATIONS**RESTATEMENTS**

As a result of the implementation of GASB Statement 75, the beginning net position of the governmental activities, business-type activities, enterprise funds and internal service funds are restated.

In addition to the GASB 75 impacts, the City has also restated the beginning net position of the governmental activities (including Internal Service Fund), business-type activities (Public Utility Fund, Parking Fund, Golf Fund and Waste Management Fund) to correct overstatements of construction in progress and net position (net investment in capital assets).

The impact on fiscal year 2017 is as follows:

Primary Government Governmental Activities	2017 Previously Presented	GASB 75 Restatements	Capital Projects Restatements*	2017 Restated
Net Position	\$ 49,865,928	24,489,256	(47,263,896)	27,091,288
Primary Government Business-Type Activities	2017 Previously Presented	GASB 75 Restatements	Capital Projects Restatements*	2017 Restated
Net Position	\$ 211,290,427	4,687,558	(14,338,772)	201,639,213
Primary Government Public Utility Fund	2017 Previously Presented	GASB 75 Restatements	Capital Projects Restatements*	2017 Restated
Net Position	\$ 193,654,864	2,940,691	(14,506,243)	182,089,312
Primary Government Parking Authority Fund	2017 Previously Presented	GASB 75 Restatements	Capital Projects Restatements*	2017 Restated
Net Position	\$ 604,871	125,495	65,870	796,236
Primary Government Nonmajor Enterprise Funds	2017 Previously Presented	GASB 75 Restatements	Capital Projects Restatements*	2017 Restated
Net Position	\$ 17,030,692	1,621,372	101,601	18,753,665
Primary Government Internal Service Funds	2017 Previously Presented	GASB 75 Restatements	Capital Projects Restatements*	2017 Restated
Net Position	\$ 23,488,078	1,238,446	1,934,892	26,661,416

*Related to Construction In Progress

During the fiscal year 2015, the city failed to transfer the required city contribution in the amount of \$2,209,151 from the General Fund to the Social Services Fund. As a result, the fund balance for the Social Services Fund was understated and the net position for the General Fund was overstated.

Governmental Funds

Primary Government General Fund	2017 Previously Presented	Restatements	2017 Restated
Fund Balance	\$ 67,617,886	(2,209,151)	65,408,735

Notes to Basic Financial Statements
June 30, 2018

Primary Government Nonmajor Governmental Funds	2017 Previously Presented	Restatements	2017 Restated
Fund Balance	\$ 11,867,484	2,209,151	14,076,635

Primary Government Nonmajor Governmental Fund - Social Services Fund	2017 Previously Presented	Restatements	2017 Restated
Fund Balance	\$ (2,293,487)	2,209,151	(84,336)

Schools Board

As a result of the implementation of GASB Statement 75, the beginning net position of the governmental activities, business-type activities, enterprise funds and internal service funds are restated.

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

FUND DEFICITS

The Social Services Fund, a Special Revenue Fund, had a fund balance with an accumulated deficit of \$80,555. This accumulated deficit will be funded primarily by future intergovernmental revenues from the Commonwealth of Virginia. The Community Development fund had a fund balance with an accumulated deficit of \$204,962 which will be funded by future intergovernmental revenues from the federal government.

The Portsmouth Public Schools, a component unit of the city, is reporting a net position with an accumulated deficit of \$(98,467,810) at June 30, 2018. This accumulated deficit is primarily due to the net pension obligation liability (\$131,776,573) and OPEB liability (\$24,313,310) at June 30, 2018.

(18) SUBSEQUENT EVENTS

On October 25, 2018, the city issued General Obligation Bond of \$10,822,000 to finance the purchase of fire trucks, various service vehicles and pay the costs of issuance. The SunTrust Equipment & Leasing Corp submitted the winning bid with an interest rate of 3.01% fixed for 10 years. The debt service of which is secured by the City's general obligation pledge.

On December 11, 2018, the city adopted a resolution to appropriate \$5,150,000 from the General Fund unassigned fund balance for the purpose of providing a short-term loan (up to \$5,150,000) to the Economic Development Authority of the City of Portsmouth, Virginia to fund the acquisition of approximately 19.19 acres in the settlement of the Victory Crossing litigation.

**Notes to Basic Financial Statements
June 30, 2018**

(19) NEW ACCOUNTING PRONOUNCEMENTS

The GASB has issued several new accounting pronouncements that will impact future fiscal years' financial statement presentations. Management has not yet determined what impacts, if any, that the implementation of the following GASB statements will have on the city.

1. Statement No. 83, "Certain Asset Retirement Obligations". The requirements of this Statement are effective for reporting periods beginning after June 15, 2018 (FY2019).
2. Statement No. 84, "Fiduciary Activities". The requirements of this Statement are effective for reporting periods beginning after December 15, 2018 (FY2020).
3. Statement No. 87, "Leases". The requirements of this Statement are effective for reporting periods beginning after December 15, 2019 (FY2021).
4. Statement No. 88, "Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements". The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. (FY 2019).
5. Statement No. 90, "Majority Equity Interest-an amendment of GASB Statements No. 14 and No. 61". The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. (FY 2019).

Management has not currently determined what impact the implementation of the above statements may have on the financial statements of the City.

For the original pronouncements, please visit the GASB's website www.gasb.org.



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**Required Supplementary Information
Other than Management's Discussion and Analysis**



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CITY OF PORTSMOUTH, VIRGINIA
Budgetary Comparison Schedule
Schedule of Revenues and Other Financing Sources
General Fund
For year ended June 30, 2018

Exhibit I-1

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Taxes:				
General property taxes:				
Real property - current	\$ 90,651,030	90,651,030	90,649,831	(1,199)
Real property - delinquent	1,641,223	1,641,223	1,932,797	291,574
Real property - Public Services Corporation	1,702,791	1,702,791	1,546,608	(156,183)
Personal property - current	17,089,920	17,089,920	16,447,736	(642,184)
Personal property - delinquent	2,604,220	2,604,220	2,939,957	335,737
Personal property - Public Services Corporation	3,307,444	3,307,444	3,281,879	(25,565)
Machine and tool taxes	870,078	870,078	1,080,376	210,298
Penalties and other charges	1,458,158	1,458,158	1,425,164	(32,994)
Interest	542,005	542,005	619,314	77,309
Total general property taxes	119,866,869	119,866,869	119,923,662	56,793
Other local taxes:				
Admission and amusement taxes	192,143	192,143	92,157	(99,986)
Bank franchise taxes	474,821	474,821	534,467	59,646
Business and occupational license taxes	6,634,744	6,634,744	6,705,156	70,412
Cigarette taxes	3,643,581	3,643,581	3,198,349	(445,232)
Licensing fees - current	2,154,346	2,154,346	2,067,176	(87,170)
Licensing fees - delinquent	466,100	466,100	505,803	39,703
Lodging taxes	741,794	741,794	720,837	(20,957)
Recordation taxes	886,604	886,604	1,069,280	182,676
Restaurant food taxes	7,933,388	7,933,388	8,066,771	133,383
Sales and use tax - local	7,000,000	7,000,000	7,468,580	468,580
Short-term rental taxes	25,537	25,537	21,214	(4,323)
Telecommunications	8,246,785	8,246,785	7,614,651	(632,134)
Total other local taxes	38,399,843	38,399,843	38,064,441	(335,402)
Utility taxes:				
Electricity taxes	3,969,922	3,969,922	3,960,562	(9,360)
E-911 taxes	485,378	485,378	510,946	25,568
Gas taxes	1,318,270	1,318,270	1,352,381	34,111
Water taxes	2,515,428	2,515,428	2,331,069	(184,359)
Total utility taxes	8,288,998	8,288,998	8,154,958	(134,040)
Total taxes	166,555,710	166,555,710	166,143,061	(412,649)
Intergovernmental revenue:				
Commonwealth of Virginia:				
Noncategorical aid:				
Mobile home sales taxes	1,136	1,136	1,515	379
Personal property tax relief act	9,862,962	9,862,962	9,862,962	-
Recordation tax distribution	253,409	253,409	275,155	21,746
Rolling stock taxes	44,481	44,481	39,560	(4,921)
Vehicle rental tax	243,140	243,140	229,092	(14,048)

(continued)

CITY OF PORTSMOUTH, VIRGINIA
Budgetary Comparison Schedule
Schedule of Revenues and Other Financing Sources
General Fund
For year ended June 30, 2018

Exhibit I-1 (continued)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Circuit Court Clerk	\$ 914,199	914,199	873,369	(40,830)
City Registrar	87,636	87,636	52,244	(35,392)
City Sheriff	5,383,065	5,383,065	5,780,955	397,890
City Treasurer	294,260	294,260	291,433	(2,827)
Commissioner of Revenue	256,130	256,130	281,838	25,708
Commonwealth's Attorney	1,577,117	1,577,117	1,645,424	68,307
DMV select	90,000	90,000	82,684	(7,316)
VA Dept of Emerg Management	-	-	29,015	29,015
Other categorical aid:				
Build America Bond Subsidy	551,516	551,516	553,593	2,077
FEMA Reimbursement	-	-	87,046	87,046
Escheated property	-	-	1,769	1,769
Correctional facilities block grant	628,744	628,744	439,244	(189,500)
Law enforcement grant	5,786,668	5,786,668	5,972,980	186,312
Library funds - books	155,117	155,117	158,696	3,579
Street and highway maintenance	12,641,174	12,641,174	12,296,337	(344,837)
Total Commonwealth of Virginia	38,770,754	38,770,754	38,954,911	184,157
Total intergovernmental revenue	38,770,754	38,770,754	38,954,911	184,157
Charges for services:				
Ambulance fees - current	2,650,000	2,650,000	2,313,125	(336,875)
Circuit Court Clerk fees	11,383	11,383	10,454	(929)
City Sheriff fees	97,533	209,206	38,623	(170,583)
Concession fees	7,491	7,491	-	(7,491)
ATM Fees	2,688	2,688	2,190	(498)
EZ Pass fees	27,650	27,650	17,010	(10,640)
Courthouse maintenance fees	53,166	53,166	40,783	(12,383)
Courthouse replacement fees	75,340	75,340	58,764	(16,576)
False alarm fees	10,355	10,355	7,500	(2,855)
Fire report fees	3,710	3,710	1,160	(2,550)
Fire and EMS attendance fees	25,735	25,735	20,623	(5,112)
Library fines and fees	29,779	29,779	24,269	(5,510)
DNA sample	-	-	722	722
Merchandise commissions	1,031	1,031	-	(1,031)
Erosion and sediment control	7,650	7,650	1,850	(5,800)
Museum admission charges	1,112,727	1,112,727	1,163,900	51,173
Cable TV local access channel fees	96,651	96,651	110,244	13,593
Notary Fees	-	-	220	220
Concealed carry permit	39,767	39,767	44,223	4,456
Police firearms buyback	-	-	8	8
Police record fees	47,161	47,161	46,781	(380)
Recreation activity fees	849,350	849,350	636,613	(212,737)
Rental inspection fees	54,420	54,420	59,996	5,576
Inspections	39,930	39,930	68,479	28,549
Plans and specifications	5,000	5,000	6,330	1,330
Swimming fees	3,998	3,998	2,909	(1,089)
Vacant structure	7,270	7,270	5,455	(1,815)
Engineering inspections	174,570	174,570	-	(174,570)
UMOJA	20,700	20,700	23,157	2,457
Seawall Festival	2,000	2,000	1,900	(100)
Pokey Smokey II	3,299	3,299	6,824	3,525
Ticket sales-Visitor Center	880	880	1,645	765
EMS collections - delinquent	178,704	178,704	271,928	93,224
Bicycle storage	-	-	5	5
Certificate of occupancy	1,350	1,350	1,450	100
Total charges for services	5,641,288	5,752,961	4,989,140	(763,821)

(continued)

CITY OF PORTSMOUTH, VIRGINIA
Budgetary Comparison Schedule
Schedule of Revenues and Other Financing Sources
General Fund
For year ended June 30, 2018

Exhibit I-1 (continued)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Investment income-				
Investment income	\$ 75,000	75,000	891,838	816,838
Unrealized gain or loss	-	-	767,052	767,052
Total investment income	75,000	75,000	1,658,890	1,583,890
Recovered costs:				
City garage fund	491,316	491,316	491,316	-
Information technology fund	175,331	175,331	175,331	-
Court appointed attorneys	3,491	3,491	2,080	(1,411)
Golf fund	126,187	126,187	126,187	-
Health department	64,380	64,380	105,880	41,500
Health insurance fund	2,879	2,879	2,879	-
Housing Authority	3,590	3,590	-	(3,590)
Law library fund	1,959	1,959	1,959	-
Behavioral health services fund	354,694	354,694	354,694	-
DEA	35,539	35,539	28,752	(6,787)
Training academy upkeep	13,518	13,518	8,221	(5,297)
Parking authority	28,680	28,680	28,680	-
Citywide telephone charges	174,593	174,593	160,342	(14,251)
Fire watch/EMS	50,567	50,567	82,505	31,938
Postage	321,051	321,051	188,368	(132,683)
Public utility fund	499,559	499,559	499,559	-
Social security payments - jail	1,200	1,200	-	(1,200)
Stormwater management fund	64,616	64,616	29,049	(35,567)
Social services fund	307,319	307,319	307,319	-
Waste management fund	198,101	198,101	198,101	-
Jail weekends	8,978	8,978	7,618	(1,360)
Prisoner upkeep fees	28,217	28,217	24,714	(3,503)
Fed prisoner transport	26,045	26,045	-	(26,045)
ATF	-	-	950	950
Other recovered costs	192,199	192,199	286,135	93,936
Total recovered costs	3,174,009	3,174,009	3,110,639	(63,370)
Fines and forfeitures:				
Circuit Court fines	15,765	15,765	33,461	17,696
Conviction fees	143,008	143,008	90,807	(52,201)
General District Court fines	492,448	492,448	282,043	(210,405)
Overweight vehicle fines	50,000	50,000	-	(50,000)
Juvenile Court fines	1,500	1,500	1,068	(432)
Fines - Other	1,500	1,500	-	(1,500)
Total fines and forfeitures	704,221	704,221	407,379	(296,842)
Licenses and permits:				
Bicycle licenses	174	174	178	4
Building plan review fees	45,080	45,080	68,390	23,310
Building reinspection fees	9,250	9,250	6,380	(2,870)
Building structure permits	215,776	215,776	233,482	17,706
Dog impounding fees	1,760	1,760	1,980	220
Dog licenses	26,945	26,945	24,467	(2,478)
Electrical inspection fees	20,100	20,100	23,150	3,050
Electrical permits	89,623	89,623	71,339	(18,284)
Elevator inspection fees	3,840	3,840	2,265	(1,575)
Final engineering inspection permit	-	-	18,700	18,700
Hauling and permits fees	201,440	201,440	236,124	34,684

(continued)

CITY OF PORTSMOUTH, VIRGINIA
Budgetary Comparison Schedule
Schedule of Revenues and Other Financing Sources
General Fund
For year ended June 30, 2018

Exhibit I-1 (continued)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Land disturbance permit	-	-	107,588	107,588
License transfer fees	\$ 3,032	3,032	3,146	114
Mechanical inspection fees	1,600	1,600	2,300	700
Mechanical permits	141,220	141,220	124,064	(17,156)
Miscellaneous permits	16,845	16,845	22,293	5,448
Penalties on licenses	33,267	33,267	53,267	20,000
Plumbing inspection fees	150	150	400	250
Plumbing permits	73,116	73,116	58,655	(14,461)
Restricted parking permits	3,102	3,102	2,470	(632)
Right of way permits	244,826	244,826	76,461	(168,365)
Sign permit fees	3,385	3,385	3,180	(205)
Site plan review fees	8,400	8,400	9,675	1,275
State surcharge on permits	1,843	1,843	53	(1,790)
Taxi operators permits	2,260	2,260	1,120	(1,140)
Yard sale permits	2,430	2,430	1,685	(745)
Zoning and plat fees	27,575	27,575	31,909	4,334
Total licenses and permits	1,177,039	1,177,039	1,184,721	7,682
Use of property:				
Rental of antenna sites	74,755	74,755	67,529	(7,226)
Rental of recreation facilities	77,470	77,470	95,738	18,268
Rental of general properties	1,615,890	1,615,890	1,535,919	(79,971)
Total use of property	1,768,115	1,768,115	1,699,186	(68,929)
Miscellaneous:				
Admin fee - state income tax	-	-	390	390
Admin fee - RE	445,557	445,557	352,670	(92,887)
Admin fee - PP	939,158	939,158	876,111	(63,047)
Admin fee - Parking	60,970	60,970	33,432	(27,538)
Admin fee - EMS	15,416	15,416	30,795	15,379
Admin fee - Gen	-	-	39	39
Credit card fees	-	-	(105)	(105)
Returned check fee	-	-	540	540
Vending Machine Commissions	10,000	10,000	11,691	1,691
Gift shop sales	168,827	168,827	146,290	(22,537)
Sale of abandoned property	-	-	433	433
Proceeds from land sales	-	-	58,657	58,657
Gain on disposal of assets	-	-	106,856	106,856
Other revenue	226,417	231,188	92,432	(138,756)
Unclaimed property tax refunds	-	-	53,075	53,075
Payments in lieu of taxes:				
PRHA	41,643	41,643	-	(41,643)
Regional Jail	455,000	455,000	503,494	48,494
Virginia Port Authority	371,608	371,608	366,704	(4,904)
So Norfolk Jordan Bridge	-	-	130,455	130,455
Public utility fund	1,161,598	1,161,598	1,161,598	-
Cash Over/Under	-	-	(267)	(267)
Payment from Portsmouth Public Schools	-	-	75,221	75,221
Total miscellaneous revenue	3,896,194	3,900,965	4,000,511	99,546
Total revenues	221,762,330	221,878,774	222,148,438	269,664

(continued)

CITY OF PORTSMOUTH, VIRGINIA
Budgetary Comparison Schedule
Schedule of Revenues and Other Financing Sources
General Fund
For year ended June 30, 2018

Exhibit I-1 (continued)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Other financing sources:				
Bridge Loan	1,700,000	1,700,000	3,400,000	1,700,000
Transfers from other funds:				
BHS	\$ 354,315	354,315	354,315	-
Debt	-	1,485,800	1,485,800	-
Stormwater Management	416,695	416,695	416,695	-
Public utility fund	8,875,000	8,875,000	8,875,000	-
Economic Development Authority	125,000	125,000	125,000	-
Use of Fund Balance	5,835,038	6,835,038	-	(6,835,038)
Total other financing sources	17,306,048	19,791,848	14,656,810	(5,135,038)
Total revenues and other financing sources	\$ 239,068,378	241,670,622	236,805,248	(4,865,374)

Unaudited – see accompanying report of independent auditor.

CITY OF PORTSMOUTH, VIRGINIA
Budgetary Comparison Schedule
Schedule of Expenditures and Other Financing Uses
General Fund
Year ended June 30, 2018

Exhibit I-2

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
General government:				
Administration:				
Legislative:				
City Council	\$ 298,591	329,542	316,859	12,683
City Clerk	367,851	386,058	374,150	11,908
City Auditor	112,877	112,877	-	112,877
Total legislative	779,319	828,477	691,009	137,468
Executive:				
City Manager	1,160,684	1,160,684	1,092,528	68,156
Management and legislative services	368,439	373,869	336,950	36,919
Marketing, Entertainment, & Tourism	1,592,709	1,524,635	1,527,352	(2,717)
Total executive	3,121,832	3,059,188	2,956,830	102,358
Boards and commissions				
Civil Service Commission	115,863	115,863	116,348	(485)
General Registrar	683,750	687,594	647,636	39,958
Total boards and commissions	799,613	803,457	763,984	39,473
Total administration	4,700,764	4,691,122	4,411,823	279,299
City Attorney	1,795,790	2,785,790	2,219,450	566,340
Human resource management	1,370,055	1,370,055	1,206,664	163,391
Financial administration:				
Commissioner of Revenue	1,718,512	1,718,512	1,686,207	32,305
City Assessor	1,002,092	1,002,092	888,676	113,416
City Treasurer	2,275,647	2,324,647	2,197,325	127,322
Procurement and risk management	914,829	914,829	777,516	137,313
Finance	2,180,939	2,180,939	2,083,252	97,687
Total financial administration	8,092,019	8,141,019	7,632,976	508,043
Public transportation	3,200,000	3,225,892	3,225,892	-
Total general government	19,158,628	20,213,878	18,696,805	1,517,073
Nondepartmental:				
Miscellaneous	12,263,067	11,435,934	10,807,890	628,044
Support to civic organizations	469,428	532,428	422,239	110,189
Total nondepartmental	12,732,495	11,968,362	11,230,129	738,233

(continued)

CITY OF PORTSMOUTH, VIRGINIA
Budgetary Comparison Schedule
Schedule of Expenditures and Other Financing Uses
General Fund
Year ended June 30, 2018

Exhibit I-2 (continued)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Judicial:				
Circuit Court judges	592,135	607,729	581,322	26,407
Circuit Court Clerk	1,506,344	1,509,154	1,455,136	54,018
Magistrate	6,717	6,717	3,013	3,704
General District Court	111,995	111,995	88,340	23,655
Juvenile and Domestic Relations Court	31,206	31,206	30,235	971
Juvenile court services	1,329,404	1,478,814	1,359,045	119,769
Commonwealth's Attorney	2,995,282	2,995,282	2,760,571	234,711
Sheriff	11,622,224	11,787,973	11,755,462	32,511
Total judicial	18,195,307	18,528,870	18,033,124	495,746
Public Safety:				
Police	29,523,199	29,723,199	28,970,017	753,182
E-911 communications	2,055,811	1,835,811	1,617,696	218,115
Operations Support bureau	73,852	93,852	206,022	(112,170)
Admin & Support bureau	-	-	388,192	(388,192)
Field Operations bureau	20,710	20,710	26,356	(5,646)
Animal control & security	1,081,521	1,081,521	989,439	92,082
Fire, rescue, and emergency services	24,263,201	24,995,298	26,108,254	(1,112,956)
Total public safety	57,018,294	57,750,391	58,305,976	(555,585)
Public works:				
Engineering	1,148,321	1,227,215	1,228,396	(1,181)
Streets and highways	3,451,537	3,454,187	3,494,399	(40,212)
Mosquito control	529,623	529,623	352,499	177,124
Traffic engineering	2,434,840	2,434,840	2,350,616	84,224
General services:				
Properties management	3,885,263	3,885,263	3,744,263	141,000
Utilities	2,725,000	2,725,000	2,620,689	104,311
Rental of land and buildings	170,200	170,200	170,033	167
Storeroom	-	-	48,199	(48,199)
Harbor Center pavilion	346,113	361,760	354,889	6,871
Total public works	14,690,897	14,788,088	14,363,983	424,105
Health and welfare	1,304,321	1,347,646	1,347,646	-
Parks, recreation, and cultural:				
Museum	2,199,719	2,276,800	2,192,790	84,010
Parks, recreational, and cultural	6,559,042	6,603,586	6,483,001	120,585
Public library	2,390,843	2,390,843	2,354,774	36,069
Total parks, recreation, and cultural	11,149,604	11,271,229	11,030,565	240,664

(continued)

CITY OF PORTSMOUTH, VIRGINIA
Budgetary Comparison Schedule
Schedule of Expenditures and Other Financing Uses
General Fund
Year ended June 30, 2018

Exhibit I-2 (continued)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Community development:				
Permits and inspections	\$ 2,509,502	2,509,502	2,377,812	131,690
Economic development	767,208	739,208	524,684	214,524
Planning	1,890,222	1,920,188	1,741,787	178,401
Total community development	5,166,932	5,168,898	4,644,283	524,615
Education *	52,950,000	52,585,767	45,556,751	7,029,016
Capital outlay	-	486,703	468,014	18,689
Total expenditures	192,366,478	194,109,832	183,677,276	10,432,556
Other financing uses:				
Transfers to other funds:				
Behavioral health services fund	712,560	712,560	712,560	-
Social services fund	3,994,267	3,844,857	3,281,766	(563,091)
Comprehensive services fund	700,090	700,090	544,226	(155,864)
Grants fund	-	8,300	8,300	-
Parking authority	133,372	133,372	133,372	-
Golf	843,509	843,509	843,509	-
Willett Hall fund	130,000	130,000	130,000	-
Debt service	36,319,942	36,319,942	36,319,942	-
Capital Improvements	3,868,160	4,868,160	5,477,160	609,000
Total transfers to other funds	46,701,900	47,560,790	47,450,835	(109,955)
Total other financing uses	46,701,900	47,560,790	47,450,835	(109,955)
Total expenditures and other financing sources (uses)	239,068,378	241,670,622	231,128,111	(10,542,511)
Net change in fund balance	-	-	5,677,137	5,677,137
Fund balance - beginning	-	-	65,408,735	65,408,735
Fund balance - ending	\$ -	-	71,085,872	71,085,872

Unaudited – see accompanying report of independent auditor.

* The variance is due to (1) the appropriation of \$5,189,613 in unexpended funds from the FY 2018 Risk Management Fund Budget for the Portsmouth Public Schools (PPS) to the city's FY 2019 School Board Risk Management and Insurance Fund for the sole purpose of savings as a reserve for the PPS Health Self Insurance and Workers Compensation and General Liability Program; and (2) the appropriation of \$1,653,636 of unexpended funds from the PPS FY 2018 General Fund to the city's FY 2019 Capital Improvement Budget for PPS projects.

Budgetary Comparison Schedule
Note to Required Supplementary Information
General Fund

Fiscal Year ended June 30, 2018

The budgetary data reported in the required supplementary information reflects the approved city Budget as adopted by the City Council for the year ended June 30, 2018, as amended. The budget as adopted by the City Council may be amended by the City Council through supplemental appropriations or transfers, as necessary. The legal level of budgetary control rests at the fund level with the exception of the General Fund, which is appropriated at the activity or function level. In addition, the City Code provides that the City Manager may transfer any unencumbered appropriation balance less than \$100,000 from one department, project, program, or purpose within the same fund. The City Manager shall make a monthly report to the City Council of all transfers greater than \$50,000. Also, the City Manager may transfer any or all of the unencumbered balance of the emergency contingency account to any item in the City budget provided that any such utilization from the emergency budget contingency is reported to the City Council at the next regular council meeting.

The General, Special Revenue, and all proprietary funds have legally adopted annual budgets with the exception of the Grants Fund, and the Community Development Fund. The Capital Projects Funds, Grants Fund, and the Community Development Fund, utilize project budgets in lieu of annual budgets.

The city employs encumbrance accounting under which obligations in the form of purchase orders, contracts, and other commitments for the expenditure or transfer out of funds are recorded in order to reserve that portion of the applicable appropriation in the governmental fund balance, since encumbrances do not constitute expenditures or liabilities. For outstanding encumbrances, the appropriation carries over into the following year upon City Council action. According to the city code, unexpended, unencumbered appropriations lapse at the end of the fiscal year.

The General Fund's budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America.

CITY OF PORTSMOUTH, VIRGINIA
Required Supplementary Information (Unaudited)
June 30, 2018

Exhibit I-4

Schedule of Changes in the Net Pension Liability and Related Ratios (PSRS)
Fiscal Year Ended June 30, *

Total pension liability	2015	2016	2017	2018
Service cost	\$ 89,198	71,563	62,202	54,347
Interest	6,661,939	6,536,219	6,344,585	6,021,175
Changes in benefit terms	1,244,771	814,802	-	-
Differences between expected and actual experience	(1,195,876)	(1,680,961)	(1,383,499)	(180,994)
Changes of assumptions	-	-	(1,236,291)	(966,754)
Benefit payments, including refunds of member contributions	(8,512,885)	(8,478,761)	(8,326,253)	(8,378,061)
Net change in total pension liability	(1,712,853)	(2,737,138)	(4,539,256)	(3,450,287)
Total pension liability - beginning	96,191,377	94,478,524	91,741,386	87,202,130
Total pension liability - ending (a)	94,478,524	91,741,386	87,202,130	83,751,843
Plan fiduciary net position				
Contributions - employer	1,782,818	2,438,432	1,796,671	2,005,017
Contributions - member	-	-	-	-
Net investment income	7,874,597	418,733	960,609	5,916,252
Benefit payments, including refunds of member contributions	(8,512,885)	(8,478,761)	(8,326,253)	(8,378,061)
Administrative expense	(73,287)	(67,152)	(28,605)	(106,586)
Other	-	-	-	-
Net change in plan fiduciary net position	1,071,243	(5,688,748)	(5,597,578)	(563,378)
Plan fiduciary net position - beginning	70,476,413	71,547,656	65,858,908	60,261,330
Plan fiduciary net position - ending (b)	71,547,656	65,858,908	60,261,330	59,697,952
City's net pension liability (a) - (b)	22,930,868	25,882,478	26,940,800	24,053,891
Plan fiduciary net position as a percentage of total pension liability	75.73%	71.79%	69.11%	71.28%
Covered payroll	\$ 1,195,973	1,034,003	887,695	806,870
City's net pension liability as a percentage of covered payroll	1917.34%	2503.13%	3034.92%	2981.14%

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

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**Schedule of Actuarially Determined Contributions
and Schedule of Investments (PSRS)
Fiscal Year Ended June 30,**

	2014	2015	2016	2017	2018
Actuarially determined contribution	1,944,892	1,924,912	1,796,671	1,807,082	1,867,696
Contributions in relation to the actuarially determined contribution	1,782,818	2,438,432	1,796,671	1,807,082	1,867,696
Contribution deficiency (excess)	162,074	(513,520)	-	-	-
Covered payroll	1,195,973	1,034,003	887,695	806,870	754,205
Contributions as a percentage of covered payroll	149.07%	235.82%	202.40%	223.96%	247.64%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Notes to schedule:

Methods and Assumptions used to determine contribution rate.

Measurement date June 30, 2018

Timing Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the plan year.

Actuarial Cost Method Entry Age Normal-Level Percentage of Pay

Interest rate 7.25%

Salary increases 3.00%

Social Security wage bases 3.00%

Social Security cost of living increases 2.50%

Statutory limits on compensation and benefits 2.50%

Mortality RP-2014 Generational Mortality Table Adjusted to 2006 with Generational Projection(Scale MP-2016)

CITY OF PORTSMOUTH, VIRGINIA
Required Supplementary Information (Unaudited)
June 30, 2018

Exhibit I-4 (continued)

Projected rate of return	7.25%
Plan Fiduciary net position	Fair Market Value of assets

Annual money weighted rate of return , net of investment expense was .62% in 2015, 1.55% in 2016, 10.59% in 2017, and 4.66% in 2018.

CITY OF PORTSMOUTH, VIRGINIA
Required Supplementary Information (Unaudited)
June 30, 2018

Exhibit I-4 (continued)

Schedule of Changes in the City's Net Pension Liability and Related Ratios
(FPRS)
Fiscal Year Ended June 30, *

<u>Total pension liability</u>	2015	2016	2017	2018
Service cost	\$ 875,496	655,555	469,262	288,723
Interest	17,479,148	17,755,749	17,775,245	17,571,555
Changes in benefit terms	3,220,420	2,226,338	-	-
Differences between expected and actual experience	2,306,432	483,962	2,934,513	1,548,069
Changes of assumptions	-	-	(2,264,494)	(2,060,009)
Benefit payments, including refunds of member contributions	(19,431,115)	(20,421,923)	(21,297,801)	(22,016,787)
Net change in total pension liability	4,450,381	699,681	(2,383,275)	(4,668,449)
Total pension liability - beginning	250,415,803	254,866,184	255,565,865	253,182,590
Total pension liability - ending (a)	254,866,184	255,565,865	253,182,590	248,514,141
Plan fiduciary net position				
Contributions - employer	5,186,714	6,734,263	5,794,277	6,566,389
Contributions - member	-	-	-	-
Net investment income	21,908,537	1,144,912	2,782,322	16,820,681
Benefit payments, including refunds of member contributions	(19,431,115)	(20,421,923)	(21,297,801)	(22,016,787)
Administrative expense	(205,149)	(184,118)	(120,447)	(254,463)
Other	-	-	-	-
Net change in plan fiduciary net position	7,458,987	(12,726,866)	(12,841,649)	1,115,820
Plan fiduciary net position - beginning	187,926,711	195,385,698	182,658,832	169,817,183
Plan fiduciary net position - ending (b)	195,385,698	182,658,832	169,817,183	170,933,003
City's net pension liability (a) - (b)	59,480,486	72,907,033	83,365,407	77,581,138
Plan fiduciary net position as a percentage of total pension liability	76.66%	71.47%	67.07%	68.78%
Covered payroll	\$ 5,079,287	3,871,105	2,396,142	1,772,265
City's net pension liability as a percentage of covered payroll	1171.04%	1883.36%	3479.15%	4377.51%

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

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Schedule of Actuarially Determine Contributions and Schedule of Investments (FPRS)
Fiscal Year Ended June 30,

	2014	2015	2016	2017	2018
Actuarially determined contribution	\$ 5,658,234	5,840,300	5,794,277	6,205,544	6,449,059
Contributions in relation to the actuarially determined contribution	5,186,714	6,734,263	5,794,277	6,205,544	6,449,059
Contribution deficiency (excess)	471,520	(893,963)	-	-	-
Covered payroll	5,079,287	3,871,105	2,396,142	1,772,265	1,715,414
Contributions as a percentage of covered payroll	102.12%	173.96%	241.82%	350.15%	375.95%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Notes to schedule:

Methods and Assumptions used to determine contribution rate.

Measurement date	June 30, 2018
Timing	Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the plan year.
Actuarial Cost Method	Entry Age Normal-Level Percentage of Pay
Interest rate	7.25%
Salary increases	3.00%
Social Security wage bases	3.00%
Social Security cost of living increases	2.50%
Statutory limits on compensation and benefits	2.50%
Mortality	RP-2014 Generational Mortality Table Adjusted to 2006 with Generational Projection(Scale MP-2016)

CITY OF PORTSMOUTH, VIRGINIA
Required Supplementary Information (Unaudited)
June 30, 2018

Exhibit I-4 (continued)

Projected rate of return	7.25%
Plan Fiduciary net position	Fair Market Value of assets

Annual money weighted rate of return, net of investment expense was 0.61% in 2015, 1.60% in 2016, 10.61% in 2017, and 4.64% in 2018.

CITY OF PORTSMOUTH, VIRGINIA
Required Supplementary Information (Unaudited)
June 30, 2018

Exhibit I-4 (continued)

Schedule of Employer's Share of Net Pension Liability and Related Ratios (VRS-City)
Fiscal Year Ended June 30, *

	2015	2016	2017	2018
Total Pension Liability				
Service cost	\$ 7,865,420	8,776,873	8,655,196	8,380,639
Interest	18,592,496	19,666,648	20,862,680	21,674,217
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience	-	664,081	(4,862,954)	(5,377,366)
Changes in assumptions	-	-	-	476,225
Benefit Payments, including refunds of employee contributions	(10,723,367)	(11,502,410)	(12,540,446)	(13,582,645)
Net change in total pension liability	15,734,549	17,605,192	12,114,476	11,571,070
Total pension liability - beginning	270,968,771	286,703,320	304,308,512	316,422,988
Total pension liability - ending (a)	286,703,320	304,308,512	316,422,988	327,994,058
Plan fiduciary net position				
Contributions - employer	5,702,215	6,647,357	6,360,911	6,776,993
Contributions - employee	3,522,637	3,451,819	3,313,387	3,398,847
Net investment income	35,693,002	11,935,602	4,734,570	33,161,239
Benefit Payments, including refunds of employee contributions	(10,723,367)	(11,502,410)	(12,540,446)	(13,582,645)
Administrative expense	(191,765)	(162,543)	(168,003)	(190,996)
Other	1,881	(2,528)	(1,996)	(29,655)
Net change in plan fiduciary net position	34,004,603	10,367,297	1,698,423	29,533,783
Plan fiduciary net position - beginning	226,678,948	260,683,551	271,050,848	272,749,271
Plan fiduciary net position - ending (b)	260,683,551	271,050,848	272,749,271	302,283,054
Net pension liability - ending (a) - (b)	26,019,769	33,257,664	43,673,717	25,711,004
Plan fiduciary net position as a percentage of the total Pension liability	90.92%	89.07%	86.20%	92.16%
Covered payroll	\$ 67,740,656	69,067,846	66,394,228	66,034,550
Net pension liability as a percentage of covered payroll	38.41%	48.15%	65.78%	38.94%

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

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**Schedule of Employer's Share of Net Pension Liability and Related Ratios (VRS-Portsmouth
City Public School Board (Non-Professional))
Fiscal Year Ended June 30,**

	2015	2016	2017	2018
Total Pension Liability				
Service cost	\$ 743,215	729,606	695,895	763,448
Interest	2,434,509	2,501,150	2,552,232	2,600,444
Changes of benefit terms	-	-	(293,248)	-
Differences between expected and actual experience	-	(215,707)	(2,270,264)	110,155
Changes in assumptions	-			(44,324)
Benefit Payments, including refunds of employee contributions	(2,151,081)	(2,300,353)		(2,261,995)
Net change in total pension liability	1,026,643	714,696	684,615	1,167,728
Total pension liability - beginning	35,854,243	36,880,886	37,595,582	38,280,197
Total pension liability - ending (a)	\$ 36,880,886	37,595,582	38,280,197	39,447,925
Plan fiduciary net position				
Contributions - employer	648,377	726,275	801,790	882,435
Contributions - employee	354,802	345,765	378,872	372,038
Net investment income	4,075,199	1,307,987	487,721	3,443,683
Benefit Payments, including refunds of employee contributions	(2,151,081)	(2,300,353)	(2,270,264)	(2,261,995)
Administrative expense	(22,705)	(18,893)	(18,573)	(20,455)
Other	215	(276)	(211)	(3,044)
Net change in plan fiduciary net position	2,904,807	60,505	(620,665)	2,412,662
Plan fiduciary net position - beginning	26,386,043	29,290,850	29,351,355	28,730,690
Plan fiduciary net position - ending (b)	29,290,850	29,351,355	28,730,690	31,143,352
Net pension liability - ending (a) - (b)	7,590,036	8,244,227	9,549,507	8,304,573
Plan fiduciary net position as a percentage of the total	79.42%	78.07%	75.05%	78.95%
Pension liability				
Covered payroll	\$ 8,647,732	8,498,497	8,465,913	7,719,383
Net pension liability as a percentage of covered payroll	87.77%	97.01%	112.80%	107.58%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

CITY OF PORTSMOUTH, VIRGINIA
Required Supplementary Information (Unaudited)
June 30, 2018

Exhibit I-4 (continued)

Schedule of Employer's Share of Net Pension Liability and Related Ratios
(VRS - Portsmouth City Public School Board (Professional))
Fiscal Year Ended June 30,

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

Schedule of Employer's
Contributions (VRS)
Fiscal Year Ended June 30,

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
<i>City of Portsmouth</i>					
2018	\$ 7,052,500	\$ 7,052,500	\$ -	\$ 68,412,766	10.31%
2017	6,794,955	6,794,955	-	66,034,550	10.29%
2016	8,025,853	6,419,355	1,606,498	66,394,228	9.67%
2015	8,350,303	6,678,861	1,671,442	69,067,846	9.67%
2014	8,006,946	5,602,152	2,404,794	67,740,656	8.27%
2013	7,312,857	5,116,525	2,196,332	61,868,504	8.27%
2012	5,252,943	5,252,943	-	63,672,042	8.25%
2011	5,221,402	5,221,402	-	63,289,718	8.25%
2010	4,411,991	4,411,991	-	64,221,128	6.87%
2009	4,436,349	4,436,349	-	64,575,679	6.87%

CITY OF PORTSMOUTH, VIRGINIA
Required Supplementary Information (Unaudited)
June 30, 2018

Exhibit I-4 (continued)

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
<i>Portsmouth City Public School Board (Professional)</i>					
2018	\$ 11,874,935	\$ 13,219,573	\$ (1,344,638)	\$ 81,002,287	16.32%
2017	12,198,613	11,589,359	609,254	79,054,292	14.66%
2016	11,416,801	11,190,544	226,257	81,200,579	13.78%
2015	11,567,977	11,317,000	250,977	79,779,153	14.19%
2014	9,452,139	9,191,479	260,660	81,064,661	11.34%
2013	9,542,186	9,213,695	328,491	81,836,929	11.26%
2012	4,985,979	4,744,734	241,245	78,767,435	6.02%
2011	3,186,436	3,044,252	142,184	81,079,797	3.75%
2010	7,321,704	5,008,497	2,313,207	83,106,742	6.03%
2009	7,385,729	7,080,639	305,090	83,833,474	8.45%
<i>Portsmouth City Public School Board (Non-Professional)</i>					
2018	\$ 921,435	\$ 899,130	\$ 22,305	\$ 7,691,444	11.69%
2017	1,137,788	902,396	235,392	7,719,383	11.69%
2016	882,148	813,358	68,790	8,465,913	9.61%
2015	885,543	731,636	153,907	8,498,497	8.61%
2014	789,538	649,001	140,537	8,647,732	7.50%
2013	790,470	644,890	145,580	8,657,941	7.45%
2012	766,574	603,630	162,944	8,508,035	7.09%
2011	769,926	643,311	126,615	8,545,234	7.53%
2010	755,369	685,941	69,428	9,078,953	7.56%
2009	776,138	715,023	61,115	9,328,576	7.66%

Changes of benefit terms

There have been no significant changes to the System benefit provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component were adopted in 2012. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. The liabilities presented do not reflect the hybrid plan since it covers new members joining the System after the valuation date of June 30, 2013 and the impact on the liabilities as of the measurement date of June 30, 2014 are minimal.

Changes of assumptions (Non-professional retirement plan)

The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

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

CITY OF PORTSMOUTH, VIRGINIA
Required Supplementary Information (Unaudited)
June 30, 2018

Exhibit I-5

City of Portsmouth OPEB Plan - City

Schedule of Changes in Net OPEB Liability and Related Ratios

	Fiscal Year Ending June 30									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Total OPEB Liability										
Service Cost	\$1,150,539	N/A								
Interest on Total OPEB Liability	1,098,940	N/A								
Changes of Benefit Terms	0	N/A								
Effect of Economic/Demographic Gains or (Losses)	0	N/A								
Effect of Assumption Changes or Inputs	(8,498,386)	N/A								
Benefit Payments	(1,826,247)	N/A								
Net Change in Total OPEB Liability	(8,075,154)	N/A								
Total OPEB Liability, Beginning	\$30,451,194	N/A								
Total OPEB Liability, Ending (a)	\$22,376,040	N/A								
Fiduciary Net Position										
Employer Contributions	\$4,826,247	N/A								
Net Investment Income	46,475	N/A								
Benefit Payments	(1,826,247)	N/A								
Administrative Expenses	-	N/A								
Net Change in Fiduciary Net Position	\$3,046,475	N/A								
Fiduciary Net Position, Beginning	-	N/A								
Fiduciary Net Position, Ending (b)	3,046,475	N/A								
Net OPEB Liability, Ending = (a) - (b)	\$19,329,565	N/A								
Fiduciary Net Position as a % of Total OPEB Liability	13.61%	N/A								
Covered Payroll	\$78,135,614	N/A								
Net OPEB Liability as a % of Covered Payroll	24.74%	N/A								

This schedule is presented to illustrate the requirement to show information for 10 years. However, recalculations of prior years are not required. If prior years are not reported in accordance with the current GASB standards, they should not be included.

Long-Term Expected Rate of Return

The best-estimate range for the long-term expected rate of return is determined by taking the annual average long-term future inflation and real return components, with each component being reasonable in our professional opinion, including the anticipated effects of return volatility and correlation among various asset classes. The data used in the assessment of reasonability were the 2017 Horizon Survey of Capital Market Assumptions (consensus 10-year real returns) and the 2018 Social Security Trustees Report (inflation).

Asset Class	Target Allocation	Long-Term Expected Arithmetic Real Rate of Return	Long-Term Expected Geometric Real Rate of Return
Core Fixed Income	19.60%	1.17%	0.99%
High Yield Bonds	1.40%	3.38%	2.77%
Large Cap US Equities	26.00%	5.53%	4.14%
Small Cap US Equities	10.00%	6.58%	4.57%
Developed Foreign Equities	13.00%	6.43%	4.66%
Emerging Market Equities	5.00%	8.76%	5.64%
Private Equity	5.00%	9.10%	6.63%
Hedge Funds / Absolute Return	10.00%	3.03%	2.63%
Real Estate (REITS)	7.00%	5.05%	3.86%
Commodities	3.00%	3.37%	1.78%
Assumed Inflation		2.60%	2.60%
Portfolio Real Mean Return		4.97%	4.22%
Portfolio Nominal Mean Return		7.57%	6.93%
Portfolio Standard Deviation			12.55%
Long-Term Expected Rate of Return			7.00%

There is no schedule of OPEB Investment Returns due to the fact that no OPEB trust was established until April, 2018, after the valuation and actuarial report date of January 1, 2018. This information will be reported going forward.

Schedule of Employer Contributions - Other Postemployment Benefits - City Directed

There is no schedule of Employer Contributions due to the fact that prior to the establishment of the trust (see above), the City's contributions were made on a pay-as-you-go basis.

**Schedule of City of Portsmouth Proportionate Share of Net OPEB Liability - VRS Directed
Group Life Insurance Program**
For the Year Ended June 30, 2018*

	<u>2018</u>
Employer's Proportion of the Net GLIP OPEB Liability	0.37603%
Employer's Proportionate of the Net GLIP OPEB Liability	\$ 5,658,000
Employer's Covered Payroll	\$ 69,360,272
Employer's Proportionate Share of the Net GLIP OPEB Liability as a Percentage of Its Covered Payroll	8.15741%
Plan Fiduciary Net Position as a Percentage of the Total GLIP OPEB Liability	48.86%

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

**Schedule of Employer Contributions - VRS Directed - City
Group Life Insurance Program**

For the Years Ended June 30, 2009 through 2018

<u>Date</u>	<u>Contributions in Relation to</u>			<u>Employer's Covered Payroll</u>	<u>Contributions as a % of Covered Payroll</u>
	<u>Contractually Required Contributions</u>	<u>Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>		
2018	\$ 367,170	367,170	-	71,151,669	0.52%
2017	360,673	360,673	-	69,360,272	0.52%
2016	338,743	338,743	-	70,571,371	0.48%
2015	357,870	357,870	-	74,556,174	0.48%
2014	358,162	358,162	-	74,616,978	0.48%
2013	339,366	339,366	-	70,701,299	0.48%
2012	205,187	205,187	-	73,281,175	0.28%
2011	208,149	208,149	-	74,339,092	0.28%
2010	155,668	155,668	-	57,654,972	0.27%
2009	211,954	211,954	-	78,501,586	0.27%

Notes to Required Supplementary Information - VRS Directed Group Life Insurance Program

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

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

Locality Employers - General Employees

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

Hazardous Duty Employees

Mortality Rates (Pre-retirement post-retirement healthy and disabled)	Updated to a more current mortality table - RP 2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

Schedule of City of Portsmouth Proportionate Share of Net OPEB Liability - VRS Directed

Line of Duty Act

For the Year End June 30, 2018*

	<u>2018</u>
Employer's Proportion of the Net LODA OPEB Liability	3.61539%
Employer's Proportionate of the Net LODA OPEB Liability	\$ 9,501,000
Employer's Covered Payroll	\$ 31,515,462
Employer's Proportionate Share fo the Net LODA OPEB Liability as a percentage of its Covered Payroll	30.14711%
Plan Fiduciary Net Position as a Percentage of the Total LODA OPEB Liability	1.30%

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

Schedule of Employer Contributions - VRS Directed

Line of Duty Act

For the Years Ended June 30, 2009 through 2018

Date	Contributions in Relation to			Employer's Covered Payroll	Contributions as a % of Covered Payroll
	Contractually Required Contribution	Contractually Required Contribution	Contribution Deficiency (Excess)		
2018	\$ 379,145	379,145	-	31,515,462	1.2%
2017	389,925	389,925	-	N/A	-
2016	351,125	351,125	-	N/A	-
2015	346,196	346,196	-	N/A	-
2014	331,612	331,612	-	N/A	-
2013	299,091	299,091	-	N/A	-
2012	134,339	134,339	-	N/A	-
2011	N/A**	N/A**	N/A**	N/A**	N/A**
2010	N/A**	N/A**	N/A**	N/A**	N/A**
2009	N/A**	N/A**	N/A**	N/A**	N/A**

** The contribution for the Line of Duty Act Program are based on the number of participants in the Program using a per capita-based contribution versus a payroll-based contribution. Therefore, covered-employees payroll is the relevant measurement, which is the total payroll of the employees in the OPEB plan. However, when volunteers and part-time employees make up a significant percentage of the employer's members in the plan, the employer may determine that covered-employee payroll is misleading and, therefore, not applicable for disclosure.

CITY OF PORTSMOUTH, VIRGINIA
Required Supplementary Information (Unaudited)
June 30, 2018

Exhibit I-5 (continued)

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

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

Public Safety Employees

Mortality Rates (Pre-retirement post-retirement healthy, and disabled)	Updated to a more current mortality table - RP 2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60 to 45%

Schedule of City of Portsmouth Proportionate Share of Net OPEB Liability - VRS Directed

Virginia Local Disability Program

For the Year Ended June 30, 2018*

	<u>2018</u>
Employer's Proportion of the Net VLDP OPEB Liability	4.40350%
Employer's Proportionate of the Net VLDP OPEB Liability	\$ 25,000
Employer's Covered Payroll	\$ 8,086,092
Employer's Proportionate Share of the Net VLDP OPEB Liability as a percentage of its Covered Payroll	0.30917%
Plan Fiduciary Net Position as a Percentage of the Total VLDP OPEB Liability	0.21%

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

Long-Term Expected Rate of Return

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

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

Schedule of Employer Contributions - Other Postemployment Benefits - VRS Directed

Virginia Local Disability Program

For the Years Ended June 30, 2009 through 2018

Date	Contractually Required Contributions	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2018	\$ 64,683	64,683	-	10,778,174	0.60%
2017	48,589	48,589	-	8,086,092	0.60%
2016	32,983	32,983	-	5,497,040	0.60%
2015	16,913	16,913	-	2,818,841	0.60%
2014	2,942	2,942	-	490,387	0.60%

* prior to 2014, information is not available.

CITY OF PORTSMOUTH, VIRGINIA
Required Supplementary Information (Unaudited)
June 30, 2018

Exhibit I-5 (continued)

Schedule of Portsmouth City Public School Changes in Net OPEB Liability and Related Ratios (Unaudited)

Year Ended June 30, 2018

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

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

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

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

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

Notes to schedule:

Methods and Assumptions used to determine contribution rate:

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

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

	<u>2018</u>	<u>2017</u>
Annual money-weighted rate of return, net of investment expense	6.00%	6.00%

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

Schedule of Portsmouth City Public School Proportionate Share of Net OPEB Liability - VRS Directed

Group Life insurance Program

Year Ended June 30, 2018*

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

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

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

Schedule of Employer Contributions - VRS Directed - Portsmouth City Public School

Group Life Insurance Program

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

Notes to Required Supplementary Information

Year Ended June 30, 2018

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

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

Professional

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

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

Nonprofessional

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

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

Schedule of Portsmouth City Public School Proportionate Share of Net OPEB Liability - VRS Directed Health Insurance Credit Program

Professional

Year Ended June 30, 2018

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

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

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

Schedule of Portsmouth City Public Schools of Employer Contributions - VRS Directed Program

Health Insurance Credit Program
Professional

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

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

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

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

Professional

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

Schedule of Portsmouth City Public Schools Proportionate Share of Net OPEB Liability - VRS Directed

Virginia Local Disability Program (VLDP)
Professional

Year Ended June 30, 2018

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

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

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

Nonprofessional

Year Ended June 30, 2018

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

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

Schedule of Portsmouth City Public Schools Employer Contributions - OPEB - VRS Directed

Virginia Local Disability Program

Date	Year Ended June 30, 2018				
	(a)	(b)	(c)	(d)	(e)
	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess) (a) - (b)	Employer's Covered Payroll	Contribution as a % of Employer's Covered Payroll (b) / (d)
Professional					
June 30, 2018	\$ 53,333	\$ 53,333	\$ -	17,204,128	0.31%
June 30, 2017	38,612	38,612	-	12,496,408	0.32%
June 30, 2016	22,903	22,903	-	7,897,682	0.29%
June 30, 2015	10,909	10,909	-	3,761,886	0.29%
June 30, 2014	224	224	-	77,123	0.29%
Nonprofessional					
June 30, 2018	\$ 13,127	\$ 13,127	\$ -	2,187,809	0.60%
June 30, 2017	9,310	9,310	-	1,551,694	0.60%
June 30, 2016	6,913	6,913	-	1,152,140	0.60%
June 30, 2015	3,145	3,145	-	524,219	0.60%
June 30, 2014	373	373	-	62,085	0.60%

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

Notes to Required Supplementary Information

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

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

Professional

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

Nonprofessional

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

Nonmajor Governmental Funds



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CITY OF PORTSMOUTH, VIRGINIA

Exhibit J-1

Combining Balance Sheet
 Nonmajor Government Funds
 June 30, 2018

	Special Revenue Funds										Total
	Behavioral Health Services	Public Law Library	Social Services	Stormwater Management	Grants	Children's Services	Willet Hall	Community Development	Asset Forfeiture Fund	Permanent Fund - Cemetary	
Assets:											
Cash and temporary investments	\$ 9,430,846	67,487	-	2,581,457	1,017,201	-	527,518	-	301,867	1,708,176	15,634,552
Accounts receivable (net of allowance for uncollectibles \$556,778)	188,001	-	-	420,871	78,335	-	505	-	-	-	687,712
Due from other governments	-	-	1,229,063	-	449,039	454,659	-	220,635	1,553	-	2,354,949
Inventory of supplies	-	-	-	-	-	-	277	-	-	-	277
Total assets	9,618,847	67,487	1,229,063	3,002,328	1,544,575	454,659	528,300	220,635	303,420	1,708,176	18,677,490
Liabilities:											
Accounts payable	301,659	3,772	167,403	109,032	274,335	241,798	23,758	172,145	1,553	-	1,295,455
Accrued payroll	1,854	-	2,799	951	4,633	-	1,946	2,612	-	-	14,795
Due to other funds	-	-	1,139,416	-	-	53,931	-	250,840	-	-	1,444,187
Total liabilities	303,513	3,772	1,309,618	109,983	278,968	295,729	25,704	425,597	1,553	-	2,754,437
Deferred inflows of resources:											
Deferred inflows from unavailable revenues	64,543	-	-	162,637	-	-	-	-	-	-	227,180
Total deferred inflows for resources	64,543	-	-	162,637	-	-	-	-	-	-	227,180
Total liabilities and deferred inflows of resources	368,056	3,772	1,309,618	272,620	278,968	295,729	25,704	425,597	1,553	-	2,981,617
Fund balances:											
Nonspendable	-	-	-	-	-	-	277	-	-	1,000,000	1,000,277
Restricted	9,250,791	63,715	-	2,729,708	1,265,607	158,930	502,319	-	301,867	708,176	14,981,113
Unassigned	-	-	(80,555)	-	-	-	-	(204,962)	-	-	(285,517)
Total fund balances	9,250,791	63,715	(80,555)	2,729,708	1,265,607	158,930	502,596	(204,962)	301,867	1,708,176	15,695,873
Total liabilities and fund balances	\$ 9,618,847	67,487	1,229,063	3,002,328	1,544,575	454,659	528,300	220,635	303,420	1,708,176	18,677,490

CITY OF PORTSMOUTH, VIRGINIA

Exhibit J-2

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

Year ended June 30, 2018

	Special Revenue Funds										Total
	Behavioral Health Services	Public Law Library	Social Services	Stormwater Management	Grants	Children's Services	Willett Hall	Community Development	Asset Forfeiture Fund	Permanent Fund - Cemetery	
Revenues:											
Intergovernmental	\$ 9,889,703	-	14,538,226	-	3,537,174	1,445,218	-	657,136	46,064	-	30,113,521
Charges for services	355,759	48,836	-	8,380,761	-	-	13,948	-	-	32,400	8,831,704
Investment income	145,329	-	-	39,735	-	-	-	-	4,646	17,049	206,759
Recovered costs	-	-	92,646	-	-	-	47,462	-	-	-	140,108
Use of property	-	-	-	-	-	-	36,504	-	-	-	36,504
Program income	-	-	-	-	-	-	-	326,162	-	-	326,162
Miscellaneous	43,601	-	9,160	-	74,785	-	-	-	-	-	127,546
Total revenues	10,434,392	48,836	14,640,032	8,420,496	3,611,959	1,445,218	97,914	983,298	50,710	49,449	39,782,304
Expenditures:											
Current:											
General government	-	-	-	-	10,000	-	-	-	-	-	10,000
Judicial	-	-	-	-	950,592	-	-	-	3,696	-	954,288
Public safety	-	-	-	-	696,514	-	-	-	-	-	696,514
Public works	-	-	-	1,819,332	15,792	-	-	-	40,792	-	1,875,916
Health and welfare	9,083,926	-	16,981,682	-	765,662	1,982,321	-	-	-	-	28,813,591
Parks, recreational, cultural	-	23,140	-	-	590,051	-	235,906	-	-	-	849,097
Community development	-	-	-	-	-	-	-	499,059	-	-	499,059
Capital outlay	-	-	-	345,459	144,669	-	-	538,766	-	-	1,028,894
Total expenditures	9,083,926	23,140	16,981,682	2,164,791	3,173,280	1,982,321	235,906	1,037,825	44,488	-	34,727,359
Revenues over (under) expenditures	1,350,466	25,696	(2,341,650)	6,255,705	438,679	(537,103)	(137,992)	(54,527)	6,222	49,449	5,054,945
Other financing sources (uses):											
Transfers from other funds	712,560	-	3,281,766	-	51,375	544,226	130,000	-	-	-	4,719,927
Transfers to other funds	(524,273)	-	(936,335)	(6,664,239)	-	-	-	-	(30,787)	-	(8,155,634)
Total other financing sources (uses), net	188,287	-	2,345,431	(6,664,239)	51,375	544,226	130,000	-	(30,787)	-	(3,435,707)
Net change in fund balances	1,538,753	25,696	3,781	(408,534)	490,054	7,123	(7,992)	(54,527)	(24,565)	49,449	1,619,238
Fund balances, beginning of year, as restated	7,712,038	38,019	(84,336)	3,138,242	775,553	151,807	510,588	(150,435)	326,432	1,658,727	14,076,635
Fund balances, end of year	\$ 9,250,791	63,715	(80,555)	2,729,708	1,265,607	158,930	502,596	(204,962)	301,867	1,708,176	15,695,873

CITY OF PORTSMOUTH, VIRGINIA

Exhibit J-3

Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual

Special Revenue Funds

Year ended June 30, 2018

	Behavioral Health Services			Public Law Library		
	Budget	Actual	Variance favorable (unfavorable)	Budget	Actual	Variance favorable (unfavorable)
Revenues:						
Intergovernmental	\$ 10,440,466	9,889,703	(550,763)	-	-	-
Charges for services	369,500	355,759	(13,741)	31,026	48,836	17,810
Investment income	-	145,329	145,329	-	-	-
Miscellaneous	75,000	43,601	(31,399)	-	-	-
Use of fund balance	79,250	-	(79,250)	-	-	-
Total revenues	10,964,216	10,434,392	(529,824)	31,026	48,836	17,810
Expenditures:						
Health and welfare	11,112,365	9,083,926	2,028,439	-	-	-
Parks, recreational, and cultural	-	-	-	31,026	23,140	7,886
Capital outlay	25,000	-	25,000	-	-	-
Total expenditures	11,137,365	9,083,926	2,053,439	31,026	23,140	7,886
Revenues over (under) expenditures	(173,149)	1,350,466	1,523,615	-	25,696	25,696
Other financing sources (uses) -						
Transfers from other funds	712,560	712,560	-	-	-	-
Transfers to other funds	(539,411)	(524,273)	15,138	-	-	-
Total other financing sources (uses), net	173,149	188,287	15,138	-	-	-
Revenues and other financing sources over expenditures and other financing uses	\$ -	1,538,753	1,538,753	\$ -	25,696	25,696
Fund balances at beginning of year		7,712,038	7,712,038		38,019	38,019
Fund balances at end of year		9,250,791	9,250,791		63,715	63,715

CITY OF PORTSMOUTH, VIRGINIA

Exhibit J-3 (continued)

Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual

Special Revenue Funds

Year ended June 30, 2018

	Social Services			Stormwater Management		
	Budget	Actual	Variance favorable (unfavorable)	Budget	Actual	Variance favorable (unfavorable)
Revenues:						
Intergovernmental	\$ 15,791,943	14,538,226	(1,253,717)	-	-	-
Charges for services	-	-	-	8,356,434	8,380,761	24,327
Investment income	-	-	-	-	39,735	39,735
Recovered costs	97,000	92,646	(4,354)	-	-	-
Miscellaneous	20,000	9,160	(10,840)	-	-	-
Use of fund balance	-	-	-	1,000,000	-	(1,000,000)
Total revenues	15,908,943	14,640,032	(1,268,911)	9,356,434	8,420,496	(935,938)
Expenditures:						
Health and welfare	18,978,652	16,981,682	1,996,970	-	-	-
Public works	-	-	-	2,243,416	1,819,332	424,084
Capital outlay	-	-	-	451,000	345,459	105,541
Total expenditures	18,978,652	16,981,682	1,996,970	2,694,416	2,164,791	529,625
Revenues over (under) expenditures	(3,069,709)	(2,341,650)	728,059	6,662,018	6,255,705	(406,313)
Other financing sources (uses) -						
Transfers from other funds	3,994,267	3,281,766	(712,501)	-	-	-
Transfers to other funds	(936,847)	(936,335)	512	(6,662,018)	(6,664,239)	(2,221)
Total other financing sources (uses), net	3,057,420	2,345,431	(711,989)	(6,662,018)	(6,664,239)	(2,221)
Revenues and other financing sources over expenditures and other financing uses	\$ (12,289)	3,781	16,070	\$ -	(408,534)	(408,534)
Fund balances at beginning of year		(84,336)	(84,336)		3,138,242	3,138,242
Fund balances at end of year		(80,555)	(68,266)		2,729,708	2,729,708

CITY OF PORTSMOUTH, VIRGINIA

Exhibit J-3 (continued)

Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual

Special Revenue Funds
Year ended June 30, 2018

	Childrens Services			Willett Hall		
	Budget	Actual	Variance favorable (unfavorable)	Budget	Actual	Variance favorable (unfavorable)
Revenues:						
Intergovernmental	\$ 1,390,169	1,445,218	55,049	-	-	-
Charges for services	-	-	-	20,000	13,948	(6,052)
Recovered costs	-	-	-	125,000	47,462	(77,538)
Use of property	-	-	-	70,000	36,504	(33,496)
Miscellaneous	-	-	-	2,156	-	(2,156)
Total revenues	1,390,169	1,445,218	55,049	217,156	97,914	(119,242)
Expenditures:						
Health and welfare	2,090,259	1,982,321	107,938	-	-	-
Parks, recreational, and cultural	-	-	-	347,156	235,906	111,250
Total expenditures	2,090,259	1,982,321	107,938	347,156	235,906	111,250
Revenues over (under) expenditures	(700,090)	(537,103)	162,987	(130,000)	(137,992)	(7,992)
Other financing sources (uses) -						
Transfers from other funds	700,090	544,226	(155,864)	130,000	130,000	-
Total other financing sources (uses), net	700,090	544,226	(155,864)	130,000	130,000	-
Revenues and other financing sources over expenditures and other financing uses	\$ -	7,123	7,123	\$ -	(7,992)	(7,992)
Fund balances at beginning of year		151,807	151,807		510,588	510,588
Fund balances at end of year		158,930	158,930		502,596	502,596

CITY OF PORTSMOUTH, VIRGINIA

Exhibit J-3 (continued)

Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual

Special Revenue Funds

Year ended June 30, 2018

	Asset Forfeiture Fund		
	Budget	Actual	Variance favorable (unfavorable)
Revenues:			
Intergovernmental	\$ 1,522,796	46,064	(1,476,732)
Investment income	-	4,646	4,646
Total revenues	1,522,796	50,710	(1,472,086)
Expenditures:			
Judicial	335,614	3,696	331,918
Public works	927,541	40,792	886,749
Capital outlay	128,445	-	128,445
Total expenditures	1,391,600	44,488	1,347,112
Revenues over (under) expenditures	131,196	6,222	(124,974)
Other financing sources (uses) -			
Transfers to other funds	(131,608)	(30,787)	100,821
Total other financing sources (uses), net	(131,608)	(30,787)	100,821
Revenues and other financing sources over expenditures and other financing uses	\$ (412)	(24,565)	(24,153)
Fund balances at beginning of year		326,432	326,432
Fund balances at end of year		301,867	302,279

Nonmajor Proprietary Funds



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CITY OF PORTSMOUTH, VIRGINIA
Combining Statement of Net Position
Nonmajor Proprietary Funds
June 30, 2018

Exhibit K-1

	Golf	Waste Management	Total
Assets:			
Current assets:			
Cash and temporary investments	\$ 2,200	13,471,367	13,473,567
Accounts receivable	34,343	2,318,108	2,352,451
Inventory of supplies	59,568	-	59,568
Total current assets	96,111	15,789,475	15,885,586
Noncurrent assets:			
Capital assets:			
Land	9,605,289	2,909,275	12,514,564
Buildings	2,222,369	65,455	2,287,824
Improvements other than buildings	314,073	-	314,073
Machinery, furniture, and equipment	910,551	11,751,700	12,662,251
Total capital assets	13,052,282	14,726,430	27,778,712
Less accumulated depreciation	(2,612,198)	(5,052,282)	(7,664,480)
Total capital assets, net	10,440,084	9,674,148	20,114,232
Deferred outflows of resources:			
Deferred outflows from debt refunding	272,158	-	272,158
Deferred outflows related to pensions	175,367	475,544	650,911
Deferred outflows related to OPEB	3,094	8,552	11,646
Total outflows of resources	450,619	484,096	934,715
Total assets and deferred outflows of resources	10,986,814	25,947,719	36,934,533
Liabilities:			
Current liabilities:			
Accounts payable	120,389	414,392	534,781
Accrued interest payable	67,767	-	67,767
Accrued payroll	-	7,482	7,482
Deposits	16,566	-	16,566
Due to other funds	1,117,824	-	1,117,824
Compensated absences	28,609	71,081	99,690
General obligation bonds	681,861	-	681,861
Total current liabilities	2,033,016	492,955	2,525,971
Noncurrent liabilities:			
Compensated absences	54,684	154,187	208,871
Landfill closure and postclosure liability	-	5,322,491	5,322,491
General obligation bonds	3,657,607	-	3,657,607
Net pension liability	683,081	2,815,688	3,498,769
Net OPEB liability (note 8)	203,555	731,345	934,900
Total noncurrent liabilities	4,598,927	9,023,711	13,622,638
Deferred inflows related to pensions	75,710	205,303	281,013
Deferred inflows related to OPEB	68,856	236,998	305,854
Total liabilities and deferred inflows of resources	6,776,509	9,958,967	16,735,476
Net position:			
Investment in capital assets	6,372,774	9,674,147	16,046,921
Unrestricted	(2,162,469)	6,314,605	4,152,136
Total net position	4,210,305	15,988,752	20,199,057
Total liabilities, deferred inflows of resources and net position	\$ 10,986,814	25,947,719	36,934,533

CITY OF PORTSMOUTH, VIRGINIA

Exhibit K-2

Combining Statement of Revenues, Expenses and Changes in Fund Net Position

Nonmajor Proprietary Funds

Year ended June 30, 2018

	Golf	Waste Management	Total
Operating revenues:			
Charges for services	\$ 927,247	11,331,995	12,259,242
Other	127,464	1,200	128,664
Total operating revenues	1,054,711	11,333,195	12,387,906
Operating expenses:			
Personnel services	618,703	2,353,403	2,972,106
Contractual services	345,596	4,198,299	4,543,895
Supplies and materials	157,568	117,331	274,899
Utilities	123,476	6,674	130,150
Internal charges	31,853	1,626,161	1,658,014
Claims, settlements, and refunds	-	13,307	13,307
Rent	123,773	-	123,773
Depreciation and amortization	117,620	939,012	1,056,632
Closure/postclosure	-	124,988	124,988
Other	347,439	273,234	620,673
Total operating expenses	1,866,028	9,652,409	11,518,437
Operating income (loss)	(811,317)	1,680,786	869,469
Nonoperating revenues (expenses):			
Investment income	-	207,487	207,487
Loss on disposal of capital assets	-	(103,687)	(103,687)
Interest expense and fiscal charges	(201,326)	-	(201,326)
Net nonoperating revenues (expenses)	(201,326)	103,800	(97,526)
Net income (loss) before transfers	(1,012,643)	1,784,586	771,943
Transfers from other funds	843,509	-	843,509
Transfers to other funds	(19,086)	(384,893)	(403,979)
Capital contributions	168,474	65,445	233,919
Change in net position	(19,746)	1,465,138	1,445,392
Net position, beginning of year, as restated	4,230,051	14,523,614	18,753,665
Net position, end of year	\$ 4,210,305	15,988,752	20,199,057

Combining Statement of Cash Flows

Nonmajor Proprietary Funds

Year ended June 30, 2018

	Golf	Waste Management	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	\$ 1,058,794	11,443,218	12,502,012
Payments to suppliers	(578,498)	(6,244,972)	(6,823,470)
Payments to employees	(722,312)	(2,541,813)	(3,264,125)
Net cash provided by (used for) operating activities	(242,016)	2,656,433	2,414,417
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	843,509	-	843,509
Transfers out	(19,086)	(384,893)	(403,979)
Net cash provided by (used in) noncapital financing activities	824,423	(384,893)	439,530
CASH FLOWS FROM CAPITAL AND RELATING FINANCING ACTIVITIES:			
Acquisition of capital assets	(73,697)	(2,619,066)	(2,692,763)
Capital contribution	168,474	-	168,474
Proceeds from long-term debts	825,000	-	825,000
Principal paid on long-term debt	(1,316,155)	-	(1,316,155)
Interest paid	(186,029)	-	(186,029)
Net cash used in capital and related financing activities	(582,407)	(2,619,066)	(3,201,473)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received	-	207,487	207,487
Net cash provided by investing activities	-	207,487	207,487
Net increase in cash and temporary investments	-	(140,039)	(140,039)
Cash and temporary investments, beginning of year	2,200	13,611,406	13,613,606
Cash and temporary investments, end of year	2,200	13,471,367	13,473,567
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	(811,317)	1,680,786	869,469
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	117,620	939,012	1,056,632
Decrease (increase) in:			
Accounts receivable	-	110,023	110,023
Inventory of supplies	(3,575)	-	(3,575)
Deposits	4,083	-	4,083
Deferred outflows	37,485	383,521	421,006
Increase (decrease) in:			
Accounts payable	24,400	(9,965)	14,435
Accrued payroll	-	6,292	6,292
Due to other funds	530,383	-	530,383
Accrued expenses and other liabilities	-	124,988	124,988
Compensated absences	371	5,368	5,739
Net pension liability	(157,747)	(572,490)	(730,237)
Net OPEB liability	(108,946)	(375,476)	(484,422)
Deferred inflows	125,227	364,374	489,601
Total adjustments	569,301	975,647	1,544,948
Net cash provided by (used for) operating activities	\$ (242,016)	2,656,433	2,414,417



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Internal Service Funds



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CITY OF PORTSMOUTH, VIRGINIA

Exhibit L-1

Combining Statement of Net Position

Internal Service Funds

June 30, 2018

	City Garage	Information Technology	Health Insurance & OPEB	Risk Management	Total
Assets:					
Current assets:					
Cash and temporary investments	\$ 2,811,591	4,628,757	2,734,277	21,056,034	31,230,659
Accounts receivable	115,543	-	11,345	-	126,888
Inventory of supplies	595,196	-	-	-	595,196
Deposits-held by others	-	-	-	240,000	240,000
Total current assets	3,522,330	4,628,757	2,745,622	21,296,034	32,192,743
Noncurrent assets:					
Capital assets:					
Land	15,048	-	-	-	15,048
Buildings	693,083	-	-	-	693,083
Machinery, furniture, and equipment	21,561,591	5,557,894	-	-	27,119,485
Intangible assets	-	3,066,238	-	-	3,066,238
Total capital assets	22,269,722	8,624,132	-	-	30,893,854
Less accumulated depreciation	(18,705,538)	(6,349,914)	-	-	(25,055,452)
Total capital assets, net	3,564,184	2,274,218	-	-	5,838,402
Deferred outflows of resources:					
Deferred outflows related to OPEB	6,758	12,899	-	1,637	21,294
Total outflows of resources	6,758	12,899	-	1,637	21,294
Total assets and deferred outflows of resources	7,093,272	6,915,874	2,745,622	21,297,671	38,052,439
Liabilities:					
Current liabilities:					
Accounts payable	412,304	249,972	229,716	188,645	1,080,637
Accrued payroll	340	-	-	-	340
Flex spending benefits	-	-	18,155	-	18,155
Due to other funds	-	-	25,000	-	25,000
Current compensated absences	55,841	88,988	-	3,325	148,154
Current claims payable	-	-	978,724	2,060,885	3,039,609
Total current liabilities	468,485	338,960	1,251,595	2,252,855	4,311,895
Noncurrent liabilities:					
Noncurrent claims payable	-	-	-	5,568,191	5,568,191
Noncurrent compensated absences	87,471	137,283	-	3,117	227,871
Net OPEB liability (note 8)	443,098	337,986	-	22,259	803,343
Total noncurrent liabilities	530,569	475,269	-	5,593,567	6,599,405
Deferred inflows related to OPEB	155,838	168,158	-	23,556	347,552
Total liabilities and deferred inflows of resources	1,154,892	982,387	1,251,595	7,869,978	11,258,852
Net position:					
Investment in capital assets	3,564,184	2,274,218	-	-	5,838,402
Unrestricted	2,374,196	3,659,269	1,494,027	13,427,693	20,955,185
Total net position	5,938,380	5,933,487	1,494,027	13,427,693	26,793,587
Total liabilities, deferred inflows of resources and net position	7,093,272	6,915,874	2,745,622	21,297,671	38,052,439

CITY OF PORTSMOUTH, VIRGINIA

Exhibit L-2

Combining Statement of Revenues, Expenses, and Changes in Fund Net Position

Internal Service Funds

Year ended June 30, 2018

	City Garage	Information Technology	Health Insurance & OPEB	Risk Management	Total
Operating revenues:					
Charges for services	\$ 8,259,496	5,553,863	16,845,171	6,041,201	36,699,731
Other	-	1,500	82,705	10,998	95,203
Total operating revenues	8,259,496	5,555,363	16,927,876	6,052,199	36,794,934
Operating expenses:					
Personnel services	1,566,108	2,528,969	-	262,001	4,357,078
Contractual services	830,418	1,684,839	1,189,629	481,699	4,186,585
Supplies and materials	3,111,845	731,255	-	31,134	3,874,234
Utilities	65,435	118,013	-	2,423	185,871
Internal charges	60,908	6,246	-	875	68,029
Claims, settlements, and refunds	-	-	16,038,378	849,871	16,888,249
Insurance premiums	-	-	-	1,245,127	1,245,127
Depreciation and amortization	1,082,504	345,166	-	-	1,427,670
Other - operating expense	495,375	190,866	3,002,880	4,228	3,693,349
Total operating expenses	7,212,593	5,605,354	20,230,887	2,877,358	35,926,192
Operating income (loss)	1,046,903	(49,991)	(3,303,011)	3,174,841	868,742
Nonoperating revenues:					
Loss on disposal of capital assets	18,959	-	-	-	18,959
Total nonoperating revenues	18,959	-	-	-	18,959
Net income (loss) before transfers	1,065,862	(49,991)	(3,303,011)	3,174,841	887,701
Transfers from other funds	41,978	-	-	-	41,978
Transfers to other funds	(544,098)	(271,096)	-	(9,917)	(825,111)
Capital contributions	-	27,603	-	-	27,603
Change in net position	563,742	(293,484)	(3,303,011)	3,164,924	132,171
Net position, beginning of year, as restated	5,374,638	6,226,971	4,797,038	10,262,769	26,661,416
Net position, end of year	\$ 5,938,380	5,933,487	1,494,027	13,427,693	26,793,587

Combining Statement of Cash Flows

Internal Service Funds

Year ended June 30, 2018

	City Garage	Information Technology	Health Insurance	Risk Management	Total
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers	\$ 8,253,604	5,558,068	17,049,981	6,052,199	36,913,852
Payments to suppliers	(4,630,261)	(2,639,025)	(20,368,252)	(5,126,836)	(32,764,374)
Payments to employees	(1,660,354)	(2,611,371)	-	(274,020)	(4,545,745)
Net cash provided by (used in) operating activities	1,962,989	307,672	(3,318,271)	651,343	(396,267)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Transfers out	(502,120)	(271,096)	-	(9,917)	(783,133)
Cash used in noncapital financing activities	(502,120)	(271,096)	-	(9,917)	(783,133)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition and construction of capital assets	(147,940)	-	-	-	(147,940)
Gain or loss from sale of capital assets	161,273	-	-	-	161,273
Principal paid on capital lease	(497,223)	-	-	-	(497,223)
Cash used in capital and related financing activities	(483,890)	-	-	-	(483,890)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Net cash provided by (used in) investing activities	-	-	-	-	-
Net increase (decrease) in cash and temporary investments	976,979	36,576	(3,318,271)	641,426	(1,663,290)
Cash and temporary investments, beginning of year	1,834,612	4,592,181	6,052,548	20,414,608	32,893,949
Cash and temporary investments, end of year	2,811,591	4,628,757	2,734,277	21,056,034	31,230,659
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities					
Operating income (loss)	1,046,903	(49,991)	(3,303,011)	3,174,841	868,742
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation and amortization	1,082,504	345,166	-	-	1,427,670
Decrease (increase) in:					
Accounts receivable	(6,342)	2,705	122,105	-	118,468
Prepaid expenses	-	15,000	-	-	15,000
Inventory of supplies	(83,084)	-	-	-	(83,084)
Deposits	-	-	-	-	-
Deferred outflows	451	(2,644)	-	(1,637)	(3,830)
Increase (decrease) in:					
Accounts payable	17,504	77,194	3,730	46,213	144,641
Accrued payroll	65	-	-	-	65
Compensated absences	(4,540)	16,320	-	2,277	14,057
Due to other funds	(250)	-	-	-	(250)
Flexible spending benefits	-	-	(61,039)	-	(61,039)
Net OPEB liability	(246,060)	(264,236)	-	(36,215)	(546,511)
Deferred inflows	155,838	168,158	-	23,556	347,552
Nonoperating revenues reported as operating revenues:					
Claims payable	-	-	(80,056)	(2,557,692)	(2,637,748)
Total adjustments	916,086	357,663	(15,260)	(2,523,498)	(1,265,009)
Net cash provided by (used in) operating activities	\$ 1,962,989	307,672	(3,318,271)	651,343	(396,267)



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Capital Project Funds



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CITY OF PORTSMOUTH, VIRGINIA
Capital Project Funds
Schedule of Expenditures and Encumbrances - Budget and Actual
June 30, 2018

Exhibit M-1

General Government Capital Projects

	FY18 Project Authorization	Prior Year CIP	Prior Year Period Expense	Adjustment Capital	Revised Prior Year Construction In Progress	Current Year Expenditures	Total Expenditures	Current Year Closed	CIP June 30, 2018 Balance	Unexpended Balance	Encumbrances	Unencumbered Balance
1846 Courthouse HVAC Replacement - Closed	\$ 300,000	1,390	1,390	-	-	-	1390	-	-	298,610	56,000	242,610
801 Water Street	4,180,781	3,391,143	-	3,391,143	-	16,620	3,407,763	16,620	-	773,018	12,655	760,363
ADA Compliance Curb Cuts - Closed	342,221	172,530	96,660	75,870	-	-	266,735	-	-	75,486	-	75,486
ADA Compliance PNSM - Closed	351,872	329,969	-	-	329,969	4,655	334,624	334,624	-	17,248	-	17,248
ADA Municipal Facility Compliance - Closed	744,595	565,026	163,360	401,666	-	26,103	731,575	12,273	13,830	13,020	13,020	-
Ballard Ave-Hyman St Improvements	1,341,000	-	-	-	-	42,730	42,730	-	42,730	1,298,270	128,560	1,169,710
Bridge Repairs - Closed	3,523,889	2,755,623	1,851,138	904,485	-	97,942	3,122,301	97,942	-	401,588	59,791	341,797
Brighton ES Roof Replacement	773,000	38,000	-	-	38,000	-	38,000	-	38,000	735,000	559,547	175,453
Burtons Point Road Reconstruction	2,450,000	-	-	-	-	4,450	4,450	-	4,450	2,445,550	4,050	2,441,500
CAD System	777,480	494,360	-	494,360	-	111,634	605,994	111,634	-	171,486	87,280	84,206
CAMA Software System	300,000	172,013	-	-	172,013	84,555	256,568	-	256,568	43,432	-	43,432
Cavalier Manor Athletics Complex	1,029,763	88,402	-	-	88,402	192,304	280,706	-	280,706	749,057	749,057	-
Cedar Grove Cemetery	167,272	-	-	-	-	6,000	6,000	-	6,000	161,272	2,000	159,272
Churchland Academy Parking Lot Add	77,500	-	-	-	-	6,162	6,162	-	6,162	71,338	71,338	-
Churchland Bridge	35,562,697	3,116,812	-	-	3,116,812	314,805	3,431,617	-	3,431,617	32,131,080	164,181	31,966,899
Churchland Bridge Bike-Ped Enhancements	45,000	-	-	-	-	-	-	-	-	45,000	-	45,000
Churchland Elem Safe Route - Closed	396,270	274,816	274,816	-	-	-	274,816	-	-	121,454	9,729	111,725
Churchland High HVAC	1,962,009	183,487	-	-	183,487	558,416	741,903	-	741,903	1,220,106	122,398	1,097,708
Churchland HS Stage/Sound/Lighting	345,000	-	-	-	-	-	-	-	-	345,000	-	345,000
Churchland Middle Gym - Closed	125,000	-	-	-	-	125,000	125,000	125,000	-	-	-	-
Churchland Middle Restroom Renovation	452,628	-	-	-	-	85,200	85,200	-	85,200	367,428	-	367,428
Churchland Park Field Repairs - Closed	69,752	31,458	(20,591)	52,049	-	-	69,752	-	-	-	-	-
City Fiber Network	750,000	-	-	-	-	743,932	743,932	-	743,932	6,068	6,068	-
City Garage Fleet FY2018	4,033,209	-	-	-	-	3,986,021	3,986,021	3,986,021	-	47,188	40,625	6,563
City Gateways - Closed	1,360,898	945,988	245,177	700,811	-	20,292	966,280	-	20,292	394,618	21,925	372,693
City Park Boat Ramp - Closed	172,000	172,000	-	172,000	-	-	172,000	-	-	-	-	-
City/Schools Joint Financial Management System - Closed	3,046,215	2,911,801	-	2,045,701	-	-	2,911,801	-	-	134,414	-	134,414
Citywide Signal Timing - Closed	120,000	105,175	105,175	-	-	14,780	119,955	14,780	-	45	-	45
Citywide Systematic FYA Improvement	1,323,440	-	-	-	-	33,542	33,542	-	33,542	1,289,898	20,888	1,269,010

(continued)

CITY OF PORTSMOUTH, VIRGINIA
Capital Project Funds
Schedule of Expenditures and Encumbrances - Budget and Actual
June 30, 2018

Exhibit M-1 (continued)

	FY18				Revised Prior	Current	Total	Current	CIP June 30, 2018 Balance	Unexpended Balance	Encumbrances	Unencumbered Balance
	Project Authorization	Prior Year CIP	Prior Year Period Expense	Adjustment Capital	Year Construction In Progress	Year Expenditures		Year Closed				
CJIS Advance Authentication - Closed	228,000	215,235	-	215,235	-	-	215,235	-	-	12,765	-	12,765
CMAQ Signal Timing Phase 4	132,000	-	-	-	-	5,106	5,106	-	5,106	126,894	122,544	4,350
Command/E911 Back Up Vehicle	703,791	-	-	-	-	-	-	-	-	703,791	703,791	-
Court/Bart/Pavilion Intersection	1,321,368	-	-	-	-	64,976	64,976	-	64,976	1,256,392	49,856	1,206,536
Crime Analysis System	112,250	-	-	-	-	-	-	-	-	112,250	-	112,250
Demolition of Buildings - Closed	350,000	-	-	-	-	13,360	13,360	13,360	-	336,640	45,110	291,530
Drainage Facility Repair Lake Management - Closed	34,538,598	25,762,209	8,083,432	17,488,777	-	2,396,340	31,923,302	2,396,340	-	2,615,296	601,024	2,014,272
Dredging of Lakes - Closed	4,268,355	178,312	178,312	-	-	228,080	406,392	228,080	-	3,861,963	53,395	3,808,568
DSS Building	285,000	121,999	-	121,999	-	135,718	257,717	135,718	-	27,283	14,900	12,383
DSS Document Management System	200,000	-	-	-	-	21,764	21,764	-	21,764	178,236	-	178,236
DSS Roof Repair	165,000	8,340	-	-	8,340	-	8,340	-	8,340	156,660	17,350	139,310
DSS Security Monitoring System	113,327	-	-	-	-	-	-	-	-	113,327	-	113,327
Effingham Fire Station Repairs	250,000	-	-	-	-	5,000	5,000	-	5,000	245,000	-	245,000
Election Syst. Software (ES&S) & Equipment	540,241	-	-	-	-	516,508	516,508	-	516,508	23,733	-	23,733
Facility assessments & prelim Engineering	100,000	-	-	-	-	56,549	56,549	-	56,549	43,451	43,451	-
Future School Project -	40,861	-	-	-	-	-	-	-	-	40,861	-	40,861
Garage Bay Improvements - Closed	602,903	602,903	-	602,903	-	-	602,903	-	-	-	-	-
Garage Facilities Repairs	597,044	523,225	523,225	-	-	49,536	572,761	49,536	-	15,933	-	15,933
Harbor Center Pavilion - Closed	489,296	424,351	112,718	311,633	-	64,245	488,596	64,245	-	700	700	-
Hazmat Program - Closed	2,568,743	1,973,937	1,905,070	68,867	-	40,005	2,234,143	40,005	-	334,600	1,750	332,850
High Street & Crawford Street Improvements	35,000	-	-	-	-	8,100	8,100	-	8,100	26,900	21,100	5,800
Highway Safety Improvements - Closed	610,460	372,590	343,199	29,391	-	-	372,590	-	-	237,870	-	237,870
Hodges Manor ES Rooftop Unit Replacement	380,000	-	-	-	-	-	-	-	-	380,000	-	380,000
Interactive Whiteboards - Schools	2,371,633	-	-	-	-	2,308,838	2,308,838	2,308,838	-	62,795	62,795	-
IRC Data Center HVAC & UPS Project	60,000	-	-	-	-	41,124	41,124	-	41,124	18,876	18,876	-
IT Computer Room - Closed	175,000	86,810	-	-	86,810	28,858	115,668	115,668	-	59,332	-	59,332
IT Security Audit	100,000	-	-	-	-	79,107	79,107	79,107	-	20,893	-	20,893
James Hurst, Churchland Primary & Inter	550,000	-	-	-	-	184,011	184,011	-	184,011	365,989	-	365,989
Judicial Facilities - Closed	3,118,461	3,089,218	2,619,093	470,125	-	8,025	3,097,243	8,025	-	21,218	15,770	5,448
Landfill Scales - Closed	200,000	21,389	-	-	21,389	178,611	200,000	200,000	-	-	-	-

(continued)

CITY OF PORTSMOUTH, VIRGINIA
Capital Project Funds
Schedule of Expenditures and Encumbrances - Budget and Actual
June 30, 2018

Exhibit M-1 (continued)

Project	FY18		Prior Year Period Adjustment		Revised Prior	Current	Current		Unexpended		Unencumbered	
	Project Authorization	Prior Year CIP	Expense	Capital	Year Construction In Progress	Year Expenditures	Total Expenditures	Year Closed	CIP June 30, 2018 Balance	Balance	Encumbrances	Balance
Lincoln Park Redevelopment	350,000	11,209	11,209	-	-	-	11,209	-	-	338,791	-	338,791
Midtown Corridor	1,338,322	1,182,400	1,182,400	-	-	-	1,182,400	-	-	155,922	-	155,922
Mt Hermon Preschool Roof Replacement	932,000	-	-	-	-	449,190	449,190	-	449,190	482,810	-	482,810
Mt Hermon Rooftop HVAC Units Replacement	250,000	-	-	-	-	99,562	99,562	-	99,562	150,438	100,601	49,837
Mt Olive & Mt Calvary Improvements	75,000	24,350	24,350	-	-	-	24,350	-	-	50,650	-	50,650
Museums-Capital	30,055	-	-	-	-	-	-	-	-	30,055	-	30,055
Neighborhood Roadway & Drainage	1,000,000	-	-	-	-	424,330	424,330	-	424,330	575,670	226,684	348,986
Outdoor Athletic Lighting - Closed	979,206	978,422	-	978,422	-	-	978,422	-	-	784	784	-
Outside Recreation Facility Repairs - Closed	1,420,185	778,144	-	-	-	100,070	1,361,381	100,070	-	58,804	58,804	-
Paradise Creek - Closed	594,960	566,543	-	478,945	87,598	25,365	591,908	25,365	87,598	3,052	-	3,052
Paradise Creek Bridge Replacement	500,000	-	-	-	-	146,723	146,723	-	146,723	353,277	180,556	172,721
Parking Garage Repairs - Closed	1,751,917	676,780	14,223	662,557	-	396,527	1,073,307	396,527	-	678,610	3,550	675,060
PCCLM Building and Site Improvements	103,021	51,810	-	51,810	-	7,550	59,360	-	7,550	43,661	2,340	41,321
Permitting System Replacement	150,000	-	-	-	-	-	-	-	-	150,000	446	149,554
Portside Festival Site	731,000	-	-	-	-	49,446	49,446	-	49,446	681,554	45,037	636,517
Portsmouth Sports Complex Acquisition & Renovation	6,998,574	5,560,531	(432,612)	-	5,993,143	621,546	6,614,689	6,614,689	-	383,885	-	383,885
Primrose/Hatton Street	405,000	5,715	-	-	5,715	-	5,715	-	5,715	399,285	9,785	389,500
PS New Radio System	11,000,000	3,900,805	-	3,900,805	-	1,562,571	5,463,376	1,562,571	-	5,536,624	5,088,701	447,923
Public Safety Facilities Plan	650,000	-	-	-	-	154,224	154,224	-	154,224	495,776	-	495,776
Public Utilities Operations Facility Upgrade	100,000	-	-	-	-	47,811	47,811	-	47,811	52,189	-	52,189
Public Works Building	85,000	-	-	-	-	8,495	8,495	-	8,495	76,505	-	76,505
Rails and Trails	900,000	64,940	-	-	64,940	172,130	237,070	-	237,070	662,930	69,833	593,097
Recreation Center Enhancements - Closed	1,389,667	158,346	-	158,346	-	34,013	192,359	34,013	-	1,197,308	290,415	906,893
Repair Of Seawall	1,077,023	737,079	115,149	621,930	-	228,494	965,573	228,494	-	111,450	99,967	11,483
Replacement of HVAC - Closed	2,436,052	1,941,047	876,275	1,064,772	-	231,015	2,172,062	231,015	-	263,990	2,570	261,420
Revenue System Treasurer/COR	1,135,917	-	-	-	-	-	-	-	-	1,135,917	-	1,135,917
Roof Replacement - Closed	3,341,696	2,225,637	22,659	403,620	65,164	9,793	2,235,430	6,343	68,604	1,106,266	200,967	905,299
School Bus Fleet Replacement - Closed	4,915,224	1,029,558	1,029,558	-	-	971,067	4,915,224	971,067	-	-	-	-

(continued)

CITY OF PORTSMOUTH, VIRGINIA
Capital Project Funds
Schedule of Expenditures and Encumbrances - Budget and Actual
June 30, 2018

Exhibit M-1 (continued)

	FY18				Revised Prior	Current	Current		Current		Unencumbered	
	Project	Prior Year	Prior Year Period	Adjustment	Year Construction	Year	Total	Year	CIP June 30,	Unexpended	Encumbrances	Unencumbered
	Authorization	CIP	Expense	Capital	In Progress	Expenditures	Expenditures	Closed	2018 Balance	Balance		Balance
School Safety Improvements	1,000,000	-	-	-	-	-	-	-	-	1,000,000	54,832	945,168
Seawall Reinforcement	25,395,269	10,406,420	-	-	10,406,420	6,884,431	17,290,851	-	17,290,851	8,104,418	2,679,715	5,424,703
Signal Replacements - Closed	54,776	54,776	-	-	-	-	-	-	-	54,776	-	54,776
Signal System Upgrades Phase V	1,000,000	-	-	-	-	19,178	19,178	-	19,178	980,822	-	980,822
Signal Timing Phase II - Closed	112,000	105,360	105,360	-	-	-	105,360	-	-	6,640	5,980	660
SWAT Team Delivery & Equipment Truck	196,020	-	-	-	-	-	-	-	-	196,020	193,870	2,150
Systematic Replacement of Non-MUTCD signs	579,928	-	-	-	-	30,225	30,225	-	30,225	549,703	545	549,158
Terminal Impact Mitigation - Closed	936,809	921,164	921,164	-	-	-	921,164	-	-	15,645	-	15,645
Traffic Inventory - Closed	618,548	434,094	420,377	13,717	-	148,906	583,000	148,906	-	35,548	35,548	-
Traffic Signal Improvements - Closed	2,113,301	1,935,548	(42,582)	1,978,130	-	62,833	2,040,963	62,833	-	72,338	72,338	-
Turnpike Road Improve	778,950	491,327	491,327	-	-	8,476	499,803	8,476	-	279,147	130	279,017
Upgrade City's Traffic Signal (2 - 4)	6,600,000	6,295,531	762,623	5,532,908	-	134,731	6,430,262	134,731	-	169,738	55,645	114,093
Various Building Renovations - Closed	4,983,508	4,142,607	409,172	3,698,163	-	596,593	4,739,200	596,593	-	244,308	107,714	136,594
Victory Village - Closed	13,547,131	13,200,853	13,200,853	-	-	-	13,200,853	-	-	346,278	-	346,278
VPDES Permit Compliance - Closed	8,716,271	-	(194,186)	194,186	-	1,575,933	4,963,221	1,569,626	6,307	3,753,050	1,597,207	2,155,843
W Wilson HS HVAC Cooling Tower Replacement	550,000	-	-	-	-	14,349	14,349	-	14,349	535,651	-	535,651
Waste Management Building	1,500,000	-	-	-	-	223,865	223,865	-	223,865	1,276,135	-	1,276,135
Waters Middle School - Closed	72,340	-	-	-	-	72,340	72,340	72,340	-	-	-	-
Westhaven Bicycle Improvements	500,000	-	-	-	-	25,470	25,470	-	25,470	474,530	64,458	410,072
Westhaven Elementary Roof	1,829,207	84,911	-	-	84,911	843,384	928,295	-	928,295	900,912	823,205	77,707
Willet Hall Parking Lot Improvements - Closed	25,000	25,000	1,128	23,872	-	0	25,000	-	-	-	-	-
Wilson High PA	181,000	-	-	-	-	-	-	-	-	181,000	148,385	32,615
Woodrow Wilson High School Roof	2,751,116	81,392	-	-	81,392	1,326,448	1,407,840	-	1,407,840	1,343,276	973,261	370,015
Woodrow Wilson HS Restroom Renovation	876,000	-	-	-	-	-	-	-	-	876,000	-	876,000
\$	240,887,815	107,202,810	35,400,621	47,309,198	20,834,505	30,616,088	149,551,005	23,101,475	28,349,108	91,328,460	17,095,397	74,233,063

When a project is authorized, financing is either presently available or general obligation bonds are authorized to be issued. In anticipation of the issuance of general obligation bonds, bond anticipation notes may be utilized to provide temporary financing. As of June 30, 2018, \$91,328,460, represents the amount authorized but not yet spent. This includes commitments totaling \$17,095,397 that have been reserved for encumbrances for capitalizable and non capitalizable expenditures.

CITY OF PORTSMOUTH, VIRGINIA
Capital Project Funds
Schedule of Expenditures and Encumbrances - Budget and Actual
June 30, 2018

Exhibit M-2

Public Utility Capital Projects Fund

	FY18				Revised Prior	Current	Current					
	Project	Prior Year	Prior Year Period	Adjustment	Year Construction	Year	Year	Total	CIP June 30,	Unexpended		Unencumbered
	Authorization	CIP	Expense	Capital	In Progress	Expenditure	Closed	Expenditure	2018 Balance	Balance	Encumbrances	Balance
Lake Kilby Filter Replacement	\$ 48,600,000	7,778,766	-	-	7,778,766	10,198,242	-	17,977,008	17,977,008	30,622,992	28,557,025	2,065,967
Downtown Master Utility	40,900,000	16,709,807	-	(11,334,014)	5,375,793	6,155,026	-	22,864,833	11,530,819	18,035,167	7,388,157	10,647,010
Sanitary Sewer Overflow	23,865,449	12,292,772	(5,717,343)	(2,919,523)	3,655,905	2,606,848	(1,906,895)	14,899,620	4,355,858	8,965,829	6,143,062	2,822,767
Infrastructure Improvements	17,293,355	4,031,556	(143,415)	(224,749)	3,663,392	934,841	(1,447,703)	4,966,397	3,150,530	12,326,958	990,725	11,336,233
Low Pressure Transmission Main	18,250,000	3,117,196	-	(1,732,879)	1,384,317	1,622,278	-	4,739,474	3,006,595	13,510,526	(270,178)	13,780,704
Miscellaneous Sewer/Sewer Pump Station	14,498,167	9,115,246	(33,840)	(1,667,320)	7,414,086	484,955	(40,408)	9,600,201	7,858,633	4,897,966	2,897,934	2,000,032
Meter Replacement	12,999,000	9,961,567	-	(9,869,757)	91,810	57,191	(149,001)	10,018,758	-	2,980,242	112,844	2,867,398
Lake Kilby Raw Water Pump Station	7,141,418	7,141,418	-	(7,141,418)	-	-	-	7,141,418	-	-	-	-
Replacement of Water Plant Equipment	7,470,396	3,760,417	(744,422)	(841,761)	2,174,234	241,697	(238,931)	4,002,114	2,177,000	3,468,282	251,817	3,216,465
Sewer Cave In	7,124,238	5,348,027	(1,607,614)	(1,641,249)	2,099,164	618,727	-	5,966,754	2,717,891	1,157,484	690,655	466,829
Miscellaneous Water Improvements	4,624,524	3,683,027	(481,898)	(2,065,826)	1,135,303	2,771	(266,273)	3,685,798	871,800	938,726	698,431	240,295
Water Tank Rehab	3,500,000	1,027,470	-	-	1,027,470	205,691	(1,098,313)	1,233,161	134,848	2,266,839	301,695	1,965,144
MUNIS Upgrade	304,000	-	-	-	-	245,250	-	245,250	245,250	58,750	-	58,750
Dam Upgrades	4,033,083	-	(4,270)	-	(4,270)	29,854	-	29,854	25,584	4,003,229	870,899	3,132,330
Suction Well Rehab												
	\$ 210,603,630	83,967,269	(8,732,802)	(39,438,496)	35,795,970	23,403,371	(5,147,524)	107,370,640	54,051,816	103,232,990	48,633,066	54,599,924

In addition to the amount of \$54,051,816 shown above as expended as of June 30, 2018, \$4,712,042 for capitalized interest, bringing total construction in progress to \$58,763,858. As of June 30, 2018, \$103,232,990 represents the amount authorized but not yet spent. This includes commitments totaling \$48,633,066 that have been reserved for encumbrances for capitalizable and non capitalizable expenditures. When a project is authorized, financing is either presently available or general obligation public utility bonds or revenue bonds are authorized to be issued. In anticipation of the issuance of general obligation public utility bonds or revenue bonds, bond anticipation notes may be utilized to provide temporary financing.

CITY OF PORTSMOUTH, VIRGINIA
Capital Project Funds
Schedule of Expenditures and Encumbrances - Budget and Actual
June 30, 2018

Exhibit M-3

Parking Authority Capital Projects Fund

	FY18				Revised Prior	Current		Current				
	Project	Prior Year	Prior Year Period Adjustment		Year Construction	Year	Total	Year	CIP June 30,	Unexpended		Unencumbered
	Authorization	CIP	Expense	Capital	In Progress	Expenditure	Expenditure	Closed	2018 Balance	Balance	Encumbrances	Balance
County Street Parking Garage Replacement	\$ 1,750,000	89,125	-	-	89,125	141,622	230,747	-	230,747	1,519,253	85,144	1,434,109
	\$ 1,750,000	89,125	-	-	89,125	141,622	230,747	-	230,747	1,519,253	85,144	1,434,109

As of June 30, 2018, the ending capital improvements balance for Parking Authority is \$230,747. When a project is authorized, financing is either presently available or general obligation bonds are authorized to be issued. In anticipation of the issuance of general obligation bonds, bond anticipation notes may be utilized to provide temporary financing. As of June 30, 2018, \$1,434,109 represents the amount authorized but not yet spent. This includes commitments totaling \$85,144 that have been reserved for encumbrances for capitalizable and non capitalizable expenditures.

Fiduciary Funds



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CITY OF PORTSMOUTH, VIRGINIA
Combining Statement of Fiduciary Net Position
Fiduciary Funds - Pension OPEB Trust Funds
June 30, 2018

Exhibit N-1

	Portsmouth Supplemental Retirement System	Portsmouth Fire and Police Retirement System	OPEB	Total
Assets				
Cash and temporary investments	\$ 668,508	1,809,644	-	2,478,152
Investments:				
Cash equivalents	-	-	639,760	639,760
Stocks	22,486,109	65,525,080	1,645,096	89,656,285
Bonds	13,046,981	38,019,226	-	51,066,207
International investments	17,245,839	50,254,803	-	67,500,642
Real estate	1,674,683	4,880,069	213,253	6,768,005
Other investments	894,060	2,605,312	548,366	4,047,738
Total investments	55,347,672	161,284,490	3,046,475	219,678,637
Total assets	56,016,180	163,094,134	3,046,475	222,156,789
Net position restricted for pensions and OPEB	56,016,180	163,094,134	3,046,475	222,156,789

CITY OF PORTSMOUTH, VIRGINIA

Exhibit N-2

Combining Statement of Changes in Fiduciary Net Position

Fiduciary Funds - Pension OPEB Trust Funds

Year ended June 30, 2018

	Portsmouth Supplement Retirement System	Portsmouth Fire and Police Retirement System	OPEB	Total
Additions:				
Contributions				
Employers' contributions	\$ 2,229,196	7,098,559	3,000,000	12,327,755
Investment income -				
Interest	1,500,232	4,381,113	-	5,881,345
Realized gains	514,682	1,499,798	-	2,014,480
Unrealized gains	603,432	1,640,316	46,475	2,290,223
Net investment income	2,618,346	7,521,227	46,475	10,186,048
Total additions	4,847,542	14,619,786	3,046,475	22,513,803
Deductions:				
Benefit payments	8,449,587	22,317,498	-	30,767,085
Administrative expenses	54,741	141,156	-	195,897
Net decrease	8,504,328	22,458,654	-	30,962,982
Change in net position	(3,656,786)	(7,838,868)	3,046,475	(8,449,179)
Net position restricted for pension OPEB benefits, beginning of year	59,672,966	170,933,002	-	230,605,968
Net position restricted for pension OPEB benefits, end of year	\$ 56,016,180	163,094,134	3,046,475	222,156,789

Statement of Changes in Assets and Liabilities

Fiduciary Funds-Agency Fund

Year ended June 30, 2018

Description	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
Assets:				
Cash and temporary investments	\$ 5,053	29,745	(41,240)	(6,442)
	5,053	29,745	(41,240)	(6,442)
Liabilities:				
Accounts payable	5,053	29,745	(41,240)	(6,442)
	\$ 5,053	29,745	(41,240)	(6,442)



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STATISTICAL SECTION

This section of the city of Portsmouth'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 city's overall financial health.

Financial Trends

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

Revenue Capacity

These help the reader assess the factors affecting the city's ability to generate its own-source revenues.

Debt Capacity

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

Demographic and Economic information

These offer demographic and economic indicators to help the reader understand the environment within which the city's financial activities take place and to help make comparisons over time and with other governments.

Operating information

These contain information about the city's operations and resources to help the reader understand how the city's financial information relates to the services the city 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
Net Position by Component
Last Ten Fiscal Years
(accrual basis of accounting)

A-1

	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Governmental activities:										
Net investment in capital assets	\$ 176,415,840	179,076,283	186,101,165	196,244,783	210,854,679	232,550,945	244,408,023	241,411,418	242,691,679	220,454,135
Restricted	12,438,087	16,014,789	15,421,510	45,127,451	40,782,876	75,183,391	51,224,402	49,061,774	55,330,226	28,126,959
Unrestricted	27,319,933	32,818,638	33,924,914	11,685,932	17,497,544	(198,671,005)	(283,629,516)	(251,725,514)	(248,155,977)	(194,467,639)
Total governmental activities net position	216,173,860	227,909,710	235,447,589	253,058,166	269,135,099	109,063,331	12,002,909	38,747,678	49,865,928	54,113,455
Business-type activities:										
Net investment in capital assets	114,270,026	122,952,622	128,135,654	132,261,301	140,080,861	146,080,861	151,551,705	126,805,696	144,631,061	153,628,157
Restricted	4,117,658	12,131	-	22,450	-	-	-	-	2,508,031	-
Unrestricted	30,213,505	33,143,573	39,934,125	44,949,451	45,783,929	40,508,841	34,241,084	71,131,481	64,151,335	51,257,896
Total business-type activities net position	148,601,189	156,108,326	168,069,779	177,233,202	185,864,790	186,589,702	185,792,789	197,937,177	211,290,427	204,886,053
Primary Government:										
Net investment in capital assets	290,685,866	302,028,905	314,236,819	328,506,084	350,935,540	378,631,806	395,959,728	368,217,114	387,322,740	374,082,292
Restricted	16,555,745	16,026,920	15,421,510	45,149,901	40,782,876	75,183,391	51,224,402	49,061,774	57,838,257	28,126,959
Unrestricted	57,533,438	65,962,211	73,859,039	56,635,383	63,281,473	(158,162,164)	(249,388,432)	(180,594,033)	(184,004,642)	(143,209,743)
Total Primary Government net position	\$ 364,775,049	384,018,036	403,517,368	430,291,368	454,999,889	295,653,033	197,795,698	236,684,855	261,156,355	258,999,508

CITY OF PORTSMOUTH, VIRGINIA

Changes in Net Position

Last Ten Fiscal Years

(accrual basis of accounting)

	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Expenses:										
Governmental activities:										
General government	\$ 26,462,771	25,866,086	28,573,377	30,092,575	27,914,580	195,651,602	30,847,939	25,571,539	37,937,076	41,880,739
Nondepartmental	-	-	-	-	-	-	-	-	-	-
Judicial	22,068,062	21,162,771	20,042,432	19,262,329	23,819,021	25,931,635	22,663,405	24,814,308	23,792,900	19,594,390
Public safety	59,957,146	63,317,938	62,543,317	67,822,960	66,483,899	58,678,933	56,785,068	51,693,737	56,460,539	53,633,703
Public works	29,535,176	20,801,656	20,669,966	19,227,479	18,919,255	22,082,142	24,259,546	20,442,395	30,344,639	34,975,403
Health and welfare	40,267,351	39,291,574	38,261,597	37,676,063	34,805,940	35,701,774	32,894,672	32,409,223	30,170,881	29,216,518
Parks, recreational, and cultural	13,000,940	12,702,857	12,333,047	12,165,461	12,107,699	10,405,765	9,868,300	11,067,649	10,808,887	6,040,917
Community development	9,306,525	14,441,114	7,738,435	8,697,999	9,317,701	7,924,716	6,474,948	6,020,487	8,253,909	6,225,421
Education	53,881,305	54,518,784	50,591,187	51,759,963	41,411,783	52,948,197	55,140,801	53,908,322	55,180,440	46,578,589
Interest on long-term debt	10,573,858	10,486,906	13,258,680	12,743,363	13,535,905	19,560,389	19,484,834	18,198,185	15,532,828	20,277,513
Total governmental activities expenses	265,053,134	262,589,686	254,012,038	259,448,192	248,315,783	428,885,153	258,419,513	244,125,845	268,482,099	258,423,193
Business-type activities:										
Public Utility	22,589,478	21,621,779	21,142,197	23,289,442	21,168,537	25,719,104	23,945,770	22,974,962	22,740,807	32,062,022
Golf	2,400,930	2,393,003	2,322,045	2,218,731	2,104,720	2,406,829	2,336,303	2,050,694	1,697,090	2,067,354
Port Facility and Economic Development	86,922	66,520	46,118	46,119	46,118	46,118	46,119	-	-	-
Parking Authority	1,644,011	1,625,763	1,582,680	1,558,720	1,348,920	1,395,552	1,185,598	1,151,506	1,176,209	1,119,619
Waste Management	12,314,318	14,138,088	13,576,422	11,779,665	9,662,917	10,559,613	10,245,752	10,041,170	10,186,922	9,652,409
Total business-type activities expenses	39,035,659	39,845,153	38,669,462	38,892,677	34,331,212	40,127,216	37,759,542	36,218,332	35,801,028	44,901,404
Total primary government expenses	304,088,793	302,434,839	292,681,500	298,340,869	282,646,995	469,012,369	296,179,055	280,344,177	304,283,127	303,324,597
Program Revenues:										
Governmental activities:										
Charges for services										
General government	2,146,434	1,774,399	1,891,508	1,785,252	3,104,397	3,395,648	3,191,781	2,922,590	3,197,150	3,202,906
Judicial	224,907	240,998	708,180	1,004,567	343,106	271,277	576,660	571,659	178,372	159,077
Public safety	1,298,471	2,637,180	1,673,586	2,119,660	2,497,470	1,676,260	3,528,623	3,586,477	2,432,614	3,299,769
Public works	5,637,793	6,330,032	6,880,735	7,316,713	7,809,614	8,017,983	7,596,091	7,602,200	7,645,659	8,659,518
Health and welfare	431,309	414,062	538,388	519,049	600,194	596,831	973,317	1,242,294	806,120	1,884,948
Parks, recreation, and cultural	1,579,501	1,352,352	1,302,264	2,160,956	2,587,705	2,396,043	2,321,055	2,992,632	2,405,301	2,455,855
Community development	491,841	495,427	518,730	523,373	1,149,814	1,206,617	1,971,830	3,397,562	3,676,204	1,988,338
Operating grants and contributions	79,186,102	82,372,531	77,217,853	86,594,753	70,737,857	71,792,163	67,982,527	66,867,871	67,314,255	64,669,930
Capital grants and contributions	500,000	4,635,095	3,344,556	6,070,568	1,422,747	2,655,741	5,052,229	696,766	2,188,987	3,145,146
Total governmental activities program revenues	\$ 91,496,358	100,252,076	94,075,800	108,094,891	90,252,904	92,008,563	93,194,113	89,880,051	89,844,662	89,465,487
Business-type activities:										
Charges for services:										
Public Utility	35,337,953	35,530,749	39,910,309	39,594,823	39,563,702	41,678,038	41,521,351	44,203,060	42,498,157	41,663,524
Golf	1,363,934	1,329,452	1,305,030	1,355,710	1,128,337	1,082,375	1,096,110	1,175,592	873,507	1,095,721
Port Facility and Economic Development	-	-	-	-	-	-	-	-	-	-
Parking Authority	1,079,056	1,071,822	1,060,760	1,111,152	1,118,200	1,093,811	924,588	995,542	953,160	973,460
Waste Management	12,332,045	15,037,913	14,123,658	12,765,158	12,502,496	12,331,294	11,751,149	12,438,646	12,573,844	11,397,440

CITY OF PORTSMOUTH, VIRGINIA
Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)

A-2 (continued)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Business-type activities, continued:										
Operating grants and contributions	\$ 680,000	680,000	680,000	680,000	280,000	-	-	-	-	-
Capital grants and contributions	118,438	-	-	-	-	-	-	-	-	-
Total business-type activities program revenues	50,911,426	53,649,936	57,079,757	55,506,843	54,592,735	56,185,518	55,293,198	58,812,840	59,898,668	55,130,145
Total Primary Government program revenues	142,407,784	153,902,012	151,155,557	163,601,734	144,845,639	148,194,081	148,487,311	148,692,891	146,743,330	144,595,632
Net (Expense)/Revenue										
Governmental activities	(173,556,776)	(162,337,610)	(159,936,238)	(151,353,301)	(158,062,879)	(336,876,590)	(165,225,400)	(154,245,794)	(178,637,437)	(168,957,706)
Business-type activities	11,875,767	13,804,783	18,410,295	16,614,166	20,261,523	16,058,302	17,533,656	22,594,508	21,097,640	10,228,741
Total Primary Government net (expense)/revenue	(161,681,009)	(148,532,827)	(141,525,943)	(134,739,135)	(137,801,356)	(320,818,288)	(147,691,744)	(131,651,286)	(157,539,797)	(158,728,965)
General Revenues and Other Changes in Net Assets:										
Governmental activities:										
Taxes:										
General property taxes	117,984,153	120,258,870	115,291,349	118,370,186	116,035,670	116,536,186	116,197,273	119,741,652	118,800,657	120,322,381
Other local taxes	35,706,007	36,601,504	34,894,374	35,064,984	35,995,762	37,674,332	39,934,290	38,783,705	39,194,725	39,144,817
Utility taxes	7,676,029	7,579,044	7,709,251	7,418,449	8,047,196	8,145,465	8,001,981	8,053,834	8,019,365	8,154,958
Licenses, permits, and privilege fees	-	-	-	-	-	-	-	-	-	-
Payment from component unit	-	-	-	-	-	-	-	-	-	-
Investment earnings	693,008	168,877	168,418	102,301	1,291,260	591,371	662,555	1,480,919	1,040,792	2,438,303
Net gain on disposal of capital assets	-	-	-	(75,704)	-	-	-	-	-	-
Miscellaneous	2,424,036	2,568,498	2,302,921	2,433,785	3,863,492	6,192,905	3,776,579	4,193,125	12,577,198	17,197,309
Transfers	7,382,948	6,896,667	7,106,789	8,008,973	9,928,251	9,006,934	9,244,703	9,336,088	10,122,950	8,722,105
Total governmental activities	171,866,181	174,073,460	167,473,102	171,322,974	175,161,631	178,147,193	177,817,381	181,589,323	189,755,687	195,979,873
Business-type activities:										
Contributions-Land	-	-	-	-	-	-	268,297	-	-	-
Investment earnings	610,492	154,560	106,869	95,376	170,968	537,392	486,790	485,672	747,570	1,371,144
Gain on sale of capital assets	4,176	32,775	(69,991)	-	-	-	-	-	-	-
Miscellaneous	667,679	499,410	716,744	462,854	713,526	593,289	587,082	772,630	1,630,990	369,060
Transfers	(7,382,948)	(6,984,391)	(7,106,789)	(8,008,973)	(9,928,251)	(9,006,934)	(9,244,703)	(9,921,248)	(10,122,950)	(8,722,105)
Total business-type activities	(6,100,601)	(6,297,646)	(6,353,167)	(7,450,743)	(9,043,757)	(7,876,253)	(7,902,534)	(8,662,946)	(7,744,390)	(6,981,901)
Total Primary Government	165,765,580	167,775,814	161,119,935	163,872,231	166,117,874	170,270,940	169,914,847	172,926,377	182,011,297	188,997,972
Change in Net Position:										
Governmental activities	(1,690,595)	11,735,850	7,536,864	19,969,673	17,098,752	(158,729,397)	12,591,981	27,343,529	11,118,250	27,022,167
Business-type activities	5,775,166	7,507,137	12,057,128	9,163,423	11,217,766	8,182,049	9,631,122	13,931,562	13,353,250	3,246,840
Total Primary Government	\$ 4,084,571	19,242,987	19,593,992	29,133,096	28,316,518	(150,547,348)	22,223,103	41,275,091	24,471,500	30,269,007

CITY OF PORTSMOUTH, VIRGINIA
Fund Balances, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

A-3

	2009	2010	2011*	2012	2013	2014	2015	2016	2017	2018
General Fund										
Reserved	3,246,548	2,934,768	-	-	-	-	-	-	-	-
Unreserved	32,608,666	45,394,978	-	-	-	-	-	-	-	-
Nonspendable	-	-	2,660,735	2,464,610	2,278,106	2,081,981	1,635,945	1,439,820	-	1,129,260
Restricted	-	-	140,677	295,762	18,549,834	233,444	254,070	231,460	3,088,288	595,922
Committed	-	-	-	7,880,834	7,187,371	16,652,635	-	-	-	5,817,715
Assigned	-	-	60,627	5,846	-	-	4,640,047	6,035,208	5,835,038	6,843,249
Unassigned	-	-	48,667,799	53,631,444	236,707,641	52,168,051	54,088,231	58,427,712	57,358,331	56,699,726
Total General Fund	35,855,214	48,329,746	51,529,838	64,278,496	264,722,952	71,136,111	60,618,293	66,134,200	66,281,657	71,085,872
All Other Governmental Funds										
Reserved	9,013,543	17,861,357	-	-	-	-	-	-	-	-
Unreserved, reported in:	-	-	-	-	-	-	-	-	-	-
Special revenue funds	6,219,375	19,580,665	-	-	-	-	-	-	-	-
Permanent funds (1)	394,025	448,205	-	-	-	-	-	-	-	-
Capital projects funds	21,751,465	56,173,437	-	-	-	-	-	-	-	-
Nonspendable	-	-	1,002,223	1,002,223	1,002,223	1,002,223	1,002,223	1,002,223	-	1,000,277
Restricted	-	-	72,136,623	43,831,689	39,629,756	55,095,264	49,610,850	48,830,314	46,150,142	25,401,502
Committed	-	-	689,701	623,988	367,043	423,876	-	-	-	10,643,271
Assigned	-	-	-	-	618,921	311,668	421,026	657,536	-	-
Unassigned	-	-	(29,999)	(278,692)	-	(617,700)	(3,194,659)	(2,124,671)	(2,443,922)	(285,517)
Total all other governmental funds	37,378,408	94,063,664	73,798,548	45,179,208	41,617,943	56,215,331	47,839,440	48,365,402	43,706,220	36,759,533

*Classification change (GASB54) beginning in FY11 Special Revenue, Permanent, & Capital Projects fund balance is comprised of Restricted, Committed, and Assigned fund balances

CITY OF PORTSMOUTH, VIRGINIA
Changes in Fund Balances, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

A-4

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenues										
Taxes	161,152,304	163,986,237	159,191,656	160,062,205	160,108,769	161,907,337	164,133,541	165,989,121	165,316,609	166,143,061
Licenses and permits	926,923	1,136,981	1,117,152	883,022	832,610	959,486	954,328	1,133,825	1,101,703	1,184,721
Fines and forfeitures	173,529	184,741	572,821	853,101	867,213	633,409	692,844	623,879	393,231	407,379
Investment income and use of property	3,181,215	2,287,625	2,316,889	2,179,404	1,952,293	2,034,326	2,104,418	1,864,034	2,256,497	3,614,523
Charges for services	8,189,038	9,773,256	9,468,478	11,795,141	12,796,551	12,659,493	12,795,031	13,227,327	12,300,039	13,820,844
Recovered costs	4,135,037	4,331,770	4,085,061	3,708,285	3,598,403	3,842,764	3,935,523	3,880,881	3,094,150	3,250,747
Miscellaneous	4,556,269	9,434,921	4,931,402	17,765,172	4,451,002	6,252,378	3,678,609	4,432,350	6,981,435	4,707,444
Intergovernmental	76,140,401	78,583,705	76,639,575	75,920,149	72,780,080	74,876,626	75,974,575	73,090,368	73,792,879	70,603,236
Program income	-	-	-	-	-	-	-	-	-	326,162
Sale of commodities and property	-	-	-	-	-	-	-	-	-	-
Total revenues and other sources	258,454,716	269,719,236	258,323,034	273,166,479	257,386,921	263,165,819	264,268,869	264,241,785	265,236,543	264,058,117
Expenditures										
General government	16,146,243	15,503,424	15,711,620	15,501,466	15,905,233	17,178,147	17,584,368	16,668,136	17,279,723	18,831,693
Nondepartmental	9,503,827	9,276,215	9,975,985	11,496,297	12,138,227	180,581,237	12,584,942	11,586,048	11,609,303	11,230,129
Judicial	20,605,038	19,198,298	18,945,494	18,496,993	20,179,701	20,547,549	20,977,970	19,135,481	18,825,217	18,987,412
Public safety	59,009,982	60,853,783	60,446,711	62,240,428	61,441,195	54,113,766	57,143,666	53,900,072	56,384,491	59,002,490
Public works	17,413,077	15,539,098	16,033,880	15,588,397	16,786,940	17,804,330	19,857,877	17,460,963	16,051,725	18,389,321
Health and welfare	41,062,430	38,131,285	37,792,064	35,594,381	32,239,186	34,072,749	34,041,970	32,037,049	30,793,964	30,161,237
Parks, recreation, and cultural	12,230,804	11,577,153	11,608,738	11,091,361	11,448,655	10,672,489	9,574,714	10,114,937	12,048,666	11,879,662
Community development	9,033,730	9,476,115	7,175,300	8,101,488	7,906,297	6,717,779	5,669,431	4,946,123	5,379,225	5,143,342
Debt service:										
Principal	14,251,629	10,467,075	9,843,352	10,075,319	10,739,261	19,951,362	18,912,510	20,049,788	21,413,187	10,959,457
Interest and other debt service charges	10,329,837	11,185,563	12,332,018	13,029,154	14,313,937	16,213,438	19,147,205	18,507,554	16,428,402	26,335,349
Education	49,818,483	48,171,651	48,171,651	49,571,413	39,849,897	50,528,423	52,550,163	51,200,000	52,400,000	45,556,751
Capital outlay	21,638,382	33,782,150	58,653,655	46,037,429	13,961,951	23,674,694	25,025,125	11,866,954	24,188,084	29,716,193
Total expenditures	281,043,462	283,161,810	306,690,468	296,824,126	256,910,480	452,055,963	293,069,941	267,473,105	282,801,987	286,193,036
(Deficiency)/Excess of revenues over (under) expenditures	(22,588,746)	(13,442,574)	(48,367,434)	(23,657,647)	476,441	(188,890,144)	(28,801,072)	(3,231,320)	(17,565,444)	(22,134,919)
Other financing sources (uses)										
Transfers in	20,261,687	22,382,161	22,117,233	22,880,724	21,594,945	88,968,251	66,035,010	62,566,204	61,176,380	66,597,507
Transfers out	(11,137,307)	(16,730,817)	(16,492,768)	(15,331,422)	(12,459,843)	(78,447,095)	(56,502,867)	(53,326,537)	(51,928,913)	(57,092,269)
Proceeds from capital leases	358,080	-	-	-	-	-	-	-	-	-
Proceeds from debt issued	157,743	2,219,887	-	-	-	-	-	-	-	-
Payments from component unit	-	-	-	-	-	-	-	-	-	-
Discount on bonds issued	(351,552)	(1,777,830)	-	-	-	-	-	-	-	761,000
VPSA Subsidy	-	1,324,727	-	-	-	-	-	-	-	-
Payments to escrow agent	(45,565,623)	-	-	-	-	-	-	-	-	(81,531,318)
Payment for current refunding of debt	-	-	-	-	-	-	(30,446,686)	(56,930,880)	-	-
Premium on bonds issued	994,187	839,121	3,908,502	1,962,885	10,661,550	-	-	4,358,163	-	-
General obligation bonds issued	-	74,345,113	68,547,102	31,450,000	254,465,000	-	30,821,906	53,205,000	6,143,000	85,520,779
BAN Proceeds	29,925,000	-	-	-	-	-	-	-	-	-
Bridge Loan	-	-	-	-	-	-	-	-	-	3,400,000
Refunding bonds issued	45,725,000	-	(46,778,674)	(33,175,221)	(77,854,902)	-	-	-	-	-
Total other financing sources (uses), net	40,367,215	82,602,362	31,301,395	7,786,966	196,406,750	10,521,156	9,907,363	9,871,950	15,390,467	17,655,699
Net change in fund balances	17,778,469	69,159,788	(17,066,039)	(15,870,681)	196,883,191	(178,368,988)	(18,893,709)	6,640,630	(2,174,977)	(4,479,220)
Debt service as a percentage of noncapital expenditure, as restated	9.48%	8.68%	8.94%	9.21%	10.31%	8.44%	14.20%	15.08%	14.54%	14.14%

CITY OF PORTSMOUTH, VIRGINIA
Assessed Value and Estimated Actual Value of Taxable Real Property
 Last Ten Fiscal Years
(in thousands of dollars)

B-1

Fiscal Year Ended 6/30/2018	Residential Property	Commercial Property	Industrial Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value
2018	\$ 5,124,105	\$ 1,782,294	\$ 400,870	\$ 7,307,269	\$ 1.30	\$ 7,307,269
2017	5,094,814	1,775,072	399,322	7,269,208	1.30	7,269,208
2016	5,040,388	1,733,055	399,095	7,172,538	1.30	7,172,538
2015	5,024,940	1,745,055	399,665	7,169,660	1.27	7,169,660
2014	5,032,854	1,723,320	402,731	7,158,905	1.27	7,158,905
2013	5,039,792	1,697,096	396,839	7,133,727	1.27	7,133,727
2012	5,132,403	1,900,610	402,017	7,435,030	1.27	7,435,030
2011	5,198,747	1,729,629	404,688	7,333,064	1.24	7,333,064
2010	5,452,716	1,818,679	406,222	7,677,617	1.24	7,677,617
2009	5,456,525	1,717,052	418,087	7,591,664	1.21	7,591,664

Source: City Assessor's Office

CITY OF PORTSMOUTH, VIRGINIA

B-2

Property Tax Rates

Last Ten Fiscal Years

Fiscal Year	Real Property (1)	Personal Property (2)			Manufacturer's Machinery and Tools (3)
		Vehicles	Boats	RV's	
2018	\$ 1.30	\$ 5.00	\$ 0.50	\$ 1.50	3.00
2017	1.30	5.00	0.50	1.50	3.00
2016	1.30	5.00	0.50	1.50	3.00
2015	1.27	5.00	0.50	1.50	3.00
2014	1.27	5.00	0.50	1.50	3.00
2013	1.27	5.00	0.50	1.50	3.00
2012	1.27	5.00	0.50	1.50	3.00
2011	1.24	5.00	0.50	1.50	3.00
2010	1.24	5.00	0.50	1.50	3.00
2009	1.21	5.00	0.50	1.50	3.00

(1) As required by State law, real estate is assessed at 100% of estimated fair market value. The real estate rate is per \$100 of assessed value.

(2) Most personal property, primarily vehicles and boats, is assessed at 100% of the National Automobile Dealer Association (NADA) average loan values and BUC Boat Price Guide values. Business personal property is assessed using a predetermined depreciation schedule.

(3) The assessment basis for Manufacturer's Machinery and Tool is calculated on a straight 50 percent of original cost method. The tax rate is per \$100 of assessed value.

CITY OF PORTSMOUTH, VIRGINIA
Principal Property Tax Payers
Current Year and Nine Years Ago

B-3

Taxpayer	2018		2009	
	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value (1)	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value
Virginia International Gateway Inc.	\$ 324,414,370	4.07%		
Dominion Virginia Power	39,080,537	0.49%		
GEM Portsmouth High LLC	31,459,500	0.40%		
Columbia Gas of Virginia Inc.	27,513,208	0.35%		
G&E Apartment REIT The Myrtles	27,000,000	0.34%		
Westwinds Property LLC	24,811,245	0.31%		
Metro Machine Corp.	22,071,490	0.28%		
Wheelabrator Portsmouth Inc.	22,047,569	0.28%		
PRHA	21,829,086	0.27%		
Lincoln Family Communities LLC	19,967,294	0.25%		
APM Terminals			\$ 410,902,320	5.00%
Dominion Virginia Power			47,213,180	0.57%
GEM Portsmouth High LLC			33,851,910	0.46%
Myrtles at Olde Towne			30,144,020	0.41%
Verizon			26,462,930	0.36%
Economic Development Authority (2)			25,356,290	0.35%
Harper Ave LLC			23,756,610	0.32%
Columbia Gas of Virginia			22,771,920	0.31%
Westwinds Associates			22,597,350	0.31%
Portsmouth Venture One LLC			21,988,498	0.30%
	<u>\$ 560,194,299</u>	<u>7.03%</u>	<u>\$ 665,045,028</u>	<u>8.40%</u>

(1) FY 2017 total city taxable assessed value- \$7,914,143,083

Source: Portsmouth City Assessor and Portsmouth Commissioner of the Revenue

CITY OF PORTSMOUTH, VIRGINIA
Property Tax Levies and Collections
Last Ten Fiscal Years

B-4

Real Estate:

Tax Year	Fiscal Year Ending	Original Tax Levy	Taxes Collected In Year of Levy	Percent of Taxes Collected In Year of Levy	Delinquent Taxes Collected to June 30, 2018	Total Tax Collections to June 30, 2018	Adjustments To Levy (3)	Outstanding Taxes A/R June 30, 2018	Percent of Adjusted Levy Collected to June 30, 2018
2017	June 30, 2018	\$ 93,340,092	\$ 87,454,514	93.69%	\$ -	\$ 87,454,514	\$(1,246,012)	\$ 4,639,566	94.96%
2016	June 30, 2017	92,868,293	86,739,589	93.40	4,240,974	90,980,563	(1,282,997)	604,733	99.34
2015	June 30, 2016	91,537,233	85,998,777	93.95	4,055,934	90,054,711	(1,192,410)	290,112	99.68
2014	June 30, 2015	89,337,507	83,972,704	93.99	3,780,587	87,753,291	(1,334,720)	249,496	99.72
2013	June 30, 2014	89,135,633	83,706,341	93.91	4,303,156	88,009,497	(897,965)	228,171	99.74
2012	June 30, 2013	88,808,682	83,261,282	93.75	4,767,709	88,028,991	(566,958)	212,733	99.76
2011	June 30, 2012	92,659,186	85,681,654	92.47	3,905,036	89,586,690	(3,016,184)	56,312	99.94
2010	June 30, 2011	89,613,578	84,590,952	94.40	4,714,494	89,305,446	(274,575)	33,557	99.96
2009	June 30, 2010	92,594,347	88,287,197	95.35	3,894,879	92,182,076	(388,953)	23,318	99.97
2008	June 30, 2009	89,813,809	85,735,326	95.46	4,217,464	89,952,790	181,175	42,194	99.95

Personal Property:

Tax Year	Fiscal Year Ending	Original Tax Levy (2)	Taxes Collected In Year of Levy (1)	Percent of Taxes Collected In Year of Levy (1)	Delinquent Taxes Collected to June 30, 2018	Total Tax Collections to June 30, 2018	Adjustments To Levy (3)	Outstanding Taxes A/R June 30, 2018	Percent of Adjusted Levy Collected to June 30, 2018
2018	June 30, 2018	\$ 20,278,000	\$ 15,383,909	75.87%	\$ -	\$ 15,383,909	\$ 778,839	\$ 5,672,930	73.06%
2017	June 30, 2017	20,208,249	14,992,869	74.19	7,969,359	22,962,228	4,110,424	1,356,445	94.42
2016	June 30, 2016	23,350,303	17,520,280	75.03	8,012,861	25,533,141	3,052,136	869,298	96.71
2015	June 30, 2015	22,974,088	17,782,605	77.40	8,010,864	25,793,469	3,472,775	653,394	97.53
2014	June 30, 2014	23,014,501	17,444,594	75.80	8,536,851	25,981,445	3,790,638	823,694	96.93
2013	June 30, 2013	23,241,660	17,511,643	75.35	8,164,589	25,676,232	3,092,609	658,037	97.50
2012	June 30, 2012	21,841,734	17,181,394	78.66	7,410,063	24,591,457	2,749,723	-	100.00
2011	June 30, 2011	18,093,172	13,653,563	75.46	9,539,935	23,193,498	5,100,327	-	100.00
2010	June 30, 2010	19,582,168	14,843,139	75.80	9,093,695	23,936,834	4,354,665	-	100.00
2009	June 30, 2009	19,030,247	14,156,894	74.39	8,550,388	22,707,282	3,677,035	-	100.00

- (1) Personal property taxes are assessed on property owned as of January 1 and become due June 5th of each year. Because the due date falls so near the last day of the fiscal year, there is normally a substantial amount of delinquent taxes receivable as of the close of the fiscal year, the majority of which is collected in the following fiscal year.
- (2) The original levy for FY2018 is \$30,464,540 less the tax credit of \$10,186,540 equaling \$20,278,000 as shown
- (3) Includes supplements, abatements, prorations, adjustments and writeoffs.

CITY OF PORTSMOUTH, VIRGINIA
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years
(dollars in thousands, except per capita)

Fiscal Year	Governmental Activities						Business-Type Activities				
	General Obligation Bonds	General Obligation Notes	Literary Loans	Capital Leases	Less: Restricted for Debt Service	Net Government Debt	General Obligation Bonds	Capital Leases	Total Primary Government	Percentage of Personal Income	Per Capita
2018	\$ 392,825	-	-	2,865	-	433,682	127,386	-	561,068	*	*
2017	429,077	-	250	4,355	-	433,682	144,104	-	577,786	*	*
2016	444,257	-	500	6,072	-	450,829	151,784	27	602,640	*	6,221
2015	456,144	-	750	8,206	-	465,100	159,436	223	624,759	15.9%	6,441
2014	473,497	-	1,000	10,246	-	484,743	165,494	416	650,653	17.4%	6,588
2013	493,637	-	1,250	13,172	-	508,059	172,055	1,130	681,244	18.1%	6,991
2012	265,568	48,730	1,500	16,024	-	331,822	175,492	2,021	509,335	13.4%	5,263
2011	265,940	50,455	1,875	17,254	-	335,524	125,832	2,574	463,930	12.9%	4,864
2010	241,816	25,329	2,250	13,474	-	282,869	130,284	2,208	415,361	12.2%	4,348
2009	199,733	-	2,625	16,765	-	219,123	103,454	3,128	325,705	9.8%	3,319

The city of Portsmouth has no overlapping debt.

* Information not available at this time.

CITY OF PORTSMOUTH, VIRGINIA
Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years
(dollars in thousands, except per capita)

C-2

Fiscal Year	General Bonded Debt Outstanding (1)		Percentage of Actual Taxable Value of Property	Per Capita
	General Obligation Bonds (1)	Total (2)		
2018	\$ 520,390	\$ 520,390	7.12%	\$ -
2017	553,277	553,277	7.71%	5,753
2016	576,468	576,468	8.04%	5,951
2015	615,580	615,580	8.59%	6,399
2014	638,991	638,991	8.93%	6,596
2013	665,692	665,692	9.33%	6,831
2012	441,060	441,060	5.93%	4,557
2011	442,227	442,227	6.03%	4,636
2010	279,932	279,932	3.65%	2,930
2009	212,851	212,851	2.28%	2,169

(1) Includes general obligation bonds, public utility bonds, golf bonds, and parking bonds.

(2) Amounts do not include premiums or discounts.

CITY OF PORTSMOUTH, VIRGINIA
Legal Debt Margin Information
Last Ten Fiscal Years
(dollars in thousands)

C-3

Legal Debt Margin Calculation for Fiscal Year 2018

Assessed value	\$ 7,307,269
Debt limit (10% of assessed value)	730,727
Debt applicable to limit:	<u>561,547</u>
Legal debt margin	<u><u>\$ 169,180</u></u>

	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Debt limit	\$ 759,166	767,762	733,306	743,503	713,373	715,891	716,966	717,254	726,921	730,727
Total net debt applicable to limit	241,689	308,221	326,609	316,767	631,739	606,121	577,420	557,355	536,765	561,547
Legal debt margin	517,477	459,541	406,697	426,736	81,634	109,770	139,546	159,899	190,156	169,180
Total net debt applicable to limit as a percentage of debt limit	31.8%	40.1%	44.5%	42.6%	88.6%	84.7%	80.5%	77.7%	73.8%	76.8%

CITY OF PORTSMOUTH, VIRGINIA
Demographic and Economic Statistics
Last Ten Fiscal Years

D-1

Year	Population (1)	Personal Income (thousands of dollars) (2)	Per Capita Personal Income (2)	Median Age (3)	School Enrollment (4)	Unemployment Rate (5)
2018	*	*	*	*	13,464	4.30%
2017	95,440	\$ 3,785,301	\$ 40,026	36	13,713	5.60%
2016	96,179	3,653,671	38,461	35	14,003	6.50%
2015	96,874	3,730,926	38,766	33.6	14,168	6.20%
2014	96,802	3,575,293	67,220	34.4	14,079	7.20%
2013	96,871	3,490,705	36,335	35.0	14,215	8.30%
2012	97,450	3,495,170	36,233	34.9	14,256	9.10%
2011	96,368	3,459,147	36,131	34.7	14,099	9.50%
2010	95,535	3,310,478	34,683	35.8	14,225	9.50%
2009	96,282	3,198,152	33,529	32.9	14,331	8.70%

*Information not available at this time.

(1) Weldon Cooper Center for Public Service, University of Virginia

(2) Bureau of Economic Analysis

(3) Census Bureau, American Community Survey, 1-Year Estimates

(4) Virginia Department of Education, March 31 average daily membership

(5) Bureau of Labor Statistics, June Estimate

CITY OF PORTSMOUTH, VIRGINIA
Principal Employers
Current Year and Nine Years Ago

D-2

Employer	2018			2009		
	# of Employees	Rank	Percentage of Total City Employment	# of Employees	Rank	Percentage of Total City Employment
Norfolk Naval Shipyard	11,000	1	41.34%	8,000	1	16.47%
Naval Medical Center, Portsmouth	5,070	2	19.05%	5,400	2	11.12%
US Coast Guard Command- Portsmouth	2,500	3	9.40%	1,500	6	3.09%
Portsmouth Public Schools	2,180	4	8.19%	2,400	4	4.94%
City of Portsmouth	1,858	5	6.98%	2,645	3	5.44%
Bon Secours Maryview Medical Center	1,300	6	4.89%	2,000	5	4.12%
Earl Industries	900	7	3.38%	571	8	1.18%
Virginia International Gateway	700	8	2.63%			
Tidewater Community College	600	9	2.25%			
The Pines Residential Treatment Center	500	10	1.88%			
Smithfield of Portsmouth	-	-	0.00%	500	9	1.03%
Alternative Behavior Services (FHC)	-	-	0.00%	800	7	1.65%
Direct Home Healthcare, Inc.	-	-	0.00%	375	10	0.77%
Total	26,608		100.00%	24,191		49.81%

Sources: Portsmouth Department of Economic Development
 Norfolk Naval Shipyard, Portsmouth
 Naval Medical Center, Portsmouth
 Portsmouth Public Schools FY2019 Budget
 City of Portsmouth FY2019 Budget

CITY OF PORTSMOUTH, VIRGINIA
Full-time Equivalent Employees by Function/Program
Last Ten Fiscal Years

E-1

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
General Fund										
General government	144	133	167	132	139	123	127	124	144	148
Judicial	252	249	240	242	253	246	242	227	221	222
Public Safety	597	591	590	611	625	584	576	530	537	545
Public Works	104	359	359	87	86	96	89	58	65	65
Health and Welfare	-	-	-	-	-	-	-	-	-	-
Parks, Recreational, and Cultural Services	120	127	126	106	107	73	70	92	170	196
Community Development	66	48	48	48	51	46	43	38	38	40
Total General Fund	1,283	1,507	1,530	1,226	1,261	1,168	1,147	1,069	1,175	1,216
Special Revenue Funds										
Willett Hall Fund	1	1	1	2	2	1	1	1	1	-
Children's Services Act Fund	3	3	3	3	3	2	1	-	-	-
Stormwater Management Fund	31	23	23	23	27	22	24	21	16	14
Grants	31	28	24	27	-	-	-	-	-	-
Behavioral Health Services Fund	137	122	120	120	120	94	85	82	100	92
Social Services Fund	254	248	245	245	246	216	174	175	186	163
Total Special Revenue Funds	457	425	416	420	398	335	285	279	303	269
Enterprise Funds										
Public Utilities Fund	145	138	138	138	139	103	102	85	77	82
Golf Fund	19	17	17	17	17	16	15	11	11	11
Waste Management Fund	75	68	68	68	62	50	45	44	45	40
Parking Authority Fund	6	6	6	6	6	3	2	2	3	4
Total Enterprise Funds	245	229	229	229	224	172	164	142	136	137
Internal Service Funds										
City Garage Fund	41	36	36	35	35	34	32	33	28	28
Information Technology Fund	39	26	26	33	26	25	22	23	29	29
Risk Management Fund	2	8	3	3	3	1	1	3	2	2
Total Internal Service Funds	82	70	65	71	64	60	55	59	59	59
Total All Funds	2,067	2,231	2,240	1,946	1,947	1,735	1,651	1,549	1,673	1,681

Source: Munis Employee Master download June 30, 2018

CITY OF PORTSMOUTH, VIRGINIA
Operating Indicators by Function/Program
Last Ten Fiscal Years

E-2

<u>Function/Program</u>	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Police										
Physical arrests	9,747	10,374	9,422	6,131	8,835	8,844	8,218	9,097	6,617	5,896
Parking violations	8,124	12,162	9,023	11,000	6,717	5,558	3,639	4,102	2,976	2,247
Traffic violations	11,424	16,140	15,594	18,648	14,343	12,297	17,119	18,580	6,715	5,366
Fire										
Emergency responses	14,073	16,135	17,447	17,618	17,421	17,517	17,787	18,561	18,724	18,162
Fires extinguished	590	506	626	382	307	291	322	295	429	360
Inspections	1,875	1,638	885	516	801	696	923	913	920	1,614
Refuse collection										
Refuse collected (tons/day)	126	158	*	*	*	183	142	135	75	154
Recyclables collected (pounds/day)	5	35	*	*	*	22,913	134,700	117,243	73,120	110,146
Other public works										
Street resurfacing (miles)	20.6	19.0	28.0	22.0	5.9	19.0	18.0	16.5	24.6	25.7
Potholes repaired	1,045	1,344	1,191	3,341	5,350	8,615	8,480	7,688	3,334	3,619
Parks and recreation										
Community center admissions	274,571	274,571	281,145	242,864	286,750	231,897	219,261	193,600	140,792	42,133
Library										
Volumes in collection	276,874	260,889	267,230	243,583	243,583	243,856	316,177	288,843	274,917	209,671
Total volumes borrowed	376,946	383,265	364,835	384,130	357,581	325,694	290,763	278,651	230,281	209,772
Water										
New connections	105	2,959	2,852	149	92	85	118	89	92	87
Water main breaks	105	88	104	91	107	118	163	94	81	100
Average daily consumption (millions of gallons)	13.8	14.0	13.0	17.0	24.6	18.0	20.2	15.1	17.8	15.2

* Information not available at the time of publication.
Sources: City of Portsmouth Departments

CITY OF PORTSMOUTH, VIRGINIA
Capital Asset Statistics by Function/Program
Last Ten Fiscal Years

E-3

<u>Function/Program</u>	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	255	255	236	262	268	256	256	253	249	255
Fire										
Stations	8	8	8	8	8	8	8	8	8	8
Fire trucks	*	12	12	12	12	12	12	12	12	13
Boat	*	1	1	1	1	1	1	1	1	1
Emergency Medical Services										
Ambulances	*	5	5	5	5	5	5	5	5	5
Refuse collection										
Collection trucks	27	27	27	27	27	27	27	28	28	28
Other public works										
Streets (miles)	403	393	393	399	399	399	399	398	398	398
Highway (miles)	888	888	887	887	887	887	887	881	881	881
Streetlights	10,665	10,665	*	10,706	10,714	10,723	10,747	10,747	10,747	10,750
Signalized Intersections	120	120	120	120	121	123	122	122	122	122
Parks and recreation										
Acreage	402	402	402	402	402	402	588	588	588	588
Playgrounds	13	13	13	13	13	13	15	15	15	16
Baseball/softball diamonds	36	36	36	36	36	36	36	36	36	36
Soccer/football fields	34	34	34	34	34	34	34	34	34	34
Community centers	7	7	7	7	7	7	7	7	7	7
Pools/Splash Park	*	*	*	*	*	*	3	3	3	3
Golf Course	3	3	3	3	3	3	3	3	3	3
Water										
Water mains (miles)	626	626	626	626	626	626	626	626	626	626
Fire hydrants	2,530	2,593	2,593	2,593	2,593	2,593	2,593	2,593	2,593	2,593
Storage capacity (millions of gallons)	9	9	9	9	9	9	9	9	9	9
Wastewater										
Sanitary sewers (miles)	438	438	438	438	438	438	438	438	438	432
Storm sewers (miles)	159	159	159	250	250	250	250	250	250	250
Treatment capacity (millions of gallons)	32	32	32	32	32	32	32	32	32	32

* Information not available at the time of publication.

Sources: City of Portsmouth Departments



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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 City of Council
City of Portsmouth, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Specifications for Audits of Counties, Cities, and Towns* (the "Specifications") issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Portsmouth, Virginia (the "City"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 25, 2019. Our audit report on the City's financial statements also recognized that the City restated beginning net position and fund balance for implementation of a new accounting standard and the correction of an errors.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City'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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2018-001 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2018-002 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and four instances of noncompliance or other matters that are required to be reported under the Specifications, which are described in the accompanying schedule of findings and questioned costs as items 2018-005 through 2018-008.

City of Portsmouth, Virginia's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City'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 on internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Virginia Beach, Virginia
February 25, 2019

**Report of Independent Auditor on Compliance for Each Major
Federal Program and on Internal Control over Compliance
Required by the Uniform Guidance**

The Honorable Members of the City Council
City of Portsmouth, Virginia

Report on Compliance for Each Major Federal Program

We have audited the City of Portsmouth, Virginia's (the "City") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2018. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our qualified and unmodified opinions on compliance for major federal program. However, our audit does not provide a legal determination of the City's compliance.

Basis for Qualified Opinion on Medicaid Cluster and Temporary Assistance for Needy Families (TANF) Cluster

As described in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding Medicaid Cluster (CFDA 93.778) and TANF (CFDA 93.558) Cluster as described in finding number 2018-003 for eligibility. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to those programs.

Qualified Opinion on Medicaid Cluster and TANF Cluster

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Medicaid Cluster and TANF Cluster for the year ended June 30, 2018.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's section in the accompanying schedule of findings and questioned costs for the year ended June 30, 2018.

Other Matters

The results of our auditing procedures disclosed one instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2018-004. Our opinion on each major federal program is not modified with respect to this matter.

The City's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a material weakness and a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2018-003 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2018-004 to be a significant deficiency.

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Cheryl Bekant LLP

Virginia Beach, Virginia
February 25, 2019

CITY OF PORTSMOUTH, VIRGINIA

Schedule of Expenditures of Federal Awards

For the Fiscal Year Ended June 30, 2018

Federal Granting Agency/Pass Through Agency/Grant Program	Federal Catalogue Number	Grant Agency Number	Cluster Program Total (\$)	Passed Through To Sub-Recipients (\$)	Federal Expenditures (\$)	Total by CFDA # (\$)
Department of Agriculture:						
Direct Payments:						
Summer Food Service Program for Children	10.559			\$	31,128	\$ 31,128
Summer Management Workshop	10.560				699	699
Pass-through Payments:						
Virginia Department of Health:						
Child & Adult Care Food Program (CACFP)	10.558				275,830	275,830
Pilot Projects to Reduce Dependency and Increase Work Requirements (SNAP)	10.596	60115			32,874	32,874
Summer Food Service Program for Children (USDA)	10.559				269,514	269,514
Virginia Department of Social Services:						
State Administrative Matching Grants for Food Stamp Program	10.561	0010115, 0010116, 0030115, 0030116, 0040115, 0040116, 0050115, 0050116			1,831,848	1,831,848
Total SNAP Cluster			1,831,848			
Virginia Department of Agriculture and Consumer Services:						
Food Distribution	10.555				482,332	482,332
Virginia Department of Education:						
National School Breakfast and Lunch Program	10.555, 10.553				6,659,588	6,659,588
Fruits and Vegetables	10.582				159,728	159,728
Total Child Nutrition Cluster			7,442,562			
Total Department of Agriculture			9,274,410	-	9,743,541	9,743,541
Department of Defense:						
Direct payments:						
ROTC	12.000				258,630	258,630
Total Department of Defense			-	-	258,630	258,630
Department of Education:						
Direct payments:						
Impact Aid	84.041	SB41B20175285			278,935	278,935
Pass-through payments:						
Virginia Department of Education:						
Adult Education	84.002	V002A160047			112,540	112,540
Title I, Part A						
Title I Grants to Local Education Agencies	84.010	S010A140046			6,536,378	6,536,378
Title I Part-D	84.013	S010A160046			17,084	17,084
Special Education (IDEA) Cluster:						
Special Education (Title VI-B)	84.027	H027A160107			3,677,456	3,677,456
Special Education - Preschool Grants	84.173	H173A150112			166,072	166,072
Total Special Education Cluster			3,843,528			
Special Education - Grants for Infants and Family with Disabilities	84.181	720C-04446-15-28			78,851	78,851
English Language Acquisition (Title III)	84.365	S365A150046			3,915	3,915
Vocational Education	84.048	V0489A150046			305,111	305,111
Upward Bound	84.047	P047A170117-17A			149,094	149,094

CITY OF PORTSMOUTH, VIRGINIA

Schedule of Expenditures of Federal Awards

For the Fiscal Year Ended June 30, 2018

Federal Granting Agency/Pass Through Agency/Grant Program	Federal Catalogue Number	Grant Agency Number	Cluster Program Total (\$)	Passed Through To Sub-Recipient (\$)	Federal Expenditures (\$)	Total by CFDA # (\$)
Educational Opportunity Centers Program	84.066	P066A160024			82,575	82,575
Total TRIO Cluster			231,669			
Improving Teacher Quality	84.367	S367A140044			689,765	689,765
Education for Homeless Children & Youth	84.196	S196A160048			22,869	22,869
Title IV Part B - 21st Century Community Learning Centers	84.287	S287C160047			555,681	555,681
Total Department of Education			4,075,197		12,676,326	12,676,326
Department of Health and Human Services:						
Pass-through payments:						
Virginia Department of Social Services:						
Social Services Block Grant	93.667	1000115, 1000116			1,025,375	1,025,375
Temporary Assistance for Needy Families	93.558	0400115, 0400116			1,697,567	
Temporary Assistance for Needy Families	93.558	BEN-17-056-11			20,000	
Total TANF Cluster			1,717,567			1,717,567
Child Care and Development Fund Cluster:						
Child Care and Development Fund	93.596	0760115, 0760116			275,195	275,195
Child Care and Development Block Grant	93.575	770116			(53)	(53)
Total Child Care and Development Cluster			275,142			
Chafee Education & Training Vouchers Program	93.599	9160115			4,180	4,180
Medical Assistance Program - Title XIX	93.778	11200115, 11200116			1,852,399	1,852,399
Total Medicaid Cluster			1,852,399			
Foster Care - Title IV-E	93.658	1100115, 1100116			1,119,954	1,119,954
Adoption Assistance	93.659				1,045,086	1,045,086
Independent Living	93.674	9150115, 9150116			13,874	13,874
Low-Income Home Energy Assistance	93.568	600415			238,392	238,392
Refugee and Entrant Assistance	93.566	500116			2,401	2,401
Promoting Safe and Stable Families	93.556	0950114, 0950115			65,228	65,228
State Children's Insurance Program	93.767	0540115, 0540116			72,979	72,979
Child Welfare Services	93.645	0900115, 0900116			5,716	5,716
Virginia Department of Behavioral Health and						
Block Grants for Community Mental Health Services:						
MH FBG SED Child & Adolescent	93.958	SM010053-16			25,974	
MH FBG SMI	93.958	SM010053-16			133,888	
						159,862
Block Grants for Prevention and Treatment of Substance Abuse						
SA FBG Alcohol/Drug Treatment	93.959	TI010053-16			600,444	
SA FBG SARPOS	93.959	TI010053-16			84,205	
SA FBG Co-Occuring	93.959	TI010053-16			16,201	
SA FBG Women	93.959	TI010053-16			143,367	
SA FBG Prevention	93.959	TI010053-16			160,581	
SBA FBG One-Time Prevention	93.959	SP020791			1,400	
						1,006,198
SA Federal OPT- R- Prevention	93.788	SP020791			15,000	
SA Federal OPT-R-Treatment	93.788	SP020791			125,772	

CITY OF PORTSMOUTH, VIRGINIA

Schedule of Expenditures of Federal Awards

For the Fiscal Year Ended June 30, 2018

Federal Granting Agency/Pass Through Agency/Grant Program	Federal Catalogue Number	Grant Agency Number	Cluster Program Total (\$)	Passed Through To Sub-recipients (\$)	Federal Expenditures (\$)	Total by CFDA # (\$)
						140,772
Projects for Assistance in Transition from Homelessness (PATH)	93.150	SM016047-16			52,036	52,036
Total Department of Health and Human Services			3,845,108	-	8,797,163	8,797,161
Department of Homeland Security:						
Direct Payments:						
Emergency Food and Shelter National Board Program	97.024	883200-002			15,127	15,127
Port Security Grant Program	97.056	EMW-2017-PU-00315			34,047	34,047
Pass-through Payments:						
Virginia Department of Emergency Management:						
Local Emergency Performance Grants (LEMPG)	97.042	7433			54,787	54,787
Hazmat - Training and Equipment	97.067	GS-D7F-9597G			23,289	
Southside Hazardous Materials Team	97.067	VA16-SHSP-0093			66,173	
						89,462
Total Department of Homeland Security			-	-	193,423	193,423
Department of Housing and Urban Development:						
Direct payments:						
Community Development Block Grant - 80015	14.218	B-14-MC-51-0018			420,951	
Community Development Block Grant - 80017	14.218	B-16-MC-51-0018			22,617	
Community Development Block Grant - 80018	14.218	B-17-MC-51-0018			257,932	
Pass-through payments to:						
Portsmouth Redevelopment and Housing Authority	14.218			16,620		
Independence Center	14.218			18,027		
PARC	14.218			27,590		
		Total		62,236		
Total CDBG Cluster			701,500			701,500
HOME Investment Partnerships Program-81010	14.239	M-09-MC-51-0204			16,813	
Passed-through payments to:						
HRPDC_HOME	14.239			16,813		
		Total		16,813		
HOME Investment Partnerships Program-81011	14.239	M-10-MC-51-0204			9,126	
Pass-through payments to:						
DPCC_HOME	14.239			9,126		
		Total		9,126		
HOME Investment Partnerships Program-81015	14.239	M-14-MC-51-0204			35,260	
Pass-through payments to:						
HHR CO.	14.239			11,399		
HRPDC_HOME	14.239			23,862		
		Total		35,260		
HOME Investment Partnerships Program-81016	14.239	M-15-MC-51-0204			157,180	
Pass-through payments to:						
HRPDC_HOME				157,180		
		Total		157,180		

CITY OF PORTSMOUTH, VIRGINIA

Schedule of Expenditures of Federal Awards

For the Fiscal Year Ended June 30, 2018

Federal Granting Agency/Pass Through Agency/Grant Program	Federal Catalogue Number	Grant Agency Number	Cluster Program Total (\$)	Passed Through To Sub-recipient (\$)	Federal Expenditures (\$)	Total by CFDA # (\$)
HOME Investment Partnerships Program-81017	14.239	M-16-MC-51-0204			112,474	
Pass-through payments to:						
TBRA_HOME ADMIN	14.239			70,629		
HRPDC_HOME	14.239			41,845		
		Total		112,474		
HOME Investment Partnership Program - 81018					5,473	
Pass-through payments to:						
TBRA_HOME ADMIN	14.239			5,473		
		Total		5,473		
						336,326
Shelter Plus Care (CoC) April 15-March 16	14.238	VA0061L3F071407			(8,002)	
Shelter Plus Care (CoC) April 17-March 18	14.238	VA0061L3F071609			368,507	
Shelter Plus Care (Coc) April 18-March 19	14.238	VA0061L3F071610			141,764	
						502,269
Total Department of Housing and Urban Development			701,500	398,563	1,540,095	1,540,095
Department of Justice:						
Direct Payments:						
U.S Department of Justice:						
Police Department Federal Seizures	16.000				6,675	
Sheriff's Federal Forfeiture Funds	16.000				3,696	
Virginia Rules Camp 2017	16.578				4,590	
Virginia Rules Camp 2018	16.578				4,937	
						19,897
Bulletproof Vest Partnership Program	16.607				40,178	40,178
Justice Assistance Grant Program- FY15	16.738	2015-DJ-BX-0919			1,746	
Justice Assistance Grant Program - FY16	16.738	2016-DJ-BX-0513			13,967	
						15,713
Pass-through Payments:						
Virginia Department of Criminal Justice Services:						
Victim Witness - FY8	16.575	18-X8577VG16			273,485	273,485
Police Athletic League (PAL)	16.738	17-A6084AD13			7,922	
Recruiting & Retention of Criminal Justice Professionals	16.738	17-A6083AD13			15,329	
JAG - Naloxone Program	16.738	18-A4229AD11			7,500	
JAG - Comprehensive Planning	16.738	18-A4265AD11			10,213	
JAG - Youth Program	16.738	18-B6084AD15			9,825	
JAG - Recruiting and Hiring	16.738	18-B6083AD15			4,388	
						55,178
Total Department of Justice					404,451	404,451

CITY OF PORTSMOUTH, VIRGINIA

Schedule of Expenditures of Federal Awards

For the Fiscal Year Ended June 30, 2018

Federal Granting Agency/Pass Through Agency/Grant Program	Federal Catalogue Number	Grant Agency Number	Cluster Program Total (\$)	Passed Through To Sub-recipients (\$)	Federal Expenditures (\$)	Total by CFDA # (\$)
Department of Transportation:						
Pass-through Payments:						
Federal Transit Administration-Hampton Roads Transit:						
Highway Planning and Construction (Safe Routes to School Grant)	20.205	VARIOUS			64,708	64,708
Virginia Department of Transportation:						
Highway Planning and Construction (Capital Improvements)	20.205	VARIOUS			183,375	
Transportation Alternatives Program Grant	20.205				137,704	
Total Highway Planning and Construction Cluster			385,787			385,787
Virginia Department of Motor Vehicles:						
Selective Enforcement - DUI/Passenger - Alcohol FY 17	20.607	154AL-2017-57003-6652			6,122	
Selective Enforcement - DUI/Passenger - Alcohol FY18	20.607	154AL-2018-58002-8002			20,645	
						26,767
Selective Enforcement - Occupant Protection	20.600	FOP-2018-58003-8003			11,121	11,121
Speed Measurement Device - FY2018	20.616	FDL*AL-2018-58427-8480			10,528	10,528
Total Highway Safety Cluster			21,649			
Total Department of Transportation			407,436	-	434,203	434,203
Total all agencies			18,238,943	398,563	34,047,832	34,047,830

CITY OF PORTSMOUTH, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards

For the Fiscal Year Ended June 30, 2018

(1) General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all Federal awards of the City of Portsmouth, Virginia (the City). The City's reporting entity is defined in note 1 to the City's financial statements. All federal awards received directly from federal agencies as well as Federal awards passed through other government agencies are included in the schedule. The City reports federal grants for the School Board in its Schedule of Expenditures of Federal Awards because the City is the legal grantee of these funds.

(2) Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Exhibit H, Note 1 to the City's financial statements.

Intergovernmental revenue:

City:		
Governmental Funds		
General Fund	\$	87,046
Special Revenue Funds:		
Virginia Public Assistance		9,286,497
Mental Health Services		1,474,427
Community Development		657,137
Asset Forfeiture		53,740
Grants		1,475,901
Capital Projects Fund:		
Capital Improvement Fund		422,236
Total City		<u>13,456,984</u>
Component Unit - School Board:		
Operating		537,565
Grants		12,415,075
Cafeteria		7,301,648
Total component unit - School Board		<u>20,254,288</u>
Total federal expenditures from Intergovernmental Revenue		33,711,272
Less: GF revenues in excess of expenditures		(87,046)
Less: BHS revenues in excess of expenditures		(36,708)
Add: VPA expenditures in excess of revenues		(3,480)
Less: Grant revenues in excess of expenditures		218,103
Add: Asset Forfeiture expenditures in excess of revenues		(33,843)
Less: PU/CIP Fund revenues in excess of expenditures		(101,157)
Less: CDBG revenues in excess of expenditures		380,689
Total federal expenditures per Schedule of Expenditures of Federal Awards	\$	<u>34,047,830</u>

(4) Indirect Cost Rate

The City does not elect to use a 10% de minimis indirect cost rate allowed under section 2 CFR 200.331(a)(4)



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City of Portsmouth, Virginia
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2018

1) Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued on the financial statements:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified:	Yes, Finding 2018-001
Significant deficiencies identified:	Yes, Finding 2018-002
Noncompliance material to the financial statements noted?	No

Federal Awards:

Type of auditor's report issued on compliance for major programs:	
Medical Assistance Program - Medicaid Cluster:	Qualified
Temporary Assistance for Needy Families Cluster:	Qualified
All other major programs:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified:	Yes, Finding 2018-003
Significant deficiencies identified:	Yes, Finding 2018-004
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	Yes

Identification of major federal programs:

<u>Name of Program</u>	<u>CFDA #</u>
Department of Agriculture: Child Nutrition Cluster	10.553-CL
Department of Education: Special Education Cluster	84.027-CL
Department of Health and Human Services: Medical Assistance Program - Medicaid Cluster	93.778-CL
Temporary Assistance for Needy Families Cluster	93.558-CL

Dollar threshold to distinguish between Types A and B Programs: **\$1,021,435**

The City of Portsmouth was qualified as a low risk auditee in accordance with Section 200.520 of the Uniform Guidance? **No**

2) Findings Related to Financial Statements Reported in Accordance with *Government Auditing Standards*

Finding: 2018-001:

Type of Finding: Material Weakness over Financial Reporting – Prior Period Adjustment

Criteria:

Construction in process ('CIP') should consist of costs that are associated with constructing an asset and, when construction is completed, the assets should be placed in service and depreciated over the useful life of the asset.

Condition:

For the year ended June 30, 2018, the City identified approximately \$39.1M of governmental activities' expenditures in CIP at June 30, 2017 that did not meet the definition of items to be capitalized. Additionally, the City identified approximately \$47.3M of CIP which should have been closed and depreciated in a prior year, resulting in an adjustment for depreciation expense of approximately \$8.2M.

For the year ended June 30, 2018, the City identified approximately \$8.5 of business-type activities' expenses in CIP at June 30, 2017 that did not meet the definition of items to be capitalized. Additionally, the City identified approximately \$49.1M of CIP which should have been closed and depreciated in a prior year, resulting in an adjustment for depreciation expense of approximately \$5.8M.

Cause:

During fiscal year 2018, the City's finance department had turnover and both the Chief Financial Officer ('CFO') and the Assistant Chief Financial Officer ('Assistant CFO') were replaced. During their review of the CIP listing, they noted items that had descriptions that did not seem as though they constituted being included in CIP. As a result, they performed a thorough analysis of all projects included in CIP to determine whether or not they should have been previously expensed or whether the project should have been closed in a previous fiscal year to ensure that the balances remaining in CIP truly reflected projects still ongoing.

Effect:

The City's capital asset balances were materially overstated in prior years.

Auditor's Recommendation:

We recommend the City continue to perform an annual analysis of the projects included in CIP to ensure that those amounts should be included in the account at the end of the year and not have been expensed or placed in service.

Management's Response:

Management agrees with this finding. The Finance Department has prepared and implemented a new standard operating procedure to include an annual analysis of each CIP project to ensure that those amounts included in CIP at the end of the year consist only of costs that are associated with constructing an asset, that assets are set-up in the fixed asset system when construction is completed, that fixed assets are depreciated over the useful life of the asset, and that non-capital costs are expensed in the year incurred.

Finding: 2018-002:

Type of Finding: Significant Deficiency over Financial Reporting – Prior Period Adjustment

Criteria:

Contributions from the General Fund to other funds should be recorded as transfers to and transfers from when adjustments are made to pooled cash between funds for contributions.

Condition:

During fiscal year 2018, the City restated beginning fund balance by \$2,209,151 for the General Fund and Social Services Fund for a contribution that should have been reported in fiscal year 2015.

Cause:

During fiscal year 2018, the City's finance department had turnover and both the Chief Financial Officer ('CFO') and the Assistant Chief Financial Officer ('Assistant CFO') were replaced. During their review of the City's financial statements they discovered that pooled cash was adjusted between funds, but a transfer to and from was not recorded for a contribution from the General Fund to the Social Services Fund for the year ended June 30, 2015.

Effect:

The fund balances of the General Fund and Social Services Fund were misstated in prior years.

Auditor's Recommendation:

We recommend the City continue to perform an annual analysis of transfer transactions to ensure that the activities are properly recorded in the correct fiscal year.

Management's Response:

Management agrees with this finding. The Finance Department will continue to perform an annual analysis of transfer transactions to ensure that the activities are properly recorded in the correct fiscal year.

3) Findings and Questioned Costs for Federal Awards

Finding: 2018-003

Program name: Medical Assistance Program - Medicaid Cluster (CFDA # 93.778)
Temporary Assistance for Needy Families (TANF) Cluster (CFDA # 93.558)

Federal Awarding Agency: Department of Health and Human Services (HSS)

State Awarding Agency: Virginia Department of Social Services (VDSS)

Department: Portsmouth Department of Social Services (DSS)

Compliance Requirement: Eligibility

Type of Finding: Material Weakness; Material Noncompliance Qualification

Criteria:

Per Title 2 Subpart §200.303, "The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
- (b) Comply with Federal statutes, regulations, and the terms and conditions of the Federal awards.
- (c) Evaluate and monitor the non-Federal entity's compliance with statutes, regulations and the terms and conditions of Federal awards.
- (d) Take prompt action when instances of noncompliance are identified including noncompliance identified in audit findings."

Per Subchapter M1520.001 of the Virginia Medical Assistance Eligibility Manual, "An annual review of all of the enrollee's eligibility requirements is called a "renewal." A renewal of the enrollee's eligibility must be completed at least once every 12 months. The renewal should be initiated in the 10th month to ensure timely completion of the renewal."

Per Subchapter 401.5 of the Virginia TANF Guidance Manual, "Assistance units must complete an annual renewal, unless a shorter renewal period is required by SNAP."

Per 42 Code of the Federal Regulation section 435.907, the agency must accept an application from the applicant, and any documentation required to establish eligibility via the internet web site, by telephone, via mail, in person, or through other commonly available electronic means.

Per 42 Code of the Federal Regulation section 435.920, the agency must review case records to determine whether they contain the beneficiary's SSN, or in the case of families, each family member's SSN. If the case records does not contain the required SSNs, the agency must require the beneficiary to furnish them.

Per 42 United States Code section 1320b-7(d), the agency must verify and document the citizenship and immigration status of each applicant.

Per 42 Code of Federal Regulation section 435.948, the agency must request information related to wages to verify the financial eligibility of an individual.

Condition:

Of the sixty (60) beneficiaries that were enrolled in the Medical Assistance Program selected for testing, we noted:

- One (1) beneficiary where the renewal of eligibility was not performed within 12 months;
- Five (5) beneficiaries where the case records did not contain a copy of the application;
- One (1) beneficiary where the case records did not contain the required SSNs;
- One (1) beneficiary where the case records did not contain verification and documentation of the citizenship and immigration status of the beneficiary, and
- One (1) beneficiary whose case records did not contain documentation of the financial eligibility of the individual.

Of the sixty (60) beneficiaries that were enrolled in the TANF program selected for testing, we noted:

- Five (5) beneficiaries where there was no documentation that the renewal of eligibility was performed within 12 months, and
- Three (3) beneficiaries whose case records did not contain verification and documentation of the citizenship and immigration status of the beneficiary.

Cause:

DSS management informed us that the untimely completion of the eligibility renewals was due to a lack of resources available to handle the continuous increase in workload as a result of the implementation of the Virginia Case Management System (VaCMS). Additionally, DSS implemented a new electronic case file storage system, referred to as Document Management Imaging System (DMIS). During this process, all of the required documents were not fully scanned in and were either misplaced in the hard copy records or lost and unable to be located. We did corroborate with VDSS that there was a new case management system implemented prior to the fiscal year and that the untimely renewals is not an isolated event to the City. The audit finding does not appear to be an isolated instance, but rather a systemic condition as a result of the increase in workload and the City's lack of resources.

Effect:

The Medical Assistance and TANF Programs as operated by DSS were not in compliance with the eligibility compliance requirement as of June 30, 2018. Additionally, failure to timely perform renewals or verify the individual's wages could result in medical assistance or temporary assistance for needy families rendered to ineligible individuals.

Auditor's Recommendation:

We recommend PDSS continue to assess their current staffing levels and implement a plan to address their staff shortage. We also recommend that they implement a process to ensure that all relevant information for case records be properly scanned and stored in the electronic system for the proper length of time.

Management's Response:

The Department of Social Services (DSS) has assessed our program service needs and we are in collaboration with City Human Resources to fill vacant positions. The advertising of our program's vacancies has been extended to the Virginia Department of Social Services website with the goal of attracting qualified candidates. The DSS has recently conducted interviews and anticipates the hiring of several staffs to fill the identified vacancies.

DSS has made an assessment of our internal processes, relating to the scanning of relevant case information into the VaCMS state system. DSS has a trained clerical team and system in place to address the DMIS scanning, of our current case information. A new supervisor has also been appointed to the unit to address any issues of training and staff oversight. The DSS will be hiring two additional clerical staff that will be trained and specifically assigned to address the scanning of all other historical case information into the VaCMS system.

Finding: 2018-004

Program name: Temporary Assistance for Needy Families (TANF) Cluster (CFDA # 93.558)

Federal Awarding Agency: Department of Health and Human Services (HHS)

State Awarding Agency: Virginia Department of Social Services (VDSS)

Department: Portsmouth Department of Social Services (DSS)

Compliance Requirement: Special Tests and Provisions – Penalty for Refusal to Work

Type of Finding: Significant Deficiency; Nonmaterial Noncompliance

Criteria:

Per Title 45 of the Code of the Federal Regulation (CFR) section 261.14, if an individual refuses to engage in work required under section 407 of the Social Security Act, the agency must reduce or terminate the amount of assistance payable to the family, subject to any good cause or other exceptions the State may establish.

Condition:

Of the sixty (60) beneficiaries that we tested, we noted one (1) instance where benefits were not reduced for a beneficiary who either refused to work or refused to participate in a job readiness program.

Cause:

Employment Services is a separate sub-department within DSS. When a beneficiary of TANF refuses to work or participate in the job readiness program, Employment Services communicates their non-compliance with the TANF eligibility worker. Management notes in this instance, there was miscommunication between Employment Services and the eligibility worker.

Effect:

DSS was not in compliance with the penalty for refusal to work requirement as of June 30, 2018. Failure by DSS to reduce or terminate a participant's eligibility for benefits ultimately results in excess payments to the participant by the State.

Auditor’s Recommendation:

We recommend DSS implement a process to enhance communication between Employment Services and eligibility workers when a participant refuses to work or participate in a job readiness program.

Management’s Response:

DSS will establish points of contact to ensure that effective communication is held between the Employment services workers and TANF workers. The establishment of points of contact will also ensure that required actions are completed timely. Primary and Secondary contacts will be designated to send and receive the communication forms. The current paper process will be automated by emailing the communication forms with return receipts requested. It will be mandated that the designated individuals acknowledge receipt of the forms. This process will be implemented by November 26, 2018.

The Senior Employment Services worker will be responsible for the following:

- Determine customers who fail to participate in a component of the program
- Maintain a record of all customers who fail to participate
- Submit the communication forms via email to the designated Eligibility staff

The Senior Eligibility Worker will be responsible for the following:

- Maintain a record of communication forms received from the Employment Services staff
- Complete the action to reduce or terminate the customer’s benefits
- Notify the Employment Services staff via email upon completion

4) Findings and Questioned Costs related to Compliance with Virginia Specifications

Finding: 2018-005 (Prior Year Audit Finding Number: 2017-005)

Department: Portsmouth Department of Social Services (DSS)

Compliance Requirement: Section 3-15 of the *Specifications for Audits of Counties, Cities, and Towns* (Specifications), issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Type of Finding: Nonmaterial Noncompliance

Criteria:

Section 63.2 of the *Code of Virginia* requires that the Local Department of Social Services Maintain Computer Access Request Forms documenting a user’s access authority must be available for all users.

Condition:

While performing our audit procedures to ensure compliance with Section 3-15 of the Specifications, we identified six (6) employees in our sample of eighteen (18) that had user access to systems that did not match the Computer Access Request Forms. Additionally, one (1) of the forms was not properly approved by management.

Cause:

The DSS IT Department is responsible for ensuring that system privileges match the Computer Access Forms; however, in the cases noted, IT Department did not ensure that changes to system privileges were properly supported by Computer Access Request Forms before granting access to employees to those systems.

Effect:

The City of Portsmouth is not in compliance with Section 63.2 of the *Code of Virginia* and is potentially at risk for employees having access to systems that they do not need. Additionally, noncompliance may result in action by the Commonwealth of Virginia.

Auditor's Recommendation:

We recommend the DSS IT Department only make changes to system privileges if those changes are supported by Computer Access Request Forms. In addition, we recommend that the DSS IT Department review individuals' system privileges on a recurring basis.

Management's Response:

Management agrees that user credentials in accordance with Section 63.2 and Section 3-15 of Audit Specifications are critical. The Information Technology Department acknowledges and confirms the current policies directing the oversight of user credentials, and will work with staff to ensure policy compliance of user credentials are maintained in accordance.

Finding: 2018-006

Department: Portsmouth Department of Social Services (DSS)

Compliance Requirement: Section 3-15 of the *Specifications for Audits of Counties, Cities, and Towns* (Specifications), issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Type of Finding: Nonmaterial Noncompliance

Criteria:

Section 63.2 of the *Code of Virginia* requires that the Local Department of Social Services remove access privileges for terminated users from all systems they were authorized to use within three (3) working days of employment termination.

Condition:

While performing our audit procedures to ensure compliance with Section 3-15 of the Specifications, we identified one (1) employee in our sample of six (6) that did not have their access removed within three (3) working days.

Cause:

The Department of Social Services is responsible for communicating all employee terminations to the IT Department to ensure that their access to all systems is promptly removed. They did not properly communicate employee terminations within the required time-frame to remove system access.

Effect:

The City of Portsmouth is not in compliance with Section 63.2 of the *Code of Virginia* and is potentially at risk for terminated employees having access to DSS systems. Additionally, noncompliance may result in action by the Commonwealth of Virginia.

Auditor's Recommendation:

We recommend the City ensure that the IT Department be notified of an employee's termination immediately upon the employee's termination to ensure that access is removed in accordance with the prescribed requirements.

Management's Response:

Management agrees with this finding. DSS, the Finance Department, Information Technology Department and Human Resources Management Department will review and strengthen the notification process to the IT Department of an employee's termination immediately upon the employee's termination to ensure that access is removed in accordance with the prescribed requirements.

Finding: 2018-007

Department: The Office of the City Clerk

Compliance Requirement: Section 3-5 of the *Specifications for Audits of Counties, Cities, and Towns* (Specifications), issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Type of Finding: Nonmaterial Noncompliance

Criteria:

Section 2.2-3115 of the *Code of Virginia* requires that new local officials hired during the fiscal year file disclosure forms prior to assuming office or taking employment.

Condition:

While performing our audit procedures to ensure compliance with Section 3-5 of the Specifications, we identified two (2) newly appointed officials that did not file their disclosure forms prior to assuming office.

Cause:

Both appointed officials and elected officials are required to file a disclosure form prior to taking office. As a part of the election process, the elected officials are required to complete a conflict of interest form with their campaign package. For appointed officials, since they do not have to submit a campaign package, they must fill out the form prior to assuming office. The City Clerk is responsible for collecting these forms. The appointed officials were not made aware of the requirement to submit a form prior to assuming their position.

Effect:

The City of Portsmouth is not in compliance with Section 2.2-3115 of the *Code of Virginia*. Additionally, noncompliance may result in action by the Commonwealth of Virginia.

Auditor’s Recommendation:

The City of Portsmouth should implement procedures to ensure that newly appointed officials file their conflict of interest disclosure statements prior to assuming office.

Management’s Response:

Management agrees with this finding and has implemented procedures to ensure that newly appointed officials file their conflict of interest disclosure statements prior to assuming office.

Finding: 2018-008

Department: Public Works Department and Engineering & Technical Services Department

Compliance Requirement: Section 3-17 of the *Specifications for Audits of Counties, Cities, and Towns* (Specifications), issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Type of Finding: Nonmaterial Noncompliance

Criteria:

Chapter 836 of the 2017 Acts of Assembly, Item 2D, requires each locality establishing a utility or enacting a system of service charges to support a local stormwater utility program pursuant to Section 15.2-2114 of the *Code of Virginia* to provide the Auditor of Public Accounts a report as to each program funded by these fees and the expected nutrient and sediment reductions of each of these programs by October 1 each year.

Condition:

While performing our audit procedures to ensure compliance with Section 3-17 of the Specifications, we noted that the Locality Stormwater Utility Reporting Form was not provided to the Auditor of Public Accounts until October 12, 2018.

Cause:

The Engineering and Technical Services Department is responsible for ensuring timely submission to of the Locality Stormwater Utility Reporting form to the Auditor of Public Accounts. There was an oversight by department personnel resulting in an untimely submission.

Effect:

The City of Portsmouth is not in compliance with Chapter 836 of the 2017 Acts of Assembly, Item 2D. Additionally, noncompliance may result in action by the Commonwealth of Virginia.

Auditor’s Recommendation:

The City’s personnel responsible for completing and submitting the Local Stormwater Utility Reporting Form should implement procedures to ensure that the form is timely submitted to the Auditor of Public Accounts.

Management’s Response:

Management agrees with this finding. City personnel responsible for completing and submitting the Local Stormwater Utility Reporting Form will implement procedures to ensure that the form is timely submitted to the Auditor of Public Accounts.

Resolution of Prior Year's Findings and Questioned Costs Relating to Federal; Awards

Finding 2017-001 – Significant Deficiency

Status: Corrective action was taken. Finding not repeated in current year.

Finding 2017-002 – Nonmaterial Noncompliance

Status: Corrective action was taken. Finding not repeated in current year.

Finding 2017-003 – Nonmaterial Noncompliance

Status: Corrective action was taken. Finding not repeated in current year.

Resolution of Prior Year's Findings and Questioned Costs Relating to Compliance with Commonwealth of Virginia Laws, Regulations, Contracts, and Grants

Finding 2017-004 – Nonmaterial Noncompliance – Social Services, User Access

Status: Corrective action was taken. Finding not repeated in current year.

Finding 2017-005 – Nonmaterial Noncompliance – Social Services, Computer Access Forms

Status: Finding repeated in the current year. See 2018-004.

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