

The New Portsmouth

2016 Comprehensive Annual

FINANCIAL REPORT

For The Fiscal Year Ended June 30, 2016



PORTSMOUTH, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

CITY OF PORTSMOUTH, VIRGINIA

YEAR ENDED JUNE 30, 2016

Prepared by:

DEPARTMENT OF FINANCE



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CITY OF PORTSMOUTH, VIRGINIA

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INTRODUCTORY SECTION

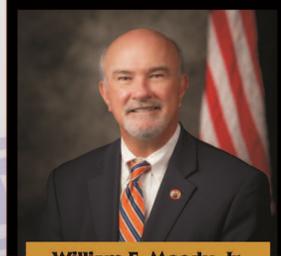


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Portsmouth City Council Members



Kenneth I. Wright
Mayor
Term Expires: 12/31/2016



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



Paige D. Cherry
Term Expires: 12/31/2018



Dr. Curtis E. Edmonds, Sr.
Term Expires: 12/31/2016



Elizabeth M. Psimas
Vice Mayor
Term Expires: 12/31/2016



Danny W. Meeks
Term Expires: 12/31/2016



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

City Council Appointments

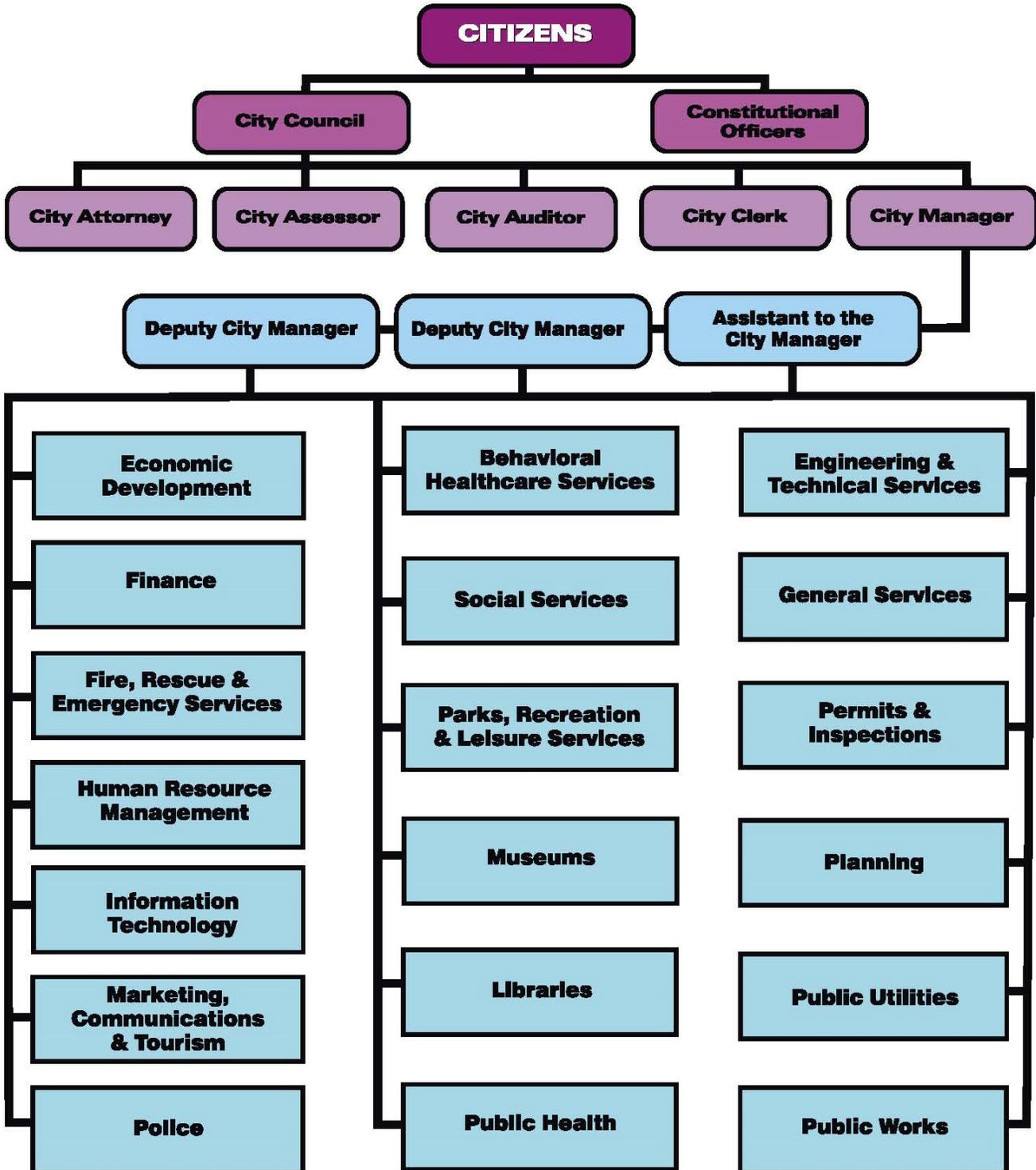
City Manager, Dr. L. Pettis Patton
Janey Culpepper, City Assessor
Debra Y. White, City Clerk
Soloman Ashby, City Attorney

Constitutional Officers

Stephanie N. Morales, Commonwealth's Attorney
Cynthia P. Morrison, Clerk of the Circuit Court
Franklin D. Edmondson, Commissioner of the Revenue
William "Bill" Watson, Sheriff
James L. Williams, 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, 2015

Executive Director/CEO



December 5, 2016

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 (the city) for the fiscal year ended June 30, 2016, in accordance with State Statutes and City Code. The city's Department of Finance prepared this report in accordance with generally accepted accounting principles 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 Hampton Roads, one of the world's greatest natural harbors, situated at the confluence of the James, Nansemond and Elizabeth Rivers where they empty into the Chesapeake Bay. The city is located in the center of the Hampton Roads region, bordered by the cities of Suffolk, Chesapeake, and Norfolk. The city's land area of approximately 29 square miles is mostly developed, with an estimated population of 96,201 in 2016.

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. 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 of Portsmouth) 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, 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.

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.

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 October 2014, the first phase of Midtown Marketplace, a 21-acre development in the heart of the city's hottest retail submarket opened with its anchor tenant, Kroger Marketplace. On the site of the former I.C. Norcom High School, Kroger's 124,000 square foot store pairs food with general merchandise including kitchenware, jewelry, bed and bath items, apparel, toys, and seasonal items. Kroger invested over \$21.5 million in the store and hired over 350 people. In May 2015, the second phase of the center opened when CRES-EG Development LLC, one of the region's premier development groups, began its phased opening of \$10 million of construction for in-line shops and outparcels for T.J.Maxx, CATO Fashions, Hibbett Sports, Dunkin Donuts, and Wendy's. The Economic Development Authority subdivided and sold the former school site to Kroger and CRES-EG. Annual tax revenue from the completed project exceeds \$1 million annually. Other national companies investing in this emerging retail corridor include WaWa with a \$4.5 million investment, Auto Bell with a \$1.1 million investment and Panda Express.

Multi-family Development

During the last two years over \$100 million of private investment and over 800 multi-family units have been constructed, announced, or are under contract in Downtown Portsmouth.

Completed developments include The Quarters at Park View, a \$17 million apartment community by The Whitmore Company which opened in late 2014/early 2015 and has leased 140 luxury apartments. In 2016, Whitmore constructed two (2) more developments; Sterling King I & II. These two communities represent another \$16 million and 100 units. Whitmore has also applied for and received a use permit to redevelop a vacant office building creating another 46 apartments to be called Crawford House.

The Economic Development Authority has sold one site and has another under contract for multi-family development by The Breeden Company. The \$17.1 million Harbor Vista development is under construction. This 2.5 acre site will include 134 units and is opening in late-2016. Following the opening of Harbor Vista, The Breeden Company will buy the 2-acre North Pier site and invest another \$25 million to develop 187 apartments on that site.

Two historic buildings, the Seaboard Building and the Governor Dinwiddie, were recently sold to Monument Construction and Development and have been converted into multi-family units. Monument has invested over \$20 million in the two properties and added over 125 new multi-family units to Downtown. In October 2016, Richmond based Legend Brewing Company announced plans for a microbrewery on the ground floor of the Seaboard Building.

Port-Related Activity

In late summer of 2014, APM Terminals sold its interest in its Portsmouth port facility to Alinda Capital Partners and Universities Superannuation Scheme (collectively, "Alinda"). The port terminal is now referred to as Virginia International Gateway ("VIG"). Since 2010, VIG has been leased to the Virginia Port Authority (VPA). Alinda is now the largest taxpayer in the city. The lease was renegotiated in September 2016 and now extends 50 years with a \$320 million investment to double the terminal's capacity. Construction will begin in early 2017 and will take 3 years to complete.

Another port terminal in Portsmouth is PMT one of four general cargo facilities owned by the VPA.

The Port of Hampton Roads, to include all terminals in Portsmouth, is one of the world's largest natural harbors. The year-round, ice-free harbor covers approximately 25 square miles and is located 18 miles from the open sea. The Port of Hampton Roads offers direct access to over 45 countries worldwide.

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 nearly 50 year old obsolete facility on 13-acres was sold to Interchange, a third-party logistics company. Interchange has demolished the old plant and is investing over \$11 million to construct 200,000 square-feet of new warehouse space.

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.

In September 2013, the Economic Development Authority 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.

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, 2016 was \$58,427,712 which represents 26.4% of fiscal year 2016 general fund's total revenues. 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 (2013 unassigned fund balance excludes the impact of the \$168.3 million in pension funds that were transferred to the Pension Plan in August 2013):

Fiscal Year	General Fund Unassigned Fund Balance	General Fund Total Revenues	Ratio	
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	%
2013	68,385,641	211,810,456	32.3	%
2012	53,631,444	220,919,837	24.3	%

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 2016.

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 2016, 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 \$61,239,906 in fiscal year 2015 to \$66,134,200, an increase of 8%. The majority of the increase in fund balance was the result of expenditure savings.

Fund Balance Policy Minimum

The city will maintain an unassigned (unreserved, undesignated) general fund balance equal to 15% of general fund revenues. During fiscal year 2016, the city remained in compliance with this policy. The general fund unassigned fund balance equaled 26.4% 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 2016 fiscal year, the city was able to manage its current resources to properly meet its operating cash requirements without issuing any debt.

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, 2016.

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 of Portsmouth for its comprehensive annual financial report for the fiscal year ended June 30, 2015.

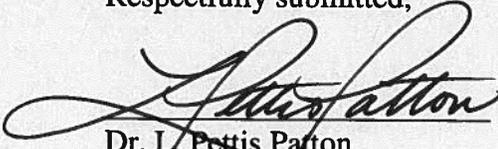
This was the 39th consecutive year that the City of Portsmouth has earned this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally 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.

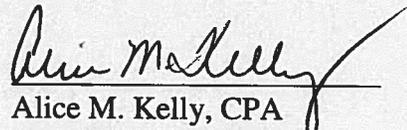
Acknowledgments

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 timely and 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



Alice M. Kelly, CPA
Chief Financial Officer



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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, 2016, 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, 2016, 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 Matter

Restatement

As described in Note 17 to the financial statements, the fund balance as of June 30, 2015 of the General Fund, Capital Improvements fund, and Donations fund, and the net position as of June 30, 2015 of the governmental activities, business-type activities, and Port Authority fund have been restated from the City's previously issued financial statements to reflect the correction of 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 described in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, other 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 ("Uniform Guidance"), and is also not a required part of the basic financial statements.

The other 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 December 6, 2016, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Cherry Bekart LLP

Virginia Beach, Virginia
December 6, 2016

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, 2016. 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.

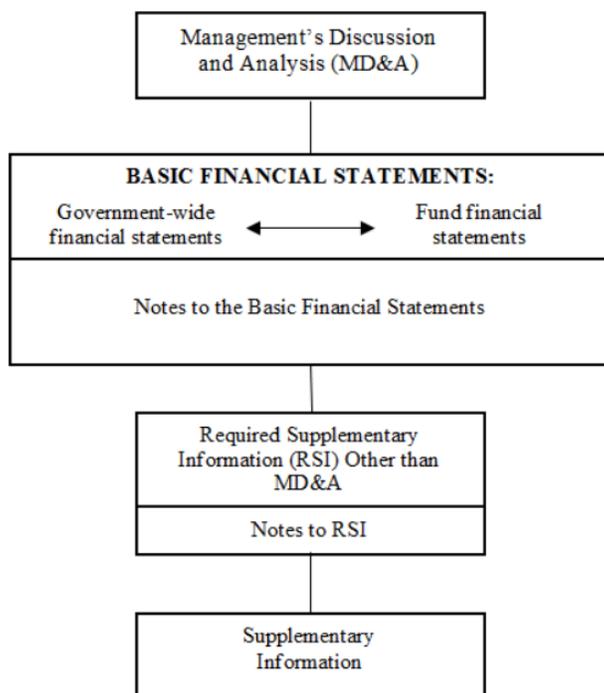
FINANCIAL HIGHLIGHTS

- ◆ The city's net position totaled \$236.7 million at June 30, 2016, increasing \$41.2 million over June 30, 2015.
- ◆ The city's unrestricted net position (deficit) totaled \$180.6 million, which was comprised of \$251.7 million resulting from governmental activities and \$71.1 million resulting from business-type activities.
- ◆ Government-wide current assets totaled \$272.7 million, of which \$170.9 million was attributable to governmental activities and \$101.8 million was attributable to business-type activities; while current liabilities totaled \$67.9 million, with \$53.2 million from governmental activities and \$14.7 million from business-type activities. The ratio of current assets to current liabilities was 4.0:1 overall – 3.2:1 for governmental activities and 6.9:1 for business-type activities.
- ◆ The city's long-term indebtedness at June 30, 2016 totaled \$801.6 million, for a decrease of (\$1.4) million from the prior year. The long-term indebtedness includes landfill closure and post-closure care of \$5.1 million, compensated absences of \$7.8 million and net pension liabilities of \$132.0 million.
- ◆ The city's governmental general revenues and transfers of \$181.6 million were (\$27.3) million less than expenses, net of program revenues of \$89.9 million. Taxes funded 91.7% of general revenues and transfers.
- ◆ The General Fund total fund balance increased 8.0% during the current year to \$66.1 million from \$61.2 million in the prior year.
- ◆ Total net position for the Public Utility Fund rose 6.9% from \$171.0 million at June 30, 2015 to \$182.9 million at June 30, 2016.

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 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 - The city charges fees to cover the full cost of services provided to customers. The city's water and sewer system, waste management services, and golf courses are reported herein. The Parking Authority, a blended component unit, accounts for parking services provided to the city, citizens, and customers.

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 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, a blended component unit.

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 and OPEB Fund.

Fiduciary funds - The city is the trustee, or fiduciary, for its employees' pension plans 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:

Table 1

Summary of Statements of Net Position

As of June 30, 2016 and 2015 (in millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	Restated		Restated		Restated	
	2016	2015*	2016	2015*	2016	2015*
Current assets	\$ 170.9	158.4	101.8	98.5	272.7	256.9
Long-term assets	-	-	-	-	-	-
Capital assets	525.0	529.8	273.9	272.4	798.9	802.2
Total assets	695.9	688.8	375.7	373.0	1,071.6	1,061.8
Deferred outflows of resources	35.0	20.5	6.4	6.4	41.4	26.9
Total assets and deferred outflows of resources	731.0	709.3	382.2	379.4	1,113.2	1,088.7
Current liabilities	53.2	47.4	14.7	15.4	67.9	62.8
Long-term liabilities	632.7	627.3	168.8	175.7	801.5	803.0
Total liabilities	685.9	674.7	183.6	191.1	869.5	865.8
Deferred inflows of resources	6.4	23.2	0.6	2.2	7.0	25.4
Total liabilities and deferred inflows of resources	692.3	697.9	184.2	193.3	876.5	891.2
Net position:						
Net investment in capital assets	241.4	244.4	126.8	149.8	368.2	394.2
Restricted	49.1	51.2	-	-	49.1	51.2
Unrestricted (deficit)	(251.7)	(284.2)	71.1	34.2	(180.6)	(250.0)
Total net position, as restated	38.8	11.4	197.9	184.0	236.7	195.4
Total liabilities and net position	\$ 731.0	709.3	382.2	379.4	1,113.2	1,088.7

*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 \$236.7 million at June 30, 2016. By far, the largest portion of the city's net position is reflected in its investment in capital assets (land, buildings, improvements, etc.) net of accumulated depreciation and related debt used to acquire those assets. 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. Approximately 17.4% of the city's net position is currently subject to various external restrictions.

The net position of the city's governmental activities increased by \$27.3 million from \$11.4 million to \$38.7 million, as reflected in the Statement of Activities.

The net position of the city's business-type activities increased by \$13.9 million from \$184.0 million to \$197.9 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, 2016 and 2015 (in millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	Restated		Restated		Restated	
	2016	2015*	2016	2015*	2016	2015*
Revenues						
<u>Program revenues:</u>						
Charges for services	\$ 22.3	19.8	58.8	55.3	81.1	75.1
Operating grants and contributions	66.9	68.0	-	-	66.9	68.0
Capital grants and contributions	0.7	5.1	-	-	0.7	5.1
<u>General revenues:</u>						
Taxes	166.6	164.1	-	-	166.6	164.1
Other	5.6	4.5	1.3	1.4	6.9	5.9
Total revenues	262.1	261.5	60.1	56.7	322.2	318.2
Expenses						
General government	25.6	31.0	-	-	25.6	31.0
Judicial	24.8	22.7	-	-	24.8	22.7
Public safety	51.7	56.8	-	-	51.7	56.8
Public works	20.4	24.3	-	-	20.4	24.3
Health and welfare	32.4	32.9	-	-	32.4	32.9
Parks, recreational, and cultural	11.1	9.9	-	-	11.1	9.9
Community development	6.0	6.5	-	-	6.0	6.5
Education	53.9	55.1	-	-	53.9	55.1
Public Utility	-	-	23.0	24.0	23.0	24.0
Golf	-	-	2.0	2.3	2.0	2.3
Parking Authority	-	-	1.2	1.2	1.2	1.2
Waste Management	-	-	10.0	10.3	10.0	10.3
Interest on long-term debt	18.2	19.5	-	-	18.2	19.5
Total expenses	244.1	258.7	36.2	37.8	280.3	296.5
Excess (deficiency) before transfers	18.0	2.8	23.9	18.9	41.9	21.7
Transfers	9.3	9.2	(9.9)	(9.2)	(0.6)	-
Change in net position	27.3	12.0	13.9	9.7	41.2	21.7
Net position, beginning of year, as restated	11.4	(0.6)	184.0	174.3	195.4	173.7
Net position, end of year, as restated	\$ 38.7	11.4	197.9	184.0	236.6	195.4

*Restated as described in Note 17

Governmental Activities

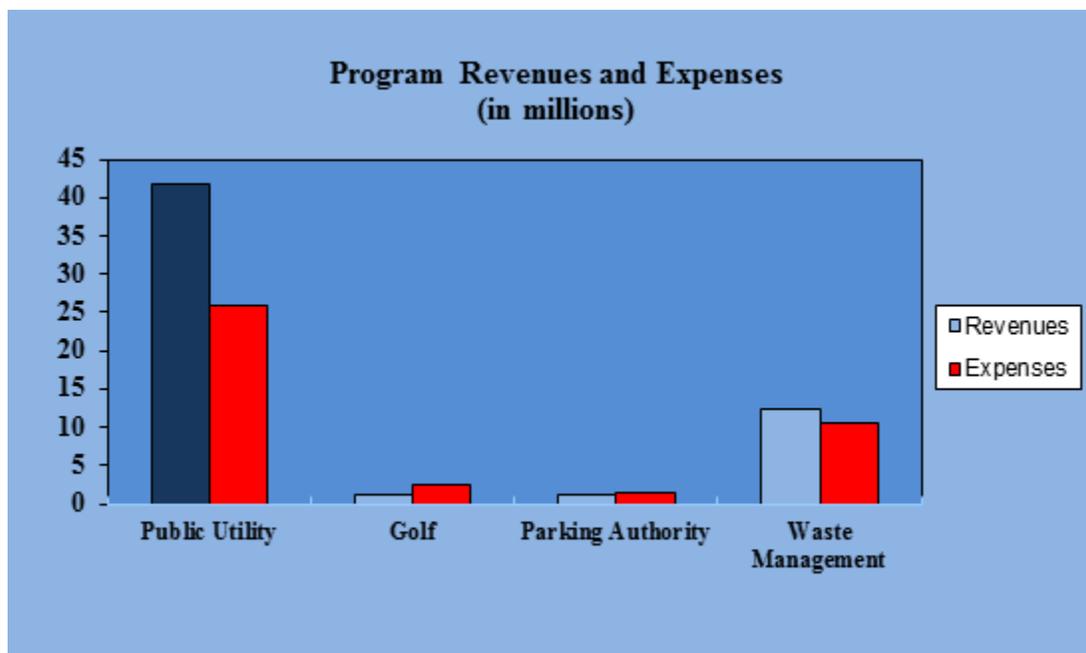
The city's total revenues from governmental activities were \$262.1 million for the fiscal year ended June 30, 2016, which represents an increase of \$.6 million from the prior year. The largest source of revenue is taxes, which represents 63.5% of the total and is comprised of property taxes, other local taxes, and utility taxes. The city's assessed real property value increased 0.2% 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 \$89.9 million. The largest component of program revenues for governmental activities is operating grants and contributions totaling \$66.9 million, representing 74.4% of total program revenues for governmental activities.

For the fiscal year ended June 30, 2016, expenses for the city's governmental activities totaled \$244.1 million. The city's expenses cover a wide range of services, with 21.2% related to public safety, 22.1% related to education, and 13.3% related to health and welfare.

Business-Type Activities

The total net position for business-type activities increased \$13.9 million from \$184.0 million in fiscal year 2015 to \$197.9 million in fiscal year 2016, primarily due to Waste Management activities. Charges for services, including water and sewer utility fees, waste management fees, parking fees, and golf fees, represent 97.9% 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, 2016, the governmental funds reflected a combined fund balance of \$114.5 million. The General Fund's fund balance totaled \$66.1 million at June 30, 2016, an increase of \$4.9 million from the prior year's \$61.2 million. The General Fund's unassigned fund balance totaled \$58.4 million at June 30, 2016.

The city spent \$9.6 million in the Capital Improvements Fund to fund major projects, including various drainage and street improvement projects. The Capital Improvements Fund has a \$33.9 million fund balance at June 30, 2016, all of which is restricted for future capital project costs.

General Fund Budgetary Highlights

General Fund Budgetary Highlights

General Fund

Fiscal Year Ended June 30, 2016 (in millions)

	Original Budget	Final Budget	Actual
Revenues and transfers			
Taxes	\$ 163.7	163.7	166.0
Intergovernmental	39.2	39.2	39.0
Transfers	13.3	13.4	10.3
Other	14.9	19.2	16.7
Total	\$ 231.1	235.5	232.0
Expenditures and transfers			
Expenditures	\$ 189.7	190.7	180.8
Transfers	46.1	46.4	46.4
Total	\$ 235.8	237.1	227.2

Actual expenditures in the above chart are shown on the budgetary basis (see Schedule I-2). The General Fund had a \$4.9 million dollar increase in fund balance.

Final budgeted General Fund revenues and other financing sources slightly exceeded the actual revenues during fiscal year 2016. Actual general fund expenditures and transfers were \$9.9 million less than the final budget.

Proprietary Funds

Total net position of the Public Utility Fund increased \$11.9 million during fiscal year 2016 from \$171.0 million to \$182.9 million. Of the total net position, \$110.9 million represents its net investment in capital assets. Unrestricted net position totaled \$72.0 million. The increase in net position is due primarily to the fund's net income before transfers of \$21.1 million.

Total net position of the Parking Authority, a blended component unit, was consistent with the prior year remaining at \$0.7 million.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2016, the city had invested \$798.9 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:

Capital Assets (net of depreciation)							
As of June 30, 2016 and 2015 (in millions)							
		Governmental Activities		Business-Type Activities		Total Primary Government	
		2016	2015	2016	2015*	2016	2015*
Land	\$	26.6	25.9	13.5	13.5	40.1	39.4
Buildings		239.3	229.4	7.8	8.3	247.1	237.7
Improvements other than buildings		139.2	141.5	160.3	160.4	299.5	301.9
Machinery, furniture, and equipment		11.7	12.8	7.0	7.1	18.7	19.9
Intangibles		0.4	0.4	-	-	0.4	0.4
Construction in progress		107.8	119.8	85.3	83.1	193.1	202.9
Total	\$	525.0	529.8	273.9	272.4	798.9	802.2

* Restated as presented in Note 4.

Major capital asset activity for the fiscal year ended June 30, 2016 included:

- ◆ Capital asset changes for governmental activities totaled a decrease of \$11.9 million for construction in progress, increase of \$1.0 million for improvements other than buildings/infrastructure, increase of \$0.8 million for machinery, furniture, and equipment, and an increase of \$18.4 million for buildings in the fiscal year.
- ◆ Capital asset changes for business-type activities totaled an increase of \$5.9 million for improvements other than buildings/infrastructure and \$1.1 million increase for in machinery, furniture and equipment. Construction in progress increased by \$2.2 million. There were no additions for buildings in the fiscal year.
- ◆ Depreciation expense totaled \$14.6 million and \$8.3 million for governmental and business-type activities, respectively.
- ◆ Construction in progress totaled \$107.8 million for governmental activities at June 30, 2016.
- ◆ Construction in progress totaled \$85.3 million for business-type activities at June 30, 2016.

More detailed information about the city's capital assets is presented in Note 4 to the basic financial statements.

The city's adopted fiscal year 2017-2021 Capital Improvement Program established a five year program totaling \$223.5 million. The major projects include \$85.3 million for water and sewer improvements, \$47.4 million for drainage and street improvements, \$22.9 million for municipal facilities, \$18.6 million for fleet management, \$1.4 million for industrial and economic development projects, \$1.0 million for leisure services projects, \$24.6 million for parking authority projects, and \$22.2 million for education.

Long-term Debt

At year-end, the city had \$602.7 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 \$596.1 million of this total, as reflected in the following schedule:

Outstanding Debt

As of June 30, 2016 and 2015 (in millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
General obligation bonds	\$ 444.3	456.1	151.8	159.4	596.1	615.5
Obligation under capital leases	6.1	8.2	0.0	0.2	6.1	8.4
Literary loans	0.5	0.8	-	-	0.5	0.8
Total	\$ 450.9	465.1	151.8	159.6	602.7	624.7

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 \$717.3 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 2016 was 6.0%, which compares to the national unemployment rate of 5.1% for June 2016. Per capita income as of 2015 (latest data available from the Bureau of Economic Analysis) was \$39,301, a increase of 5.1% from what was reported for 2014. Average per capita income in 2015 was \$48,838 for Virginia and \$44,765 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.



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Basic Financial Statements



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CITY OF PORTSMOUTH, VIRGINIA
Statement of Net Position
June 30, 2016

Exhibit A

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Assets:				
Current assets:				
Cash and temporary investments (note 3)	\$ 132,409,750	95,134,570	227,544,320	29,144,858
Restricted cash and temporary investments (note 3)	231,469	-	231,469	1,013,038
Receivables (net of allowance for uncollectibles):				
Taxes	12,618,101	-	12,618,101	-
Accounts	6,897,852	8,765,501	15,663,353	677,274
Other	-	-	-	5,345
Internal balances (note 10)	2,901,987	(2,901,987)	-	-
Due from component units (note 10)	418,213	-	418,213	-
Due from other governments (note 11)	14,893,743	-	14,893,743	5,359,934
Prepaid items	15,000	218,875	233,875	-
Inventory of supplies	491,165	598,125	1,089,290	272,051
Total current assets	170,877,280	101,815,084	272,692,364	36,472,500
Noncurrent assets:				
Notes receivable	-	-	-	174,504
OPEB Assets	-	-	-	5,031,798
Property held for resale	-	-	-	8,725,645
Capital assets (note 4):				
Land	26,599,619	13,518,323	40,117,942	7,291,368
Buildings	345,803,332	21,488,188	367,291,520	93,535,748
Improvements other than buildings	497,548,228	260,905,450	758,453,678	-
Machinery, furniture, and equipment	53,388,024	26,559,745	79,947,769	26,534,138
Intangibles	1,020,537	-	1,020,537	422,270
Construction in progress	107,818,322	85,301,782	193,120,104	-
Total capital assets	1,032,178,062	407,773,488	1,439,951,550	127,783,524
Less accumulated depreciation	(507,110,560)	(133,846,278)	(640,956,838)	(59,990,199)
Total capital assets, net	525,067,502	273,927,210	798,994,712	67,793,325
Other assets	-	-	-	73,746
Total noncurrent assets	525,067,502	273,927,210	798,994,712	81,799,018
Total assets	695,944,782	375,742,294	1,071,687,076	118,271,518
Deferred outflows of resources:				
Deferred outflows from debt refundings	15,663,437	4,688,758	20,352,195	-
Deferred outflows related to pensions	19,346,188	1,740,021	21,086,209	12,003,902
Total outflows of resources	35,009,625	6,428,779	41,438,404	12,003,902
Total assets and deferred outflows of resources	\$ 730,954,407	382,171,073	1,113,125,480	130,275,420

(continued)

CITY OF PORTSMOUTH, VIRGINIA
Statement of Net Position
June 30, 2016

Exhibit A (continued)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Liabilities:				
Current liabilities:				
Accounts payable	\$ 11,918,644	1,415,695	13,334,339	3,934,762
Accrued payroll	2,630,925	219,854	2,850,779	9,803,738
Construction payable	-	779,497	779,497	-
Accrued interest payable	7,621,117	2,676,956	10,298,073	-
Deposits	7,477	1,400,857	1,408,334	-
Due to primary government (note 10)	-	-	-	40,088
Unearned revenues (note 12)	873,180	44,578	917,758	-
Claims payable (note 15)	5,464,519	-	5,464,519	1,626,928
Compensated absences (note 5)	1,372,580	422,631	1,795,211	1,341,071
General obligation bonds, net (note 5)	21,323,251	7,727,107	29,050,358	-
Obligations under capital leases (notes 5 and 6)	1,716,998	26,508	1,743,506	1,001,007
Literary loans (note 5)	250,000	-	250,000	-
Total current liabilities	53,178,691	14,713,683	67,892,374	17,747,594
Noncurrent liabilities:				
Claims payable (note 15)	11,021,307	-	11,021,307	1,014,726
Other post employment benefit obligation (note 8)	67,261,015	8,651,151	75,912,166	-
Compensated absences (note 5)	5,701,856	254,319	5,956,175	2,749,961
General obligation bonds, net (note 5)	422,934,093	144,056,656	566,990,749	-
Obligations under capital leases (notes 5 and 6)	4,355,179	-	4,355,179	-
Landfill closure and postclosure care (notes 5 and 13)	-	5,090,163	5,090,163	-
Literary loans (note 5)	250,000	-	250,000	-
Net pension liability	121,151,035	10,896,477	132,047,512	140,389,227
Total noncurrent liabilities	632,674,485	168,948,766	801,623,251	144,153,914
Total liabilities	685,853,176	183,662,449	869,515,625	161,901,508
Deferred inflows related to pensions	6,353,553	571,447	6,925,000	16,086,079
Net position:				
Net investment in capital assets	241,411,418	126,805,696	368,217,114	66,792,318
Restricted for:				
Capital projects	33,861,046	-	33,861,046	-
Behavioral health services	6,395,510	-	6,395,510	-
Grants and donations	984,875	-	984,875	1,639,171
Other purposes	7,820,343	-	7,820,343	3,113,504
Unrestricted (deficit)	(251,725,514)	71,131,481	(180,594,033)	(119,257,160)
Total net position	38,747,678	197,937,177	236,684,855	(47,712,167)
Total liabilities and net position	\$ 730,954,407	382,171,073	1,113,125,480	130,275,420

See accompanying notes to basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA

Exhibit B

Statement of Activities

Year ended June 30, 2016

Function/Program Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Component Units
Primary Government:							
Governmental:							
General government	\$ 25,571,539	2,922,590	11,204,464	-	(11,444,485)	-	-
Judicial	24,814,308	571,659	9,069,836	-	(15,172,813)	-	-
Public safety	51,693,737	3,586,477	5,848,964	-	(42,258,296)	-	-
Public works	20,442,395	7,602,200	11,916,446	696,766	(226,983)	-	-
Health and welfare	32,409,223	1,242,294	28,308,399	-	(2,858,530)	-	-
Parks, recreational, and cultural	11,067,649	2,992,632	298,432	-	(7,776,585)	-	-
Community development	6,020,487	3,397,562	221,330	-	(2,401,595)	-	-
Education	53,908,322	-	-	-	(53,908,322)	-	-
Interest on long-term debt	18,198,185	-	-	-	(18,198,185)	-	-
Total governmental activities	244,125,845	22,315,414	66,867,871	696,766	(154,245,794)	-	-
Business-type:							
Public Utility	22,974,962	44,203,060	-	-	-	21,228,098	-
Golf	2,050,694	1,175,592	-	-	-	(875,102)	-
Parking Authority	1,151,506	995,542	-	-	-	(155,964)	-
Waste Management	10,041,170	12,438,646	-	-	-	2,397,476	-
Total business-type activities	36,218,332	58,812,840	-	-	-	22,594,508	-
Total primary government	280,344,177	81,128,254	66,867,871	696,766	(154,245,794)	22,594,508	-
Component Units:							
School Board	163,321,434	1,475,900	29,577,490	987,435	-	-	(131,280,609)
Economic Development Authority	1,533,886	804,842	-	-	-	-	(729,044)
Port and Industrial Commission	10,155	2,100	-	-	-	-	(8,055)
Total component units	\$ 164,865,475	2,282,842	29,577,490	987,435	-	-	(132,017,708)
General Revenues:							
Taxes:							
General property taxes				\$ 119,741,652	-	-	-
Business and occupational license taxes				6,567,674	-	-	-
Restaurant food taxes				7,854,840	-	-	-
Sales and Use Tax				6,861,464	-	-	-
Telecommunications				8,045,644	-	-	-
Other local taxes				9,454,083	-	-	-
Utility taxes				8,053,834	-	-	-
Grants and contributions not restricted to specific programs				-	-	-	79,473,834
Investment earnings				1,480,919	485,672	18,347	-
Miscellaneous				4,193,125	772,630	552,491	-
Payment from primary government				-	-	-	51,200,000
Transfers				9,336,088	(9,921,248)	-	-
Total General Revenues and Transfers				181,589,323	(8,662,946)	131,244,672	
Change in Net Position				27,343,529	13,931,562	(773,036)	
Net position, beginning of year, as restated				11,404,149	184,005,615	(46,939,131)	
Net position, end of year				\$ 38,747,678	197,937,177	(47,712,167)	

See accompanying notes to basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA

Exhibit C

**Balance Sheet
Governmental Funds
June 30, 2016**

	General	Debt Service	Capital Improvements	Other Governmental Funds	Total
Assets:					
Cash and temporary investments (note 3)	\$ 48,032,896	3,280,032	35,904,295	13,132,269	100,349,492
Restricted cash and temporary investments (note 3)	231,460	-	9	-	231,469
Receivables (net of allowance for uncollectibles):					
Taxes	12,618,101	-	-	-	12,618,101
Accounts	5,906,357	-	-	750,846	6,657,203
Due from other funds (note 10)	4,676,019	-	-	-	4,676,019
Due from component units (note 10)	418,213	-	-	-	418,213
Due from other governments (note 11)	12,093,101	-	-	2,800,642	14,893,743
Inventory of supplies	32,445	-	-	2,223	34,668
Advances receivable	1,407,375	-	-	-	1,407,375
Total assets	85,415,967	3,280,032	35,904,304	16,685,980	141,286,283
Liabilities:					
Accounts payable	6,853,855	550	2,043,258	1,564,964	10,462,627
Accrued payroll	2,071,204	-	-	438,416	2,509,620
Deposits	7,477	-	-	-	7,477
Due to other funds (note 10)	-	-	-	3,181,157	3,181,157
Unearned revenues (note 12)	596,611	-	-	276,569	873,180
Total liabilities	9,529,147	550	2,043,258	5,461,106	17,034,061
Deferred inflows of resources:					
Deferred inflows from unavailable revenues	9,752,620	-	-	-	9,752,620
Total inflows of resources	9,752,620	-	-	-	9,752,620
Total liabilities and deferred inflows of resources	19,281,767	550	2,043,258	5,461,106	26,786,681
Fund balances:					
Nonspendable fund balances	1,439,820	-	-	1,002,223	2,442,043
Restricted fund balances	231,460	3,279,482	33,861,046	11,689,786	49,061,774
Assigned fund balances	6,035,208	-	-	657,536	6,692,744
Unassigned	58,427,712	-	-	(2,124,671)	56,303,041
Total fund balances	66,134,200	3,279,482	33,861,046	11,224,874	114,499,602
Total liabilities, deferred inflows of resources, and fund balances	\$ 85,415,967	3,280,032	35,904,304	16,685,980	141,286,283

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, 2016**

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

Total fund balances for governmental funds	\$	114,499,602
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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	26,584,571	
Buildings	345,110,249	
Machinery, furniture and equipment	24,264,284	
Improvements other than buildings	497,548,228	
Construction in progress	107,818,322	
Accumulated depreciation	(483,002,099)	518,323,556

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.

9,752,620

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	(6,712,833)	
Other post employment benefit obligation	(64,690,170)	
Accrued interest payable	(7,621,117)	
General obligation bonds	(444,257,344)	
Obligations under capital leases	(4,770,322)	
Literary loans	(500,000)	
Deferred inflows related to pension	(6,353,553)	
Net pension liability	(121,151,035)	(656,056,374)

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

15,663,437

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

19,346,188

35,009,625

Internal service funds are used by the city to charge costs of certain activities to individual funds. The assets and liabilities of internal service funds are reported as components of other governmental funds.

17,218,649

Net position of governmental activities

\$

38,747,678

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, 2016

	General	Debt Service	Capital Improvements	Other Governmental Funds	Total
Revenues:					
Taxes	\$ 165,989,121	-	-	-	165,989,121
Intergovernmental	39,013,296	-	743,566	33,333,506	73,090,368
Charges for services	5,415,591	-	-	7,811,736	13,227,327
Investment income	2,063	-	39,545	4,321	45,929
Recovered costs	3,488,185	-	-	392,696	3,880,881
Fines and forfeitures	623,879	-	-	-	623,879
Licenses and permits	1,133,825	-	-	-	1,133,825
Use of property	1,766,755	-	-	51,350	1,818,105
Miscellaneous	4,278,654	-	91,648	62,048	4,432,350
Total revenues	221,711,369	-	874,759	41,655,657	264,241,785
Expenditures:					
Current:					
General government	16,665,381	-	-	2,755	16,668,136
Nondepartmental	11,586,048	-	-	-	11,586,048
Judicial	18,049,200	-	-	1,086,281	19,135,481
Public safety	53,442,560	-	-	457,512	53,900,072
Public works	15,419,290	-	-	2,041,673	17,460,963
Health and welfare	1,203,886	-	-	30,833,163	32,037,049
Parks, recreational, cultural	9,215,619	-	-	899,318	10,114,937
Community development	3,977,513	-	-	968,610	4,946,123
Education	51,200,000	-	-	-	51,200,000
Debt service	-	38,064,313	-	-	38,064,313
Fiscal charges	-	39,591	-	-	39,591
Costs of issuance	-	453,439	-	-	453,439
Capital outlay	-	-	9,556,090	2,310,864	11,866,954
Total expenditures	180,759,497	38,557,343	9,556,090	38,600,176	267,473,106
Revenues over (under) expenditures	40,951,872	(38,557,343)	(8,681,331)	3,055,481	(3,231,321)
Other financing sources (uses):					
Transfers from other funds (note 10)	10,349,160	38,013,967	8,182,378	6,020,699	62,566,204
Transfers to other funds (note 10)	(46,406,738)	-	(560,000)	(6,359,799)	(53,326,537)
Issuance of general obligation bonds (note 5)	-	53,205,000	-	-	53,205,000
Premium on bonds issued (note 5)	-	4,358,163	-	-	4,358,163
Refunding payments made to escrow agent	-	(56,930,880)	-	-	(56,930,880)
Total other financing sources (uses)	(36,057,578)	38,646,250	7,622,378	(339,100)	9,871,950
Net change in fund balances	4,894,294	88,907	(1,058,953)	2,716,381	6,640,629
Fund balances, beginning of year, restated	61,239,906	3,190,575	34,919,999	8,508,493	107,858,973
Fund balances, end of year	\$ 66,134,200	3,279,482	33,861,046	11,224,874	114,499,602

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, 2016

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

Net change in fund balances - total governmental funds	\$	6,640,629
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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.

Transfer of capital assets to City Enterprise operations	(1,264,473)	
Transfer of capital assets to Portsmouth Public Schools	(987,435)	
Purchases of assets	10,349,105	
Assets donated to city	1,712,040	
Depreciation expense	(12,949,163)	(3,139,926)

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 issuance costs, 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	(57,563,163)	
Defeased debt	49,594,414	
Principal payments of debt	20,049,788	
Amortization expense	894,837	12,975,876

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.	389,288
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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	7,173,960	
Change in deferred outflows - pension	7,312,594	
Change in deferred inflows	16,881,300	
Change in compensated absences	316,590	
Change in net pension liability	(21,922,959)	
Change in other post employment benefit obligation	(167,407)	
Change in accrued interest	(322,914)	9,271,164

Internal service funds are used by the City to charge costs of certain activities to individual funds. The net revenue (expense) of internal service funds is reported as a component of governmental funds.	1,206,498
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Change in net position of governmental activities	\$	27,343,529
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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, 2016

	Public Utility	Parking Authority	Nonmajor Enterprise Funds	Total	Governmental Activities - Internal Service Funds
Assets					
Current assets:					
Cash and temporary investments (note 3)	\$ 82,398,942	621,242	12,114,386	95,134,570	32,060,258
Accounts receivable (net of allowance for uncollectibles)	6,290,562	6,927	2,468,012	8,765,501	240,649
Inventory of supplies	541,339	-	56,786	598,125	456,497
Prepaid expenses	218,875	-	-	218,875	15,000
Total current assets	89,449,718	628,169	14,639,184	104,717,071	32,772,404
Noncurrent assets:					
Capital assets (note 4):					
Land	324,079	679,680	12,514,564	13,518,323	15,048
Buildings	692,687	18,667,910	2,127,591	21,488,188	693,083
Improvements other than buildings	260,416,902	260,636	227,912	260,905,450	-
Machinery, furniture, and equipment	15,349,523	422,435	10,787,787	26,559,745	29,123,739
Intangible assets	-	-	-	-	1,020,537
Construction in progress	85,301,782	-	-	85,301,782	-
Total capital assets	362,084,973	20,030,661	25,657,854	407,773,488	30,852,407
Less accumulated depreciation	(113,010,065)	(12,639,191)	(8,197,022)	(133,846,278)	(24,108,461)
Total capital assets, net	249,074,908	7,391,470	17,460,832	273,927,210	6,743,946
Deferred outflows of resources:					
Deferred outflows from debt refunding	4,231,195	81,504	376,059	4,688,758	-
Deferred outflows related to pensions	1,072,595	25,988	641,438	1,740,021	-
Total outflows of resources	5,303,790	107,492	1,017,497	6,428,779	-
Total assets and deferred outflows of resources	343,828,416	8,127,131	33,117,513	385,073,060	39,516,350
Liabilities:					
Current liabilities:					
Accounts payable	830,610	22,308	562,777	1,415,695	1,399,001
Construction payable	779,497	-	-	779,497	-
Accrued interest payable	2,537,729	47,409	91,818	2,676,956	-
Accrued payroll	130,624	5,752	83,478	219,854	121,305
Flex spending benefits	-	-	-	-	57,016
Deposits	1,390,093	-	10,764	1,400,857	-
Due to other funds (note 10)	-	1,417,691	76,921	1,494,612	250
Unearned revenues (note 12)	15,986	28,592	-	44,578	-
Compensated absences (note 5)	275,643	7,144	139,844	422,631	164,270
General obligation bonds (note 5)	6,838,884	454,306	433,917	7,727,107	-
Obligations under capital leases (notes 5 and 6)	-	-	26,508	26,508	804,632
Claims payable (note 15)	-	-	-	-	5,464,519
Total current liabilities	12,799,066	1,983,202	1,426,027	16,208,295	8,010,993
Noncurrent liabilities:					
Claims payable (note 15)	-	-	-	-	11,021,307
Other post employment benefit obligation (note 8)	5,398,948	222,790	3,029,413	8,651,151	2,570,845
Compensated absences (note 5)	109,282	6,717	138,320	254,319	197,333
Obligations under capital leases (notes 5 and 6)	-	-	-	-	497,223
Landfill closure and postclosure liability (notes 5 and 13)	-	-	5,090,163	5,090,163	-
Advances payable	-	1,407,375	-	1,407,375	-
General obligation bonds (note 5)	135,572,302	3,653,732	4,830,622	144,056,656	-
Net pension liability (notes 5 and 7)	6,716,877	162,742	4,016,858	10,896,477	-
Total noncurrent liabilities	147,797,409	5,453,356	17,105,376	170,356,141	14,286,708
Deferred inflows related to pensions	352,255	8,535	210,657	571,447	-
Total liabilities and deferred inflows for resources	160,948,730	7,445,093	18,742,060	187,135,883	22,297,701
Net position:					
Net investment in capital assets	110,894,916	3,364,936	12,545,844	126,805,696	5,442,091
Unrestricted (deficit)	71,984,770	(2,682,898)	1,829,609	71,131,481	11,776,558
Total net position	182,879,686	682,038	14,375,453	197,937,177	17,218,649
Total liabilities and net position	\$ 343,828,416	8,127,131	33,117,513	385,073,060	39,516,350

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, 2016

	Public Utility	Parking Authority	Nonmajor Enterprise Funds	Total	Governmental Activities - Internal Service Funds
Operating revenues:					
Charges for services	\$ 44,050,645	996,698	13,655,161	58,702,504	37,050,625
Use of property	53,172	-	-	53,172	-
Other	285,989	196,072	203,687	685,748	280,793
Total operating revenues	44,389,806	1,192,770	13,858,848	59,441,424	37,331,418
Operating expenses:					
Personnel services	4,834,482	126,089	3,466,345	8,426,916	4,518,810
Contractual services	2,246,474	166,158	4,828,414	7,241,046	3,598,522
Supplies and materials	2,869,312	16,680	383,664	3,269,656	3,087,850
Utilities	1,258,754	123,705	112,585	1,495,044	168,054
Internal charges	1,133,328	44,842	1,535,271	2,713,441	5,130
Claims, settlements, and refunds	-	-	-	-	21,591,243
Insurance premiums	-	-	-	-	654,085
Payments in lieu of taxes	1,069,990	-	-	1,069,990	-
Rent	-	-	97,497	97,497	-
Depreciation and amortization	7,004,273	455,213	799,887	8,259,373	1,646,609
Closure/postclosure	-	-	216,582	216,582	-
Other	833,619	51,499	371,360	1,256,478	542,222
Total operating expenses	21,250,232	984,186	11,811,605	34,046,023	35,812,525
Operating income (loss)	23,139,574	208,584	2,047,243	25,395,401	1,518,893
Nonoperating revenues (expenses):					
Investment income	580,774	-	-	580,774	-
Gain (loss) on disposal of capital assets	5,220	-	(121,851)	(116,631)	(48,988)
Interest expense and fiscal charges	(2,670,367)	(168,476)	(237,881)	(3,076,724)	-
Net nonoperating revenues (expenses)	(2,084,373)	(168,476)	(359,732)	(2,612,581)	(48,988)
Net income (loss) before transfers	21,055,201	40,108	1,687,511	22,782,820	1,469,905
Transfers from other funds (note 10)	17,000,001	61,522	855,204	17,916,727	41,978
Transfers to other funds (note 10)	(26,200,501)	(158,482)	(409,002)	(26,767,985)	(305,385)
Change in net position	11,854,701	(56,852)	2,133,713	13,931,562	1,206,498
Net position, beginning of year, as restated (note 17)	171,024,985	738,890	12,241,740	184,005,615	16,012,151
Net position, end of year	\$ 182,879,686	682,038	14,375,453	197,937,177	17,218,649

See accompanying notes to basic financial statements.

Statement of Cash Flows

Proprietary Funds

Year ended June 30, 2016

	Public Utility	Parking Authority	Nonmajor Enterprise Funds	Total	Governmental Activities - Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	\$ 42,506,639	1,185,587	13,572,338	57,264,564	37,313,430
Cash payments to suppliers for goods and services	(9,195,098)	(102,995)	(8,399,879)	(17,697,972)	(30,319,709)
Cash payments to employees for services	(5,330,470)	(171,639)	(3,485,792)	(8,987,901)	(4,684,604)
Net cash provided by (used in) operating activities	27,981,071	910,953	1,686,667	30,578,691	2,309,117
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Transfers in from other funds	17,000,001	61,522	855,204	17,916,727	41,978
Transfers out to other funds	(26,200,501)	(158,482)	(409,002)	(26,767,985)	(305,385)
Net cash provided by (used in) noncapital financing activities	(9,200,500)	(96,960)	446,202	(8,851,258)	(263,407)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition and construction of capital assets	(9,250,294)	-	(797,926)	(10,048,220)	(109,079)
Cash proceeds from disposal of capital assets	5,220	-	181,999	187,219	13,066
Payment of construction projects payable	(854,817)	-	-	(854,817)	-
Proceeds from long-term debt	-	-	-	-	-
Principal paid on long-term debt	(6,326,335)	(631,171)	(540,651)	(7,498,157)	(1,295,735)
Payment to other funds	-	-	-	-	-
Interest paid	(2,515,677)	(170,541)	(241,477)	(2,927,695)	-
Net cash provided by (used in) capital and related financing activities	(18,941,903)	(801,712)	(1,398,055)	(21,141,670)	(1,391,748)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest received	580,774	-	-	580,774	-
Net cash provided by (used in) investing activities	580,774	-	-	580,774	-
Net increase (decrease) in cash and temporary investments	419,442	12,281	734,814	1,166,537	653,962
Cash and temporary investments, beginning of year	81,979,500	608,961	11,379,572	93,968,033	31,406,296
Cash and temporary investments, end of year	82,398,942	621,242	12,114,386	95,134,570	32,060,258
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities					
Operating income/(loss)	23,139,574	208,584	2,047,243	25,395,401	1,518,893
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	7,004,273	455,213	799,887	8,259,373	1,646,609
Decrease (increase) in:					
Accounts receivable	(1,899,572)	387	(352,036)	(2,251,221)	(17,988)
Inventory of supplies	(48,342)	-	(17,719)	(66,061)	(36,139)
Prepaid expenses	(218,875)	-	508,428	289,553	6,067
Deposits	16,405	-	(11,395)	5,010	-
Due from other funds	-	-	-	-	-
Deferred outflows	(368,964)	(5,364)	(249,593)	(623,921)	-
Increase (decrease) in:					
Accounts payable	483,596	86	(1,561,797)	(1,078,115)	(699,589)
Accrued payroll	9,115	1,184	12,644	22,943	32,761
Compensated absences	(37,931)	(2,565)	(18,782)	(59,278)	50,104
Due to other funds	-	299,803	76,921	376,724	(811,994)
Flexible spending benefits	-	-	-	-	14,215
Other post employment benefit obligation	(6,658)	(193)	(3,522)	(10,373)	(248,659)
Net pension liability	914,789	(7,325)	785,736	1,693,200	-
Deferred inflows	(1,006,339)	(31,287)	(545,930)	(1,583,556)	-
Landfill closure and postclosure liability	-	-	216,582	216,582	-
Unearned revenues	-	(7,570)	-	(7,570)	-
Claims payable	-	-	-	-	854,837
Total adjustments	4,841,497	702,369	(360,576)	5,183,290	790,224
Net cash provided by operating activities	\$ 27,981,071	910,953	1,686,667	30,578,691	2,309,117

See accompanying notes to basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2016

Exhibit F-1

	Pension Trusts	Agency Special Welfare Fund
Assets		
Cash and temporary investments (note 3)	\$ 2,482,632	4,736
Investments (note 3):		
Cash equivalents	68,260,296	-
Stocks	106,012,387	-
Bonds	12,593,465	-
International investments	28,875,600	-
Real estate	5,898,718	-
Other investments	5,630,002	-
Total investments	227,270,468	-
Total assets	229,753,100	4,736
LIABILITIES		
Liabilities - Cash held for others	-	4,736
TOTAL LIABILITIES	-	4,736
Net position -		
Net position restricted for pensions	229,753,100	-
See accompanying notes to basic financial statements.		

CITY OF PORTSMOUTH, VIRGINIA
Statement of Changes in Fiduciary Net Position
Fiduciary Funds - Pension Trust Funds
Year ended June 30, 2016

Exhibit F-2

Additions:	
Contributions	
Employers' contributions	\$ 7,590,948
Investment income -	
Interest	5,265,534
Realized gains (loss)	(713,817)
Unrealized gains (loss)	(862,754)
Net investment income	3,688,963
Total additions	11,279,911
Deductions	
Benefit payments	29,624,054
Administrative expenses	149,052
Net decrease	29,773,106
Change in net position	(18,493,195)
Net plan position held in trust for pension benefits, beginning of year	248,246,295
Net plan position held in trust for pension benefits, end of year	\$ 229,753,100

See accompanying notes to basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA

Exhibit G-1

Statement of Net Position

Component Units

June 30, 2016

	School Board	Economic Development Authority	Port and Industrial Commission	Total
Assets:				
Current assets:				
Cash and temporary investments (note 3)	\$ 24,597,959	3,278,666	1,268,233	29,144,858
Receivables (net of allowance for uncollectibles)				
Restricted Cash	-	1,013,038	-	1,013,038
Accounts	677,146	128	-	677,274
Other	-	-	345	345
Due from other governments	5,359,934	-	-	5,359,934
Inventory of supplies	272,051	-	-	272,051
Notes receivable, current	-	-	174,504	174,504
Deposits	-	-	5,000	5,000
Total current assets	30,907,090	4,291,832	1,448,082	36,647,004
Noncurrent assets:				
Notes receivable	-	-	73,746	73,746
OPEB assets	5,031,798	-	-	5,031,798
Property held for resale	-	8,686,148	39,497	8,725,645
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	26,534,138	-	-	26,534,138
Intangible	422,270	-	-	422,270
Total capital assets	126,577,863	1,205,661	-	127,783,524
Less accumulated depreciation	(59,990,199)	-	-	(59,990,199)
Total capital assets, net	66,587,664	1,205,661	-	67,793,325
Total noncurrent assets	71,619,462	9,891,809	113,243	81,624,514
Deferred outflows related to pensions	12,003,902	-	-	12,003,902
Total assets and deferred outflows of resources	\$ 114,530,454	14,183,641	1,561,325	130,275,420

(continued)

CITY OF PORTSMOUTH, VIRGINIA

Exhibit G-1 (continued)

Statement of Net Position

Component Units

June 30, 2016

	School Board	Economic Development Authority	Port and Industrial Commission	Total
Liabilities:				
Current liabilities:				
Accounts payable	\$ 3,926,025	8,710	27	3,934,762
Accrued payroll	9,127,522	-	-	9,127,522
Accrued payroll taxes	676,216	-	-	676,216
Due to primary government (note 10)	30,000	-	10,088	40,088
Claims payable (note 15)	1,626,928	-	-	1,626,928
Compensated absences (note 5)	1,341,071	-	-	1,341,071
Obligations under capital leases (note 5)	1,001,007	-	-	1,001,007
Total current liabilities	17,728,769	8,710	10,115	17,747,594
Noncurrent liabilities:				
Claims payable (note 15)	1,014,726	-	-	1,014,726
Compensated absences (note 5)	2,749,961	-	-	2,749,961
Net pension liability	140,389,227	-	-	140,389,227
Total noncurrent liabilities	144,153,914	-	-	144,153,914
Total liabilities	161,882,683	8,710	10,115	161,901,508
Deferred inflows related to pensions	16,086,079	-	-	16,086,079
Net position:				
Net investment in capital assets	65,586,657	1,205,661	-	66,792,318
Restricted for grants	1,639,171	-	-	1,639,171
Restricted for other purposes	2,095,756	1,013,038	-	3,108,794
Unrestricted (deficit)	(132,759,892)	11,956,232	1,551,210	(119,252,450)
Total net position	(63,438,308)	14,174,931	1,551,210	(47,712,167)
Total liabilities and net position	\$ 114,530,454	14,183,641	1,561,325	130,275,420

See accompanying notes to basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA
Statement of Activities
Component Unit
Year ended June 30, 2016

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	\$ 8,087,764	-	-	-	(8,087,764)	-	-	(8,087,764)
Instruction	114,530,007	33,678	23,193,044	-	(91,303,285)	-	-	(91,303,285)
Pupil transportation	7,013,542	97,522	-	-	(6,916,020)	-	-	(6,916,020)
Operations and maintenance	15,918,249	20,463	-	987,435	(14,910,351)	-	-	(14,910,351)
Information technology	9,601,034	-	-	-	(9,601,034)	-	-	(9,601,034)
Food services	8,093,226	1,324,237	6,384,446	-	(384,543)	-	-	(384,543)
Interest on long-term debt	77,612	-	-	-	(77,612)	-	-	(77,612)
Total School Board	163,321,434	1,475,900	29,577,490	987,435	(131,280,609)	-	-	(131,280,609)
Economic Development Authority								
Economic Development Authority	1,533,886	804,842	-	-	-	(729,044)	-	(729,044)
Port and Industrial Commission								
Port and Industrial Commission	10,155	2,100	-	-	-	-	(8,055)	(8,055)
Total Component Units	\$ 164,865,475	2,282,842	29,577,490	987,435	(131,280,609)	(729,044)	(8,055)	(132,017,708)
General Revenues:								
Grants and contributions not restricted to specific programs					\$ 79,473,834	-	-	79,473,834
Investment earnings					4,923	5,650	7,774	18,347
Miscellaneous					442,551	109,940	-	552,491
Payment from primary government					51,200,000	-	-	51,200,000
Total General Revenues and Transfers					131,121,308	115,590	7,774	131,244,672
Change in net position					(159,301)	(613,454)	(281)	(773,036)
Net position, beginning of year					(63,279,007)	14,788,385	1,551,491	(46,939,131)
Net position, end of year					\$ (63,438,308)	14,174,931	1,551,210	(47,712,167)

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, and 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 GASB Statement No. 14, *The Financial Reporting Entity*, as amended. This Statement 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 accounting principles generally accepted in the United States of America, 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
City Hall Building, Suite 500
801 Crawford Street
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
801 Crawford Street, Suite 500
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 GASB 61. 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 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 - Capital Improvements 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 five nonmajor internal service funds: the City Garage Fund, the Information Technology Fund, the Health Insurance and the Other Post Employment 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 pension 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 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 and pension 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 2016 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 2016, 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, \$.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)	\$ 3,572,327
Allowance for uncollectibles	699,518
Total General Fund	4,271,845
Special Revenue Funds:	
Stormwater Management Fund - allowance for uncollectibles	362,082
Behavioral Health Services Fund - allowance for uncollectibles	21,785
Total Special Revenue Funds	383,867
Total governmental activities	4,655,712
Business-Type Activities:	
Enterprise Funds:	
Public Utility Fund - allowance for uncollectibles	677,350
Parking Authority Fund - allowance for uncollectibles	6,043
Waste Management Fund - allowance for uncollectibles	1,124,665
Total business-type activities	\$ 1,808,058

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 b) 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, parkland 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. 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 GASB Statement No. 16, *Accounting for Compensated Absences*. 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 is the amount used by and paid to employees during the fiscal year. In the government-wide and proprietary fund financial statements, the amount of compensated absences recorded as an expense is the amount earned during the fiscal year. A liability for compensated absences is reported in the governmental funds only if the compensated absences have matured and are payable.

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 Statement of Net Position may include deferred outflows of resources in addition to assets. These items represent the consumption of net position that is applicable to a future period. As a result, the expense/expenditure, or outflow, is not recognized until then. For the city, deferred outflows are reported to account for debt refundings when the refunding bonds exceeded the net carrying amounts of the refunded debt and pension resources paid in advance. The Statement of Net Position may also include deferred inflows of resources in addition to liabilities. These items represent the acquisition of net position that is applicable to a future period. As a result, the revenue, or inflow, is not recognized until then. For the city, deferred inflows are recorded to account for unavailable tax revenue and pension resources received in advance.

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 2016.

O. 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 U.S. generally accepted accounting principles (GAAP). Actual results may differ from those estimates.

P. 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, 2016

(2) FUND BALANCE

The fund balances of the governmental funds at June 30, 2016 were composed of the following:

	General Fund	Debt Service	Capital Improvements	Other Nonmajor
Nonspendable:				
Inventory of supplies	\$ 32,445	-	-	2,223
Advances receivable	1,407,375	-	-	-
Permanent - cemetery care	-	-	-	1,000,000
Total nonspendable fund balances	1,439,820	-	-	1,002,223
Restricted:				
Restricted cash	231,460	3,279,482	9	-
Capital improvements	-	-	33,861,037	-
Behavioral health services	-	-	-	6,395,510
Public law library	-	-	-	35,177
Stormwater management infrastructure maintenance	-	-	-	2,943,995
Grants	-	-	-	984,875
Children's services	-	-	-	216,521
Asset forfeitures	-	-	-	498,234
Permanent - cemetery care	-	-	-	615,474
Total restricted fund balances	231,460	3,279,482	33,861,046	11,689,786
Committed:				
Total committed fund balances	-	-	-	-
Assigned:				
Planned use of fund balance	6,035,208	-	-	-
Willett Hall	-	-	-	657,536
Total assigned fund balances	6,035,208	-	-	657,536
Unassigned:				
General Fund	58,427,712	-	-	-
Community development - (HUD) Housing assistance	-	-	-	(195,831)
Social Services	-	-	-	(1,928,840)
Total unassigned fund balance	58,427,712	-	-	(2,124,671)
Total fund balances	\$ 66,134,200	3,279,482	33,861,046	11,224,874

(3) DEPOSITS AND INVESTMENTS

Deposits and Restricted Cash

At June 30, 2016, the carrying value of the city’s deposits with banks and savings institutions was \$227,544,320. All cash of the city except petty cash of \$97,027 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, 2016 restricted cash totaled \$231,469, which represents sheriff funds and investment income.

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, banker’s acceptances, repurchase agreements, certificates of deposit, and the State Treasurer’s Local Government Investment Pool (LGIP). The pension trust funds are also authorized to invest in common stocks and marketable debt securities which mature within twenty years with credit ratings no lower than Baa or BBB as measured by Moody’s 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 30,2016, 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 Market	\$ 1,023,191	AAAm	N/A	1 day

Pension Investments - Common Collective Retirement Trust Fund

As of June 30, 2016, 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), New York Life (NYL) Insurance Co., Morgan Stanley PWM (Private Wealth Management), and John Hancock Trust Company LLC. The target allocation for all pension investment funds is 59.0% for equity securities, 32.0% for fixed income (bond) securities, and 9.0% for real estate trust securities. None of the city's pension investments have credit ratings.

At June 30, 2016, 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	\$ 6,132,580
AQR Managed Futures Strategy I MF	MF Futures	1 day	5,630,001
Hotchkis & Wiley Mid Cap Val I MF	MF Equity	1 day	8,972,005
NYL Insurance Co. Guaranteed Int. Acct	Annuity	N/A	68,260,296
Principal Glob Real Est Sec I MF	MF Equity	1 day	5,898,719
American EuroPacific Growth R6 MF	MF Equity	1 day	28,875,600
Morgan Stanley PWM (BA)	BA Equity	1 day	90,907,802
Templeton Global Bond Fund R6 MF	MF Equity	1 day	12,593,465
			\$ 227,270,468

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 investments in the city's retirement trust fund as of June 30, 2016 are as follows:

	<u>Fair Value (FV) Measurements Using</u>			
	<u>Fair Value at 6/30/2016</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investments measured at FV by FV Level:				
Debt securities				
Bonds in mutual funds	\$ 7,445,075	\$ 7,445,075	-	-
Total debt securities	<u>7,445,075</u>	<u>7,445,075</u>		
Equity securities				
Common stock & stock options in brokerage account	89,950,835	89,950,835		
Common stock in mutual funds	46,901,695	46,901,695		
Total equity securities	89,950,835	89,950,835		
Other assets (futures contracts, etc.) in mutual funds	6,059,444	6,059,444		
Cash in brokerage account and mutual funds	8,653,123		8,653,123	
Total investments by fair value level	<u>150,357,049</u>	<u>144,297,605</u>	<u>8,653,123</u>	
		Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Investments measured at Net Asset Value (NAV):				
Guaranteed group annuity contract in fixed income funds	68,260,296		As needed	At least 90 days
Total investments measured at the NAV	<u>68,260,296</u>			
Total investments measured at NAV	<u>227,270,468</u>			

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, 2016, 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 \$24,597,959 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 \$11,424,994 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 \$3,278,666. 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 \$1,268,233. 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, 2016 was as follows:

Primary Government - Governmental Activities				
	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Capital assets not being depreciated:				
Land	\$ 25,887,579	712,040	-	26,599,619
Construction in progress	119,756,022	8,295,699	(20,233,399)	107,818,322
Total capital assets being depreciated or amortized	145,643,601	9,007,739	(20,233,399)	134,417,941
Capital assets being depreciated:				
Buildings	327,439,146	18,364,186	-	345,803,332
Improvements other than buildings	770,776	731,176	-	1,501,952
Improvements other than buildings (Infrastructure)	495,801,052	245,224	-	496,046,276
Machinery, furniture, and equipment	52,562,806	1,694,308	(869,090)	53,388,024
Intangibles	911,458	109,079	-	1,020,537
Total capital assets being depreciated or amortized	877,485,238	21,143,973	(869,090)	897,760,121
Less accumulated depreciation for:				
Buildings	(97,902,519)	(8,614,962)	-	(106,517,481)
Improvements other than buildings	(130,735)	(220,050)	-	(350,785)
Improvements other than buildings (Infrastructure)	(354,989,091)	(2,981,357)	-	(357,970,448)
Machinery, furniture, and equipment	(39,765,728)	(2,684,495)	807,036	(41,643,187)
Intangibles	(533,751)	(94,908)	-	(628,659)
Total accumulated depreciation	(493,321,824)	(14,595,772)	807,036	(507,110,560)
Total capital assets being depreciated or amortized, net	384,163,414	6,548,201	(62,054)	390,649,561
Governmental activities capital assets, net	\$ 529,807,015	15,555,940	(20,295,453)	525,067,502

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 \$84,467,671 will be carried on the city's financial statements until the outstanding debt is repaid.

Capital Asset Activity for the year ended June 30, 2016 (continued)

Depreciation/amortization expense was charged to functions as follows:

General government	\$	59,128
Judicial		2,038,936
Public safety		407,442
Public works		5,082,920
Health and welfare		282,889
Parks, recreation and cultural		1,488,666
Community development		880,860
Education		<u>2,708,322</u>
Total governmental activities		<u>12,949,163</u>

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

		<u>1,646,609</u>
Total governmental activities	\$	<u>14,595,772</u>

Construction in progress for the governmental activities is comprised of the following:

	Authorization	Expended to June 30, 2016	Commitments
Drainage Facilities Repair & Lake Management	\$ 29,031,877	22,936,109	846,473
Churchland Bridge	24,562,697	2,247,024	899,333
Victory Boulevard (2% City Match to VDOT)	13,547,131	13,200,853	-
PS New Radio System	11,000,000	3,238,109	41,097
Seawall Reinforcement	10,610,421	4,784,852	331,343
Upgrade City's Traffic Signal (2-4)	6,600,000	5,472,005	955,321
Portsmouth Sports Complex Acquisition & Renovation	4,547,757	4,404,606	98,624
801 Water Street	4,039,871	3,326,031	147,367
Pavilion-Canopy	3,846,666	3,806,507	10,005
Renovations to Various Buildings	3,510,699	3,387,602	23,864
Update Traffic Signal-10 Intersections	3,393,600	2,949,291	933
Judicial Facilities Improvements	3,308,410	3,055,015	-
Update Traffic Signal-8 Intersections	3,244,800	2,242,286	-
City / Schools Joint Financial Management System	3,046,215	2,781,718	183,560
School bus fleet replacement	2,956,083	1,927,164	-
Roof Replacement	2,931,968	2,537,329	44,643
Bridge Repairs	2,858,465	2,755,623	-
Dredging of Lake and Ponds	2,665,721	100,687	-
Parking Garage Repairs - Harbor Tower	2,406,002	1,906,863	-
City-wide recycling program	2,179,690	2,174,911	-
Hazmat Program	2,145,963	1,967,305	4,140
Replacement of HVACs	2,036,052	1,776,681	26,267
Traffic Signal Improvements	2,000,579	3,529,170	21,741
County Street Parking Garage Replacement	1,750,000	-	-
Recreation Facility Repair/Replacement	1,345,285	983,186	50,543
City Gateways	1,308,516	915,753	35,700
Midtown Corridor	1,210,000	1,182,400	-
Recreation Center Enhancements	1,032,385	84,911	14,863
Westhaven Elementary Roof	1,031,807	81,316	21,359
Various projects under \$1,000,000 each	12,867,150	8,063,015	497,314
Total	\$ 167,015,810	107,818,322	4,254,490

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, 2016, \$59,197,488 represents the amount authorized but not yet spent. This includes commitments totaling \$4,254,490 that have been reserved for encumbrances for capitalizable and noncapitalizable expenditures in the capital improvements fund.

Primary Government - Business-Type Activities	Restated July 1, 2015	Additions	Deletions	Balance June 30, 2016
Capital assets not being depreciated:				
Land	\$ 13,518,323	-	-	13,518,323
Construction in progress	83,055,148	8,674,928	(6,428,294)	85,301,782
Total capital assets not being depreciated	96,573,471	8,674,928	(6,428,294)	98,820,105
Capital assets being depreciated:				
Buildings	21,488,188	-	-	21,488,188
Improvements other than buildings	488,548	-	-	488,548
Improvements other than buildings (Infrastructure)	254,525,968	5,890,934	-	260,416,902
Machinery, furniture, and equipment	25,412,744	1,910,652	(763,651)	26,559,745
Total capital assets being depreciated	301,915,448	7,801,586	(763,651)	308,953,383
Less accumulated depreciation for:				
Buildings	(13,173,718)	(529,348)	-	(13,703,066)
Improvements other than buildings	(301,925)	(15,103)	-	(317,028)
Improvements other than buildings (Infrastructure)	(94,270,143)	(6,004,379)	-	(100,274,522)
Machinery, furniture, and equipment	(18,300,918)	(1,710,544)	459,800	(19,551,662)
Total accumulated depreciation	(126,046,704)	(8,259,374)	459,800	(133,846,278)
Total capital assets being depreciated, net	175,868,744	(457,788)	(303,851)	175,107,105
Business-type activities capital assets, net	\$ 272,442,215	8,217,140	(6,732,145)	273,927,210

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

Public utilities	\$ 7,004,273
Parking authority	455,213
Golf	99,103
Waste management	700,784
Total business-type activities	\$ 8,259,373

Capital Assets – business type activities (continued)

Primary Government - Major Enterprise Funds				
	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
<i>Public Utility Fund</i>				
Capital assets not being depreciated:				
Land	\$ 324,079	-	-	324,079
Construction in progress	83,055,148	8,674,928	(6,428,294)	85,301,782
Total capital assets not being depreciated	83,379,227	8,674,928	(6,428,294)	85,625,861
Capital assets being depreciated:				
Buildings	692,687	-	-	692,687
Improvements other than buildings (Infrastructure)	254,525,968	5,890,934	-	260,416,902
Machinery, furniture, and equipment	14,346,152	1,112,726	(109,354)	15,349,523
Total capital assets being depreciated	269,564,807	7,003,660	(109,354)	276,459,112
Less accumulated depreciation for:				
Buildings	(162,173)	(17,158)	-	(179,331)
Improvements other than buildings (Infrastructure)	(94,270,143)	(6,004,379)	-	(100,274,522)
Machinery, furniture, and equipment	(11,682,831)	(982,736)	109,354	(12,556,213)
Total accumulated depreciation	(106,115,147)	(7,004,273)	109,354	(113,010,066)
Total capital assets being depreciated, net	163,449,660	(613)	-	163,449,046
Public Utility Fund capital assets, net	\$ 246,828,887	8,674,315	(6,428,294)	249,074,907
<i>Parking Authority</i>				
Capital assets not being depreciated:				
Land	\$ 679,680	-	-	679,680
Construction in progress	-	-	-	-
Total capital assets not being depreciated	679,680	-	-	679,680
Capital assets being depreciated:				
Buildings	18,667,910	-	-	18,667,910
Improvements other than buildings	260,636	-	-	260,636
Machinery, furniture, and equipment	434,794	-	(12,359)	422,435
Total capital assets being depreciated	19,363,340	-	(12,359)	19,350,981
Less accumulated depreciation for:				
Buildings	(11,727,897)	(427,087)	-	(12,154,984)
Improvements other than buildings	(196,901)	(6,505)	-	(203,406)
Machinery, furniture, and equipment	(271,540)	(21,621)	12,359	(280,802)
Total accumulated depreciation	(12,196,338)	(455,213)	12,359	(12,639,192)
Total capital assets being depreciated, net	7,167,002	(455,213)	-	6,711,789
Parking Authority capital assets, net	\$ 7,846,682	(455,213)	-	7,391,469

Construction in progress in the Public Utility Fund is composed of the following:

	Project Authorization	Expended to June 30, 2016	Commitments
<u>Public Utility Fund:</u>			
Lake Kilby replacement filters	\$ 48,600,000	2,161,540	3,120,978
Downtown master utility	40,900,000	16,652,053	1,398,903
Sanitary sewer overflow elimination	25,957,100	11,973,187	3,161,335
Infrastructure improvements	16,424,453	3,290,651	174,493
Low pressure transmission mains	18,250,000	1,868,025	181,654
Miscellaneous sewer improvements	13,498,167	8,492,351	675,684
Meter replacement program	10,999,000	9,564,243	269,316
Lake Kilby raw water pumping station	7,833,256	7,141,418	-
Replacement of water plant equipment	7,470,396	3,614,091	200,180
Sewer cave-in repair	6,424,238	5,348,027	153,568
Miscellaneous water improvements	4,124,524	2,968,358	780,925
Water Tank Rehab	3,500,000	16,859	132,571
	\$ 203,981,134	73,090,803	10,249,607

In addition to the amount of \$73,090,803 shown above as expended to June 30, 2016, \$9,806,855 is included in construction in progress for capitalized interest and \$2,404,124 for the Prentis Park Water Project, bringing total construction in progress to \$85,301,782. As of June 30, 2016, \$118,679,352 represents the amount authorized but not yet spent. 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.

School Board Component Unit				
	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Capital assets not being depreciated:				
Land	\$ 6,085,707	-	-	6,085,707
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>6,085,707</u>	<u>-</u>	<u>-</u>	<u>6,085,707</u>
Capital assets being depreciated:				
Buildings	93,535,748	-	-	93,535,748
Machinery, furniture, and equipment	26,116,994	2,231,722	(1,814,578)	26,534,138
Intangibles	422,270	-	-	422,270
Total capital assets being depreciated	<u>120,075,012</u>	<u>2,231,722</u>	<u>(1,814,578)</u>	<u>120,492,156</u>
Less accumulated depreciation for:				
Buildings	(39,405,180)	(2,847,547)	-	(42,252,727)
Machinery, furniture, and equipment	(17,751,255)	(1,373,208)	1,809,261	(17,315,202)
Intangibles	(422,270)	-	-	(422,270)
Total accumulated depreciation	<u>(57,578,705)</u>	<u>(4,220,755)</u>	<u>1,809,261</u>	<u>(59,990,199)</u>
Capital assets being depreciated/amortized	<u>62,496,307</u>	<u>(1,989,033)</u>	<u>(5,317)</u>	<u>60,501,957</u>
Total capital assets - being depreciated	<u>62,496,307</u>	<u>(1,989,033)</u>	<u>(5,317)</u>	<u>60,501,957</u>
School Board capital assets, net	\$ 68,582,014	(1,989,033)	(5,317)	66,587,664
Economic Development Authority Component Unit				
	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Capital assets not being depreciated:				
Land	\$ 1,421,883	-	(216,222)	1,205,661
Total capital assets not being depreciated	<u>1,421,883</u>	<u>-</u>	<u>(216,222)</u>	<u>1,205,661</u>
Capital assets being depreciated:				
Buildings	354,276	-	(354,276)	-
Total capital assets being depreciated	<u>354,276</u>	<u>-</u>	<u>(354,276)</u>	<u>-</u>
Less accumulated depreciation for:				
Buildings	(13,125)	-	13,125	-
Total accumulated depreciation	<u>(13,125)</u>	<u>-</u>	<u>13,125</u>	<u>-</u>
Total capital assets being depreciated, net	<u>341,151</u>	<u>-</u>	<u>(341,151)</u>	<u>-</u>
Economic development authority capital assets, net	\$ 1,763,034	-	(557,373)	1,205,661

(5) LONG - TERM DEBT

Details of Long-Term Indebtedness

At June 30, 2016, the long-term indebtedness of the city consisted of the following:

	Interest Rate	Amount Outstanding
Governmental Activities		
General obligation bonds, net:		
2001B VPSA School Financing Bonds	3.1 - 5.1 %	\$ 1,130,592
2006B Taxable G.O. Refunding Bonds	- %	1,041,903
2006B VPSA School Financing Bonds	4.2 - 5.1 %	3,732,652
2009A G.O. Refunding Bonds	4.0 - 4.8 %	6,344,486
2009B G.O. Refunding Bonds	3.5 - 5.3 %	3,888,364
2009C Taxable G.O. Refunding Bonds	5.6 - 6.4 %	3,424,049
2009D G.O. Refunding Bonds	3.0 - 4.0 %	4,311,944
2009 VPSA Qualified School Construction Bonds		14,329,639
2010A G.O. Public Improvement Bonds	3.0 - 4.0 %	1,589,910
2010B Taxable G.O. Public Improvement Bonds (BAB)	4.7 - 6.3 %	29,240,000
2010D G.O. & Refunding Bonds	3.0 - 5.3 %	730,550
2011 G.O. Refunding Bonds	2.5 - 5.0 %	15,206,237
2012A G.O. Public Utility & Refunding Bonds	2.0 - 5.0 %	24,419,646
2012B Taxable G.O. Refunding Bonds	1.5 - 3.9 %	6,970,000
2012C G.O. Public Improvement & Refunding Bonds	2.0 - 4.0 %	14,747,375
2013D Taxable G.O. & Refunding Bonds	0.7 - 1.7 %	1,910,000
2013A G.O. Public Improvement & Refunding Bonds	3.0 - 5.0 %	63,129,427
2013B Taxable G.O. & Refunding Bonds (includes pension bonds)	0.4 - 4.5 %	160,580,000
2015A G.O. Refunding Bonds	1.8 - 3.3 %	10,055,970
2015B Taxable G.O. Refunding Bonds	0.2 - 3.3 %	19,961,059
2016A G.O. Refunding Bonds	2.0 - 5.0 %	41,535,626
2016B Taxable G.O. Refunding Bonds	2.0 - 2.2 %	15,977,915
Total general obligation bonds, net		444,257,344
Capital leases		6,072,177
Literary loans		500,000
Compensated absences		7,074,436
Net pension liability		121,151,035
Total governmental activities		\$ 579,054,992

General obligation bonds are stated net of unamortized bond premiums and discounts.

Details of Long-Term Indebtedness (continued)

		Interest Rate	Amount Outstanding
Business-Type Activities			
General obligation bonds, net:			
Public Utilities:			
2009D	G.O. Refunding Bonds	3.0 - 4.0%	\$ 1,292,993
2009E	Prentis Park Bonds	-	2,003,438
2010A	G.O. Public Improvement Bonds	3.0 - 4.0%	1,526,483
2010B	Taxable G.O. Public Improvement Bonds (BAB)	4.7 - 6.3%	25,110,000
2011	G.O. Refunding Bonds	2.5 - 5.0%	8,487,835
2012A	G.O. Public Utility & Refunding Bonds	2.0 - 5.0%	54,406,212
2012C	G.O. Public Improvement & Refunding Bonds	2.0 - 4.0%	9,676,531
2013A	G.O. Public Improvement & Refunding Bonds	2.0 - 5.0%	613,479
2013B	Taxable G.O. & Refunding Bonds	0.4 - 2.6%	17,785,000
2015A	G.O. Refunding Bonds	1.8 - 3.3%	13,944,119
2015B	Taxable G.O. Refunding Bonds	0.2 - 3.3%	7,565,096
			<u>142,411,186</u>
Parking Authority:			
2009A	G.O. Refunding Bonds	4.0 - 4.8%	74,630
2009B	G.O. Refunding Bonds	5 %	20,490
2011	G.O. Refunding Bonds	2.5 - 5.0%	213,240
2012A	G.O. Public Utility & Refunding Bonds	2.3 - 5.0%	200,160
2012C	G.O. Public Improvement & Refunding Bonds	3.5 - 4.0%	48,946
2013A	G.O. Public Improvement & Refunding Bonds	3 %	-
2013B	Taxable G.O. & Refunding Bonds	0.4 - 3.9%	3,525,000
2015A	G.O. Refunding Bonds	1.8 - 3.3%	25,572
			<u>4,108,038</u>
Golf:			
2009B	G.O. Refunding Bonds	3.5 - 5.3%	1,149,768
2011	G.O. Refunding Bonds	2.5 - 5.0%	2,264,363
2012A	G.O. Public Utility & Refunding Bonds	2.3 - 5.0%	1,077,300
2013B	Taxable G.O. & Refunding Bonds	0.4 - 2.6%	385,000
2015A	G.O. Refunding Bonds	1.8 - 3.3%	388,108
			<u>5,264,539</u>
Total general obligation bonds, net			<u>151,783,763</u>
Capital leases			26,508
Landfill closure and post-closure care			5,090,163
Compensated absences			676,950
Net pension liability			<u>10,896,477</u>
Total business type activities			<u>\$ 168,473,861</u>

General obligation bonds are stated net of unamortized bond premiums and discounts.

CITY OF PORTSMOUTH, VIRGINIA
Notes to Basic Financial Statements
June 30, 2016

Exhibit H (continued)

At June 30, 2016, the long-term indebtedness of the School Board component unit consisted of the following:

	Amount Outstanding
School Board:	
Capital leases	\$ 1,001,007
Compensated absences	4,091,032
Claims payable	2,641,654
Net pension liability	140,389,227
Total long-term liabilities	\$ 148,122,920

The following is a summary of changes in long-term indebtedness of the city for the year ended June 30, 2016:

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016	Due Within One Year
Primary Government -					
Governmental Activities:					
General obligation bonds	\$ 442,063,877	53,205,000	(67,856,022)	427,412,855	20,250,821
Bond premiums/(discounts)	14,080,577	4,358,163	(1,594,251)	16,844,489	1,072,430
	<u>456,144,454</u>	<u>57,563,163</u>	<u>(69,450,273)</u>	<u>444,257,344</u>	<u>21,323,251</u>
Capital leases	8,206,679	-	(2,134,502)	6,072,177	1,716,998
Literary loans	750,000	-	(250,000)	500,000	250,000
Compensated absences	7,340,922	3,423,073	(3,689,559)	7,074,436	1,372,580
Net pension liability	99,228,076	21,922,959	-	121,151,035	-
Total Governmental Activities	\$ 571,670,131	82,909,195	(75,524,334)	579,054,992	24,662,829
Business Type Activities:					
General obligation bonds	\$ 149,511,915	-	(7,055,136)	142,456,779	7,090,138
Bond premiums/(discounts)	9,923,862	-	(596,878)	9,326,984	636,969
	<u>159,435,777</u>	<u>-</u>	<u>(7,652,014)</u>	<u>151,783,763</u>	<u>7,727,107</u>
Capital leases	223,001	-	(196,493)	26,508	26,508
Landfill closure and post closure care	4,873,581	216,582	-	5,090,163	-
Compensated absences	736,228	347,446	(406,724)	676,950	422,631
Net pension liability	9,203,277	1,693,200	-	10,896,477	-
Total Business Type Activities	\$ 174,471,864	2,257,228	(8,255,231)	168,473,861	8,176,246
Major Enterprise Funds:					
<u>Public Utility Fund</u>					
General obligation bonds	\$ 139,628,575		(6,245,136)	133,383,439	6,250,138
Bond premiums/(discounts)	9,568,270		(540,523)	9,027,747	588,746
	<u>149,196,845</u>	<u>-</u>	<u>(6,785,659)</u>	<u>142,411,186</u>	<u>6,838,884</u>
Compensated absences	422,856	207,978	(245,909)	384,925	275,643
Net pension liability	5,802,088	914,789	-	6,716,877	-
Total Public Utility Fund	\$ 155,421,789	1,122,767	(7,031,568)	149,512,988	7,114,527
<u>Parking Authority</u>					
General obligation bonds	\$ 4,503,341		(440,000)	4,063,340	450,000
Bond premiums/(discounts)	49,708		(5,010)	44,698	4,306
	<u>4,553,049</u>	<u>-</u>	<u>(445,010)</u>	<u>4,108,038</u>	<u>454,306</u>
Compensated absences	16,426	4,895	(7,460)	13,861	7,144
Net pension liability	170,067	-	(7,325)	162,742	-
Total Parking Authority	\$ 4,739,542	4,895	(459,795)	4,284,641	461,450

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, 2016 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, 2016:

	Balance			Balance	Due Within
	July 1, 2015	Increases	Decreases	June 30, 2016	One Year
School Board:					
Capital leases	\$ 1,001,007	-	-	1,001,007	1,001,007
Compensated absences	4,391,870	53,057	(353,895)	4,091,032	1,341,071
Claims Payable	2,727,225	19,643,750	(19,729,321)	2,641,654	1,626,928
Net pension liability	137,958,036	2,431,191	-	140,389,227	-
Total School Board	\$ 146,078,138	22,127,998	(20,083,216)	148,122,920	3,969,006

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.

Refunding / Defeased Debt

On April 18, 2016, the city issued \$53,205,000 of general obligation refunding bonds reducing the average interest rate on the refunded bonds from 5.24% to 2.33%. A portion of the following bonds were refunded:

- Series 2009B general obligation refunding bonds,
- Series 2009C taxable general obligation refunding bonds, and
- Series 2010D general obligation refunding bonds.

The net proceeds were placed in an irrevocable escrow trust to provide for future debt service payments. Accordingly, the refunded bonds are considered defeased and the escrow accounts' assets and liabilities for the defeased debt are not included in the city’s financial statements. At June 30, 2016, the outstanding par amount of the remaining defeased debt for the April 18, 2016 refunding is \$53,205,000. The aggregate difference between the refunding debt and the refunded debt of \$48,895,000 is \$4,310,000. Amounts that exceeded issuance costs were placed in escrow. The net present value savings achieved was \$4,015,174 representing an 8.82% on a net present value basis.

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, 2016 the city's debt limit was \$717,253,879 of which \$159,898,924 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, 2016, including interest payments, are summarized as follows:

Governmental Activities:

Fiscal Year Ending	General Obligation					
	Bonds		Literary Loans		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 20,250,821	15,728,195	250,000	10,000	1,716,998	614,260
2018	20,382,296	15,602,073	250,000	5,000	1,489,647	473,297
2019	20,888,181	15,063,445	-	-	1,079,508	329,031
2020	21,444,785	14,394,981	-	-	1,174,232	180,750
2021	22,762,824	13,691,797	-	-	611,792	30,536
2022-2026	121,051,701	56,441,945	-	-	-	-
2027-2031	104,397,247	34,672,207	-	-	-	-
2031-2035	85,755,000	13,488,211	-	-	-	-
2036-2037	10,480,000	475,897	-	-	-	-
	\$ 427,412,855	179,558,751	500,000	15,000	6,072,177	1,627,874

Business-Type Activities:

Fiscal Year Ending	General Obligation			
	Bonds		Capital Leases	
	Principal	Interest	Principal	Interest
2017	\$ 7,090,138	5,938,987	26,508	262
2018	7,365,138	5,749,516	-	-
2019	7,680,138	5,547,413	-	-
2020	7,895,138	5,308,105	-	-
2021	7,890,138	5,021,943	-	-
2022-2026	37,158,182	20,328,452	-	-
2027-2031	28,461,533	13,210,752	-	-
2032-2036	17,075,687	8,249,116	-	-
2037-2041	18,990,687	3,318,402	-	-
2042	2,850,000	71,250	-	-
	\$ 142,456,779	72,743,936	26,508	262

Authorized but Unissued Bonds

A summary of general obligation bonds authorized but unissued for governmental funds, listed by project, as of June 30, 2016 are listed below.

General Fund Projects	Total
Drainage and Street Improvements	\$ 5,000,000
Victory Blvd / Paradise Creek Bridge	250,000
Public Safety New Radio System	4,000,000
Seawall Reinforcement	4,500,000
Total Authorized and Unissued Bonds - Governmental Funds	<u>\$ 13,750,000</u>

A summary of public utility bonds authorized but unissued by project as of June 30, 2016 are listed below. These projects are self-supporting and debt service will be paid from the public utility fund revenue.

Public Utility Projects	Total
Miscellaneous Sewer Projects	\$ 8,000,000
Sewer Cave-in Repairs	500,000
Sanitary Sewer Overflow Elimination Program	9,973,284
Infrastructure Improvements	7,275,584
Replacement of Water Plant Equipment	3,281,076
Automated Meter Reading	1,969,000
Lake Kilby Water Pump Station	252,120
Downtown Master Utility Plan	19,000,000
Low Pressure Transmission	15,626,135
Lake Kilby Replacement Filters	39,000,000
Total Authorized and Unissued Bonds - Public Utilities Fund	<u>\$ 104,877,199</u>
Total Authorized and Unissued Bonds June 30, 2016	<u>\$ 118,627,199</u>

Notes to Basic Financial Statements, Continued
June 30, 2016

(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 2022. 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	11,924,291	3,714,431
Less accumulated depreciation	(6,605,310)	(7,627,848)	(2,685,550)
Capital assets, net	\$ 7,857,266	4,296,443	1,028,881

Depreciation expense on leased assets was \$2,130,008 for the fiscal year ended June 30, 2016.

The projected minimum capital and operating lease payments of the city as of June 30, 2016 is as follows:

Fiscal Year Ending	Capital	Operating
2017	\$ 2,358,028	403,353
2018	1,962,945	-
2019	1,408,538	-
2020	1,354,982	-
2021	642,328	-
Total minimum lease payments	7,726,821	403,353
Less amount representing interest	(1,628,136)	
Present value of minimum capital lease payments	\$ 6,098,685	

Total operating lease payments for the year ended June 30, 2016 were \$703,477

(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 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 generally accepted accounting principles. 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 Fire and Police Retirement System (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 will no longer be eligible for membership starting on 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 Fire and Police Retirement System (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 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, 2016:

	<u>Total</u>	<u>PSRS</u>	<u>FPRS</u>
Retirees and beneficiaries	1,008	359	649
Vested terminated employees not yet receiving benefits	72	28	44
Current vested employees	51	21	30
	1,131	408	723

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 employer contributions to the PSRS and FPRS for fiscal year 2016 were \$1,796,671 and \$5,794,277, respectively or \$7,590,948 in total.

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 Morgan Stanley to assist the Board in areas of asset allocation, investment policy, portfolio strategy implementation, performance monitoring and evaluation, and rebalancing policy implementation.

Morgan Stanley 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:

4. Invest Plan assets prudently to provide retirement benefits for qualified participants.
5. Maximize long-term return by investing to achieve the rate of return specified by the Plan’s actuarial assumptions.
6. Diversify investments by asset type, class, capitalization, and style to minimize risk.
7. 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	50%	45% - 70%
Fixed Income	45%	25% - 45%
Alternatives	5%	0% - 10%

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 annually 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.

- A. 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, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 1.60% and 1.55%, 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, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Changes in Net Pension Liability - FPRS

	Increase (Decrease)		
	Total	Plan	Net
	Pension	Fiduciary	Pension
	Liability	Net Position	Liability
	(a)	(b)	(a) - (b)
Balance at June 30, 2014	\$ 254,866,184	195,385,698	59,480,486
Change for the year:			
Service Cost	655,555	-	655,555
Interest	17,755,749	-	17,755,749
Changes of benefit terms	2,226,338	-	2,226,338
Differences between expected and actual experience	483,962	-	483,962
Contributions - employer	-	6,734,263	(6,734,263)
Contributions - employee	-	-	-
Net investment income	-	1,144,912	(1,144,912)
Benefit payments, including refunds of employee contributions	(20,421,923)	(20,421,923)	-
Administrative expenses	-	(184,118)	184,118
Other changes	-	-	-
Net changes	699,681	(12,726,866)	13,426,547
Balance at June 30, 2015	\$ 255,565,865	182,658,832	72,907,033

Changes in Net Pension Liability - PSRS

	Increase (Decrease)		
	Total	Plan	Net
	Pension	Fiduciary	Pension
	Liability	Net Position	Liability
	(a)	(b)	(a) - (b)
Balance at June 30, 2014	\$ 94,478,524	71,547,656	22,930,868
Change for the year:			
Service Cost	71,563	-	71,563
Interest	6,536,219	-	6,536,219
Changes of benefit terms	814,802	-	814,802
Differences between expected and actual experience	(1,680,961)	-	(1,680,961)
Contributions - employer	-	2,438,432	(2,438,432)
Contributions - employee	-	-	-
Net investment income	-	418,733	(418,733)
Benefit payments, including refunds	-	-	-

of employee contributions	(8,478,761)	(8,478,761)	-
Administrative expenses	-	(67,152)	67,152
Other changes	-	-	-
Net changes	<u>(2,737,138)</u>	<u>(5,688,748)</u>	<u>2,951,610</u>
Balance at June 30, 2015	<u>\$ 91,741,386</u>	<u>65,858,908</u>	<u>25,882,478</u>

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

Measurement Date	June 30, 2015
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 Generational Mortality Table (Scale MP-2014).

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2014 through June 30, 2015.

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	\$ 99,863,625	91,741,386	84,758,551
Less: Fiduciary Net Position	65,858,908	65,858,908	65,858,908
Net Pension Liability	<u>\$ 34,004,717</u>	<u>25,882,478</u>	<u>18,899,643</u>
FPRS			
Total Pension Liability	\$ 281,737,037	255,565,865	233,586,101
Less: Fiduciary Net Position	182,658,832	182,658,832	182,658,832
Net Pension Liability	<u>\$ 99,078,205</u>	<u>72,907,033</u>	<u>50,927,269</u>

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

For the year ended June 30, 2016 the city recognized pension expenses of \$1,169,715 for PSRS and \$8,411,843 for FPRS. At June 30, 2015, 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 Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	-	-	-	-
Change in assumptions	-	-	-	-
Net difference between projected and actual earnings on pension plan investments	1,801,499	-	4,685,939	-
Employer contribution subsequent to the measurement date	1,796,671		5,794,277	-
Total	3,598,170	-	10,480,216	-

Deferred outflows of resources for contributions subsequent to the measurement date will be recognized in pension expense in fiscal year 2016. 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	
2016	\$ 299,198	\$	730,045	
2017	\$ 299,198	\$	730,045	
2018	\$ 299,198	\$	730,049	
2019	\$ 903,905	\$	2,495,800	
Thereafter	\$ -	\$	-	

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:

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

<p>their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt-into the Hybrid Retirement Plan during a special election window held January 1 through April 20, 2013.</p> <p>The Hybrid Retirement Plan’s effective date for eligible VRS Plan 1 members who opted in was July 1, 2014 through April 1, 2014.</p> <p>If eligible deferred workers returned to work during the election window, they were also eligible to Opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and had prior service under VRS Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 1 or ORP.</p>	<p>their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election VRS Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan’s effective date for eligible VRS Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under VRS Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 2 or ORP.</p>	<p>Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • Political subdivision employees* • Judges appointed or elected to an original term on or after January 1, 2014 • Members in VRS Plan 1 or VRS Pan 2 who elected to opt into the plan during the election window held January 1 – April 30; the plan’s effective date for opt-in members was July 1, 2014 <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <p>Political subdivision employees who are covered by enhanced benefits for hazardous duty employees</p> <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.</p>
<p>Retirement Contributions Members contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5% member contribution; all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund.</p>	<p>Retirement Contributions Same as VRS Plan 1</p>	<p>Retirement Contributions A member’s retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee’s creditable compensation and are required from both the member and the employer. Additionally, members may choose to make</p>

<p>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.</p>		<p>voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>
<p>Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p>Creditable Service Same as VRS Plan 1.</p>	<p>Creditable Service <u>Defined Benefit Component:</u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><u>Defined Contributions Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>
<p>Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least 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</p>	<p>Vesting Same as VRS Plan 1.</p>	<p>Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future 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 Pan 2 members with at least five years (60 months) of creditable</p>

<p>retirement contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>		<p>service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u>Defined Contributions</u> <u>Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70½.</p>
<p>Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is</p>	<p>Calculating the Benefit See definition under VRS Plan 1.</p>	<p>Calculating the Benefit <u>Defined Benefit Component:</u> See definition under VRS Plan 1.</p> <p><u>Defined Contribution Component:</u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>

<p>applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>		
<p>Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation Same as VRS Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p>Service Retirement Multiplier The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.7%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.</p>	<p>Service Retirement Multiplier Same as 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.</p>	<p>Service Retirement Multiplier The retirement multiplier 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.</p>
<p>Normal Retirement Age Age 65.</p>	<p>Normal Retirement Age Normal Social Security retirement age.</p>	<p>Normal Retirement Age Defined Benefit Component: Same as VRS Plan 2. Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Unreduced Retirement Eligibility Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p>	<p>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 at age and service equal 90.</p>	<p>Earliest Unreduced Retirement Eligibility Defined Benefit Component: Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or at age and service equal 90.</p>

<p>Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p>Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Reduced Retirement Eligibility Members may retire with an reduced retirement benefit as early as age 55 with at least five years (60 months) of creditable service or at age 50 with at least 10 years of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. <u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions</p>
<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><u>Eligibility:</u> Same as VRS Plan 1.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as VRS Plan 2.</p> <p><u>Defined Contribution Component:</u> Not Applicable.</p> <p><u>Eligibility:</u> Same as VRS Plan 1 and VRS Plan 2.</p>

<p>the unreduced retirement eligibility date.</p> <p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within 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 – December 31) from the date the monthly benefit begins. 	<p><u>Exceptions to COLA Effective Dates:</u> Same as VRS Plan 1.</p>	<p><u>Exceptions to COLA Effective Dates:</u> Same as VRS Plan 1 and VRS Plan 2.</p>
<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service regardless of when it was earned, purchased or granted.</p> <p>Most state employees are covered</p>	<p>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.</p> <p>Most state employees are covered</p>	<p>Disability Coverage Eligible political subdivision and school division (including VRS Pan 1 and VRS Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members.</p>

<p>under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p>under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p>State employees (including VRS Plan 1 and VRS Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>
<p>Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, and eligible period of leave or VRS refunded service as creditable service in their plan.</p> <p>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.</p>	<p>Purchase of Prior Service Same as VRS Plan 1.</p>	<p>Purchase of Prior Service <u>Defined Benefit Component:</u> Same as VRS Plan 1.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p>

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/2014-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, 2015 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	870	333
Inactive members:		
Vested inactive members	351	31
Non-vested Inactive members	544	129
Inactive members active elsewhere in VRS	688	71
Total inactive members	1,583	231
Active members	1,560	401
Total covered employees	4,013	965

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, 2015 was 10.82 percent of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2014. The actuarial rate for the plan was 12.09 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 \$6,516,822 and \$6,689,919 for the years ended June 30, 2016 and June 30, 2015, respectively.

The School Board (Non-Professional) VRS pension plan's contractually required contribution rate for the fiscal year ended June 30, 2015 was 10.42 percent of annual covered payroll. The actuarial rate for this plan was 13.03

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 \$813,358 and \$731,636 for the years ended June 30, 2016 and June 30, 2015, respectively.

The School Board Professional VRS plan's contractually required contribution rate for the fiscal year ended June 30, 2016 was 14.06 percent of annual covered payroll. The actuarial rate for this plan was 17.64 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 79.69% of the actuarial rate for the year ended June 30, 2016. Contributions to the pension plan from the School Board for the Professional VRS plan were \$11,190,544 and \$11,317,000 for the years ended June 30, 2016 and June 30, 2015, 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, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

The School Board's Professional VRS plan net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was also determined by an actuarial valuation as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

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, 2014, 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, 2015.

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

7.0% to simplify preparation of pension liabilities.

Mortality rates: 14 % of deaths are assumed to be service related

Largest 10 – Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected 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
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S. Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	100.00%		5.83%
	Inflation		2.50%
	* Expected arithmetic nominal return		8.33%

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

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the 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, 2018 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, 2014	\$ 286,703,320	260,683,551	26,019,769
Change for the year:			
Service Cost	8,776,873	-	8,776,873
Interest	19,666,648	-	19,666,648
Differences between expected and actual experience	664,081	-	664,081
Contributions - employer	-	6,647,357	(6,647,357)
Contributions - employee	-	3,451,819	(3,451,819)
Net investment income	-	11,935,602	(11,935,602)
Benefit payments, including refunds of employee contributions	(11,502,410)	(11,502,410)	-
Administrative expenses	-	(162,543)	162,543
Other changes	-	(2,528)	2,528
Net changes	17,605,192	10,367,297	7,237,895
Balance at June 30, 2015	\$ 304,308,512	271,050,848	33,257,664

Due to a change in how the VRS distributed information this year, there is a difference of \$337 in the total pension liability between this note and Exhibit A.

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, 2014	\$ 36,880,886	29,290,850	7,590,036
Change for the year:			
Service Cost	729,606	-	729,606
Interest	2,501,150	-	2,501,150
Differences between expected and actual experience	(215,707)	-	(215,707)
Contributions - employer	-	726,275	(726,275)
Contributions - employee	-	345,765	(345,765)
Net investment income	-	1,307,987	(1,307,987)
Benefit payments, including refunds of employee contributions	(2,300,353)	(2,300,353)	-
Administrative expenses	-	(18,893)	18,893
Other changes	-	(276)	276
Net changes	714,696	60,505	654,191

Balance at June 30, 2015	<u>\$ 37,595,582</u>	<u>29,351,355</u>	<u>8,244,227</u>
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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	1.00% Increase
	(6.00%)	Rate	(8.00%)
	<u> </u>	<u> </u>	<u> </u>
VRS - City	\$ 74,425,000	\$ 33,258,000	\$ (879,000)
Net Pension Liability			
School division's proportionate			
share of the VRS Teacher (Professional)			
Employee Retirement Plan			
Net Pension Liability	\$ 193,380,000	\$ 132,145,000	\$ 80,092,000
School division's (Non-Professional)			
Employee Retirement Plan			
Net Pension Liability	\$ 12,483,473	\$ 8,244,227	\$ 4,664,917

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

For the year ended June 30, 2015, the city recognized pension expense of \$4,411,310.

For the year ended June 30, 2016, the School Board recognized for its Professional VRS plan pension expense of \$8,367,000. 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 \$511,233.

At June 30, 2016, 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 OF PORTSMOUTH, VIRGINIA
Notes to Basic Financial Statements
June 30, 2016

Exhibit H (continued)

	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	\$ 491,000	\$ -	\$ -	\$ 1,820,000	\$ -	\$ 143,564
Change in assumptions	-	-	-	-	-	-
Net difference between projected and actual earnings on pension plan investments	-	6,925,000	-	8,092,000	-	802,515
Changes in proportion and difference between Employer contributions and proportionate share of contributions	-	-	-	5,228,000	-	-
Employer contributions subsequent to the measurement date	6,516,822	-	11,190,544	-	813,358	-
Total	\$ 7,007,822	\$ 6,925,000	\$ 11,190,544	\$ 15,140,000	\$ 813,358	\$ 946,079

Deferred outflows of resources for contributions subsequent to measurement date will be recognized in pension expense in fiscal year 2017. 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
2017	\$ (2,553,000)	(4,894,000)	(386,229)
2018	\$ (2,552,000)	(4,894,000)	(385,507)
2019	\$ (2,580,000)	(4,894,000)	(314,086)
2020	\$ 1,251,000	77,000	139,743
Thereafter	-	(535,000)	-

Payables to the Pension Plans

At June 30, 2016, the city reported a liability of \$9,546 and the school division reported a liability of \$1,556,973 for legally required contributions to the pension plans.

Notes to Basic Financial Statements, Continued
June 30, 2016

(8) OTHER POST EMPLOYMENT 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 Program provides medical and dental insurance benefits to eligible retirees and their families through the same self-insured program that provides coverage to active city employees. Effective, January 1, 2014, the city changed the eligibility requirement from 10 years to 25 years of city service for employees to be eligible for retiree health coverage. In addition, post-65 retiree health coverage was eliminated for future retirees on June 30, 2015. The Portsmouth Public Schools School Board administers a similar defined benefit healthcare plan. 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.

Separate stand-alone financial statements are not issued for either plan.

Funding Policy. The contribution requirements of plan members and the city are established and may be amended by the City Council. 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 2016, the city contributed \$1,536,500 to the program, all for current premiums, and there was no additional prefunding contribution. Retired employees receiving benefits contributed \$2,590,057 through required monthly contributions that vary from \$502.78 to \$1,851.57 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.

Annual OPEB Cost and Net OPEB Obligation. Both the city's and School Board's annual OPEB cost (an expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the provisions of GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions". The ARC represents the level of funding that, if paid on an ongoing basis, is projected to cover the normal cost of each fiscal year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table reflects the components of the annual OPEB cost, the actual plan contributions made, and the changes in the net OPEB obligation for both the city and School Board programs for the fiscal year ended June 30, 2016:

	City of Portsmouth	School Board
Annual required contribution	\$ 2,373,800	470,015
Interest on net OPEB obligation	3,040,152	(348,465)
Adjustment to annual required contribution	(3,969,077)	346,522
Annual OPEB cost	1,444,875	468,072
Contributions made	1,536,500	521,798
Increase (decrease) in net OPEB obligation	(91,625)	(53,726)
Net OPEB obligation (asset), beginning of year	76,003,791	(4,978,072)
Net OPEB obligation (asset), end of year	\$ 75,912,166	(5,031,798)

The fiscal year ended June 30, 2016 was the ninth year for which an actuarially determined ARC had been calculated for the city of Portsmouth Retired Employees Health Care Program. Fiscal year 2016's actuarially determined ARC was calculated to be \$2,373,808. The city's contribution to the ARC was \$1,536,500, \$3,563,519 and \$3,523,085, for fiscal years 2016, 2015 and 2014 respectively.

The city's and school's annual OPEB cost, the percentage of annual OPEB cost contributed to the program, and the net OPEB obligation for fiscal year 2016 is as follows:

City of Portsmouth:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2016	\$ 1,444,875	106.3%	\$ 75,912,166
6/30/2015	2,850,160	125.0%	76,003,791
6/30/2014	14,748,860	23.9%	76,717,150

School Board:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation/ (Asset)
6/30/2016	\$ 468,072	-111%	\$ (5,031,798)
6/30/2015	416,350	-61%	(4,978,072)
6/30/2014	379,064	-	(5,394,422)

Funded Status and Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
City of Portsmouth:						
1/1/2016	\$ -	26,986,000	26,986,000	0%	66,071,400	40.8%
School Board:						
6/30/16	\$ 11,424,994	13,026,375	1,601,381	88%	92,589,250	1.7%

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

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the

employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in the actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2016 actuarial valuation of OPEB, the projected unit credit cost method was used. The actuarial assumptions included (a) a 2.5% annual rate inflation (payroll growth) rate, (b) a 4.0% annual investment rate of return, relating it to the city's rate of investment return on its general unrestricted cash assets due to the unfunded status of the program's actuarial accrued liability, and (c) an annual healthcare cost increase rate of 5.9% initially, reduced by decrements to an ultimate rate of 5.5% for the year beginning July 1, 2018 and thereafter. It was assumed that 60% of future retirees would elect medical coverage and that the city of Portsmouth would maintain a consistent level of cost sharing for benefits with retirees in the future. The calculation of the ARC of \$2,373,800 for fiscal year 2016 is the amount determined under the actuarial cost method selected and consists of the normal cost each year plus amortization of the unfunded actuarial accrued liability (UAAL, or the excess of the past service liability over the actuarial value of assets). The UAAL is amortized as a level percentage of projected payroll on a closed basis over a period of 30 years when determining the annual required contribution.

(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 permanent 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, 2016 are as follows:

Due to:	Due From:				Total
	Nonmajor Governmental Funds	Parking Authority	Nonmajor Enterprise Funds	Internal Service Funds	
General Fund	\$ 3,181,157	1,417,691	76,921	250	4,676,019

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, 2016 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	
General Fund	\$ 408,125	-	10,088	418,213

The Statement of Net Position reflects \$418,213 as due from component units with no 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, 2016 were as follows:

Transfers to:	Transfers from:								
	General Fund	Nonmajor Governmental Funds	Capital Improvements Fund	Waste Management Fund	Golf Fund	Parking Authority Fund	Internal Service Funds	Public Utility Fund	Total
General Fund	\$ -	789,160	560,000	-	-	-	-	8,875,000	10,224,160
Capital Improvements Fund	3,755,575	4,276,801	-	-	-	150,000	-	-	8,182,376
Nonmajor Governmental Funds	5,963,560	57,139	-	-	-	-	-	-	6,020,699
Public Utility Fund	-	-	-	-	-	-	-	-	-
Public Utility CIP Fund	-	-	-	-	-	-	-	17,000,001	17,000,001
Nonmajor Enterprise Funds	850,425	4,779	-	-	-	-	-	-	855,204
Debt Service	35,775,656	1,189,942	-	390,645	18,357	8,482	305,385	325,500	38,013,967
Parking Authority	61,522	-	-	-	-	-	-	-	61,522
Internal Service Funds	-	41,978	-	-	-	-	-	-	41,978
Total	\$ 46,406,738	6,359,799	560,000	390,645	18,357	158,482	305,385	26,200,501	80,399,907

Payments Between Component Units

Significant transactions between the primary government and component units during fiscal year 2016 were as follows:

Payments from the city to the school board for school operations; Statement of Activities - Payment from primary government	<u>\$ 51,200,000</u>
Payment from Economic Development Authority to the city general fund for operations; Statement of Activities - Miscellaneous Revenue for Governmental Activities	<u>\$ 125,000</u>

Notes to Basic Financial Statements, Continued
June 30, 2016

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

Amounts due from other governments at June 30, 2016 are as follows:

	Federal	State	Total
Governmental activities:			
General Fund:			
Sales and use tax	\$ -	644,711	644,711
Personal property tax relief	-	9,862,962	9,862,962
Constitutional officers' support	-	749,023	749,023
Other	-	836,405	836,405
Total General Fund	-	12,093,101	12,093,101
Nonmajor governmental funds:			
Community services act fund	-	366,486	366,486
Social services fund	-	1,587,576	1,587,576
Grants fund	205,627	420,742	626,369
Asset Forfeiture	-	952	952
Community development fund	219,259	-	219,259
Total nonmajor governmental funds	\$ 424,886	2,375,756	2,800,642
Total governmental activities	424,886	14,468,857	14,893,743

Notes to Basic Financial Statements, Continued
June 30, 2016

(12) UNEARNED REVENUES

Unearned revenues represent 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.

Unearned revenues for the primary government's fund-based financial statements and government-wide financial statements are comprised of the following:

	Governmental Funds				Governmental Activities	Business-Type Activities
	General Fund	Capital Improvements Fund	Nonmajor Governmental Funds	Total		
Unearned revenue-other	\$ 596,611	-	-	596,611	596,611	-
Parking space rentals	-	-	-	-	-	28,592
Public Utilities	-	-	-	-	-	15,986
BHS fees	-	-	71,679	71,679	71,679	-
Stormwater fees	-	-	204,890	204,890	204,890	-
Total unearned revenues	\$ 596,611	-	276,569	873,180	873,180	44,578

(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 \$5,090,163 reported as landfill closure and postclosure care liability at June 30, 2016 represents the cumulative amount reported to date based on the use of 50.1% of the estimated capacity of the landfill. The city will recognize the remaining estimated cost of closure and post-closure care of \$5,069,843 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 2016. 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 52.1 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.

Pollution Remediation Obligation

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, identifies the circumstances under which a government entity would be required to record a liability related to pollution remediation. According to the standard, a government should estimate its expected outlays for pollution remediation if and when it knows a site is polluted and any of the following recognition triggers occur:

- Pollution poses an imminent danger to the public or environment and the government has little or no discretion to avoid fixing the problem;
- A government has violated a pollution prevention related permit or license;
- A regulator has identified (or evidence indicates it will identify) a government as responsible (or potentially responsible) for cleaning up pollution, or for paying all or some of the cost of the clean up;
- A government is named (or evidence indicates that it will be named) in a lawsuit to compel it to address the pollution; and
- A government begins or legally obligates itself to begin cleanup or post-cleanup activities (limited to amounts the government is legally required to complete).

During the fiscal year ended June 30, 2016 the city incurred costs of \$49,365; \$425 for pollution remediation measures for asbestos remediation at the complex at 1801 Portsmouth Boulevard, \$47,257 at the Portsmouth Naval Shipyard Museum, and \$1,683 for other asbestos removal and inspections at various locations throughout the city. Also, \$26,817 was spent to remove empty storage tanks from Brighton Athletic Fields.

Guarantor

The city was a guarantor for \$2,122,809 of debt for the Southeastern Public Service Authority (SPSA) as of June 30, 2016. See Note 16 for more information on this guarantee and the SPSA joint venture.

Notes to Basic Financial Statements, Continued
June 30, 2016

(14) LITIGATION AND CONTINGENT LIABILITIES**Litigation**

Various claims and lawsuits are pending against the city. The city is vigorously defending all cases as it expects no losses will be incurred which would have a material effect on the city's financial position.

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 OMB Circular A-133 and Title 2 of the Code of Federal Regulations, 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, 2015 and June 30, 2016, 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 \$13,601,354 (undiscounted) reported in the fund at June 30, 2016 is based on GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", 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 \$2,580,047. 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, 2016.

Changes in the risk management claims liability amount in fiscal years 2016 and 2015, respectively, were as follows:

Risk Management:	2016	2015
Claims payable, beginning of year	\$ 14,261,874	11,596,960
Claims expense and changes in estimates	2,664,728	6,402,890
Claims payments, net	(3,325,248)	(3,737,976)
Claims payable, end of year	\$ 13,601,354	14,261,874

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, 2016 is \$2,884,472 (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, 2016.

Changes in the medical claim liability amount in fiscal years 2016 and 2015, respectively, were as follows:

Medical:	2016	2015
Claims payable, beginning of year	\$ 1,369,115	2,549,000
Claims expense and changes in estimates	19,086,581	19,383,009
Claims payments	(17,571,224)	(20,562,894)
Claims payable, end of year	\$ 2,884,472	1,369,115

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 worker's 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, 2016 was determined to be \$1,463,153(undiscounted).

Changes in the school's claim liability amount in fiscal years 2016 and 2015 were:

School Board:		2016	2015
Claims payable, beginning of year	\$	1,814,555	1,977,122
Claims and changes in estimates		280,059	70,221
Claim payments and changes in estimates		(631,461)	(232,788)
Claims payable, end of year	\$	1,463,153	1,814,555

Effective January 1, 2016, 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 \$150,000. 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 liability as of June 30, 2016 is \$1,178,501 (undiscounted), as follows:

		Balance as of		Claims and Changes		Claim		Balance as of
		July 1, 2015		in Estimates		Payments		June 30, 2016
Medical Claims								
Fiscal Year 2016	\$	912,670	\$	19,363,691	\$	19,097,860	\$	1,178,501

Notes to Basic Financial Statements, Continued
June 30, 2016

(16) RELATED PARTIES*Joint Ventures***Southeastern Public Service Authority (SPSA)**

SPSA is a joint venture of the cities of Chesapeake, Franklin, Norfolk, Portsmouth, Suffolk and Virginia Beach and the counties of Isle of Wight and Southampton, created for the purpose of providing, operating and maintaining a regional system for the collection, transfer, processing and disposal of solid waste refuse. SPSA is a primary government, with no component units, that is a public body politic and corporate created pursuant to the Virginia Water and Sewer Authorities Act, and is governed by a sixteen-member Board of Directors consisting of eight members appointed by the Governor and eight members appointed by each of the member city or county. Budgeting and financing of SPSA is subject to the approval of the Board of Directors with each representative having a single vote. SPSA is responsible for its own financial matters, maintains its own books of accounts and is audited annually by independent accountants that it engages.

In June 2010, SPSA entered into a debt repayment plan with the Virginia Resources Authority (VRA), which required that the eight member communities' guarantee, through a general obligation pledge repayment of the remaining VRA bonds outstanding and previous guarantees, were rescinded. The individual member community guarantee percentages were calculated based on a three year average of proportional municipal tonnages. The member jurisdiction guarantees as of June 30, 2016 were as follows:

<u>Member community</u>	<u>Guarantee percentage</u>	<u>Principal guarantee</u>
Chesapeake	23%	\$ 4,648,683
Franklin	1%	200,499
Isle of Wight	4%	822,666
Norfolk	17%	3,509,766
Portsmouth	10%	2,122,809
Southampton	2%	434,070
Suffolk	13%	2,660,229
Virginia Beach	30%	6,271,278
	100%	\$ 20,670,000

*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, 2016. 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

Notes to Basic Financial Statements, Continued
June 30, 2016

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, 2016. 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, Suffolk 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 fifty 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.

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, Continued
June 30, 2016

(17) RESTATEMENTS

In FY2006, the Port Facility assets were transferred from the city to the Virginia Port Authority, a component unit of the Commonwealth of Virginia; however, the transfer was not recorded in the city's accounting records at that time. The city has removed the assets from the balance sheet and adjusted prior period capital assets by \$2,056,998 and transferred funds from the General Fund to the Port Facility to eliminate the \$269,824 liability on the Port Facility's balance sheet. This was a prior period expense for the General Fund.

In the General Fund, accrued interest of \$165,894 from investments that was never recognized has been recognized and net position increased.

In FY2015, the revenue for the Hampton Roads Regional Jail's Payment in Lieu of Taxes was recognized twice. The amount of \$494,830 has been reversed and net position decreased.

The city implemented GASB54 in FY2010 and revised the procedures for accepting donations and gifts. The remaining funds are no longer needed for their original purpose and the general fund fund balance is increased by \$1,220,373 and the capital fund is increased by \$686,036.

	Governmental Activities	Business Type	Total
Net position, as previously reported	\$ 12,002,909	\$ 185,792,789	197,795,698
Prior period revenue adjustments (a)	(328,936)		(328,936)
Prior period expense adjustments	(269,824)	269,824	-
Prior period capital adjustments		(2,056,998)	(2,056,998)
Total revenue/expense adjustments	(598,760)	(1,787,174)	(2,385,934)
Net position, as restated	\$ 11,404,149	\$ 184,005,615	195,409,764

	General Fund	Capital Fund	Donations	Port Facility
Fund balance, as previously reported	\$ 60,618,293	34,233,963	1,906,409	1,787,174
Current year's restatements (b)	621,613	686,036	(1,906,409)	(1,787,174)
Fund balance, as restated	\$ 61,239,906	34,919,999	-	-

(a) $165,894 - 494,830 = (328,936)$

(b) $1,220,373 + 165,894 - 494,830 - 269,824 = 621,613$

Notes to Basic Financial Statements, Continued
June 30, 2016

(18) FUND DEFICITS

The Social Services Fund, a Special Revenue Fund, had a fund balance with an accumulated deficit of \$1,928,840. 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 \$195,831 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 \$63,438,308 at June 30, 2016. This accumulated deficit is primarily due to the net pension obligation liability at June 30, 2016, which was \$140,389,227.

Notes to Basic Financial Statements, Continued
June 30, 2016

(19) SUBSEQUENT EVENTS**Settlement of South Norfolk Jordan Bridge**

On September 27, 2016 the Portsmouth City Council adopted Resolution R-16-28 authorizing the settlements of claims by and against the South Norfolk Jordan Bridge, LLC. The agreement states that the city will not assert the right to tax the South Norfolk Jordan Bridge (SNJB) unless certain payments are not made or the state law is clarified to confirm that the bridge is taxable. Beginning on January 1, 2017, SNJB will pay the city a fee equal to 3.5 cents per vehicle which will increase to 5 cents in 2027 and SNJB will pay the city \$105,000 by January 31, 2017 and \$30,000 annual from January 2017 - July 2027. The city will receive in total between the date of the settlement and July 1, 2019 not less than \$223,000 and as much as \$1,000,000. Furthermore the Commonwealth of Virginia will provide the city an additional \$1 million in transportation funding.

VIG/Port agreement

On September 21, 2016 the Virginia Port Authority (VPA), a political subdivision of the Commonwealth of Virginia signed a long term lease with Virginia International Gateway Inc., which is owned by Alinda Capital Partners and Universities Superannuation Scheme. The lease is effective November 1, 2016. The lease gives VPA oversight of and operating rights at the terminal until 2065. Further, the lease allows the port to begin work on a \$320 million project to build the terminal's second phase; construction will begin this year. The Commonwealth of Virginia has stated that the lease will be revenue neutral to the city of Portsmouth and analysis is currently underway to determine annual financial impacts, if any, to the city.

SPSA contract

On October 25, 2016, Portsmouth City Council adopted Resolution R-16-36 to reaffirm and adopt Resolution R-16-26 authorizing the execution of agreements with the Southeastern Public Service Authority (SPSA). This resolution will allow the City Manager to execute the use and support agreement for a regional solid waste disposal system and the development of a Portsmouth transfer station.

QZAB Bonds issued

On October 26, 2016, the city issued General Obligation Qualified Zone Academy Bond of \$6,143,000 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 require a private partnership with a 10% match; this has been pledged to the Portsmouth Public Schools as support from STARSHIP Victory and the Portsmouth Schools Foundation. The bonds are 0% over 15 years; 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.

Lawsuit Settlement

On November 29, 2016, the Portsmouth Circuit Court approved a wrongful death settlement of \$1,000,000 payable to several members of the William Chapman family. The city will pay the settlement from reserves in the risk management fund.

Notes to Basic Financial Statements, Continued
June 30, 2016

(20) NEW ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (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. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans." The provisions in this Statement are effective for fiscal years beginning after June 15, 2016 (FY 2017). Earlier application is encouraged.
2. Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." The provisions in this Statement are effective for fiscal years beginning after June 15, 2017 (FY 2018). Earlier application is encouraged.
3. Statement No. 77, " Tax Abatement Disclosures." The requirements of this Statement are effective for reporting periods beginning after December 15, 2015 (FY 2017). Earlier application is encouraged.
4. Statement No. 78, "Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans." The requirements of this Statement are effective for reporting periods beginning after December 15, 2015 (FY 2017). Earlier application is encouraged.
5. Statement No. 80, "Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14." The requirements of this Statement are effective for reporting periods after June 15, 2016 (FY 2017). Earlier application is encouraged.
6. Statement No. 81, "Irrevocable Split-Interest Agreements." The requirements of this Statement are effective for periods beginning after December 15, 2016 (FY 2018). Earlier application is encouraged.
7. Statement No. 82, "Pension Issues - an amendment of GASB Statement No. 67, No. 68, and No. 73." The requirements of this Statement are effective for reporting periods beginning after June 15, 2016 (FY 2017), except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017 (FY 2018). Earlier application is encouraged.

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, 2016

Exhibit I-1

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Taxes:				
General property taxes:				
Real property - current	\$ 87,354,882	87,354,882	89,302,957	1,948,075
Real property - delinquent	1,418,255	1,418,255	1,641,566	223,311
Real property - Public Services Corporation	1,910,000	1,910,000	1,702,791	(207,209)
Personal property - current	18,693,000	18,693,000	18,603,881	(89,119)
Personal property - delinquent	2,215,000	2,215,000	2,604,220	389,220
Personal property - Public Services Corporation	3,434,977	3,434,977	3,307,444	(127,533)
Machine and tool taxes	1,064,000	1,064,000	870,078	(193,922)
Penalties and other charges	1,179,960	1,179,960	1,450,904	270,944
Interest	436,191	436,191	539,309	103,118
Total general property taxes	117,706,265	117,706,265	120,023,150	2,316,885
Other local taxes:				
Admission and amusement taxes	298,296	298,296	192,143	(106,153)
Bank franchise taxes	375,000	375,000	470,119	95,119
Business and occupational license taxes	6,260,386	6,260,386	6,567,674	307,288
Cigarette taxes	3,617,166	3,617,166	3,661,849	44,683
Licensing fees - current	2,300,000	2,300,000	2,154,346	(145,654)
Licensing fees - delinquent	350,158	350,158	466,100	115,942
Lodging taxes	765,000	765,000	734,450	(30,550)
Motor vehicle license fee	-	-	145	145
Recordation taxes	850,000	850,000	877,826	27,826
Restaurant food taxes	7,604,513	7,604,513	7,854,840	250,327
Sales and use tax - local	7,500,000	7,500,000	6,861,464	(638,536)
Short-term rental taxes	38,884	38,884	25,537	(13,347)
Telecommunications	8,000,000	8,000,000	8,045,644	45,644
Total other local taxes	37,959,403	37,959,403	37,912,137	(47,266)
Utility taxes:				
Electricity taxes	4,000,000	4,000,000	3,930,616	(69,384)
E-911 taxes	442,742	442,742	480,572	37,830
Gas taxes	1,400,000	1,400,000	1,305,218	(94,782)
Water taxes	2,154,502	2,154,502	2,337,428	182,926
Total utility taxes	7,997,244	7,997,244	8,053,834	56,590
Total taxes	163,662,912	163,662,912	165,989,121	2,326,209
Intergovernmental revenue:				
Commonwealth of Virginia:				
Noncategorical aid:				
Mobile home sales taxes	2,000	2,000	1,125	(875)
Personal property tax relief act	9,862,962	9,862,962	9,862,962	-
Recordation tax distribution	259,936	259,936	250,900	(9,036)
Rolling stock taxes	45,000	45,000	44,040	(960)
Vehicle rental tax	240,000	240,000	240,733	733

(continued)

CITY OF PORTSMOUTH, VIRGINIA
Budgetary Comparison Schedule
Schedule of Revenues and Other Financing Sources
General Fund
For year ended June 30, 2016

Exhibit I-1 (continued)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Circuit Court Clerk	\$ 881,846	881,846	914,199	32,353
City Registrar	45,000	45,000	87,636	42,636
City Sheriff	5,924,678	5,952,819	5,949,776	(3,043)
City Treasurer	284,581	284,581	294,260	9,679
Commissioner of Revenue	252,766	252,766	256,130	3,364
Commonwealth Attorney	1,602,883	1,602,883	1,577,117	(25,766)
DMV select	70,000	70,000	90,936	20,936
VA Sports Hall of Fame	250,000	250,000	250,000	-
Other categorical aid:				
Build America Bond Subsidy	550,329	550,329	551,516	1,187
Escheated property	-	-	1,009	1,009
Correctional facilities block grant	1,067,512	1,067,512	628,744	(438,768)
Law enforcement grant	5,786,668	5,786,668	5,786,668	-
Library funds - books	154,935	154,935	155,117	182
Street and highway maintenance	11,931,762	11,931,762	12,070,428	138,666
Total Commonwealth of Virginia	39,212,858	39,240,999	39,013,296	(227,703)
Total intergovernmental revenue	39,212,858	39,240,999	39,013,296	(227,703)
Charges for services:				
Ambulance fees - current	2,300,000	2,300,000	2,606,174	306,174
Circuit Court Clerk fees	10,000	10,000	11,383	1,383
City Sheriff fees	141,531	256,716	97,533	(159,183)
Concession fees	14,754	14,754	7,491	(7,263)
ATM Fees	2,200	2,200	2,688	488
EZ Pass fees	17,500	17,500	27,650	10,150
Courthouse maintenance fees	45,118	45,118	53,166	8,048
Courthouse replacement fees	70,000	70,000	75,340	5,340
False alarm fees	9,000	9,000	8,855	(145)
Fire report fees	1,000	1,000	1,210	210
Fire and EMS attendance fees	27,612	27,612	25,735	(1,877)
Library fines and fees	21,000	21,000	29,779	8,779
DNA sample	-	-	871	871
Merchandise commissions	2,000	2,000	1,031	(969)
Erosion and sediment control	18,000	18,000	7,650	(10,350)
Museum admission charges	1,023,977	1,023,977	1,112,727	88,750
Cable TV local access channel fees	80,000	80,000	96,651	16,651
Notary Fees	-	-	295	295
Concealed carry permit	25,000	25,000	39,767	14,767
Police firearms buyback	400	400	8	(392)
Police record fees	40,000	40,000	47,161	7,161
Recreation activity fees	756,500	931,500	844,454	(87,046)
Rental inspection fees	49,871	49,871	54,420	4,549
Inspections	75,000	75,000	39,930	(35,070)
Plans and specifications	2,885	2,885	5,335	2,450
Swimming fees	1,129	1,129	3,998	2,869
Vacant structure	5,800	5,800	7,270	1,470
UMOJA	17,000	17,000	20,700	3,700
Cock Island Race	14,894	14,894	46	(14,848)
Seawall Festival	-	-	2,000	2,000
Pokey Smokey II	8,733	8,733	3,299	(5,434)
Ticket sales-Visitor Center	13,000	13,000	880	(12,120)
EMS collections - delinquent	40,000	40,000	178,704	138,704
Bicycle storage	-	-	40	40
Certificate of Occupancy	-	-	1,350	1,350
Total charges for services	4,833,904	5,124,089	5,415,591	291,502

(continued)

CITY OF PORTSMOUTH, VIRGINIA
Budgetary Comparison Schedule
Schedule of Revenues and Other Financing Sources
General Fund
For year ended June 30, 2016

Exhibit I-1 (continued)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Investment income-				
Investment income	\$ 75,000	75,000	2,063	(72,937)
Total investment income	75,000	75,000	2,063	(72,937)
Recovered costs:				
City garage fund	359,919	359,919	359,919	-
Information technology fund	160,262	160,262	160,262	-
Court appointed attorneys	1,412	1,412	3,423	2,011
Golf fund	95,685	95,685	95,685	-
Health department	61,880	61,880	63,834	1,954
Health insurance fund	10,861	10,861	10,861	-
Housing Authority	-	-	3,590	3,590
Law library fund	1,396	1,396	1,396	-
Behavioral health services fund	341,115	341,115	341,115	-
DEA	58,244	58,244	34,842	(23,402)
Training academy upkeep	25,000	25,000	13,518	(11,482)
Parking authority	49,711	49,711	49,711	-
Citywide telephone charges	134,272	134,272	174,593	40,321
Fire watch/EMS	9,122	9,122	53,008	43,886
Postage	296,426	296,426	321,051	24,625
Public utility fund	491,870	491,870	491,870	-
Social security payments - jail	1,400	1,400	1,200	(200)
Stormwater management fund	71,215	71,215	71,215	-
Social services fund	608,029	608,029	608,029	-
Waste management fund	151,297	151,297	151,297	-
Jail weekends	11,090	11,090	9,136	(1,954)
Prisoner upkeep fees	56,389	56,389	27,664	(28,725)
Fed prisoner transport	10,869	10,869	26,045	15,176
Other recovered costs	119,478	119,478	414,921	295,443
Total recovered costs	3,126,942	3,126,942	3,488,185	361,243
Fines and forfeitures:				
Circuit Court fines	20,000	20,000	15,765	(4,235)
Conviction fees	125,000	125,000	143,008	18,008
General District Court fines	805,000	805,000	462,448	(342,552)
Juvenile Court fines	1,500	1,500	1,158	(342)
Fines - Other	-	-	1,500	1,500
Total fines and forfeitures	951,500	951,500	623,879	(327,621)
Licenses and permits:				
Bicycle licenses	300	300	174	(126)
Building plan review fees	35,000	35,000	45,080	10,080
Building reinspection fees	1,500	1,500	9,250	7,750
Building structure permits	200,000	200,000	204,156	4,156
Dog impounding fees	1,200	1,200	1,760	560
Dog licenses	28,000	28,000	26,945	(1,055)
Electrical inspection fees	21,000	21,000	20,100	(900)
Electrical permits	65,000	65,000	89,623	24,623
Elevator inspection fees	3,500	3,500	3,840	340
Hauling and permits fees	80,000	80,000	201,440	121,440

(continued)

CITY OF PORTSMOUTH, VIRGINIA
Budgetary Comparison Schedule
Schedule of Revenues and Other Financing Sources
General Fund
For year ended June 30, 2016

Exhibit I-1 (continued)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
License transfer fees	\$ 3,000	3,000	3,032	32
Mechanical inspection fees	300	300	1,600	1,300
Mechanical permits	110,000	110,000	117,040	7,040
Miscellaneous permits	15,000	15,000	16,845	1,845
Permits-PRHA	3,000	3,000	-	(3,000)
Penalties on licenses	20,000	20,000	33,267	13,267
Plumbing inspection fees	-	-	150	150
Plumbing permits	50,000	50,000	68,916	18,916
Restricted parking permits	2,800	2,800	3,102	302
Right of way permits	104,000	104,000	244,462	140,462
Sign permit fees	4,200	4,200	3,385	(815)
Site plan review fees	7,000	7,000	8,400	1,400
State surcharge on permits	-	-	1,843	1,843
Taxi operators permits	2,000	2,000	2,260	260
Yard sale permits	2,500	2,500	2,430	(70)
Zoning and plat fees	21,000	21,000	24,725	3,725
Total licenses and permits	780,300	780,300	1,133,825	353,525
Use of property:				
Rental of antenna sites	90,000	90,000	74,755	(15,245)
Rental of recreation facilities	40,000	40,000	76,110	36,110
Rental of general properties	1,511,317	1,511,317	1,615,890	104,573
Total use of property	1,641,317	1,641,317	1,766,755	125,438
Miscellaneous:				
Admin fee - RE	425,000	425,000	445,557	20,557
Admin fee - PP	700,000	700,000	939,158	239,158
Admin fee - Parking	20,000	20,000	60,970	40,970
Admin fee - EMS	5,000	5,000	15,416	10,416
Admin fee - Gen	-	-	90	90
Returned check fee	-	-	564	564
Vending Machine Commissions	10,000	10,000	11,424	1,424
Gift shop sales	169,700	169,700	168,827	(873)
Sale of abandoned property	-	-	1,459	1,459
Proceeds from land sales	-	326,000	356,838	30,838
Other revenue	160,000	811,661	139,217	(672,444)
Unclaimed property tax refunds	-	-	161,334	161,334
Payments in lieu of taxes:				
PRHA	35,000	35,000	41,643	6,643
Regional Jail	455,000	455,000	494,830	39,830
Virginia Port Authority	400,000	400,000	371,608	(28,392)
Public utility fund	1,116,492	1,116,492	1,069,990	(46,502)
Cash Over/Under	-	-	(271)	(271)
Total miscellaneous revenue	3,496,192	4,473,853	4,278,654	(195,199)
Total revenues	217,780,925	219,076,912	221,711,369	2,634,457

(continued)

CITY OF PORTSMOUTH, VIRGINIA
Budgetary Comparison Schedule
Schedule of Revenues and Other Financing Sources
General Fund
For year ended June 30, 2016

Exhibit I-1 (continued)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Transfers from other funds:				
Other financing sources:				
BHS	378,471	378,471	378,471	-
Stormwater Management	410,689	410,689	410,689	-
In - Donations	-	5,199	-	(5,199)
In - Risk Management	2,000,000	2,000,000	-	(2,000,000)
In - Waste Management	1,000,000	1,000,000	-	(1,000,000)
Public utility fund	8,875,000	8,875,000	8,875,000	-
In - Economic Development Authority	125,000	145,498	125,000	(20,498)
Capital improvement fund	560,000	560,000	560,000	-
Total other financing sources	13,349,160	13,374,857	10,349,160	(3,025,697)
Total revenues and other financing sources	\$ 231,130,085	232,451,769	232,060,529	(391,240)

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, 2016

Exhibit I-2

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
General government:				
Administration:				
Legislative:				
City council	\$ 281,241	281,241	265,459	15,782
City clerk	333,098	333,098	305,643	27,455
City auditor	133,512	133,512	131,277	2,235
Total legislative	747,851	747,851	702,379	45,472
Executive:				
City manager	960,936	1,010,936	906,673	104,263
Management and legislative services	364,469	364,469	326,842	37,627
Communication and marketing	1,816,121	1,812,979	1,491,007	321,972
Total executive	3,141,526	3,188,384	2,724,522	463,862
Boards and commissions				
Civil service commission	90,863	90,863	52,779	38,084
General registrar	641,026	641,026	598,741	42,285
Total boards and commissions	731,889	731,889	651,520	80,369
Total administration	4,621,266	4,668,124	4,078,421	589,703
City attorney	1,665,146	1,665,146	1,428,396	236,750
Human resource management	1,120,785	1,164,785	1,047,980	116,805
Financial administration:				
Commissioner of revenue	1,652,748	1,652,748	1,508,549	144,199
City assessor	1,018,050	1,018,050	955,721	62,329
City treasurer	2,103,710	2,207,146	2,207,145	1
Procurement and risk management	1,075,974	1,075,974	891,433	184,541
Finance	1,797,907	1,822,471	1,776,718	45,753
Total financial administration	7,648,389	7,776,389	7,339,566	436,823
Public transportation	2,888,545	2,874,545	2,771,018	103,527
Total general government	17,944,131	18,148,989	16,665,381	1,483,608
Nondepartmental:				
Miscellaneous	13,023,500	12,167,480	11,232,418	935,062
Support to civic organizations	353,634	353,634	353,630	4
Total nondepartmental	13,377,134	12,521,114	11,586,048	935,066

(continued)

CITY OF PORTSMOUTH, VIRGINIA
Budgetary Comparison Schedule
Schedule of Expenditures and Other Financing Uses
General Fund
Year ended June 30, 2016

Exhibit I-2 (continued)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Judicial:				
Circuit court judges	\$ 582,833	582,833	552,789	30,044
Circuit court clerk	1,504,949	1,504,949	1,416,688	88,261
Magistrate	6,717	6,717	3,879	2,838
General district court	168,158	168,158	100,560	67,598
Juvenile and domestic relations court	32,142	32,142	31,030	1,112
Juvenile court services	1,267,290	1,446,290	1,342,779	103,511
Commonwealths attorney	2,829,033	2,829,033	2,416,311	412,722
Sheriff	12,422,478	12,784,978	12,185,164	599,814
Total judicial	18,813,600	19,355,100	18,049,200	1,305,900
Public Safety:				
Police	28,651,902	28,760,838	27,172,436	1,588,402
E-911 communications	2,099,229	2,099,229	1,774,462	324,767
Operations Support bureau	57,702	57,702	141,514	(83,812)
Admin & Support bureau	-	-	290,957	(290,957)
Field Operations bureau	12,710	12,710	27,393	(14,683)
Animal control & security	858,884	958,884	855,486	103,398
Fire, rescue, and emergency services	23,714,215	23,714,215	23,180,312	533,903
Total public safety	55,394,642	55,603,578	53,442,560	2,161,018
Public works:				
Engineering	1,145,054	1,145,054	1,144,190	864
Streets and highways	3,266,033	3,300,033	2,956,214	343,819
Mosquito control	494,168	494,168	409,599	84,569
Traffic engineering	2,412,955	2,412,955	2,301,457	111,498
General services:				
Properties management	3,747,661	3,747,661	3,348,056	399,605
Utilities	2,895,000	2,895,000	2,481,318	413,682
Rental of land and buildings	326,892	545,933	463,855	82,078
Storeroom	-	-	8,696	(8,696)
Harbor Center pavilion	333,119	333,119	305,611	27,508
Landscape maintenance	2,885,312	1,772,840	1,793,156	(20,316)
Cemetery maintenance	344,615	208,711	207,138	1,573
Total public works	17,850,809	16,855,474	15,419,290	1,436,184
Health and welfare	1,267,485	1,267,485	1,203,886	63,599
Parks, recreation, and cultural:				
Museum	2,375,535	2,375,535	2,070,368	305,167
Parks, recreational, and cultural	3,432,301	5,427,527	4,924,108	503,419
Public library	2,376,313	2,405,063	2,221,143	183,920
Total parks, recreation, and cultural	8,184,149	10,208,125	9,215,619	992,506

(continued)

CITY OF PORTSMOUTH, VIRGINIA
Budgetary Comparison Schedule
Schedule of Expenditures and Other Financing Uses
General Fund
Year ended June 30, 2016

Exhibit I-2 (continued)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Community development:				
Permits and inspections	\$ 670,837	1,328,674	1,235,123	93,551
Economic development	824,233	824,233	499,646	324,587
Neighborhood advancement	1,928,174	1,269,025	1,189,776	79,249
Planning	1,529,368	1,487,921	1,052,968	434,953
Total community development	4,952,612	4,909,853	3,977,513	932,340
Education	51,800,000	51,770,530	51,200,000	570,530
Capital outlay	75,000	15,000	-	15,000
Total expenditures	189,659,562	190,655,248	180,759,497	9,895,751
Other financing uses:				
Transfers to other funds:				
Behavioral health services fund	613,512	613,512	613,512	-
Social services fund	4,117,733	4,117,733	4,117,733	-
Comprehensive services fund	700,090	1,026,090	1,095,062	68,972
Parking authority	61,522	61,522	61,522	-
Golf	850,425	850,425	850,425	-
Willett Hall fund	137,253	137,253	137,253	-
Out - Debt service	35,839,460	35,839,460	35,775,656	(63,804)
Capital Improvements	3,790,575	3,790,575	3,755,575	(35,000)
Total transfers to other funds	46,110,570	46,436,570	46,406,738	(29,832)
Total other financing uses	46,110,570	46,436,570	46,406,738	(29,832)
Total expenditures and other financing sources (uses)	235,770,132	237,091,818	227,166,235	(9,925,583)
Net change in fund balance	(4,640,047)	(4,640,049)	4,894,294	9,534,343
Fund balance - beginning	-	-	61,239,906	61,239,906
Fund balance - ending	\$ (4,640,047)	(4,640,049)	66,134,200	70,774,249

Unaudited – see accompanying report of independent auditor.

Budgetary Comparison Schedule

Note to Required Supplementary Information

General Fund

Fiscal Year ended June 30, 2016

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, 2016, 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 U.S. generally accepted accounting principles (GAAP).

Schedule of Changes in the Net Pension Liability and Related Ratios (PSRS)
Fiscal Year Ended June 30, 2016

Total pension liability	2014	2015
Service cost	\$ 89,198	71,563
Interest	6,661,939	6,536,219
Changes in benefit terms	1,244,771	814,802
Differences between expected and actual experience	(1,195,876)	(1,680,961)
Changes of assumptions	-	-
Benefit payments, including refunds of member contributions	(8,512,885)	(8,478,761)
Net change in total pension liability	(1,712,853)	(2,737,138)
Total pension liability - beginning	96,191,377	94,478,524
Total pension liability - ending (a)	94,478,524	91,741,386
Plan fiduciary net position		
Contributions - employer	1,782,818	2,438,432
Contributions - member	-	-
Net investment income	7,874,597	418,733
Benefit payments, including refunds of member contributions	(8,512,885)	(8,478,761)
Administrative expense	(73,287)	(67,152)
Other	-	-
Net change in plan fiduciary net position	1,071,243	(5,688,748)
Plan fiduciary net position - beginning	70,476,413	71,547,656
Plan fiduciary net position - ending (b)	71,547,656	65,858,908
City's net pension liability (a) - (b)	22,930,868	25,882,478
Plan fiduciary net position as a percentage of total pension liability	75.73%	71.79%
Covered employee payroll	\$ 1,195,973	1,034,003
City's net pension liability as a percentage of covered employee payroll	1917.34%	2503.13%

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, 2016**

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

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, 2016
Timing	Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the plan year.
Actuarial Cost Method	Entry Age Normal-Level Percentage of Pay
Interest rate	N/A
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 (Scale MP-2014)
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 0.62% in 2015 and 1.55% in 2016.

**Schedule of Changes in the City's Net Pension Liability and Related Ratios
(FPRS)
Fiscal Year Ended June 30, 2016**

<u>Total pension liability</u>	2014	2015
Service cost	\$ 875,496	655,555
Interest	17,479,148	17,755,749
Changes in benefit terms	3,220,420	2,226,338
Differences between expected and actual experience	2,306,432	483,962
Changes of assumptions	-	-
Benefit payments, including refunds of member contributions	(19,431,115)	(20,421,923)
Net change in total pension liability	4,450,381	699,681
Total pension liability - beginning	250,415,803	254,866,184
Total pension liability - ending (a)	254,866,184	255,565,865
Plan fiduciary net position		
Contributions - employer	5,186,714	6,734,263
Contributions - member	-	-
Net investment income	21,908,537	1,144,912
Benefit payments, including refunds of member contributions	(19,431,115)	(20,421,923)
Administrative expense	(205,149)	(184,118)
Other	-	-
Net change in plan fiduciary net position	7,458,987	(12,726,866)
Plan fiduciary net position - beginning	187,926,711	195,385,698
Plan fiduciary net position - ending (b)	195,385,698	182,658,832
City's net pension liability (a) - (b)	59,480,486	72,907,033
Plan fiduciary net position as a percentage of total pension liability	76.66%	71.47%
Covered employee payroll	\$ 5,079,287	3,871,105
City's net pension liability as a percentage of covered employee payroll	1171.04%	1883.36%

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, 2016**

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

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, 2016
Timing	Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the plan year.
Actuarial Cost Method	Entry Age Normal-Level Percentage of Pay
Interest rate	N/A
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 (Scale MP-2014)
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 and 1.60% in 2016.

Schedule of Employer's Share of Net Pension Liability and Related Ratios (VRS-City)
Fiscal Year Ended June 30, 2016

	2014	2015
Total Pension Liability		
Service cost	7,865,420	8,776,873
Interest	18,592,496	19,666,648
Changes of benefit terms	-	-
Differences between expected and actual experience	-	664,081
Changes in assumptions	-	-
Benefit Payments, including refunds of employee contributions	(10,723,367)	(11,502,410)
Net change in total pension liability	15,734,549	17,605,192
Total pension liability - beginning	270,968,771	286,703,320
Total pension liability - ending (a)	286,703,320	304,308,512
Plan fiduciary net position		
Contributions - employer	\$ 5,702,215	6,647,357
Contributions - employee	3,522,637	3,451,819
Net investment income	35,693,002	11,935,602
Benefit Payments, including refunds of employee contributions	(10,723,367)	(11,502,410)
Administrative expense	(191,765)	(162,543)
Other	1,881	(2,528)
Net change in plan fiduciary net position	34,004,603	10,367,297
Plan fiduciary net position - beginning	226,678,948	260,683,551
Plan fiduciary net position - ending (b)	260,683,551	271,050,848
Net pension liability - ending (a) - (b)	26,019,769	33,257,664
Plan fiduciary net position as a percentage of the total Pension liability	90.92%	89.07%
Covered - employee payroll	69,382,620	67,648,253
Net pension liability as a percentage of covered-employee payroll	37.50%	49.16%

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-School Board (Non-Professional))
Fiscal Year Ended June 30, 2016

	2014	2015
Total Pension Liability		
Service cost	\$ 743,215	729,606
Interest	2,434,509	2,501,150
Changes of benefit terms	-	-
Differences between expected and actual experience	-	(215,707)
Changes in assumptions	-	-
Benefit Payments, including refunds of employee contributions	(2,151,081)	(2,300,353)
Net change in total pension liability	1,026,643	714,696
Total pension liability - beginning	35,854,243	36,880,886
Total pension liability - ending (a)	36,880,886	37,595,582
Plan fiduciary net position		
Contributions - employer	\$ 648,377	726,275
Contributions - employee	354,802	345,765
Net investment income	4,075,199	1,307,987
Benefit Payments, including refunds of employee contributions	(2,151,081)	(2,300,353)
Administrative expense	(22,705)	(18,893)
Other	215	(276)
Net change in plan fiduciary net position	2,904,807	60,505
Plan fiduciary net position - beginning	26,386,043	29,290,850
Plan fiduciary net position - ending (b)	29,290,850	29,351,355
Net pension liability - ending (a) - (b)	7,590,036	8,244,227
Plan fiduciary net position as a percentage of the total Pension liability	79.42%	78.07%
Covered - employee payroll	8,517,527	8,465,913
Net pension liability as a percentage of covered-employee payroll	89.11%	97.38%

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 - School Board (Professional))
Fiscal Year Ended June 30, 2016

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

Schedule of Employer's
Contributions (VRS)
Fiscal Year Ended June 30, 2016

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
<i>City of Portsmouth</i> 2016	\$ 7,507,199	6,516,822	\$ 990,377	69,382,620	9.39%
<i>School Board (Professional)</i> 2016	\$ 11,416,801	11,190,544	226,257	81,200,579	13.78%
<i>School Board (Non-Professional)</i> 2016	\$ 882,148	813,358	68,790	8,465,913	9.61%

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

Schedule of Funding Progress for Defined Other Post Employment Benefit Plans

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AAL) - Entry Age	Unfunded (Overfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
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CITY OF PORTSMOUTH RETIRED EMPLOYEES HEALTH CARE PROGRAM:

1/1/2016	-	26,986,000	26,986,000	-	66,071,400	0
1/1/2015	-	43,459,500	43,459,500	-	76,188,000	1
1/1/2014	-	167,607,600	167,607,600	-	76,188,000	2
1/1/2013	-	195,796,500	195,796,500	-	70,574,100	3
1/1/2012	-	195,796,500	195,796,500	-	70,574,100	3
1/1/2011	-	221,375,695	221,375,695	-	78,275,583	3
1/1/2010	-	221,375,695	221,375,695	-	73,342,372	3
1/1/2009	-	187,436,612	187,436,612	-	77,011,285	2

SCHOOL BOARD PLAN:

7/1/2016	11,424,994	13,026,375	1,601,381	1	95,589,250	0
7/1/2015	11,468,684	11,273,969	(194,715)	1	91,342,343	-
7/1/2014	10,652,405	10,468,165	(184,240)	1	92,083,073	-
7/1/2013	10,241,149	12,204,795	1,963,646	1	89,605,502	0
7/1/2012	10,241,149	12,204,795	1,963,646	1	89,605,502	0
7/1/2011	2,415,950	11,623,323	9,207,373	0	95,870,390	0
7/1/2010	650,000	10,802,915	10,152,915	0	95,870,390	0
7/1/2009	2,415,950	11,623,323	9,207,373	0	95,870,390	0

Schedule of Employer Contributions for Defined Other Post Employment Benefit Plans

Year Ended June 30	Annual Required Contribution	Percentage Contributed
-----------------------	---------------------------------	---------------------------

CITY OF PORTSMOUTH RETIRED EMPLOYEES HEALTH CARE PROGRAM:

6/30/2016	2,373,800	112%
6/30/2015	3,631,500	136%
6/30/2014	15,293,600	24%
6/30/2013	17,529,200	29%
6/30/2012	16,290,970	29%
6/30/2011	16,455,303	35%
6/30/2010	16,455,303	25%
6/30/2009	13,811,219	37%
6/30/2008	14,981,028	21%

SCHOOL BOARD PLAN:

6/30/2016	470,015	-111%
6/30/2015	416,350	0%
6/30/2014	379,064	0%
6/30/2013	766,102	0%
6/30/2012	1,050,365	667%
6/30/2011	1,005,217	99%
6/30/2010	1,025,000	98%
6/30/2009	1,004,007	125%
6/30/2008	486,533	176%

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



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Nonmajor Governmental Funds



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CITY OF PORTSMOUTH, VIRGINIA
Combining Balance Sheet
Nonmajor Government Funds
June 30, 2016

Exhibit J-1

	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 - Cemetary	
Assets:											
Cash and temporary investments	\$ 6,621,555	35,717	-	2,954,376	480,531	265,869	641,773	-	516,974	1,615,474	13,132,269
Accounts receivable (net of allowance for uncollectibles \$556,778)	273,813	-	10,219	428,904	-	-	37,910	-	-	-	750,846
Due from other governments	-	-	1,587,576	-	626,369	366,486	-	219,259	952	-	2,800,642
Inventory of supplies	-	-	-	-	-	-	2,223	-	-	-	2,223
Total assets	6,895,368	35,717	1,597,795	3,383,280	1,106,900	632,355	681,906	219,259	517,926	1,615,474	16,685,980
Liabilities:											
Accounts payable	296,186	540	412,998	204,895	94,519	415,834	19,710	100,590	19,692	-	1,564,964
Accrued payroll	131,993	-	246,980	29,500	27,506	-	2,437	-	-	-	438,416
Due to other funds	-	-	2,866,657	-	-	-	-	314,500	-	-	3,181,157
Unearned revenues	71,679	-	-	204,890	-	-	-	-	-	-	276,569
Total liabilities	499,858	540	3,526,635	439,285	122,025	415,834	22,147	415,090	19,692	-	5,461,106
Fund balances:											
Nonspendable fund balances	-	-	-	-	-	-	2,223	-	-	1,000,000	1,002,223
Restricted fund balances	6,395,510	35,177	-	2,943,995	984,875	216,521	-	-	498,234	615,474	11,689,786
Assigned fund balances	-	-	-	-	-	-	657,536	-	-	-	657,536
Unassigned	-	-	(1,928,840)	-	-	-	-	(195,831)	-	-	(2,124,671)
Total fund balances	6,395,510	35,177	(1,928,840)	2,943,995	984,875	216,521	659,759	(195,831)	498,234	1,615,474	11,224,874
Total liabilities and fund balances	\$ 6,895,368	35,717	1,597,795	3,383,280	1,106,900	632,355	681,906	219,259	517,926	1,615,474	16,685,980

CITY OF PORTSMOUTH, VIRGINIA

Exhibit J-2

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

Year ended June 30, 2016

	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	\$ 10,165,855	-	15,383,422	-	2,870,457	2,362,031	-	2,464,825	86,916	-	33,333,506
Charges for services	389,102	28,859	-	7,339,944	-	-	16,931	-	-	36,900	7,811,736
Investment income	-	-	-	-	-	-	-	-	-	4,321	4,321
Recovered costs	-	-	97,310	-	-	-	295,386	-	-	-	392,696
Use of property	-	-	-	-	-	-	51,350	-	-	-	51,350
Miscellaneous	8,277	-	40,096	-	10,675	-	-	-	3,000	-	62,048
Total revenues	10,563,234	28,859	15,520,828	7,339,944	2,881,132	2,362,031	363,667	2,464,825	89,916	41,221	41,655,657
Expenditures:											
Current:											
General government	-	-	-	-	2,755	-	-	-	-	-	2,755
Judicial	-	-	-	-	1,063,600	-	-	-	22,681	-	1,086,281
Public safety	-	-	-	-	457,512	-	-	-	-	-	457,512
Public works	-	-	-	1,933,342	-	-	-	-	108,331	-	2,041,673
Health and welfare	8,726,387	-	18,049,586	-	528,006	3,529,184	-	-	-	-	30,833,163
Parks, recreational, cultural	-	27,328	-	-	607,580	-	264,410	-	-	-	899,318
Community development	-	-	-	-	23,919	-	-	944,691	-	-	968,610
Capital outlay	80,927	-	-	409,987	670,316	-	-	1,114,494	35,140	-	2,310,864
Total expenditures	8,807,314	27,328	18,049,586	2,343,329	3,353,688	3,529,184	264,410	2,059,185	166,152	-	38,600,176
Revenues over (under) expenditures	1,755,920	1,531	(2,528,758)	4,996,615	(472,556)	(1,167,153)	99,257	405,640	(76,236)	41,221	3,055,481
Other financing sources (uses):											
Transfers from other funds	613,512	-	4,117,733	-	57,139	1,095,062	137,253	-	-	-	6,020,699
Transfers to other funds	(559,919)	-	(924,627)	(4,835,464)	-	-	-	-	(39,789)	-	(6,359,799)
Total other financing sources (uses)	53,593	-	3,193,106	(4,835,464)	57,139	1,095,062	137,253	-	(39,789)	-	(339,100)
Net change in fund balances	1,809,513	1,531	664,348	161,151	(415,417)	(72,091)	236,510	405,640	(116,025)	41,221	2,716,381
Fund balances, beginning of year, restated	4,585,997	33,646	(2,593,188)	2,782,844	1,400,292	288,612	423,249	(601,471)	614,259	1,574,253	8,508,493
Fund balances, end of year	\$ 6,395,510	35,177	(1,928,840)	2,943,995	984,875	216,521	659,759	(195,831)	498,234	1,615,474	11,224,874

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, 2016

	Behavioral Health Services			Public Law Library		
	Budget	Actual	Variance favorable (unfavorable)	Budget	Actual	Variance favorable (unfavorable)
Revenues:						
Intergovernmental	\$ 10,822,370	10,165,855	(656,515)	-	-	-
Charges for services	369,500	389,102	19,602	31,026	28,859	(2,167)
Miscellaneous	150,000	8,277	(141,723)	-	-	-
Total revenues	11,341,870	10,563,234	(778,636)	31,026	28,859	(2,167)
Expenditures:						
Health and welfare	12,006,038	8,726,387	3,279,651	-	-	-
Judicial	-	-	-	31,026	27,328	3,698
Capital outlay	120,000	80,927	39,073	-	-	-
Total expenditures	12,126,038	8,807,314	3,318,724	31,026	27,328	3,698
Revenues over (under) expenditures	(784,168)	1,755,920	2,540,088	-	1,531	1,531
Other financing sources (uses) -						
Transfers from other funds	613,512	613,512	-	-	-	-
Transfers to other funds	(549,026)	(559,919)	(10,893)	-	-	-
Total other financing sources (uses)	64,486	53,593	(10,893)	-	-	-
Revenues and other financing sources over/(under) expenditures and other financing uses	\$ (719,682)	1,809,513	2,529,195	\$ -	1,531	1,531
Fund balances at beginning of year		4,585,997	4,585,997		33,646	33,646
Fund balances at end of year		6,395,510	7,115,192		35,177	35,177

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, 2016

	Social Services			Stormwater Management		
	Budget	Actual	Variance favorable (unfavorable)	Budget	Actual	Variance favorable (unfavorable)
Revenues:						
Intergovernmental	\$ 17,620,631	15,383,422	(2,237,209)	-	-	-
Charges for services	29,030	-	(29,030)	7,511,211	7,339,944	(171,267)
Recovered costs	80,000	97,310	17,310	-	-	-
Miscellaneous	20,000	40,096	20,096	-	-	-
Total revenues	17,749,661	15,520,828	(2,228,833)	7,511,211	7,339,944	(171,267)
Expenditures:						
Health and welfare	20,874,445	18,049,586	2,824,859	-	-	-
Public works	-	-	-	2,362,537	1,933,342	429,195
Capital outlay	68,322	-	68,322	423,000	409,987	13,013
Total expenditures	20,942,767	18,049,586	2,893,181	2,785,537	2,343,329	442,208
Revenues over (under) expenditures	(3,193,106)	(2,528,758)	664,348	4,725,674	4,996,615	270,941
Other financing sources (uses) -						
Transfers from other funds	4,117,733	4,117,733	-	-	-	-
Transfers to other funds	(924,627)	(924,627)	-	(4,725,674)	(4,835,464)	(109,790)
Total other financing sources (uses)	3,193,106	3,193,106	-	(4,725,674)	(4,835,464)	(109,790)
Revenues and other financing sources over/(under) expenditures and other financing uses	\$ -	664,348	664,348	\$ -	161,151	161,151
Fund balances at beginning of year		(2,593,188)	(2,593,188)		2,782,844	2,782,844
Fund balances at end of year		(1,928,840)	(1,928,840)		2,943,995	2,943,995

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, 2016

	Children's Services			Willett Hall		
	Budget	Actual	Variance favorable (unfavorable)	Budget	Actual	Variance favorable (unfavorable)
Revenues:						
Intergovernmental	\$ 1,994,910	2,362,031	367,121	-	-	-
Charges for services	-	-	-	20,000	16,931	(3,069)
Recovered costs	-	-	-	125,000	295,386	170,386
Use of property	-	-	-	70,000	51,350	(18,650)
Miscellaneous	-	-	-	2,156	-	(2,156)
Total revenues	1,994,910	2,362,031	367,121	217,156	363,667	146,511
Expenditures:						
Health and welfare	3,021,000	3,529,184	(508,184)	-	-	-
Parks, recreational, and cultural	-	-	-	354,409	264,410	89,999
Total expenditures	3,021,000	3,529,184	(508,184)	354,409	264,410	89,999
Revenues over (under) expenditures	(1,026,090)	(1,167,153)	(141,063)	(137,253)	99,257	236,510
Other financing sources (uses) -						
Transfers from other funds	1,026,090	1,095,062	68,972	137,253	137,253	-
Total other financing sources (uses)	1,026,090	1,095,062	68,972	137,253	137,253	-
Revenues and other financing sources over/(under) expenditures and other financing uses	\$ -	(72,091)	(72,091)	\$ -	236,510	236,510
Fund balances at beginning of year		288,612	288,612		423,249	423,249
Fund balances at end of year		216,521	216,521		659,759	659,759

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, 2016

	Community Development		
	Budget	Actual	Variance favorable (unfavorable)
Revenues:			
Intergovernmental	\$ 18,227,379	2,464,825	(15,762,554)
Investment income	(95,867)	-	95,867
Use of property	(93,520)	-	93,520
Miscellaneous	(697,376)	-	697,376
Total revenues	17,340,616	2,464,825	(14,875,791)
Expenditures:			
Community Development	3,194,128	944,691	2,249,437
Capital outlay	2,051,984	1,114,494	937,490
Total expenditures	5,246,112	2,059,185	3,186,927
Revenues over (under) expenditures	12,094,504	405,640	(11,688,864)
Other financing sources (uses) -			
Transfers from other funds	107,676	-	(107,676)
Total other financing sources (uses)	107,676	-	(107,676)
Revenues and other financing sources over/(under) expenditures and other financing uses	\$ 12,202,180	405,640	(11,796,540)
Fund balances at beginning of year		(601,471)	(601,471)
Fund balances at end of year		(195,831)	(12,398,011)

Nonmajor Proprietary Funds



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CITY OF PORTSMOUTH, VIRGINIA
Combining Statement of Net Position
Nonmajor Proprietary Funds
June 30, 2016

Exhibit K-1

	Golf	Waste Management	Total
Assets:			
Current assets:			
Cash and temporary investments	\$ 2,200	12,112,186	12,114,386
Accounts receivable	17,250	2,450,762	2,468,012
Inventory of supplies	56,786	-	56,786
Total current assets	76,236	14,562,948	14,639,184
Noncurrent assets:			
Capital assets:			
Land	9,605,289	2,909,275	12,514,564
Buildings	2,127,591	-	2,127,591
Improvements other than buildings	227,912	-	227,912
Machinery, furniture, and equipment	1,012,205	9,775,582	10,787,787
Total capital assets	12,972,997	12,684,857	25,657,854
Less accumulated depreciation	(2,476,902)	(5,720,120)	(8,197,022)
Total capital assets, net	10,496,095	6,964,737	17,460,832
Deferred outflows of resources:			
Deferred outflows from debt refunding	376,059	-	376,059
Deferred outflows related to pensions	183,681	457,757	641,438
Total outflows of resources	559,740	457,757	1,017,497
Total assets and deferred outflows of resources	11,132,071	21,985,442	33,117,513
Liabilities:			
Current liabilities:			
Accounts payable	113,261	449,516	562,777
Accrued interest payable	91,818	-	91,818
Accrued payroll	18,142	65,336	83,478
Deposits	10,764	-	10,764
Due to other funds	76,921	-	76,921
Compensated absences	29,549	110,295	139,844
General obligation bonds	433,917	-	433,917
Current obligations under capital leases	-	26,508	26,508
Total current liabilities	774,372	651,655	1,426,027
Noncurrent liabilities:			
Other post employment benefit obligation	655,702	2,373,711	3,029,413
Compensated absences	44,446	93,874	138,320
Landfill closure and postclosure liability	-	5,090,163	5,090,163
General obligation bonds	4,830,622	-	4,830,622
Net pension liability	1,150,259	2,866,599	4,016,858
Total noncurrent liabilities	6,681,029	10,424,347	17,105,376
Deferred inflows related to pensions	60,323	150,334	210,657
Total liabilities	7,515,724	11,226,336	18,742,060
Net position:			
Net investment in capital assets	5,607,615	6,938,229	12,545,844
Unrestricted (deficit)	(1,991,268)	3,820,877	1,829,609
Total net position	3,616,347	10,759,106	14,375,453
Total liabilities and net position	\$ 11,132,071	21,985,442	33,117,513

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, 2016

	Golf	Waste Management	Total
Operating revenues:			
Charges for services	\$ 1,137,042	12,518,119	13,655,161
Other	198,440	5,247	203,687
Total operating revenues	1,335,482	12,523,366	13,858,848
Operating expenses:			
Personnel services	724,265	2,742,080	3,466,345
Contractual services	336,498	4,491,916	4,828,414
Supplies and materials	188,001	195,663	383,664
Utilities	112,585	-	112,585
Internal charges	40,506	1,494,765	1,535,271
Rent	97,497	-	97,497
Depreciation and amortization	99,103	700,784	799,887
Closure/postclosure	-	216,582	216,582
Other	214,358	157,002	371,360
Total operating expenses	1,812,813	9,998,792	11,811,605
Operating income (loss)	(477,331)	2,524,574	2,047,243
Nonoperating revenues (expenses):			
Gain (loss) on disposal of capital assets	-	(121,851)	(121,851)
Interest expense and fiscal charges	(237,881)	-	(237,881)
Net nonoperating revenues (expenses)	(237,881)	(121,851)	(359,732)
Net income (loss) before transfers	(715,212)	2,402,723	1,687,511
Transfers from other funds	850,425	4,779	855,204
Transfers to other funds	(18,357)	(390,645)	(409,002)
Change in net position	116,856	2,016,857	2,133,713
Net position, beginning of year, as restated (Note 17)	3,499,491	8,742,249	12,241,740
Net position, end of year	\$ 3,616,347	10,759,106	14,375,453

CITY OF PORTSMOUTH, VIRGINIA

Exhibit K-3

Combining Statement of Cash Flows

Nonmajor Proprietary Funds

Year ended June 30, 2016

	Golf	Waste Management	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	\$ 1,383,935	12,188,403	13,572,338
Payments to suppliers	(988,049)	(7,411,830)	(8,399,879)
Payments to employees	(741,913)	(2,743,879)	(3,485,792)
Net cash provided by (used for) operating activities	(346,027)	2,032,694	1,686,667
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	850,425	4,779	855,204
Transfers out	(18,357)	(390,645)	(409,002)
Net cash provided by (used in) noncapital financing activities	832,068	(385,866)	446,202
CASH FLOWS FROM CAPITAL AND RELATING FINANCING ACTIVITIES:			
Acquisition of PP&E		(797,926)	(797,926)
Gain or (Loss) on sale of capital assets	-	181,999	181,999
Principal paid on long-term debt	(344,158)	(196,493)	(540,651)
Interest paid	(241,477)	-	(241,477)
Net cash provided by (used in) capital and related financing activities	(585,635)	(812,420)	(1,398,055)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received	-	-	-
Net cash provided by investing activities	-	-	-
Net increase (decrease) in cash and temporary investments	(99,594)	834,408	734,814
Cash and temporary investments, beginning of year	101,794	11,277,778	11,379,572
Cash and temporary investments, end of year	2,200	12,112,186	12,114,386
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	(477,331)	2,524,574	2,047,243
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	99,103	700,784	799,887
Decrease (increase) in:			
Accounts receivable	(17,073)	(334,963)	(352,036)
Prepaid expenses		508,428	508,428
Inventory of supplies	(17,719)		(17,719)
Deposits	(11,395)		(11,395)
Deferred outflows	(71,102)	(178,491)	(249,593)
Increase (decrease) in:			
Accounts payable	19,115	(1,580,912)	(1,561,797)
Accrued payroll	515	12,129	12,644
Compensated absences	(11,179)	(7,603)	(18,782)
Due To	76,921		76,921
Net pension liability	221,939	563,797	785,736
Deferred inflows	(157,049)	(388,881)	(545,930)
Other post employment benefit obligation	(772)	(2,750)	(3,522)
Landfill closure and postclosure liability	-	216,582	216,582
Total adjustments	131,304	(491,880)	(360,576)
Net cash provided by (used for) operating activities	\$ (346,027)	2,032,694	1,686,667



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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, 2016

	City Garage	Information Technology	Health Insurance & OPEB	Risk Management	Total
Assets:					
Current assets:					
Cash and temporary investments	\$ 641,620	4,080,409	6,714,096	20,624,133	32,060,258
Accounts receivable	107,450	44,948	88,251	-	240,649
Inventory of supplies	456,497	-	-	-	456,497
Prepaid expenses	-	15,000	-	-	15,000
Total current assets	1,205,567	4,140,357	6,802,347	20,624,133	32,772,404
Noncurrent assets:					
Capital assets:					
Land	15,048	-	-	-	15,048
Buildings	693,083	-	-	-	693,083
Machinery, furniture, and equipment	23,564,004	5,559,735	-	-	29,123,739
Intangible assets	-	1,020,537	-	-	1,020,537
Total capital assets	24,272,135	6,580,272	-	-	30,852,407
Less accumulated depreciation	(18,331,573)	(5,776,888)	-	-	(24,108,461)
Total capital assets, net	5,940,562	803,384	-	-	6,743,946
Deferred outflows of resources:					
Total outflows of resources	-	-	-	-	-
Total assets and deferred outflows of resources	7,146,129	4,943,741	6,802,347	20,624,133	39,516,350
Liabilities:					
Current liabilities:					
Accounts payable	367,637	284,423	450,053	296,888	1,399,001
Accrued payroll	50,881	66,637	-	3,787	121,305
Flex spending benefits	-	-	57,016	-	57,016
Due to other funds	250	-	-	-	250
Current compensated absences	74,523	87,518	-	2,229	164,270
Current obligations under capital leases	804,632	-	-	-	804,632
Current claims payable	-	-	2,884,472	2,580,047	5,464,519
Total current liabilities	1,297,923	438,578	3,391,541	2,882,951	8,010,993
Noncurrent liabilities:					
Noncurrent claims payable	-	-	-	11,021,307	11,021,307
Other post employment benefit obligation	1,392,364	1,061,845	-	116,636	2,570,845
Noncurrent compensated absences	73,528	121,576	-	2,229	197,333
Noncurrent obligations under capital leases	497,223	-	-	-	497,223
Total noncurrent liabilities	1,963,115	1,183,421	-	11,140,172	14,286,708
Total liabilities	3,261,038	1,621,999	3,391,541	14,023,123	22,297,701
Net position:					
Net investment in capital assets	4,638,707	803,384	-	-	5,442,091
Unrestricted (deficit)	(753,616)	2,518,358	3,410,806	6,601,010	11,776,558
Total net position	3,885,091	3,321,742	3,410,806	6,601,010	17,218,649
Total liabilities and net position	\$ 7,146,129	4,943,741	6,802,347	20,624,133	39,516,350

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, 2016

	City Garage	Information Technology	Health Insurance & OPEB	Risk Management	Total
Operating revenues:					
Charges for services	\$ 8,353,351	5,580,597	17,504,390	5,612,287	37,050,625
Other	-	30,406	107,856	142,531	280,793
Total operating revenues	8,353,351	5,611,003	17,612,246	5,754,818	37,331,418
Operating expenses:					
Personnel services	1,883,804	2,508,639	-	126,367	4,518,810
Contractual services	610,879	1,300,077	1,225,778	461,788	3,598,522
Supplies and materials	2,683,497	400,000	-	4,353	3,087,850
Utilities	62,188	102,978	-	2,888	168,054
Internal charges	-	5,130	-	-	5,130
Claims, settlements, and refunds	-	-	18,258,640	3,332,603	21,591,243
Insurance premiums	-	-	-	654,085	654,085
Depreciation and amortization	1,433,608	213,001	-	-	1,646,609
Other - Operating Expense	365,555	165,806	10,861	-	542,222
Total operating expenses	7,039,531	4,695,631	19,495,279	4,582,084	35,812,525
Operating income (loss)	1,313,820	915,372	(1,883,033)	1,172,734	1,518,893
Nonoperating revenues (expenses):					
Gain (loss) on disposal of capital assets	(48,988)	-	-	-	(48,988)
Net nonoperating revenues (expenses)	(48,988)	-	-	-	(48,988)
Net income before transfers	1,264,832	915,372	(1,883,033)	1,172,734	1,469,905
Transfers from other funds	41,978	-	-	-	41,978
Transfers to other funds	(44,670)	(251,039)	-	(9,676)	(305,385)
Change in net position	1,262,140	664,333	(1,883,033)	1,163,058	1,206,498
Net position (deficit), beginning of year	2,622,951	2,657,409	5,293,839	5,437,952	16,012,151
Net position (deficit), end of year	\$ 3,885,091	3,321,742	3,410,806	6,601,010	17,218,649

Combining Statement of Cash Flows

Internal Service Funds

Year ended June 30, 2016

	City Garage	Information Technology	Health Insurance	Risk Management	Total
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers	\$ 8,345,029	5,566,055	17,647,528	5,754,818	37,313,430
Payments to suppliers	(4,567,309)	(2,143,033)	(18,047,011)	(5,562,356)	(30,319,709)
Payments to employees	(1,850,989)	(2,461,486)	(245,427)	(126,702)	(4,684,604)
Net cash provided by (used in) operating activities	1,926,731	961,536	(644,910)	65,760	2,309,117
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Transfers (out) / in	(2,692)	(251,039)	-	(9,676)	(263,407)
Net cash provided by (used in) noncapital financing activities	(2,692)	(251,039)	-	(9,676)	(263,407)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition and construction of capital assets	-	(109,079)	-	-	(109,079)
Proceeds from sale of capital assets	13,066	-	-	-	13,066
Principal paid on long-term debt	(1,295,735)	-	-	-	(1,295,735)
Interest paid	-	-	-	-	-
Net cash provided by (used in) capital and related financing activities	(1,282,669)	(109,079)	-	-	(1,391,748)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest received	-	-	-	-	-
Net cash provided by (used in) investing activities	-	-	-	-	-
Net increase (decrease) in cash and temporary investments	641,370	601,418	(644,910)	56,084	653,962
Cash and temporary investments, beginning of year	250	3,478,991	7,359,006	20,568,049	31,406,296
Cash and temporary investments, end of year	641,620	4,080,409	6,714,096	20,624,133	32,060,258
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities					
Operating income/(loss)	1,313,820	915,372	(1,883,033)	1,172,734	1,518,893
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation and amortization	1,433,608	213,001	-	-	1,646,609
Decrease (increase) in:					
Accounts receivable	(8,322)	(44,948)	35,282	-	(17,988)
Prepaid expenses	-	-	-	6,067	6,067
Inventory of supplies	(36,139)	-	-	-	(36,139)
Increase (decrease) in:					
Accounts payable	2,943	(169,042)	(81,304)	(452,186)	(699,589)
Accrued payroll	12,977	18,038	-	1,746	32,761
Compensated absences	21,671	30,369	-	(1,936)	50,104
Due to other funds	(811,994)	-	-	-	(811,994)
Flexible spending benefits	-	-	14,215	-	14,215
OPEB	(1,833)	(1,254)	(245,427)	(145)	(248,659)
Nonoperating revenues reported as operating revenues:					
Claims payable	-	-	1,515,357	(660,520)	854,837
Total adjustments	612,911	46,164	1,238,123	(1,106,974)	790,224
Net cash provided by (used in) operating activities	\$ 1,926,731	961,536	(644,910)	65,760	2,309,117



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Fiduciary Funds



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CITY OF PORTSMOUTH, VIRGINIA
Combining Statement of Fiduciary Net Position
Fiduciary Funds - Pension Trust Funds
June 30, 2016

Exhibit M-1

	Portsmouth Supplemental Retirement System	Portsmouth Fire and Police Retirement System	Total
Assets			
Cash and temporary investments	\$ 685,043	1,797,589	2,482,632
Cash equivalents	17,868,052	50,392,244	68,260,296
Investments:			
Stocks	27,750,170	78,262,217	106,012,387
Bonds	3,296,509	9,296,956	12,593,465
International investments	7,558,577	21,317,023	28,875,600
Real estate	1,544,069	4,354,649	5,898,718
Other investments	1,473,729	4,156,273	5,630,002
Total investments	41,623,054	117,387,118	159,010,172
Total assets	60,176,149	169,576,951	229,753,100
Net position restricted for pensions	60,176,149	169,576,951	229,753,100

CITY OF PORTSMOUTH, VIRGINIA
Combining Statement of Changes in Fiduciary Net Position
Fiduciary Funds - Pension Trust Funds
Year ended June 30, 2016

Exhibit M-2

	Portsmouth Supplement Retirement System	Portsmouth Fire and Police Retirement System	Total
Additions:			
Contributions			
Employers' contributions	\$ 1,796,671	5,794,277	7,590,948
Investment income -			
Interest	1,376,164	3,889,370	5,265,534
Realized gains (loss)	(186,851)	(526,966)	(713,817)
Unrealized gains (loss)	(242,014)	(620,740)	(862,754)
Net investment income	947,299	2,741,664	3,688,963
Total additions	2,743,970	8,535,941	11,279,911
Deductions:			
Benefit payments	8,326,253	21,297,801	29,624,054
Administrative expenses	28,605	120,447	149,052
Net decrease	8,354,858	21,418,248	29,773,106
Change in net position	(5,610,888)	(12,882,307)	(18,493,195)
Net position restricted for pension benefits, beginning of year	65,787,037	182,459,258	248,246,295
Net position restricted for pension benefits, end of year	\$ 60,176,149	169,576,951	229,753,100

Statement of Changes in Assets and Liabilities

Fiduciary Funds-Agency Fund

Year ended June 30, 2016

Description	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
Assets:				
Cash and temporary investments	\$ 5,530	48,533	(49,327)	4,736
	5,530	48,533	(49,327)	4,736
Liabilities:				
Accounts payable	5,530	56,312	(57,106)	4,736
	\$ 5,530	56,312	(57,106)	4,736



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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. The City implemented Governmental Accounting Standards Board Statement No. 34 in 2002; schedules presenting government-wide information include information beginning in that 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									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Governmental activities:										
Net investment in capital assets	178,183,374	187,359,078	176,415,840	179,076,283	186,101,165	196,244,783	210,854,679	232,550,945	244,408,023	241,411,418
Restricted	10,510,194	5,588,429	12,438,087	16,014,789	15,421,510	45,127,451	40,782,876	75,183,391	51,224,402	49,061,774
Unrestricted	32,295,766	24,710,887	27,319,933	32,818,638	33,924,914	11,685,932	17,497,544	(198,671,005)	(283,629,516)	(251,725,514)
Total governmental activities net position	220,989,334	217,658,394	216,173,860	227,909,710	235,447,589	253,058,166	269,135,099	109,063,331	12,002,909	38,747,678
Business-type activities:										
Net investment in capital assets	108,111,466	112,115,139	114,270,026	122,952,622	128,135,654	132,261,301	140,080,861	146,080,861	151,551,705	126,805,696
Restricted	2,190,726	3,389,920	4,117,658	12,131	-	22,450	-	-	-	-
Unrestricted	26,316,690	27,320,964	30,213,505	33,143,573	39,934,125	44,949,451	45,783,929	40,508,841	34,241,084	71,131,481
Total business-type activities net position	136,618,882	142,826,023	148,601,189	156,108,326	168,069,779	177,233,202	185,864,790	186,589,702	185,792,789	197,937,177
Primary government:										
Net investment in capital assets	286,294,840	299,474,217	290,685,866	302,028,905	314,236,819	328,506,084	350,935,540	378,631,806	395,959,728	368,217,114
Restricted	12,700,920	8,978,349	16,555,745	16,026,920	15,421,510	45,149,901	40,782,876	75,183,391	51,224,402	49,061,774
Unrestricted	58,612,456	52,031,851	57,533,438	65,962,211	73,859,039	56,635,383	63,281,473	(158,162,164)	(249,388,432)	(180,594,033)
Total primary government net position	357,608,216	360,484,417	364,775,049	384,018,036	403,517,368	430,291,368	454,999,889	295,653,033	197,795,698	236,684,855

CITY OF PORTSMOUTH, VIRGINIA

A-2

Changes in Net Position

Last Ten Fiscal Years

(accrual basis of accounting)

	Fiscal year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Expenses:										
Governmental activities:										
General government	\$ 30,899,380	17,457,023	26,462,771	25,866,086	28,573,377	30,092,575	27,914,580	195,651,602	30,847,939	25,571,539
Nondepartmental	-	6,135,893	-	-	-	-	-	-	-	-
Judicial	18,098,589	20,995,575	22,068,062	21,162,771	20,042,432	19,262,329	23,819,021	25,931,635	22,663,405	24,814,308
Public safety	53,309,122	58,580,530	59,957,146	63,317,938	62,543,317	67,822,960	66,483,899	58,678,933	56,785,068	51,693,737
Public works	29,347,705	31,141,010	29,535,176	20,801,656	20,669,966	19,227,479	18,919,255	22,082,142	24,259,546	20,442,395
Health and welfare	39,099,957	41,037,989	40,267,351	39,291,574	38,261,597	37,676,063	34,805,940	35,701,774	32,894,672	32,409,223
Parks, recreational, and cultural	12,440,345	13,017,308	13,000,940	12,702,857	12,333,047	12,165,461	12,107,699	10,405,765	9,868,300	11,067,649
Community development	12,716,520	9,577,401	9,306,525	14,441,114	7,738,435	8,697,999	9,317,701	7,924,716	6,474,948	6,020,487
Education	44,642,509	57,072,177	53,881,305	54,518,784	50,591,187	51,759,963	41,411,783	52,948,197	55,140,801	53,908,322
Interest on long-term debt	11,135,778	11,642,071	10,573,858	10,486,906	13,258,680	12,743,363	13,535,905	19,560,389	19,484,834	18,198,185
Total governmental activities expenses	251,689,905	266,656,977	265,053,134	262,589,686	254,012,038	259,448,192	248,315,783	428,885,153	258,419,513	244,125,845
Business-type activities:										
Public Utility	18,073,378	21,132,727	22,589,478	21,621,779	21,142,197	23,289,442	21,168,537	25,719,104	23,945,770	22,974,962
Golf	2,322,069	2,467,403	2,400,930	2,393,003	2,322,045	2,218,731	2,104,720	2,406,829	2,336,303	2,050,694
Port Facility and Economic Development	86,922	86,922	86,922	66,520	46,118	46,119	46,118	46,118	46,119	-
Parking Authority	1,615,350	1,750,784	1,644,011	1,625,763	1,582,680	1,558,720	1,348,920	1,395,552	1,185,598	1,151,506
Waste Management	9,567,874	12,086,129	12,314,318	14,138,088	13,576,422	11,779,665	9,662,917	10,559,613	10,245,752	10,041,170
Total business-type activities expenses	31,665,593	37,523,965	39,035,659	39,845,153	38,669,462	38,892,677	34,331,212	40,127,216	37,759,542	36,218,332
Total primary government expenses	283,355,498	304,180,942	304,088,793	302,434,839	292,681,500	298,340,869	282,646,995	469,012,369	296,179,055	280,344,177
Program Revenues:										
Governmental activities:										
Charges for services										
General government	4,118,356	2,130,746	2,146,434	1,774,399	1,891,508	1,785,252	3,104,397	3,395,648	3,191,781	2,922,590
Judicial	663,258	384,600	224,907	240,998	708,180	1,004,567	343,106	271,277	576,660	571,659
Public safety	2,108,401	2,487,410	1,298,471	2,637,180	1,673,586	2,119,660	2,497,470	1,676,260	3,528,623	3,586,477
Public works	5,270,651	5,520,368	5,637,793	6,330,032	6,880,735	7,316,713	7,809,614	8,017,983	7,596,091	7,602,200
Health and welfare	2,928,297	523,597	431,309	414,062	538,388	519,049	600,194	596,831	973,317	1,242,294
Parks, recreation, and cultural	1,157,796	1,629,137	1,579,501	1,352,352	1,302,264	2,160,956	2,587,705	2,396,043	2,321,055	2,992,632
Community development	986,880	705,244	491,841	495,427	518,730	523,373	1,149,814	1,206,617	1,971,830	3,397,562
Operating grants and contributions	74,604,092	79,783,849	79,186,102	82,372,531	77,217,853	86,594,753	70,737,857	71,792,163	67,982,527	66,867,871
Capital grants and contributions	3,773,230	5,062,734	500,000	4,635,095	3,344,556	6,070,568	1,422,747	2,655,741	5,052,229	696,766
Total governmental activities program revenues	95,610,961	98,227,685	91,496,358	100,252,076	94,075,800	108,094,891	90,252,904	92,008,563	93,194,113	89,880,051
Business-type activities:										
Charges for services:										
Public Utility	32,433,324	33,522,674	35,337,953	35,530,749	39,910,309	39,594,823	39,563,702	41,678,038	41,521,351	44,203,060
Golf	1,735,064	1,688,008	1,363,934	1,329,452	1,305,030	1,355,710	1,128,337	1,082,375	1,096,110	1,175,592
Port Facility and Economic Development	580,000	290,000	-	-	-	-	-	-	-	-
Parking Authority	991,755	1,063,479	1,079,056	1,071,822	1,060,760	1,111,152	1,118,200	1,093,811	924,588	995,542
Waste Management	9,375,993	12,466,329	12,332,045	15,037,913	14,123,658	12,765,158	12,502,496	12,331,294	11,751,149	12,438,646

CITY OF PORTSMOUTH, VIRGINIA
Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)

A-2 (continued)

	Fiscal year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Business-type activities, continued:										
Operating grants and contributions	\$ 685,994	685,994	680,000	680,000	680,000	680,000	280,000	-	-	-
Capital grants and contributions	246,200	50,150	118,438	-	-	-	-	-	-	-
Total business-type activities program revenues	46,048,330	49,766,634	50,911,426	53,649,936	57,079,757	55,506,843	54,592,735	56,185,518	55,293,198	58,812,840
Total primary government program revenues	141,659,291	147,994,319	142,407,784	153,902,012	151,155,557	163,601,734	144,845,639	148,194,081	148,487,311	148,692,891
Net (Expense)/Revenue										
Governmental activities	(156,078,944)	(168,429,292)	(173,556,776)	(162,337,610)	(159,936,238)	(151,353,301)	(158,062,879)	(336,876,590)	(165,225,400)	(154,245,794)
Business-type activities	14,382,737	12,242,669	11,875,767	13,804,783	18,410,295	16,614,166	20,261,523	16,058,302	17,533,656	22,594,508
Total primary government net (expense)/revenue	(141,696,207)	(156,186,623)	(161,681,009)	(148,532,827)	(141,525,943)	(134,739,135)	(137,801,356)	(320,818,288)	(147,691,744)	(131,651,286)
General Revenues and Other Changes in Net Assets:										
Governmental activities:										
Taxes:										
General property taxes	101,207,980	105,883,360	117,984,153	120,258,870	115,291,349	118,370,186	116,035,670	116,536,186	116,197,273	119,741,652
Other local taxes	27,929,104	37,862,311	35,706,007	36,601,504	34,894,374	35,064,984	35,995,762	37,674,332	39,934,290	38,783,705
Utility taxes	14,794,915	7,698,211	7,676,029	7,579,044	7,709,251	7,418,449	8,047,196	8,145,465	8,001,981	8,053,834
Licenses, permits, and privilege fees	-	-	-	-	-	-	-	-	-	-
Payment from component unit	-	-	-	-	-	-	-	-	-	-
Investment earnings	3,198,654	2,090,950	693,008	168,877	168,418	102,301	1,291,260	591,371	662,555	1,480,919
Net gain on disposal of capital assets	139,440	-	-	-	-	(75,704)	-	-	-	-
Miscellaneous	2,621,370	2,956,892	2,424,036	2,568,498	2,302,921	2,433,785	3,863,492	6,192,905	3,776,579	4,193,125
Special Item	-	-	-	-	-	-	-	-	-	-
Transfers	9,553,108	8,606,628	7,382,948	6,896,667	7,106,789	8,008,973	9,928,251	9,006,934	9,244,703	9,336,088
Total governmental activities	159,444,571	165,098,352	171,866,181	174,073,460	167,473,102	171,322,974	175,161,631	178,147,193	177,817,381	181,589,323
Business-type activities:										
Contributions-Land	-	-	-	-	-	-	-	-	268,297	-
Investment earnings	2,622,827	1,884,812	610,492	154,560	106,869	95,376	170,968	537,392	486,790	485,672
Special item	-	-	-	-	-	-	-	-	-	-
Gain on sale of capital assets	(147,433)	31,984	4,176	32,775	(69,991)	-	-	-	-	-
Miscellaneous	1,029,816	654,304	667,679	499,410	716,744	462,854	713,526	593,289	587,082	772,630
Transfers	(9,553,108)	(8,606,628)	(7,382,948)	(6,984,391)	(7,106,789)	(8,008,973)	(9,928,251)	(9,006,934)	(9,244,703)	(9,921,248)
Total business-type activities	(6,047,898)	(6,035,528)	(6,100,601)	(6,297,646)	(6,353,167)	(7,450,743)	(9,043,757)	(7,876,253)	(7,902,534)	(8,662,946)
Total primary government	153,396,673	159,062,824	165,765,580	167,775,814	161,119,935	163,872,231	166,117,874	170,270,940	169,914,847	172,926,377
Change in Net Position:										
Governmental activities	3,365,627	(3,330,940)	(1,690,595)	11,735,850	7,536,864	19,969,673	17,098,752	(158,729,397)	12,591,981	27,343,529
Business-type activities	8,334,839	6,207,141	5,775,166	7,507,137	12,057,128	9,163,423	11,217,766	8,182,049	9,631,122	13,931,562
Total primary government	\$ 11,700,466	2,876,201	4,084,571	19,242,987	19,593,992	29,133,096	28,316,518	(150,547,348)	22,223,103	41,275,091

CITY OF PORTSMOUTH, VIRGINIA
Fund Balances, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

A-3

	Fiscal year									
	2007	2008	2009	2010	2011*	2012	2013	2014	2015	2016
General Fund										
Reserved	\$ 5,069,051	5,707,974	3,246,548	2,934,768	-	-	-	-	-	-
Unreserved	35,452,633	26,328,953	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
Restricted	-	-	-	-	140,677	295,762	18,549,834	233,444	254,070	231,460
Committed	-	-	-	-	-	7,880,834	7,187,371	16,652,635	-	-
Assigned	-	-	-	-	60,627	5,846	-	-	4,640,047	6,035,208
Unassigned	-	-	-	-	48,667,799	53,631,444	236,707,641	52,168,051	54,088,231	58,427,712
Total General Fund	40,521,684	32,036,927	35,855,214	48,329,746	51,529,838	64,278,496	264,722,952	71,136,111	60,618,293	66,134,200
All Other Governmental Funds										
Reserved	12,992,195	12,390,140	9,013,543	17,861,357	-	-	-	-	-	-
Unreserved, reported in:										
Special revenue funds	5,933,041	5,230,281	6,219,375	19,580,665	-	-	-	-	-	-
Permanent funds (1)	297,604	407,268	394,025	448,205	-	-	-	-	-	-
Capital projects funds	24,241,983	5,390,537	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
Restricted	-	-	-	-	72,136,623	43,831,689	39,629,756	55,095,264	49,610,850	48,830,314
Committed	-	-	-	-	689,701	623,988	367,043	423,876	-	-
Assigned	-	-	-	-	-	-	618,921	311,668	421,026	657,536
Unassigned	-	-	-	-	(29,999)	(278,692)	-	(617,700)	(3,194,659)	(2,124,671)
Total all other governmental funds	\$ 43,464,823	23,418,226	37,378,408	94,063,664	73,798,548	45,179,208	41,617,943	56,215,331	47,839,440	48,365,402

*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)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Revenues										
Taxes	\$ 142,304,393	151,595,074	161,152,304	163,986,237	159,191,656	160,062,205	160,108,769	161,907,337	164,133,541	165,989,121
Licenses and permits	1,341,290	1,153,187	926,923	1,136,981	1,117,152	883,022	832,610	959,486	954,328	1,133,825
Fines and forfeitures	292,244	172,007	173,529	184,741	572,821	853,101	867,213	633,409	692,844	623,879
Investment income and use of property	6,058,766	4,539,471	3,181,215	2,287,625	2,316,889	2,179,404	1,952,293	2,034,326	2,104,418	1,864,034
Charges for services	12,541,445	9,264,732	8,189,038	9,773,256	9,468,478	11,795,141	12,796,551	12,659,493	12,795,031	13,227,327
Recovered costs	3,622,340	4,676,217	4,135,037	4,331,770	4,085,061	3,708,285	3,598,403	3,842,764	3,935,523	3,880,881
Miscellaneous	3,114,090	5,372,509	4,556,269	9,434,921	4,931,402	17,765,172	4,451,002	6,252,378	3,678,609	4,432,350
Intergovernmental	76,192,266	80,210,496	76,140,401	78,583,705	76,639,575	75,920,149	72,780,080	74,876,626	75,974,575	73,090,368
Sale of commodities and property	139,440	242,770	-	-	-	-	-	-	-	-
Total revenues and other sources	245,606,274	257,226,463	258,454,716	269,719,236	258,323,034	273,166,479	257,386,921	263,165,819	264,268,869	264,241,785
Expenditures										
General government	23,229,371	17,701,336	16,146,243	15,503,424	15,711,620	15,501,466	15,905,233	17,178,147	17,584,368	16,668,136
Nondepartmental	-	6,681,149	9,503,827	9,276,215	9,975,985	11,496,297	12,138,227	180,581,237	12,584,942	11,586,048
Judicial	18,424,590	19,869,269	20,605,038	19,198,298	18,945,494	18,496,993	20,179,701	20,547,549	20,977,970	19,135,481
Public safety	53,524,102	58,276,566	59,009,982	60,853,783	60,446,711	62,240,428	61,441,195	54,113,766	57,143,666	53,900,072
Public works	17,092,893	18,274,869	17,413,077	15,539,098	16,033,880	15,588,397	16,786,940	17,804,330	19,857,877	17,460,963
Health and welfare	40,762,079	42,530,195	41,062,430	38,131,285	37,792,064	35,594,381	32,239,186	34,072,749	34,041,970	32,037,049
Parks, recreation, and cultural	12,010,340	12,804,623	12,230,804	11,577,153	11,608,738	11,091,361	11,448,655	10,672,489	9,574,714	10,114,937
Community development	11,418,822	9,435,979	9,033,730	9,476,115	7,175,300	8,101,488	7,906,297	6,717,779	5,669,431	4,946,123
Debt service:										
Principal	13,681,588	15,818,354	14,251,629	10,467,075	9,843,352	10,075,319	10,739,261	19,951,362	18,912,510	20,049,788
Interest	10,708,805	11,465,427	10,329,837	11,185,563	12,332,018	13,029,154	14,313,937	16,213,438	19,147,205	18,507,554
Education	42,683,991	49,845,490	49,818,483	48,171,651	48,171,651	49,571,413	39,849,897	50,528,423	52,550,163	51,200,000
Capital outlay	27,392,620	32,181,996	21,638,382	33,782,150	58,653,655	46,037,429	13,961,951	23,674,694	25,025,125	11,866,954
Total expenditures	270,929,201	294,885,253	281,043,462	283,161,810	306,690,468	296,824,126	256,910,480	452,055,963	293,069,941	267,473,106
Excess of revenues over (under) expenditures	(25,322,927)	(37,658,790)	(22,588,746)	(13,442,574)	(48,367,434)	(23,657,647)	476,441	(188,890,144)	(28,801,072)	(3,231,321)
Other financing sources (uses)										
Transfers in	23,954,536	24,610,728	20,261,687	22,382,161	22,117,233	22,880,724	21,594,945	88,968,251	66,035,010	62,566,204
Transfers out	(15,449,048)	(15,483,292)	(11,137,307)	(16,730,817)	(16,492,768)	(15,331,422)	(12,459,843)	(78,447,095)	(56,502,867)	(53,326,537)
Proceeds from capital leases	-	-	358,080.00	-	-	-	-	-	-	-
Proceeds from debt issued	-	-	157,743.00	2,219,887	-	-	-	-	-	-
Payments from component unit	-	-	-	-	-	-	-	-	-	-
Discount on bonds issued	(24,491)	-	(351,552)	(1,777,830)	-	-	-	-	-	-
VPSA Subsidy	-	-	-	1,324,727	-	-	-	-	-	-
Payments to escrow agent	(36,133,012)	-	(45,565,623)	-	-	-	-	-	-	-
Payment for current refunding of debt	(7,980,000)	-	-	-	-	-	-	-	(30,446,686)	(56,930,880)
Premium on bonds issued	310,130	-	994,187	839,121	3,908,502	1,962,885	10,661,550	-	-	4,358,163
General obligation bonds issued	23,259,753	-	-	74,345,113	68,547,102	31,450,000	254,465,000	-	30,821,906	53,205,000
BAN Proceeds	-	-	29,925,000	-	-	-	-	-	-	-
Refunding bonds issued	43,640,000	-	45,725,000	-	(46,778,674)	(33,175,221)	(77,854,902)	-	-	-
Total other financing sources (uses)	31,577,868	9,127,436	40,367,215	82,602,362	31,301,395	7,786,966	196,406,750	10,521,156	9,907,363	9,871,950
Special item - payment to component unit	-	-	-	-	-	-	-	-	-	-
Net change in fund balances	\$ 6,254,941	(28,531,354)	17,778,469	69,159,788	(17,066,039)	(15,870,681)	196,883,191	(178,368,988)	(18,893,709)	6,640,629
Debt service as a percentage of noncapital expenditure, as restated	10.02%	10.39%	9.48%	8.68%	8.94%	9.21%	10.31%	8.44%	14.20%	15.08%

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 30-Jun	Residential Property	Commercial Property	Industrial Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value
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
2008	4,967,919	1,487,540	203,354	6,658,813	1.26	6,658,813
2007	4,128,828	1,507,162	104,730	5,740,720	1.36	5,740,720

Source: City Assessor's Office

CITY OF PORTSMOUTH, VIRGINIA
Property Tax Rates
 Last Ten Fiscal Years

B-2

Fiscal Year	Real Property (1)	Personal Property (2)			Manufacturer's Machinery and Tools (3)
		Vehicles	Boats	RV's	
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
2008	1.26	5.00	0.50	1.50	3.00
2007	1.36	5.00	0.01	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	2016		2007	
	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value
Virginia International Gateway Inc.	\$ 402,949,386	5.10%		
PRHA	44,083,510	0.56%		
Virginia Electric and Power	37,394,364	0.47%		
South Norfolk Jordan Bridge	34,320,000	0.43%		
GEM Portsmouth High LLC	31,459,500	0.40%		
Earl Industries	30,020,749	0.38%		
G & E Apartment REIT The Myrtles	27,000,000	0.34%		
Columbia Gas of Virginia Inc.	24,969,671	0.32%		
Wheelabrator Portsmouth Inc.	22,504,342	0.28%		
Economic Development Authority ¹	22,099,250	0.28%		
Dominion Virginia Power			\$ 55,231,054	0.87%
BASF Corporation			48,571,872	0.76%
Cogentrix Virginia Leasing Corporation			43,402,740	0.68%
Economic Development Authority			29,225,020	0.46%
Verizon			26,109,350	0.41%
GEM Portsmouth LLC			25,086,140	0.39%
Harper Ave LLC			22,508,480	0.35%
Columbia Gas			22,253,039	0.35%
APM Terminals			16,176,930	0.25%
Goodeed LLC			16,035,370	0.25%
	<u>\$ 676,800,772</u>	<u>8.56%</u>	<u>\$ 304,599,995</u>	<u>4.78%</u>

Source: Portsmouth City Assessor and Portsmouth Commissioner of the Revenue

1. EDA holds title to the land at 425 Water St; its tenant, the Renaissance Hotel owner, pays the property taxes.

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, 2016	Total Tax Collections to June 30, 2016	Adjustments To Levy (3)	Outstanding Taxes A/R June 30, 2016	Percent of Adjusted Levy Collected to June 30, 2016
2015	June 30, 2016	\$ 91,537,233	85,998,777	93.95	-	85,998,777	(703,119)	4,835,337	94.68
2014	June 30, 2015	89,337,507	83,972,704	93.99	3,245,196	87,217,900	(1,089,503)	1,030,104	98.83
2013	June 30, 2014	89,135,633	83,706,341	93.91	3,704,422	87,410,763	(882,231)	842,639	99.05
2012	June 30, 2013	88,808,682	83,261,282	93.75	4,543,398	87,804,680	(552,839)	451,163	99.49
2011	June 30, 2012	92,659,186	85,681,654	92.47	3,881,532	89,563,186	(3,005,747)	90,253	99.90
2010	June 30, 2011	89,613,578	84,590,952	94.40	4,708,284	89,299,236	(264,539)	49,803	99.94
2009	June 30, 2010	92,594,347	88,287,197	95.35	3,884,121	92,171,318	(386,315)	36,714	99.96
2008	June 30, 2009	89,813,809	85,735,326	95.46	4,210,155	89,945,481	183,079	51,407	99.94
2007	June 30, 2008	82,061,047	80,767,754	98.42	3,569,086	84,336,840	2,303,956	28,163	99.97
2006	June 30, 2007	74,858,725	71,559,330	95.59	3,775,419	75,334,749	485,947	9,923	99.99

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, 2016	Total Tax Collections to June 30, 2016	Adjustments To Levy (3)	Outstanding Taxes A/R June 30, 2016	Percent of Adjusted Levy Collected to June 30, 2016
2016	June 30, 2016	\$ 23,350,303	17,520,280	75.03	-	17,520,280	(652,136)	5,177,887	77.19
2015	June 30, 2015	22,974,088	17,782,605	77.40	7,842,980	25,625,585	3,652,984	1,001,487	96.24
2014	June 30, 2014	23,014,501	17,444,594	75.80	8,459,223	25,903,817	3,618,117	728,801	97.26
2013	June 30, 2013	23,241,660	17,511,643	75.35	8,131,416	25,643,059	3,015,659	614,260	97.66
2012	June 30, 2012	21,841,734	17,181,394	78.66	7,399,019	24,580,413	3,192,842	454,163	98.19
2011	June 30, 2011	18,093,172	13,653,563	75.46	9,539,935	23,193,498	5,541,198	440,872	98.13
2010	June 30, 2010	19,582,168	14,843,139	75.80	9,093,695	23,936,834	4,354,665	(1)	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
2008	June 30, 2008	20,213,758	13,813,758	68.34	10,194,460	24,008,218	3,794,460	-	100.00
2007	June 30, 2007	21,976,362	16,079,906	73.17	5,846,422	21,926,328	(50,034)	-	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 FY16 is \$33,761,062.41 less the tax credit of \$10,410,756.56 equaling the \$23,350,303 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)

C-1

Fiscal Year	Governmental Activities						Business-Type Activities		Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	General Obligation Notes	Literary Loans	Capital Leases	Less: Restricted for Debt Service	Net Government Debt	General Obligation Bonds	Capital Leases			
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
2008	203,499	6,796	3,000	18,116	-	231,411	107,628	2,232	341,271	10.2%	3,428
2007	217,814	6,794	3,375	18,451	3	246,437	111,996	2,219	360,652	11.1%	3,558

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)

Fiscal Year	General Bonded Debt Outstanding (1)		Percentage of Actual Taxable Value of Property	Per Capita
	General Obligation Bonds (1)	Total (2)		
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
2008	223,726	223,726	2.56%	2,248
2007	238,621	238,621	3.08%	2,354

(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 2016

Assessed value	\$ 7,172,539
Debt limit (10% of assessed value)	717,254
Debt applicable to limit:	<u>557,355</u>
Legal debt margin	<u>\$ 159,899</u>

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Debt limit	\$ 574,072	665,881	759,166	767,762	733,306	743,503	713,373	715,891	716,966	717,254
Total net debt applicable to limit	252,287	236,589	241,689	308,221	326,609	316,767	631,739	606,121	577,420	557,355
Legal debt margin	321,785	429,292	517,477	459,541	406,697	426,736	81,634	109,770	139,546	159,899
Total net debt applicable to limit as a percentage of debt limit	43.9 %	35.5 %	31.8 %	40.1 %	44.5 %	42.6 %	88.6 %	84.7 %	80.5 %	77.7 %

CITY OF PORTSMOUTH, VIRGINIA
Demographic and Economic Statistics
Last Ten Fiscal Years

D-1

Year	Population (1)	Personal Income (thousands of dollars) (1)	Per Capita Personal Income (1)	Median Age (1)	School Enrollment (2)	Unemployment Rate (3)
2016	96,874	*	*	*	14,632	6.00%
2015	96,201	3,780,804	39,301	35.0	14,809	6.20%
2014	96,871	3,728,416	37,391	35.0	14,809	7.30%
2013	97,450	3,756,474	36,486	34.9	14,215	8.10%
2012	96,470	3,795,731	39,346	35.0	14,256	8.80%
2011	95,388	3,596,088	37,583	36.0	14,103	9.40%
2010	95,535	3,412,511	35,686	36.0	14,224	9.60%
2009	98,124	3,317,088	34,776	34.0	14,331	8.50%
2008	99,542	3,358,386	35,055	34.0	14,287	5.20%
2007	101,377	3,260,359	33,326	34.0	14,990	4.20%

*Information not available at this time.

(1) Bureau of Economic Analysis, U.S. Department of Commerce; Population for 2016 from Weldon Cooper Center for Public Service, University of Virginia

(2) Portsmouth Public Schools

(3) Virginia Employment Commission, Economic Information Services Division. Labor Market Information.
www.virginialmi.com

CITY OF PORTSMOUTH, VIRGINIA
Principal Employers
Current Year and Nine Years Ago

D-2

Employer	2016			2007		
	# of Employees	Rank	Percentage of Total City Employment	# of Employees	Rank	Percentage of Total City Employment
Norfolk Naval Shipyard	9,000	1	21.27 %	7,700	1	17.07 %
Naval Medical Center, Portsmouth	7,000	2	16.54 %	5,400	2	11.97 %
City of Portsmouth	2,585	3	6.11 %	2,558	3	5.67 %
US Coast Guard Command- Portsmouth	2,500	4	5.91 %	1,500	6	3.33 %
Portsmouth Public Schools	2,192	5	5.18 %	2,500	4	5.54 %
Bon Secours Maryview Medical Center	2,000	6	4.73 %	2,200	5	4.88 %
Earl Industries	900	7	2.13 %	500	9	- %
Tidewater Community College	622	8	1.47 %	-	-	- %
Smithfield of Portsmouth	435	9	1.03 %	500	8	1.11 %
Wal-Mart Supercenter	300	10	0.71 %	-	-	- %
Hampton Roads Regional Jail	-	-	- %	-	-	- %
Alternative Behavior Services (FHC)	-	-	- %	800	7	1.77 %
Southeastern Public Service Authority	-	-	- %	485	10	1.08 %
General Dynamics - NASSCO (Earl Industries)	-	-	- %	-	-	- %
Total	27,534		65.06 %	24,143		52.41 %

Sources: Portsmouth Department of Economic Development
Virginia Labor Market Information
Virginia Employment Commission, Economic Information Service Division

CITY OF PORTSMOUTH, VIRGINIA
Full-time Equivalent Employees by Function/Program
Last Ten Fiscal Years

E-1

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General Fund										
General government	134	146	144	133	167	132	139	123	127	124
Judicial	237	252	252	249	240	242	253	246	242	227
Public Safety	599	600	597	591	590	611	625	584	576	530
Public Works	110	108	104	359	359	87	86	96	89	58
Health and Welfare	-	-	-	-	-	-	-	-	-	-
Parks, Recreational, and Cultural Services	124	126	120	127	126	106	107	73	70	92
Community Development	70	67	66	48	48	48	51	46	43	38
Total General Fund	1,274	1,299	1,283	1,507	1,530	1,226	1,261	1,168	1,147	1,069
Special Revenue Funds										
Willett Hall Fund	1	1	1	1	1	2	2	1	1	1
Comprehensive Services Fund	3	3	3	3	3	3	3	2	1	-
Stormwater Management Fund	33	31	31	23	23	23	27	22	24	21
Grants	31	31	31	28	24	27	-	-	-	-
Behavioral Health Services Fund	130	137	137	122	120	120	120	94	85	82
Public Law Library Fund	-	-	-	-	-	-	-	-	-	-
Social Services Fund	254	254	254	248	245	245	246	216	174	175
Total Special Revenue Funds	452	457	457	425	416	420	398	335	285	279
Capital Projects Fund										
Community Development	-	-	-	-	-	-	-	-	-	-
Enterprise Funds										
Public Utilities Fund	146	145	145	138	138	138	139	103	102	85
Golf Fund	19	19	19	17	17	17	17	16	15	11
Waste Management Fund	76	75	75	68	68	68	62	50	45	44
Parking Authority Fund	6	6	6	6	6	6	6	3	2	2
Total Enterprise Funds	247	245	245	229	229	229	224	172	164	142
Internal Service Funds										
City Garage Fund	41	41	41	36	36	35	35	34	32	33
Information Technology Fund	32	39	39	26	26	33	26	25	22	23
Risk Management Fund	3	3	2	8	3	3	3	1	1	3
Total Internal Service Funds	76	83	82	70	65	71	64	60	55	59
Total All Funds	2,049	2,084	2,067	2,231	2,240	1,946	1,947	1,735	1,651	1,549

Source: Oracle Payroll Report CPR150 as of June 21, 2016

CITY OF PORTSMOUTH, VIRGINIA
Operating Indicators by Function/Program
Last Ten Fiscal Years

E-2

<u>Function/Program</u>	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Police										
Physical arrests	7,895	9,852	9,747	10,374	9,422	6,131	8,835	8,844	8,218	9,097
Parking violations	8,001	15,821	8,124	12,162	9,023	11,000	6,717	5,558	3,639	4,102
Traffic violations	6,774	11,431	11,424	16,140	15,594	18,648	14,343	12,297	17,119	18,580
Fire										
Emergency responses	17,386	17,035	14,073	16,135	17,447	17,618	17,421	17,517	17,787	18,561
Fires extinguished	662	623	590	506	626	382	307	291	322	295
Inspections	900	1,259	1,875	1,638	885	516	801	696	923	913
Refuse collection										
Refuse collected (tons/day)	151	165	126	158	*	*	*	183	142	135
Recyclables collected (pounds/day)	2	3	5	35	*	*	*	22,913	134,700	117,243
Other public works										
Street resurfacing (miles)	18	44.9	20.6	19.0	28.0	22	5.9	19.0	18.0	16.5
Potholes repaired	1,491	911	1,045	1,344	1,191	3,341	5,350	8,615	8,480	7,688
Parks and recreation										
Community center admissions	308,891	308,891	274,571	274,571	281,145	242,864	286,750	231,897	219,261	193,600
Library										
Volumes in collection	371,256	338,971	276,874	260,889	267,230	243,583	243,583	243,856	316,177	288,843
Total volumes borrowed	337,447	370,870	376,946	383,265	364,835	384,130	357,581	325,694	290,763	278,651
Water										
New connections	176	255	105	2,959	2,852	149	92	85	118	89
Water main breaks	126	102	105	88	104	91	107	118	163	94
Average daily consumption (millions of gallons)	17.0	13.9	13.8	14.0	13.0	17.0	24.6	18.0	20.2	15.1

* Information not available at this time.

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>	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	252	255	255	255	236	262	268	256	256	253
Fire										
Stations	8	8	8	8	8	8	8	8	8	8
Fire trucks	*	*	*	12	12	12	12	12	12	12
Boat	*	*	*	1	1	1	1	1	1	1
Emergency Medical Services										
Ambulances	*	*	*	5	5	5	5	5	5	5
Refuse collection										
Collection trucks	26	27	27	27	27	27	27	27	27	28
Other public works										
Streets (miles)	398	351	403	393	393	399	399	399	399	398
Highway (miles)	888	888	888	888	887	887	887	887	887	881
Streetlights	10,661	10,665	10,665	10,665	*	10,706	10,714	10,723	10,747	10,747
Signalized Intersections	130	120	120	120	120	120	121	123	122	122
Parks and recreation										
Acreage	402	402	402	402	402	402	402	402	588	588
Playgrounds	13	13	13	13	13	13	13	13	15	15
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
Golf Course	3	3	3	3	3	3	3	3	3	3
Water										
Water mains (miles)	543	626	626	626	626	626	626	626	626	626
Fire hydrants	2,514	2,530	2,530	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	12
Wastewater										
Sanitary sewers (miles)	437	438	438	438	438	438	438	438	438	438
Storm sewers (miles)	159	159	159	159	159	250	250	250	250	250
Treatment capacity (millions of gallons)	32	32	32	32	32	32	32	32	32	32

* Information not available at this time.

Sources: City of Portsmouth Departments

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 *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, 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, 2016, and the related notes to the financial statements and have issued our report thereon dated December 6, 2016. That report recognizes that the City restated beginning net position of its governmental activities, business-type activities, general major fund, capital improvements fund, donations fund, and port authority fund.

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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses as items 2016-001 and 2016-002.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and are described in the accompanying schedule of findings and questioned costs as items 2016-003 through 2016-004.

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Virginia Beach, Virginia
December 6, 2016

**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, 2016. 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 opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

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 major federal programs for the year ended June 30, 2016.

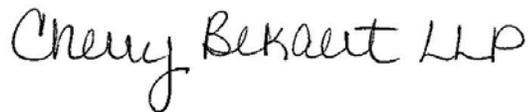
Report Internal Control over Compliance

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.

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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

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

Virginia Beach, Virginia
December 6, 2016

CITY OF PORTSMOUTH, VIRGINIA

Schedule of Expenditures of Federal Awards

Year ended June 30, 2016

Federal Granting Agency Pass thru Agency CFDA Title Grant Program	Federal Catalogue Number	Grant Agency Number	Cluster Program Total	Passed through to	Federal Expenditures	Total by CFDA #
Department of Agriculture:						
Direct payments:						
Summer Food Service Program for Children	10.559				\$ 399,737	\$ 399,737
Pilot Projects to Reduce Dependency and Increase Work Requirements	10.596	0060115			102	102
Pass-through payments:						
Virginia Department of Social Services:						
State Administrative Matching Grants for Food Stamp Program	10.561	0010115, 0010116, 0030115, 0030116, 0040115, 0040116, 0050115, 0050116			2,008,277	2,008,277
Virginia Department of Agriculture and Consumer Services - Food Distribution	10.555				414,936	414,936
Virginia Department of Education - National School Breakfast and Lunch Program	10.555, 10.553				6,256,690	6,256,690
Fruits and Vegetables	10.582				127,756	127,756
Total Child Nutrition Cluster			7,071,363			
Virginia Department of Health National VA Child & Adult Care Food Program	10.558				188,951	188,951
Total Department of Agriculture			7,071,363	-		9,396,449
Department of Defense:						
Direct payments:						
ROTC	12.000				246,380	246,380
Total Department of Defense			-	-		246,380
Department of Education:						
Direct payments:						
Impact Aid	84.041				376,654	376,654
Pass-through payments:						
Virginia Department of Education:						
Adult Education	84.002	V002A160047			36,267	36,267
Virginia Department of Education:						
Title I, Part A Cluster						
Title I Grants to Local Education Agencies	84.010	S010A140046			4,523,680	4,523,680
Special Education (IDEA) Cluster:						
Special Education (Title VI-B)	84.027	H027A160107			3,348,287	3,348,287
Special Education - Preschool Grants	84.173	H173A150112			193,393	193,393
Education Technology State Grants Cluster:						
Special Education - Grants for Infants and Family with Disabilities	84.181	720C-04446-15-28			89,281	89,281
English Language Acquisition (Title III)	84.365	S365A150046			3,201	3,201
Mathematics and Science Partnerships	84.366	S366B140047			26,947	26,947

CITY OF PORTSMOUTH, VIRGINIA

Schedule of Expenditures of Federal Awards

Year ended June 30, 2016

Federal Granting Agency

Pass Through Agency CFDA Title Grant Agency Name	Federal Catalogue Number	Grant Agency Number	Cluster Program Total	Passed through to	Federal Expenditures	Total by CFDA #
Improving Teacher Quality	84.367	S367A140044			839,367	839,367
Education for Homeless Children & Youth	84.196	S196A160048			17,295	17,295
Vocational Education	84.048	V0489A150046			458,916	458,916
Total Department of Education			-	-		9,913,288

Department of Health and Human Services:

Virginia Department of Social Services:						
Social Services Block Grant	93.667	1000115, 1000116			1,114,684	1,114,684
Temporary Assistance for Needy Families	93.558	0400115, 0400116			1,823,303	1,823,303
Child Care and Development Fund Cluster:						
Child Care and Development Fund	93.596	0760115, 0760116			258,827	258,827
Child Care and Development Block Grant	93.575	0770116	258,677		(150)	(150)
Chafee Education & Training Vouchers Program	93.599	9160115			1,679	1,679
Medical Assistance Program - Title XIX	93.778	11200115, 11200116			2,562,343	2,562,343
Foster Care - Title IV-E	93.658	100115, 1100116			1,236,390	1,236,390
Adoption Assistance	93.659				954,927	954,927
Independent Living	93.674	9150115, 9150116			10,649	10,649
Low-Income Home Energy Assistance	93.568	0600415, 0600415			287,365	287,365
Refugee and Entrant Assistance	93.566	500116			1,639	1,639
Promoting Safe and Stable Families	93.556	0950114, 0950115			67,944	67,944
State Children's Insurance Program	93.767	0540115, 0540116			86,596	86,596
Child Welfare Services	93.645	0900115, 0900116			9,962	9,962
Virginia Department of Behavioral Health and Development Services:						
Block Grants for Community Mental Health Services						
MH FBG SMI	93.958				136,881	136,881
Block Grants for Prevention and Treatment of Substance Abuse						
SA FBG Alcohol/Drug Treatment	93.959				600,444	
SA FBG SARPOS	93.959				84,205	
OccurringC-Occuring	93.959				16,201	
SA FBG Women	93.959				143,367	
SA FBG Prevention	93.959				157,581	1,001,798
Projects for Assistance in Transition from Homelessness (PATH)						
Mental Health Services for the Homeless- Block Grant	93.150				53,102	53,102
Total Department of Health and Human Services			258,677	-		9,607,939

Department of Homeland Security:

Direct Payments:						
LEMPG	97.042				42,452	42,452
Port Security FY13	97.056	EMW-2013-PU-0086			9,640	
Port Security FY14	97.056	EMW-2014-PU-0544			7,591	17,231
Total Department of Homeland Security			-	-		59,683

CITY OF PORTSMOUTH, VIRGINIA

Schedule of Expenditures of Federal Awards

Year ended June 30, 2016

Federal Granting Agency

Pass Through Agency CFDA Title Grant Program	Federal Catalogue Number	Grant Agency Number	Cluster Program Number	Passed Through to	Federal Expenditures	Total by CFDA#
Department of Housing and Urban Development:						
Direct payments:						
Community Development Block Grant - 80013	14.218	B-12-MC-51-0018			71,557	
Community Development Block Grant - 80014	14.218	B-12-MC-51-0018			409,659	
Community Development Block Grant - 80015	14.218	B-12-MC-51-0018			725,785	
Passed through to:						
Independence Center 2015	14.218	1543		4,296		
Community Development Block Grant - 80016	14.218	B-12-MC-51-0018			356,696	1,563,697
Passed through to:						
Planning Council P&A 2016	14.218	1570		5,376		
Grantsmanship & Planning 2016	14.218	1571		12,620		
Homeless Intake Service 2016	14.218	1572		33,815		
Independence Center 2015	14.218	1573		18,000		
HOME Investment Partnerships Program-81010	14.239	M-09-MC-51-0204			19,665	
Passed through to:						
TBRA_HER 2015	14.239	1541		12,097		
HOME Investment Partnerships Program-81011	14.239	M-10-MC-51-0204			19,519	
Passed through to:						
TBRA_HER 2015	14.239	1541		177		
HOME Investment Partnerships Program-81012	14.239	M-11-MC-51-0204			2,711	
HOME Investment Partnerships Program-81013	14.239	M-11-MC-51-0205			3,765	
HOME Investment Partnerships Program-81014	14.239	M-13-MC-51-0204			76,245	
Passed through to:						
TBRA_HOME 2015	14.239	1564		76,245		
HOME Investment Partnerships Program-81016	14.239	M-15-MC-51-0204			121,074	242,979
Passed through to:						
TBRA_HOME 2016	14.239	1574		95,295		
TBRA_HOME ADMIN 2016	14.239	1575		25,779		
Shelter Plus Care (CoC) April 15-March 16	14.238	VA0061L3F071407			392,705	
Shelter Plus Care (CoC) April 16-March 17	14.238	VA0061L3F071508			135,998	528,703
Supportive Housing	14.235	VA0061L3F071205			(696)	(696)
Neighborhood Stabilization Program	14.256	08-NSP-06			23,919	23,919
Total Department of Housing and Urban Development			-	283,700		2,358,602

CITY OF PORTSMOUTH, VIRGINIA

Schedule of Expenditures of Federal Awards

Year ended June 30, 2016

Federal Granting Agency Pass Through Agency CFDA Title Grant Program	Federal Catalogue Number	Grant Agency Number	Cluster Program Total	Passed through to	Federal Expenditures	Total by CFDA #
Department of Justice:						
Direct Payments:						
Weed and Seed	16.595	2009-WS-QX-0144			456	456
Federal Seizures	16.000				86,213	86,213
Pass-through payments:						
Virginia Department of Criminal Justice Services:						
Juvenile Accountability Incentive Block Grant	16.523	15-A317011			-	
Victim Witness - FY15	16.575	15-U8577VG14			(5,408)	
Victim Witness - FY16	16.575	16-V8577VG15			351,111	345,703
U.S. Department of Justice:						
Justice Assistance Grant Program- FY13	16.738	2013-DJ-BX-0977			1,071	
Justice Assistance Grant Program- FY14	16.738	2014-DJ-BX-0948			3,360	
Justice Assistance Grant Program- FY15	16.738	2015-DJ-BX-0919			55,802	60,233
Bulletproof Vest Partnership Program	16.607				21,746	21,746
Total Department of Justice			-	-		514,351
Department of Transportation:						
Pass-through Payments:						
Federal Transit Administration-Hampton Roads Transit:						
Highway Planning and Construction (Safe Routes to School Grant)	20.205	VARIOUS			56,525	
Highway Planning and Construction (Capital Improvements)	20.205	VARIOUS			408,771	465,296
Virginia Department of Motor Vehicles:						
Selective Enforcement - DUI/Passenger - Alcohol FY 15	20.607	154AL-2015-55054-5793			10,048	
Selective Enforcement - DUI/Passenger - Alcohol FY 16	20.607	154AL-2016-56077-6277			31,967	42,015
Selective Enforcement - Comprehensive Speed FY 15	20.600	SC-2015-55161-5900			645	
Selective Enforcement - Comprehensive Speed FY 15	20.600	SC-2016-56082-6282			1,350	1,995
Selective Enforcement - Occupant Restraint Enforcement - FY 16	20.616	OP-2016-56079-6279			6,271	6,271
Total Department of Transportation			-	-		515,577
Total all agencies			\$ 7,397,984	\$ 283,700		\$ 32,680,213

CITY OF PORTSMOUTH, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2016

(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.

(3) Relationship to Financial Statements

Federal awards revenues are reported in the city's financial statements as follows:

Intergovernmental revenue:	Amount
City:	
Special Revenue Funds:	
Virginia Public Assistance	\$ 10,329,167
Mental Health Services	1,453,937
Asset Forfeiture	67,120
Grants	1,774,523
Capital Projects Funds -	
Capital Projects Funds	510,963
Community Development	2,212,317
Total City	16,348,027
Component Unit - School Board:	
Operating	623,034
Grants	9,503,878
Cafeteria	6,867,327
Total component unit - School Board	16,994,239
Total federal expenditures from Intergovernmental Revenue	33,342,266
Less: BHS revenues in excess of expenditures	(172,875)
Add: VPA expenditures in excess of revenues	95,369
Less: Grant revenues in excess of expenditures	(95,807)
Add: Asset Forfeiture expenditures in excess of revenues	19,093
Less: PU/CIP Fund revenues in excess of expenditures	(102,192)
Less: CDBG revenues in excess of expenditures	(405,641)
Total federal expenditures per Schedule of Expenditures of Federal Awards	\$ 32,680,213

(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).

City of Portsmouth, Virginia
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2016

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
Significant deficiencies identified:	None reported
Noncompliance material to the financial statements noted?	No

Federal Awards:

Type of auditor's report issued on compliance for major programs:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified:	No
Significant deficiencies identified:	None reported
Any audit findings disclosed that are required to be reported in Accordance with Section 200.516(a) of the Uniform Guidance?	No

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 (IDEA)	84.027-CL
Department of Health and Human Services:	
Medicaid Cluster	93.778-CL
Social Services Block Grant	93.667
Adoption Assistance	93.659
Block Grants for Prevention and Treatment of Substance Abuse	93.959

Dollar threshold to distinguish between Types A and B Programs:	\$978,368
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The City of Portsmouth was qualified as a low risk auditee in Accordance with Section 200.520 of the Uniform Guidance?	No
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2) Findings - Financial Statement Audit

2016-001: Material Weakness over Financial Reporting - Prior Period Adjustment

Criteria:

Capital assets should be removed from the City's books when they are no longer owned by the City.

Condition:

In the current year, management identified that Port Facility assets were transferred from the City to the Virginia Port Authority in fiscal year 2006, but the assets were not removed from the City's books.

Cause:

Internal controls were not in place to ensure ongoing rights and obligations of the City's capital assets.

Effect:

The City's financial statements were overstated by \$1,787,174.

Auditor's Recommendation:

The City should ensure that when assets are transferred to another entity that those assets are removed from the City's books.

Management's Response:

The City concurs. The City's finance department has many new staff members including a new controller, new debt manager and three new accounting staff members who were able to identify and correct many accounting issues and going forward procedures are in place to accurately record capital assets.

2016-002: Material Weakness over Financial Reporting - Prior Period Adjustment

Criteria:

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

Condition:

Management determined the Donations Fund did not meet the requirements to be treated as a special revenue fund under GASB54 guidance.

Cause:

Procedures were not in place to ensure funds were properly closed.

Effect:

The City's financial statements for the General Fund were overstated by \$1,906,409.

Auditor’s Recommendation:

Management should review special revenue funds annually to determine that they meet the requirements of GASB54.

Management’s Response:

The City concurs. The City’s finance department has many new staff members including a new controller, new debt manager and three new accounting staff members who were able to identify and correct accounting issues. Procedures are in place to prevent a repeat occurrence.

3) Findings and Questioned Costs - Major Federal Awards

None

4) Findings and Questioned Costs – State Compliance

2016-003: Nonmaterial Noncompliance – Social Services, Information System Security Controls (Repeat Finding: 2015-004)

Criteria:

The *Code of Virginia*, Section 63.2 requires that the local security officer review all employees’ access to each application with employees’ supervisors to ensure the access is properly aligned with job responsibilities.

Condition:

While performing our audit procedures to ensure compliance with Section 3-15 of the *Specifications for Audits of Counties, Cities, and Towns*, we noted one instance where the Portsmouth Department of Social Services did not have documentation of an annual review of user access.

Cause:

Procedures were not in place to ensure employees’ access was reviewed annually.

Effect:

The City of Portsmouth is potentially at risk for employees having access to systems that they do not need.

Auditor’s Recommendation:

We recommend the City implement a process to ensure all employees’ access is reviewed on an annual basis.

Management’s Response:

The City concurs and procedures will be implemented to review user access annually.

2016-004: Nonmaterial Noncompliance – Economic Interest Disclosure Statements (Repeat Finding: 2015-006)

Criteria:

The *Code of Virginia*, Section 2.2-3115 requires that local officials file a semi-annual disclosure form by December and June 15th of each year.

Condition:

While performing our audit procedures to ensure compliance with Section 3-5 of the *Specifications for Audits of Counties, Cities, and Towns*, we noted three Statements of Economic Interest forms were filed after December 15, 2015, and one form was not properly signed and fully completed for June 15, 2016.

Cause:

Procedures were not in place to ensure the report was properly signed, completed, and filed on time.

Effect:

The City of Portsmouth is not in compliance with the State's conflict of interest disclosure filing requirement.

Auditor's Recommendation:

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

Management's Response:

The city concurs. Procedures are in place however compliance is challenging due to the lack of repercussions of noncompliance to officials.

5) Resolution of Prior Year's Findings

Financial Statement Audit Finding 2015-001 - Corrected

Condition:

Several construction projects were identified by management in the current year as being completed in prior years, resulting in an overstatement of capital assets and understatement of depreciation expense.

Corrective Action:

Corrective action on this finding has been completed.

Financial Statement Audit Finding 2015-002 - Corrected

Condition:

A system coding error was found for the processing of partial refunds of public utility security deposits. Instead of reducing the deposit liability account, a revenue account was reduced.

Corrective Action:

Corrective action on this finding has been completed.

State Compliance Finding 2015-003 - Corrected

Condition:

While performing our audit procedures to ensure compliance with Section 2-4 of the *Specifications for Audits of Counties, Cities, and Towns*, we noted one instance where the Real Estate Assessor's approved abatement for real estate taxes had not been properly recorded in the Treasurer's general ledger.

Corrective Action:

Corrective action on this finding has been completed.

State Compliance Finding 2015-004 – Not Corrected (Repeat Finding 2016-003)

Condition:

While performing our audit procedures to ensure compliance with Section 3-15 of the *Specifications for Audits of Counties, Cities, and Towns*, we noted the Portsmouth Department of Social Services did not have documentation of an annual review of user access.

Corrective Action:

Corrective action on this finding has not been completed.

State Compliance Finding 2015-005 - Corrected

Condition:

While performing our audit procedures to ensure compliance with Section 3-15 of the *Specifications for Audits of Counties, Cities, and Towns*, we noted the Portsmouth Department of Social Services Emergency Operations Plan had not been updated since 2009, and that the report did not include all of the necessary requirements.

Corrective Action:

Corrective action on this finding has been completed.

State Compliance Finding 2015-006 – Not Corrected (Repeat Finding 2016-004)

Condition:

While performing our audit procedures to ensure compliance with Section 3-5 of the *Specifications for Audits of Counties, Cities, and Towns*, we noted one Statement of Economic Interest was filed after December 15, 2014 and June 15, 2015, and two statements were not filed for June 15, 2015.

Corrective Action:

Corrective action on this finding has not been completed.



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