



Comprehensive Annual Financial Report



For The Fiscal Year Ended June 30, 2012

Portsmouth, Virginia



COMPREHENSIVE ANNUAL FINANCIAL REPORT

CITY OF PORTSMOUTH, VIRGINIA

YEAR ENDED JUNE 30, 2012

Prepared by:

DEPARTMENT OF FINANCE



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CITY OF PORTSMOUTH, VIRGINIA

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INTRODUCTORY SECTION



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CITY OF PORTSMOUTH, VIRGINIA
Principal Officials

June 30, 2012

Portsmouth City Council			
		MAYOR KENNETH I. WRIGHT Term Expires 12/31/2012	
	VICE MAYOR CHARLES B. WHITEHURST, SR. Term Expires 12/31/2012		COUNCILMAN WILLIAM E. MOODY, JR. Term Expires 12/31/2014
	COUNCILWOMAN MARLENE W. RANDALL Term Expires 12/31/2014		COUNCILMAN STEPHEN E. HERETICK Term Expires 12/31/2012
	COUNCILMAN PAIGE D. CHERRY Term Expires 12/31/2014		COUNCILMAN DR. CURTIS E. EDMONDS, SR. Term Expires 12/31/2012
			

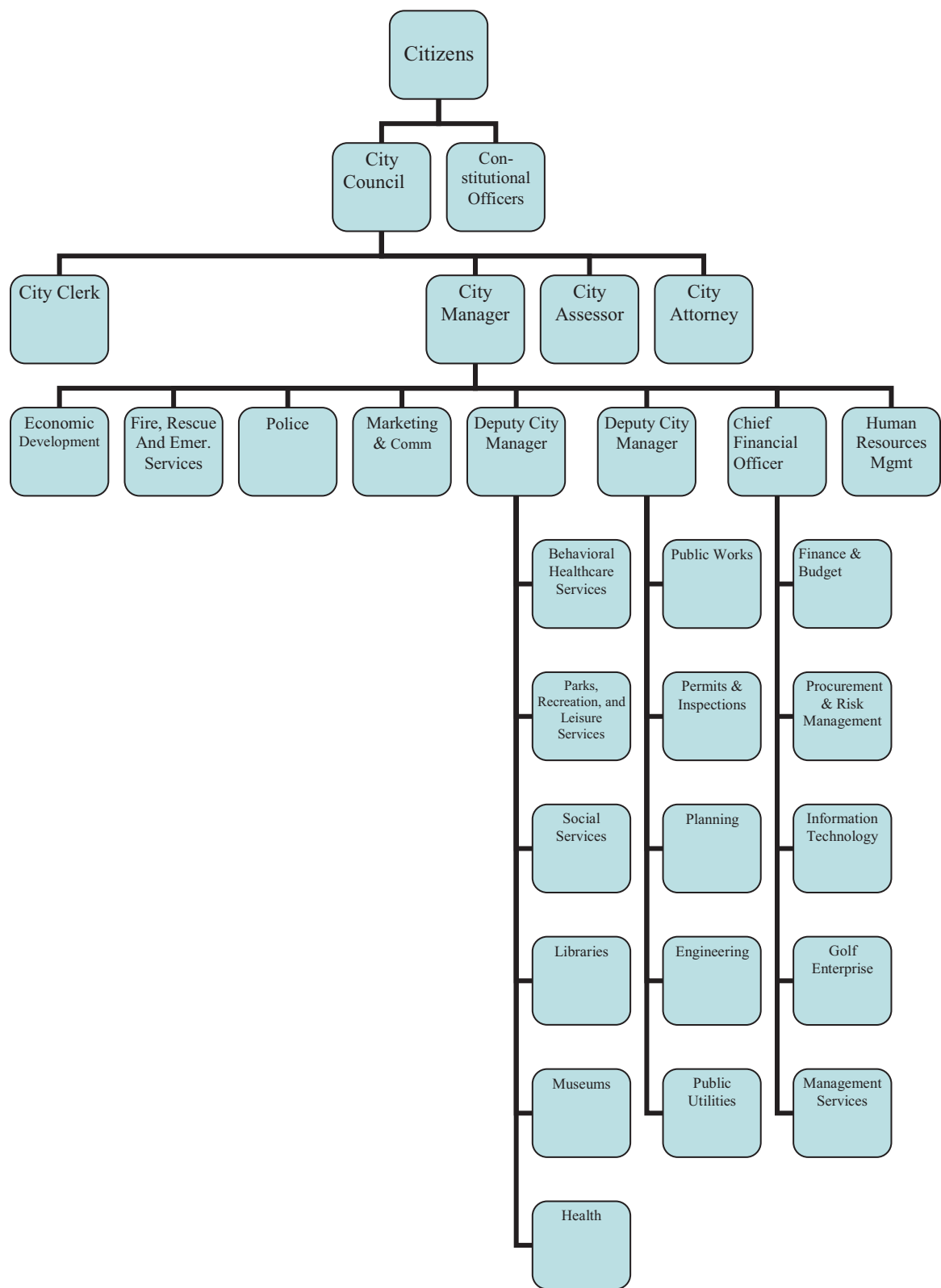
City Council Appointments

John L. Rowe, Jr. City Manager
 G. Timothy Oksman City Attorney
 Janey Culpepper City Assessor
 Debra Y. White City Clerk

Constitutional Officers

Earle Mobley Commonwealth's Attorney
 Cynthia P. Morrison Clerk of Circuit Court
 Franklin D. Edmondson Commissioner of the Revenue
 Bill Watson City Sheriff
 James L. Williams City Treasurer

Organization of the City of Portsmouth



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, 2011

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



Christopher P. Moynell

President

Jeffrey R. Enen

Executive Director



December 7, 2012

Dear City of Portsmouth, Virginia Citizens, and Council Members:

We are pleased to present the Comprehensive Annual Financial Report of the City of Portsmouth, Virginia (the City) for the fiscal year ended June 30, 2012, in accordance with State statutes and City Code. The City's Department of Finance prepared this report in accordance with generally accepted accounting principles as set forth in the pronouncements of the Governmental Accounting Standards Board. City management is responsible for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures. We believe the data as presented is accurate in all material respects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds; and, that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included. Generally accepted accounting principles require that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A, and one should read this letter in conjunction with it. The City of Portsmouth's MD&A can be found immediately preceding the Basic Financial Statements.

The City of Portsmouth, Virginia 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 it has taxing powers subject to statewide restrictions and tax limits.

The City provides a full range of municipal services, including police and fire, solid waste, recreation and cultural activities, economic development, health and social services, street and highway maintenance, public improvements, planning and zoning, building inspections and environmental code compliance, general administrative services, education, and water and sewer services.

The financial reporting entity for this report includes the City (the primary governmental unit) and all of its funds, as well as the component units for which the City is financially accountable. We include the Portsmouth School Board (School Board), the Economic Development Authority of the City of Portsmouth (EDA) and the Portsmouth Port and Industrial Commission (PPIC) in the report as discretely presented component units in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City and to differentiate their financial position and results of operations from that of the City. The members of the Portsmouth School Board are elected by the qualified voters of the City of Portsmouth, and the

School Board governs the operations of the Portsmouth Public School System. City Council appoints separate boards to administer the EDA and PPIC component units.

The financial reporting entity also includes the Parking Authority; we consider this to be a blended component unit because its activities are so intertwined with the City that they are, in substance, part of the City's operations.

In developing and evaluating the City's accounting system, we give careful consideration to the adequacy of internal controls. Management of the City is responsible for establishing and maintaining internal controls designed to ensure that the assets of the City are protected from loss, theft, misuse, and abuse. It is also management's goal to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. Internal controls are designed to provide reasonable assurance that management's objectives are met. The concept of reasonable assurances recognizes that the cost of a control should not exceed the benefits likely to be derived and that the valuation of cost and benefits requires judgments and estimates made by management. As management, we assert to the best of our knowledge that this financial report is complete and reliable in all material respects.

City Council Vision: Bold Leadership for the Future

In January 2012, the Portsmouth City Council reassessed and updated a series of long term vision statements that were designed to guide the City into the future, both as a community and an organization. In the fulfillment of Council's vision, the City will be nationally regarded for educational excellence and economic prosperity, where citizens are proud of themselves, their hometown, and their neighborhoods; Portsmouth City Council is recognized for involving all communities and citizens in its decision-making; Members of the City Council encourage and nurture new ideas from citizens, employees, business leaders, and the faith-based community to embrace new ways to meet the challenges of the future.

Building on that strong record of success, the City Council with its vision statements, sought to define an even more successful and liveable future for the City of Portsmouth. Each of the statements described the future of the City of Portsmouth in the year 2030 and revolved around nine key components, as follows:

- ***Change and New Direction***
- ***A Robust Economy for Working Men and Women***
- ***Neighborhoods and a Sense of Community***
- ***Quality of Life***
- ***Efficient and Responsive Government***
- ***A Proud Military Community***
- ***Lifelong Learning Community***
- ***Pride of Past***

The entire City organization has fully embraced these powerful vision principles and put into motion a number of one-time and multi-year projects designed to make our principles a reality.

Accomplishments during FY 2011-12 in support of these vision principles include the following:

Economic Development

The Harris Teeter Grocery Store Chain opened a 49,000 square foot Supermarket on the site of the former Plaza Shopping Center in May 2012. This \$9 million investment project could potentially bring in \$160,000 to \$180,000 in annual retail sales tax revenue, as well as additional real estate taxes and other fees. Harris Teeter was one of the more than 40 businesses that had openings or expansions in FY2012, including:

- East Coast Repair and Fabrication
- Accurate Marine Environmental
- Alere Toxicology
- Fastenal
- Metalskills
- Ameriforce
- Bon Secours Cancer Institute
- Retailers: Chick-fil-A, Dollar Tree Deals, O'Reilly Automotive

Community/Military/Maritime

In August 2011, in conjunction with the 221st birthday of the U.S. Coast Guard, the City hosted it's second Coast Guard City Celebration for the community.

In regional partnership with the Downtown Norfolk Council, the U.S. Navy and OpSail 2012, the City of Portsmouth commemorated the bicentennial of the War of 1812 and the writing of the Star Spangled Banner. This was a public-private partnership with seven ports.

Public Safety

In August, 2011, the City's Portsmouth Fire, Rescue and Emergency Services Department presented to the community eleven new Fire Department vehicles to include: four Pumpers, one Quint, two Battalions, one Medic Unit, and three Fire Marshal vehicles. The new vehicles are crucial in providing timely emergency response to our at-risk customers. These new vehicles will replace current aged apparatus and allow the fire department to also supplement its reserve fleet of apparatus.

Quality of Life/Neighborhoods and a Sense of Community

City Council adopted a Parks, Recreation and Leisure Services Master Plan in June 2012 and reflected input from the community. The intent of the Plan was to assess the overall park system in a way that meets the needs of the residents of the City. While all parks were generally analyzed, the purpose of this master plan is not to inventory and assess the current condition of each individual park and/or community center, nor is its purpose to assess the organization of the City of Portsmouth's Department of Parks, Recreation, and Leisure Services. Instead, the intent of the Master Plan is to assess the overall park system, demographics, and provide a plan for Portsmouth's future. This roadmap prioritizes the actions that are needed, but is not a financial

plan for their implementation. There are many items in the Action List that staff can implement that will have little to no cost.

Portsmouth Public Library- Downtown Main Library

In June 2012, the Portsmouth Main Library reopened with many infrastructure improvements. With the massive damage to the library from a criminal arson, the City was able to rebuild and renovate the infrastructure, providing an increased community asset. These infrastructure improvements included new windows, ADA accessible restrooms, and a new meeting room.

Churchland Bridge-Revenue Sharing

In FY 2011-12, the City applied for revenue sharing from the Virginia Department of Transportation (VDOT). This VDOT program provides an opportunity to provide local funds to match state funds for priority projects. The Churchland Bridge, northbound lanes replacement, Project was approved for design monies of \$2,500,000, with the State to provide 50% or \$1,250,000. This places this project as a priority project with the State. The City will continue to utilize this program for the right-of-way acquisition and construction phases of this project.

General Fund Performance

The growth in the City's tax base is a significant factor of economic and fiscal health. General property and other local taxes account for more than 72% of General Fund revenues. The assessed value of real property increased \$102 million, or 1.4% during 2012. The increase in assessment values is an extremely positive indicator in evaluating the health of Portsmouth's local economy. The real estate tax rate increased from \$1.24 to \$1.27 per \$100 of valuation for fiscal year 2012.

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 unassigned fund balance at June 30, 2012 totals \$53,631,444 and it represents 24% of total revenues and transfers, which exceeds 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 and operating transfers for the last five fiscal years:

Fiscal Year	General Fund Unassigned Fund Balance	General Fund Total Revenues & Operating Transfers	Ratio
2012	53,631,444	220,919,837	24.28%
2011	\$ 42,086,840	205,552,236	20.48%
2010	45,377,732	211,496,674	21.46%
2009	32,533,819	213,390,123	15.25%
2008	26,302,440	216,638,631	12.14%
2007	35,399,112	203,773,001	17.37%

Financial Policies

The financial integrity of our City government is of utmost importance. To that end, the establishment of appropriate financial management, debt administration, budget and capital plan development, and long-range planning policies (“Financial Policies”) will promote the fiscal health of Portsmouth, as well as the cost-effective and efficient delivery of services to our citizens. During FY 2011-12 City Council updated the City’s financial policies to reflect new Governmental Accounting Standards Board (GASB) requirements on the presentation of fund balance. In addition, Council adopted a complete set of financial policies for Public Utilities, which are consistent with the City’s financial policies.

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 2012.

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 2012, the City remained in compliance with this policy by not using the general fund balance to fund recurring operating expenditures, but one time expenditures only. The fund balance in the General Fund increased from \$51,529,838 in fiscal year 2011 to \$64,278,496 in fiscal year 2012.

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 2012, the City remained in compliance with this policy. The general fund unassigned fund balance equals 24% of general fund revenues.

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 invests idle cash in overnight repurchase agreements and other investments ranging from one to thirty days to maturity. During Fiscal Year 2012, the City was able to manage its current resources to properly meet its operating cash requirements without issuing Revenue Anticipation Notes.

Independent Audit

State law requires that a certified public accountant selected by the City Council audit the City’s annual financial statements. Cherry, Bekaert, and Holland, L.L.P., 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, 2012.

The auditors' 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, 2011. This was the 35th 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.

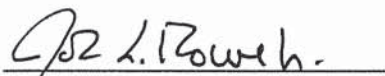
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

We sincerely appreciate the City Council's support and cooperation in planning and conducting the financial operations of the City.

We also acknowledge and extend special recognition to all the staff of the Department of Finance for their efficient and dedicated service to the City. Their efforts to maintain the accounting and financial reporting system of the City of Portsmouth have led to the high quality of information being reported to the City Council and citizens of the City, as well as current and potential future investors.

Respectfully submitted,



John L. Rowe, Jr.
City Manager



Carol O. Swindell
Chief Financial Officer



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FINANCIAL SECTION



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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members of City Council
City of Portsmouth, Virginia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the individual and 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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 *Specifications for Audits of Counties, Cities and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the individual and aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 18 to the financial statements, an error resulting in an understatement of previously reported debt of the governmental activities, as of June 30, 2011 was discovered by management during the current year. Accordingly, an adjustment has been made to net assets as of June 30, 2011 to correct the error.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2012, 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, and the schedules of funding progress for pension and post-employment health care benefits plans 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.

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, combining and individual non-major fund financial statements, budgetary comparison schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is also presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Such information is the responsibility of management and was derived from and relates to the underlying accounting and other records used to prepare the financial statements. The combining and individual non-major fund financial statements, budgetary comparison schedules and the schedule of expenditures of federal awards, have 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 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.

Cherry, Bekant & Holland, L.L.P.

Virginia Beach, Virginia
December 7, 2012

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, 2012. 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.

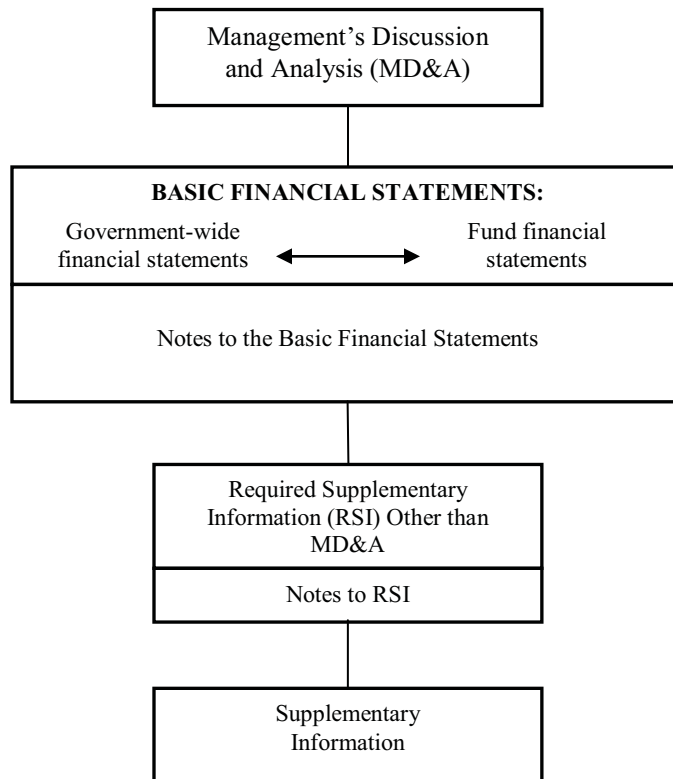
FINANCIAL HIGHLIGHTS

- ❖ The City's net assets totaled \$430 million at June 30, 2012, increasing \$29 million over June 30, 2011. This was in part due to major increases in capital improvement for the New Courts Complex.
- ❖ The City's unrestricted net assets totaled \$57 million, which are comprised of \$12 million resulting from governmental activities and \$45 million resulting from business-type activities.
- ❖ Government-wide current assets totaled \$285 million, of which \$158 million was attributable to governmental activities and \$127 million was attributable to business-type activities; while current liabilities totaled \$49 million, with \$35 million from governmental activities and \$14 million from business-type activities. The ratio of current assets to current liabilities was 5.8:1 overall – 4.5:1 for governmental activities and 8.8:1 for business-type activities.
- ❖ The City's long-term indebtedness at June 30, 2012 totaled \$553 million, for an increase of \$47 million from the prior year. During fiscal year 2012, the City issued General Obligation debt in the amount of approximately \$83 million which includes \$50 million for various water and sewer capital projects. The long-term indebtedness includes landfill closure and post-closure care of \$6.2 million and compensated absences of \$8.2 million.
- ❖ The City's governmental general revenues and transfers of \$171 million were \$20 million more than expenses, net of program revenues, of \$108 million. Ninety-four percent of general revenues and transfers were funded through taxes.
- ❖ The General Fund total fund balance increased 25% during the current year to \$64 million from \$52 million in the prior year.
- ❖ Total net assets for the Public Utility Fund rose 5% from \$154 million at June 30, 2011 to \$162 million at June 30, 2012.

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 Assets 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 assets and changes in net assets. The City's net assets, which is the difference between assets and liabilities, 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 assets 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 Assets 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, port facility and economic development fund, waste management services and golf courses are reported herein. The Parking Authority, a blended component unit, accounts for parking services provided to citizens and customers.

Component units - The City includes 3 other separate legal entities in its report - the School Board, the EDA, and the 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 two major governmental funds, the General 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 2 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 and the Information Technology 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 assets and a statement of changes in fiduciary net assets. 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 Assets

The following table reflects the condensed Statements of Net Assets:

Table 1
Summary of Statements of Net Assets
As of June 30, 2012 and 2011 (in millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 162	\$ 181	127	79	289	260
Capital assets	500	461	243	237	743	698
Total assets	662	642	370	316	1,032	958
Current and other liabilities	35	35	14	13	49	48
Long-term liabilities	374	374	179	134	553	508
Total liabilities	409	409	193	147	602	556
Net assets:						
Invested in capital assets, net of related debt	196	186	132	128	328	314
Restricted	45	15	-	-	45	15
Unrestricted	12	32	45	40	57	72
Total net assets	253	233	177	168	430	401
Total liabilities and net assets	\$ 662	\$ 642	370	315	1,032	957

Net assets (assets in excess of liabilities) may serve over time as a useful indicator of a government's financial position. In the case of the City of Portsmouth, assets exceeded liabilities by \$430 million at June 30, 2012. By far, the largest portion of the City's net assets, 76%, reflects its investment in capital assets (land, buildings, infrastructure, 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 6% of the City's net assets are currently subject to various external restrictions. The remaining balance of unrestricted net assets (\$57 million or 13%) may be used to meet the City's ongoing obligations to citizens and creditors.

The net assets of the City's governmental activities increased by \$20 million from \$233 million to \$253 million, as reflected in the Statement of Activities.

The net assets of the City's business-type activities increased by \$9 million from \$168 million to \$177 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 Assets							
Years ended June 30, 2012 and 2011 (in millions)							
	Governmental Activities		Business-Type Activities		Total Primary Government		
	2012	2011	2012	2011	2012	2011	
Revenues							
<u>Program revenues:</u>							
Charges for services	\$ 15	14	55	56	70	70	
Operating grants and contributions	87	77	1	1	88	78	
Capital grants and contributions	6	3	-	-	6	3	
<u>General revenues:</u>							
Taxes	160	158	-	-	160	158	
Other	3	3	-	1	3	4	
Total revenues	271	255	56	58	327	313	
Expenses							
General government	30	29	-	-	30	29	
Judicial	19	20	-	-	19	20	
Public safety	68	63	-	-	68	63	
Public works	19	21	-	-	19	21	
Health and welfare	38	38	-	-	38	38	
Parks, recreational, and cultural	12	12	-	-	12	12	
Community development	9	8	-	-	9	8	
Education	52	51	-	-	52	51	
Public utility	-	-	23	21	23	21	
Golf	-	-	2	2	2	2	
Parking Authority	-	-	2	2	2	2	
Waste management	-	-	12	14	12	14	
Interest on long-term debt	12	13	-	-	12	13	
Total expenses	259	255	39	39	298	294	
Excess (deficiency) before transfers	12	-	17	19	29	19	
Transfers	8	7	(8)	(7)	-	-	
Change in net assets	20	7	9	12	29	19	
Net assets, beginning of year	233	228	168	156	401	382	
Net assets, end of year	\$ 253	\$ 235	177	168	430	401	

Governmental Activities

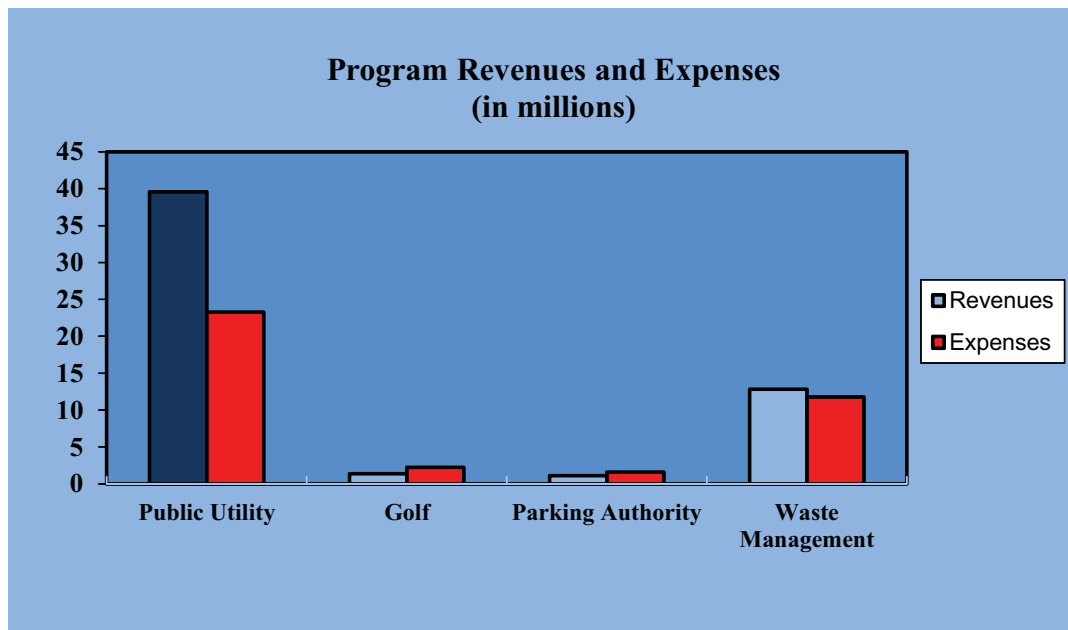
The City's total revenues from governmental activities were \$271 million for the fiscal year ended June 30, 2012, which represents an increase of \$16 million from the prior year. The change is due in part to a re-appropriation of revenue from the School Board construction fund to the City's general fund. The largest source of revenue is taxes, which represents 59% of the total and is comprised of property taxes, other local taxes, and utility taxes. The City's assessed real property value increased 1% from the prior year due solely to new commercial construction.

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 \$108 million. The largest component of program revenues for governmental activities is operating grants and contributions totaling \$87 million, representing 80% of total program revenues for governmental activities.

For the fiscal year ended June 30, 2012, expenses for the City's governmental activities totaled \$259 million. The City's expenses cover a wide range of services, with 26% related to public safety, 20% related to education, and 15% related to health and welfare.

Business-Type Activities

The total net assets for business-type activities increased \$9 million from \$168 million in fiscal year 2011 to \$177 million in fiscal year 2012. The increase is primarily due to an \$8 million increase in net assets for public utility activities and a \$1.7 million increase in the Waste Management Fund. Charges for services, including water and sewer utility fees, waste management fees, parking fees, and golf fees, represent 98% 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, 2012, the governmental funds reflected a combined fund balance of \$109 million. The General Fund's fund balance totaled \$64 million at June 30, 2012, an increase of \$13 million from the prior year. The General Fund's unassigned fund balance totaled \$54 million at June 30, 2012. The General Fund total fund balance

totaled \$64 million at June 30, 2012 and \$52 million at June 30, 2011 an increase of \$12 million. The increase is primarily due to stringent budgeting to reduce expenditures in all departments, a reduction to certain programs and civic organizations, and no general wage increase for employees or retirees. In addition, the Schools returned \$9.9 million to the City in unspent School Construction Fund monies from prior years.

The City spent \$40 million in the Capital Improvements Fund to fund major projects, including the New Courts Complex and a Public Safety Radio System. The Capital Improvements Fund has a \$33 million fund balance at June 30, 2012, 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, 2012 (in millions)			
	Original Budget	Final Budget	Actual
Revenues, transfers and other financing sources			
Taxes	\$ 163	163	160
Intergovernmental	36	36	36
Other financing sources	-	-	33
Transfer	9	9	9
Other	22	32	25
Total	\$ 230	240	263
Expenditures and transfers			
Expenditures	\$ 217	220	206
Other financing uses	-	-	33
Transfers	13	15	11
Total	\$ 230	235	250

Actual expenditures in the above chart are shown on the budgetary basis, which differs from the generally accepted accounting principle basis (see Schedule I-3). The General Fund had a \$13 million dollar increase in fund balance. This increase is primarily due to the decrease in expenditures as a result of management's decision to review and reduce expenditures in all departments.

Actual General Fund revenues and transfers from other funds exceeded the final budgeted revenues during fiscal year 2012. This was a result of the refined budgeting process and the projections of the City's financial advisors. Actual general fund expenditures and transfers (excluding payment to escrow agent) were \$18 million less than the final budget. This was primarily due to management's efforts to curtail spending in all departments and a moratorium on travel.

Proprietary Funds

Total net assets of the Public Utility Fund increased \$8 million during fiscal year 2012 from \$154 million to \$162 million. Of the total net assets, \$118 million is invested in capital assets, net of related debt. Unrestricted net assets totaled \$44 million, an increase of \$3 million from the prior year. The increase in net assets is due primarily to the fund's net income before transfers of \$15 million.

Total net assets of the Parking Authority, a blended component unit, at June 30, 2012 remained the same as the prior year at \$1 million. Of the total net assets, \$4.0 million is invested in capital assets, net of related debt, and there is an unrestricted net assets deficit of \$2.9 million.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2012, the City had invested \$743 million 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, 2012 (in millions)			
	Governmental Activities	Business-Type Activities	Total Primary Government
Land	\$ 24	15	39
Site improvements	1	-	1
Infrastructure	143	-	143
Buildings	133	11	144
Intangibles	-	-	-
Improvements other than buildings	-	98	98
Machinery, furniture, and equipment	13	7	20
Construction in progress	186	112	298
Total	\$ 500	243	743

Major capital asset activity for the fiscal year ended June 30, 2012 included:

- Capital asset additions for governmental activities totaled \$57 million, including \$7 million for land, \$45 million for construction in progress and \$5 million for machinery and equipment.
- Capital asset additions for business-type activities totaled \$11 million for construction in progress and \$1 million for machinery, furniture and equipment.
- Depreciation expense totaled \$11 million and \$5 million for governmental and business-type activities, respectively.
- Construction in progress totaled \$186 million for governmental activities at June 30, 2012.
- Construction in progress totaled \$112 million for business-type activities at June 30, 2012.

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

The City's Fiscal Year 2013 capital budget estimates spending another \$39 million for capital projects. The major projects include \$20 million for water and sewer improvements, \$5 million for drainage and sewer improvement, \$5 million for municipal facilities, \$4 million for industrial and economic development, \$2 million for fleet management and \$1 million for education.

Long-term Debt

At year-end, the City had \$498 million in outstanding debt; excluding landfill closure and post closure care costs, and compensated absences. General obligation bonds outstanding represented \$428 million of this total, as reflected in the following schedule:

Outstanding Debt

As of June 30, 2012 and 2011 (in millions)

		Governmental Activities		Business-Type Activities		Total Primary Government	
		2012	2011	2012	2011	2012	2011
General obligation bonds	\$	257	266	171	126	428	392
General obligation notes payable		50	50	-	-	50	50
Obligation under capital leases		16	17	2	3	18	20
Literary loans		2	2	-	-	2	2
Total	\$	325	335	173	129	498	464

On March 28, 2012, the City issued \$75,785,000 of General Obligation Public Utility and Refunding Bonds, Series 2012 with a premium of \$8,099,620. The bonds were issued to finance the costs of water and sewer projects and to advance refund a portion of the Series 2003, 2005A, and 2006A General Obligation bonds.

On March 28, 2012, the City issued \$6,970,000 of Taxable General Obligation Refunding Bonds, Series 2012B to refund a portion of the Series 2005C Taxable General Obligation Bonds.

On February 10, 2011, the City entered into a Master Lease Agreement with Banc of America Public Capital Corp. On May 25, 2012, the City issued \$1,681,600 per Appendix 4 of this agreement to fund various equipment costs for the City Garage and Waste Management funds.

The state limits the amount of general obligation debt the City can legally issue to ten percent 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 significantly below this limit - which is currently \$744 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 2012 was 8.6%, which compares to the national unemployment rate of 8.2% for June 2012. Per capita income as of 2011 (latest data available from the Bureau of Economic Analysis) was \$37,583, an increase of 5.3% over what was reported for 2010. Average per capita income in 2011 was \$46,107 for Virginia and \$41,560 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

Exhibit A

Statement of Net Assets

June 30, 2012

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Assets:				
Current assets:				
Cash and temporary investments (note 3)	\$ 117,254,681	56,838,025	174,092,706	34,093,230
Cash with fiscal agent (note 3)	-	-	-	505,998
Restricted cash and temporary investments (note 3)	5,381,576	63,829,835	69,211,411	-
Receivables (net of allowance for uncollectibles):				
Taxes	11,339,060	-	11,339,060	-
Accounts	6,400,044	8,680,069	15,080,113	83,914
Other	-	-	-	8,691
Internal balances (note 10)	2,877,228	(2,877,228)	-	-
Due from primary government (note 10)	-	-	-	52,247
Due from component units (note 10)	7,794	-	7,794	-
Due from other governments (note 11)	14,695,345	-	14,695,345	3,227,152
Prepaid items	29,306	-	29,306	-
Inventory of supplies	465,477	536,635	1,002,112	243,691
Notes receivable (note 12)	4,152	-	4,152	-
Total current assets	158,454,663	127,007,336	285,461,999	38,214,923
Noncurrent assets:				
Other assets	4,285,260	1,233,591	5,518,851	7,527,008
Property held for resale	-	-	-	9,729,366
Capital assets (note 4):				
Land	24,222,521	15,348,574	39,571,095	7,330,864
Site improvements	2,105,224	-	2,105,224	-
Infrastructure	488,713,933	-	488,713,933	-
Buildings	210,487,342	25,426,246	235,913,588	78,807,165
Intangibles	888,688	-	888,688	422,270
Improvements other than buildings	-	171,777,669	171,777,669	-
Machinery, furniture, and equipment	46,133,852	20,112,474	66,246,326	24,045,046
Construction in progress	185,644,407	111,996,553	297,640,960	28,502,924
Total capital assets	958,195,967	344,661,516	1,302,857,483	139,108,269
Less accumulated depreciation	(458,075,090)	(102,088,842)	(560,163,932)	(46,418,849)
Total capital assets, net	500,120,877	242,572,674	742,693,551	92,689,420
Total noncurrent assets	504,406,137	243,806,265	748,212,402	109,945,794
Total assets	\$ 662,860,800	370,813,601	1,033,674,401	148,160,717

See accompanying notes to basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA

Exhibit A, Continued

Statement of Net Assets

June 30, 2012

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Liabilities:				
Current liabilities:				
Accounts payable	\$ 7,330,513	1,200,334	8,530,847	12,998,667
Construction payable	-	1,080,595	1,080,595	-
Accrued interest payable	5,425,169	2,793,722	8,218,891	191,435
Deposits	219,627	1,984,938	2,204,565	2,600
Due to other governments (note 11)	297,928	-	297,928	-
Due to primary government (note 10)	-	-	-	7,794
Due to component units (note 10)	52,247	-	52,247	-
Unearned revenues (note 12)	300,825	321,450	622,275	-
Claims payable (note 15)	3,796,824	-	3,796,824	706,467
Compensated absences (note 5)	4,473,609	635,207	5,108,816	1,768,600
General obligation and revenue bonds, net (note 5)	9,771,423	5,445,162	15,216,585	-
Obligations under capital leases (notes 5 and 6)	2,848,670	900,313	3,748,983	723,518
General obligation notes payable (note 5)	431,219	-	431,219	-
Literary loans (note 5)	250,000	-	250,000	-
Total current liabilities	35,198,054	14,361,721	49,559,775	16,399,081
Noncurrent liabilities:				
Claims payable (note 15)	10,078,973	-	10,078,973	1,657,935
Arbitrage liability	24,199	-	24,199	-
Grants payable	-	-	-	60,000
Other post employment benefit obligation (note 8)	49,201,144	5,985,236	55,186,380	-
Compensated absences (note 5)	3,038,058	83,315	3,121,373	3,412,172
General obligation and revenue bonds, net (note 5)	247,730,865	165,873,157	413,604,022	-
Obligations under capital leases (notes 5 and 6)	13,175,493	1,120,913	14,296,406	4,490,298
General obligation notes payable (note 5)	49,592,435	-	49,592,435	-
Landfill closure and postclosure care (notes 5 and 13)	-	6,156,057	6,156,057	-
Literary loans (note 5)	1,250,000	-	1,250,000	-
Net pension obligation (notes 5 and 8)	513,413	-	513,413	113,673
Total noncurrent liabilities	374,604,580	179,218,678	553,823,258	9,734,078
Total liabilities	409,802,634	193,580,399	603,383,033	26,133,159
Net assets:				
Invested in capital assets, net of related debt	196,244,783	132,386,724	328,631,507	87,475,605
Restricted for:				
Capital projects	33,727,826	22,450	33,750,276	505,998
Behavioral health services	2,924,486	-	2,924,486	-
Grants and donations	3,690,937	-	3,690,937	577,712
Other purposes:				
Expendable	3,784,202	-	3,784,202	2,412,695
Nonexpendable	1,000,000	-	1,000,000	-
Unrestricted	11,685,932	44,824,028	56,509,960	31,055,548
Total net assets	253,058,166	177,233,202	430,291,368	122,027,558
Total liabilities and net assets	\$ 662,860,800	370,813,601	1,033,674,401	148,160,717

See accompanying notes to basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA

Exhibit B

Statement of Activities
Year ended June 30, 2012

Function/Program Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental:								
General government	\$ 30,092,575	1,785,252	22,302,351	-	(6,004,972)	-	(6,004,972)	-
Judicial	19,262,329	1,004,567	10,868,690	-	(7,389,072)	-	(7,389,072)	-
Public safety	67,822,960	2,119,660	6,646,264	-	(59,057,036)	-	(59,057,036)	-
Public works	19,227,479	7,316,713	13,436,059	1,697,607	3,222,900	-	3,222,900	-
Health and welfare	37,676,063	519,049	27,933,233	-	(9,223,781)	-	(9,223,781)	-
Parks, recreational and cultural	12,165,461	2,160,956	4,299,135	-	(5,705,370)	-	(5,705,370)	-
Community development	8,697,999	523,373	811,826	2,937,333	(4,425,467)	-	(4,425,467)	-
Education	51,759,963	-	297,195	1,435,628	(50,027,140)	-	(50,027,140)	-
Interest on long-term debt	12,743,363	-	-	-	(12,743,363)	-	(12,743,363)	-
Total governmental activities	259,448,192	15,429,570	86,594,753	6,070,568	(151,353,301)	-	(151,353,301)	-
Business-Type:								
Public Utility	23,289,442	39,594,823	-	-	-	16,305,381	16,305,381	-
Golf	2,218,731	1,355,710	-	-	-	(863,021)	(863,021)	-
Port Facility and Economic Development	46,119	--	-	-	-	(46,119)	(46,119)	-
Parking Authority	1,558,720	1,111,152	-	-	-	(447,568)	(447,568)	-
Waste Management	11,779,665	12,765,158	680,000	-	-	1,665,493	1,665,493	-
Total business-type activities	38,892,677	54,826,843	680,000	-	-	16,614,166	16,614,166	-
Total primary government	298,340,869	70,256,413	87,274,753	6,070,568	(151,353,301)	16,614,166	(134,739,135)	-
Component Units:								
School Board	161,009,254	2,065,452	26,840,569	-	-	-	-	(132,103,233)
Economic Development Authority	882,010	134,828	203,249	-	-	-	-	(543,933)
Port and Industrial Commission	146,844	1,095	-	-	-	-	-	(145,749)
Total component units	162,038,108	2,201,375	27,043,818	-	-	-	-	(132,792,915)
General Revenues:								
Taxes:								
General property taxes				\$ 118,370,186	-	118,370,186		-
Business and occupational license taxes				5,745,579	-	5,745,579		-
Restaurant food taxes				6,249,521	-	6,249,521		-
Sales and Use Tax				6,009,354	-	6,009,354		-
Telecommunications				9,842,903	-	9,842,903		-
Other local taxes				7,217,627	-	7,217,627		-
Utility taxes				7,418,449	-	7,418,449		-
Grants and contributions not restricted to specific programs				-	-	-		88,205,551
Investment earnings				102,301	95,376	197,677		54,976
Miscellaneous				2,358,081	462,854	2,820,935		1,137,711
Payment from primary government				-	-	-		49,571,413
Transfers				8,008,973	(8,008,973)	-		-
Total general revenues and transfers				171,322,974	(7,450,743)	163,872,231		138,969,651
Change in net assets				19,969,673	9,163,423	29,133,096		6,176,736
Net assets, beginning of year, as restated				233,088,493	168,069,779	401,158,272		115,850,822
Net assets, end of year				\$ 253,058,166	177,233,202	430,291,368		122,027,558

See accompanying notes to basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA

Exhibit C

Balance Sheet

Governmental Funds

June 30, 2012

	General	Capital Improvements	Other Governmental Funds	Total
Assets:				
Cash and temporary investments (note 3)	\$ 42,228,552	29,721,917	12,401,863	84,352,332
Restricted cash and temporary investments (note 3)	295,762	5,085,814	-	5,381,576
Receivables (net of allowance for uncollectibles):				
Taxes	11,339,060	-	-	11,339,060
Accounts	5,422,537	-	402,285	5,824,822
Due from other funds (note 10)	3,234,247	-	-	3,234,247
Due from component units (note 10)	7,794	-	-	7,794
Due from other governments (note 11)	11,239,706	-	3,455,639	14,695,345
Prepaid items	27,083	-	2,223	29,306
Inventory of supplies	76,610	-	-	76,610
Advances receivable	2,388,000	-	-	2,388,000
Notes receivable (note 12)	-	4,152	-	4,152
Total assets	\$ 76,259,351	34,811,883	16,262,010	127,333,244
Liabilities:				
Accounts payable	\$ 3,674,868	1,173,191	1,642,022	6,490,081
Deposits	17,151	202,476	-	219,627
Due to other governments (note 11)	280,000	-	17,928	297,928
Due to other funds (note 10)	-	-	2,745,019	2,745,019
Due to component units (note 10)	-	-	52,247	52,247
Deferred revenues (note 12)	8,008,836	4,152	57,650	8,070,638
Total liabilities	11,980,855	1,379,819	4,514,866	17,875,540
Fund balances:				
Nonspendable fund balances	2,464,610	-	1,002,223	3,466,833
Restricted fund balances	295,762	33,432,064	10,399,625	44,127,451
Committed fund balances	7,880,834	-	623,988	8,504,822
Assigned fund balances	5,846	-	-	5,846
Unassigned	53,631,444	-	(278,692)	53,352,752
Total fund balances	64,278,496	33,432,064	11,747,144	109,457,704
Total liabilities and fund balances	\$ 76,259,351	34,811,883	16,262,010	127,333,244

See accompanying notes to basic financial statements.

(continued)

CITY OF PORTSMOUTH, VIRGINIA

Exhibit C, Continued

Balance Sheet - Reconciliation of the Balance Sheet
to the Statement of Net Assets

Governmental Funds

June 30, 2012

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

Total fund balances for governmental funds		\$ 109,457,704
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:		
Land	24,207,473	
Site improvements	2,105,224	
Infrastructure	488,713,933	
Buildings	209,794,259	
Machinery, furniture and equipment	19,034,100	
Construction in progress	185,644,407	
Accumulated depreciation	(439,700,055)	489,799,341
Other assets (bond issuance costs) used in governmental activities are not financial resources and therefore are not reported in the funds.		3,603,252
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 revenue in the funds.		
		7,769,813
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	(7,156,997)	
Net pension asset	168,595	
Other post employment benefit obligation	(47,293,474)	
Accrued interest payable	(5,425,169)	
General obligation bonds	(257,502,288)	
Obligations under capital leases	(7,740,803)	
Obligations under notes payable	(50,023,654)	
Arbitrage liability	(24,199)	
Literary loans	(1,500,000)	(376,497,989)
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.		
		18,926,045
Net assets of governmental activities		\$ 253,058,166

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, 2012

	General	Capital Improvements	Other Governmental Funds	Total
Revenues:				
Taxes	\$ 160,062,205	-	-	160,062,205
Intergovernmental	36,108,715	3,133,235	36,678,199	75,920,149
Charges for services	3,828,868	-	7,966,273	11,795,141
Investment income	9,922	73,895	14,195	98,012
Recovered costs	3,708,285	-	-	3,708,285
Fines and forfeitures	853,101	-	-	853,101
Licenses and permits	883,022	-	-	883,022
Use of property	1,851,266	-	230,126	2,081,392
Miscellaneous	13,614,453	3,055,419	1,095,300	17,765,172
Total revenues	220,919,837	6,262,549	45,984,093	273,166,479
Expenditures:				
Current:				
General government	14,888,764	-	612,702	15,501,466
Nondepartmental	11,496,297	-	-	11,496,297
Judicial	17,084,213	-	1,412,780	18,496,993
Public safety	60,799,959	-	1,440,469	62,240,428
Public works	13,931,526	-	1,656,871	15,588,397
Health and welfare	1,185,960	-	34,408,421	35,594,381
Parks, recreational, and cultural	9,374,424	-	1,716,937	11,091,361
Community development	4,501,293	-	3,600,195	8,101,488
Education	49,571,413	-	-	49,571,413
Debt service	23,104,473	-	-	23,104,473
Capital outlay	-	39,805,275	6,232,154	46,037,429
Total expenditures	205,938,322	39,805,275	51,080,529	296,824,126
Revenues over (under) expenditures	14,981,515	(33,542,726)	(5,096,436)	(23,657,647)
Other financing sources (uses):				
Transfers from other funds (note 10)	8,905,550	7,631,254	6,343,920	22,880,724
Transfers to other funds (note 10)	(11,376,071)	-	(3,955,351)	(15,331,422)
Premium on bonds issued (note 5)	1,962,885	-	-	1,962,885
Issuance of general obligation bonds (note 5)	31,450,000	-	-	31,450,000
Refunding payments made to escrow agent	(33,175,221)	-	-	(33,175,221)
Total other financing sources (uses)	(2,232,857)	7,631,254	2,388,569	7,786,966
Net change in fund balances	12,748,658	(25,911,472)	(2,707,867)	(15,870,681)
Fund balances, beginning of year, as restated	51,529,838	59,343,536	14,455,011	125,328,385
Fund balances, end of year	\$ 64,278,496	33,432,064	11,747,144	109,457,704

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, 2012

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

Net change in fund balances - total governmental funds	\$ (15,870,681)
--	-----------------

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	(150,329)	
Loss on disposal of assets	(75,704)	
Purchases of assets	45,597,266	
Depreciation expense	(8,205,542)	37,165,691

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 assets. 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	(33,412,885)	
Principal payments of debt	10,075,319	
Payments to escrow agent	33,175,221	
Bond issuance costs	265,753	
Amortization expense	150,498	10,253,906

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.	608,328
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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 arbitrage liability	15,304	
Change in compensated absences	(67,225)	
Change in other post employment benefit obligation	(10,009,992)	
Change in net pension asset	(35,392)	
Change in accrued interest	(145,764)	(10,243,069)

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

	(1,944,502)
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Change in net assets of governmental activities	\$ 19,969,673
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See accompanying notes to basic financial statements.

Statement of Net Assets
Proprietary Funds
June 30, 2012

	Public Utility	Parking Authority	Nonmajor Enterprise Funds	Total	Governmental Activities - Internal Service Funds
Assets:					
Current assets:					
Cash and temporary investments (note 3)	\$ 46,484,403	124,239	10,229,383	56,838,025	32,902,349
Restricted cash and temporary investments (note 3)	63,179,849	377,598	272,388	63,829,835	-
Accounts receivable (net of allowance for uncollectibles)	6,370,352	15,293	2,294,424	8,680,069	575,222
Due from other funds (note 10)	-	-	-	-	-
Due from other governments	-	-	-	-	-
Inventory of supplies, at cost	536,635	-	-	536,635	388,867
Total current assets	116,571,239	517,130	12,796,195	129,884,564	33,866,438
Noncurrent assets:					
Capital assets (note 4):					
Land	324,079	679,680	14,344,815	15,348,574	15,048
Buildings	692,687	18,667,910	6,065,649	25,426,246	693,083
Intangible Assets	-	-	-	-	888,688
Improvements other than buildings	169,473,184	260,636	2,043,849	171,777,669	-
Machinery, furniture and equipment	11,169,465	434,794	8,508,215	20,112,474	27,099,752
Construction in progress	111,996,553	-	-	111,996,553	-
Total capital assets	293,655,968	20,043,020	30,962,528	344,661,516	28,696,571
Less accumulated depreciation	(79,346,302)	(10,739,022)	(12,003,518)	(102,088,842)	(18,375,035)
Total capital assets, net	214,309,666	9,303,998	18,959,010	242,572,674	10,321,536
Other assets	1,117,855	37,149	78,587	1,233,591	-
Total noncurrent assets	215,427,521	9,341,147	19,037,597	243,806,265	10,321,536
Total assets	\$ 331,998,760	9,858,277	31,833,792	373,690,829	44,187,974
Liabilities:					
Current liabilities:					
Accounts payable	\$ 648,228	27,660	524,446	1,200,334	840,432
Construction payable	1,080,595	-	-	1,080,595	-
Accrued interest payable	2,569,477	124,222	100,023	2,793,722	-
Deposits	1,974,938	-	10,000	1,984,938	-
Due to other funds (note 10)	-	229,404	259,824	489,228	-
Unearned revenues (note 12)	261,254	60,196	-	321,450	-
Compensated absences (note 5)	395,346	18,480	221,381	635,207	354,670
Advances payable	-	196,125	-	196,125	-
General obligation bonds (note 5)	4,728,764	350,708	365,690	5,445,162	-
Obligations under capital leases (notes 5 and 6)	-	-	900,313	900,313	2,196,957
Claims payable (note 15)	-	-	-	-	3,796,824
Total current liabilities	11,658,602	1,006,795	2,381,677	15,047,074	7,188,883
Noncurrent liabilities:					
Claims payable (note 15)	-	-	-	-	10,078,973
Other post employment benefit obligation (note 8)	3,576,280	161,947	2,247,009	5,985,236	1,907,670
Compensated absences	5,229	8,148	69,938	83,315	-
Obligations under capital leases (notes 5 and 6)	-	-	1,120,913	1,120,913	6,086,403
Landfill closure and postclosure liability (notes 5 and 13)	-	-	6,156,057	6,156,057	-
Advances payable	-	2,191,875	-	2,191,875	-
General obligation bonds (note 5)	154,494,046	5,340,468	6,038,643	165,873,157	-
Total noncurrent liabilities	158,075,555	7,702,438	15,632,560	181,410,553	18,073,046
Total liabilities	169,734,157	8,709,233	18,014,237	196,457,627	25,261,929
Net assets:					
Invested in capital assets, net of related debt	117,909,106	3,944,167	10,533,451	132,386,724	2,038,176
Restricted for:					
Capital projects	-	22,450	-	22,450	-
Unrestricted (deficit)	44,355,497	(2,817,573)	3,286,104	44,824,028	16,887,869
Total net assets	162,264,603	1,149,044	13,819,555	177,233,202	18,926,045
Total liabilities and net assets	\$ 331,998,760	9,858,277	31,833,792	373,690,829	44,187,974

See accompanying notes to basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA

Exhibit E-2

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

Proprietary Funds

Year ended June 30, 2012

	Public Utility	Parking Authority	Nonmajor Enterprise Funds	Total	Governmental Activities - Internal Service Funds
Operating revenues:					
Charges for services	\$ 39,542,765	1,111,152	14,020,868	54,674,785	34,883,903
Intergovernmental revenue	-	-	680,000	680,000	-
Use of property	52,058	-	100,000	152,058	-
Other	136,134	322,877	3,843	462,854	1,034,755
Total operating revenues	39,730,957	1,434,029	14,804,711	55,969,697	35,918,658
Operating expenses:					
Personnel services	6,771,890	418,385	4,457,066	11,647,341	5,001,957
Contractual services	2,976,473	93,262	6,410,866	9,480,601	3,286,879
Supplies and materials	3,025,788	34,524	296,234	3,356,546	4,722,429
Utilities	1,396,091	128,133	113,987	1,638,211	151,142
Internal charges	1,061,139	59,348	1,636,188	2,756,675	-
Claims, settlements, and refunds	-	-	-	-	19,786,980
Insurance premiums	-	-	-	-	1,008,020
Payments in lieu of taxes	1,020,000	-	-	1,020,000	-
Rent	-	-	90,959	90,959	-
Depreciation and amortization	4,207,839	464,515	896,224	5,568,578	2,511,006
Closure/postclosure care expense	-	-	(433,555)	(433,555)	-
Other	944,561	109,420	204,072	1,258,053	814,634
Total operating expenses	21,403,781	1,307,587	13,672,041	36,383,409	37,283,047
Operating income (loss)	18,327,176	126,442	1,132,670	19,586,288	(1,364,389)
Nonoperating revenues (expenses):					
Investment income	93,602	453	1,321	95,376	4,289
Gain (loss) on disposal of capital assets	-	3,450	(43,168)	(39,718)	64,443
Interest expense and fiscal charges	(2,905,661)	(254,583)	(329,306)	(3,489,550)	(238,845)
Net nonoperating revenues (expenses)	(2,812,059)	(250,680)	(371,153)	(3,433,892)	(170,113)
Net income (loss) before transfers	15,515,117	(124,238)	761,517	16,152,396	(1,534,502)
Capital contributions	-	-	150,329	150,329	-
Transfers from other funds (note 10)	-	124,238	611,460	735,698	-
Transfers to other funds (note 10)	(7,875,000)	-	-	(7,875,000)	(410,000)
Change in net assets	7,640,117	-	1,523,306	9,163,423	(1,944,502)
Net assets, beginning of year as restated (note 17)	154,624,486	1,149,044	12,296,249	168,069,779	20,870,547
Net assets, end of year	\$ 162,264,603	1,149,044	13,819,555	177,233,202	18,926,045

See accompanying notes to basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA

Exhibit E-3

Statement of Cash Flows

Proprietary Funds

Year ended June 30, 2012

	Public Utility	Parking Authority	Nonmajor Enterprise Funds	Total	Governmental Activities - Internal Service Funds
Cash flows from operating activities:					
Receipts from customers	\$ 40,382,869	1,439,834	15,253,573	57,076,276	38,285,589
Payments to suppliers	(11,018,038)	(415,159)	(8,819,800)	(20,252,997)	(30,057,234)
Payments to employees	(6,034,447)	(382,333)	(4,022,562)	(10,439,342)	(4,599,556)
Net cash provided by operating activities	23,330,384	642,342	2,411,211	26,383,937	3,628,799
Cash flows from noncapital financing activities:					
Transfers in	-	124,238	611,460	735,698	-
Transfers out	(7,875,000)	-	-	(7,875,000)	(410,000)
Net cash provided by (used for) noncapital financing activities	(7,875,000)	124,238	611,460	(7,139,302)	(410,000)
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	(10,628,503)	3,450	(737,494)	(11,362,547)	(4,050,465)
Gain/(Loss) on disposal of capital assets	-	-	(43,168)	(43,168)	67,548
General Fund capital contribution received	-	-	150,329	150,329	-
Cost of issuance	(164,649)	-	-	(164,649)	-
Proceeds from long-term debt	50,221,196	1,540	132,513	50,355,249	-
Principal paid on long-term debt	(4,393,905)	(482,666)	(750,800)	(5,627,371)	(165,819)
Payment to other funds	-	14,440	-	14,440	-
Interest paid	(2,085,765)	(259,628)	(291,813)	(2,637,206)	(238,845)
Net cash provided by (used for) capital and related financing activities	32,948,374	(722,864)	(1,540,433)	30,685,077	(4,387,581)
Cash flows from investing activities:					
Interest received	93,602	453	1,321	95,376	4,289
Net cash provided by investing activities	93,602	453	1,321	95,376	4,289
Net increase (decrease) in cash and temporary investments	48,497,360	44,169	1,483,559	50,025,088	(1,164,493)
Cash and temporary investments, beginning of year	61,166,892	457,668	9,018,212	70,642,772	34,066,842
Cash and temporary investments, end of year	\$ 109,664,252	501,837	10,501,771	120,667,860	32,902,349
Adjustments to reconcile operating income (loss) to net cash provided by operating activities					
Operating income /(loss)	\$ 18,327,176	126,442	1,132,670	19,586,288	(1,364,389)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation and amortization	4,207,839	464,515	896,224	5,568,578	2,511,006
Changes in assets and liabilities increasing (decreasing) cash and temporary investments:					
Accounts receivable	651,912	(971)	414,198	1,065,139	2,366,931
Inventory of supplies	14,681	-	-	14,681	178,979
Accounts payable	(1,127,936)	9,647	(32,830)	(1,151,119)	(389,174)
Arbitrage Payable	-	-	-	-	-
Deposits	519,269	-	-	519,269	-
Unearned revenues	-	-	-	-	-
Compensated absences	17,104	(4,722)	(7,213)	5,169	8,253
Landfill closure and postclosure liability	-	-	(433,555)	(433,555)	-
Other post employment benefit obligation	720,339	40,774	441,717	1,202,830	394,148
Deferred Revenues	-	6,657	-	6,657	-
Claims payable	-	-	-	-	(76,955)
Net cash provided by operating activities	\$ 23,330,384	642,342	2,411,211	26,383,937	3,628,799

See accompanying notes to basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA

Exhibit F-1

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2012

		Pension Trusts	Agency Special Welfare Fund
Assets:			
Cash and temporary investments (note 3)	\$	2,124,351	135,172
Investments (note 3):			
Common stock		61,137,925	-
Corporate bonds		25,689,509	-
Total assets		88,951,785	135,172
Liabilities - Cash held for others		-	135,172
Net assets -			
Net assets held in trust for pension benefits	\$	88,951,785	-

See accompanying notes to basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA**Exhibit F-2****Statement of Changes in Fiduciary Net Assets****Fiduciary Funds - Pension Trust Funds****Year ended June 30, 2012**

Additions:	
Contributions	\$ 17,385,766
Investment income -	
Net decrease in the fair value of investments	515,603
Less investment expense	(263,727)
Net investment income	251,876
Total additions	17,637,642
Deductions - benefits and refunds	25,172,633
Change in net assets	(7,534,991)
Net plan assets held in trust for pension benefits, beginning of year	96,486,776
Net plan assets held in trust for pension benefits, end of year	\$ 88,951,785

See accompanying notes to basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA

Exhibit G-1

Statement of Net Assets

Component Units

June 30, 2012

	School Board	Economic Development Authority	Port and Industrial Commission	Total
Assets:				
Current assets:				
Cash and temporary investments (note 3)	\$ 32,640,156	812,599	640,475	34,093,230
Cash with fiscal agent (note 3)	505,998	-	-	505,998
Receivables (net of allowance for uncollectibles)				
Accounts	83,914	-	-	83,914
Other	-	8,691	-	8,691
Due from other governments	3,227,152	-	-	3,227,152
Due from primary government	52,247	-	-	52,247
Inventory	243,691	-	-	243,691
Total current assets	36,753,158	821,290	640,475	38,214,923
Noncurrent assets:				
Property held for resale	-	9,649,188	80,178	9,729,366
Capital assets (note 4):				
Land	6,125,204	1,205,660	-	7,330,864
Buildings	78,807,165	-	-	78,807,165
Machinery, furniture, and equipment	24,045,046	-	-	24,045,046
Intangible	422,270	-	-	422,270
Construction in progress	28,502,924	-	-	28,502,924
Total capital assets	137,902,609	1,205,660	-	139,108,269
Less accumulated depreciation	(46,418,849)	-	-	(46,418,849)
Total capital assets, net	91,483,760	1,205,660	-	92,689,420
Other assets	6,539,588	75,000	912,420	7,527,008
Total noncurrent assets	98,023,348	10,929,848	992,598	109,945,794
Total assets	\$ 134,776,506	11,751,138	1,633,073	148,160,717

See accompanying notes to basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA

Exhibit G-1, Continued

Statement of Net Assets

Component Units

June 30, 2012

	School Board	Economic Development Authority	Port and Industrial Commission	Total
Liabilities:				
Current liabilities:				
Accounts payable	\$ 12,993,025	4,823	819	12,998,667
Accrued interest payable	191,435	-	-	191,435
Deposits	-	2,600	-	2,600
Due to Commonwealth of Virginia	-	-	-	-
Due to primary government (note 10)	7,794	-	-	7,794
Claims payable (note 15)	706,467	-	-	706,467
Compensated absences (note 5)	1,768,600	-	-	1,768,600
Obligations under capital leases (note 5)	723,518	-	-	723,518
Total current liabilities	16,390,839	7,423	819	16,399,081
Noncurrent liabilities:				
Claims payable (note 15)	1,657,935	-	-	1,657,935
Compensated absences (note 5)	3,412,172	-	-	3,412,172
Grant Payable	-	60,000	-	60,000
Obligations under capital leases (notes 5 and 7)	4,490,298	-	-	4,490,298
Net pension obligation (notes 5 and 8)	113,673	-	-	113,673
Total noncurrent liabilities	9,674,078	60,000	-	9,734,078
Total liabilities	26,064,917	67,423	819	26,133,159
Net assets:				
Invested in capital assets, net of related debt	86,269,945	1,205,660	-	87,475,605
Restricted for capital projects	505,998	-	-	505,998
Restricted for grants	577,712	-	-	577,712
Restricted for other purposes	2,412,695	-	-	2,412,695
Unrestricted	18,945,239	10,478,055	1,632,254	31,055,548
Total net assets	108,711,589	11,683,715	1,632,254	122,027,558
Total liabilities and net assets	\$ 134,776,506	11,751,138	1,633,073	148,160,717

See accompanying notes to basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA

Exhibit G-2

Statement of Activities

Component Units

Year ended June 30, 2012

Function/Program Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	School Board	Economic Development Authority	Port and Industrial Commission	
School Board:								
Administration	\$ 4,681,250	-	-	-	(4,681,250)	-	-	(4,681,250)
Instruction	110,997,918	80,994	21,395,573	-	(89,521,351)	-	-	(89,521,351)
Attendance and health services	2,801,105	70,908	-	-	(2,730,197)	-	-	(2,730,197)
Pupil transportation	6,994,723	101,135	-	-	(6,893,588)	-	-	(6,893,588)
Operations and maintenance	14,288,609	18,587	-	-	(14,270,022)	-	-	(14,270,022)
Information technology	3,917,235	-	-	-	(3,917,235)	-	-	(3,917,235)
Food services	7,173,854	1,793,828	5,444,996	-	64,970	-	-	64,970
Interest on long-term debt	210,763	-	-	-	(210,763)	-	-	(210,763)
To local government	9,943,797	-	-	-	(9,943,797)	-	-	(9,943,797)
Total School Board	161,009,254	2,065,452	26,840,569	-	(132,103,233)	-	-	(132,103,233)
Economic Development Authority:								
Economic Development Authority operations	882,010	134,828	203,249	-	-	(543,933)	-	(543,933)
Total Economic Development Authority	882,010	134,828	203,249	-	-	(543,933)	-	(543,933)
Port and Industrial Commission -								
Port and Industrial Commission operations	146,844	1,095	-	-	-	-	(145,749)	(145,749)
Total Port and Industrial Commission	146,844	1,095	-	-	-	-	(145,749)	(145,749)
Total component units	162,038,108	2,201,375	27,043,818	-	(132,103,233)	(543,933)	(145,749)	(132,792,915)
General Revenues:								
Payment from primary government					\$ 49,571,413	-	-	49,571,413
Grants and contributions not restricted to specific programs					88,205,551	-	-	88,205,551
Investment earnings					25,317	7,283	22,376	54,976
Miscellaneous					1,136,711	1,000	-	1,137,711
Total general revenues					138,938,992	8,283	22,376	138,969,651
Change in net assets					6,835,759	(535,650)	(123,373)	6,176,736
Net assets, beginning of year					101,875,830	12,219,365	1,755,627	115,850,822
Net assets, end of year					\$ 108,711,589	11,683,715	1,632,254	122,027,558

See accompanying notes to basic financial statements.

Notes to Basic Financial Statements

June 30, 2012

(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, general administrative services, education, and water and sewer systems.

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. As such, the City of Portsmouth School Board (School Board), the Economic Development Authority of the City of Portsmouth, Virginia (Economic Development Authority or the EDA), and the Portsmouth Port and Industrial Commission (the Commission) are reported as separate and discretely presented component units in the City's reporting entity. The Portsmouth Parking Authority (Parking Authority) is presented as a blended component unit of the City. 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 generally accepted accounting principles, the accompanying financial statements include all activities of the City, such as general operation and support services. The School Board's governmental operations and the proprietary operations of the Economic Development Authority and the Portsmouth Port and Industrial Commission 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. The School Board has an elected board, however the primary government may impose its will, as all appropriations must be approved by City Council. The Economic Development Authority and the Portsmouth Port and Industrial Commission have boards appointed by the primary government. The Economic Development Authority was created to facilitate economic development activity in the community that would provide financial benefits to the City of Portsmouth. The Portsmouth Port and Industrial Commission was created to own and operate the port facilities in 1954. All component units have a June 30 year-end. A description of the discretely presented component units follows:

Notes to Basic Financial Statements, Continued

1. The School Board operates the public education system in the City for grades kindergarten through twelve. Complete, audited financial statements for the School Board may be obtained as follows:

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

2. The Economic Development Authority 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 Economic Development Authority has only one fund. Complete, audited financial statements may be obtained as follows:

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

3. The Portsmouth Port and Industrial Commission 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 Portsmouth Port and Industrial Commission has only one fund. Complete, audited financial statements may be obtained as follows:

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

Blended Component Unit

The Parking Authority is considered to be a blended component unit in the City's financial statements under the guidelines of 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 appropriate funds annually to the Authority. Council can 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.

Notes to Basic Financial Statements, Continued

B. Basis of 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 Assets, 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.

Notes to Basic Financial Statements, Continued

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).

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. In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting* (Statement No. 20), proprietary fund types follow all applicable GASB pronouncements as well as all Financial Accounting Standards Board (FASB) pronouncements and predecessor APB Opinions and Accounting Research Bulletins issued on or before November 30, 1989. Under paragraph 7 of Statement No. 20, the City has elected not to apply FASB pronouncements issued after November 30, 1989.

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: Public Utility Fund, which accounts for the utility activity provided to the City, and 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 nonmajor enterprise funds are: the Port Facility and Economic Development Fund which is used to account for the lease of a marine terminal facility to Universal Maritime and lease-purchase sale of certain land to the Virginia Port Authority; the Golf Fund, which accounts for ownership and operation of two golf courses; and the Waste Management Fund, which accounts for waste disposal services and operation of Craney Island landfill.

Notes to Basic Financial Statements, Continued

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: City Garage Fund, Information Technology Fund, Risk Management Fund, Health Insurance Fund and Other Post Employment Benefit Fund (OPEB).

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 involve measurement of 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 assets for governmental activities as shown on the government-wide Statement of Net Assets 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 assets 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 Assets and Statement of Activities) are reported using a full economic resources measurement focus and the accrual basis of accounting and include all assets and liabilities associated with governmental and business-type activities. Assets and liabilities associated with fiduciary activities are included on the Statement of Fiduciary Net Assets. 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 and available

Notes to Basic Financial Statements, Continued

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 deferred 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 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 that exempted by statute, each year as of July 1 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 2012 was \$1.27 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 2012, 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 \$1.27 per \$100 of assessed value, respectively.

Notes to Basic Financial Statements, Continued

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 taxes receivable	\$	2,619,448
Allowance for doubtful accounts receivable		527,506
Total General Fund		3,146,954

Special Revenue Fund - Stormwater Management Fund -

Allowance for doubtful accounts receivable		556,778
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Total governmental activities	\$	3,703,732
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Business-Type Activities - allowance for doubtful accounts receivable:

Enterprise Funds:

Public Utility Fund	\$	694,858
Portsmouth Parking Authority		2,233
Waste Management Fund		777,276
Total business-type activities	\$	1,474,367

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:

Notes to Basic Financial Statements, Continued

Nonspendable – Fund balance is reported nonspendable when it is not in spendable form.

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 amounts whose use is constrained by limitations that the government imposes upon itself. Such constraints are imposed by City Council, the City's highest level of decision making authority. Council resolution or ordinance is required to commit funds and to remove or change the specified use of committed funds.

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 or committed. The intent is expressed by Council or an official to whom Council has delegated this authority.

Unassigned – Fund balance is reported unassigned for 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 for spending for in all other fund balance classifications other than restricted.

Fund Balance Policy Minimum – The City will maintain an unassigned general fund balance equal to 15% of general fund revenues in accordance with its fund balance policy.

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, which have a threshold of \$100,000. 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. Infrastructure elements 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 fair market value as of the date of the donation. 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.

Notes to Basic Financial Statements, Continued

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:	
Site improvements	20
Infrastructure	30 - 50
Buildings	20 - 50
Intangible	10 - 20
Improvements other than buildings	10 - 50
Machinery, furniture, and equipment	5 - 15
Component unit - School Board:	
Buildings	20 - 50
Machinery, furniture, and equipment	5 - 30

K. Compensated Absences

City employees are granted vacation time in varying amounts based on length of service. They may accumulate unused vacation time earned and, upon retirement, termination, or death, may be compensated for the accumulated amounts at their current rates of pay not to exceed 352 hours. For nonexempt employees, overtime earned but not received in hours or compensation will accumulate and be paid in the event of retirement, termination, or death.

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.

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 is the amount utilized by the employees during the year. In the government-wide and proprietary fund financial statements, the amount of compensated absences recorded as an expense is the amount earned. A liability for compensated absences is reported in the governmental funds only if they have matured.

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. 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 generally accepted accounting principles (GAAP). Actual results could differ from those estimates.

Notes to Basic Financial Statements, Continued

(2) EQUITY

The fund equity balances have been classified to reflect the limitations and restrictions placed on the respective funds. Nonspendable fund balance represents that portion of fund balance that is not in spendable form. Restricted fund balance represents that portion of fund balance which amounts are constrained to being used for a specific purpose by external parties or imposed by law through constitutional provisions or enabling legislation. Committed fund balance represents that portion of fund balance which use is constrained by limitations that the government imposes upon itself. Assigned fund balance represents that portion of fund balance which amounts are intended to be used for specific purposes. Unassigned fund balance fund balance represents the remainder of the City's equity in governmental fund type fund balances in which the funds are available for any purpose. Fund balances at June 30, 2012 are composed of the following:

Notes to Basic Financial Statements, Continued

	General Fund	Capital Improvements	Other Nonmajor
Nonspendable			
Inv	\$ 76,610	-	-
Advances	2,388,000	-	-
Prepaid Items	-	-	2,223
Permanent - Cemetary Care	-	-	1,000,000
Total Nonspendable Fund Balances	2,464,610	-	1,002,223
Restricted			
Bond Proceeds	295,762	-	-
Capital Improvements	-	33,432,064	-
Behavioral Health Services	-	-	2,924,486
Public Law Library	-	-	20,392
Stormwater Management Infrastructure Maintenance	-	-	3,264,727
Grants	-	-	239,220
Stimulus - AARA Capital Projects	-	-	388,605
Asset Forfeitures / Electronic Health Record System / et al	-	-	3,012,547
CSA - Special Education/Foster	-	-	1,013
Community Development - (HUD) Housing Assistance	-	-	49,552
Permanent - Cemetary Care	-	-	499,083
Total Restricted Fund Balances	295,762	33,432,064	10,399,625
Committed			
CIP Equity Funding	2,000,000	-	-
Courthouse Reserve	419,041	-	-
CAMA System	300,000	-	-
City Auditor	100,000	-	-
Portsmouth Public Schools	4,900,000	-	-
Support to Civic Organizations	161,793	-	-
Willet Hall - Events and related activities	-	-	452,362
Recreation	-	-	171,626
Total Committed Fund Balances	7,880,834	-	623,988
Assigned	5,846	-	-
	-	-	-
Total Assigned Fund Balances	5,846	-	-
Unassigned			
General Fund	53,631,444	-	-
Social Services	-	-	(278,692)
Total Unassigned Fund Balance	53,631,444	-	(278,692)
Total Fund Balances	\$ 64,278,496	\$ 33,432,064	\$ 11,747,144

Notes to Basic Financial Statements, Continued

(3) CASH**Deposits and Restricted Cash**

At June 30, 2012, the carrying value of the City's deposits with banks and savings institutions was \$154,217,339 which includes \$135,172 in the fiduciary funds. All cash of the City except petty cash of \$48,997 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. As of June 30, 2012 restricted cash totaled \$69,215,242 of which \$69,065,615 represent unspent bond proceeds.

Investments

State statutes authorize the City to invest in obligations of the United States or agencies thereof, securities unconditionally guaranteed by the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, 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, Standard and Poor's, or Fitch IBCA's rating services.

Investment Policy

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

Notes to Basic Financial Statements, Continued

As of June 30, 2012, the City's investment balances were as follows:

	Carrying Amount	Actual Credit Ratings	Required Credit Ratings	Average Days/Years to Maturity
SNAP investments	\$ 85,547,104	AAAm	n/a	1 day
PFM Funds-Prime, Institutional Class	35,226	AAAm	n/a	1 day
Money market funds	106,698,777	AAAm	n/a	1 day
	\$ 192,281,107			

The investments below are grouped according to type of investment and indicate the level of risks, if any:

Virginia State Non-Arbitrage Program (SNAP), PFM Funds-Prime, Institutional Class, and Money Market Funds

As of June 30, 2012, the SNAP Fund's investment portfolio as well as PFM Funds-Prime, Institutional Class was comprised of investments which were, in aggregate, rated AAAm by Standard and Poor's. The SNAP funds are subject to credit risk as well as interest rate risk.

Pension Investments – Common Collective Trust Fund

As of June 30, 2012, the City's pension investments were professionally managed by New York Life Investment Management LLC which invests primarily in Equity Funds. The fair value of the fund is determined by daily trades of securities. The allocation of the investment accounts are authorized between the Board of Trustees of the Portsmouth Fire and Police, the Portsmouth Supplemental Retirement Systems, Scott & Stringfellow and New York Life Investment Management LLC. The target allocation for all funds is 70% for equities and 30% for fixed income securities. None of the City's pension investments have credit ratings.

At June 30, 2012, the fair value of the City's pension investments is as follows:

Fund Name	Investment Type	Weighted Average Maturity/Liquidation	Fair Value
New York Life Fund:			
NYL Guaranteed Int. Account	Equity	1 day	\$ 17,255,580
Goldman Sachs Sm Cap Val Inst	Equity	1 day	8,154,241
American EuroPacific Growth R5	Equity	1 day	11,944,577
Shafer Cullen Div Ops Inv	Equity	1 day	41,039,107
Templeton Global Bond Fund Adv	Equity	1 day	8,433,929
Cash	Equity	1 day	2,124,351
			\$ 88,951,785

Notes to Basic Financial Statements, Continued

Component Unit - School Board

All of the deposits of the School Board, a discretely presented component unit, of \$32,640,156 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 \$10,241,150 invested in the School OPEB Trust Fund. The School Board has \$505,998 in the School Construction Fund that is held with a fiscal agent. 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 \$812,599. 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 \$640,475. 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.

Notes to Basic Financial Statements, Continued

(4) CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

Primary Government - Governmental Activities				
	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Capital assets not being depreciated:				
Land	\$ 17,430,801	6,791,720	-	24,222,521
Construction in progress	122,337,034	38,693,298	-	161,030,332
Construction in progress - Stimulus Fund	18,400,239	6,213,836	-	24,614,075
Total capital assets not being depreciated	158,168,074	51,698,854	-	209,866,928
Capital assets being depreciated:				
Infrastructure	488,807,198	-	93,265	488,713,933
Site improvements	2,239,871	-	134,647	2,105,224
Intangible	888,688	-	-	888,688
Buildings	217,311,714	95,608	6,919,980	210,487,342
Machinery, furniture, and equipment	44,412,362	5,658,966	3,937,476	46,133,852
Total capital assets being depreciated	753,659,833	5,754,574	11,085,368	748,329,039
Less accumulated depreciation for:				
Infrastructure	(342,919,244)	(2,786,613)	(77,582)	(345,628,275)
Site improvements	(827,783)	-	-	(827,783)
Buildings	(73,694,827)	(4,408,839)	(128,260)	(77,975,406)
Machinery, furniture, and equipment	(32,976,635)	(3,514,786)	(2,847,795)	(33,643,626)
Total accumulated depreciation	(450,418,489)	(10,710,238)	(3,053,637)	(458,075,090)
Total capital assets being depreciated, net	303,241,344	(4,955,664)	8,031,731	290,253,949
Governmental activities capital assets, net	\$ 461,409,418	46,743,190	8,031,731	500,120,877

Under Virginia Law, certain property, with a net book value of \$75,937,076 maintained by the School Board is subject to tenancy-in-common with the City if the City has incurred a financial obligation for the property which is payable over more than one fiscal year. The School Board and City have agreed that such property will be carried on the City's financial statements until the outstanding debt is repaid.

Notes to Basic Financial Statements, Continued

Capital Asset Activity for the year ended June 30, 2012 (Continued)

Depreciation expense was charged to functions as follows:

General government	\$ 1,429,193
Judicial	198,711
Public safety	716,672
Public works	2,569,041
Health and welfare	466,844
Parks, recreation and cultural	392,855
Community development	304,303
Education	2,127,923

Total governmental funds	8,205,542
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Depreciation on capital assets held by the City's internal service funds (see Exhibit E-2) is charged to the various functions based on their usage of the assets.

2,504,696

Total governmental activities	\$ 10,710,238
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Notes to Basic Financial Statements, Continued

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

	Authorization	June 30, 2012	Commitments
New courts complex	70,950,259	67,167,724	112,261
Drainage Facilities Repair & Lake Mgt	\$ 22,338,419	19,261,521	429,323
Children's Museum expansion	15,043,060	14,446,383	7,846
Victory Boulevard (2% City Match to VDOT)	12,363,250	8,521,356	489,090
Churchland Bridge	5,822,697	512,332	315,137
Holiday Inn Sigte Redevelopment	7,489,000	7,000,000	-
Behavioral Health building	7,529,003	209,650	428,232
Upgrade City's Traffic Sign	6,600,000	298,297	746,942
Churchland Library joint with Suffolk	6,747,590	6,741,487	1,435
Churchland High School - air quality	3,691,307	3,667,441	3,356
PAC Ntelos Pavilion	3,480,478	3,472,695	3,127
Update Traffic Signal-8 Intersections	3,244,800	2,225,105	442,292
Update Traffic Signal-10 Intersections	3,185,600	329,835	-
Midtown Corridor	2,700,000	82,400	27,600
PS New Radio System	3,000,000	2,999,305	-
Renovations to various buildings	2,683,013	2,592,556	112,828
Crawford Parkway Bulkhead Replacement	2,459,579	2,459,304	99
Traffic Signal Improvements	2,412,160	876,127	94,800
Bridge repairs	2,359,145	1,740,517	9,825
Civic Center specifications	2,218,573	2,017,632	10,202
Hope 6 project - Jeffry Wilson	2,100,000	1,996,337	-
City / Schools joint financial management system	2,070,386	1,680,115	346,434
Ebony Heights improvements	2,001,212	1,923,910	16,071
Highland Biltmore improvements	1,944,385	1,931,860	6,800
Street improvements - South Portsmouth	1,868,356	1,039,694	851,380
Parking garage repairs - Harbor Tower	1,821,298	1,074,223	8,230
McClean St / Cavalier Blvd	1,740,784	235,783	-
City Gate Way	1,324,320	654,813	13,329
Recreation Facility Repair/Replacement	1,222,024	389,200	5,390
Terminal Impact Mitigation	1,000,000	936,809	-
Various projects under \$1,000,000 each	5,848,347	2,545,921	221,935
	\$ 209,259,045	161,030,332	4,703,964

Notes to Basic Financial Statements, Continued

Construction in Progress for Governmental Activities (Continued)

Stimulus Fund Open Projects	Project Authorization	Expended to June 30, 2012	Commitments
Traffic Signal Improvements	\$ 2,423,543	2,338,807	-
ARRA- JAG 2009	654,981	325,120	-
Prentis Park Waterline Replacement	4,808,250	4,807,988	-
CDBG-Recovery Funds	473,578	200,000	-
ARRA-Energy Efficacy Cons Block Grant	1,002,000	960,484	-
Simonsdale School	17,222,170	15,981,676	-
	\$ 26,584,522	24,614,075	-

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. Commitments totaling \$4,703,964 have been reserved for encumbrances for capitalizable and noncapitalizable expenditures in the capital improvements fund.

Business-Type Activities	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Capital assets not being depreciated:				
Land	\$ 15,348,574	-	-	15,348,574
Construction in progress	101,415,806	10,580,747	-	111,996,553
Total capital assets not being depreciated	116,764,380	10,580,747	-	127,345,127
Capital assets being depreciated:				
Buildings	25,426,246	-	-	25,426,246
Improvements other than buildings	172,052,669	-	275,000	171,777,669
Machinery, furniture, and equipment	19,963,580	1,044,685	895,791	20,112,474
Total capital assets being depreciated	217,442,495	1,044,685	1,170,791	217,316,389
Less accumulated depreciation for:				
Buildings	(13,870,825)	611,075	-	(14,481,900)
Improvements other than buildings	(70,806,607)	3,291,682	275,000	(73,823,289)
Machinery, furniture, and equipment	(12,848,474)	1,567,909	632,730	(13,783,653)
Total accumulated depreciation	(97,525,906)	5,470,666	907,730	(102,088,842)
Total capital assets being depreciated, net	119,916,589	4,425,981	263,061	115,227,547
Business-type activities capital assets, net	\$ 236,680,969	6,154,766	263,061	242,572,674

Notes to Basic Financial Statements, Continued

Capital Assets – business type activities (Continued)

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

Public utilities	\$ 4,115,968
Parking Authority	482,112
Port facility	46,119
Golf	126,254
Waste Management	700,213
<hr/>	
Total business-type activities	\$ 5,470,666

Notes to Basic Financial Statements, Continued

**Primary Government -
Major Enterprise Funds**

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
<u>Public Utility Fund</u>				
Capital assets not being depreciated:				
Land	\$ 324,079	-	-	324,079
Construction in progress	101,415,806	10,580,747	-	111,996,553
Total capital assets not being depreciated	101,739,885	10,580,747	-	112,320,632
Capital assets being depreciated:				
Buildings	692,687	-	-	692,687
Improvements other than buildings	169,748,184	-	275,000	169,473,184
Machinery, furniture, and equipment	11,254,606	47,757	132,898	11,169,465
Total capital assets being depreciated	181,695,477	47,757	407,898	181,335,336
Less accumulated depreciation for:				
Buildings	(82,119)	(18,871)	-	(100,990)
Improvements other than buildings	(68,518,074)	(3,291,081)	(275,000)	(71,534,155)
Machinery, furniture, and equipment	(7,038,039)	(806,016)	(132,898)	(7,711,157)
Total accumulated depreciation	(75,638,232)	(4,115,968)	(407,898)	(79,346,302)
Total capital assets being depreciated, net	106,057,245	(4,068,211)	-	101,989,034
Public Utility Fund capital assets, net	\$ 207,797,130	6,512,536	-	214,309,666
<u>Parking Authority</u>				
Capital assets not being depreciated:				
Land	\$ 679,680	-	-	679,680
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	486,889	-	52,095	434,794
Total capital assets being depreciated	19,415,435	-	52,095	19,363,340
Less accumulated depreciation for:				
Buildings	(9,828,954)	(460,982)	-	(10,289,936)
Improvements other than buildings	(244,682)	(601)	-	(245,283)
Machinery, furniture, and equipment	(235,369)	(20,529)	(52,095)	(203,803)
Total accumulated depreciation	(10,309,005)	(482,112)	(52,095)	(10,739,022)
Total capital assets being depreciated, net	9,106,430	(482,112)	-	8,624,318
Parking Authority capital assets, net	\$ 9,786,110	(482,112)	-	9,303,998

Notes to Basic Financial Statements, Continued

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

	Authorization	June 30, 2012	Commitments
Public Utility Fund:			
Infrastructure improvements	\$ 42,269,500	37,327,281	2,958,546
Godwin Street reservoir replacement	10,896,371	10,838,821	104,065
Lake Kilby raw water pumping station	8,050,870	7,356,107	2,071,650
Replacement of water plant equipment	9,643,913	4,571,174	124,780
Downtown master utility	16,900,000	1,385,420	194,684
Suction well rehabilitation	7,018,290	2,967,672	-
Water plant residuals management and disposal	6,133,500	5,774,077	-
Sewer cave-in repair	5,534,762	4,694,744	151,375
Camden Avenue sewer rehabilitation	2,685,000	2,116,176	46,207
Sanitary sewer overflow elimination	12,600,000	5,881,533	3,596,321
Miscellaneous sewer improvements	10,026,016	4,875,418	786,828
Meter replacement program	6,999,000	328,651	90,049
Williams Court Outlet Sewer	2,500,000	139,333	225,583
Miscellaneous water improvements	2,785,615	1,354,392	9,218
Low pressure transmission mains	4,250,000	1,399,792	373,973
Replacement 2" water mains	1,646,319	309,671	-
Lake Kilby replacement filters	1,600,000	95,629	-
Dam Upgrades	2,000,000	131,098	138,235
Various projects under \$1,000,000 each	931,005	320,430	17,721
	\$ 154,470,161	91,867,419	10,889,235

In addition to the amount of \$91,867,419 shown above as expended to June 30, 2012, \$17,725,010 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 \$111,996,553. 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.

Notes to Basic Financial Statements, Continued

School Board Component Unit

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Capital assets not being depreciated:				
Land	\$ 6,125,204	-	-	6,125,204
Construction in progress	16,405,610	17,128,635	5,031,321	28,502,924
Total capital assets not being depreciated	22,530,814	17,128,635	5,031,321	34,628,128
Capital assets being depreciated:				
Buildings	73,775,844	5,031,321	-	78,807,165
Machinery, furniture, and equipment	23,155,840	919,504	30,298	24,045,046
Intangibles	422,270	-	-	422,270
Total capital assets being depreciated	97,353,954	5,950,825	30,298	103,274,481
Less accumulated depreciation for:				
Buildings	(29,653,260)	(1,391,454)	-	(31,044,714)
Machinery, furniture, and equipment	(13,958,448)	(1,204,549)	(9,097)	(15,153,900)
Intangibles	(135,781)	(84,454)	-	(220,235)
Total accumulated depreciation	(43,747,489)	(2,680,457)	(9,097)	(46,418,849)
Capital assets being depreciated/amortized				
Total capital assets - being depreciated	53,606,465	3,270,368	21,201	56,855,632
School Board capital assets, net	\$ 76,137,279	\$ 20,399,003	\$ 5,052,522	\$ 91,483,760

Economic Development Authority Component Unit

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Capital assets not being depreciated:				
Land	\$ 1,205,660	-	-	1,205,660
Total capital assets not being depreciated	1,205,660	-	-	1,205,660

Notes to Basic Financial Statements, Continued

(5) LONG - TERM DEBT**Details of Long-Term Indebtedness**

At June 30, 2012, the long-term indebtedness of the City consisted of the following:

Governmental Activities

General obligation bonds, net:

2001	Qualified Zone Academy Bonds	0.00%	\$	368,737
2001	VPSA - Series 2001B Bonds	4.1 - 5.35%		1,790,063
2006	VPSA - Series 2006B Bonds	4.2 - 5.1%		4,884,155
2003	Public Improvement (Refunding) bonds	3.8 - 5.0%		25,264,817
2004	BHS Lease Revenue Bond	3.5 - 5.0%		3,857,347
2005A	Public Improvement bonds	3.75 - 5.0%		8,845,105
2005C	Public Improvement (Refunding) bonds	5.0 - 5.4%		3,745,066
2006A	Public Improvement & Refunding bonds	4.1 - 5.0%		33,668,407
2006B	Taxable Public Improvement (Refunding) bonds	5.75%		4,659,513
2009A	Public Improvement (Refunding) bonds	4.0 - 4.75%		6,215,330
2009B	Public Improvement (Refunding) bonds	3.0 - 5.25%		11,929,206
2009C	Taxable Public Improvement (Refunding) bonds	5.62 - 6.4%		15,732,126
2009D	Public Improvement (Refunding) bonds	3.0 - 4.0%		10,394,938
2009	QSCB	0.00%		17,111,326
2010A	Public Improvement bonds	3.0-4.0%		3,774,732
2010B	Taxable Public Improvement bonds (BABs)	4.68-6.28%		29,240,000
2010D	Public Improvement (Refunding) bonds	3.0 - 5.25%		30,744,315
2011	Public Improvement (Refunding) bonds	2.5 - 5.0%		15,806,787
2012A	Public Utility & Refunding Bonds	3.0 - 5.0%		23,584,895
2012B	Taxable G. O. Refunding Bonds	1.5 -3.85%		5,885,423

Total general obligation bonds, net	\$	257,502,288
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General obligation note-Series 2010C	25,089,687
General obligation note - Series 2011	24,933,967
Obligations under capital leases	16,024,163
Literary loans	1,500,000
Compensated absences	7,511,667
Arbitrage liability	24,199

Total governmental activities	\$	332,585,971
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Business-Type Activities

General obligation bonds, net:

2003	Public Utility (Refunding) bonds	3.0 - 5.0%	\$	17,318,069
2005A	Public Utility bonds	3.5 - 5.0%		13,941,849
2005B	Public Utility (Refunding) bonds	3.25 - 5.0%		16,580,887
2006A	Public Utility bonds	4.12 - 5.0%		15,011,019
2009D	Public Utility (Refunding) bonds	3.0 - 4.0%		1,631,045
2009E	General Obligation bond	0.00%		2,323,987
2010A	Public Improvement bonds	3.0-4.0%		3,612,089
2010B	Taxable Public Improvement bonds (BABs)	4.68-6.28%		25,110,000
2010D	Public Utility (Refunding) bonds	3.00%		353,613
2011	Public Utility (Refunding) bonds	2.5 - 5.0%		7,866,310
2012A	Public Utility & Refunding Bonds (Tax-Exempt)	3.0 - 5.0%		50,303,942
2012A	Public Utility (Refunding) bonds	3.0 - 5.0%		5,170,000
2003	Public Improvement (Refunding-Parking)	3.0 - 5.0%		5,105,977
2005A	Public Improvement bonds (Parking Fund)	3.5 - 5.0%		93,502
2009A	Public Improvement (Refunding-Parking)	4.0 - 4.75%		73,838
2009B	Public Improvement (Refunding-Parking)	3.0 - 5.25%		20,404
2011	Public Improvement (Refunding - Parking)	2.5 - 5.0%		204,579
2012A	Public Utility & Refunding Bonds (Parking)	3.0 - 5.0%		192,876
2005A	Public Improvement (Refunding Golf)	3.5 - 5.0%		2,247,129
2009B	Public Improvement (Refunding-Golf)	3.0 - 5.25%		1,128,025
2011	Public Improvement (Refunding- Golf)	2.5 - 5.0%		2,060,077
2012A	Public Utility & Refunding Bonds (Golf)	3.0 - 5.0%		969,102

Total general obligation bonds, net	\$	171,318,319
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Obligations under capital leases	2,021,226
Landfill closure and postclosure care	6,156,057
Compensated absences	718,522
Arbitrage liability	-

Total business type-activities	\$	180,214,124
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Notes to Basic Financial Statements, Continued

General obligation bonds are stated net of unamortized bond premiums, discounts, and deferred amounts on refunding.

At June 30, 2012, the long-term indebtedness of Component Units consisted of the following:

		Amount Outstanding
School Board:		
Obligations under capital leases	\$	5,213,816
Accrued Vacation Pay & Sick Leave		5,180,772
Claims Payable		2,364,402
Net pension obligation		113,673
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Total Long Term Liabilities	\$	12,872,663

Notes to Basic Financial Statements, Continued

	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012	Due Within One Year
Primary Government -					
Governmental Activities:					
General obligation bonds	265,805,292	31,450,000	(37,704,367)	259,550,925	9,837,549
General obligation notes	48,730,000	-	-	48,730,000	431,219
Plus (less) bond premiums (discounts)	6,885,510	2,111,907	(1,695,974)	7,301,443	598,493
Less refunding costs	(5,026,303)	(3,942,567)	912,444	(8,056,426)	(664,619)
	\$ 316,394,499	29,619,340	(38,487,897)	307,525,942	10,202,642
Compensated absences	7,436,189	87,516	(12,038)	7,511,667	4,473,609
Literary loans	1,875,000	-	(375,000)	1,500,000	250,000
Capital leases	17,253,638	1,562,107	(2,791,582)	16,024,163	2,848,670
Arbitrage liability	39,503	-	(15,304)	24,199	-
Total Governmental Activities	\$ 342,998,829	\$ 31,268,963	\$ (41,681,821)	\$ 332,585,971	17,774,921
Business Type Activities:					
General obligation bonds	125,831,902	56,672,200	(11,185,783)	171,318,319	5,445,162
Landfill closure and postclosure care	6,589,612	-	(433,555)	6,156,057	-
Compensated absences	713,353	19,169	(14,000)	718,522	635,207
Capital leases	2,574,020	133,006	(685,800)	2,021,226	900,313
Total Business Type Activities	135,708,887	56,824,375	(12,319,138)	180,214,124	6,980,682
Major Enterprise Funds:					
<u>Public Utility Fund:</u>					
General obligation bonds	113,370,836	55,498,625	(9,646,651)	159,222,810	4,728,764
Compensated absences	383,471	17,104	-	400,575	395,346
Total Public Utility Fund	113,754,307	55,515,729	(9,646,651)	159,623,385	5,124,110
<u>Parking Authority</u>					
General Obligation bond	5,998,477	192,876	(500,177)	5,691,176	350,708
Compensated absences	31,350	-	(4,722)	26,628	18,480
Total Parking Authority	\$ 6,029,827	\$ 192,876	\$ (504,899)	\$ 5,717,804	\$ 369,188

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 Assets. 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 if June 30, 2012 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 Assets, depending on the bond issue and timing of payment.

The following is a summary of changes in long-term indebtedness of the Component Units for the year ended June 30, 2012:

Notes to Basic Financial Statements, Continued

	Balance, July 1, 2011	Increases	Decreases	Balance June 30, 2012	Due Within One Year
School Board:					
Capital leases	\$ 5,883,864	-	(670,048)	5,213,816	723,518
Net pension obligation	113,686	7,958	(7,971)	113,673	-
Claims Payable	2,370,998	756,976	(763,572)	2,364,402	706,467
Compensated absences	5,015,482	1,933,809	(1,768,519)	5,180,772	1,768,600
Total School Board	\$ 13,384,030	2,698,743	(3,210,110)	12,872,663	3,198,585

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.

As of June 30, 2012 there were \$17,360,764 of general obligation public improvement bonds and \$15,200,000 of general obligation public utility bonds that were authorized but unissued. As of June 30, 2012 the City's legal debt margin for additional debt is \$412,838,373.

Defeased Debt

In prior years, the City defeased certain general obligation public improvement bonds by placing funds in irrevocable escrow accounts to provide for future debt service payments on the defeased debt. Accordingly, the escrow accounts assets and liabilities for the defeased debt are not included in the City's financial statements. At June 30, 2012, the outstanding balance of the defeased debt is \$58,893,000 of which \$380,000 is related to the Parking Fund, \$3,078,000 for the Golf Fund, and \$12,775,000 is related to the Public Utilities Fund.

Debt Issued

On March 28, 2012, the City issued \$75,785,000 of General Obligation Public Utility and Refunding Bonds, Series 2012A with a true interest cost of 3.43% and a premium of \$8,099,620. Of the proceeds, \$49,800,000 is being used to finance the costs of the planning, design, acquisition, construction and equipping of various water and sewer projects of the City. In addition, \$33,455,969 is being used to advance refund various General Obligation Refunding Bonds. A portion of the proceeds were used to purchase United States Treasury Securities (State and Local Government Series [SLGS]) which will be placed in an irrevocable trust together with an initial cash deposit to be used solely to refund a portion of the City's General Obligation and Refunding Bonds Series 2003, a portion of Series 2005A and a portion of Series 2006A. The advance refunding of the General Obligation Series 2003, 2005A and 2006A bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$2,857,990. This difference, reported in the accompanying government-wide financial statements as a deduction from bonds payable, is being amortized over the life of the new debt. The refunding resulted in an overall decrease in debt service over the next 19 years of \$992,199 and an economic gain of \$1,363,912. Interest will be payable semi-annually beginning July 15, 2012 and each January 15 and July 15 thereafter. The allocation of the refunded bonds is as follows:

Notes to Basic Financial Statements, Continued

<u>General Fund</u>		
	Series 2003	\$ 1,580,000
	Series 2005A	16,880,000
	Series 2006A	<u>4,710,000</u>
		\$23,170,000
 <u>Public Utilities</u>		
	Series 2005A	\$ 4,800,000
	Series 2006A	<u>335,000</u>
		\$ 5,135,000
 <u>Golf Fund</u>		
	Series 2005A	\$ 980,000
 <u>Parking Fund</u>		
	Series 2003	\$ 165,000
	Series 2005A	<u>20,000</u>
		\$ 185,000

On March 28, 2012, the City issued \$6,970,000 of Taxable General Obligation Refunding Bonds, Series 2012B with a true interest cost of 3.03%. The proceeds were used to refund \$5,910,000 of the City's outstanding Taxable General Obligation Bonds, Series 2005C. A portion of the proceeds were used to purchase United States Treasury Securities (SLGS) which were placed in an irrevocable trust together with an initial cash deposit to be used solely to refund a portion of the Series 2005C General Obligation Bonds. The advance refunding of the Taxable General Obligation Series 2005C bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1,084,577. This difference, reported in the accompanying government-wide financial statements as a deduction from bonds payable, is being amortized over the life of the new debt. The refunding resulted in an overall decrease in debt service over the next 19 years of \$493,683 and an economic gain of \$417,551. Interest is payable semi-annually on each July 15 and January 15.

On February 10, 2011, the City entered into a Master Equipment Lease Agreement with Banc of America Public Capital Corp. On May 25, 2012, the City issued \$1,681,600 per Appendix 4 of this agreement to fund various equipment costs for the City Garage and Waste Management Funds. Of the total proceeds \$1,552,916 is reported in the City Garage Fund and \$128,684 is recorded in the Waste Management Fund. The terms of this agreement is five years at an interest rate of 1.579%. Rental payments will be made quarterly, beginning July 15, 2012 and each July 15, October 15, January 15 and April 15 thereafter, until maturity.

Notes to Basic Financial Statements, Continued

Debt Compliance and Repayment

The annual requirements to amortize all outstanding long-term indebtedness of the City to maturity as of June 30, 2012 (except compensated absences and landfill closure and post closure care) are as follows:

Governmental Activities:

Fiscal Year Ending	General Obligation Bonds & Notes		Literary Loans		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	10,302,642	12,508,980	250,000	30,000	2,848,671	1,056,975
2014	11,582,558	12,284,726	250,000	25,000	2,929,247	937,236
2015	61,536,501	11,455,248	250,000	20,000	2,039,567	812,683
2016	13,981,571	9,596,167	250,000	15,000	2,134,501	719,967
2017	15,453,482	8,988,331	250,000	10,000	1,716,998	614,259
2018-2022	77,057,768	35,838,085	250,000	5,000	4,355,179	1,013,617
2023-2027	66,661,626	20,448,807	-	-	-	-
2028-2032	35,820,739	8,423,338	-	-	-	-
2033-2037	15,884,038	1,706,606	-	-	-	-
	\$ 308,280,925	121,250,288	1,500,000	105,000	16,024,163	5,154,737

Business-Type Activities:

Fiscal Year Ending	General Obligation		Capital Leases	
	Principal	Interest	Principal	Interest
2013	5,445,162	7,195,798	895,989	28,806
2014	5,427,104	7,424,081	709,666	15,305
2015	5,834,179	7,173,004	192,571	6,833
2016	7,003,989	6,895,090	196,493	2,907
2017	7,358,716	6,548,594	26,507	262
2018-2022	40,446,789	28,386,516	-	-
2023-202	34,952,426	19,972,284	-	-
2028-2032	27,689,073	12,623,418	-	-
2033-2037	18,208,009	7,361,062	-	-
2038-2042	18,952,872	2,292,702	-	-
	\$ 171,318,319	105,872,549	2,021,226	54,113

Notes to Basic Financial Statements, Continued

(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 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		7,572,317	20,811,460	6,552,653
Less accumulated depreciation		(10,406,316)	(12,169,517)	(4,158,439)
Capital assets, net	\$	9,513,182	8,641,943	2,394,214

The total amount of capital lease equipment acquired during fiscal year ended June 30, 2012 was \$4,762,392. Depreciation expense on leased assets was \$2,841,626 for the fiscal year ended June 30, 2012.

The present value of future minimum capital and operating lease payments of the City as of June 30, 2012 is as follows:

Fiscal Year Ending	Capital	Operating
2013	4,830,441	516,486
2014	4,591,454	375,249
2015	3,051,654	335,017
2016	3,053,868	240,120
2017	2,358,027	-
2018-2022	5,368,795	-
Total minimum lease payments	23,254,239	\$ 1,466,872
Less amount representing interest	(5,208,850)	
Present value of minimum capital lease payments	\$ 18,045,389	

Total governmental operating lease payments for the year ended June 30, 2012 were \$1,290,763.

(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 plans administered by the City.

In addition, professional and nonprofessional employees of the School Board are covered by VRS. Professional employees participate in a VRS statewide teacher cost-sharing pool and nonprofessional employees participate as a separate group in the agent multiple-employee retirement system.

All of these plans are non-contributory defined benefit pension plans. These City and State Retirement Systems are described below.

Notes to Basic Financial Statements, Continued

Portsmouth Retirement Systems***Plan Description - Portsmouth Supplemental Retirement System***

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 (PFPRS). 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 are members of VRS as required by State statutes. Therefore, the PSRS has become a "closed" system.

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) that 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, equal to 2% of their average final compensation (AFC) multiplied by years of creditable service. AFC is the average annual compensation during the 36 consecutive months of creditable service that yields the highest average. At age 65, the annual retirement benefit is adjusted to an amount equal to the greater of 1.15% of their AFC multiplied by years of creditable service or the excess of 2% of such salary multiplied by years of creditable service over 2% of the primary social security benefit multiplied by years of creditable service not in excess of 25 years.

Benefits may be increased from time to time by percentage adjustments approved by City Council. Effective July 1, 1994, retirees that 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 also provides death and disability benefits.

The 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 from the employees.

Plan Description - Portsmouth Fire and Police Retirement System

The Fire and Police Retirement System 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 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 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

Notes to Basic Financial Statements, Continued

provides death and disability benefits. These benefit provisions and all other requirements are established by City Council.

The 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 from the employees.

Payroll and Participants

The payroll at June 30, 2012 for employees covered by PSRS and FPRS and the total payroll for all City employees was as follows:

Payroll for employees covered by PSRS	\$ 1,689,868
Payroll for employees covered by FPRS	7,961,197
Total City payroll	79,445,510

Participation in the Portsmouth Supplemental Retirement System and the Fire and Police Retirement System consisted of the following as of July 1, 2012:

	PSRS	FPRS
Retirees and beneficiaries	383	590
Vested terminated employees not yet receiving benefits	36	48
Current vested employees	34	104
	453	742

Summary of Significant Accounting Policies

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.

Investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price. Investments that do not have an established market value are reported at estimated fair value.

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 contributions to the PSRS and FPRS for fiscal year 2012 were \$3,879,069 and \$13,506,697, respectively. The annual required contributions of \$4,092,312 and \$13,326,055 were calculated in accordance with actuarially determined requirements computed through an actuarial valuation performed as of July 1, 2011.

Notes to Basic Financial Statements, Continued

Annual Pension Cost

The required contributions were determined as part of the July 1, 2011 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 3% inflation rate, (b) 8% investment rate of return, and (c) projected salary increases ranging from 5.0% to 6.0% per year, and (d) 3.0% per year cost-of-living adjustments. The 30-year amortization period for Unfunded Actuarial Accrued Liability is phasing down in one-year increments beginning July 1, 2007. The actuarial value of the City's assets is equal to the market value of assets. The net pension asset is included with the government-wide Statement of Net Assets.

The annual pension cost and net pension asset for the current fiscal year were as follows:

	PSRS	FPRS
Annual required contribution	\$ 4,092,312	13,326,055
Interest on net pension asset/obligation	(28,509)	(40,666)
Adjustment to annual required contribution	24,347	47,619
Annual pension cost	4,088,150	13,333,008
Contributions made	3,879,069	13,506,697
Increase (Decrease) in net pension (asset) obligation	209,081	(173,689)
Net pension (asset) obligation at beginning of year	304,332	(508,319)
Net pension (asset) obligation at end of year	\$ 513,413	(682,008)

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.

The financial statements for the PSRS and the PPRS are as follows:

Statement of Fiduciary Net Assets**June 30, 2012**

	PSRS	FPRS
Assets:		
Investments:		
Cash	\$ 619,896	1,504,455
Common stock	12,586,108	48,551,817
Corporate bonds	5,288,550	20,400,959
Total investments	18,494,554	70,457,231
Total assets	\$ 18,494,554	70,457,231
Net assets held in trust for pension benefits	\$ 18,494,554	70,457,231

Notes to Basic Financial Statements, Continued

Statement of Changes in Fiduciary Net Assets
Year Ended June 30, 2012

	PSRS	FPRS
Additions:		
Contributions	\$ 3,879,069	13,506,697
Investment income -		
Net increase in fair value of investments	(2,141)	517,744
Less investment expense	(62,343)	(201,384)
Net investment income	(64,484)	316,360
Total additions	3,814,585	13,823,057
Deductions:		
Benefits	7,570,129	17,602,504
Change in net assets	(3,755,544)	(3,779,447)
Net plan assets held in trust for pension benefits, beginning of year	22,250,098	74,236,678
Net plan assets held in trust for pension benefits, end of year	\$ 18,494,554	70,457,231

Virginia Retirement System
Plan Description

The City of Portsmouth and the School Board Component Unit contribute to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System (the System). All full-time, salaried permanent (professional) employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

VRS administers two defined benefit plans for local government employees – Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least 5 years of service credit or age 50 with at least 10 years of service credit.
- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 and covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.

Notes to Basic Financial Statements, Continued

- Eligible hazardous duty members in plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefits as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report is available from the VRS web site at <http://www.varetire.org/Pdf/Publications/2010-annual-report.pdf> or obtained by writing the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their annual reported compensation to the VRS. This 5.00% member contribution may be assumed by the employer. In addition, the City and the School Board are required to contribute the remaining amounts necessary to fund their participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The City's and School Board's contribution rates for the fiscal year ended June 30, 2012 were 13.25% and 14.0% of the annual covered payroll, respectively.

Additionally, required and actual contributions to the VRS state-wide teacher pool for the current year and each of the two preceding years were \$8,492,549, \$6,917,352 and \$8,999,661, respectively.

Annual Pension Cost

For the fiscal year ended June 30, 2012, the City's annual pension cost of \$7,967,048 which includes the 5% employee contribution assumed by the City was equal to the City's required and actual contributions. The School

Notes to Basic Financial Statements, Continued

Board's annual pension cost of \$938,596 was not equal to the School Board's required or actual contributions. The School Board's actual contributions were \$938,609.

The City and School Board's annual pension cost and net pension obligation to VRS for the current year were as follows:

	City	School Board
Annual required contribution	\$ 7,967,048	938,609
Interest on net pension obligation	-	7,958
Adjustment to annual required contribution	-	(7,971)
Annual pension cost	7,967,048	938,596
Contributions made	7,967,048	938,609
Increase (Decrease) in net pension obligation	-	(13)
Net pension obligation at beginning of year	-	113,686
Net pension obligation at end of year	\$ -	113,673

Three-Year Contribution Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
Portsmouth Supplemental:			
June 30, 2012	4,088,150	95%	513,413
June 30, 2011	3,748,661	84%	304,332
June 30, 2010	2,573,502	102%	(303,495)
Portsmouth Fire and Police:			
June 30, 2012	13,333,008	101%	(682,088)
June 30, 2011	13,354,278	96%	(508,319)
June 30, 2010	11,381,661	111%	(1,047,712)
VRS - City:			
June 29, 2012	7,967,048	100%	-
June 30, 2011	8,059,173	100%	-
June 30, 2010	7,128,723	100%	-
VRS - School Board:			
June 30, 2012	938,596	100%	113,673
June 30, 2011	1,000,556	100%	113,686
June 30, 2010	1,098,411	100%	113,440

Notes to Basic Financial Statements, Continued

The FY 2012 required contribution was determined as part of the June 30, 2010 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at June 30, 2010 included (a) an investment rate of return (net of administrative expenses) of 7.50%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.75% to 5.60% per year for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year. Both the investment rate of return and the projected salary increases also include an inflation component of 2.50%. The actuarial value of the City's and School Board's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The City's and School Board's unfunded actuarial accrued liability is being amortized as level percentage of projected payroll on an open basis. The remaining amortization period for the June 30, 2010 actuarial valuation was 20 years.

Funded Status of Pension Plans

Following is a table showing the funding status of the defined benefit pension plans in which the City participates as of the most recent actuarial valuation date for each plan:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded (Overfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
CITY-ADMINISTERED PLANS:						
<u>Portsmouth Supplemental Retirement System:</u>						
7/1/2012	\$ 20,575,624	72,347,370	51,771,746	28%	\$ 1,795,000	2884%
<u>Fire and Police Retirement System:</u>						
7/1/2012	\$ 75,342,856	237,953,903	162,611,047	32%	\$ 8,854,000	1837%
VIRGINIA RETIREMENT SYSTEM PLANS:						
<u>City of Portsmouth Employees:</u>						
6/30/2011	\$ 205,840,390	255,942,936	50,102,546	80%	\$ 63,694,256	79%
<u>School Board Nonprofessional Employees:</u>						
6/30/2011	\$ 25,829,515	35,671,426	9,841,911	72%	\$ 6,989,874	141%

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

(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. The City of Portsmouth Public Schools (School Board) administers a similar defined benefit healthcare plan. In connection with this, the City has established a plan to provide post-employment benefits other than pensions as defined in Section 15.2-1545 of the Code of Virginia.

Notes to Basic Financial Statements, Continued

Separate stand-alone 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 2012, the City contributed \$491,496 to the program, all for current premiums (approximately 14% of total premiums), and there was no additional prefunding contribution. Retired employees receiving benefits contributed \$2,919,864 (approximately 8% of total premiums) through required monthly contributions that vary from \$207.35 to \$845.99 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 family members .

Annual OPEB Cost and net OPEB Obligation. The City's and School's annual other post employment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's and School's OPEB cost for the year, the amount actually contributed to the plan, and the changes in the City's OPEB obligation for the program:

	City	School Board
Annual required contribution	\$ 16,398,000	1,060,000
Interest on net OPEB obligation	1,743,174	(91,122)
Adjustment to annual required contribution	(1,850,206)	81,487
Annual OPEB cost	16,290,968	1,050,365
Contributions made	4,684,000	7,002,500
Increase (decrease) in net OPEB obligation	11,606,968	(5,952,135)
Net OPEB obligation (asset) at beginning of year	43,579,412	(587,453)
Net OPEB obligation (asset) at end of year	\$ 55,186,380	(6,539,588)

The fiscal year ended June 30, 2012 was the fifth year for which an actuarially determined ARC had been calculated for the City of Portsmouth Retired Employees Health Care Program. Fiscal year 2012 actuarially determined ARC was calculated to be \$16,398,000. The City's contribution to the ARC was \$4,684,000, \$5,680,817, \$4,113,433 and \$5,129,191 for fiscal years 2012, 2011, 2010 and 2009 respectively.

Notes to Basic Financial Statements, Continued

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 2012 is as follows:

City of Portsmouth

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2009	\$ 13,811,219	37.1%	\$ 20,463,056
6/30/2010	16,455,303	24.9%	32,804,926
6/30/2011	16,455,303	34.5%	43,579,412
6/30/2012	16,290,970	28.8%	55,186,380

School Board

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation/ (Asset)
6/30/2009	\$ 1,004,077	125%	\$ (617,670)
6/30/2010	1,025,000	98%	(592,670)
6/30/2011	1,005,217	99%	(587,453)
6/30/2012	1,050,365	667%	(6,539,588)

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:						
7/1/2012	-	\$195,796,500	195,796,500	0.0%	70,574,100	277.43%
School Board:						
7/1/2011	\$25,829,515	35,671,426	9,841,911	72.41%	6,989,874	140.80%

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

Notes to Basic Financial Statements, Continued

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 actuarial liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2010 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 3.5% inflation (payroll growth) rate, a 4.0% 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; an annual healthcare cost increase rate of 9 percent initially, reduced by decrements to an ultimate rate of 5 percent 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 \$16,290,970 for fiscal year 2012 is the amount determined under the actuarial cost method selected and consists of the normal cost 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 percent of projected payroll on a closed basis over a period of 28 years in developing 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 them to defer a portion of their salary until future years. The deferred compensation 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, 2011 are as follows:

		Due to Other Funds				
Due from Other Funds	Nonmajor Governmental Funds	General Fund	Parking Authority	Nonmajor Enterprise Funds	Total	
General Fund	\$ 2,745,019	\$ -	\$ 229,404	259,824	3,234,247	
	2,745,019	-	229,404	259,824	3,234,247	

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

Notes to Basic Financial Statements, Continued

Due From/To Primary Government/Component Units

Amounts due at June 30, 2012 between the City and the Component Units are as follows:

Due From (To) Component Units	Primary Government		Total
	Economic Development Authority	School Board	
General Fund	\$ -	7,794	7,794
Nonmajor governmental funds	-	(52,247)	(52,247)
	\$ -	(44,453)	(44,453)

The Statement of Net Assets reflects \$7,794 as due from component units and \$52,247 as due to component units for a net due to component units of \$44,453 as noted in the above table.

Transfers From/To Other Funds

Individual fund interfund transfers for the primary government were made for operating as well as capital purposes. These interfund transfers for the year ended June 30, 2012 are as follows:

Transfers to:	Transfers from:					Total
	General Fund	Nonmajor Governmental Funds	Parking Authority Fund	Public Utility Fund	Internal Service Funds	
General Fund	\$ -	620,550	-	7,875,000	410,000	8,905,550
Capital Improvements Fund	4,313,803	3,317,451	-	-	-	7,631,254
Nonmajor governmental funds	6,326,570	17,350	-	-	-	6,343,920
Public Utility Fund	-	-	-	-	-	-
Parking Fund	124,238	-	-	-	-	124,238
Nonmajor enterprise funds	611,460	-	-	-	-	611,460
Internal Service Funds	-	-	-	-	-	-
Total	\$ 11,376,071	3,955,351	-	7,875,000	410,000	23,616,422

Notes to Basic Financial Statements, Continued

(11) DUE FROM/TO OTHER GOVERNMENTS

Due From Other Governments

Amounts due from other governments at June 30, 2012 are as follows:

	Federal	State	Total
Governmental activities:			
General Fund:			
Sales and use tax	\$ -	596,171	596,171
Personal property tax relief	-	9,862,962	9,862,962
Correctional facilities block grant	-	-	-
Constitutional officers' support	-	730,132	730,132
Other	-	50,441	50,441
Total General Fund	-	11,239,706	11,239,706
Nonmajor governmental funds:			
Community Services Act Fund	-	72,090	72,090
Social Services Fund	-	2,187,208	2,187,208
Grants Fund	353,270	89,422	442,692
Community Development Fund	753,649	-	753,649
Total nonmajor governmental funds	1,106,919	2,348,720	3,455,639
Total governmental activities	\$ 1,106,919	13,588,426	14,695,345

(12) DEFERRED AND UNEARNED REVENUES

Deferred and 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.

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

	Governmental Funds				Business-Type	
	General Fund	Capital Improvements Fund	Nonmajor Governmental Funds	Total	Governmental Activities	Parking Authority
Property taxes	\$ 7,712,163	-	-	7,712,163	-	-
Parking space rentals	-	-	-	-	-	60,196
Unearned interest rebate	296,673	-	-	296,673	296,673	261,254
Notes receivable	-	4,152	-	4,152	4,152	-
Stormwater fees	-	-	57,650	57,650	-	-
Total deferred and unearned revenues	\$ 8,008,836	4,152	57,650	8,070,638	300,825	321,450

Notes to Basic Financial Statements, Continued

(13) COMMITMENTS**Landfill Closure and Postclosure Care Cost**

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 \$6,156,057 reported as landfill closure and postclosure care liability at June 30, 2012 represents the cumulative amount reported to date based on the use of 56.1 percent of the estimated capacity of the landfill. The City will recognize the remaining estimated cost of closure and post-closure care of \$4,817,306 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 2012. 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 32.8 years. The City is required by Federal and State statutes to prepare a Local Government Financial Test Worksheet to demonstrate how closure and postclosure care financial assurance requirements will be met. The encumbrances for the Capital Improvement Fund at June 30, 2012 are \$6,483,454.

(14) 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, 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.

Joint Ventures***Hampton Roads Regional Jail Authority***

The City has agreed to pay its proportionate share of the debt service, issued by the Hampton Roads Regional Jail Authority (the Jail Authority), subject to the appropriation of funds for such purpose, if the Jail Authority lacks sufficient funds to do so. The outstanding balance as of June 30, 2012 is \$39,390,000.

The purpose of the Jail Authority is to operate a jail facility in the City to hold prisoners primarily from member jurisdictions and from other jurisdictions on a space available basis. The Jail Authority is governed by a twelve-member board consisting of three representatives from each member jurisdiction, namely the City Manager, the Sheriff, and one member of the City Council (as designated by the City Council). The agreement of the member jurisdictions to pay is not legally binding and is allocated as follows: Portsmouth, 21.43%; Hampton, 22.00%; Newport News, 25.14%; and Norfolk, 31.43%. No payments were made under the provisions of this agreement during the year ended June 30, 2012.

Complete, audited financial statements for the Jail Authority can be obtained from the administrative office at 2690 Elmhurst Lane, Portsmouth, Virginia 23701.

(15) Self-Insurance Programs***City***

Notes to Basic Financial Statements, Continued

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 internal service funds such as, the Risk Management Fund to account for and finance its uninsured risks of loss and the Health Insurance Fund to pay health insurance premiums. 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 \$318,066,165 loss limit per occurrence. The City purchases commercial excess insurance policies for workers' compensation and general liability. Therefore, for the fiscal years ending June 30, 2010 and June 30, 2012, property damage claims liability did not exceed \$100,000. In fiscal years ending June 30, 2009 and June 30, 2011, the City experienced one (1) claim in each of those years that exceeded the Self-Insured Retention. In 2009 there was a flooding from the Nor'easter and a fire loss to the main public library in 2011.

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 \$12,490,797 (undiscounted) reported in the fund at June 30, 2012 is based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The amount due within one year is \$2,411,824. A loss analysis, which included an estimate of incurred but not reported claims, was conducted by Mercer Oliver Wyman Actuarial Consulting, Incorporated as of June 30, 2012 to compute this liability.

Changes in the fund's claims liability amount in fiscal years 2012 and 2011 were:

	2012	2011
Risk management claims payable at beginning of year	\$ 12,649,062	\$ 14,041,922
Risk management claims expense and changes in estimates	3,009,829	31,155
Risk management claims payments, net	(3,168,094)	(1,424,015)
Risk management claims payable at end of year	\$ 12,490,797	\$ 12,649,062

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 Fund, 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, 2012 is \$1,385,000 (undiscounted) and is due within one year. A loss analysis, which included an estimate of incurred but not reported claims, was conducted by Mercer Human Resource Consulting, Incorporated as of June 30, 2012 to compute this liability.

Changes in the medical claim liability amount in fiscal years 2012 and 2011 were:

Notes to Basic Financial Statements, Continued

	2012	2011
Medical claims payable at beginning of year	\$ 1,303,690	1,303,690
Medical claims expense and changes in estimates	16,700,196	16,477,594
Medical claims payments	(16,618,886)	(16,477,594)
Medical claims payable at end of year	\$ 1,385,000	1,303,690

Notes to Basic Financial Statements, Continued

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 Mercer Oliver Wyman Actuarial Consulting, Inc on this fund. The actuarially computed liability as of June 30, 2012 was determined to be \$2,364,402 (undiscounted).

Changes in the school's claim liability amount in fiscal years 2012 and 2011 were:

	2012	2011
Claims payable at beginning of year	\$ 2,370,998	\$ 2,510,742
Claims and changes in estimates	756,976	663,102
Claim payments	(763,572)	(802,846)
Claims payable at end of year	\$ 2,364,402	\$ 2,370,998

(16) RELATED ORGANIZATIONS

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 it is both operationally and financially, independent of the City.

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 it is both operationally and financially, independent of the City.

(17) E-911 BOARD LIABILITY

The Virginia E-911 Services Board is seeking repayment of prior year overpayments in the amount of \$1,084,126 for services provided to the Board by the City. Due to the legal requirement that any overpayments be determined and refunded in the then current fiscal year and due to the fact that numerous attempts by the City to rectify the situation were made on a timely basis, the City Attorney has made the proposal that a final settlement be made in the amount of \$280,000, the City's expected monthly receipts from the Board for the remainder of the current fiscal year i.e., the period beginning with December 2012 through June 2013. This amount is recorded as a liability in the General Fund for Fiscal Year 2012. Due to the fact that the Board has yet to accept the proposal, there is an unlikely but potential maximum total liability of \$1,084,126.

(18) RESTATEMENT OF NET ASSETS

The beginning net assets of the governmental activities has been restated to correct an error resulting from an understatement of debt in the prior year aggregating \$2,359,096.

Required Supplementary Information
Other than Management's Discussion and Analysis



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CITY OF PORTSMOUTH, VIRGINIA

Schedule I-1

Budgetary Comparison Schedule
Schedule of Revenues and Other Financing Sources
General Fund
Year ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Taxes:				
General property taxes:				
Real property - current	\$ 88,884,643	\$ 88,884,643	88,202,215	(682,428)
Real property - delinquent	3,227,197	3,227,197	1,411,580	(1,815,617)
Real property - Public Service Corporation	2,700,000	2,700,000	1,765,016	(934,984)
Personal property - current	17,000,000	17,000,000	17,762,821	762,821
Personal property - delinquent	2,055,584	2,055,584	1,956,962	(98,622)
Personal property - Public Service Corporation	1,200,000	1,200,000	3,541,661	2,341,661
Machine and tool taxes	2,094,000	2,094,000	1,305,940	(788,060)
Penalties and other charges	1,400,000	1,400,000	1,218,659	(181,341)
Interest	591,878	591,878	413,918	(177,960)
Total general property taxes	119,153,302	119,153,302	117,578,772	(1,574,530)
Other local taxes:				
Admission and amusement taxes	262,009	262,009	360,492	98,483
Bank franchise taxes	565,000	565,000	355,202	(209,798)
Business and occupational license taxes	6,255,000	6,255,000	5,778,760	(476,240)
Cigarette taxes	2,950,000	2,950,000	2,948,418	(1,582)
Licensing fees - current	1,600,000	1,600,000	1,668,587	68,587
Licensing fees - delinquent	476,342	476,342	384,832	(91,510)
Lodging taxes	775,000	775,000	694,341	(80,659)
Motor vehicle license fee	5,473	5,473	957	(4,516)
Recordation taxes	910,000	910,000	811,014	(98,986)
Restaurant food taxes	6,388,338	6,388,338	6,616,261	227,923
Sales and use tax - local	6,373,000	6,373,000	6,935,550	562,550
Short-term rental taxes	37,653	37,653	22,457	(15,196)
Miscellaneous	-	-	-	-
Telecommunications	9,661,000	9,661,000	8,488,113	(1,172,887)
Total other local taxes	36,258,815	36,258,815	35,064,984	(1,193,831)
Utility taxes:				
Electricity taxes	4,190,000	4,190,000	3,978,526	(211,474)
Gas taxes	1,474,000	1,474,000	1,304,219	(169,781)
Water taxes	2,020,000	2,020,000	2,135,704	115,704
Total utility taxes	7,684,000	7,684,000	7,418,449	(265,551)
Total taxes	163,096,117	163,096,117	160,062,205	(3,033,912)
Intergovernmental revenue:				
Commonwealth of Virginia:				
Noncategorical aid:				
Mobile home sales taxes	-	-	803	803
Personal property tax relief act	9,862,962	9,862,962	9,862,962	-
Recordation tax distribution	407,750	407,750	163,665	(244,085)
Rolling stock taxes	35,000	35,000	34,368	(632)
Vehicle rental tax	125,000	125,000	198,085	73,085

(continued)

CITY OF PORTSMOUTH, VIRGINIA

Schedule I-1, Continued

Budgetary Comparison Schedule
Schedule of Revenues and Other Financing Sources
General Fund
Year ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Commonwealth of Virginia, continued:				
Categorical aid - shared costs:				
Circuit Court Clerk	\$ 872,395	\$ 872,395	888,046	15,651
City Registrar	40,932	40,932	77,095	36,163
City Sheriff	5,770,041	5,770,041	5,706,741	(63,300)
City Treasurer	267,089	267,089	262,483	(4,606)
Commissioner of Revenue	248,124	248,124	225,857	(22,267)
Commonwealth Attorney	1,700,558	1,700,558	1,531,893	(168,665)
DMV select	50,000	50,000	69,369	19,369
Escheated property	-	-	-	-
Other categorical aid:				
Correctional facilities block grant	925,000	925,000	770,741	(154,259)
Law enforcement grant	5,786,223	5,786,223	5,786,668	445
Library funds - books	210,000	210,000	152,786	(57,214)
Street and highway maintenance	9,200,000	9,200,000	10,377,153	1,177,153
Other	-	-	-	-
Total Commonwealth of Virginia	35,501,074	35,501,074	36,108,715	607,641
Federal -				
FEMA reimbursement	-	-	-	-
Total Federal	-	-	-	-
Total intergovernmental revenue	35,501,074	35,501,074	36,108,715	607,641
Charges for services:				
Ambulance fees - current	2,475,000	2,475,000	1,789,800	(685,200)
Ambulance fees - delinquent	-	-	-	-
Animal crematory fees	1,000	1,000	-	(1,000)
Circuit Court Clerk fees	15,000	15,000	10,613	(4,387)
City Sheriff fees	19,000	19,000	17,697	(1,303)
Concession fees	14,000	14,000	13,716	(284)
Courthouse maintenance fees	55,000	55,000	66,426	11,426
Courthouse replacement fees	-	-	91,422	91,422
False alarm fees	29,000	29,000	25,090	(3,910)
Fire report fees	2,000	2,000	970	(1,030)
Fire and EMS attendance fees	15,000	15,000	4,925	(10,075)
Library fines and fees	58,000	58,000	35,957	(22,043)
DNA sample	1,000	1,000	618	(382)
Merchandise commissions	25,000	25,000	1,871	(23,129)
Erosion and sediment control	62,500	62,500	129,005	66,505
Museum admission charges	900,000	900,000	1,102,536	202,536
Cable TV local access channel fees	25,000	25,000	92,054	67,054
Police record fees	30,000	30,000	35,909	5,909
Recreation activity fees	130,000	130,000	162,631	32,631
Rental inspection fees	75,000	75,000	56,500	(18,500)
Inspections	23,000	23,000	41,473	18,473
Street closure applications	1,000	1,000	110	(890)
Plans and specifications	85,000	85,000	2,653	(82,347)
Swimming fees	-	-	1,846	1,846
Vacant structure	500	500	4,865	4,365
Engineering Inspections	1,000	1,000	-	(1,000)
Police Attendance	200,000	200,000	-	(200,000)
Splash Park	4,000	4,000	-	(4,000)
Pokey Smokey II	18,000	18,000	-	(18,000)
EMS Collections - Delinquent	-	-	140,106	
Bicycle Storage	-	-	75	
Miscellaneous recoveries	-	-	-	-
Total charges for services	4,264,000	4,264,000	3,828,868	(435,132)

(continued)

CITY OF PORTSMOUTH, VIRGINIA

Schedule I-1, Continued

Budgetary Comparison Schedule
Schedule of Revenues and Other Financing Sources
General Fund
Year ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Investment income-				
Investment income	\$ 10,000	10,000	9,922	(78)
Total investment income	10,000	10,000	9,922	(78)
Recovered costs:				
City garage fund	486,341	486,341	486,282	(59)
Information technology fund	280,938	280,938	280,938	-
Court appointed attorneys	1,300	1,300	887	(413)
Golf fund	85,165	85,165	85,166	1
Health department	57,000	57,000	72,309	15,309
Health insurance fund	11,276	11,276	11,276	-
Law library fund	1,638	1,638	1,640	2
Lockup fees - federal prisoners	-	-	-	-
Behavioral health services fund	351,582	351,582	351,582	-
DEA	-	-	41,456	41,456
Training academy upkeep	49,000	49,000	25,000	(24,000)
Parking authority	86,285	86,285	86,284	(1)
Citywide telephone charges	424,000	424,000	177,177	(246,823)
Fire watch/EMS	-	-	2,955	2,955
Postage	417,223	417,223	351,211	(66,012)
Public utility fund	757,047	757,047	757,047	-
Risk management fund	23,251	23,251	23,252	1
School Board salaries	50,000	50,000	50,000	-
Social security payments - jail	12,392	12,392	9,000	(3,392)
Stormwater management fund	76,533	76,533	76,534	1
Social services fund	476,631	476,631	243,901	(232,730)
VDOT salaries	20,000	20,000	-	(20,000)
Waste management fund	198,298	198,298	198,298	-
Other jail/prisoner recovered costs	-	-	-	-
Insurance recoveries	-	-	3,364	3,364
Jail Weekends	-	-	4,794	4,794
Prisoner Upkeep Fees	-	-	31,713	31,713
Fed Prisoner Transport	-	-	9,216	9,216
ATF	-	-	1,524	1,524
Other recovered costs	200,000	200,000	325,479	125,479
Total recovered costs	4,065,900	4,065,900	3,708,285	(357,615)
Fines and forfeitures:				
Circuit Court fines	11,000	11,000	12,128	1,128
Conviction fees	140,000	140,000	190,277	50,277
General District Court fines	300,000	300,000	648,169	348,169
Overweight vehicle fines	1,000	1,000	-	(1,000)
Juvenile Court fines	3,000	3,000	2,527	(473)
Total fines and forfeitures	455,000	455,000	853,101	398,101
Licenses and permits:				
Bicycle licenses	1,000	1,000	376	(624)
Building plan review fees	25,000	25,000	30,730	5,730
Building reinspection fees	6,700	6,700	7,035	335
Building structure permits	365,000	365,000	311,354	(53,646)
Dog impounding fees	3,000	3,000	1,440	(1,560)
Dog licenses	31,500	31,500	28,673	(2,827)
Electrical inspection fees	15,000	15,000	24,316	9,316
Electrical permits	98,000	98,000	88,909	(9,091)
Elevator inspection fees	3,600	3,600	-	(3,600)
Hauling and permit fees	85,000	85,000	77,510	(7,490)

(continued)

CITY OF PORTSMOUTH, VIRGINIA

Schedule I-1, Continued

Budgetary Comparison Schedule
Schedule of Revenues and Other Financing Sources
General Fund
Year ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Licenses and permits, continued:				
License transfer fees	\$ 2,400	2,400	2,465	65
Mechanical inspection fees	3,300	3,300	1,360	(1,940)
Mechanical permits	130,000	130,000	105,501	(24,499)
Miscellaneous permits	33,900	33,900	14,035	(19,865)
Penalties on licenses	75,000	75,000	37,453	(37,547)
Plumbing inspection fees	600	600	120	(480)
Plumbing permits	65,000	65,000	52,236	(12,764)
Restricted parking permits	3,700	3,700	3,608	(92)
Right of way permits	100,000	100,000	67,082	(32,918)
Sign permit fees	4,300	4,300	5,715	1,415
Site plan review fees	11,700	11,700	3,930	(7,770)
State surcharge on permits	2,900	2,900	(3,105)	(6,005)
Taxi operators permits	1,800	1,800	1,645	(155)
Yard sale permits	3,900	3,900	3,775	(125)
Zoning and plat fees	15,725	15,725	16,859	1,134
Total licenses and permits	1,088,025	1,088,025	883,022	(205,003)
Use of property:				
Rental of antenna sites	85,000	85,000	76,017	(8,983)
Rental of recreation facilities	38,000	38,000	29,373	(8,627)
Payments from Economic Development Authority	125,000	125,000	125,000	-
Rental of general properties	1,564,000	1,564,000	1,620,876	56,876
Total use of property	1,812,000	1,812,000	1,851,266	39,266
Miscellaneous:				
Unrealized Gain or Loss	-	-	83,229	83,229
Community share - incentive fund	500	500	-	(500)
Admin fee - state income tax	1,300	1,300	930	(370)
Admin fee - RE	410,000	410,000	354,904	(55,096)
Admin fee - PP	975,000	975,000	890,558	(84,442)
Admin fee - Parking	85,000	85,000	56,723	(28,277)
Admin fee - EMS	5,000	5,000	12,950	7,950
Admin fee - Gen	500	500	120	(380)
Vending Machine Commissions	-	-	5,296	5,296
Sale of abandoned property	5,000	5,000	2,842	(2,158)
Other revenue	30,000	9,973,787	9,977,575	3,788
Unclaimed property tax refunds	50,000	50,000	132	(49,868)
Payments in lieu of taxes:				
Housing Authority	26,000	26,000	-	(26,000)
Regional Jail	506,000	506,000	512,728	6,728
Virginia Port Authority	375,000	375,000	399,254	24,254
Public utility fund	1,020,000	1,020,000	1,020,000	-
Plan Use of Fund Balance	6,580,959	6,580,959	-	(6,580,959)
Cash Over/Under	-	-	17	17
Payment from Portsmouth Public Schools	200,000	200,000	297,195	97,195
Total miscellaneous revenue	10,270,259	20,214,046	13,614,453	(6,599,593)
Total revenues	220,562,375	230,506,162	220,919,837	(9,586,325)

(continued)

CITY OF PORTSMOUTH, VIRGINIA

Schedule I-1, Continued

Budgetary Comparison Schedule
Schedule of Revenues and Other Financing Sources
General Fund
Year ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Other financing sources:				
Proceeds - Bonds 2012A	0	-	24,480,000	24,480,000
Proceeds - Bonds Premiums 2012A	0	-	1,962,885	1,962,885
Proceeds - Bonds 2012B	0	-	6,970,000	6,970,000
Proceeds COI	250,000	250,000	-	(250,000)
Transfers from other funds:				
BHS	338,000	338,000	338,000	-
Parking Authority	196,125	196,125	-	(196,125)
Stormwater Management	282,550	282,550	282,550	-
Risk Management	0	410,000	410,000	-
Public utility fund	7,875,000	7,875,000	7,875,000	-
Total other financing sources	8,941,675	9,351,675	42,318,435	32,966,760
Total revenues and other financing sources	\$ 229,504,050	239,857,837	263,238,272	23,380,435

Unaudited - see accompanying independent auditors' report.

CITY OF PORTSMOUTH, VIRGINIA

Schedule I-2

Budgetary Comparison Schedule
Schedule of Expenditures and Other Financing Uses
General Fund
Year ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
General government:				
Administration:				
Legislative:				
City council	\$ 345,671	347,734	280,954	66,780
City clerk	302,610	309,186	308,291	895
Total legislative	648,281	656,920	589,245	67,675
Executive:				
City manager	989,882	1,011,692	712,990	298,702
Management and legislative services	438,958	442,952	339,771	103,181
Communications and marketing	1,525,305	1,654,820	1,566,907	87,913
Total executive	2,954,145	3,109,464	2,619,668	489,796
Boards and commissions:				
Civil service commission	64,400	64,400	33,046	31,354
General registrar	508,200	517,654	518,961	(1,307)
Total boards and commissions	572,600	582,054	552,007	30,047
Total administration	4,175,026	4,348,438	3,760,920	587,518
City attorney	1,417,429	2,081,967	2,002,994	78,973
Human resource management	989,318	1,021,546	854,213	167,333
Financial administration:				
Commissioner of revenue	1,385,528	1,462,069	1,409,605	52,464
City assessor	1,091,700	1,106,848	734,222	372,626
City treasurer	1,759,105	1,787,948	1,756,414	31,534
Procurement and risk management	1,088,476	1,107,454	949,850	157,604
Finance	1,890,598	1,942,231	1,742,949	199,282
Total financial administration	7,215,407	7,406,550	6,593,040	813,510
Public transportation	2,400,602	1,893,482	1,677,597	215,885
Total general government	16,197,782	16,751,983	14,888,764	1,863,219
Nondepartmental:				
Miscellaneous	13,698,094	13,848,499	11,158,205	2,690,294
Contingency	593,442	376,285	8,664	367,621
Support to civic organizations	331,206	338,326	329,428	8,898
Total nondepartmental	14,622,742	14,563,110	11,496,297	3,066,813

(continued)

CITY OF PORTSMOUTH, VIRGINIA

Schedule I-2, Continued

Budgetary Comparison Schedule
Schedule of Expenditures and Other Financing Uses
General Fund
Year ended June 30, 2012

		Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Judicial:					
Circuit court judges	\$	528,228	539,576	554,440	(14,864)
Circuit court clerk		1,385,847	1,418,937	1,418,160	777
Magistrate		10,243	10,243	8,061	2,182
General district court		48,896	48,896	41,092	7,804
Juvenile and domestic relations court		28,099	28,099	19,312	8,787
Juvenile court services		1,180,621	1,180,621	922,109	258,512
Commonwealth's attorney		2,311,010	2,368,399	2,484,332	(115,933)
Sheriff		10,261,353	11,706,144	11,636,707	69,437
Total judicial		15,754,297	17,300,915	17,084,213	216,702
Public safety:					
Police		33,770,233	34,274,647	30,726,328	3,548,319
E-911 communications		2,053,044	2,087,932	1,899,699	188,233
Operations Support bureau		62,702	62,702	310,837	(248,135)
Admin & Support bureau		-	-	388,755	(388,755)
Field Operations bureau		15,210	15,210	20,680	(5,470)
Animal control & security		890,409	891,281	615,459	275,822
Fire, rescue, and emergency services		27,786,999	28,235,914	26,838,201	1,397,713
Total public safety		64,578,597	65,567,686	60,799,959	4,767,727
Public works:					
Engineering		1,389,230	1,422,831	1,140,105	282,726
Streets and highways		3,702,884	3,722,209	3,288,463	433,746
Mosquito control		438,990	443,629	301,921	141,708
Traffic engineering		2,665,974	2,684,822	2,468,994	215,828
General services:					
Properties management		3,548,673	3,359,137	3,238,255	120,882
Utilities		1,977,000	2,294,775	2,261,358	33,417
Rental of land and buildings		921,604	823,368	823,152	216
Storeroom		-	-	11,070	(11,070)
Harbor Center pavilion		351,053	401,810	398,208	3,602
Total public works		14,995,408	15,152,581	13,931,526	1,221,055
Public health and welfare - Health department		1,149,060	1,186,217	1,185,960	257
Parks, recreation, and cultural:					
Parks and recreation - administration		4,129,814	4,107,128	3,597,911	509,217
Parks and recreation - recreation		356,550	356,550	253,316	103,234
Parks		1,997,660	1,952,660	1,573,874	378,786
Museums		1,821,755	1,859,077	1,853,599	5,478
Public library		2,215,808	2,259,914	2,095,724	164,190
Total parks, recreation, and cultural		10,521,587	10,535,329	9,374,424	1,160,905

(continued)

Budgetary Comparison Schedule
Schedule of Expenditures and Other Financing Uses
General Fund
Year ended June 30, 2012

		Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Community development:					
Permits and inspections	\$	2,518,151	2,551,143	2,307,488	243,655
Economic development		899,465	909,508	701,960	207,548
Planning		1,628,047	1,651,009	1,491,845	159,164
Total community development		5,045,663	5,111,660	4,501,293	610,367
Education - Payments to school board		49,571,413	49,571,413	49,571,413	-
Debt service:					
Principal		10,305,307	10,305,307	10,075,319	229,988
Interest and fiscal charges		13,680,072	13,680,072	12,721,525	958,547
Fiscal Charges		7,500	14,500	14,338	162
Costs of issuance		250,000	243,000	293,291	(50,291)
Total debt service		24,242,879	24,242,879	23,104,473	1,138,406
Total expenditures		216,679,428	219,983,773	205,938,322	14,045,451
Other financing uses:					
Transfers to other funds:					
Behavioral health services fund	\$	237,356	365,988	365,988	-
Social services fund		5,172,070	5,381,783	5,042,639	339,144
Courts cap reserve		1,818,803	1,818,803	1,818,803	-
Comprehensive services fund		2,764,093	2,764,093	911,667	1,852,426
Donations fund		47,000	47,000	-	47,000
Stormwater management fund		-	-	-	-
Grants fund		-	1,519,903	3,593	1,516,310
Public utility fund		-	-	-	-
Waste management fund		-	-	-	-
City garage fund		-	-	-	-
Information technology fund		-	-	-	-
Risk management fund		-	-	-	-
Parking authority		190,972	200,113	124,238	75,875
Golf		594,328	611,460	611,460	-
Willett Hall fund		-	2,683	2,683	-
Capital improvement fund		2,000,000	2,495,000	2,495,000	-
Total transfers to other funds		12,824,622	15,206,826	11,376,071	3,830,755
Payment to escrow agent		-	-	33,175,221	(33,175,221)
Total other financing uses		12,824,622	15,206,826	44,551,292	3,830,755
Total expenditures and other financing uses	\$	229,504,050	\$ 235,190,599	\$ 250,489,614	(15,299,015)

Unaudited - see accompanying independent auditors' report.

**Budgetary Comparison Schedule
Note to Required Supplementary Information
General Fund****Year ended June 30, 2012**

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, 2012, 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. 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, Stimulus Fund, Community Development Fund, and the Donations Fund. The Capital Projects Funds, Grants Fund, Stimulus Fund, Community Development Fund, and Donations 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. 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 generally accepted accounting principles (GAAP).

Required Supplementary Information (Unaudited)
Schedule of Funding Progress for Defined Benefit Pension Plans

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded (Overfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
I. CITY-ADMINISTERED PLANS:						
<i>A. Portsmouth Supplemental Retirement System:</i>						
7/1/2012	\$ 20,575,624	72,347,370	51,771,746	28%	\$ 1,795,000	2884%
7/1/2011	26,037,407	70,172,896	44,135,489	37%	2,214,000	1993%
7/1/2010	27,465,940	73,797,071	46,331,131	37%	2,702,000	1715%
7/1/2009	30,844,205	73,446,501	42,602,296	42%	3,831,000	1112%
7/1/2008	44,887,703	73,205,749	28,318,046	61%	4,155,000	682%
7/1/2007	47,383,449	70,564,879	23,181,430	67%	4,354,000	532%
7/1/2006	44,984,706	67,253,150	22,268,444	67%	4,472,000	498%
<i>B. Fire and Police Retirement System:</i>						
7/1/2012	\$ 75,342,856	237,953,903	162,611,047	32%	\$ 8,854,000	1837%
7/1/2011	81,076,403	217,251,227	136,174,824	37%	9,821,000	1387%
7/1/2010	78,994,174	216,550,641	137,556,467	36%	10,531,000	1306%
7/1/2009	76,943,962	214,676,887	137,732,925	36%	11,048,000	1247%
7/1/2008	99,468,964	210,696,128	111,227,164	47%	11,615,000	958%
7/1/2007	99,524,229	202,807,233	103,283,004	49%	12,015,000	860%
7/1/2006	91,076,751	184,555,196	93,478,445	49%	11,642,000	803%
II. VIRGINIA RETIREMENT SYSTEM PLANS:						
<i>A. City of Portsmouth Employees:</i>						
6/30/2011	\$ 205,840,390	255,942,936	50,102,546	80%	\$ 63,694,256	79%
6/30/2010	199,413,492	242,691,341	43,277,849	82%	64,578,829	67%
6/30/2009	196,708,288	215,980,918	19,272,630	91%	64,429,140	30%
6/30/2008	192,508,238	203,073,948	10,565,710	95%	66,204,197	16%
<i>B. School Board Nonprofessional Employees:</i>						
6/30/2011	\$ 25,829,515	35,671,426	9,841,911	72%	\$ 6,989,874	141%
6/30/2010	26,098,503	34,765,427	8,666,924	75%	8,053,701	108%
6/30/2009	26,438,978	32,184,146	5,745,168	82%	8,645,713	66%
6/30/2008	26,548,549	30,249,399	3,700,850	88%	8,007,998	46%

Unaudited - see accompanying independent auditors' report.

Required Supplementary Information (Unaudited)
Schedule of Employer Contributions for Defined Benefit Pension Plans

Year Ended June 30	Portsmouth Supplemental		Fire and Police	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2012	\$ 4,092,312	95%	\$ 13,326,055	103%
2011	3,744,866	84%	13,341,174	96%
2010	2,570,503	102%	11,384,382	111%
2009	2,265,220	100%	10,895,934	99%
2008	2,155,485	102%	9,814,500	102%
2007	2,326,033	100%	9,277,615	96%
2006	2,084,812	100%	8,583,893	100%
2005	1,678,576	99%	8,544,079	99%
2004	1,116,961	96%	5,790,202	97%
2003	1,191,196	100%	5,758,510	100%
2002	696,400	100%	4,241,278	100%

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

	Portsmouth Supplemental	Fire and Police	Virginia Retirement System
Valuation date	7/1/2012	7/1/2012	6/30/2011
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level dollar, open	Level dollar, open	Level percent, open
Remaining amortization period	24 years	24 years	30 Years
Asset valuation method	Five-Year Smoothed Long-Range Yield	Five-Year Smoothed Long-Range Yield	Five-Year Smoothed Market Value
Actuarial assumptions:			
Investment rate of return	7.25%	7.25%	7.00%
Projected salary increases:			
City-Administered Plans	3.00%	3.00%	3.00%
Virginia Retirement System:			
Non-LEO Employees	-	-	3.75 - 5.60%
LEO Employees	-	-	3.50 - 4.75%
Cost-of-living adjustments	2.50%	2.50%	2.25% - 2.5%

Unaudited - see accompanying independent auditors' report.

Required Supplementary Information (Unaudited)

Schedule of Funding Progress for Defined Other Post Employment Benefit Plans

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded (Overfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
CITY OF PORTSMOUTH RETIRED EMPLOYEES HEALTH CARE PROGRAM:						
7/1/2011	-	\$ 195,796,500	195,796,500	0%	70,574,100	277%
7/1/2010	-	221,375,695	221,375,695	0%	78,275,583	283%
7/1/2009	-	221,375,695	221,375,695	0%	73,342,372	302%

SCHOOL BOARD PLAN:

7/1/2012	10,241,149	\$ 12,204,795	1,963,646	84%	89,605,502	2%
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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:		
6/30/2012	\$ 16,398,000	3.0%
6/30/2011	16,455,303	35.0%
6/30/2010	16,455,303	25.0%
6/30/2009	13,811,219	37.1%

SCHOOL BOARD PLAN:

6/30/2012	\$ 1,060,000	667.0%
6/30/2011	1,005,217	99.0%
6/30/2010	1,025,000	98.0%
6/30/2009	1,004,007	125.0%

The fiscal year ended June 30, 2008 was the first year for which an actuarially determined AAL and ARC had been calculated for the City of Portsmouth Retired Employees Health Care Program, therefore, three prior years of history can be presented in the schedules on this page. Additional historical information will be added in future years.

Nonmajor Governmental Funds



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CITY OF PORTSMOUTH, VIRGINIA
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2012

Schedule J-1

	Special Revenue Funds											Permanent Fund - Cemetery	Total
	Behavioral Health Services	Public Law Library	Social Services	Stormwater Management	Grants	Stimulus	Comprehensive Services	Donations	Willetts Hall	Recreation	Community Development		
Assets:													
Cash and temporary investments	\$ 3,077,579	23,555	-	2,995,851	15,857	472,573	396,989	3,129,779	511,242	279,355	-	1,499,083	12,401,863
Accounts receivable (net of allowance for uncollectibles \$556,778)	4,335	-	16,014	343,008	-	29	-	-	38,899	-	-	-	402,285
Due from other governments	-	-	2,187,208	-	442,692	-	72,090	-	-	-	753,649	-	3,455,639
Prepaid items	-	-	-	-	-	-	-	-	2,223	-	-	-	2,223
Total assets	\$ 3,081,914	23,555	2,203,222	3,338,859	458,549	472,602	469,079	3,129,779	552,364	279,355	753,649	1,499,083	16,262,010
Liabilities:													
Accounts payable	\$ 157,428	3,163	460,773	16,482	29,757	31,750	468,066	99,304	97,779	107,729	169,791	-	1,642,022
Due to other governments	-	-	-	-	-	-	-	17,928	-	-	-	-	17,928
Due to other funds	-	-	2,021,141	-	189,572	-	-	-	-	-	534,306	-	2,745,019
Due to component units	-	-	-	-	-	52,247	-	-	-	-	-	-	52,247
Deferred revenues	-	-	-	57,650	-	-	-	-	-	-	-	-	57,650
Total liabilities	157,428	3,163	2,481,914	74,132	219,329	83,997	468,066	117,232	97,779	107,729	704,097	-	4,514,866
Fund balances:													
Nonspendable fund balances	-	-	-	-	-	-	-	-	2,223	-	-	1,000,000	1,002,223
Restricted fund balances	2,924,486	20,392	-	3,264,727	239,220	388,605	1,013	3,012,547	-	-	49,552	499,083	10,399,625
Committed fund balances	-	-	-	-	-	-	-	-	452,362	171,626	-	-	623,988
Unassigned fund balances	-	-	(278,692)	-	-	-	-	-	-	-	-	-	(278,692)
Total fund balances	2,924,486	20,392	(278,692)	3,264,727	239,220	388,605	1,013	3,012,547	454,585	171,626	49,552	1,499,083	11,747,144
Total liabilities and fund balances	\$ 3,081,914	23,555	2,203,222	3,338,859	458,549	472,602	469,079	3,129,779	552,364	279,355	753,649	1,499,083	16,262,010

CITY OF PORTSMOUTH, VIRGINIA

Schedule J-2

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

Year ended June 30, 2012

	Special Revenue Funds											Permanent Fund - Cemetery	Total
	Behavioral Health Services	Public Law Library	Social Services	Stormwater Management	Grants	Stimulus	Comprehensive Services	Donations	Willett Hall	Recreation	Community Development		
Revenues:													
Intergovernmental	\$ 9,344,981	-	15,664,277	-	2,762,599	3,125,594	2,472,835	370,580	-	-	2,937,333	-	36,678,199
Charges for services	519,049	31,734	-	6,623,560	-	-	-	-	123,512	625,918	-	42,500	7,966,273
Investment income	439	-	-	827	-	9,245	-	523	72	41	-	3,048	14,195
Use of property	-	-	-	-	-	-	-	-	63,596	-	166,530	-	230,126
Miscellaneous	3,915	-	-	18,561	10,550	-	-	1,062,274	-	-	-	-	1,095,300
Total revenues	9,868,384	31,734	15,664,277	6,642,948	2,773,149	3,134,839	2,472,835	1,433,377	187,180	625,959	3,103,863	45,548	45,984,093
Expenditures:													
Current:													
General government	-	-	-	-	492,047	47,569	-	73,086	-	-	-	-	612,702
Judicial	-	26,411	-	-	1,110,542	-	-	275,827	-	-	-	-	1,412,780
Public safety	-	-	-	-	1,225,566	30,586	-	184,317	-	-	-	-	1,440,469
Public works	-	-	-	1,656,871	-	-	-	-	-	-	-	-	1,656,871
Health and welfare	9,310,899	-	20,954,596	-	381,786	-	3,384,502	376,638	-	-	-	-	34,408,421
Parks, recreational, and cultural	-	-	-	-	383,370	-	-	452,032	224,039	657,496	-	-	1,716,937
Community development	-	-	-	-	-	389,305	-	-	-	-	3,210,890	-	3,600,195
Capital outlay	18,318	-	-	-	-	6,213,836	-	-	-	-	-	-	6,232,154
Total expenditures	9,329,217	26,411	20,954,596	1,656,871	3,593,311	6,681,296	3,384,502	1,361,900	224,039	657,496	3,210,890	-	51,080,529
Revenues over (under) expenditures	539,167	5,323	(5,290,319)	4,986,077	(820,162)	(3,546,457)	(911,667)	71,477	(36,859)	(31,537)	(107,027)	45,548	(5,096,436)
Other financing sources (uses):													
Transfers from other funds	365,988	-	5,042,639	-	20,943	-	911,667	-	2,683	-	-	-	6,343,920
Transfers to other funds	(355,350)	-	-	(3,600,001)	-	-	-	-	-	-	-	-	(3,955,351)
Total other financing sources (uses)	10,638	-	5,042,639	(3,600,001)	20,943	-	911,667	-	2,683	-	-	-	2,388,569
Net change in fund balances	549,805	5,323	(247,680)	1,386,076	(799,219)	(3,546,457)	-	71,477	(34,176)	(31,537)	(107,027)	45,548	(2,707,867)
Fund balances, beginning of year	2,374,681	15,069	(31,012)	1,878,651	1,038,439	3,935,062	1,013	2,941,070	488,761	203,163	156,579	1,453,535	14,455,011
Fund balances, end of year	\$ 2,924,486	20,392	(278,692)	3,264,727	239,220	388,605	1,013	3,012,547	454,585	171,626	49,552	1,499,083	11,747,144

CITY OF PORTSMOUTH, VIRGINIA

Schedule J-3

Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual

Special Revenue Funds

Year ended June 30, 2012

	Behavioral Health Services			Public Law Library		
	Budget	Actual	Variance favorable (unfavorable)	Budget	Actual	Variance favorable (unfavorable)
Revenues:						
Intergovernmental	\$ 10,019,485	9,344,981	(674,504)	-	-	-
Charges for services	670,000	519,049	(150,951)	31,026	31,734	708
Investment income	25,000	439	(24,561)	-	-	-
Miscellaneous	433,500	3,915	(429,585)	-	-	-
Total revenues	11,147,985	9,868,384	(1,279,601)	31,026	31,734	708
Expenditures:						
Current:						
Judicial	-	-	-	31,026	26,411	4,615
Health and welfare	11,139,623	9,310,899	1,828,724	-	-	-
Capital outlay	19,000	18,318	682	-	-	-
Total expenditures	11,158,623	9,329,217	1,829,406	31,026	26,411	4,615
Revenues over (under) expenditures	(10,638)	539,167	549,805	-	5,323	5,323
Other financing sources (uses) -						
Transfers from other funds	365,988	365,988	-	-	-	-
Transfers to other funds	(355,350)	(355,350)	-	-	-	-
Fund balance	-	-	-	-	-	-
Total other financing sources (uses)	10,638	10,638	-	-	-	-
Revenues and other financing sources over/ (under) expenditures and other financing uses	\$ -	549,805	549,805	\$ -	5,323	5,323
Fund balances at beginning of year		2,374,681	2,374,681		15,069	15,069
Cancellation of unexpended prior year encumbrances		-	-		-	-
Increase (decrease) in reserve for encumbrances		-	-		-	-
Fund balances at end of year	\$	2,924,486	2,924,486	\$	20,392	20,392

(continued)

CITY OF PORTSMOUTH, VIRGINIA

Schedule J-3, Continued

Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual

Special Revenue Funds

Year ended June 30, 2012

	Social Services			Stormwater Management		
	Budget	Actual	Variance favorable (unfavorable)	Budget	Actual	Variance favorable (unfavorable)
Revenues:						
Intergovernmental	\$ 23,406,648	15,664,277	(7,742,371)	-	-	-
Charges for services	-	-	-	6,685,600	6,623,560	(62,040)
Investment income	-	-	-	-	827	827
Miscellaneous	-	-	-	-	18,561	18,561
Total revenues	23,406,648	15,664,277	(7,742,371)	6,685,600	6,642,948	(42,652)
Expenditures:						
Current:						
Public works	-	-	-	1,869,937	1,656,871	213,066
Health and welfare	28,720,109	20,954,596	7,765,513	-	-	-
Capital outlay	68,322	-	68,322	-	-	-
Total expenditures	28,788,431	20,954,596	7,833,835	1,869,937	1,656,871	213,066
Revenues over (under) expenditures	(5,381,783)	(5,290,319)	91,464	4,815,663	4,986,077	170,414
Other financing sources (uses):						
Transfers from other funds	5,381,783	5,042,639	(339,144)	-	-	-
Transfers to other funds	-	-	-	(4,815,663)	(3,600,001)	1,215,662
Fund balance	-	-	-	-	-	-
Total other financing sources (uses)	5,381,783	5,042,639	(339,144)	(4,815,663)	(3,600,001)	1,215,662
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	(247,680)	(247,680)	<u>\$ -</u>	1,386,076	1,386,076
Fund balances at beginning of year		(31,012)	(31,012)		1,878,651	1,878,651
Cancellation of unexpended prior year encumbrances		-	-		-	-
Decrease in reserve for encumbrances		-	-		-	-
Fund balances at end of year	<u>\$</u>	<u>(278,692)</u>	<u>(278,692)</u>	<u>\$</u>	<u>3,264,727</u>	<u>3,264,727</u>

(continued)

CITY OF PORTSMOUTH, VIRGINIA

Schedule J-3, Continued

Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual

Special Revenue Funds

Year ended June 30, 2012

	Comprehensive Services			Willett Hall		
	Budget	Actual	Variance favorable (unfavorable)	Budget	Actual	Variance favorable (unfavorable)
Revenues:						
Intergovernmental	\$ 4,902,374	2,472,835	(2,429,539)	-	-	-
Charges for services	-	-	-	280,000	123,512	(156,488)
Investment income	-	-	-	-	72	72
Use of property	-	-	-	105,000	63,596	(41,404)
Miscellaneous	-	-	-	1,138	-	(1,138)
Total revenues	4,902,374	2,472,835	(2,429,539)	386,138	187,180	(198,958)
Expenditures -						
Current:						
Health and welfare	7,666,467	3,384,502	4,281,965	-	-	-
Parks, recreational and cultural	-	-	-	292,353	224,039	68,314
Total expenditures	7,666,467	3,384,502	4,281,965	292,353	224,039	68,314
Revenues over (under) expenditures	(2,764,093)	(911,667)	1,852,426	93,785	(36,859)	(130,644)
Other financing sources -						
Contribution to net assets	-	-	-	(96,468)	-	96,468
Transfers from other funds	2,764,093	911,667	(1,852,426)	2,683	2,683	-
Fund balance	-	-	-	-	-	-
Total other financing sources	2,764,093	911,667	(1,852,426)	(93,785)	2,683	96,468
Revenues and other financing sources over (under) expenditures	\$ -	-	-	\$ -	(34,176)	(34,176)
Fund balances at beginning of year		1,013	1,013		488,761	488,761
Cancellation of unexpended prior year encumbrances		-	-		-	-
Increase (decrease) in reserve for encumbrances		-	-		-	-
Fund balances at end of year	\$	1,013	1,013	\$	454,585	454,585

CITY OF PORTSMOUTH, VIRGINIA

Schedule J-3, Continued

Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual

Special Revenue Funds

Year ended June 30, 2012

	Recreation		
	Budget	Actual	Variance favorable (unfavorable)
Revenues:			
Charges for services	\$ 600,000	625,918	25,918
Investment income	-	41	41
Total revenues	600,000	625,959	25,959
Expenditures -			
Current -			
Community Development	-	-	-
Parks, recreational and cultural	552,435	657,496	(105,061)
Capital outlay	-	-	-
Total expenditures	552,435	657,496	(105,061)
Revenues over (under) expenditures	47,565	(31,537)	(79,102)
Other financing use -			
Transfers to other funds	(47,565)	-	47,565
Revenues over (under) expenditures and other financing use	\$ -	(31,537)	(31,537)
Fund balances at beginning of year		203,163	203,163
Increase/ (decrease) in reserve for encumbrances		-	-
Fund balances at end of year	\$	171,626	171,626

Nonmajor Proprietary Funds



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CITY OF PORTSMOUTH, VIRGINIA

Schedule K-1

Combining Statement of Net Assets

Nonmajor Proprietary Funds

June 30, 2012

	Port Facility and Economic Development	Golf	Waste Management	Total
Assets:				
Current assets:				
Cash and temporary investments	\$ -	176,317	10,053,066	10,229,383
Restricted cash and temporary investments	-	-	272,388	272,388
Accounts receivable (net of allowance for uncollectibles \$777,276)	-	777	2,293,647	2,294,424
Total current assets	-	177,094	12,619,101	12,796,195
Noncurrent assets:				
Capital assets:				
Land	1,830,251	9,605,289	2,909,275	14,344,815
Buildings	3,938,058	2,127,591	-	6,065,649
Improvements other than buildings	2,043,849	-	-	2,043,849
Machinery, furniture and equipment	-	1,217,095	7,291,120	8,508,215
Total capital assets	7,812,158	12,949,975	10,200,395	30,962,528
Less accumulated depreciation	(5,071,027)	(2,089,569)	(4,842,922)	(12,003,518)
Total capital assets, net	2,741,131	10,860,406	5,357,473	18,959,010
Other assets	-	74,960	3,627	78,587
Total noncurrent assets	2,741,131	10,935,366	5,361,100	19,037,597
Total assets	\$ 2,741,131	11,112,460	17,980,201	31,833,792
Liabilities:				
Current liabilities:				
Accounts payable	\$ -	37,211	487,235	524,446
Accrued interest payable	-	100,023	-	100,023
Deposits	10,000	-	-	10,000
Due to other funds	259,824	-	-	259,824
Compensated absences	-	45,953	175,428	221,381
Obligations under capital leases	-	-	900,313	900,313
General obligation bonds	-	365,690	-	365,690
Total current liabilities	269,824	548,877	1,562,976	2,381,677
Noncurrent liabilities:				
Other post employment benefit obligations	-	458,169	1,788,840	2,247,009
Compensated absences	-	31,690	38,248	69,938
Obligations under capital leases	-	-	1,120,913	1,120,913
Landfill closure and postclosure liability	-	-	6,156,057	6,156,057
General obligation bonds	-	6,038,643	-	6,038,643
Total noncurrent liabilities	-	6,528,502	9,104,058	15,632,560
Total liabilities	269,824	7,077,379	10,667,034	18,014,237
Net assets:				
Invested in capital assets, net of related debt	2,741,131	4,456,073	3,336,247	10,533,451
Unrestricted (deficit)	(269,824)	(420,992)	3,976,920	3,286,104
Total net assets	2,471,307	4,035,081	7,313,167	13,819,555
Total liabilities and net assets	\$ 2,741,131	11,112,460	17,980,201	31,833,792

CITY OF PORTSMOUTH, VIRGINIA

Schedule K-2

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets

Nonmajor Proprietary Funds

Year ended June 30, 2012

	Port Facility and Economic Development	Golf	Waste Management	Total
Operating revenues:				
Intergovernmental	\$ -	-	680,000	680,000
Charges for services	-	1,255,710	12,765,158	14,020,868
Use of property	-	100,000	-	100,000
Other	-	2,405	1,438	3,843
Total operating revenues	-	1,358,115	13,446,596	14,804,711
Operating expenses:				
Personnel services	-	877,730	3,579,336	4,457,066
Contractual services	-	450,600	5,960,266	6,410,866
Supplies and materials	-	184,562	111,672	296,234
Utilities	-	109,263	4,724	113,987
Internal charges	-	76,525	1,559,663	1,636,188
Rent	-	90,959	-	90,959
Depreciation and amortization	46,119	145,569	704,536	896,224
Closure/Post Closure	-	-	(433,555)	(433,555)
Other	-	1,881	202,191	204,072
Total operating expenses	46,119	1,937,089	11,688,833	13,672,041
Operating income (loss)	(46,119)	(578,974)	1,757,763	1,132,670
Nonoperating revenues (expenses):				
Investment income	-	-	1,321	1,321
Gain (loss) on disposal of capital assets	-	-	(43,168)	(43,168)
Interest expense and fiscal charges	-	(281,642)	(47,664)	(329,306)
Net nonoperating revenues (expenses)	-	(281,642)	(89,511)	(371,153)
Net income (loss) before transfers	(46,119)	(860,616)	1,668,252	761,517
Capital Contribution		150,329	-	150,329
Transfers from other funds	-	611,460	-	611,460
Change in net assets	(46,119)	(98,827)	1,668,252	1,523,306
Net assets, beginning of year	2,517,426	4,133,908	5,644,915	12,296,249
Net assets, end of year	\$ 2,471,307	4,035,081	7,313,167	13,819,555

CITY OF PORTSMOUTH, VIRGINIA

Schedule K-3

Combining Statement of Cash Flows

Nonmajor Proprietary Funds

Year ended June 30, 2012

	Port Facility and Economic Development	Golf	Waste Management	Total
Cash flows from operating activities:				
Receipts from customers	\$ -	1,358,765	13,894,808	15,253,573
Payments to suppliers	-	(925,872)	(7,893,928)	(8,819,800)
Payments to employees	-	(791,868)	(3,230,694)	(4,022,562)
Net cash provided by (used for) operating activities	-	(358,975)	2,770,186	2,411,211
Cash flows from noncapital financing activity -				
Transfers in / (out)	-	611,460	-	611,460
Net cash provided by (used in) noncapital financing activities	-	611,460	-	611,460
Cash flows from capital and related financing activities:				
Acquisition of PP&E	-	(155,258)	(582,236)	(737,494)
Issuance and refunding of long-term debt, net	-	3,829	128,684	132,513
Capital Contributions	-	150,329	-	150,329
Gain or (Loss) on Disposal of Assets	-	-	(43,168)	(43,168)
Principal paid on long-term debt	-	(65,000)	(685,800)	(750,800)
Interest paid	-	(244,149)	(47,664)	(291,813)
Net cash provided by (used in) capital and related financing activities	-	(310,249)	(1,230,184)	(1,540,433)
Cash flows from investing activities -				
Interest received	-	-	1,321	1,321
Net cash provided by investing activities	-	-	1,321	1,321
Net increase (decrease) in cash and temporary investments	-	(57,764)	1,541,323	1,483,559
Cash and temporary investments, beginning of year	-	234,081	8,784,131	9,018,212
Cash and temporary investments, end of year	\$ -	176,317	10,325,454	10,501,771
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities				
Operating income (loss)	\$ (46,119)	(578,974)	1,757,763	1,132,670
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation and amortization	46,119	145,569	704,536	896,224
Changes in assets and liabilities increasing (decreasing) cash and temporary investments:				
Accounts receivable	-	650	413,548	414,198
Accounts payable	-	(12,082)	(20,748)	(32,830)
Compensated absences	-	(9,277)	2,064	(7,213)
Other post employment benefit obligation	-	95,139	346,578	441,717
Landfill closure and postclosure liability	-	-	(433,555)	(433,555)
Net cash provided by (used for) operating activities	\$ -	(358,975)	2,770,186	2,411,211



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Internal Service Funds



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CITY OF PORTSMOUTH, VIRGINIA

Schedule L-1

Combining Statement of Net Assets

Internal Service Funds

June 30, 2012

	City Garage	Information Technology	Health Insurance	OPEB	Risk Management	Total
Assets:						
Current assets:						
Cash and temporary investments	\$ 4,622,805	1,894,298	4,095,515	5,500,000	16,789,731	32,902,349
Accounts receivable	193,513	50,511	331,198	-	-	575,222
Inventory of supplies	388,867	-	-	-	-	388,867
Total current assets	5,205,185	1,944,809	4,426,713	5,500,000	16,789,731	33,866,438
Capital assets:						
Land	15,048	-	-	-	-	15,048
Buildings	693,083	-	-	-	-	693,083
Intangible Assets	-	888,688	-	-	-	888,688
Machinery, furniture and equipment	22,032,593	5,067,159	-	-	-	27,099,752
Total capital assets	22,740,724	5,955,847	-	-	-	28,696,571
Less accumulated depreciation / amortization	(13,616,132)	(4,758,903)	-	-	-	(18,375,035)
Total capital assets, net	9,124,592	1,196,944	-	-	-	10,321,536
Total assets	\$ 14,329,777	3,141,753	4,426,713	5,500,000	16,789,731	44,187,974
Liabilities:						
Current liabilities:						
Accounts payable	\$ 504,252	272,663	13,807	-	49,710	840,432
Compensated absences	115,450	218,250	-	-	20,970	354,670
Obligations under capital leases	2,196,957	-	-	-	-	2,196,957
Claims payable	-	-	1,385,000	-	2,411,824	3,796,824
Total current liabilities	2,816,659	490,913	1,398,807	-	2,482,504	7,188,883
Noncurrent liabilities:						
Claims payable	-	-	-	-	10,078,973	10,078,973
Other post employment benefit obligation	952,988	816,271	-	-	138,411	1,907,670
Obligations under capital leases	6,086,403	-	-	-	-	6,086,403
Total noncurrent liabilities	7,039,391	816,271	-	-	10,217,384	18,073,046
Total liabilities	9,856,050	1,307,184	1,398,807	-	12,699,888	25,261,929
Net assets:						
Invested in capital assets, net of related debt	841,232	1,196,944	-	-	-	2,038,176
Unrestricted (deficit)	3,632,495	637,625	3,027,906	5,500,000	4,089,843	16,887,869
Total net assets	4,473,727	1,834,569	3,027,906	5,500,000	4,089,843	18,926,045
Total liabilities and net assets	\$ 14,329,777	3,141,753	4,426,713	5,500,000	16,789,731	44,187,974

CITY OF PORTSMOUTH, VIRGINIA

Schedule L-2

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets

Internal Service Funds

Year ended June 30, 2012

	City Garage	Information Technology	Health Insurance	OPEB	Risk Management	Total
Operating revenues:						
Charges for services	\$ 8,495,689	4,965,034	15,764,939	-	5,658,241	34,883,903
Other	1,426	27,435	648,094	-	357,800	1,034,755
Total operating revenues	8,497,115	4,992,469	16,413,033	-	6,016,041	35,918,658
Operating expenses:						
Personnel services	1,872,494	2,792,160	-	-	337,303	5,001,957
Contractual services	555,463	1,085,113	1,313,556	-	332,747	3,286,879
Supplies and materials	4,066,673	650,513	-	-	5,243	4,722,429
Utilities	60,049	89,099	-	-	1,994	151,142
Claims, settlements, and refunds	-	-	16,618,886	-	3,168,094	19,786,980
Insurance premiums	-	-	-	-	1,008,020	1,008,020
Depreciation and amortization	1,976,854	534,152	-	-	-	2,511,006
Other	490,041	287,284	11,276	-	26,033	814,634
Total operating expenses	9,021,574	5,438,321	17,943,718	-	4,879,434	37,283,047
Operating income	(524,459)	(445,852)	(1,530,685)	-	1,136,607	(1,364,389)
Nonoperating revenues (expenses):						
Investment income	946	254	641	-	2,448	4,289
Gain (loss) on disposal of capital assets	67,548	(3,105)	-	-	-	64,443
Interest expense and fiscal charges	(238,845)	-	-	-	-	(238,845)
Net nonoperating revenues (expenses)	(170,351)	(2,851)	641	-	2,448	(170,113)
Net income before transfers	(694,810)	(448,703)	(1,530,044)	-	1,139,055	(1,534,502)
Transfers from other funds	-	-	-	-	-	-
Transfers to other funds	-	-	-	-	(410,000)	(410,000)
Change in net assets	(694,810)	(448,703)	(1,530,044)	-	729,055	(1,944,502)
Net assets (deficit), beginning of year (note 17)	5,168,537	2,283,272	4,557,950	5,500,000	3,360,788	20,870,547
Net assets (deficit), end of year	\$ 4,473,727	1,834,569	3,027,906	5,500,000	4,089,843	18,926,045

CITY OF PORTSMOUTH, VIRGINIA

Schedule L-3

Combining Statement of Cash Flows

Internal Service Funds

Year ended June 30, 2012

	City Garage	Information Technology	Health Insurance	OPEB	Risk Management	Total
Cash flows from operating activities:						
Receipts from customers	\$ 11,189,636	4,975,177	16,104,735	-	6,016,041	38,285,589
Payments to suppliers	(5,426,679)	(1,869,000)	(17,997,271)	-	(4,764,284)	(30,057,234)
Payments to employees	(1,699,044)	(2,617,602)	-	-	(282,910)	(4,599,556)
Net cash provided by (used in) operating activities	4,063,913	488,575	(1,892,536)	-	968,847	3,628,799
Cash flows from noncapital financing activity -						
Transfers (out) / in	-	-	-	-	(410,000)	(410,000)
Net cash provided by (used in) noncapital financing activities	-	-	-	-	(410,000)	(410,000)
Cash flows from capital and related financing activities:						
Acquisition and construction of capital assets	(3,987,862)	(62,603)	-	-	-	(4,050,465)
Proceeds from sale of capital assets	67,548	-	-	-	-	67,548
Transfers In	-	-	-	-	-	-
Principal paid on long-term debt	(162,714)	(3,105)	-	-	-	(165,819)
Interest paid	(238,845)	-	-	-	-	(238,845)
Net cash provided by (used in) capital and related financing activities	(4,321,873)	(65,708)	-	-	-	(4,387,581)
Cash flows from investing activities -						
Interest received	946	254	641	-	2,448	4,289
Net cash provided by investing activities	946	254	641	-	2,448	4,289
Net increase (decrease) in cash and temporary investments	(257,014)	423,121	(1,891,895)	-	561,295	(1,164,493)
Cash and temporary investments, beginning of year	4,879,819	1,471,177	5,987,410	5,500,000	16,228,436	34,066,842
Cash and temporary investments, end of year	\$ 4,622,805	1,894,298	4,095,515	5,500,000	16,789,731	32,902,349
Adjustments to reconcile operating income to net cash provided by (used in) operating activities						
Operating income	\$ (524,459)	(445,852)	(1,530,685)	-	1,136,607	(1,364,389)
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation and amortization	1,976,854	534,152	-	-	-	2,511,006
Changes in assets and liabilities increasing (decreasing) cash and temporary investments:						
Accounts receivable	2,692,521	(17,292)	(308,298)	-	-	2,366,931
Inventory of supplies	178,979	-	-	-	-	178,979
Accounts payable	(433,432)	243,009	(134,863)	-	(63,888)	(389,174)
Compensated absences	(3,237)	11,462	-	-	28	8,253
Other post employment benefit obligation	176,687	163,096	-	-	54,365	394,148
Claims payable	-	-	81,310	-	(158,265)	(76,955)
Net cash provided by operating activities	\$ 4,063,913	488,575	(1,892,536)	-	968,847	3,628,799



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Fiduciary Funds



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CITY OF PORTSMOUTH, VIRGINIA**Schedule M-1****Combining Statement of Fiduciary Net Assets****Fiduciary Funds - Pension Trust Funds****June 30, 2012**

	Portsmouth Supplemental Retirement System	Portsmouth Fire and Police Retirement System	Total
Assets:			
Cash	\$ 619,896	1,504,455	2,124,351
Investments:			
Common stock	12,586,108	48,551,817	61,137,925
Corporate bonds	5,288,550	20,400,959	25,689,509
Total assets	\$ 18,494,554	70,457,231	88,951,785
Net assets held in trust for pension benefits	\$ 18,494,554	70,457,231	88,951,785

CITY OF PORTSMOUTH, VIRGINIA

Schedule M-2

Combining Statement of Changes in Fiduciary Net Assets

Fiduciary Funds - Pension Trust Funds

Year ended June 30, 2012

	Portsmouth Supplemental Retirement System	Portsmouth Fire and Police Retirement System	Total
Additions:			
Contributions	\$ 3,879,069	13,506,697	17,385,766
Investment income -			
Net increase in the fair value of investments	(2,141)	517,744	515,603
Less investment expense	(62,343)	(201,384)	(263,727)
Net investment income	(64,484)	316,360	251,876
Total additions	3,814,585	13,823,057	17,637,642
Deductions - benefits and refunds	7,570,129	17,602,504	25,172,633
Change in net assets	(3,755,544)	(3,779,447)	(7,534,991)
Net plan assets held in trust for pension benefits, beginning of year	22,250,098	74,236,678	96,486,776
Net plan assets held in trust for pension benefits, end of year	\$ 18,494,554	70,457,231	88,951,785

CITY OF PORTSMOUTH, VIRGINIA**Schedule M-3****Statement of Changes in Assets and Liabilities****Fiduciary Funds - Agency Fund****Year ended June 30, 2012**

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
Assets:				
Cash and temporary investments	\$ 90,926	100,395	56,149	135,172
Liabilities:				
Cash held for others	\$ 90,926	100,416	56,170	135,172



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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

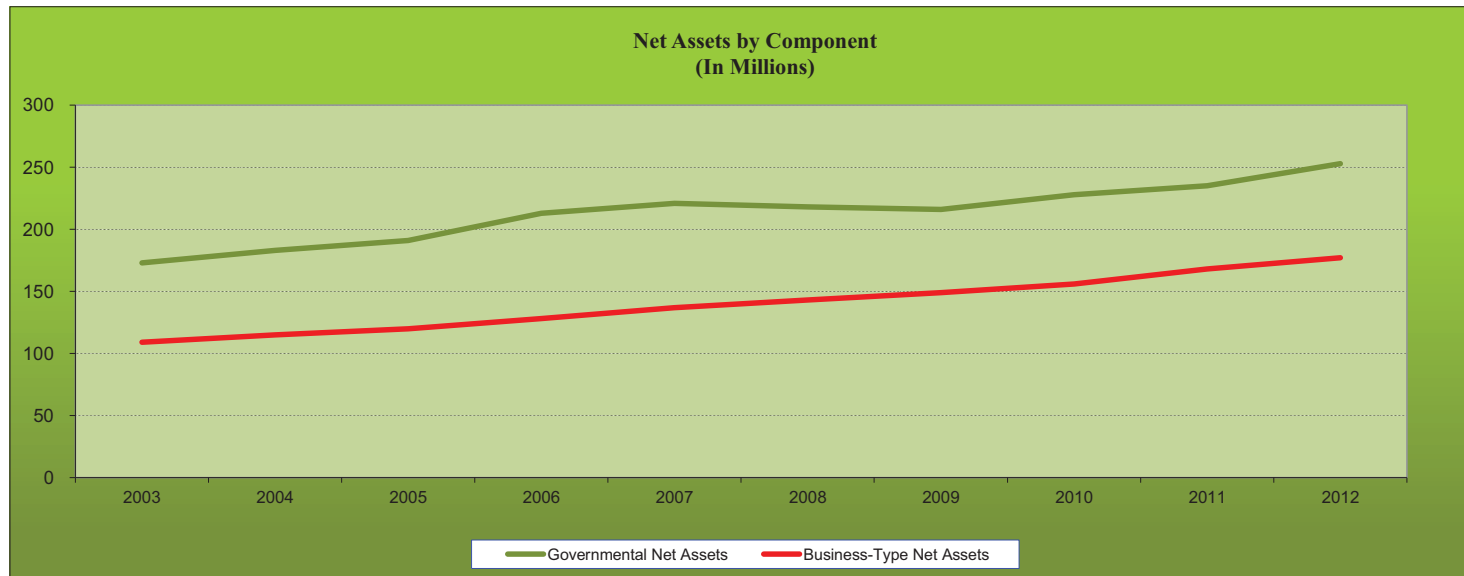
Net Assets by Component

Last Ten Fiscal Years

(accrual basis of accounting)

A-1

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental activities:										
Invested in capital assets, net of related debt	179,158,480	174,607,640	175,288,130	167,581,045	178,183,374	187,359,078	176,415,840	179,076,283	186,101,165	196,244,783
Restricted (Restricted,Nonspend,Committed, Assigned)	6,325,007	9,560,635	6,341,840	14,958,699	10,510,194	5,588,429	12,438,087	16,014,789	15,421,510	45,127,451
Unrestricted / (Unassigned)	(12,181,708)	(975,637)	10,112,505	30,296,025	32,295,766	24,710,887	27,319,933	32,818,638	33,924,914	11,685,932
Total governmental activities net assets	173,301,779	183,192,638	191,742,475	212,835,769	220,989,334	217,658,394	216,173,860	227,909,710	235,447,589	253,058,166
Business-type activities:										
Invested in capital assets, net of related debt	94,189,421	95,356,124	105,115,529	104,805,799	108,111,466	112,115,139	114,270,026	122,952,622	128,135,654	132,261,301
Restricted (Restricted,Nonspend,Committed, Assigned)	5,097,480	7,943,529	-	-	2,190,726	3,389,920	4,117,658	12,131	-	22,450
Unrestricted / Unassigned)	9,562,355	12,176,618	15,026,250	23,530,011	26,316,690	27,320,964	30,213,505	33,143,573	39,934,125	44,949,451
Total business-type activities net assets	108,849,256	115,476,271	120,141,779	128,335,810	136,618,882	142,826,023	148,601,189	156,108,326	168,069,779	177,233,202
Primary government:										
Invested in capital assets, net of related debt	273,347,901	269,963,764	280,403,659	272,386,844	286,294,840	299,474,217	290,685,866	302,028,905	314,236,819	328,506,084
Restricted (Restricted,Nonspend,Committed, Assigned)	11,422,487	17,504,164	6,341,840	14,958,699	12,700,920	8,978,349	16,555,745	16,026,920	15,421,510	45,149,901
Unrestricted / Unassigned)	(2,619,353)	11,200,981	25,138,755	53,826,036	58,612,456	52,031,851	57,533,438	65,962,211	73,859,039	56,635,383
Total primary government net assets	282,151,035	298,668,909	311,884,254	341,171,579	357,608,216	360,484,417	364,775,049	384,018,036	403,517,368	430,291,368



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

A-2

	Fiscal year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Expenses:										
Governmental activities:										
General government	\$ 11,720,023	11,692,728	13,328,360	20,456,662	30,899,380	17,457,023	26,462,771	25,866,086	28,573,377	30,092,575
Nondepartmental	8,366,152	4,762,967	5,898,408	-	-	6,135,893	-	-	-	-
Judicial	15,773,813	17,691,137	16,427,965	17,340,546	18,098,589	20,995,575	22,068,062	21,162,771	20,042,432	19,262,329
Public safety	42,400,606	40,994,089	46,918,455	49,239,795	53,309,122	58,580,530	59,957,146	63,317,938	62,543,317	67,822,960
Public works	27,141,064	27,619,634	27,842,278	29,444,928	29,347,705	31,141,010	29,535,176	20,801,656	20,669,966	19,227,479
Health and welfare	31,324,968	29,243,499	32,467,973	36,185,435	39,099,957	41,037,989	40,267,351	39,291,574	38,261,597	37,676,063
Parks, recreational, and cultural	10,253,492	11,772,825	11,774,542	11,154,672	12,440,345	13,017,308	13,000,940	12,702,857	12,333,047	12,165,461
Community development	9,199,557	7,787,772	10,543,456	10,226,594	12,716,520	9,577,401	9,306,525	14,441,114	7,738,435	8,697,999
Education	29,338,070	29,686,110	32,897,229	38,499,873	44,642,509	57,072,177	53,881,305	54,518,784	50,591,187	51,759,963
Interest on long-term debt	10,736,872	8,763,884	9,456,475	10,933,509	11,135,778	11,642,071	10,573,858	10,486,906	13,258,680	12,743,363
Total governmental activities expenses	196,254,617	190,014,645	207,555,141	223,482,014	251,689,905	266,656,977	265,053,134	262,589,686	254,012,038	259,448,192
Business-type activities:										
Public Utility	14,220,589	14,943,547	16,370,484	16,642,684	18,073,378	21,132,727	22,589,478	21,621,779	21,142,197	23,289,442
Golf	2,078,915	2,287,630	2,129,150	1,897,023	2,322,069	2,467,403	2,400,930	2,393,003	2,322,045	2,218,731
Port Facility and Economic Development	206,270	237,204	200,977	87,904	86,922	86,922	86,922	66,520	46,118	46,119
Parking Authority	-	-	-	1,599,666	1,615,350	1,750,784	1,644,011	1,625,763	1,582,680	1,558,720
Waste Management	8,203,881	16,106,743	8,467,640	8,762,865	9,567,874	12,086,129	12,314,318	14,138,088	13,576,422	11,779,665
Total business-type activities expenses	24,709,655	33,575,124	27,168,251	28,990,142	31,665,593	37,523,965	39,035,659	39,845,153	38,669,462	38,892,677
Total primary government expenses	220,964,272	223,589,769	234,723,392	252,472,156	283,355,498	304,180,942	304,088,793	302,434,839	292,681,500	298,340,869
Program Revenues:										
Governmental activities:										
Charges for services										
General government	1,914,330	2,518,350	3,101,531	4,578,378	4,118,356	2,130,746	2,146,434	1,774,399	1,891,508	1,785,252
Judicial	567,627	874,555	623,452	723,516	663,258	384,600	224,907	240,998	708,180	1,004,567
Public safety	1,384,989	1,355,608	1,421,276	1,927,252	2,108,401	2,487,410	1,298,471	2,637,180	1,673,586	2,119,660
Public works	9,462,417	11,057,015	4,214,193	4,767,368	5,270,651	5,520,368	5,637,793	6,330,032	6,880,735	7,316,713
Health and welfare	2,412,970	2,764,962	2,456,517	3,283,363	2,928,297	523,597	431,309	414,062	538,388	519,049
Parks, recreation, and cultural	804,581	1,560,925	1,433,282	1,705,343	1,157,796	1,629,137	1,579,501	1,352,352	1,302,264	2,160,956
Community development	506,917	859,665	2,765,041	1,773,415	986,880	705,244	491,841	495,427	518,730	523,373
Operating grants and contributions	62,284,664	66,646,513	68,278,728	73,251,426	74,604,092	79,783,849	79,186,102	82,372,531	77,217,853	86,594,753
Capital grants and contributions	3,857,871	1,817,612	1,416,967	2,788,448	3,773,230	5,062,734	500,000	4,635,095	3,344,556	6,070,568
Total governmental activities program revenues	83,196,366	89,455,205	85,710,987	94,798,509	95,610,961	98,227,685	91,496,358	100,252,076	94,075,800	108,094,891
Business-type activities:										
Charges for services:										
Public Utility	20,872,297	23,337,218	29,771,198	31,023,177	32,433,324	33,522,674	35,337,953	35,530,749	39,910,309	39,594,823
Golf	1,483,492	1,523,235	1,508,307	1,660,710	1,735,064	1,688,008	1,363,934	1,329,452	1,305,030	1,355,710
Port Facility and Economic Development	544,836	544,836	544,836	568,279	580,000	290,000	-	-	-	-
Parking Authority	-	-	-	1,010,413	991,755	1,063,479	1,079,056	1,071,822	1,060,760	1,111,152
Waste Management	6,884,627	7,342,536	7,290,352	7,440,339	9,375,993	12,466,329	12,332,045	15,037,913	14,123,658	12,765,158

(continued)

CITY OF PORTSMOUTH, VIRGINIA

Changes in Net Assets

Last Ten Fiscal Years

(accrual basis of accounting)

A-2, Continued

	Fiscal year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Business-type activities, continued:										
Operating grants and contributions	-	6,720,303	1,312,180	685,994	685,994	685,994	680,000	680,000	680,000	680,000
Capital grants and contributions	\$ 1,333,457	-	-	987,911	246,200	50,150	118,438	-	-	-
Total business-type activities program revenues	31,118,709	39,468,128	40,426,873	43,376,823	46,048,330	49,766,634	50,911,426	53,649,936	57,079,757	55,506,843
Total primary government program revenues	114,315,075	128,923,333	126,137,860	138,175,332	141,659,291	147,994,319	142,407,784	153,902,012	151,155,557	163,601,734
Net (Expense)/Revenue										
Governmental activities	(113,058,251)	(100,559,440)	(121,844,154)	(128,683,505)	(156,078,944)	(168,429,292)	(173,556,776)	(162,337,610)	(159,936,238)	(151,353,301)
Business-type activities	6,409,054	5,893,004	13,258,622	14,386,681	14,382,737	12,242,669	11,875,767	13,804,783	18,410,295	16,614,166
Total primary government net (expense)/revenue	(106,649,197)	(94,666,436)	(108,585,532)	(114,296,824)	(141,696,207)	(156,186,623)	(161,681,009)	(148,532,827)	(141,525,943)	(134,739,135)
General Revenues and Other Changes in Net Assets:										
Governmental activities:										
Taxes:										
General property taxes	65,341,144	66,675,560	77,027,006	86,704,528	101,207,980	105,883,360	117,984,153	120,258,870	115,291,349	118,370,186
Other local taxes	22,426,385	24,370,065	25,714,884	27,002,058	27,929,104	37,862,311	35,706,007	36,601,504	34,894,374	35,064,984
Utility taxes	14,572,822	14,523,797	14,627,996	15,032,684	14,794,915	7,698,211	7,676,029	7,579,044	7,709,251	7,418,449
Licenses, permits, and privilege fees	-	-	-	-	-	-	-	-	-	-
Payment from component unit	-	-	-	-	-	-	-	-	-	-
Investment earnings	235,171	123,576	891,305	1,532,174	3,198,654	2,090,950	693,008	168,877	168,418	102,301
Net gain on disposal of capital assets	-	-	-	3,574,493	139,440	-	-	-	-	(75,704)
Miscellaneous	3,595,513	3,531,490	2,848,605	5,125,187	2,621,370	2,956,892	2,424,036	2,568,498	2,302,921	2,433,785
Special Item	-	-	-	(2,236,629)	-	-	-	-	-	-
Transfers	1,290,579	1,225,811	9,284,195	8,537,144	9,553,108	8,606,628	7,382,948	6,896,667	7,106,789	8,008,973
Total governmental activities	107,461,614	110,450,299	130,393,991	145,271,639	159,444,571	165,098,352	171,866,181	174,073,460	167,473,102	171,322,974
Business-type activities:										
Investment earnings	226,357	125,694	793,616	1,127,642	2,622,827	1,884,812	610,492	154,560	106,869	95,376
Special item - gain on sale of golf course	-	-	-	-	-	-	-	-	-	-
Gain on sale of capital assets	30,169	-	426,323	20,006	(147,433)	31,984	4,176	32,775	(69,991)	-
Miscellaneous	1,335,487	1,834,128	371,142	479,866	1,029,816	654,304	667,679	499,410	716,744	462,854
Transfers	(1,290,579)	(1,225,811)	(9,284,195)	(8,537,144)	(9,553,108)	(8,606,628)	(7,382,948)	(6,984,391)	(7,106,789)	(8,008,973)
Total business-type activities	301,434	734,011	(7,693,114)	(6,909,630)	(6,047,898)	(6,035,528)	(6,100,601)	(6,297,646)	(6,353,167)	(7,450,743)
Total primary government	107,763,048	111,184,310	122,700,877	138,362,009	153,396,673	159,062,824	165,765,580	167,775,814	161,119,935	163,872,231
Change in Net Assets:										
Governmental activities	(5,596,637)	9,890,859	8,549,837	16,588,134	3,365,627	(3,330,940)	(1,690,595)	11,735,850	7,536,864	19,969,673
Business-type activities	6,710,488	6,627,015	5,565,508	7,477,051	8,334,839	6,207,141	5,775,166	7,507,137	12,057,128	9,163,423
Total primary government	\$ 1,113,851	16,517,874	14,115,345	24,065,185	11,700,466	2,876,201	4,084,571	19,242,987	19,593,992	29,133,096

CITY OF PORTSMOUTH, VIRGINIA

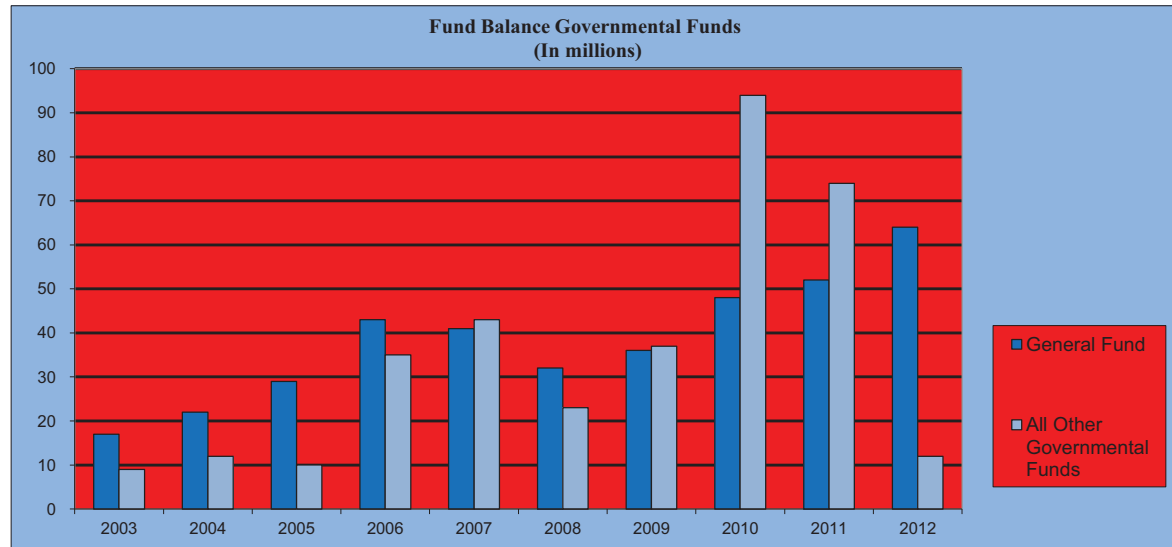
Fund Balances, Governmental Funds

Last Ten Fiscal Years (modified accrual basis of accounting)

A-3

	Fiscal year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Fund										
Reserved	\$ 1,978,078	3,319,963	1,997,783	6,300,760	5,069,051	5,707,974	3,246,548	2,934,768	-	-
Unreserved	14,924,689	18,730,024	27,492,525	36,473,047	35,452,633	26,328,953	32,608,666	45,394,978	-	-
Nonspendable	-	-	-	-	-	-	-	-	2,660,735	2,464,610
Restricted	-	-	-	-	-	-	-	-	140,677	295,762
Committed	-	-	-	-	-	-	-	-	-	7,880,834
Assigned	-	-	-	-	-	-	-	-	60,627	5,846
Unassigned	-	-	-	-	-	-	-	-	48,667,799	53,631,444
Total General Fund	16,902,767	22,049,987	29,490,308	42,773,807	40,521,684	32,036,927	35,855,214	48,329,746	51,529,838	64,278,496
All Other Governmental Funds										
Reserved	4,559,671	4,072,248	6,745,024	13,796,697	12,992,195	12,390,140	9,013,543	17,861,357	-	-
Unreserved, reported in:										
Special revenue funds	3,272,243	5,764,887	6,043,199	6,380,664	5,933,041	5,230,281	6,219,375	19,580,665	-	-
Permanent funds (1)	100,213	120,002	140,468	185,397	297,604	407,268	394,025	448,205	-	-
Capital projects funds	810,330	2,100,788	(2,530,084)	14,573,363	24,241,983	5,390,537	21,751,465	56,173,437	-	-
Nonspendable	-	-	-	-	-	-	-	-	1,002,223	1,002,223
Restricted	-	-	-	-	-	-	-	-	72,136,623	43,831,689
Committed	-	-	-	-	-	-	-	-	689,701	623,988
Unassigned	-	-	-	-	-	-	-	-	(29,999)	(278,692)
Total all other governmental funds	\$ 8,742,457	12,057,925	10,398,607	34,936,121	43,464,823	23,418,226	37,378,408	94,063,664	73,798,548	45,179,208

* Classification change (GASB 54) FY11 Special Revenue, Permanent, & Capital Projects fund balance is comprised of Restricted, Nonspendable, Committed, and Assigned fund balances



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

A-4

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Revenues										
Taxes	\$ 101,887,513	105,968,051	116,523,150	129,336,845	142,304,393	151,595,074	161,152,304	163,986,237	159,191,656	160,062,205
Licenses and permits	584,412	952,160	991,695	1,162,977	1,341,290	1,153,187	926,923	1,136,981	1,117,152	883,022
Fines and forfeitures	237,563	480,247	409,096	335,211	292,244	172,007	173,529	184,741	572,821	853,101
Investment income and use of property	2,799,451	3,104,812	5,754,735	5,331,493	6,058,766	4,539,471	3,181,215	2,287,625	2,316,889	2,179,404
Charges for services	14,112,958	17,029,881	9,668,285	13,324,845	12,541,445	9,264,732	8,189,038	9,773,256	9,468,478	11,795,141
Recovered costs	3,113,520	2,992,593	3,460,190	6,220,227	3,622,340	4,676,217	4,135,037	4,331,770	4,085,061	3,708,285
Miscellaneous	3,029,616	2,847,396	2,499,809	3,030,478	3,114,090	5,372,509	4,556,269	9,434,921	4,931,402	17,765,172
Intergovernmental	61,837,855	65,943,667	66,665,474	73,155,576	76,192,266	80,210,496	76,140,401	78,583,705	76,639,575	75,920,149
Sale of commodities and property	394,649	296,891	2,064	3,574,493	139,440	242,770	-	-	-	-
Total revenues and other sources	187,997,537	199,615,698	205,974,498	235,472,145	245,606,274	257,226,463	258,454,716	269,719,236	258,323,034	273,166,479
Expenditures										
General government	9,929,164	11,900,198	13,415,671	20,992,502	23,229,371	17,701,336	16,146,243	15,503,424	15,711,620	15,501,466
Nondepartmental	8,074,445	4,904,095	5,977,663	-	-	6,681,149	9,503,827	9,276,215	9,975,985	11,496,297
Judicial	14,646,606	17,500,634	16,322,948	17,215,246	18,424,590	19,869,269	20,605,038	19,198,298	18,945,494	18,496,993
Public safety	39,670,980	41,291,931	46,172,069	49,027,166	53,524,102	58,276,566	59,009,982	60,853,783	60,446,711	62,240,428
Public works	14,365,424	16,241,531	14,650,017	16,626,200	17,092,893	18,274,869	17,413,077	15,539,098	16,033,880	15,588,397
Health and welfare	30,361,124	30,711,542	32,985,326	37,175,910	40,762,079	42,530,195	41,062,430	38,131,285	37,792,064	35,594,381
Parks, recreation, and cultural	9,599,708	11,758,214	11,530,155	11,077,141	12,010,340	12,804,623	12,230,804	11,577,153	11,608,738	11,091,361
Community development	7,673,720	7,009,129	9,858,641	9,383,948	11,418,822	9,435,979	9,033,730	9,476,115	7,175,300	8,101,488
Debt service:										
Principal	9,368,684	11,644,093	10,664,670	12,044,668	13,681,588	15,818,354	14,251,629	10,467,075	9,843,352	10,075,319
Interest	10,309,474	8,184,113	9,840,530	10,867,394	10,708,805	11,465,427	10,329,837	11,185,563	12,332,018	13,029,154
Education	28,166,130	28,541,291	31,352,585	36,670,336	42,683,991	49,845,490	49,818,483	48,171,651	48,171,651	49,571,413
Capital outlay	10,523,767	13,192,881	18,728,969	14,604,621	27,392,620	32,181,996	21,638,382	33,782,150	58,653,655	46,037,429
Total expenditures	192,689,226	202,879,652	221,499,244	235,685,132	270,929,201	294,885,253	281,043,462	283,161,810	306,690,468	296,824,126
Excess of revenues over (under) expenditures	(4,691,689)	(3,263,954)	(15,524,746)	(212,987)	(25,322,927)	(37,658,790)	(22,588,746)	(13,442,574)	(48,367,434)	(23,657,647)
Other financing sources (uses)										
Transfers in	9,062,933	9,424,450	16,346,941	19,874,456	23,954,536	24,610,728	20,261,687	22,382,161	22,117,233	22,880,724
Transfers out	(9,612,570)	(9,068,639)	(7,891,613)	(12,085,891)	(15,449,048)	(15,483,292)	(11,137,307)	(16,730,817)	(16,492,768)	(15,331,422)
Proceeds from capital leases	-	-	1,715,354	-	-	-	358,080	-	-	-
Proceeds from debt issued	4,031,858	80,715,550	11,167,049	-	-	-	157,743	2,219,887	-	-
Payments from component unit	-	-	-	-	-	-	-	-	-	-
Discount on bonds issued	-	-	(49,926)	(67,183)	(24,491)	-	(351,552)	(1,777,830)	-	-
VPSA Subsidy	-	-	-	-	-	-	-	1,324,727	-	-
Payments to escrow agent	-	(69,336,929)	-	(38,330,411)	(36,133,012)	-	(45,565,623)	-	-	-
Payment for current refunding of debt	-	-	-	-	(7,980,000)	-	-	-	-	-
Premium on bonds issued	-	-	-	1,440,585	310,130	-	994,187	839,121	3,908,502	1,962,885
General obligation bonds issued	-	-	-	24,635,213	23,259,753	-	-	74,345,113	68,547,102	31,450,000
BAN Proceeds	-	-	-	-	-	-	29,925,000	-	-	-
Refunding bonds issued	-	-	-	40,624,787	43,640,000	-	45,725,000	-	(46,778,674)	(33,175,221)
Total other financing sources (uses)	3,482,221	11,734,432	21,287,805	36,091,556	31,577,868	9,127,436	40,367,215	82,602,362	31,301,395	7,786,966
Special item - payment to component unit	-	-	-	(2,236,629)	-	-	-	-	-	-
Net change in fund balances	\$ (1,209,468)	8,470,478	5,763,059	33,641,940	6,254,941	(28,531,354)	17,778,469	69,159,788	(17,066,039)	(15,870,681)
Debt service as a percentage of noncapital expenditures	10.80%	10.45%	10.11%	10.36%	10.02%	10.39%	9.48%	8.68%	8.94%	9.21%

CITY OF PORTSMOUTH, VIRGINIA

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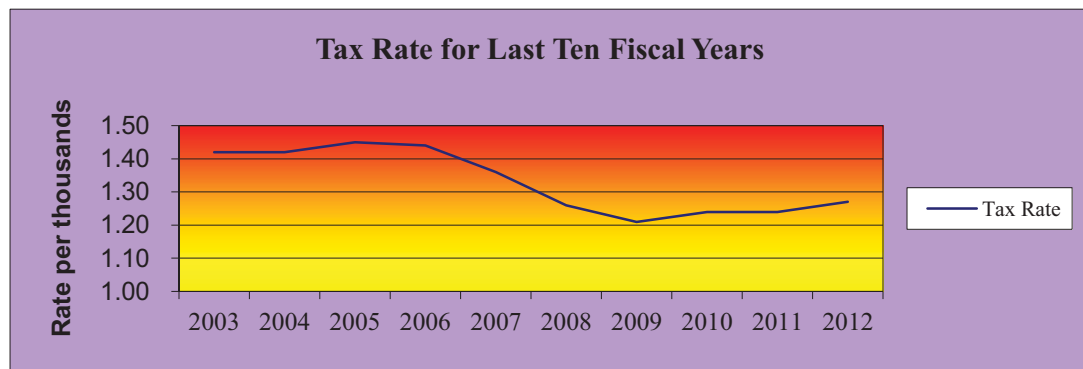
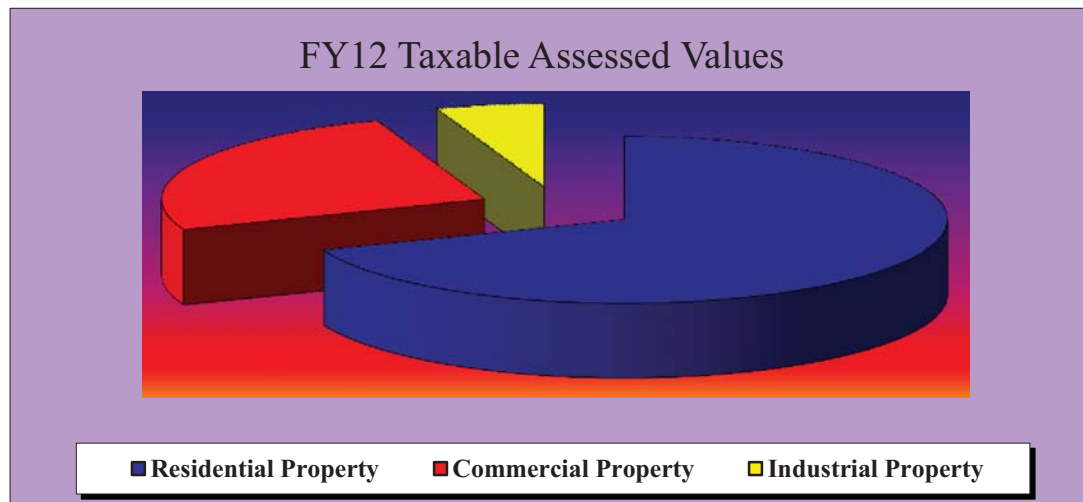
Assessed Value and Estimated Actual Value of Taxable Real Property

Last Ten Fiscal Years

(in thousands of dollars)

Fiscal Year Ended 30-Jun	Residential Property	Commercial Property	Industrial Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value
2012	\$ 5,132,403	\$ 1,900,610	\$ 402,017	\$ 7,435,030	1.27	\$ 9,506,777
2011	5,198,747	1,729,629	404,688	7,333,064	1.24	9,155,769
2010	5,452,716	1,818,679	406,222	7,677,617	1.24	9,570,375
2009	5,456,525	1,717,052	418,087	7,591,664	1.21	9,338,509
2008	4,967,919	1,487,540	203,354	6,658,814	1.26	8,747,238
2007	4,128,828	1,507,162	104,730	5,740,721	1.36	7,752,616
2006	3,314,028	1,091,120	87,007	4,492,155	1.44	6,239,104
2005	2,886,714	995,814	78,203	3,960,731	1.45	4,125,762
2004	2,581,971	960,422	66,868	3,609,261	1.42	3,759,647
2003	2,432,943	909,501	92,597	3,435,041	1.42	3,578,168

Source: City Assessor's Office



CITY OF PORTSMOUTH, VIRGINIA

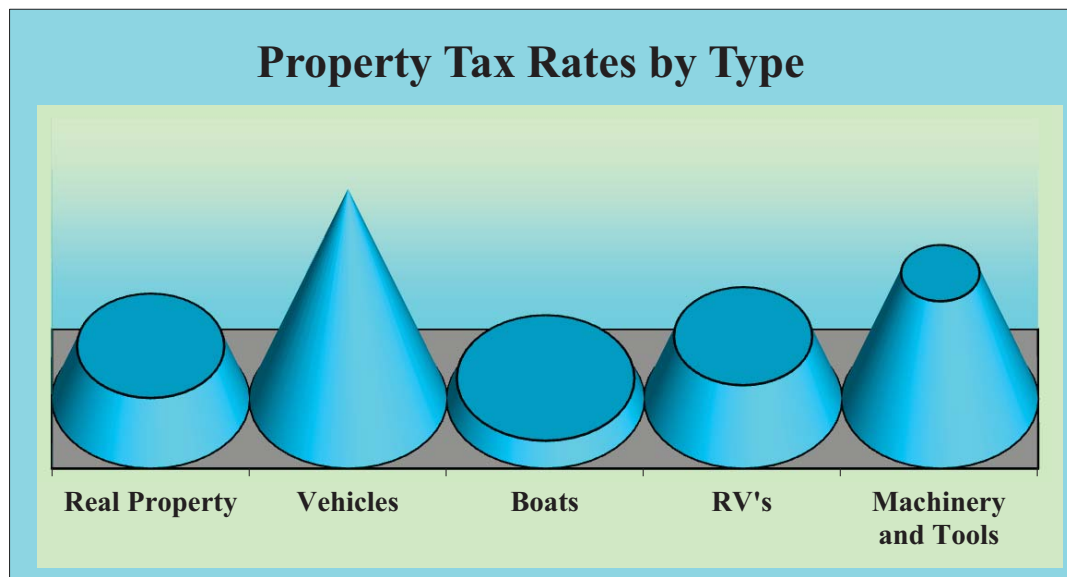
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Property Tax Rates

Last Ten Fiscal Years

Fiscal Year	Real Property (1)	Personal Property (2)			Manufacturer's Machinery and Tools (3)
		Vehicles	Boats	RV's	
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
2006	1.44	5.00	0.01	1.50	3.00
2005	1.45	5.00	0.01	1.50	3.00
2004	1.42	4.35	0.01	1.50	3.00
2003	1.42	4.35	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 Tools 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	2012		2003	
	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value
APM Terminals of Virginia	\$ 407,831,438	5.01%		
Earl Industries	37,283,412	0.46%		
Virginia Electric and Power	35,375,738	0.43%		
PRHA	34,422,997	0.42%		
GEM Portsmouth High LLC	33,851,910	0.42%		
G & E Apartment REIT The Myrtles	27,000,000	0.33%		
Economic Development Authority of Portsmouth	25,356,290	0.31%		
Wheelabrator Portsmouth, Inc.	24,018,759	0.30%		
Westwinds Property LLC	22,597,350	0.28%		
Portsmouth Genco LLC	21,463,860	0.26%		
BASF Corporation			\$ 44,817,628	1.1
Dominion Virginia Power			43,182,860	1.0
Verizon Virginia , Inc.			42,297,870	1.0
KMC Telecom of Virginia, Inc			28,319,830	0.7
Columbia Gas of Virginia, Inc.			23,148,390	0.6
Cogentrix			21,568,230	0.5
Gwaltney of Smithfield			9,536,560	0.2
Lin Television Corporation			9,046,973	0.2
ALLTEL Communications, Inc.			16,849,820	0.4
Universal Maritime Service Corporation			4,967,731	0.1
	669,201,754	8.22%	243,735,892	5.8

Source: City Assessor's Office and Commissioner of the Revenue's Office

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, 2012	Total Tax Collections to June 30, 2012	Adjustments To Levy (3)	Outstanding Taxes A/R June 30, 2012	Percent of Adjusted Levy Collected to June 30, 2012	Adjusted Tax Levy June 30, 2012
2011	June 30, 2012	\$ 92,659,186	85,681,654	92.5	-	85,681,654	(2,860,300)	4,117,232	95.42	89,798,886
2010	June 30, 2011	89,613,578	84,590,952	94.4	4,284,894	88,875,846	(233,698)	504,034	99.44	89,379,880
2009	June 30, 2010	92,594,347	88,287,197	95.3	3,721,246	92,008,443	(336,009)	249,895	99.73	92,258,338
2008	June 30, 2009	89,813,809	85,735,326	95.5	4,127,593	89,862,919	202,863	153,753	99.83	90,016,672
2007	June 30, 2008	82,061,047	80,767,754	98.4	3,538,658	84,306,412	2,313,617	68,252	99.92	84,374,664
2006	June 30, 2007	74,858,725	71,559,330	95.6	3,770,532	75,329,862	424,817	(46,320)	100.00	75,283,542
2005	June 30, 2006	64,686,492	60,652,216	93.8	2,934,876	63,587,092	(1,090,812)	8,588	99.99	63,595,680
2004	June 30, 2005	57,430,022	53,835,077	93.7	2,574,350	56,409,427	(1,015,247)	5,348	99.99	56,414,775
2003	June 30, 2004	51,250,872	47,590,435	92.9	2,294,698	49,885,133	(1,361,573)	4,166	99.99	49,889,299
2002	June 30, 2003	47,827,632	45,196,717	94.5	2,916,201	48,112,918	289,012	3,726	99.99	48,116,644

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, 2012	Total Tax Collections to June 30, 2012	Adjustments To Levy (3)	Outstanding Taxes A/R June 30, 2012	Percent of Adjusted Levy Collected to June 30, 2012	Adjusted Tax Levy June 30, 2012
2012	June 30, 2012	\$ 21,841,734	17,181,394	78.7	-	17,181,394	(268,842)	4,391,498	79.64	21,572,892
2011	June 30, 2011	18,093,172	13,653,563	75.5	9,388,004	23,041,567	5,794,484	846,089	96.46	23,887,656
2010	June 30, 2010	19,582,168	14,843,139	75.8	9,018,589	23,861,728	4,950,181	670,621	97.27	24,532,349
2009	June 30, 2009	19,030,247	14,156,894	74.4	8,502,596	22,659,490	4,164,390	535,147	97.69	23,194,637
2008	June 30, 2008	20,213,758	13,813,758	68.3	10,178,607	23,992,365	4,290,594	511,987	97.91	24,504,352
2007	June 30, 2007	21,976,362	16,079,906	73.2	5,846,422	21,926,328	231,858	281,892	98.73	22,208,220
2006	June 30, 2006	22,160,657	16,589,424	74.9	5,523,384	22,112,808	(47,849)	-	100.00	22,112,808
2005	June 30, 2005	25,437,164	19,732,957	77.6	8,961,706	28,694,663	3,257,499	-	100.00	28,694,663
2004	June 30, 2004	21,146,587	16,418,177	77.6	7,538,425	23,956,602	2,810,015	-	100.00	23,956,602
2003	June 30, 2003	21,210,705	15,908,602	75.0	6,570,141	22,478,743	1,268,036	-	100.00	22,478,741

(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 FY12 is \$32,586,753 less the tax credit of \$10,745,019 equaling the \$21,841,734 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	Cooperation Agreements	Literary Loans	Capital Leases	Less: Restricted for Debt Service	Net Government Debt	General Obligation Bonds	Revenue Bonds	Capital Leases			
2012	\$ 257,502	50,024	-	1,500	16,024	-	325,050	171,318	-	2,021	498,389	*	5,149
2011	265,940	50,455	-	1,875	17,254	-	335,524	125,832	-	2,574	463,930	13.20%	4,864
2010	241,816	25,329	-	2,250	13,474	-	282,869	130,284	-	2,208	415,361	10.65%	4,348
2009	199,733	-	-	2,625	16,765	-	219,123	103,454	-	3,128	325,705	*	3,319
2008	203,499	6,796	-	3,000	18,116	-	231,411	107,628	-	2,232	341,271	10.05%	3,428
2007	217,814	6,794	-	3,375	18,451	3	246,437	111,996	-	2,219	360,652	11.06%	3,558
2006	171,311	7,980	34,725	3,850	18,949	683	236,132	98,372	-	1,227	335,731	10.78%	3,280
2005	120,384	7,980	51,014	4,325	22,584	644	205,643	70,198	8,138	970	284,949	9.67%	2,827
2004	122,058	7,980	53,144	4,800	22,343	1,050	209,275	67,154	8,423	564	285,416	10.12%	2,860
2003	128,879	-	55,174	5,275	22,893	1,747	210,474	69,789	8,698	339	289,300	10.67%	2,909

The City of Portsmouth has no overlapping debt.

* Information not available at this time

CITY OF PORTSMOUTH, VIRGINIA
Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years
(dollars in thousands, except per capita)

C-2

Fiscal Year	General Bonded Debt Outstanding (1)					Percentage of Actual Taxable Value of Property	Per Capita
	General Obligation Bonds (1)	General Obligation Leases	Literary Loans	Cooperation Agreement	Total		
2012	\$ 478,844	7,741	1,500	-	488,085	5.13%	5,043
2011	442,227	8,340	1,875	-	452,442	4.94%	4,743
2010	279,932	9,564	2,250	-	291,746	3.05%	3,054
2009	212,851	10,435	2,625	-	225,911	2.42%	2,302
2008	223,726	10,782	3,000	-	237,508	2.72%	2,386
2007	238,621	10,291	3,375	-	252,287	3.25%	2,489
2006	193,867	10,684	3,850	-	208,401	3.34%	2,036
2005	128,364	15,920	4,325	10,200	158,809	3.85%	1,576
2004	130,038	17,773	4,800	11,380	163,991	4.36%	1,643
2003	128,879	18,239	5,275	12,500	164,893	4.61%	1,658
2002	135,492	18,520	5,750	13,000	172,762	5.18%	1,732

(1) Includes general obligation bonds and notes, public utility bonds, golf bonds, and parking bonds.

* Information not available at this time

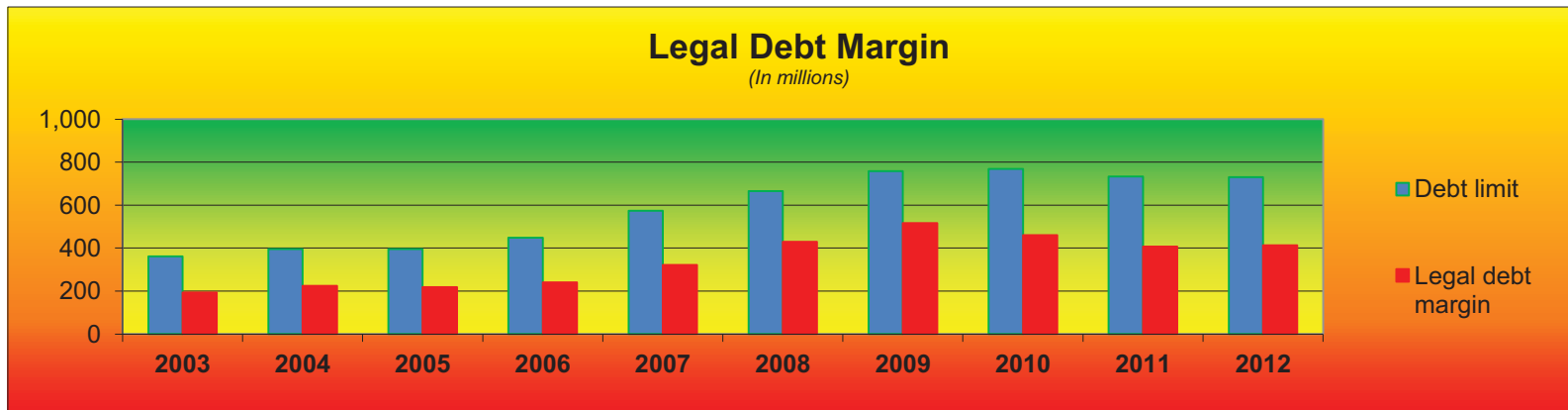
CITY OF PORTSMOUTH, VIRGINIA
Legal Debt Margin Information
Last Ten Fiscal Years
(dollars in thousands)

C-3

Legal Debt Margin Calculation for Fiscal Year 2012

Assessed value	\$ 7,435,030
Debt limit (10% of assessed value)	743,503
Debt applicable to limit:	316,767
Legal debt margin	<u>\$ 426,736</u>

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Debt limit	360,926	396,073	396,073	449,215	574,072	665,881	759,166	767,762	733,306	743,503
Total net debt applicable to limit	167,125	171,992	176,610	208,401	252,287	236,589	241,689	308,221	326,609	316,767
Legal debt margin	193,801	224,081	219,463	240,814	321,785	429,292	517,477	459,541	406,697	426,736
Total net debt applicable to limit as a percentage of debt limit	46.3%	43.4%	44.6%	46.4%	43.9%	35.5%	31.8%	40.1%	44.5%	42.6%



CITY OF PORTSMOUTH, VIRGINIA
Pledged-Revenue Coverage
Last Ten Fiscal Years
(dollars in thousands)

C-4

Golf Bonds						
Fiscal Year	Gross Revenue	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
2012	\$ -	-	-	-	-	-
2011	-	-	-	-	-	- *
2010	-	-	-	-	-	- *
2009	-	-	-	-	-	- *
2008	-	-	-	-	-	- *
2007	-	-	-	-	-	- *
2006	-	-	-	-	-	- *
2005	2,510	1,550	960	290	410	1.37
2004	1,813	1,645	168	275	426	0.24
2003	2,306	1,422	884	270	431	1.26

* There are no outstanding revenue bonds for these fiscal years.

Note: Source of pledged revenue is derived from rates, fees, and charges for the use of and for the services furnished by the Golf facilities.

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)
2012	96,785	*	*	35.3	14,256	8.60%
2011	95,388	3,515,478	22,302	35	14,103	8.80%
2010	95,535	3,898,401	40,806	35	14,225	9.30%
2009	98,124	*	*	34	14,331	8.30%
2008	99,542	3,394,538	34,102	34	14,287	5.10%
2007	101,377	3,261,006	32,167	34	14,990	4.10%
2006	102,346	3,113,454	30,421	42	15,243	4.30%
2005	100,783	2,946,028	29,231	35	15,309	5.30%
2004	99,785	2,821,237	28,273	*	15,642	5.40%
2003	99,459	2,712,472	27,272	*	15,928	5.40%

(1) Bureau of Economic Analysis, U.S. Department of Commerce; from Weldon Cooper Center for Public Service, University of Virginia; City of Portsmouth, VA Department of Economic Development

(2) Portsmouth School Board

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

* Information not available at this time.

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

D-2

Employer	2012			2003		
	# of Employees	Rank	Percentage of Total City Employment	# of Employees	Rank	Percentage of Total City Employment
Norfolk Naval Shipyard	9,200	1	19.95%	7,400	1	17.07%
Naval Medical Center, Portsmouth	7,000	2	15.18%	5,487	2	12.66%
US Fifth District Coast Guard Command	2,500	3	5.42%	1,900	6	4.38%
City of Portsmouth	2,445	4	5.30%	2,400	4	5.54%
Portsmouth Public Schools	2,148	5	4.66%	2,665	3	6.15%
Bon Secours Maryview Medical Center	2,000	6	4.34%	2,200	5	5.07%
Earl Industries	900	7	1.95%	450	10	1.04%
Tidewater Community College	425	8	0.92%			
Gwaltney of Smithfield	350	9	0.76%	504	8	1.16%
Wal-Mart Supercenter	300	10	0.65%			
Alternative Behavior Services (FHC)	-		-	800	7	1.85%
Southeastern Public Service Authority	-		-	450	9	1.04%
Total	27,268		59.14%	24,256		55.95%

Source: Portsmouth Department of Economic Development

CITY OF PORTSMOUTH, VIRGINIA

E-1

Full-time Equivalent Employees by Function/Program
Last Ten Fiscal Years

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Fund										
General government	142	138	131	138	134	146	144	133	167	132
Judicial	235	236	233	233	237	252	252	249	240	242
Public Safety	603	598	598	599	599	600	597	591	590	611
Public Works	114	108	107	107	110	108	104	359	359	87
Health and Welfare	1	1	-	-	-	-	-	-	-	-
Parks, Recreational, and Leisure Services	131	153	126	146	124	126	120	127	126	106
Community Development	59	44	65	44	70	67	66	48	48	48
Total General Fund	1,285	1,278	1,260	1,267	1,274	1,299	1283	1507	1530	1226
Special Revenue Funds										
Willet Hall Fund	-	3	-	1	1	1	1	1	1	2
Comprehensive Services Fund	2	3	3	3	3	3	3	3	3	3
Stormwater Management Fund	34	33	33	33	33	31	31	23	23	23
Grants	31	-	-	31	31	31	31	28	24	27
Behavioral Health Services Fund	128	128	129	129	130	137	137	122	120	120
Public Law Library Fund	-	-	-	-	-	-	-	-	-	-
Social Services Fund	244	245	247	247	254	254	254	248	245	245
Total Special Revenue Funds	439	412	412	444	452	457	457	425	416	420
Capital Projects Fund										
Community Development	2	2	2	2	-	-	-	-	-	-
Enterprise Funds										
Public Utilities Fund	145	143	143	143	146	145	145	138	138	138
Golf Fund	19	19	19	19	19	19	19	17	17	17
Waste Management Fund	75	73	73	73	76	75	75	68	68	68
Parking Authority Fund	6	6	6	6	6	6	6	6	6	6
Total Enterprise Funds	245	241	241	241	247	245	245	229	229	229
Internal Service Funds										
City Garage Fund	41	42	41	41	41	41	41	36	36	35
Information Technology Fund	42	40	40	40	32	39	39	26	26	33
Risk Management Fund	5	-	1	3	3	3	2	8	3	3
Total Internal Service Funds	88	82	82	84	76	83	82	70	65	71
Total All Funds	2,059	2,015	1,997	2,038	2,049	2,084	2,067	2,231	2,240	1,946

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

Function/Program	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Police										
Physical arrests	10,506	15,333	10,724	10,571	7,895	9,852	9,747	10,374	9,422	6,131
Parking violations	8,698	8,124	8,652	8,228	8,001	15,821	8,124	12,162	9,023	11,000
Traffic violations	17,006	13,603	17,896	12,294	6,774	11,431	11,424	16,140	15,594	18,648
Fire										
Emergency responses	*	*	*	17,310	17,386	17,035	14,073	16,135	17,447	17,618
Fires extinguished	*	*	*	855	662	623	590	506	626	382
Inspections	*	*	*	1,785	900	1,259	1,875	1,638	885	516
Refuse collection										
Refuse collected (tons/day)	*	*	*	162	151	165	126	158	*	*
Recyclables collected (pounds/day)	*	*	*	2	2	3	5	35	*	*
Other public works										
Street resurfacing (miles)	*	*	*	26.3	17.8	44.9	20.6	19.2	28.2	21.5
Potholes repaired	*	*	*	1,324	1,491	911	1,045	1,344	1,191	3,341
Parks and recreation										
Community center admissions	*	*	*	262,399	308,891	308,891	274,571	274,571	281,145	242,864
Library										
Volumes in collection	*	*	*	338,601	371,256	338,971	276,874	260,889	267,230	243,583
Total volumes borrowed	*	*	*	380,040	337,447	370,870	376,946	383,265	364,835	384,130
Water										
New connections	*	*	*	136	176	255	105	2,959	2,852	149
Water main breaks	*	*	*	125	126	102	105	88	104	91
Average daily consumption (millions of gallons)	17.74	17.85	17.97	18.81	16.56	13.90	13.80	13.60	13.40	17.20
Peak daily consumption (millions of gallons)	*	*	*	26.69	17.53	16.90	16.70	16.70	16.56	20.20

* Information not available at this time.

CITY OF PORTSMOUTH, VIRGINIA
Capital Asset Statistics by Function/Program
Last Ten Fiscal Years

E-3

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<u>Function/Program</u>										
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	235	234	234	242	252	255	255	255	236	262
Fire stations	8	8	8	8	8	8	8	8	8	8
Refuse collection										
Collection trucks	*	*	*	26	26	27	27	27	27	27
Other public works										
Streets (miles)	402	403	402	398	398	351	403	393	*	399
Highway (miles)	*	*	*	888	888	82	82	82	*	*
Streetlights	11,585	11,634	10,722	10,693	10,661	10,665	10,665	10,665	*	10,706
Traffic signals	*	*	*	115	130	120	120	120	*	*
Parks and recreation										
Acreage	402	203	203	250	402	402	402	402	402	402
Playgrounds	*	*	*	12	13	13	13	13	13	13
Baseball/softball diamonds	*	*	*	39	36	36	36	36	36	36
Soccer/football fields	*	*	*	35	34	34	34	34	34	34
Community centers	8	7	7	7	7	7	7	7	7	7
Water										
Water mains (miles)	625	625	625	543	543	626	626	626	626	626
Fire hydrants	2,521	2,523	2,530	2,514	2,514	2,530	2,530	2,593	2,593	2,593
Storage capacity (millions of gallons)	*	*	*	8.50	8.50	8.50	8.50	9	9	9
Wastewater										
Sanitary sewers (miles)	437	437	437	437	437	438	438	438	438	438
Storm sewers (miles)	107	107	107	159	159	159	159	159	159	250
Treatment capacity (millions of gallons)	32	32	32	32	32	32	32	32	32	32

* Information not available at this time.

COMPLIANCE SECTION



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and Members of City Council
City of Portsmouth, Virginia

We have audited the financial statements of the governmental activities, the business-type activities, the individual and 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, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 7, 2012. 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.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, as described in the accompanying schedule of findings and questioned costs we identified certain deficiencies in internal control over financial reporting as item 2012-1 that we consider to be a significant deficiency in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 which are described in the accompanying schedule of findings and questioned costs as item 2012-3.

The city's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and accordingly, we express no opinion on it.

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

Cherry, Bekaert & Holland, L.L.P.

Virginia Beach, Virginia
December 7, 2012



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE INACCORDANCE WITH OMB
CIRCULAR A-133**

Honorable Mayor and Members of City Council
City of Portsmouth, Virginia

Compliance

We have audited the compliance of the City of Portsmouth, Virginia (the "City") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2012. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City of Portsmouth complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for

the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control 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 a 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as item 2012-2. *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.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and accordingly, we express no opinion on it.

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

Cherry, Bekert & Holland, L.L.P.

Virginia Beach, Virginia
December 7, 2012

CITY OF PORTSMOUTH, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2012

1.SUMMARY OF AUDITORS' RESULTS

Financial Statements:

The type of report issued on the financial statements: **Unqualified**

Internal control over financial reporting:

Material weaknesses identified: **No**

Significant deficiencies identified: **Yes**

Noncompliance which is material to the financial statements: **No**

Federal Awards:

The type of report issued on compliance for major programs: **Unqualified**

Internal control over financial reporting:

Material weaknesses identified: **No**

Significant deficiencies identified: **Yes**

Any audit findings disclosed that are required to be reported in

Accordance with Section 510(a) of OMB Circular A-133: **Yes**

Major Programs:

- SNAP Cluster (CFDA No. 10.551/10.561)
- Highway Planning and Construction (CFDA No. 20.205)
- ARRA - Education Jobs Fund (CFDA No. 84.410)
- ARRA - Energy Efficiency and Conservation Block Grant (CFDA No. 81.128)
- ARRA - Surface Transportation (CFDA No. 20.932)
- ARRA - Community Development Block Grant (CFDA No. 14.218)
- ARRA - Special Education Cluster (CFDA No. 84.027/84.173/84.391/84.392)
- ARRA - Impact Aid (CFDA No. 84.041/84.401)

(h) The dollar threshold used to distinguish between Type A and Type B program: **\$1,483,688**

(i) The auditee qualified as a low-risk auditee: **Yes**

CITY OF PORTSMOUTH, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Year Ended June 30, 2012

2. FINDINGS - FINANCIAL STATEMENT AUDIT

Financial Statement Finding 2012-1: Internal Control over Financial Reporting

Criteria:

All liabilities should be reported in the proper period.

Condition:

While performing our audit procedures on Government-Wide net assets, we determined the beginning net assets had been restated.

Effect:

Debt in the prior period was understated and ending net assets was overstated.

Recommendation:

We recommend the City review its processes and procedures for its year-end close-out and financial reporting.

3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS

Federal Finding 2012-2: Community Development Block Grant, CFDA 14.218

Criteria:

The OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires the timely filing of reports with U.S. Department of Housing and Urban Development.

Condition:

The City did not comply with reporting requirements related to the program.

Cause:

Procedures are not in place to adhere to all of the federal reporting requirements related to the program.

Auditor's Recommendation:

Internal controls should be designed to ensure that the City adheres to the compliance requirements of federal award programs as outlined in OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Management's Response:

We concur that the City of Portsmouth is currently not in compliance with the necessary reporting requirements, i.e. the timely filing of form SF-272, Federal Transactions Report with the U.S. Department of Housing and Urban Development . Appropriate procedures will be put in place to ensure that this reporting is done in a regular and timely fashion and that internal controls will comply with requirements as outlined in OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

4. FINDINGS AND QUESTIONED COSTS FOR STATE COMPLIANCE**Virginia Department of Social Services****Special Welfare Trust****State Finding 2012-3: Special Welfare Trust****Criteria:**

The *Code of Virginia*, Section 63.2-320 requires that unexpended Special Welfare funds and dedicated funds are returned to individuals who leave the agency's custody, refunded to applicable funding sources (for example Social Security), or escheated to the State (unclaimed property), and Special Welfare accounts and Social Security income dedicated accounts without recent transaction activities are necessary.

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 five instances where the balance for a child who left the agency's custody were not properly refunded to the applicable funding source or escheated to the State. The total amount of \$13,174 should have been refunded or escheated on a more timely basis.

Cause:

Procedures were not in place to ensure balances of individuals who leave the agency's custody are properly refunded to the applicable funding sources or escheated to the State.

Effect:

The City of Portsmouth is not in compliance with Section 3-15 of the *Specifications for Audits of Counties, Cities and Towns*.

Recommendation:

We recommend a procedure be put in place to ensure balances of individuals who leave the agency's custody are properly refunded to the applicable funding sources or escheated to the State.

CITY OF PORTSMOUTH, VIRGINIA

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

Year Ended June 30, 2012

No prior year audit findings.

CITY OF PORTSMOUTH, VIRGINIA
Schedule of Expenditures of Federal Awards
Year ended June 30, 2012

Federal Granting Agency/Pass Through Agency/Grant Program	Federal Catalogue Number	Federal Expenditures
Department of Agriculture:		
Direct payments:		
Summer Food Service Program for Children	10.559	\$ 373,525
Pass-through payments:		
Virginia Department of Social Services:		
State Administrative Matching Grants for Food Stamp Program	10.561	1,908,854
Virginia Department of Education -		
Food Service Equipment	10.579	13,872
National School Breakfast and Lunch Program	10.555, 10.553	5,081,008
Total Department of Agriculture		7,377,259
Department of Defense:		
Direct payments:		
National Defense Education Program	12.300	2,666
ROTC	12.000	198,342
Total Department of Defense		201,008
Department of Education:		
Direct payments:		
Impact Aid	84.041	409,546
ARRA - IMPACT Aid Discretionary Construction	84.401	2,697,881
3,107,427		
Pass-through payments:		
Virginia Department of Education:		
Adult Education	84.002	174,517
Virginia Department of Education:		
Title I, Part A Cluster		
Title I Grants to Local Education Agencies	84.010	7,671,157
ARRA -Title I Grants A	84.389	534,053
8,205,210		
Special Education (IDEA) Cluster:		
Special Education (Title VI-B)	84.027	3,828,238
ARRA - IDEA Title (VIB) Section 619	84.391	510,128
Special Education - Preschool Grants	84.173	169,437
ARRA - Special Education - Preschool Grants	84.392	24,555
4,532,358		
Title I School Improvements (1003g)	84.377	162,592
Education Technology State Grants Cluster:		
Special Education - Grants for Infants and Family	84.181	115,632
ARRA - Special Education Grants for Infants and Family	84.393	18,210
133,842		
Safe and Drug Free Schools and Communities	84.186	8,755
Education Improvement Fund	84.215	-
Education Technology State Grant	84.318	31,028
ARRA - Education Technology State Grants	84.396	-
63,734		
Improving Literacy Through Library Education	84.364	42,505
Improving Teacher Quality	84.367	1,409,743
Smart Art Afterschool Program	84.251	1,668
ARRA - State Stabilization Fund	84.394	4,076,344
Education for Homeless Children & Youth	84.196	12,810
Vocational Education	84.048	401,743
Va. Comp Board -State Fiscal Stabily- Govt Services ARRA	84.397	-
Total Department of Education		22,364,276

CITY OF PORTSMOUTH, VIRGINIA
Schedule of Expenditures of Federal Awards
Year ended June 30, 2012

Federal Granting Agency/Pass Through Agency/Grant Program	Federal Catalogue Number		Federal Expenditures
Environmental Protection Agency, Office of Environmental Education:			
ARRA - Capitalization for Drinking Water State Revolving Fund	66.468		261,754
Total Environmental Protection Agency			261,754
Department of Health and Human Services:			
Virginia Department of Social Services:			
Social Services Block Grant	93.667		1,196,526
Temporary Assistance for Needy Families	93.558		1,960,155
Child Care and Development Fund Cluster:			
Child Care and Development Fund	93.596	742,877	
Child Care and Development Block Grant	93.575	611,094	
ARRA - Child Care	93.713	-	1,353,971
Chafee Education & Training Vouchers Program	93.599		38,885
Medical Assistance Program - Title XIX	93.778		1,155,805
Foster Care - Title IV-E	93.658		1,331,151
ARRA - Foster Care - Title IV-E	93.658	-	-
Adoption Assistance	93.659		650,722
ARRA - Adoption Assistance	93.659	-	-
Independent Living	93.674		40,105
Low-Income Home Energy Assistance	93.568		165,489
Refugee and Entrant Assistance	93.566		3,402
Promoting Safe and Stable Families	93.556		37,454
State Children's Insurance Program	93.767		57,804
Child Welfare Services	93.645		5,567
Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services:			
Projects for Assistance in Transition from Homelessness	93.150		50,716
Block Grants for Community Mental Health Services	93.958		158,751
Block Grants for Prevention and Treatment of Substance Abuse	93.959		1,059,119
Total Department of Health and Human Services			9,265,622
Department of Homeland Security:			
Direct Payments:			
FEMA	97.036		478,864
State and Local All Hazards Emergency Operations Planning	97.051		4,053
LEMPG	97.042		-
Port Security	97.056		248,293
State Homeland Security (HazMat)	97.073		37,749
Total Department of Homeland Security			768,959
Department of Housing and Urban Development:			
Direct payments:			
Community Development Block Grant	14.218		1,674,191
ARRA - Community Development Block Grant-R	14.218	-	
ARRA - Housing Prevention Rapid Rehousing	14.257	123,907	123,907
Special Purpose Grant	14.225		
HOME Investment Partnerships Program	14.239		1,370,169
Emergency Shelter Grants Program	14.231		
Shelter Plus Care	14.238		356,030
Supportive Housing	14.235		13,407
Neighborhood Stabilization Program	14.256		265,398
Program and other income:			
Community Development Block Grant	14.218		125,331
HOME Investment Partnerships Program	14.239		41,199
Total Department of Housing and Urban Development			3,969,632

CITY OF PORTSMOUTH, VIRGINIA
Schedule of Expenditures of Federal Awards
Year ended June 30, 2012

Federal Granting Agency/Pass Through Agency/Grant Program	Federal Catalogue Number	Federal Expenditures
Department of Justice:		
Direct Payments:		
Federal Seizures	16.000	68,083
Pass-through payments:		
Virginia Department of Criminal Justice Services:		
Juvenile Accountability Incentive Block Grant	16.523	30,192
Victim Witness	16.575	323,729
U.S. Department of Justice:		
Justice Assistance Grant Program	16.738	229,917
Bulletproof Vest Partnership Program	16.607	14,713
ARRA - Edward Byrne Memorial Justice Assistance Grant Program	16.804	30,586
Total Department of Justice		697,220
Department of Transportation:		
Pass-through Payments:		
Federal Transit Administration-Hampton Roads Transit:		
Highway Planning and Construction	20.205	2,681,571
ARRA - Traffic Signal Improvements	20.932	1,254,170
Virginia Department of Motor Vehicles:		
Comprehensive Speed, DUI/Passenger and CMV Occupant Restraint Enforcen	20.607	13,657
Total Department of Transportation		3,949,398
Department of Energy:		
Direct Payments:		
ARRA - Energy Efficiency Cons Block Grant	81.128	601,131
Total Department of Energy		601,131
Total all agencies		\$ 49,456,259

CITY OF PORTSMOUTH, VIRGINIA
Notes to Schedule of Expenditures of Federal Awards
Year ended June 30, 2012

(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 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:

<u>City:</u>	
Governmental Fund	
General Fund	\$ -
Special Revenue Funds:	
Virginia Public Assistance	9,905,890
Mental Health Services	1,402,428
Donations	32,560
Grants	1,565,337
Stimulus	3,125,595
Capital Projects Funds -	
Capital Projects Funds	1,805,823
Community Development	3,103,863
Total City	20,941,496
<u>Component Unit - School Board:</u>	
Operating	4,684,232
Grants	17,745,542
Cafeteria	5,094,880
Total component unit - School Board	27,524,654
Total federal expenditures from Intergovernmental Revenue	48,466,150
Add: Donations Fund expenditures in excess of revenues	35,523
Community development fund program and other income	
Add: PU/CIP Fund Expenditures in excess of revenues	875,748
Add: General Fund Fema expenditures in excess of revenue	
Less: Pass-through payments to School Board	
Add: CDBG Expenditures in excess of revenues	107,027
Add: Grant Expenditures in excess of revenues	560,460
Add: Stimulus Expenditures in excess of revenue	
Less: Grant unspent revenues	-
Less: CDBG Unspent Revenue	
Less: Stimulus unspent revenues	588,649
Less: PU/CIP Fund unspent revenues	
Total federal expenditures per Schedule of Expenditures of Federal Awards	49,456,259

(4) Subrecipients

Federal funds passed through to subrecipients for the year ended June 30, 2012 were as follows:

Federal Granting Agency/Grant Program	Amount
Department of Health and Human Services -	
Child Care and Development Fund	742,877
Department of Housing and Urban Development:	
Community Development Block Grant	1,939,589
HOME Investment Partnerships Program	1,370,169
Shelter Plus Care	356,030
Total federal funds passed through to subrecipients	\$ 4,408,665

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