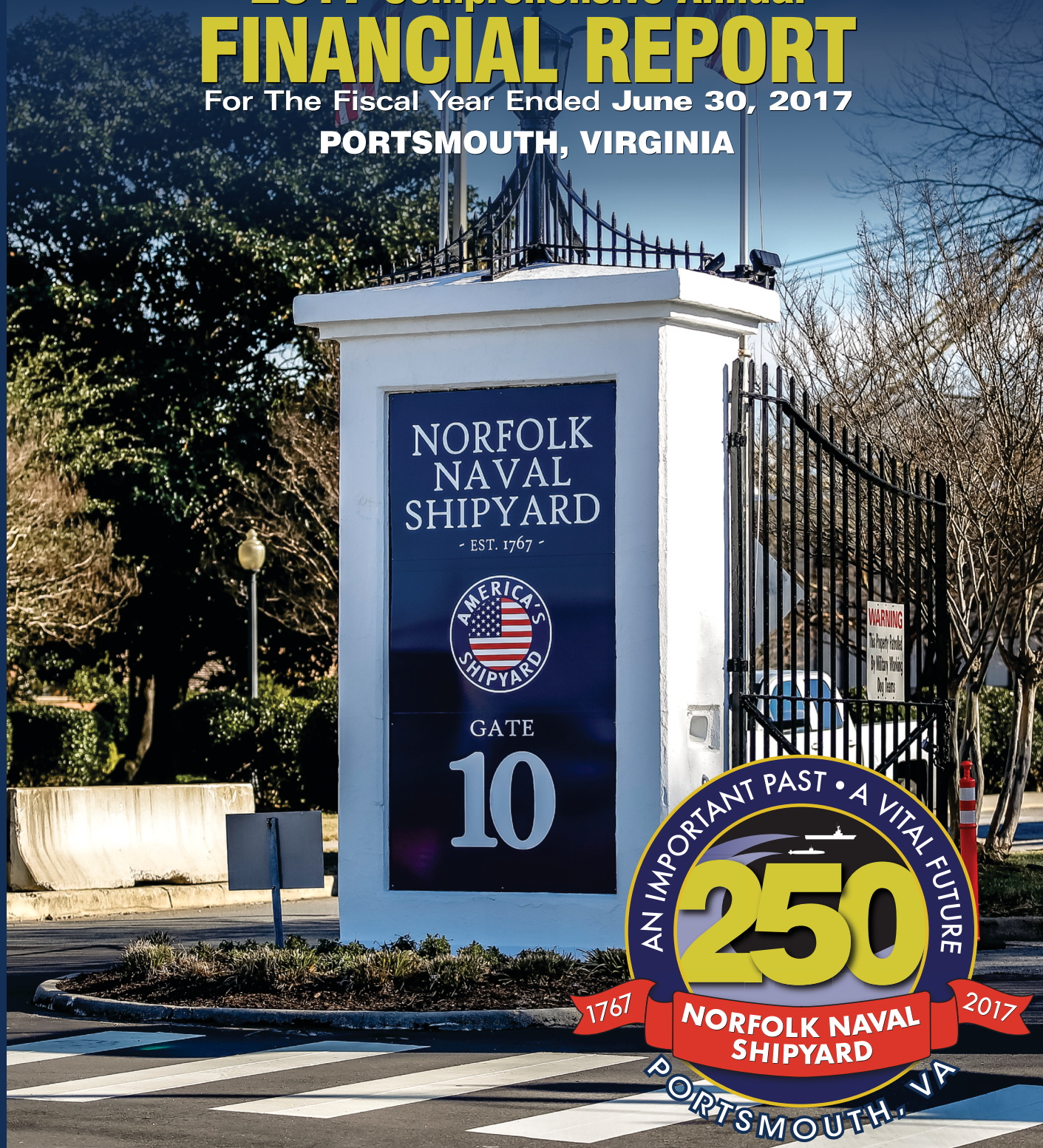


# *The New Portsmouth*

## **2017 Comprehensive Annual FINANCIAL REPORT**

For The Fiscal Year Ended June 30, 2017

**PORTSMOUTH, VIRGINIA**



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

YEAR ENDED JUNE 30, 2017

Prepared by:

DEPARTMENT OF FINANCE



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# CITY OF PORTSMOUTH, VIRGINIA

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**CITY OF PORTSMOUTH, VIRGINIA**

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## **INTRODUCTORY SECTION**

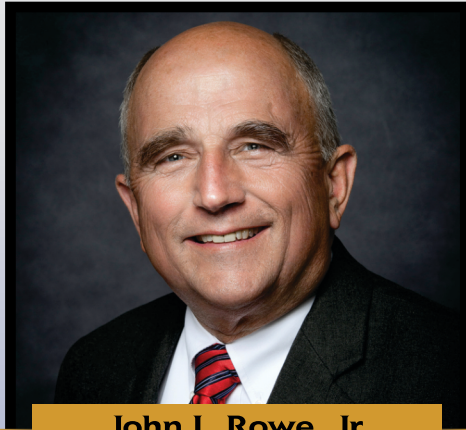
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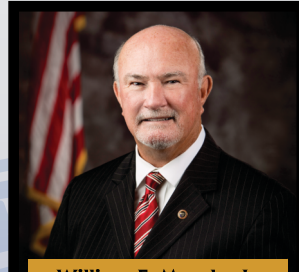


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## Portsmouth City Council Members



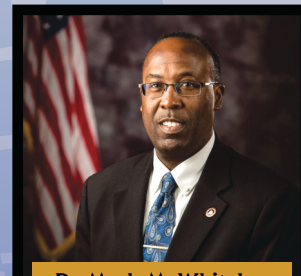
**John L. Rowe, Jr.**  
Mayor  
Term Expires: 12/31/2020



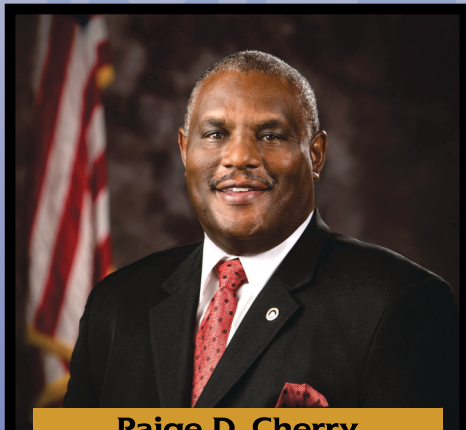
**William E. Moody, Jr.**  
Term Expires: 12/31/2018



**Elizabeth M. Psimas**  
Term Expires: 12/31/2020



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



**Paige D. Cherry**  
Vice Mayor  
Term Expires: 12/31/2018



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



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

### City Council Appointments

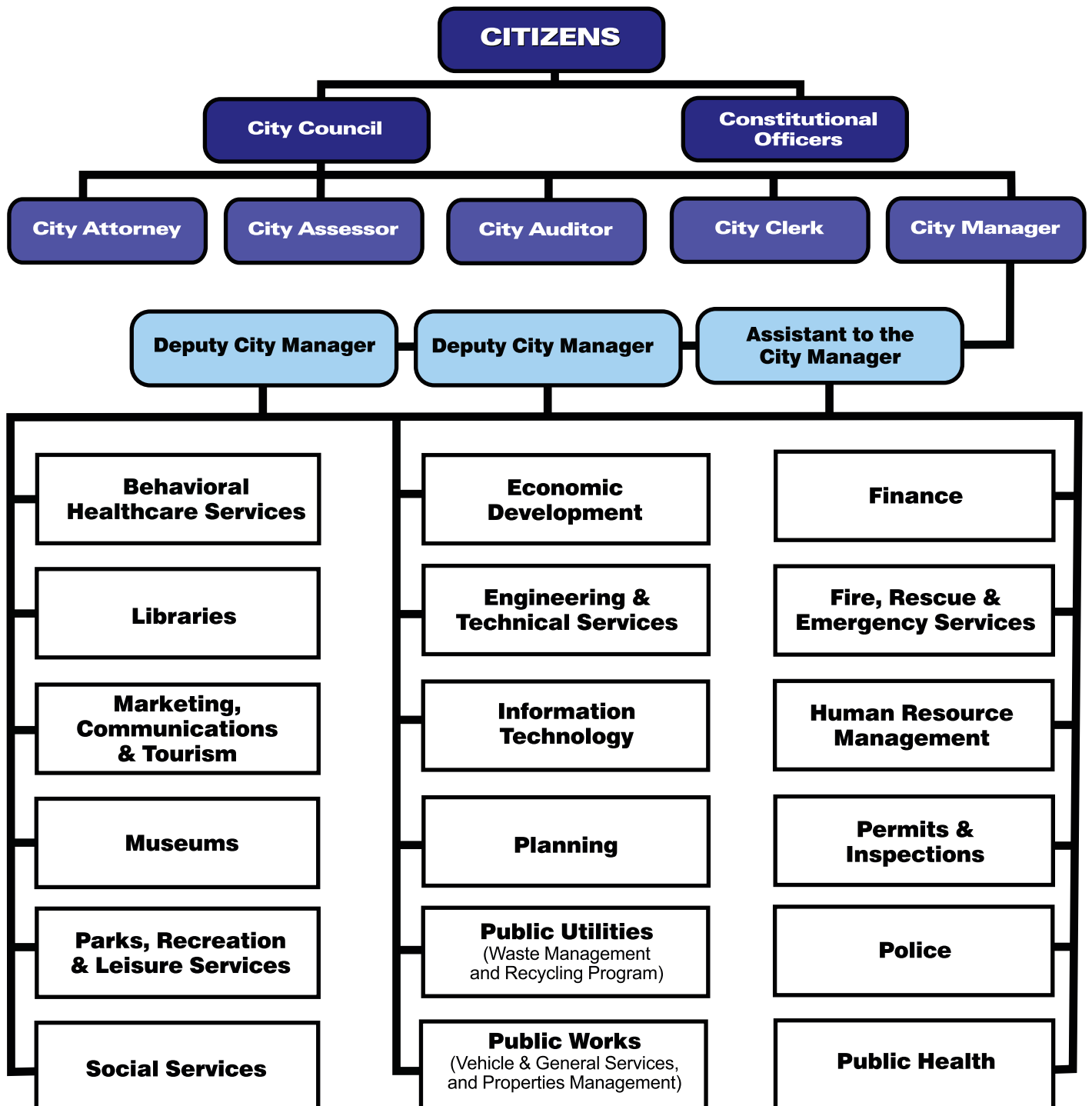
City Manager, Dr. L. Pettis Patton  
Janey Culpepper, City Assessor  
Debra Y. White, City Clerk  
Soloman Ashby, City Attorney

### Constitutional Officers

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



## THE MUNICIPAL ORGANIZATION OF THE CITY OF PORTSMOUTH, VA





Government Finance Officers Association

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

Presented to

**City of Portsmouth  
Virginia**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2016**

Executive Director/CEO





November 20, 2017

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

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the city of Portsmouth, Virginia (the city) for the fiscal year ended June 30, 2017, in accordance with State Statutes and City Code. The city's Department of Finance prepared this report in accordance with generally accepted accounting principles in the United States of America. (GAAP).

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

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

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

## **PROFILE OF THE CITY**

The city of Portsmouth was settled in 1752 and incorporated by the Virginia General Assembly in 1858. The city lies in Hampton Roads, one of the world's greatest natural harbors, situated at the confluence of the James, Nansemond and Elizabeth Rivers where they empty into the Chesapeake Bay. The city is located in the center of the Hampton Roads region, bordered by the cities of Suffolk, Chesapeake, and Norfolk. The city's land area of approximately 29 square miles is mostly developed, with an estimated population of 96,179 in 2017.

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

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

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

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

## **Structure of the Government and Its Services**

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

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

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

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

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

The city provides a full range of municipal services to meet the needs of its citizens including police and fire protection, collection and disposal of refuse and recycling, water, sewer and storm water services, street and highway maintenance, parks and recreation, libraries and cultural

resources, city planning, health and social services, parking, street and highway maintenance and general administration. The city budget appropriates city, state and federal pass-through funds for education, health, mental health assistance, social services, judicial activities and other programs.

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

### **Budget Process**

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

### **Economic Development Activity**

Economic Development in Portsmouth continues to experience a major increase in activity especially in critical sectors such as retail, multifamily, and port-related developments. The private sector is currently investing over \$160 million in new construction or redevelopment.

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

#### **Retail Development**

The city continues to attract new retail stores and restaurants, and numerous longtime businesses have expanded. Residents are enjoying the ever-growing selection of new employment, shopping, and dining options, while the city benefits from new revenue from taxes on retail sales and meals.

The Midtown Marketplace Shopping Center continued its phased opening in 2015 with the addition of inline shops adjacent to the center's anchor Kroger Marketplace. Kroger opened in late 2014 and paved the way for inline national retailers such as T.J. Maxx, CATO Fashions, Hibbett Sports, Dunkin Donuts, and Wendy's. These stores, along with site work on several outparcels, represented more than \$30 million of private investment and spurred additional development in the Midtown area to include another \$7 million investment by AutoBell, Wawa and Panda Express.

With new restaurants such as HomeGrown and Humboldt Steel locating on High Street, Planet Fitness investing \$2.2 million of private investment in its second Portsmouth location, and global supermarket chain, Aldi, opening its first Hampton Roads location, the retail sector in Portsmouth has grown significantly.

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

### **Multi-family Development**

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

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

The Economic Development Authority has sold one site and has another under contract for multi-family development by The Breeden Company. In December 2016, the \$17.1 million, 134-unit Harbor Vista development was completed. The Breeden Company is under contract to purchase the 2-acre North Pier site and invest another \$25 million to develop 187 apartments on that site.

Two historic buildings, the Seaboard Building and the Governor Dinwiddie, were recently sold to Monument Construction and Development and have been converted into multi-family units. Monument has invested over \$20 million in the two properties and added over 125 new multi-family units to Downtown

### ***Port-Related Activity***

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

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

The Port of Hampton Roads, to include all terminals in Portsmouth, is one of the world's largest natural harbors. The year-round, ice-free harbor covers approximately 25 square miles and is



located 18 miles from the open sea. The Port of Hampton Roads offers direct access to over 45 countries worldwide.

### ***Other Development Projects***

#### ***Greenwood/Elmhurst Industrial Corridor***

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

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

#### ***Incentive Programs***

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

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

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

### **General Fund Performance**

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

A strong unassigned fund balance is an indication of financial flexibility and fiscal strength. The city's general unassigned fund balance at June 30, 2017 was \$57,358,331 which represents 25.80% of fiscal year 2017 general fund's total revenues and transfers. This exceeded the city's adopted financial policy of 15%.

The following table presents the city's General Fund ratio of unassigned fund balance to total revenues for the previous five fiscal years (2013 unassigned fund balance excludes the impact of the \$168.3 million in pension funds that were transferred to the Pension Plan in August 2013):

<b>Fiscal Year</b>	<b>General Fund Unassigned Fund Balance</b>	<b>General Fund Total Revenues</b>	<b>Ratio</b>
2017	\$ 57,358,331	222,284,865	25.8 %
2016	58,427,712	221,711,369	26.4 %
2015	54,088,231	218,836,434	24.7 %
2014	52,168,051	216,678,591	24.1 %
2013	68,385,641	211,810,456	32.3 %

### *Financial Policies*

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

Written, adopted financial policies have many benefits, such as assisting the elected officials and staff in the financial management of the city, saving time and energy when discussing financial matters, engendering public confidence, and providing continuity over time as elected officials and staff members change. City management will annually review the city's financial policies, and City Council will reaffirm them at least once every three years. The policies discussed below had a significant impact on the financial results reported for fiscal year 2017.

### 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 2017, the city remained in compliance with this policy by using the general fund balance to only fund one-time expenditures and not recurring expenditures.

The total fund balance in the General Fund increased from \$66,134,200 in fiscal year 2016 to \$67,617,886, an increase of 2.2%. The majority of the increase in fund balance was a result of expenditure savings.

### Fund Balance Policy Minimum

The city will maintain an unassigned general fund balance equal to 15% of general fund revenues and transfers. During fiscal year 2017, the city remained in compliance with this policy. The general fund unassigned fund balance equaled 25.80% of general fund revenues and transfers.

### **Cash Management**

The city uses a pooled cash concept to allow greater investment flexibility and maximize its return on investment. The city pools cash from all funds, except those restricted for specific purposes or managed by fiscal agents, for investment purposes. The city may invest idle cash in overnight repurchase agreements and other investments ranging from one to 180 days to maturity. During the 2017 fiscal year, the city was able to manage its current resources to properly meet its operating cash requirements and issued debt of \$6,143,000 for Qualified Zone Academy Bonds for specific school projects.

### **Independent Audit**

State law requires that a certified public accountant selected by the City Council audit the city's annual financial statements. Cherry Bekaert LLP Certified Public Accountants performed this annual audit of the financial records and transactions of all funds, component units, and departments of the city for the fiscal year ending June 30, 2017.

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

### **Certificate of Achievement**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the city of Portsmouth for its comprehensive annual financial report for the fiscal year ended June 30, 2016.

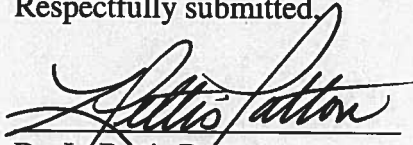
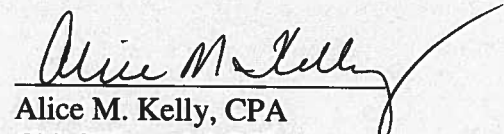
This was the 40<sup>th</sup> consecutive year that the city of Portsmouth has earned this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

## Acknowledgments

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

Respectfully submitted,

  
Dr. L. Patris Patton  
City Manager  
Alice M. Kelly, CPA  
Chief Financial Officer





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## **FINANCIAL SECTION**

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## **Report of Independent Auditor**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Portsmouth, Virginia, (the "City") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, other supplementary information, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *Title 2 U.S. Code of Federal Regulations Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards ("Uniform Guidance"), and is also not a required part of the basic financial statements.

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

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

Virginia Beach, Virginia  
November 20, 2017

# 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, 2017. The MD&A should be read in conjunction with the transmittal letter found in the Introductory Section of this report and the city's financial statements that follow this section.

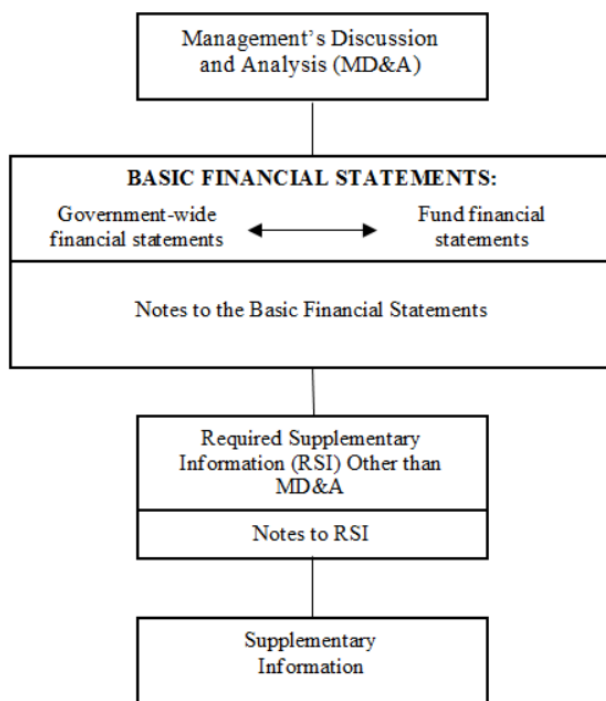
## FINANCIAL HIGHLIGHTS

- ◆ The city's net position totaled \$261.2 million at June 30, 2017, increasing \$24.5 million over June 30, 2016.
- ◆ The city's negative unrestricted net position totaled \$184.0 million, which was comprised of a deficit of \$248.2 million resulting from governmental activities and \$64.1 million resulting from business-type activities.
- ◆ Government-wide current assets totaled \$263.9 million, of which \$165.4 million was attributable to governmental activities and \$98.5 million was attributable to business-type activities; while current liabilities totaled \$63.5 million, with \$46.5 million from governmental activities and \$17.0 million from business-type activities. The ratio of current assets to current liabilities was 4.2:1 overall – 3.6:1 for governmental activities and 5.8:1 for business-type activities.
- ◆ The city's long-term indebtedness at June 30, 2017 totaled \$793.5 million, for a decrease of \$8.1 million from the prior year. The long-term indebtedness includes landfill closure and post-closure care of \$5.2 million, compensated absences of \$7.9 million and net pension liabilities of \$154.0 million.
- ◆ The city's governmental general revenues and transfers of \$189.8 million were \$11.1 million more than expenses, net of program revenues of \$89.8 million. Taxes funded 87.5% of general revenues and transfers.
- ◆ The General Fund total fund balance increased 2.2% during the current year to \$67.6 million from \$66.1 million in the prior year.
- ◆ Total net position for the Public Utility Fund rose 5.9% from \$182.9 million at June 30, 2016 to \$193.7 million at June 30, 2017.

## FINANCIAL SECTION OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

### Components of the Financial Section



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

### Government-wide Financial Statements

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



These two statements report the city's net position and changes in net position. The city's net position, which is the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources, is one way to measure the city's overall financial health and its current financial position. Over time, increases or decreases in the city's net position are one indicator of whether its financial condition is improving or deteriorating. Other non-financial factors will need to be considered, however, such as changes in the city's property tax base and the condition of the city's roads, to assess the overall health of the city.

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

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

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

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

## **Fund Financial Statements**

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

The city has three types of funds:

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

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

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

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

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

## FINANCIAL ANALYSIS OF THE CITY ENTITY

### Statements of Net Position

The following table reflects the condensed Statements of Net Position:

**Table 1**

**Summary of Statements of Net Position**

**As of June 30, 2017 and 2016 (in millions)**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Current assets	\$ 165.4	170.9	98.5	101.8	263.9	272.7
Capital assets	515.5	525.0	284.6	273.9	800.1	798.9
Total assets	680.9	695.9	383.1	375.7	1,064.0	1,071.6
Deferred outflows of resources	50.8	35.0	7.0	6.4	57.8	41.4
Total assets and deferred outflows of resources	731.7	731.0	390.1	382.2	1,121.8	1,113.2
Current liabilities	46.5	53.2	17.0	14.7	63.5	67.9
Long-term liabilities	632.0	632.7	161.5	168.8	793.5	801.5
Total liabilities	678.5	685.9	178.5	183.5	857.0	869.4
Deferred inflows of resources	3.3	6.4	0.3	0.6	3.6	7.0
Total liabilities and deferred inflows of resources	681.8	692.3	178.8	184.1	860.6	876.4
Net position:						
Net investment in capital assets	242.7	241.4	144.6	126.8	387.3	368.2
Restricted	55.4	49.1	2.5	-	57.9	49.1
Unrestricted (deficit)	(248.2)	(251.7)	64.2	71.1	(184.0)	(180.6)
Total net position	49.9	38.8	211.3	197.9	261.2	236.7
Total liabilities and net position	\$ 731.7	731.0	390.1	382.2	1,121.8	1,113.2

Net position (assets plus deferred outflows minus liabilities plus deferred inflows) may serve over time as a useful indicator of a government's financial position. The city of Portsmouth's net position was \$261.2 million at June 30, 2017. By far, the largest portion of the city's net position is reflected in its investment in capital assets (land, buildings, improvements, etc.) net of accumulated depreciation and related debt used to acquire those assets. The city uses these assets to provide services to its citizens and, consequently, these assets are not available for future spending. The resources needed to repay the debt related to these capital assets must be provided from other sources. Approximately 17.0% of the city's net position is currently subject to various external restrictions.

The net position of the city's governmental activities increased by \$11.1 million from \$38.7 million to \$49.9 million, as reflected in the Statement of Activities.

The net position of the city's business-type activities increased by \$13.4 million from \$197.9 million to \$211.3 million, as reflected in the Statement of Activities.

## Statements of Activities

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

**Table 2**

### Summary of Changes in Net Position

Years ended June 30, 2017 and 2016 (in millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
<b>Revenues</b>						
<u>Program revenues:</u>						
Charges for services	\$ 20.3	22.3	56.9	58.8	77.2	81.1
Operating grants and contributions	67.3	66.9	-	-	67.3	66.9
Capital grants and contributions	2.2	0.7	-	-	2.2	0.7
<u>General revenues:</u>						
Taxes	166.0	166.6	-	-	166.0	166.6
Other	13.6	5.6	2.4	1.3	16.0	6.9
<b>Total revenues</b>	<b>269.4</b>	<b>262.1</b>	<b>59.3</b>	<b>60.1</b>	<b>328.7</b>	<b>322.2</b>
<b>Expenses</b>						
General government	37.9	25.6	-	-	37.9	25.6
Judicial	23.8	24.8	-	-	23.8	24.8
Public safety	56.5	51.7	-	-	56.5	51.7
Public works	30.3	20.4	-	-	30.3	20.4
Health and welfare	30.2	32.4	-	-	30.2	32.4
Parks, recreational, and cultural	10.8	11.1	-	-	10.8	11.1
Community development	8.2	6.0	-	-	8.2	6.0
Education	55.2	53.9	-	-	55.2	53.9
Public Utility	-	-	22.7	23.0	22.7	23.0
Golf	-	-	1.7	2.0	1.7	2.0
Parking Authority	-	-	1.2	1.2	1.2	1.2
Waste Management	-	-	10.2	10.0	10.2	10.0
Interest on long-term debt	15.5	18.2	-	-	15.5	18.2
<b>Total expenses</b>	<b>268.4</b>	<b>244.1</b>	<b>35.8</b>	<b>36.2</b>	<b>304.2</b>	<b>280.3</b>
<b>Excess (deficiency) before transfers</b>	<b>1.0</b>	<b>18.0</b>	<b>23.5</b>	<b>23.9</b>	<b>24.5</b>	<b>41.9</b>
<b>Transfers</b>	<b>10.1</b>	<b>9.3</b>	<b>(10.1)</b>	<b>(9.9)</b>	<b>-</b>	<b>(0.6)</b>
Change in net position	11.1	27.3	13.4	13.9	24.5	41.2
Net position, beginning of year	38.75	11.4	197.9	184.0	236.7	195.4
Net position, end of year	\$ 49.9	38.7	211.3	197.9	261.2	236.6

## Governmental Activities

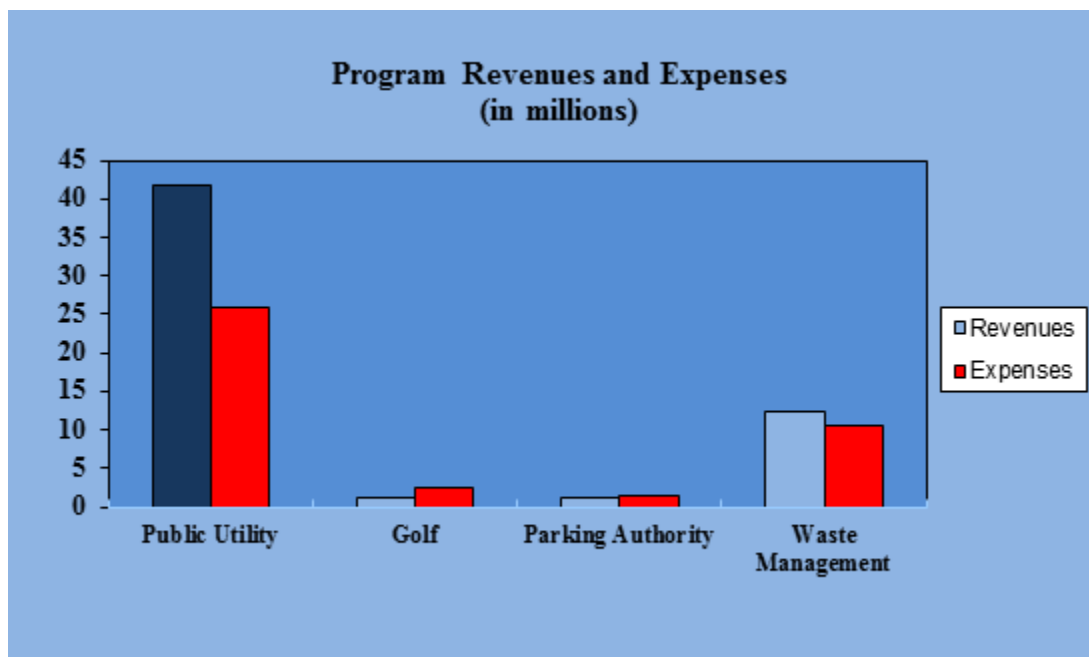
The city's total revenues from governmental activities were \$269.4 million for the fiscal year ended June 30, 2017, which represents an increase of \$7.3 million from the prior year. The largest source of revenue is taxes, which represents 61.6% of the total and is comprised of property taxes, other local taxes, and utility taxes. The city's assessed real property value increased 0.2% from the prior year.

Program revenues are derived from the program itself and reduce the cost of the function to the city. Total program revenues for governmental activities were \$89.8 million. The largest component of program revenues for governmental activities is operating grants and contributions totaling \$67.3 million, representing 74.9% of total program revenues for governmental activities.

For the fiscal year ended June 30, 2017, expenses for the city's governmental activities totaled \$268.5 million. The city's expenses cover a wide range of services, with 21.0% related to public safety, 20.6% related to education, and 11.2% related to health and welfare.

## Business-Type Activities

The total net position for business-type activities increased \$13.4 million from \$197.9 million in fiscal year 2016 to \$211.3 million in fiscal year 2017, primarily due to Public Utilities and Waste Management activities. Charges for services, including water and sewer utility fees, waste management fees, parking fees, and golf fees, represent 96.0% of total revenues for business-type activities. The following graph compares the program revenues and expenses of the business-type activities.



## FINANCIAL ANALYSIS OF THE CITY FUNDS

### Governmental Funds

The focus of the City's governmental funds is to provide information on current inflows, outflows, and balances of available resources. Such information is useful in assessing the city's financing requirements. For the fiscal year ended June 30, 2017, the governmental funds reflected a combined fund balance of \$112.3 million. The General Fund's fund balance totaled \$67.6 million at June 30, 2017, an increase of \$1.5 million from the prior year's \$66.1 million. The General Fund's unassigned fund balance totaled \$57.4 million at June 30, 2017.

The city spent \$21.0 million in the Capital Improvements Fund to fund major projects, including various drainage and street improvement projects. The Capital Improvements Fund has a \$29.6 million fund balance at June 30, 2017, 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, 2017 (in millions)

	Original Budget	Final Budget	Actual
<b>Revenues and transfers</b>			
Taxes	\$ 166.4	166.4	165.3
Intergovernmental	39.9	40.1	39.2
Transfers	16.1	16.3	10.0
Other	15.6	15.9	14.9
<b>Total</b>	<b>\$ 238.0</b>	<b>238.7</b>	<b>229.4</b>
<b>Expenditures and transfers</b>			
Expenditures	\$ 191.4	192.0	185.8
Transfers	46.6	46.8	44.9
<b>Total</b>	<b>\$ 238.0</b>	<b>238.7</b>	<b>230.8</b>

Actual expenditures in the above chart are shown on the budgetary basis (see Schedule I-2). The General Fund had a \$1.5 million dollar increase in fund balance.

Final budgeted General Fund revenues and other financing sources slightly exceeded the actual revenues during fiscal year 2017. Actual general fund expenditures and transfers were \$7.9 million less than the final budget.

### Proprietary Funds

Total net position of the Public Utility Fund increased \$10.8 million during fiscal year 2017 from \$182.9 million to \$193.7 million. Of the total net position, \$127.3 million represents its net investment in capital assets. Unrestricted net position totaled \$66.4 million. The increase in net position is due primarily to the fund's net income before transfers of \$20.0 million.

Total net position of the Parking Authority, a blended component unit, decreased slightly from the prior year, \$0.7 million to \$0.6 million.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At the end of fiscal year 2017, the city had invested \$800.1 million net of depreciation in a broad range of capital assets, including machinery and equipment, buildings, park and golf facilities, roads, bridges, and water and sewer lines, as reflected in the following schedule:

<b>Capital Assets (net of depreciation)</b>						
<b>As of June 30, 2017 and 2016 (in millions)</b>						
		Governmental Activities		Business-Type Activities		Total Primary Government
		2017	2016	2017	2016	2017 2016
Land	\$	19.8	26.6	13.5	13.5	33.3 40.1
Buildings		345.9	239.3	21.4	7.8	367.3 247.1
Improvements other than buildings		504.2	139.2	263.1	160.3	767.3 299.5
Machinery, furniture, and equipment		57.2	11.7	28.2	7.0	85.4 18.7
Intangibles		1.0	0.4	-	-	1.0 0.4
Construction in progress		107.2	107.8	99.5	85.3	206.7 193.1
Total	\$	1,035.3	525.0	425.7	273.9	1,461.0 798.9

Major capital asset activity for the fiscal year ended June 30, 2017 included:

- ◆ Capital asset changes for governmental activities totaled a decrease of \$6.8 million for land; a decrease of \$0.1 million for buildings; an increase of \$6.7 million for improvements other than buildings/infrastructure; an increase of \$3.8 million for machinery, furniture, and equipment and a decrease of \$0.6 million for construction in progress in the fiscal year.
- ◆ Capital asset changes for business-type activities totaled an increase of \$2.2 million for improvements other than buildings/infrastructure; an increase of \$1.6 million for machinery, furniture and equipment and an increase of \$14.2 million for construction in progress in the fiscal year.
- ◆ Depreciation expense totaled \$14.7 million and \$8.4 million for governmental and business-type activities, respectively.
- ◆ Construction in progress totaled \$107.2 million for governmental activities at June 30, 2017.
- ◆ Construction in progress totaled \$99.5 million for business-type activities at June 30, 2017.

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

The city's adopted fiscal year 2018-2022 Capital Improvement Program established a five year program totaling \$275.1 million. The major projects include \$119.1 million for water and sewer improvements, \$53.6 million for drainage and street improvements, \$33.7 million for municipal facilities, \$24.9 million for fleet management, \$2.0 million for industrial and economic development projects, \$4.9 million for leisure services projects, \$22.8 million for parking authority projects, and \$14.0 million for education.

## Long-term Debt

At year-end, the city had \$577.8 million in outstanding debt, excluding claims payable, other post employment benefit obligations, compensated absences, landfill closure and post closure care costs, and net pension obligations. General obligation bonds outstanding represented \$573.2 million of this total, as reflected in the following schedule:

<b>Outstanding Debt</b>						
<b>As of June 30, 2017 and 2016 (in millions)</b>						
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
General obligation bonds	\$ 429.1	444.3	144.1	151.8	573.2	596.1
Obligation under capital leases	4.4	6.1	-	-	4.4	6.1
Literary loans	0.2	0.5	-	-	0.2	0.5
Total	\$ 433.7	450.9	144.1	151.8	577.8	602.7

The state limits the amount of general obligation debt the city can legally issue to 10% of the assessed value of real property within the city. The city's outstanding debt, not all of which is applicable to the state limits, is below this limit, which is currently \$717.3 million.

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

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

## ECONOMIC FACTORS

The city's unemployment rate for June 2017 was 5.70%, which compares to the national unemployment rate of 5.1% for June 2017. Per capita income as of 2015 (latest data available from the Bureau of Economic Analysis) was \$39,301, a increase of 5.1% from what was reported for 2014. Average per capita income in 2015 was \$48,838 for Virginia and \$44,765 for the United States as a whole.

## FINANCIAL INQUIRIES

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



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## **Basic Financial Statements**

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**CITY OF PORTSMOUTH, VIRGINIA**  
**Statement of Net Position**  
**June 30, 2017**

**Exhibit A**

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Assets:				
Current assets:				
Cash and temporary investments (note 3)	\$ 115,930,501	92,532,880	208,463,381	28,367,756
Restricted cash and temporary investments (note 3)	6,353,668	-	6,353,668	-
Receivables (net of allowance for uncollectibles):				
Taxes	13,092,946	-	13,092,946	-
Accounts	7,293,727	8,929,112	16,222,839	314,470
Other	-	-	-	361
Internal balances	3,555,359	(3,555,359)	-	-
Due from component units (note 10)	3,290,122	-	3,290,122	-
Due from other governments (note 11)	14,968,918	-	14,968,918	3,325,880
Due from primary government	-	-	-	75,221
Prepaid items	15,000	-	15,000	-
Deposits held by others	240,000	-	240,000	-
Inventory of supplies	637,610	625,013	1,262,623	230,377
Notes receivable	-	-	-	73,746
Total current assets	165,377,851	98,531,646	263,909,497	32,387,811
Noncurrent assets:				
OPEB Assets	-	-	-	4,566,686
Property held for resale	-	-	-	9,972,431
Restricted cash	-	-	-	1,005,919
Restricted receivable	-	-	-	112,891
Capital assets (note 4):				
Land	19,807,899	13,518,323	33,326,222	7,291,368
Buildings	345,932,552	21,488,188	367,420,740	93,535,748
Improvements other than buildings	504,238,034	263,060,208	767,298,242	-
Machinery, furniture, and equipment	57,170,762	28,157,412	85,328,174	28,403,689
Intangibles	1,020,537	-	1,020,537	422,270
Construction in progress	107,202,820	99,462,265	206,665,085	-
Total capital assets	1,035,372,604	425,686,396	1,461,059,000	129,653,075
Less accumulated depreciation	(519,839,657)	(141,105,514)	(660,945,171)	(64,208,572)
Total capital assets, net	515,532,947	284,580,882	800,113,829	65,444,503
Total noncurrent assets	515,532,947	284,580,882	800,113,829	81,102,430
Total assets	680,910,798	383,112,528	1,064,023,326	113,490,241
Deferred outflows of resources:				
Deferred outflows from debt refundings	14,561,004	4,155,060	18,716,064	-
Deferred outflows related to pensions	36,216,079	2,821,838	39,037,917	21,585,790
Total outflows of resources	50,777,083	6,976,898	57,753,981	21,585,790
Total assets and deferred outflows of resources	\$ 731,687,881	390,089,426	1,121,777,307	135,076,031

(continued)

**CITY OF PORTSMOUTH, VIRGINIA**  
**Statement of Net Position**  
**June 30, 2017**

**Exhibit A (continued)**

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Liabilities:				
Current liabilities:				
Accounts payable	\$ 9,458,208	4,727,743	14,185,951	1,921,011
Accrued payroll	157,772	17,244	175,016	8,412,288
Internal balances	-	-	-	53,877
Accrued interest payable	6,725,544	2,603,918	9,329,462	-
Deposits	120,786	1,420,720	1,541,506	5,000
Due to primary government (note 10)	-	-	-	3,311,466
Unearned revenues (note 12)	-	27,220	27,220	-
Claims payable (note 15)	3,318,359	-	3,318,359	1,288,039
Compensated absences (note 5)	3,542,350	308,571	3,850,921	1,326,234
Grants payable	-	-	-	10,000
Workmen's compensation claims	-	-	-	478,129
General obligation bonds, net (note 5)	21,467,823	7,953,884	29,421,707	-
Obligations under capital leases (notes 5 and 6)	1,489,647	-	1,489,647	-
Literary loans (note 5)	250,000	-	250,000	-
Total current liabilities	46,530,489	17,059,300	63,589,789	16,806,044
Noncurrent liabilities:				
Claims payable (note 15)	7,927,189	-	7,927,189	-
Other post employment benefit obligation (note 8)	67,096,053	8,649,956	75,746,009	-
Compensated absences (note 5)	3,658,360	354,880	4,013,240	2,687,030
Noncurrent workmen's compensation claims	-	-	-	753,297
General obligation bonds, net (note 5)	407,609,270	136,150,997	543,760,267	-
Obligations under capital leases (notes 5 and 6)	2,865,532	-	2,865,532	-
Landfill closure and postclosure care (notes 5 and 13)	-	5,197,503	5,197,503	-
Net pension liability	142,849,556	11,130,368	153,979,924	155,894,507
Total noncurrent liabilities	632,005,960	161,483,704	793,489,664	159,334,834
Total liabilities	678,536,449	178,543,004	857,079,453	176,140,878
Deferred inflows of resources				
Deferred inflows related to pensions	3,285,504	255,995	3,541,499	9,569,925
Total inflows of resources	3,285,504	255,995	3,541,499	9,569,925
Net position:				
Net investment in capital assets	242,691,679	144,631,061	387,322,740	65,444,503
Restricted for:				
Capital projects	35,907,785	-	35,907,785	-
Behavioral health services	7,712,038	-	7,712,038	-
Grants and donations	775,553	-	775,553	1,729,966
Other purposes	10,934,850	2,508,031	13,442,881	4,519,932
Unrestricted (deficit)	(248,155,977)	64,151,335	(184,004,642)	(122,329,173)
Total net position	49,865,928	211,290,427	261,156,355	(50,634,772)
Total liabilities and net position	\$ 731,687,881	390,089,426	1,121,777,307	135,076,031

See accompanying notes to basic financial statements.

## CITY OF PORTSMOUTH, VIRGINIA

## Exhibit B

## Statement of Activities

Year ended June 30, 2017

Function/Program Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
<b>Primary Government:</b>								
Governmental:								
General government	\$ 37,937,076	3,197,150	11,166,158	-	(23,573,768)	-	(23,573,768)	-
Judicial	23,792,900	178,372	8,825,824	-	(14,788,704)	-	(14,788,704)	-
Public safety	56,460,539	2,432,614	7,341,617	-	(46,686,308)	-	(46,686,308)	-
Public works	30,344,639	7,645,659	12,158,228	2,188,987	(8,351,765)	-	(8,351,765)	-
Health and welfare	30,170,881	806,120	26,713,397	-	(2,651,364)	-	(2,651,364)	-
Parks, recreational, and cultural	10,808,887	2,405,301	833,842	-	(7,569,744)	-	(7,569,744)	-
Community development	8,253,909	3,676,204	275,189	-	(4,302,516)	-	(4,302,516)	-
Education	55,180,440	-	-	-	(55,180,440)	-	(55,180,440)	-
Interest on long-term debt	15,532,828	-	-	-	(15,532,828)	-	(15,532,828)	-
Total governmental activities	268,482,099	20,341,420	67,314,255	2,188,987	(178,637,437)	-	(178,637,437)	-
Business-type:								
Public Utility	22,740,807	42,498,157	-	-	-	19,757,350	19,757,350	-
Golf	1,697,090	873,507	-	-	-	(823,583)	(823,583)	-
Parking Authority	1,176,209	953,160	-	-	-	(223,049)	(223,049)	-
Waste Management	10,186,922	12,573,844	-	-	-	2,386,922	2,386,922	-
Total business-type activities	35,801,028	56,898,668	-	-	-	21,097,640	21,097,640	-
Total primary government	304,283,127	77,240,088	67,314,255	2,188,987	(178,637,437)	21,097,640	(157,539,797)	-
<b>Component Units:</b>								
School Board	170,173,638	2,137,067	30,670,054	984,456				(136,382,061)
Economic Development Authority	619,792	125,559	-	-				(494,233)
Port and Industrial Commission	36,655	2,180	-	-				(34,475)
Total component units	\$ 170,830,085	2,264,806	30,670,054	984,456				(136,910,769)
General Revenues:								
Taxes:								
General property taxes				\$ 118,800,657	-	118,800,657		-
Business and occupational license taxes				6,412,530	-	6,412,530		-
Restaurant food taxes				8,094,174	-	8,094,174		-
Sales and Use Tax				7,316,344	-	7,316,344		-
Telecommunications				7,848,182	-	7,848,182		-
Other local taxes				9,523,495	-	9,523,495		-
Utility taxes				8,019,365	-	8,019,365		-
Grants and contributions not restricted to specific programs				-	-	-		80,219,967
Investment earnings				1,040,792	747,570	1,788,362		17,072
Miscellaneous				12,577,198	1,630,990	14,208,188		1,351,125
Payment from primary government				-	-	-		52,400,000
Transfers				10,122,950	(10,122,950)	-		-
Total General Revenues and Transfers				189,755,687	(7,744,390)	182,011,297		133,988,164
Change in Net Position				11,118,250	13,353,250	24,471,500		(2,922,605)
Net position, beginning of year				38,747,678	197,937,177	236,684,855		(47,712,167)
Net position, end of year				\$ 49,865,928	211,290,427	261,156,355		(50,634,772)

See accompanying notes to basic financial statements.

## CITY OF PORTSMOUTH, VIRGINIA

## Exhibit C

## Balance Sheet

## Governmental Funds

June 30, 2017

	General	Debt Service	Capital Improvements	Other Governmental Funds	Total
Assets:					
Cash and temporary investments (note 3)	\$ 40,209,303	3,285,138	25,402,040	14,140,071	83,036,552
Restricted cash and temporary investments (note 3)	260,168	-	6,093,500	-	6,353,668
Receivables (net of allowance for uncollectibles):					
Taxes	13,092,946	-	-	-	13,092,946
Accounts	6,364,320	-	-	684,051	7,048,371
Due from other funds (note 10)	6,365,451	-	-	-	6,365,451
Due from component units (note 10)	3,290,122	-	-	-	3,290,122
Due from other governments (note 11)	12,009,238	-	360,098	2,599,582	14,968,918
Inventory of supplies	124,979	-	-	519	125,498
Advances receivable	1,211,250	-	-	-	1,211,250
Total assets	82,927,777	3,285,138	31,855,638	17,424,223	135,492,776
Liabilities:					
Accounts payable	4,828,775	-	2,301,521	1,312,722	8,443,018
Accrued payroll	151,373	-	-	6,124	157,497
Deposits	120,786	-	-	-	120,786
Due to other funds (note 10)	-	-	-	3,996,092	3,996,092
Total liabilities	5,100,934	-	2,301,521	5,314,938	12,717,393
Deferred inflows of resources:					
Deferred inflows from unavailable revenues	10,208,957	-	-	241,801	10,450,758
Total inflows of resources	10,208,957	-	-	241,801	10,450,758
Total liabilities and deferred inflows of resources	15,309,891	-	2,301,521	5,556,739	23,168,151
Fund balances:					
Nonspendable	1,336,229	-	-	1,000,519	2,336,748
Restricted	3,088,288	3,285,138	29,554,117	13,310,887	49,238,430
Assigned	5,835,038	-	-	-	5,835,038
Unassigned	57,358,331	-	-	(2,443,922)	54,914,409
Total fund balances	67,617,886	3,285,138	29,554,117	11,867,484	112,324,625
Total liabilities, deferred inflows of resources, and fund balances	\$ 82,927,777	3,285,138	31,855,638	17,424,223	135,492,776

See accompanying notes to basic financial statements.

(continued)

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

**Governmental Funds**

**June 30, 2017**

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

Total fund balances for governmental funds	\$ 112,324,625
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Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Internal Service Funds are included below. Those assets consist of:

Land	19,792,851	
Buildings	345,239,469	
Machinery, furniture and equipment	28,230,530	
Improvements other than buildings	504,238,034	
Construction in progress	107,202,820	
Accumulated depreciation	(494,468,708)	510,234,996

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

10,450,757

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

Compensated absences	(6,838,742)	
Other post employment benefit obligation	(64,525,217)	
Accrued interest payable	(6,725,544)	
General obligation bonds	(429,077,093)	
Obligations under capital leases	(3,857,956)	
Literary loans	(250,000)	
Deferred inflows related to pension	(3,285,504)	
Net pension liability	(142,849,556)	(657,409,612)

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

14,561,004

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

36,216,079 50,777,083

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.

23,488,078

Net position of governmental activities

\$ 49,865,927

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, 2017

	General	Debt Service	Capital Improvements	Other Governmental Funds	Total
Revenues:					
Taxes	\$ 165,316,609	-	-	-	165,316,609
Intergovernmental	39,187,576	-	2,188,987	32,416,316	73,792,879
Charges for services	4,350,895	-	-	7,949,144	12,300,039
Investment income	395,040	-	35,618	57,134	487,792
Recovered costs	2,922,162	-	-	171,988	3,094,150
Fines and forfeitures	393,231	-	-	-	393,231
Licenses and permits	1,101,703	-	-	-	1,101,703
Use of property	1,726,793	-	-	41,912	1,768,705
Miscellaneous	6,890,856	-	41,222	49,357	6,981,435
Total revenues	222,284,865	-	2,265,827	40,685,851	265,236,543
Expenditures:					
Current:					
General government	17,279,723	-	-	-	17,279,723
Nondepartmental	11,609,303	-	-	-	11,609,303
Judicial	17,651,442	-	-	1,173,775	18,825,217
Public safety	55,884,541	-	-	499,950	56,384,491
Public works	14,083,351	-	-	1,968,374	16,051,725
Health and welfare	1,276,976	-	-	29,516,988	30,793,964
Parks, recreational, cultural	11,067,596	-	-	981,070	12,048,666
Community development	4,512,935	-	-	866,290	5,379,225
Education	52,400,000	-	-	-	52,400,000
Debt service	-	37,736,394	-	-	37,736,394
Fiscal charges	-	9,070	-	-	9,070
Costs of issuance	-	96,125	-	-	96,125
Capital outlay	52,849	-	21,005,626	3,129,609	24,188,084
Total expenditures	185,818,716	37,841,589	21,005,626	38,136,056	282,801,987
Revenues over (under) expenditures	36,466,149	(37,841,589)	(18,739,799)	2,549,795	(17,565,444)
Other financing sources (uses):					
Transfers from other funds (note 10)	9,964,058	37,762,840	8,884,275	4,565,207	61,176,380
Transfers to other funds (note 10)	(44,946,521)	-	(510,000)	(6,472,392)	(51,928,913)
Issuance of general obligation bonds (note 5)	-	84,405	6,058,595	-	6,143,000
Total other financing sources (uses)	(34,982,463)	37,847,245	14,432,870	(1,907,185)	15,390,467
Net change in fund balances	1,483,686	5,656	(4,306,929)	642,610	(2,174,977)
Fund balances, beginning of year	66,134,200	3,279,482	33,861,046	11,224,874	114,499,602
Fund balances, end of year	\$ 67,617,886	3,285,138	29,554,117	11,867,484	112,324,625

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, 2017**

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

Net change in fund balances - total governmental funds	\$ (2,174,977)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Donated assets and loss on disposal of assets are not reported in the governmental funds but are reflected in the statement of activities.

Transfer of capital assets to Portsmouth Public Schools	(1,927,164)	
Purchases of assets	22,516,133	
Disposal of assets	(15,922,910)	
Assets donated to city	149,245	
Depreciation expense	(13,050,309)	(8,235,005)

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

Proceeds from debt issued	(6,143,000)	
Principal payments of debt	21,413,187	
Amortization expense	1,072,430	16,342,617

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.	698,138
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Some expenses in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Change in deferred outflows - debt	(1,102,433)	
Change in deferred outflows - pensions	16,869,891	
Change in deferred inflows - pensions	3,068,049	
Change in compensated absences	(125,909)	
Change in net pension liability	(21,698,521)	
Change in other post employment benefit obligation	164,953	
Change in inventory of supplies	146,445	
Change in accrued interest	895,573	(1,781,952)

Internal service funds are used by the City to charge costs of certain activities to individual funds. The net revenue (expense) of internal service funds is reported as a component of governmental funds.	6,269,429
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Change in net position of governmental activities	\$ 11,118,250
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See accompanying notes to basic financial statements.

**CITY OF PORTSMOUTH, VIRGINIA**

**Exhibit E-1**

**Statement of Net Position**

**Proprietary Funds**

**June 30, 2017**

	Public Utility	Parking Authority	Nonmajor Enterprise Funds	Total	Governmental Activities - Internal Service Funds
<b>Assets</b>					
Current assets:					
Cash and temporary investments (note 3)	\$ 78,306,602	612,672	13,613,606	92,532,880	32,893,949
Accounts receivable (net of allowance for uncollectibles)	6,441,602	25,036	2,462,474	8,929,112	245,356
Inventory of supplies	569,020	-	55,993	625,013	512,112
Prepaid expenses	-	-	-	-	15,000
Deposits-held by others	-	-	-	-	240,000
<b>Total current assets</b>	<b>85,317,224</b>	<b>637,708</b>	<b>16,132,073</b>	<b>102,087,005</b>	<b>33,906,417</b>
Noncurrent assets:					
Capital assets (note 4):					
Land	324,079	679,680	12,514,564	13,518,323	15,048
Buildings	692,687	18,667,910	2,127,591	21,488,188	693,083
Improvements other than buildings	262,571,660	260,636	227,912	263,060,208	-
Machinery, furniture, and equipment	16,061,685	422,435	11,673,292	28,157,412	28,940,232
Intangible assets	-	-	-	-	1,020,537
Construction in progress	99,373,140	89,125	-	99,462,265	-
<b>Total capital assets</b>	<b>379,023,251</b>	<b>20,119,786</b>	<b>26,543,359</b>	<b>425,686,396</b>	<b>30,668,900</b>
Less accumulated depreciation	(119,884,998)	(13,091,898)	(8,128,618)	(141,105,514)	(25,370,949)
<b>Total capital assets, net</b>	<b>259,138,253</b>	<b>7,027,888</b>	<b>18,414,741</b>	<b>284,580,882</b>	<b>5,297,951</b>
Deferred outflows of resources:					
Deferred outflows from debt refunding	3,769,474	71,963	313,623	4,155,060	-
Deferred outflows related to pensions	1,706,008	43,667	1,072,163	2,821,838	-
<b>Total outflows of resources</b>	<b>5,475,482</b>	<b>115,630</b>	<b>1,385,786</b>	<b>6,976,898</b>	<b>-</b>
<b>Total assets and deferred outflows of resources</b>	<b>349,930,959</b>	<b>7,781,226</b>	<b>35,932,600</b>	<b>393,644,785</b>	<b>39,204,368</b>
<b>Liabilities:</b>					
Current liabilities:					
Accounts payable	4,139,511	67,885	520,347	4,727,743	935,996
Accrued interest payable	2,465,739	44,244	93,935	2,603,918	-
Accrued payroll	15,119	935	1,190	17,244	275
Flex spending benefits	-	-	-	-	79,194
Deposits	1,408,237	-	12,483	1,420,720	-
Due to other funds (note 10)	-	1,756,668	587,441	2,344,109	25,250
Unearned revenues (note 12)	-	27,220	-	27,220	-
Compensated absences (note 5)	195,983	3,064	109,524	308,571	164,863
General obligation bonds (note 5)	6,945,661	464,306	543,917	7,953,884	-
Obligations under capital leases (notes 5 and 6)	-	-	-	-	497,223
Claims payable (note 15)	-	-	-	-	3,318,359
<b>Total current liabilities</b>	<b>15,170,250</b>	<b>2,364,322</b>	<b>1,868,837</b>	<b>19,403,409</b>	<b>5,021,160</b>
Noncurrent liabilities:					
Claims payable (note 15)	-	-	-	-	7,927,189
Other post employment benefit obligation (note 8)	5,397,887	222,777	3,029,292	8,649,956	2,570,836
Compensated absences (note 5)	149,201	12,381	193,298	354,880	197,105
Landfill closure and postclosure liability (notes 5 and 13)	-	-	5,197,503	5,197,503	-
Advances payable	-	1,211,250	-	1,211,250	-
General obligation bonds (note 5)	128,674,864	3,189,427	4,286,706	136,150,997	-
Net pension liability (notes 5 and 7)	6,729,125	172,237	4,229,006	11,130,368	-
<b>Total noncurrent liabilities</b>	<b>140,951,077</b>	<b>4,808,072</b>	<b>16,935,805</b>	<b>162,694,954</b>	<b>10,695,130</b>
Deferred inflows related to pensions	154,768	3,961	97,266	255,995	-
<b>Total liabilities and deferred inflows for resources</b>	<b>156,276,095</b>	<b>7,176,355</b>	<b>18,901,908</b>	<b>182,354,358</b>	<b>15,716,290</b>
<b>Net position:</b>					
Net investment in capital assets	127,287,202	3,446,118	13,897,741	144,631,061	4,800,728
Unrestricted (deficit)	66,367,662	(2,841,247)	3,132,951	66,659,366	18,687,350
<b>Total net position</b>	<b>193,654,864</b>	<b>604,871</b>	<b>17,030,692</b>	<b>211,290,427</b>	<b>23,488,078</b>
<b>Total liabilities and net position</b>	<b>\$ 349,930,959</b>	<b>7,781,226</b>	<b>35,932,600</b>	<b>393,644,785</b>	<b>39,204,368</b>

See accompanying notes to basic financial statements.

## CITY OF PORTSMOUTH, VIRGINIA

## Exhibit E-2

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

## Proprietary Funds

Year ended June 30, 2017

	Public Utility	Parking Authority	Nonmajor Enterprise Funds	Total	Governmental Activities - Internal Service Funds
Operating revenues:					
Charges for services	\$ 42,445,514	953,160	13,451,450	56,850,124	35,648,601
Contributions	-	-	-	-	80,347
Use of property	55,751	-	-	55,751	-
Other	613,658	164,183	797,398	1,575,239	122,301
Total operating revenues	43,114,923	1,117,343	14,248,848	58,481,114	35,851,249
Operating expenses:					
Personnel services	4,212,972	169,711	3,175,392	7,558,075	4,627,547
Contractual services	3,062,600	201,527	5,023,752	8,287,879	3,613,922
Supplies and materials	2,893,567	20,274	286,955	3,200,796	3,038,191
Utilities	1,324,340	122,804	97,065	1,544,209	89,320
Internal charges	1,052,096	48,389	1,567,456	2,667,941	69,759
Claims, settlements, and refunds	-	-	-	-	14,350,736
Insurance premiums	-	-	-	-	1,315,509
Payments in lieu of taxes	1,138,822	-	-	1,138,822	-
Rent	-	-	88,778	88,778	-
Depreciation and amortization	7,128,813	452,707	837,254	8,418,774	1,612,437
Closure/postclosure	-	-	107,340	107,340	-
Other	844,341	47,734	481,995	1,374,070	611,457
Total operating expenses	21,657,551	1,063,146	11,665,987	34,386,684	29,328,878
Operating income (loss)	21,457,372	54,197	2,582,861	24,094,430	6,522,371
Nonoperating revenues (expenses):					
Investment income	687,668	-	59,902	747,570	-
Gain (loss) on disposal of capital assets	52,643	-	(4,099)	48,544	33,989
Interest expense and fiscal charges	(2,222,078)	(113,063)	(218,025)	(2,553,166)	(23,592)
Net nonoperating revenues (expenses)	(1,481,767)	(113,063)	(162,222)	(1,757,052)	10,397
Net income (loss) before transfers	19,975,605	(58,866)	2,420,639	22,337,378	6,532,768
Transfers from other funds (note 10)	1,000,000	590,179	843,509	2,433,688	41,978
Transfers to other funds (note 10)	(10,200,427)	(608,480)	(608,909)	(11,417,816)	(305,317)
Change in net position	10,775,178	(77,167)	2,655,239	13,353,250	6,269,429
Net position, beginning of year	182,879,686	682,038	14,375,453	197,937,177	17,218,649
Net position, end of year	\$ 193,654,864	604,871	17,030,692	211,290,427	23,488,078

See accompanying notes to basic financial statements.

## Statement of Cash Flows

## Proprietary Funds

Year ended June 30, 2017

	Public Utility	Parking Authority	Nonmajor Enterprise Funds	Total	Governmental Activities - Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Cash received from customers	\$ 42,966,041	1,097,862	14,766,625	58,830,528	35,846,542
Cash payments to suppliers for goods and services	(6,815,671)	(56,174)	(7,587,637)	(14,459,482)	(29,040,614)
Cash payments to employees for services	(5,187,931)	(185,715)	(3,565,111)	(8,938,757)	(4,748,221)
Net cash provided by operating activities	30,962,439	855,973	3,613,877	35,432,289	2,057,707
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>					
Transfers in from other funds	1,000,000	590,179	843,509	2,433,688	41,978
Transfers out to other funds	(10,200,427)	(608,480)	(608,909)	(11,417,816)	(305,317)
Net cash provided by (used in) noncapital financing activities	(9,200,427)	(18,301)	234,600	(8,984,128)	(263,339)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Acquisition and construction of capital assets	(17,192,158)	(89,125)	(1,952,030)	(19,233,313)	(168,075)
Cash proceeds from disposal of capital assets	52,643	-	156,767	209,410	35,622
Payment of construction projects payable	(779,497)	-	-	(779,497)	-
Proceeds from long-term debt	-	-	-	-	-
Principal paid on long-term debt	(6,328,940)	(640,889)	(397,988)	(7,367,817)	(804,632)
Payment to other funds	-	-	-	-	-
Interest paid	(2,294,068)	(116,228)	(215,908)	(2,626,204)	(23,592)
Net cash used in capital and related financing activities	(26,542,020)	(846,242)	(2,409,159)	(29,797,421)	(960,677)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Interest received	687,668	-	59,902	747,570	-
Net cash provided by investing activities	687,668	-	59,902	747,570	-
Net increase (decrease) in cash and temporary investments	(4,092,340)	(8,570)	1,499,220	(2,601,690)	833,691
Cash and temporary investments, beginning of year	82,398,942	621,242	12,114,386	95,134,570	32,060,258
Cash and temporary investments, end of year	78,306,602	612,672	13,613,606	92,532,880	32,893,949
<b>Reconciliation of operating income to net cash provided by operating activities</b>					
Operating income	21,457,372	54,197	2,582,861	24,094,430	6,522,371
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation and amortization	7,128,813	452,707	837,254	8,418,774	1,612,437
Decrease (increase) in:					
Accounts receivable	(151,040)	(18,109)	5,538	(163,611)	(4,707)
Inventory of supplies	(27,681)	-	794	(26,887)	(55,615)
Prepaid expenses	218,875	-	-	218,875	-
Deposits	18,144	-	1,719	19,863	(240,000)
Due from other funds	-	-	-	-	-
Deferred outflows	(633,413)	(17,679)	(430,725)	(1,081,817)	-
Increase (decrease) in:					
Accounts payable	3,308,901	45,577	(42,430)	3,312,048	(463,005)
Accrued payroll	(115,505)	(4,817)	(82,288)	(202,610)	(121,030)
Compensated absences	(39,741)	1,584	24,658	(13,499)	365
Due to other funds	-	338,977	510,520	849,497	25,000
Flexible spending benefits	-	-	-	-	22,178
Other post employment benefit obligation	(1,061)	(13)	(121)	(1,195)	(9)
Net pension liability	12,248	9,495	212,148	233,891	-
Deferred inflows	(197,487)	(4,574)	(113,391)	(315,452)	-
Landfill closure and postclosure liability	-	-	107,340	107,340	-
Unearned revenues	(15,986)	(1,372)	-	(17,358)	-
Claims payable	-	-	-	-	(5,240,278)
Total adjustments	9,505,067	801,776	1,031,016	11,337,859	(4,464,664)
Net cash provided by operating activities	\$ 30,962,439	855,973	3,613,877	35,432,289	2,057,707

See accompanying notes to basic financial statements.

**CITY OF PORTSMOUTH, VIRGINIA**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**June 30, 2017**

**Exhibit F-1**

		Pension Trusts	Agency Special Welfare Fund
<hr/>			
Assets			
Cash and temporary investments (note 3)	\$	2,970,242	5,053
Investments (note 3):			
Cash equivalents		64,495,501	-
Stocks		110,594,399	-
Bonds		12,234,054	-
International investments		30,900,861	-
Real estate		5,254,435	-
Other investments		4,156,476	-
Total investments		227,635,726	-
Total assets		230,605,968	5,053
<hr/>			
LIABILITIES			
Liabilities - Cash held for others		-	5,053
TOTAL LIABILITIES		-	5,053
Net position -			
Net position restricted for pensions		230,605,968	-
<hr/>			
See accompanying notes to basic financial statements.			

**CITY OF PORTSMOUTH, VIRGINIA**  
**Statement of Changes in Fiduciary Net Position**  
**Fiduciary Funds - Pension Trust Funds**  
**Year ended June 30, 2017**

**Exhibit F-2**

Additions:

Contributions		
Employers' contributions	\$	8,571,406
Investment income -		
Interest		5,107,699
Realized gains (loss)		151,787
Unrealized gains (loss)		17,753,247
Net investment income		23,012,733
Total additions		31,584,139

Deductions

Benefit payments		30,419,835
Administrative expenses		311,436
Net decrease		30,731,271
Change in net position		852,868

Net plan position held in trust for pension benefits, beginning of year		229,753,100
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Net plan position held in trust for pension benefits, end of year	\$	230,605,968
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See accompanying notes to basic financial statements.

## CITY OF PORTSMOUTH, VIRGINIA

## Exhibit G-1

## Statement of Net Position

## Component Units

June 30, 2017

	School Board	Economic Development Authority	Port and Industrial Commission	Total
Assets:				
Current assets:				
Cash and temporary investments (note 3)	\$ 25,355,281	1,988,859	1,023,616	28,367,756
Receivables (net of allowance for uncollectibles)				
Accounts	304,053	10,417	-	314,470
Other	-	-	361	361
Due from other governments	3,325,880	-	-	3,325,880
Due from primary government	75,221	-	-	75,221
Inventory of supplies	230,377	-	-	230,377
Notes receivable, current	-	-	73,746	73,746
Total current assets	29,290,812	1,999,276	1,097,723	32,387,811
Noncurrent assets:				
OPEB assets	4,566,686	-	-	4,566,686
Property held for resale	-	9,518,793	453,638	9,972,431
Restricted Cash	-	1,005,919	-	1,005,919
Restricted receivable	-	112,891	-	112,891
Capital assets (note 4):				
Land	6,085,707	1,205,661	-	7,291,368
Buildings	93,535,748	-	-	93,535,748
Machinery, furniture, and equipment	28,403,689	-	-	28,403,689
Intangible	422,270	-	-	422,270
Total capital assets	128,447,414	1,205,661	-	129,653,075
Less accumulated depreciation	(64,208,572)	-	-	(64,208,572)
Total capital assets, net	64,238,842	1,205,661	-	65,444,503
Total noncurrent assets	68,805,528	11,843,264	453,638	81,102,430
Deferred outflows related to pensions	21,585,790	-	-	21,585,790
Total assets and deferred outflows of resources	\$ 119,682,130	13,842,540	1,551,361	135,076,031

(continued)

## CITY OF PORTSMOUTH, VIRGINIA

## Exhibit G-1 (continued)

## Statement of Net Position

## Component Units

June 30, 2017

	School Board	Economic Development Authority	Port and Industrial Commission	Total
Liabilities:				
Current liabilities:				
Deposits	\$ -	5,000	-	5,000
Accounts payable	1,905,554	15,457	-	1,921,011
Accrued payroll	7,821,478	-	-	7,821,478
Accrued payroll taxes	590,810	-	-	590,810
Due to primary government (note 10)	3,311,466	23,481	30,396	3,365,343
Claims payable (note 15)	1,288,039	-	-	1,288,039
Compensated absences (note 5)	1,326,234	-	-	1,326,234
Grants Payable	-	10,000	-	10,000
Workmen's compensation claims (note 15)	478,129	-	-	478,129
Total current liabilities	16,721,710	53,938	30,396	16,806,044
Noncurrent liabilities:				
Compensated absences (note 5)	2,687,030	-	-	2,687,030
Noncurrent workmen's compensation claims (note 15)	753,297	-	-	753,297
Net pension liability	155,894,507	-	-	155,894,507
Total noncurrent liabilities	159,334,834	-	-	159,334,834
Total liabilities	176,056,544	53,938	30,396	176,140,878
Deferred inflows related to pensions	9,569,925	-	-	9,569,925
Net position:				
Net investment in capital assets	64,238,842	1,205,661	-	65,444,503
Restricted for grants	1,729,966	-	-	1,729,966
Restricted for other purposes	3,401,122	1,118,810	-	4,519,932
Unrestricted (deficit)	(135,314,269)	11,464,131	1,520,965	(122,329,173)
Total net position	(65,944,339)	13,788,602	1,520,965	(50,634,772)
Total liabilities and net position	\$ 119,682,130	13,842,540	1,551,361	135,076,031

See accompanying notes to basic financial statements.



## CITY OF PORTSMOUTH, VIRGINIA

## Exhibit G-2

## Statement of Activities

## Component Unit

Year ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	School Board	Economic Development Authority	Port and Industrial Commission	Total
<b>School Board</b>								
Administration, attendance, and health services	\$ 9,108,781	448,769	-	-	(8,660,012)	-	-	(8,660,012)
Instruction	124,548,696	44,761	24,142,951	-	(100,360,984)	-	-	(100,360,984)
Pupil transportation	7,314,286	144,797	-	-	(7,169,489)	-	-	(7,169,489)
Operations and maintenance	15,223,576	30,477	-	984,456	(14,208,643)	-	-	(14,208,643)
Information technology	5,711,520	-	-	-	(5,711,520)	-	-	(5,711,520)
Food services	8,236,369	1,468,263	6,527,103	-	(241,003)	-	-	(241,003)
Interest on long-term debt	30,410	-	-	-	(30,410)	-	-	(30,410)
Total School Board	170,173,638	2,137,067	30,670,054	984,456	(136,382,061)	-	-	(136,382,061)
<b>Economic Development Authority</b>								
Economic Development Authority	619,792	125,559	-	-	-	(494,233)	-	(494,233)
<b>Port and Industrial Commission</b>								
Port and Industrial Commission	36,655	2,180	-	-	-	-	(34,475)	(34,475)
Total Component Units	\$ 170,830,085	2,264,806	30,670,054	984,456	(136,382,061)	(494,233)	(34,475)	(136,910,769)
	General Revenues:							
	Grants and contributions not restricted to specific programs				\$ 80,219,967	-	-	80,219,967
	Investment earnings				10,387	2,455	4,230	17,072
	Miscellaneous				1,245,676	105,449	-	1,351,125
	Payment from primary government				52,400,000	-	-	52,400,000
	Total General Revenues and Transfers				133,876,030	107,904	4,230	133,988,164
	Change in net position				(2,506,031)	(386,329)	(30,245)	(2,922,605)
	Net position, beginning of year				(63,438,308)	14,174,931	1,551,210	(47,712,167)
	Net position, end of year				\$ (65,944,339)	13,788,602	1,520,965	(50,634,772)

See accompanying notes to basic financial statements.

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

The following is a summary of the more significant policies:

**A. Financial Reporting Entity**

The city's financial reporting entity is defined and its financial statements are presented in accordance with GASB Statement No. 14, *The Financial Reporting Entity*, as amended. This Statement defines the distinction between the city as a primary government and its related entities. The financial reporting entity consists of the primary government and its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either a) the ability of the primary government to impose its will, or b) the possibility that the component unit will provide a financial benefit or impose a financial burden on the primary government. The primary government may also be financially accountable if the component unit is fiscally dependent on the primary government, regardless of whether the component unit has a separately elected governing board. The primary government is hereafter referred to as the "city" and the reporting entity, which includes the city and its component units, is hereafter referred to as the "reporting entity".

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

***Discretely Presented Component Units***

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

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

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

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

Economic Development Authority  
c/o Department of Economic Development  
City Hall Building, Suite 500  
801 Crawford Street  
Portsmouth, Virginia 23704

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

Portsmouth Port and Industrial Commission  
c/o Department of Economic Development  
801 Crawford Street, Suite 500  
Portsmouth, Virginia 23704

***Blended Component Unit***

The Parking Authority is considered to be a blended component unit in the city's financial statements under the guidelines of GASB 61. Blended component units are entities that are legally separate from the city, but which provide services entirely, or almost entirely, to the city or otherwise exclusively benefit the city. Activities of blended component units are considered to be so intertwined with the city's that they are, in substance, part of the city's operations. The Parking Authority is fiscally dependent on the city. The Parking Authority's resources and services provided are almost entirely for the direct benefit of the primary government. The City Council appoints all of the members of the Board of Directors and appropriates funds annually to the Authority. The City Council can also remove members at will, modify or approve the budget, set rates/fees, and hire or dismiss those persons responsible for the day-to-day operations of the Authority. The city and the Parking Authority have a financial benefit/burden relationship and management (below the level of the elected officials) of the city has operational responsibilities for the activities of the Parking Authority. The city is legally entitled to or can otherwise access the Authority's resources and is also obligated for the debt of the Authority. The Parking Authority's outstanding debt is expected to be repaid entirely with resources

of the city. No distinction is made between the activities of the Parking Authority and the city. As a result, the Parking Authority is reported as an enterprise fund in the city's financial statements. Separately audited financial statements are not available for the Parking Authority.

**B. Basis of Financial Statement Presentation**

**Government-Wide and Fund Financial Statements**

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

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

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

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

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

***Governmental Fund Types***

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

The city reports the following major governmental funds:

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

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

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

The city reports the following nonmajor governmental funds:

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

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

***Proprietary Fund Types***

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

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

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

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

***Fiduciary Fund Types***

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

**Reconciliation of Government-Wide and Fund Financial Statements**

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

**C. Measurement Focus and Basis of Accounting**

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

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

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

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

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

**D. Property Taxes**

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

***Real Estate Taxes***

The city levies real estate taxes on all real estate within its boundaries, except those exempted by statute, each year as of July 1<sup>st</sup> 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 2017 was \$1.30 per \$100 of assessed value.

***Personal Property Taxes***

The city levies personal property taxes on motor vehicles and business and other tangible personal property. Personal property taxes do not create a lien on property. These levies are made each year as of January 1 with payment due the following June 5. Taxes on motor vehicles bought and sold after January 1 are prorated and the tax levies are adjusted. During the fiscal year, the personal property taxes reported as revenue are the adjusted levies less an allowance for uncollectibles. Personal property taxes are considered delinquent after the June 5 due date or, in the case of supplemental levies, thirty days after the taxes are levied and billed. The personal property tax rate for 2017, excluding machinery and tools, boats, and recreational vehicles, was \$5.00 per \$100 of assessed value.

The personal property tax rate on machinery and tools, boats, and mobile homes was \$3.00, \$.50, and \$1.30 per \$100 of assessed value, respectively.

**E. Allowance for Uncollectibles**

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

**Governmental Activities:**

General Fund:

Allowance for uncollectibles (taxes)	\$ 3,597,476
Allowance for uncollectibles	2,444,289
<b>Total General Fund</b>	<b>6,041,765</b>

Special Revenue Funds:

Stormwater Management Fund - allowance for uncollectibles	422,102
Behavioral Health Services Fund - allowance for uncollectibles	12,819
<b>Total Special Revenue Funds</b>	<b>434,921</b>

<b>Total governmental activities</b>	<b>6,476,686</b>
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**Business-Type Activities:**

Enterprise Funds:

Public Utility Fund - allowance for uncollectibles	515,955
Parking Authority Fund - allowance for uncollectibles	6,678
Waste Management Fund - allowance for uncollectibles	1,020,743

<b>Total business-type activities</b>	<b>\$ 1,543,376</b>
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**F. Cash and Temporary Investments**

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

**G. Investments**

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

**H. Inventories**

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

**I. Fund Balances**

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



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

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

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

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

In governmental funds, other than the general fund, assigned fund balance represents the remaining amounts (except for negative balances) that are not classified as nonspendable and are neither restricted nor committed.

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

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

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

**J. Capital Assets**

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

Capital assets which are used for general governmental purposes and are not available for expenditure are accounted for and reported in the government-wide financial statements. Major infrastructure

assets include the roads, bridges, curbs and gutters, streets and sidewalks, parks and improvements, and tunnels.

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

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

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

**K. Compensated Absences**

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

The liability for compensated absences has been recorded in accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*. The cost of the compensated absences expected to be paid from future expendable financial resources is accounted for as a liability. In the governmental funds, the amount of compensated absences recorded as an expenditure in the general fund is the amount used by and paid to employees during the fiscal year. In the government-wide and proprietary fund financial statements, the amount of compensated absences recorded as an expense is the net amount earned during the fiscal year. A liability for compensated absences is reported in the governmental funds only if the compensated absences have matured as a result of employee resignations and terminations.

**L. Intra-entity Activity**

Payments from a fund receiving revenue to a fund through which the revenue is to be expended are reported as transfers. Such payments include transfers for debt service and capital construction.

Resource flows between the primary government and the discretely presented component units are reported as if they were external transactions.

**M. Deferred Outflows/Inflows of Resources**

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

**N. Pensions**

The GASB issued Statement No. 68 "Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27" and Statement No. 71 "Pension Transition for Contributions made subsequent to the Measurement Date" (an amendment of GASB Statement No. 68) effective for financial statements issued for fiscal years beginning after June 15, 2014. The city has included the required financial information in the basic financial statements, Note 7 "Retirement Plans", and Exhibit I-4 for fiscal year 2017.

**O. Estimates and Assumptions**

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

**P. Budgets**

By City Charter and the Code of Virginia, the City Manager is required to present to City Council an operating budget on or before April 1 before the beginning of the next fiscal year on July 1. Prior to adoption of the budget by City Council, a public hearing is required to be conducted seven days prior to adoption of the budget and the public hearing is required to be advertised seven days prior to the public hearing. The City Council is required to adopt the budget on or before June 30. The legal level of budgetary control is set at the fund level with the exception of the General Fund, which is set at the activity or function level. The City Code provides that the City Manager may transfer any unencumbered appropriation balance less than \$100,000 from one department, project, program, or purpose to another within the same fund. The City Manager is required to make a monthly report to the City Council of all budget transfers greater than \$50,000. Also, the City Manager may transfer any or all of the unencumbered balance of the emergency contingency account budget to any item in the budget provided that any utilization of the emergency contingency account budget is reported to the City Council at its next regular meeting.

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

**Notes to Basic Financial Statements, Continued**  
**June 30, 2017**

**(2) FUND BALANCE**

The fund balances of the governmental funds at June 30, 2017 were composed of the following:

	General Fund	Debt Service	Capital Improvements	Other Nonmajor
Nonspendable:				
Inventory of supplies	\$ 124,979	-	-	519
Advances receivable	1,211,250	-	-	-
Permanent - cemetery care	-	-	-	1,000,000
Total nonspendable fund balances	1,336,229	-	-	1,000,519
Restricted:				
Restricted cash	3,088,288	3,285,138	6,093,500	-
Capital improvements	-	-	23,460,617	-
Behavioral health services	-	-	-	7,712,038
Public law library	-	-	-	38,019
Stormwater management infrastructure maintenance	-	-	-	3,138,242
Grants	-	-	-	775,553
Children's services	-	-	-	151,807
Willett Hall	-	-	-	510,069
Asset forfeitures	-	-	-	326,432
Permanent - cemetery care	-	-	-	658,727
Total restricted fund balances	3,088,288	3,285,138	29,554,117	13,310,887
Committed:	-	-	-	-
Total committed fund balances	-	-	-	-
Assigned:				
Planned use of fund balance	5,835,038	-	-	-
Total assigned fund balances	5,835,038	-	-	-
Unassigned:				
General Fund	57,358,331	-	-	-
Community development - (HUD) Housing assistance	-	-	-	(150,435)
Social Services	-	-	-	(2,293,487)
Total unassigned fund balance	57,358,331	-	-	(2,443,922)
Total fund balances	\$ 67,617,886	3,285,138	29,554,117	11,867,484

**(3) DEPOSITS AND INVESTMENTS**

**Deposits and Restricted Cash**

At June 30, 2017, the carrying value of the city's deposits with banks and savings institutions was \$208,463,381. All cash of the city except petty cash of \$81,645 is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Sec. 2.2-4400 et seq. of the Code of Virginia or covered by federal depository insurance. As of June 30, 2017 restricted cash totaled \$6,353,668, which represents sheriff funds and bond proceeds.

**Investments**

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

**Investment Policy**

The primary goal of the investment policy is to maximize return on investment while minimizing risk to the investment. The city's investment policy addresses custodial credit risk, interest rate risk, concentration of risk, and credit risk, in which instruments are to be diversified and maturities timed according to anticipated needs in order to minimize any exposure. The city's policy does not address foreign currency risk. The city's investment policy requires that all investments and investment practices meet or exceed all statutes and guidelines governing the investment of public funds in Virginia, including the Investment Code of Virginia and the guidelines established by the State Treasury Board and the Governmental Accounting Standards Board. The policy specifically states that the city shall limit investments to those allowed under the Virginia Security for Public Deposits Act, Sec. 2.2-4400 et seq. of the Code of Virginia. The City Treasurer is responsible for diversifying the use of investment instruments to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities. It is the policy of the city to concentrate its investment efforts to banks located in the Commonwealth of Virginia which are under the Virginia statutes for public funds and all banks must be approved by depositories by the State Treasury Board. The city's policy is to invest only in "prime quality" commercial paper, with a maturity of two hundred seventy days or less, or issuing corporations organized under the laws of the United States, or any state thereof including paper issued by banks and bank holding companies. Prime quality shall be as rated by the Moody's Investors Services, Inc. within its ratings of prime 1 or prime 2, by Standard and Poor's, Inc. within its ratings of A-1 or A-2, or by Fitch Investors Service within its ratings of F-1 and F-2. The maximum percentage of funds to be invested in any one issue shall not exceed 5% of the total portfolio.

As of June 30, 2017, the city's investment balances were as follows:

		Carrying Amount	Actual Credit Ratings	Required Credit Ratings	Average Days/Years to Maturity
Certificates of Deposit/Money					
Market/Commercial Paper	\$	205,925,560	AAAm	N/A	1 day

**Pension Investments - Common Collective Retirement Trust Fund**

As of June 30, 2017, the pension investments in the city's common collective retirement trust fund were professionally managed by John Hancock Trust Company LLC and primarily invested in equity funds. The fair value of the pension investments are primarily determined by the quoted prices of securities on the various exchange markets. The allocation of the investment accounts are authorized between the Board of Trustees of the Portsmouth Supplemental Retirement System (which acts on behalf of and administers the retirement plan for the Portsmouth Fire and Police Retirement System), Morgan Stanley PWM (Private Wealth Management), and John Hancock Trust Company LLC. The target allocation for all pension investment funds is 65.0% for equity securities, 30.0% for fixed income (bond) securities, 2.0% for real estate trust securities, and 2% for alternative investments. None of the city's pension investments have credit ratings.

At June 30, 2017, the fair value of the pension investment in the city's retirement trust fund was as follows:

Name of Brokerage Account or Mutual Fund	Investment Type	Weighted Average Maturity/Liquidation	Fair Value
John Hancock Trust Company LLC:			
Goldman Sachs Sm Cap Val Inst MF	MF Equity	1 day	\$ 6,482,068
AQR Managed Futures Strategy I MF	MF Futures	1 day	4,156,476
Hotchkis & Wiley Mid Cap Val I MF	MF Equity	1 day	9,631,006
Principal Glob Real Est Sec I MF	MF Equity	1 day	5,254,435
American EurPacific Growth R6 MF	MF Equity	1 day	30,900,861
Lord Abbett Short Dur Inc I MF	MF Equity	1 day	20,941,189
Scout Uncon. Bond Fund MF	MF Equity	1 day	20,937,265
BlackRock Managed Account MF	MF Equity	1 day	22,617,046
Shafer Cullen Div Ops Inv BA	BA Equity	1 day	94,481,326
Templeton Global Bond Fund R6 MF	MF Equity	1 day	12,234,054
			\$ 227,635,726

**Fair Value Measurement**

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

The recurring fair value measurement hierarchy (by fair value level of valuation inputs) and the readily determinable fair value amount (by type of security or asset) of the pension investments in the city's retirement trust fund as of June 30, 2017 are as follows:

Fair Value (FV) Measurements Using				
	Fair Value at 6/30/2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments measured at FV by FV Level:</b>				
Debt securities				
Bonds in mutual funds	\$ 61,285,319	\$ 61,285,319	-	-
Total debt securities	\$ 61,285,319	\$ 61,285,319		
Equity securities				
Common stock & stock options in brokerage account	\$ 81,631,866	\$ 81,631,866		
Common stock in mutual funds	50,996,784	50,996,784		
Total equity securities	\$ 132,628,650	\$ 132,628,650		
Other assets (futures contracts, etc.) in mutual funds	5,929,264	5,929,264		
Cash in brokerage account and mutual funds	27,792,493	27,792,493		
Total investments by fair value level	\$ 227,635,726	\$ 227,635,726		

**Interest Rate Risk**

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

**Credit Risk**

Credit risk is the risk that an insurer or other counterparty to an investment will not fulfill its obligations. The Board of Trustees' policy for reducing its exposure to credit risk is to consult with its investment advisors to determine whether or not to hold or liquidate the investment(s) with such an exposure as the circumstances of each situation warrants. At June 30, 2017, the Board of Trustees' pension investments had no quality ratings.

**Concentration of Credit Risk**

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

***Custodial Credit Risk***

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

***Foreign Currency Risk***

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

**Component Unit - School Board**

All of the deposits of the School Board, a discretely presented component unit, of \$25,355,281 are maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia or covered by Federal depository insurance. The School Board has \$12,081,964 invested in the School OPEB Trust Fund. The City Treasurer's policies on deposits and investments, as noted above, also apply to the School Board.

**Component Unit - Economic Development Authority**

At year end, the carrying value of deposits with banks for the Economic Development Authority, a discretely presented component unit, was \$1,988,859. All cash is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance.

**Component Unit - Portsmouth Port and Industrial Commission**

At year end, the carrying value of deposits with banks for the Portsmouth Port and Industrial Commission, a discretely presented component unit, was \$1,023,616. All cash of the Commission is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance.



**(4) CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2017 was as follows:

<b>Primary Government - Governmental Activities</b>				
	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Capital assets not being depreciated:				
Land	\$ 26,599,619	-	(6,791,720)	19,807,899
Construction in progress	107,818,322	16,160,451	(16,775,953)	107,202,820
Total capital assets not being depreciated or amortized	134,417,941	16,160,451	(23,567,673)	127,010,719
Capital assets being depreciated:				
Buildings	345,803,332	751,533	(622,313)	345,932,552
Improvements other than buildings	1,501,952	1,498,229	-	3,000,181
Improvements other than buildings (Infrastructure)	496,046,276	5,191,577	-	501,237,853
Machinery, furniture, and equipment	53,388,024	6,298,474	(2,515,736)	57,170,762
Intangibles	1,020,537	-	-	1,020,537
Total capital assets being depreciated or amortized	897,760,121	13,739,813	(3,138,049)	908,361,885
Less accumulated depreciation for:				
Buildings	(106,517,481)	(8,183,159)	229,911	(114,470,729)
Improvements other than buildings	(350,785)	(246,211)	-	(596,996)
Improvements other than buildings (Infrastructure)	(357,970,448)	(3,461,580)	-	(361,432,028)
Machinery, furniture, and equipment	(41,643,187)	(2,656,890)	1,703,738	(42,596,339)
Intangibles	(628,659)	(114,906)	-	(743,565)
Total accumulated depreciation	(507,110,560)	(14,662,746)	1,933,649	(519,839,657)
Total capital assets being depreciated or amortized, net	390,649,561	(922,933)	(1,204,400)	388,522,228
Governmental activities capital assets, net	\$ 525,067,502	15,237,518	(24,772,073)	515,532,947

Under Virginia Law, localities have a tenancy-in-common with the school board whenever a locality incurs a financial obligation for school property which is payable over more than one fiscal year. The school board and city have agreed that such property with a net book value of \$81,585,055 will be carried on the city's financial statements until the outstanding debt is repaid.

Capital Asset Activity for the year ended June 30, 2017 (continued)

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**Depreciation/amortization expense was charged to functions as follows:**

General government	\$	12,985
Judicial		2,049,014
Public safety		553,451
Public works		5,897,302
Health and welfare		268,422
Parks, recreation and cultural		779,479
Community development		880,860
Education		<u>2,608,796</u>
Total governmental activities		<u>13,050,309</u>

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

		<u>1,612,437</u>
Total governmental activities	\$	<u>14,662,746</u>

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

	Authorization	Expended to June 30, 2017	Authorized not yet committed	Commitments
Churchland Bridge	\$ 35,562,697	3,116,812	32,133,368	312,517
Drainage Facilities Repair & Lake Management	31,538,223	25,762,209	5,313,478	462,536
Seawall Reinforcement	16,395,269	10,406,420	580,341	5,408,508
Victory Boulevard	13,547,131	13,200,853	346,278	-
PS New Radio System	11,000,000	3,900,805	6,916,098	183,097
Upgrade City's Traffic Signal	6,600,000	6,295,531	300,296	4,173
Portsmouth Sports Complex Acquisition & Ren.	6,998,574	5,560,531	905,861	532,182
Renovations to Various Buildings	4,619,556	4,142,607	274,252	202,697
801 Water Street	4,180,871	3,391,143	777,073	12,655
School bus fleet replacement	3,956,083	1,029,558	2,926,525	-
Judicial Facilities Improvements	3,308,410	3,089,218	219,192	-
City / Schools Joint Financial Mgmt. System	3,046,215	2,911,801	66,936	67,478
Dredging of Lake and Ponds	2,962,650	178,312	2,689,463	94,875
Bridge Repairs	2,958,465	2,755,623	202,842	-
Roof Replacement	2,655,121	2,225,637	221,274	208,210
Hazmat Program	2,230,963	1,973,937	257,026	-
Replacement of HVACs	2,086,052	1,941,047	129,185	15,820
Traffic Signal Improvements	2,060,579	1,935,548	69,067	55,964
Parking Garage Repairs - Harbor Tower	1,751,917	676,790	1,075,127	-
Westhaven Elementary Roof	1,679,207	84,911	1,594,296	-
Midtown Corridor	1,338,322	1,182,400	155,922	-
City Gateways	1,308,516	945,988	348,118	14,410
Revenue System Treasurer/COR	1,135,917	-	1,135,917	-
Recreation Center Enhancements	1,032,385	158,346	857,547	16,492
Various projects under \$1,000,000 each	18,091,771	10,336,793	6,819,957	935,021
<b>Total</b>	<b>\$ 182,044,894</b>	<b>107,202,820</b>	<b>66,315,439</b>	<b>8,526,635</b>

When a project is authorized, financing is either presently available or general obligation bonds are authorized to be issued. In anticipation of the issuance of general obligation bonds, bond anticipation notes may be utilized to provide temporary financing. As of June 30, 2017, \$74,842,074 represents the amount authorized but not yet spent. This includes commitments totaling \$8,526,635 that have been reserved for encumbrances for capitalizable and noncapitalizable expenditures in the capital improvements fund.

**CITY OF PORTSMOUTH, VIRGINIA**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

**Exhibit H (continued)**

<b>Primary Government - Business-Type Activities</b>	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Capital assets not being depreciated:				
Land	\$ 13,518,323	-	-	13,518,323
Construction in progress	85,301,782	16,315,241	(2,154,758)	99,462,265
Total capital assets not being depreciated	98,820,105	16,315,241	(2,154,758)	112,980,588
Capital assets being depreciated:				
Buildings	21,488,188	-	-	21,488,188
Improvements other than buildings	488,548	-	-	488,548
Improvements other than buildings (Infrastructure)	260,416,902	2,154,758	-	262,571,660
Machinery, furniture, and equipment	26,559,745	2,917,987	(1,320,320)	28,157,412
Total capital assets being depreciated	308,953,383	5,072,745	(1,320,320)	312,705,808
Less accumulated depreciation for:				
Buildings	(13,703,066)	(529,348)	-	(14,232,414)
Improvements other than buildings	(317,028)	(13,692)	-	(330,720)
Improvements other than buildings (Infrastructure)	(100,274,522)	(6,064,955)	-	(106,339,477)
Machinery, furniture, and equipment	(19,551,662)	(1,810,779)	1,159,538	(20,202,903)
Total accumulated depreciation	(133,846,278)	(8,418,774)	1,159,538	(141,105,514)
Total capital assets being depreciated, net	175,107,105	(3,346,029)	(160,782)	171,600,294
Business-type activities capital assets, net	\$ 273,927,210	12,969,212	(2,315,540)	284,580,882

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

Public utilities	\$ 7,128,813
Parking authority	452,707
Golf	102,143
Waste management	735,111
Total business-type activities	\$ 8,418,774

Capital Assets – business type activities (continued)

<b>Primary Government - Major Enterprise Funds</b>				
	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
<b><i>Public Utility Fund</i></b>				
Capital assets not being depreciated:				
Land	\$ 324,079	-	-	324,079
Construction in progress	85,301,782	16,226,116	(2,154,758)	99,373,140
Total capital assets not being depreciated	85,625,861	16,226,116	(2,154,758)	99,697,219
Capital assets being depreciated:				
Buildings	692,687	-	-	692,687
Improvements other than buildings (Infrastructure)	260,416,902	2,154,758	-	262,571,660
Machinery, furniture, and equipment	15,349,523	965,953	(253,791)	16,061,685
Total capital assets being depreciated	276,459,112	3,120,711	(253,791)	279,326,032
Less accumulated depreciation for:				
Buildings	(179,331)	(17,158)	-	(196,489)
Improvements other than buildings (Infrastructure)	(100,274,522)	(6,064,955)	-	(106,339,477)
Machinery, furniture, and equipment	(12,556,213)	(1,046,700)	253,881	(13,349,032)
Total accumulated depreciation	(113,010,066)	(7,128,813)	253,881	(119,884,998)
Total capital assets being depreciated, net	163,449,046	(4,008,102)	90	159,441,034
Public Utility Fund capital assets, net	\$ 249,074,907	12,218,014	(2,154,668)	259,138,253
<b><i>Parking Authority</i></b>				
Capital assets not being depreciated:				
Land	\$ 679,680	-	-	679,680
Construction in progress	-	89,125	-	89,125
Total capital assets not being depreciated	679,680	89,125	-	768,805
Capital assets being depreciated:				
Buildings	18,667,910	-	-	18,667,910
Improvements other than buildings	260,636	-	-	260,636
Machinery, furniture, and equipment	422,435	-	-	422,435
Total capital assets being depreciated	19,350,981	-	-	19,350,981
Less accumulated depreciation for:				
Buildings	(12,154,983)	(427,087)	-	(12,582,070)
Improvements other than buildings	(203,406)	(5,094)	-	(208,500)
Machinery, furniture, and equipment	(280,802)	(20,526)	-	(301,328)
Total accumulated depreciation	(12,639,191)	(452,707)	-	(13,091,898)
Total capital assets being depreciated, net	6,711,790	(452,707)	-	6,259,083
Parking Authority capital assets, net	\$ 7,391,470	(363,582)	-	7,027,888

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

	Project Authorization	Expended to June 30, 2017	Authorized not yet committed	Commitments
<b><u>Public Utility Fund:</u></b>				
Lake Kilby replacement filters	\$ 48,600,000	7,778,766	5,903,000	34,918,234
Downtown master utility	40,900,000	16,709,807	14,389,727	9,800,466
Sanitary sewer overflow elimination	23,865,449	12,292,772	5,784,031	5,788,646
Infrastructure improvements	17,293,355	4,031,556	11,919,475	1,342,324
Low pressure transmission mains	18,250,000	3,117,196	13,371,311	1,761,493
Miscellaneous sewer improvements	13,498,167	9,115,246	3,647,599	735,322
Meter replacement program	10,999,000	9,961,567	745,772	291,661
Lake Kilby raw water pumping station	7,141,418	7,141,418	-	-
Replacement of water plant equipment	7,470,396	3,760,417	3,498,234	211,745
Sewer cave-in repair	6,424,238	5,348,027	922,643	153,568
Miscellaneous water improvements	4,124,524	3,683,027	27,388	414,109
Water Tank Rehab	3,500,000	1,027,470	2,041,371	431,159
	<b>\$ 202,066,547</b>	<b>83,967,269</b>	<b>62,250,551</b>	<b>55,848,727</b>

In addition to the amount of \$83,967,269 shown above as expended to June 30, 2017, \$13,001,747 is included in construction in progress for capitalized interest and \$2,404,124 for the Prentis Park Water Project funded by the CDBG program, bringing total construction in progress to \$99,373,140. As of June 30, 2017, \$62,250,551 represents the amount authorized but not yet spent. This includes commitments totaling \$55,848,727 that have been reserved for encumbrances for capitalizable and noncapitalizable expenditures. When a project is authorized, financing is either presently available or general obligation public utility bonds or revenue bonds are authorized to be issued. In anticipation of the issuance of general obligation public utility bonds or revenue bonds, bond anticipation notes may be utilized to provide temporary financing

Construction in progress in the Parking Authority Fund is composed of the following:

	Project Authorization	Expended to June 30, 2017	Authorized not yet committed	Commitments
<b><u>Parking Authority Fund:</u></b>				
County Street Parking Garage Replacement	\$ 1,750,000	89,125	1,655,439	5,436

When a project is authorized, financing is either presently available or general obligation bonds are authorized to be issued. In anticipation of the issuance of general obligation bonds, bond anticipation notes may be utilized to provide temporary financing. As of June 30, 2017, \$1,655,439 represents the amount authorized but not yet spent. This includes commitments totaling \$5,436 that have been reserved for encumbrances for capitalizable and noncapitalizable expenditures in the parking authority fund.

**CITY OF PORTSMOUTH, VIRGINIA**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

**Exhibit H (continued)**

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

<b>Economic Development Authority Component Unit</b>				
	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Capital assets not being depreciated:				
Land	\$ 1,205,661	-	-	1,205,661
Total capital assets not being depreciated	1,205,661	-	-	1,205,661
Economic development authority capital assets	\$ 1,205,661	-		1,205,661

**(5) LONG - TERM DEBT**

**Details of Long-Term Indebtedness**

At June 30, 2017, the long-term indebtedness of the city consisted of the following:

		<b>Interest Rate</b>	<b>Amount Outstanding</b>
<b>Governmental Activities</b>			
General obligation bonds, net:			
2001B	VPSA School Financing Bonds	3.1 - 5.1 %	\$ 941,142
2006B	VPSA School Financing Bonds	4.3 - 4.6 %	3,344,233
2009A	G.O. Refunding Bonds	4.0 - 4.8 %	6,375,000
2009B	G.O. Refunding Bonds	4.0 - 5.3 %	3,625,000
2009C	Taxable G.O. Refunding Bonds	5.6 - 6.4 %	3,460,000
2009D	G.O. Refunding Bonds	3.5 - 4.0 %	2,610,000
2009	VPSA Qualified School Construction Bonds	0.0 %	13,960,000
2010A	G.O. Public Improvement Bonds	4.0 %	780,000
2010B	Taxable G.O. Public Improvement Bonds (BAB)	4.7 - 6.3 %	29,240,000
2010D	G.O. & Refunding Bonds	3.0 - 5.3 %	695,000
2011	G.O. Refunding Bonds	2.5 - 5.0 %	11,555,000
2012A	G.O. Public Utility & Refunding Bonds	2.0 - 5.0 %	22,860,000
2012B	Taxable G.O. Refunding Bonds	1.5 - 3.9 %	6,970,000
2012C	G.O. Public Improvement & Refunding Bonds	2.0 - 4.0 %	13,260,000
2013D	Taxable G.O. & Refunding Bonds	1.4 - 1.7 %	1,290,000
2013A	G.O. Public Improvement & Refunding Bonds	4.0 - 5.0 %	55,265,000
2013B	Taxable G.O. & Refunding Bonds (includes pension)	1.6 - 4.5 %	150,800,000
2015A	G.O. Refunding Bonds	3.0 - 5.0 %	9,046,659
2015B	Taxable G.O. Refunding Bonds	3.0 - 3.3 %	19,365,000
2016A	G.O. Refunding Bonds	2.0 - 5.0 %	36,365,000
2016B	Taxable G.O. Refunding Bonds	2.0 - 2.2 %	15,355,000
2016QZAB	Virginia G.O. Qualified Zone Academy Bonds	0.0 %	6,143,000
Total general obligation bonds, net			413,305,034
Capital leases			4,355,179
Literary loans			250,000
Compensated absences			7,200,710
Net pension liability			142,849,556
Total governmental activities			<u>\$ 567,960,479</u>

In prior years, general obligation bonds were stated net of unamortized bond premiums and discounts. In FY2017, general obligation bonds are stated exclusive of premiums and discounts.



**Details of Long-Term Indebtedness (continued)**

		<b>Interest Rate</b>	<b>Amount Outstanding</b>
<b>Business-Type Activities</b>			
General obligation bonds, net:			
Public Utilities:			
2009D	G.O. Refunding Bonds	3.5 - 4.0 %	\$ 1,160,000
2009E	Prentis Park Bonds	0.0 %	1,923,300
2010A	G.O. Public Improvement Bonds	4.0 %	735,000
2010B	Taxable G.O. Public Improvement Bonds (BAB)	4.7 - 6.3 %	25,110,000
2011	G.O. Refunding Bonds	2.5 - 5.0 %	6,645,000
2012A	G.O. Public Utility & Refunding Bonds	2.0 - 5.0 %	48,270,000
2012C	G.O. Public Improvement & Refunding Bonds	2.0 - 4.0 %	8,850,000
2013A	G.O. Public Improvement & Refunding Bonds	4.0 - 5.0 %	540,000
2013B	Taxable G.O. & Refunding Bonds	1.6 - 2.8 %	15,025,000
2015A	G.O. Refunding Bonds	3.0 - 5.0 %	11,990,000
2015B	Taxable G.O. Refunding Bonds	3.0 - 3.3 %	6,885,000
			<u>127,133,300</u>
Parking Authority:			
2009A	G.O. Refunding Bonds	4.0 - 4.8 %	75,000
2009B	G.O. Refunding Bonds	5.3 %	20,000
2011	G.O. Refunding Bonds	2.5 - 5.0 %	155,000
2012A	G.O. Public Utility & Refunding Bonds	2.3 - 5.0 %	180,000
2012C	G.O. Public Improvement & Refunding Bonds	3.5 - 4.0 %	45,000
2013B	Taxable G.O. & Refunding Bonds	1.6 - 3.9 %	3,115,000
2015A	G.O. Refunding Bonds	3.0 - 5.0 %	23,341
			<u>3,613,341</u>
Golf:			
2009B	G.O. Refunding Bonds	4.0 - 5.3 %	1,125,000
2011	G.O. Refunding Bonds	2.5 - 5.0 %	1,725,000
2012A	G.O. Public Utility & Refunding Bonds	2.3 - 5.0 %	1,005,000
2013B	Taxable G.O. & Refunding Bonds	1.6 - 2.6 %	380,000
2015A	G.O. Refunding Bonds	3.0 - 5.0 %	385,000
			<u>4,620,000</u>
	Total general obligation bonds, net		<u>135,366,641</u>
Landfill closure and post-closure care			5,197,503
Compensated absences			663,451
Net pension liability			<u>11,130,368</u>
	Total business type activities		<u>\$ 152,357,963</u>

In prior years, general obligation bonds were stated net of unamortized bond premiums and discounts. In FY2017, general obligation bonds are stated exclusive of premiums and discounts.

**CITY OF PORTSMOUTH, VIRGINIA**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

**Exhibit H (continued)**

At June 30, 2017, the long-term indebtedness of the School Board component unit consisted of the following:

	<b>Amount Outstanding</b>
<b>School Board:</b>	
Compensated absences	4,013,264
Claims payable	2,519,465
Net pension liability	155,894,507
<b>Total long-term liabilities</b>	<b>\$ 162,427,236</b>

The following is a summary of changes in long-term indebtedness of the city for the year ended June 30, 2017:

	<b>Balance June 30, 2016</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2017</b>	<b>Due Within One Year</b>
<b>Primary Government - Governmental Activities:</b>					
General obligation bonds	\$ 427,412,855	6,143,000	(20,250,821)	413,305,034	20,402,296
Bond premiums/(discounts)	16,844,489	-	(1,072,430)	15,772,059	1,065,527
	<u>444,257,344</u>	<u>6,143,000</u>	<u>(21,323,251)</u>	<u>429,077,093</u>	<u>21,467,823</u>
Capital leases	6,072,177	-	(1,716,998)	4,355,179	1,489,647
Literary loans	500,000	-	(250,000)	250,000	250,000
Compensated absences	7,074,436	4,359,794	(4,233,520)	7,200,710	3,542,350
Net pension liability	121,151,035	21,698,521	-	142,849,556	-
<b>Total Governmental Activities</b>	<b>\$ 579,054,992</b>	<b>32,201,315</b>	<b>(27,523,769)</b>	<b>583,732,538</b>	<b>26,749,820</b>
<b>Business Type Activities:</b>					
General obligation bonds	\$ 142,456,779	-	(7,090,138)	135,366,641	7,365,140
Bond premiums/(discounts)	9,326,984	-	(588,744)	8,738,240	588,744
	<u>151,783,763</u>	<u>-</u>	<u>(7,678,882)</u>	<u>144,104,881</u>	<u>7,953,884</u>
Capital leases	26,508	-	(26,508)	-	-
Landfill closure and post closure care	5,090,163	107,340	-	5,197,503	-
Compensated absences	676,950	351,746	(365,245)	663,451	308,571
Net pension liability	10,896,477	233,891	-	11,130,368	-
<b>Total Business Type Activities</b>	<b>\$ 168,473,861</b>	<b>692,977</b>	<b>(8,070,635)</b>	<b>161,096,203</b>	<b>8,262,455</b>
<b>Major Enterprise Funds:</b>					
<u>Public Utility Fund</u>					
General obligation bonds	\$ 133,383,439		(6,250,139)	127,133,300	6,405,139
Bond premiums/(discounts)	9,027,747		(540,522)	8,487,225	540,522
	<u>142,411,186</u>	<u>-</u>	<u>(6,790,661)</u>	<u>135,620,525</u>	<u>6,945,661</u>
Compensated absences	384,925	189,866	(229,607)	345,184	195,983
Net pension liability	6,716,877	12,248	-	6,729,125	-
<b>Total Public Utility Fund</b>	<b>\$ 149,512,988</b>	<b>202,114</b>	<b>(7,020,268)</b>	<b>142,694,834</b>	<b>7,141,644</b>
<u>Parking Authority</u>					
General obligation bonds	\$ 4,063,340		(449,999)	3,613,341	460,000
Bond premiums/(discounts)	44,698		(4,306)	40,392	4,306
	<u>4,108,038</u>	<u>-</u>	<u>(454,305)</u>	<u>3,653,733</u>	<u>464,306</u>
Compensated absences	13,861	6,890	(5,306)	15,445	3,064
Net pension liability	162,742	9,495	-	172,237	-
<b>Total Parking Authority</b>	<b>\$ 4,284,641</b>	<b>16,385</b>	<b>(459,611)</b>	<b>3,841,415</b>	<b>467,370</b>

Long-term liabilities applicable to the city's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued

in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the government-wide Statement of Net Position. The amount due within one year for compensated absences has been estimated and is generally liquidated by the fund for which the employee works.

Section 148 of the Internal Revenue Code of 1986 requires public entities to refund interest earned in excess of interest paid over the first five years outstanding on tax exempt borrowings. The regulations are applicable to borrowings incurred subsequent to August 1986. The city has calculated the rebate due as of June 30, 2017 was the settlement date, and reflected the liability, if any, in either the Public Utility Fund or the governmental activities column of the Statement of Net Position, depending on the bond issue and timing of payment.

The following is a summary of changes in long-term indebtedness of the School Board component unit for the year ended June 30, 2017:

	<b>Balance July 1, 2016</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2017</b>	<b>Due Within One Year</b>
<b>School Board:</b>					
Capital leases	\$ 1,001,007	-	(1,001,007)	-	-
Compensated absences	4,091,032	1,796,254	(1,874,022)	4,013,264	1,326,234
Claims Payable	2,641,654	18,890,487	(19,012,676)	2,519,465	1,766,168
Net pension liability	140,389,227	15,505,280	-	155,894,507	-
<b>Total School Board</b>	<b>\$ 148,122,920</b>	<b>36,192,021</b>	<b>(21,887,705)</b>	<b>162,427,236</b>	<b>3,092,402</b>

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

#### **Issuance of Qualified Zone Academy Bonds**

On October 26, 2016, the city issued General Obligation Qualified Zone Academy Bond of \$6,143,000 to finance the renovation of school buildings and replace equipment. Branch Bank and Trust (BB&T) won a competitive bidding process to provide the QZAB funding. The bonds require a private partnership with a 10% match; this has been pledged to the Portsmouth Public Schools as support from STARSHIP Victory and the Portsmouth Schools Foundation. The bonds are 0% interest over 15 years and a tax credit will be paid to the lender. Payments will be made to a sinking fund so that as funds accumulate until the bond matures, the city will earn interest on the account.

**Debt Limit**

The Commonwealth of Virginia imposes a legal limit of 10 percent of the assessed valuation of taxed real property as a ceiling in the amount of the general obligation borrowings, which may be issued by the city without referendum. At June 30, 2017 the city's debt limit was \$726,920,831 of which \$190,156,200 is available for the issuance of additional debt. There are no overlapping tax jurisdictions. However, the city has adopted three debt affordability policies that restrict the amount of debt beyond the amount indicated by the legal debt margin. These policies require that the ratio of all net tax supported Debt Service to combined General Fund and School revenues should not exceed 10%, the ratio of net tax supported Debt to Market Value should not exceed four percent, and the 10 year debt payout ratio of net tax supported Debt should be greater than or equal to 50%.

**Debt Compliance and Repayment**

The annual requirements to pay all outstanding long-term bonds as of June 30, 2017, including interest payments, are summarized as follows:

**Governmental Activities:**

Fiscal Year Ending	General Obligation Bonds		Literary Loans		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 20,402,296	15,602,073	250,000	5,000	1,489,647	473,297
2019	21,188,181	15,063,445	-	-	1,079,508	329,031
2020	21,794,785	14,394,981	-	-	1,174,232	180,750
2021	23,162,824	13,691,797	-	-	611,792	30,536
2022	23,544,416	12,916,702	-	-	-	-
2023-2027	121,588,378	52,148,485	-	-	-	-
2028-2032	103,089,154	30,427,690	-	-	-	-
2033-2037	78,535,000	9,585,382	-	-	-	-
	\$ 413,305,034	163,830,555	250,000	5,000	4,355,179	1,013,614

**Business-Type Activities:**

Fiscal Year Ending	General Obligation Bonds	
	Principal	Interest
2018	\$ 7,365,140	5,749,516
2019	7,680,138	5,547,413
2020	7,895,138	5,308,105
2021	7,890,138	5,021,943
2022	8,057,632	4,712,414
2023-2027	34,290,688	18,706,201
2028-2032	26,811,533	12,105,592
2033-2037	17,315,688	7,361,062
2038-2042	18,060,548	2,292,703
	\$ 135,366,643	66,804,949

**Authorized but Unissued Bonds**

A summary of general obligation bonds authorized but unissued for governmental funds, listed by project, as of June 30, 2017 are listed below.

<b>General Fund Projects</b>	<b>Total</b>
Drainage and Street Improvements	\$ 5,000,000
Victory Blvd / Paradise Creek Bridge	250,000
Public Safety New Radio System	4,000,000
Seawall Reinforcement	9,500,000
Midtown Corridor	913,170
Primrose / Hatton Street	405,000
Churchland Bridge	1,400,000
801 Water Street	750,000
County Street Parking Garage	1,500,000
Lincoln Park Redevelopment	350,000
Churchland HVAC	442,667
Mt Hermon Preschool Roof Replacement	69,000
Fleet Vehicles	3,690,771
Total Authorized and Unissued Bonds - Governmental Funds	<u>\$ 28,270,608</u>

A summary of public utility bonds authorized but unissued by project as of June 30, 2017 are listed below. These projects are self-supporting and debt service will be paid from the public utility fund revenue.

<b>Public Utility Projects</b>	<b>Total</b>
Miscellaneous Sewer Projects	\$ 8,000,000
Sewer Cave-in Repairs	500,000
Sanitary Sewer Overflow Elimination Program	9,973,284
Infrastructure Improvements	7,275,584
Replacement of Water Plant Equipment	3,281,076
Automated Meter Reading	1,969,000
Lake Kilby Water Pump Station	252,120
Downtown Master Utility Plan	19,000,000
Low Pressure Transmission	15,626,135
Lake Kilby Replacement Filters	39,000,000
Total Authorized and Unissued Bonds - Public Utilities Fund	<u>\$ 104,877,199</u>
Total Authorized and Unissued Bonds June 30, 2017	<u>\$ 133,147,807</u>

**Notes to Basic Financial Statements**  
**June 30, 2017**

**(6) LEASING ARRANGEMENTS**

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

	Governmental	Internal Service	Enterprise
Buildings	\$ 12,347,181	-	-
Machinery, furniture, and equipment	2,115,395	11,787,587	3,714,431
Less accumulated depreciation	(7,008,375)	(8,467,366)	(2,997,050)
Capital assets, net	\$ 7,454,201	3,320,221	717,381

Depreciation expense on leased assets was \$2,109,230 for the fiscal year ended June 30, 2017.

The projected minimum capital and operating lease payments of the city as of June 30, 2017 is as follows:

Fiscal Year Ending	Capital	Operating
2018	1,962,945	409,331
2019	1,408,538	-
2020	1,354,982	-
2021	642,328	-
Total minimum lease payments	5,368,793	409,331
Less amount representing interest	(1,013,614)	
Present value of minimum capital lease payments	\$ 4,355,179	

Total operating lease payments for the year ended June 30, 2017 were \$426,962.

**(7) RETIREMENT PLANS**

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

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

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

**Portsmouth Retirement Systems**

***Summary of Significant Accounting Policies***

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

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

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

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

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

Benefits may be increased from time to time by cost of living adjustments approved by City Council. Effective July 1, 1994, retirees who retire on Normal Service Retirement may be eligible to receive an additional allowance of \$200 per month until age 65. The married member shall be provided a 50% spousal option at no cost if the spouse is no more than 5 years younger than the member. The PSRS plan also provides death and disability benefits. These benefit provisions and all other requirements of the PSRS are established by City Council.

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

***Plan Description - Portsmouth Fire and Police Retirement System***

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

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

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

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

***Plan Participants***

Participation in the Portsmouth Supplemental Retirement System and the Fire and Police Retirement System consisted of the following as of June 30, 2017:

	<u>Total</u>	<u>PSRS</u>	<u>FPRS</u>
Retirees and beneficiaries	1,010	359	651
Vested terminated employees not yet receiving benefits	66	23	43
Current vested employees	40	18	22
	<u>1,116</u>	<u>400</u>	<u>716</u>

***Contributions***

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



Total actuarially determined employer contributions to the PSRS and FPRS for fiscal year 2017 were \$1,807,082 and \$6,205,544, respectively or \$8,012,626 in total. An additional \$558,780 (\$360,844 and \$197,936, FPRS and PSRS respectively) was deposited into the trust fund to provide a supplement of \$556 payable to each retiree or beneficiary. This supplement did not have an impact on the pension liability or actuarially determined contribution.

***Plan Investments***

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

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

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

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

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

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

*Objectives.* Objectives of the Investment Policy are as follows:

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

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

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

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

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

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

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

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

1. Equities:

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

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

2. Fixed Income:

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

3. Alternative Investments:

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

A. Real Estate:

1. The investment medium shall be equity real estate
2. Investments shall provide asset class diversification to reduce portfolio standard deviation.
3. The funds will be invested publicly traded real estate mutual funds and not in real estate limited partnerships.
4. Investments shall be diversified and of high quality; core assets will comprise a majority of the allocation.
5. A benchmark for returns comparisons includes, but is not limited to, the Russell Open-End Real Estate Universe.

B. Managed Futures:

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

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

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

***Concentrations***

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

***Rate of Return***

For the year ended June 30, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 10.66% and 10.63%, for FPRS and PSRS, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

***Net Pension Liability of the Portsmouth Retirement Systems***

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

***Changes in Net Pension Liability - FPRS***

	Increase (Decrease)		
	Total	Plan	Net
	Pension	Fiduciary	Pension
	Liability	Net Position	Liability
	(a)	(b)	(a) - (b)
Balance at June 30, 2015	\$ 255,565,865	182,658,832	72,907,033
Change for the year:			
Service Cost	469,262	-	469,262
Interest	17,775,245	-	17,775,245
Changes of benefit terms	-	-	-
Differences between expected and actual experience	2,934,513	-	2,934,513
Contributions - employer	-	5,794,277	(5,794,277)
Contributions - employee	-	-	-
Net investment income	-	2,782,322	(2,782,322)
Benefit payments, including refunds of employee contributions	(21,297,801)	(21,297,801)	-
Administrative expenses	-	(120,447)	120,447
Other changes	(2,264,494)	-	(2,264,494)
Net changes	<u>(2,383,275)</u>	<u>(12,841,649)</u>	<u>10,458,374</u>
Balance at June 30, 2016	<u>\$ 253,182,590</u>	<u>169,817,183</u>	<u>83,365,407</u>

***Changes in Net Pension Liability - PSRS***

	Increase (Decrease)		
	Total	Plan	Net
	Pension	Fiduciary	Pension
	Liability	Net Position	Liability
	(a)	(b)	(a) - (b)
Balance at June 30, 2015	\$ 91,741,386	65,858,908	25,882,478
Change for the year:			
Service Cost	62,202	-	62,202
Interest	6,344,585	-	6,344,585
Changes of benefit terms	-	-	-
Differences between expected and actual experience	(1,383,499)	-	(1,383,499)
Contributions - employer	-	1,796,671	(1,796,671)
Contributions - employee	-	-	-
Net investment income	-	960,609	(960,609)
Benefit payments, including refunds of employee contributions	(8,326,253)	(8,326,253)	-

Administrative expenses	-	(28,605)	28,605
Other changes	(1,236,291)	-	(1,236,291)
Net changes	(4,539,256)	(5,597,578)	1,058,322
Balance at June 30, 2016	87,202,130	60,261,330	26,940,800

*Actuarial Assumptions.* The total pension liability was determined by an actuarial valuation as of June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Measurement Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal – Level Percentage of Pay
Interest Rate	7.25%
Annual Rates of Increase:	
Salaries	3.00%
Future Social Security Wage Bases	3.00%
Future Social Security Cost of Living Increases	2.50%
Statutory Limits on Compensation and Benefits	2.50%

Mortality rates were based on the IRS 2017 Static Mortality Table.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2015 through June 30, 2016.

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

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

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

	1% Decrease 6.25%	Current Discount 7.25%	1% Increase 8.25%
<b>PSRS</b>			
Total Pension Liability	\$ 94,674,715	87,202,130	80,750,824
Less: Fiduciary Net Position	60,261,330	60,261,330	60,261,330
Net Pension Liability	\$ 34,413,385	26,940,800	20,489,494
<b>FPRS</b>			
Total Pension Liability	\$ 278,413,820	253,182,590	231,928,506
Less: Fiduciary Net Position	169,817,183	169,817,183	169,817,183
Net Pension Liability	\$ 108,596,637	83,365,407	62,111,323

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

For the year ended June 30, 2017 the city recognized pension expenses of \$299,843 for PSRS and \$9,067,880 for FPRS. At June 30, 2016, the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources for both the PSRS and the FPRS:

	<b>PSRS</b>		<b>FPRS</b>	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	-	-	-
Change in assumptions	-	-	-	-
Net difference between projected and actual earnings on pension plan investments	4,356,649	-	11,870,710	-
Employer contribution subsequent to the measurement date	2,005,017		6,566,389	-
Total	\$ <u>6,361,666</u>	<u>-</u>	<u>18,437,099</u>	<u>-</u>

Deferred outflows of resources for contributions subsequent to measurement date will be recognized in net pension liability/collective net pension liability in fiscal year ended 2018. The amounts reported as deferred outflows of resources related to PSRS and FPRS pensions will be recognized in pension expense as follows:

Year ended June 30		<b>PSRS</b>	<b>FPRS</b>
2017	\$	1,012,786	\$ 2,708,750
2018		1,012,786	2,708,754
2019		1,617,493	4,474,505
2020		713,584	1,978,701
Thereafter		-	-

**Virginia Retirement System**

**Plan Description**

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

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

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

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

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

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



<p>The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>		<p>voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>
<p><b>Creditable Service</b>  Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p><b>Creditable Service</b>  Same as VRS Plan 1.</p>	<p><b>Creditable Service</b>  <u><b>Defined Benefit Component:</b></u>  Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><u><b>Defined Contributions Component:</b></u>  Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>
<p><b>Vesting</b>  Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan.</p>	<p><b>Vesting</b>  Same as VRS Plan 1.</p>	<p><b>Vesting</b>  <u><b>Defined Benefit Component:</b></u>  Defined benefit vesting is the minimum length of service a member needs to qualify for a future benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. VRS Plan 1 or</p>

<p>Members also must be vested to receive a full refund of their member retirement contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>		<p>VRS Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><b><u>Defined Contributions</u></b>  <b><u>Component:</u></b>  Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> <li>• After two years, a member is 50% vested and may withdraw 50% of employer contributions.</li> <li>• After three years, a member is 75% vested and may withdraw 75% of employer contributions.</li> <li>• After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.</li> </ul> <p>Distribution is not required by law until age 70½.</p>
<p><b>Calculating the Benefit</b>  The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a</p>	<p><b>Calculating the Benefit</b>  See definition under VRS Plan 1.</p>	<p><b>Calculating the Benefit</b>  <b><u>Defined Benefit Component:</u></b>  See definition under VRS Plan 1.</p> <p><b><u>Defined Contribution Component:</u></b>  The benefit is based on contributions made by the member and any matching contributions made by the</p>

member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.		employer, plus net investment earnings on those contributions.
<b>Average Final Compensation</b> A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	<b>Average Final Compensation</b> A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	<b>Average Final Compensation</b> Same as VRS Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
<b>Service Retirement Multiplier</b> The retirement multiplier for VRS is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.7% and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.	<b>Service Retirement Multiplier</b> Same as VRS Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.	<b>Service Retirement Multiplier Defined Benefit Component</b> The retirement multiplier for VRS for the defined benefit component is 1.0%.  For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. The retirement multiplier is not applicable to sheriffs and regional jail superintendents, political subdivision hazardous duty employees and the defined contribution component.
<b>Normal Retirement Age</b> VRS: Age 65.  Political subdivisions hazardous duty employees : Age 60.	<b>Normal Retirement Age</b> Normal Social Security retirement age.  Political subdivisions hazardous duty employees: same as VRS Plan 1.	<b>Normal Retirement Age</b> <b>Defined Benefit Component:</b> Same as VRS Plan 2. Political subdivisions hazardous duty employees: not applicable.  <b>Defined Contribution Component:</b> Members are eligible to receive distributions upon leaving employment, subject to restrictions.
<b>Earliest Unreduced Retirement Eligibility</b> Members who are not in hazardous	<b>Earliest Unreduced Retirement Eligibility</b> Members who are not in	<b>Earliest Unreduced Retirement Eligibility</b> <b>Defined Benefit Component:</b> Members who are not in hazardous

<p>duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p> <p>Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p>hazardous duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p>duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or at age and service equal 90.</p> <p><b><u>Defined Contribution Component:</u></b>  Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p><b>Earliest Reduced Retirement Eligibility</b>  Members who are not in hazardous duty positions may retire with a reduced retirement benefit at age 55 with at least five years (60 months) of creditable service or at age 50 with at least 10 years of creditable service.</p> <p>Hazardous duty members may retire with a reduced retirement benefit at age 50 with at least five years (60 months) of creditable service.</p>	<p><b>Earliest Unreduced Retirement Eligibility</b>  Members who are not in hazardous duty positions may retire with a reduced benefit at age 60 with at least five years (60 months) of creditable service.</p> <p>Hazardous duty members may retire with a reduced retirement benefit at age 50 with at least five years (60 months) of creditable service.</p>	<p><b>Earliest Unreduced Retirement Eligibility</b>  <b><u>Defined Benefit Component:</u></b>  Members who are not in hazardous duty positions may retire with a reduced benefit at age 60 with at least five years (60 months) of creditable service.</p> <p>Political subdivisions hazardous duty employees: not applicable.</p> <p><b><u>Defined Contribution Component:</u></b>  Members are eligible to receive distributions upon leaving employment, subject to restrictions</p>
<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b>  The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><b><u>Eligibility:</u></b>  For members who retire with an</p>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b>  The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><b><u>Eligibility:</u></b>  Same as VRS Plan 1.</p>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b>  <b><u>Defined Benefit Component:</u></b>  Same as VRS Plan 2.</p> <p><b><u>Defined Contribution Component:</u></b>  Not applicable.</p> <p><b><u>Eligibility:</u></b>  Same as VRS Plan 1 and VRS Plan</p>

unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.

For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.

**Exceptions to COLA Effective Dates:**

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

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

2.

**Exceptions to COLA Effective Dates:**

Same as VRS Plan 1.

**Exceptions to COLA Effective Dates:**

Same as VRS Plan 1 and VRS Plan 2.

full calendar year (January 1 to December 31) from the date the monthly benefit begins.		
<p><b>Disability Coverage</b></p> <p>Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service regardless of when it was earned, purchased or granted.</p> <p>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p><b>Disability Coverage</b></p> <p>Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p><b>Disability Coverage</b></p> <p>Employees of political subdivision and school division (including VRS Plan 1 and VRS Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members.</p> <p>Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>
<p><b>Purchase of Prior Service</b></p> <p>Members may be eligible to purchase service from previous public employment, active duty military service or eligible period of leave or VRS refunded service as creditable service in their plan.</p> <p>Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</p>	<p><b>Purchase of Prior Service</b></p> <p>Same as VRS Plan 1.</p>	<p><b>Purchase of Prior Service</b></p> <p><b><u>Defined Benefit Component:</u></b></p> <p>Same as VRS Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> <li>• Hybrid Retirement Plan members are ineligible for ported service.</li> <li>• The cost of purchasing refunded service is the higher of 4% of creditable compensation or average compensation.</li> <li>• Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one year period, the rate for most categories of service will change to actuarial cost.</li> </ul>

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/2016-annual-report.pdf> or obtained by writing the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

***Employees Covered by Benefit Terms***

As of the June 30, 2016 actuarial valuation, the following city and School Board employees were covered by the benefit terms of both the city's and School Board's VRS pension plans:

	City	School Board - Non- Professional
Inactive members or their beneficiaries currently receiving benefits	935	343
Inactive members:		
Vested inactive members	351	31
Non-vested Inactive members	600	104
Inactive members active elsewhere in VRS	725	72
Total inactive members	1,676	207
Active members	1,486	384
Total covered employees	4,097	934

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

***Contributions***

All full-time, salaried permanent employees of the city are automatically covered by VRS Retirement Plan upon employment. This plan is administered by the Virginia Retirement System. Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual reported compensation to the VRS. Prior to July 1, 2012 all or part of the 5% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, the city of Portsmouth and the School Board component unit are required to contribute the remaining amounts necessary to fund their participation in VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees.

The city's contractually required contribution rate for the year ended June 30, 2016 was 10.29 percent of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarial rate for the plan was 10.22 percent. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the VRS pension plan from the city were \$6,814,182 and \$6,516,822 for the years ended June 30, 2017 and June 30, 2016, respectively.

The School Board (Non-Professional) VRS pension plan's contractually required contribution rate for the fiscal year ended June 30, 2017 was 11.69 percent of annual covered payroll. The actuarial rate for this plan was 11.98 percent. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the School Board for the Non-Professional VRS pension plan were \$902,396 and \$813,358 for the years ended June 30, 2017 and June 30, 2016, respectively.

The School Board Professional VRS plan's contractually required contribution rate for the fiscal year ended June 30, 2016 was 14.66 percent of annual covered payroll. The actuarial rate for this plan was 16.32 percent. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the *Code of Virginia*, as amended, the contributions were funded at 89.84% of the actuarial rate for the year ended June 30, 2016. Contributions to the pension plan from the School Board for the Professional VRS plan were \$11,589,359 and \$11,190,544 for the years ended June 30, 2017 and June 30, 2016, respectively.

#### ***Net Pension Liability***

Both the city's and the School Board's Non-Professional VRS plan net pension liability were measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

The School Board's Professional VRS plan net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was also determined by an actuarial valuation as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

#### ***Actuarial Assumptions – General Employees***

The total pension liability for general employees in the city's VRS plan was based on an actuarial valuation as of June 30, 2015, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

Inflation	2.5 percent
Salary increases, including inflation - city & School Board - Non-Prof	3.5 percent – 5.35%
Salary increases, including inflation - School Board -Professional	3.5 percent -- 5.95%
Investment rate of return plan investment	7.0 percent, net of pension expense,including inflation*

\* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was



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

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

Largest 10 – Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-LEOS:

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

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

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

***Long-Term Expected Rate of Return***

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

<b>Asset Class (Strategy)</b>	<b>Target Allocation</b>	<b>Arithmetic Long-Term Expected Rate of Return</b>	<b>Weighted Average Long-Term Expected Rate of Return</b>
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S. Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	100.00%		5.83%
	Inflation		2.50%
	* Expected arithmetic nominal return		8.33%

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

***Discount Rate***

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the city for the VRS Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, the city is assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected

future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

***Changes in Net Pension Liability - City VRS Plan***

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at June 30, 2015	\$ 304,308,512	271,050,848	33,257,664
Change for the year:			
Service Cost	8,655,196	-	8,655,196
Interest	20,862,680	-	20,862,680
Differences between expected and actual experience	(4,862,954)	-	(4,862,954)
Contributions - employer	-	6,360,911	(6,360,911)
Contributions - employee	-	3,313,387	(3,313,387)
Net investment income	-	4,734,570	(4,734,570)
Benefit payments, including refunds of employee contributions	(12,540,446)	(12,540,446)	-
Administrative expenses	-	(168,003)	168,003
Other changes	-	(1,996)	1,996
Net changes	12,114,476	1,698,423	10,416,053
Balance at June 30, 2016	\$ 316,422,988	272,749,271	43,673,717

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

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at June 30, 2015	\$ 37,595,582	29,351,355	8,244,227
Change for the year:			
Service Cost	695,895	-	695,895
Interest	2,552,232	-	2,552,232
Differences between expected and actual experience	(293,248)	-	(293,248)
Contributions - employer	-	801,790	(801,790)
Contributions - employee	-	378,872	(378,872)
Net investment income	-	487,721	(487,721)
Benefit payments, including refunds of employee contributions	(2,270,264)	(2,270,264)	-
Administrative expenses	-	(18,573)	18,573

**CITY OF PORTSMOUTH, VIRGINIA**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

**Exhibit H (continued)**

Other changes	-	(211)	211
Net changes	684,615	(620,665)	1,305,280
Balance at June 30, 2016	\$ 38,280,197	28,730,690	9,549,507

Financial disclosure with regards to Changes in Net Pension Liability as it relates to the School Board's Professional VRS plan was not available at the time of reporting.

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

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

	<b>1.00% Decrease</b>	<b>Current Discount</b>	<b>1.00% Increase</b>
	<b>(6.00%)</b>	<b>Rate</b>	<b>(8.00%)</b>
	<b>(6.00%)</b>	<b>(7.00%)</b>	<b>(8.00%)</b>
VRS - City	\$ 85,787,734	\$ 43,673,717	\$ 8,691,796
Net Pension Liability			
School division's proportionate			
share of the VRS Teacher (Professional)			
Employee Retirement Plan			
Net Pension Liability	\$ 208,615,000	\$ 146,345,000	\$ 95,049,000
School division's ( Non-Professional)			
Employee Retirement Plan			
Net Pension Liability	\$ 13,754,140	\$ 9,549,507	\$ 5,993,523

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

For the year ended June 30, 2016, the city recognized pension expense of \$6,459,779.

For the year ended June 30, 2016, the School Board recognized for its Professional VRS plan pension expense of \$11,099,000. Since there was a change in proportionate share between the measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

The School Board recognized for its Non-Professional VRS plan pension expense of \$691,881.

At June 30, 2016, both the city's and School Board's Professional and Non-Professional VRS plans reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**CITY OF PORTSMOUTH, VIRGINIA**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

**Exhibit H (continued)**

	City		School Board - Professional		School Board - Non-Professional	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 318,205	\$ 3,541,499	\$ -	\$ 4,743,000	\$ -	\$ 264,925
Change in assumptions	-	-	-	-	-	-
Net difference between projected and actual earnings on pension plan investments	7,106,765	-	8,360,000	-	734,035	-
Changes in proportion and difference between Employer contributions and proportionate share of contributions	-	-	-	4,562,000	-	-
Employer contributions subsequent to the measurement date	6,814,182	-	11,589,359	-	902,396	-
Total	\$ 14,239,152	\$ 3,541,499	\$ 19,949,359	\$ 9,305,000	\$ 1,636,431	\$ 264,925

Deferred outflows of resources for contributions subsequent to measurement date will be recognized in pension expense in fiscal year 2018. Amounts reported as deferred outflows and inflows of resources related to both the city and School Board VRS plans and will be recognized in pension expense as follows:

Year ended June 30	City	School Board - Professional	School Board - Non-Professional
2018	\$(1,047,415)	(2,464,000)	(179,635)
2019	(1,075,086)	(2,464,000)	(102,230)
2020	3,179,428	2,482,000	445,359
2021	2,826,544	1,876,000	305,616
Thereafter	-	(375,000)	-

***Payables to the Pension Plans***

At June 30, 2017, the city and the school division both reported a liability of \$0 for legally required contributions to the pension plans.

**Notes to Basic Financial Statements**  
**June 30, 2017**

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**(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 (health), dental and vision insurance benefits as well as a legal services plan to eligible retirees and their families through the same self-insured program that provides coverage to active city employees. Effective, July 1, 2014, the city established the eligibility requirement of 10 years of continuous city service as of July 1, 2014 for employees to be eligible for retiree health coverage and a fixed monthly city contribution. After that date, the requirement is 15 years of continuous city service for employees to be eligible for retiree health coverage with no city contribution unless an employee has 25 years or more of continuous city service. In addition, post-65 retiree health coverage was eliminated for future retirees on June 30, 2015. The Portsmouth Public Schools School Board administers a similar defined benefit healthcare plan. The defined benefit plan for the city's Program was established to provide post-employment benefits other than pensions as defined by and in accordance with Section 15.2-1545 of the Code of Virginia.

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

*Funding Policy.* The contribution requirements of plan members and the city are established and may be amended by the City Council. The School Board has the authority to establish and amend the funding policy of their plan. The required contribution is based on projected pay-as-you-go financing requirements, with the potential for additional amounts to prefund benefits as determined annually by the City Council. For fiscal year 2017, the city contributed \$1,442,378 to the program, all for current premiums, and there was no additional prefunding contribution. Retired employees receiving benefits contributed \$2,006,690 through required monthly contributions that vary from \$502.78 to \$1,851.57 depending on the retiree's choice of Health Maintenance Organization or Preferred Provider coverage, the retiree's age, and whether the coverage is for the retiree only or includes other family members.

*Annual OPEB Cost and Net OPEB Obligation.* Both the city's and School Board's annual OPEB cost (an expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the provisions of GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions". The ARC represents the level of funding that, if paid on an ongoing basis, is projected to cover the normal cost of each fiscal year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table reflects the components of the annual OPEB cost, the actual plan contributions made, and the changes in the net OPEB obligation for both the city and School Board programs for the fiscal year ended June 30, 2017:

	<b>City of Portsmouth</b>	<b>School Board</b>
Annual required contribution	\$ 2,500,500	713,189
Interest on net OPEB obligation	3,036,487	(352,226)
Adjustment to annual required contribution	(4,133,744)	350,262
Annual OPEB cost	1,403,243	711,225
Contributions made	1,569,400	246,113
Increase (decrease) in net OPEB obligation	(166,157)	465,112
Net OPEB obligation (asset), beginning of year	75,912,166	(5,031,798)
Net OPEB obligation (asset), end of year	\$ 75,746,009	(4,566,686)

The fiscal year ended June 30, 2017 was the tenth year for which an actuarially determined ARC had been calculated for the city of Portsmouth Retired Employees Health Care Program. Fiscal year 2017's actuarially determined ARC was calculated to be \$2,500,500. The city's contribution to the ARC was \$1,442,378, \$1,536,500 and \$3,563,519, for fiscal years 2017, 2016, and 2015 respectively.

The city's and school's annual OPEB cost, the percentage of annual OPEB cost contributed to the program, and the net OPEB obligation for fiscal year 2017 is as follows:

**City of Portsmouth:**

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2017	\$ 1,403,243	111.8%	\$ 75,746,009
6/30/2016	1,444,875	106.3%	75,912,166
6/30/2015	2,850,160	125.0%	76,003,791

**School Board:**

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation/ (Asset)
6/30/2017	\$ 711,225	-35%	\$ (4,566,686)
6/30/2016	468,072	-111%	(5,031,798)
6/30/2015	416,350	0%	(4,978,072)

**Funded Status and Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
City of Portsmouth: 1/1/2016	\$ -	26,986,000	26,986,000	0%	66,071,400	40.84%
School Board: 6/30/16	\$ 12,081,964	16,043,164	(3,961,200)	75.31%	96,277,315	4.11%

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

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

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

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



**(9) DEFERRED COMPENSATION PLAN**

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

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

**(10) INTERFUND BALANCES AND TRANSFERS**

**Due From/To Other Funds**

Individual fund interfund receivable and payable balances at June 30, 2017 are as follows:

Due to:	Due From:				Total
	Nonmajor Governmental Funds	Parking Authority	Nonmajor Enterprise Funds	Internal Service Funds	
General Fund	\$ 3,996,092	1,756,668	587,441	25,250	6,365,451

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

**Due From/To Primary Government/Component Units**

Amounts due at June 30, 2017 between the city and the component units are as follows:

Due from (to) component units	Primary Government			Total
	School Board	Economic Development Authority	Port and Industrial Commission	
General Fund	\$ 3,236,245	23,481	30,396	3,290,122

The Statement of Net Position reflects \$3,290,122 as due from component units with no obligations to component units as noted in the above table.

**Transfers From/To Other Funds**

Individual interfund transfers within the primary government were made for operating and as capital purposes. The total interfund transfers for the fiscal year ended June 30, 2017 were as follows:

Transfers to:	Transfers from:							Total
	General Fund	Nonmajor Governmental Funds	Capital Improvements Fund	Nonmajor Enterprise Fund	Parking Authority Fund	Internal Service Funds	Public Utility Fund	
General Fund	\$ -	579,058	510,000	-	-	-	8,875,000	9,964,058
Capital Improvements Fund	3,781,000	4,303,275	-	200,000	600,000	-	-	8,884,275
Nonmajor Governmental Funds	4,564,799	408	-	-	-	-	-	4,565,207
Public Utility Fund	-	-	-	-	-	-	-	-
Public Utility CIP Fund	-	-	-	-	-	-	1,000,000	1,000,000
Nonmajor Enterprise Funds	843,509	-	-	-	-	-	-	843,509
Debt Service	35,167,034	1,547,673	-	408,909	8,480	305,317	325,427	37,762,840
Parking Authority	590,179	-	-	-	-	-	-	590,179
Internal Service Funds	-	41,978	-	-	-	-	-	41,978
								-
Total	\$ 44,946,521	6,472,392	510,000	608,909	608,480	305,317	10,200,427	63,652,046

**Payments Between Component Units**

Significant transactions between the primary government and component units during fiscal year 2017 were as follows:

Payments from the city to the school board for school operations;	<u>\$ 52,400,000</u>
Statement of Activities - Payment from primary government	

**Notes to Basic Financial Statements**  
**June 30, 2017**

**(11) DUE FROM/TO OTHER GOVERNMENTS**

**Due From Other Governments**

Amounts due from other governments at June 30, 2017 are as follows:

	Federal	State	Total
Governmental activities:			
General Fund:			
Sales and use tax	\$ -	669,806	669,806
Personal property tax relief	-	9,862,962	9,862,962
Constitutional officers' support	-	730,936	730,936
Other	-	745,534	745,534
Total General Fund	-	12,009,238	12,009,238
Capital Improvements Projects Fund:			
VDOT Reimbursements	-	360,098	360,098
Total Capital Improvements Projects Fund		360,098	360,098
Nonmajor governmental funds:			
Community services act fund	-	397,575	397,575
Social services fund	-	1,209,359	1,209,359
Grants fund	64,841	53,319	118,160
Asset Forfeiture	-	369	369
Community development fund	874,119	-	874,119
Total nonmajor governmental funds	938,960	1,660,622	2,599,582
Total governmental activities	\$ 938,960	14,029,958	14,968,918

**(12) UNEARNED REVENUE AND DEFERRED INFLOWS**

Unearned revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. Deferred inflows represent an acquisition of net position that will not be recognized as revenue until a future period. At June 30, 2017, unearned revenues and deferred inflows are provided in the table below.

	Governmental Funds					
	General Fund	Capital Improvements Fund	Nonmajor Governmental Funds	Total	Governmental Activities	Business-Type Activities
<b><u>Unearned Revenue</u></b>						
Parking space rentals	\$ -	-	-	-	-	27,220
<b>Total Unearned Revenue</b>	\$ -	-	-	-	-	27,220
<b><u>Deferred Inflows</u></b>						
Deferred taxes, fees and unavailabe revenue	\$ 9,748,280	-	-	9,748,280		
Deferred revenue-other	460,677	-	-	460,677		
BHS fees	-	-	65,232	65,232		
Stormwater fees	-	-	176,569	176,569		
<b>Total Deferred Inflows</b>	\$ 10,208,957	-	241,801	10,450,758		

**(13) COMMITMENTS**

**Landfill Closure and Postclosure Care Costs and Liability**

State and federal laws and regulations require the city to place a final cover on its Craney Island landfill site when it stops accepting waste and then perform certain maintenance and monitoring functions at the site for thirty years after closure. The \$5,197,503 reported as landfill closure and postclosure care liability at June 30, 2017 represents the cumulative amount reported to date based on the use of 50.5% of the estimated capacity of the landfill. The city will recognize the remaining estimated cost of closure and post-closure care of \$5,094,583 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 2017. Actual costs may be higher due to inflation, changes in technology, or changes in laws and regulations. The remaining landfill life is estimated to be 60.8 years. The city is required by Federal and State statutes to prepare a Local Government Financial Test Worksheet to demonstrate how the landfill's closure and postclosure care financial assurance requirements will be met.

**Pollution Remediation Obligation**

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

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

During the fiscal year ended June 30, 2017 the city incurred costs of \$800 at the complex at 1801 Portsmouth Boulevard as well as \$9,092 at Bide-A-Wee Golf for asbestos remediation. Also, \$6,632 was spent to remove mold from Firestation #7.

**Guarantor**

The city was a guarantor for \$1,016,217 of debt for the Southeastern Public Service Authority (SPSA) as of June 30, 2017. See Note 16 for more information on this guarantee and the SPSA joint venture.

**Notes to Basic Financial Statements**  
**June 30, 2017**

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

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

**Federally Assisted Grant Programs**

The city participates in a number of federally assisted grant programs. Although the city has been audited in accordance with the provisions of OMB Circular A-133 and Title 2 of the Code of Federal Regulations, these programs are still subject to financial and compliance audits by the grantors or their representatives. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grant. Based on prior experience, city management believes such disallowances, if any, will not be significant.

**(15) SELF-INSURANCE PROGRAMS**

***City***

The city is self-insured for exposures to various risks of loss related to: torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; terrorist acts; and, natural disasters. The city uses two internal service funds. The Risk Management Fund accounts for and finances its uninsured risks of loss and the Health Insurance and OPEB Fund account for and pays its health insurance premiums and claims costs. The Risk Management Fund pays insurance premiums and provides for payment of approved claims for workers' compensation, general liability, fidelity, wharfingers, hull and machinery, and property. The property deductible is \$100,000 per occurrence with a \$100,000,000 loss limit per occurrence. The city purchases commercial excess insurance policies for workers' compensation and general liability. For the fiscal years ending June 30, 2016 and June 30, 2017, property damage claims did not exceed \$75,000.

All funds of the city participate in the program and make payments to the Risk Management Fund based on actuarial estimates of the amounts needed to pay prior and current year claims and to establish a reserve for catastrophic losses. The risk management claims liability of \$10,186,768 (undiscounted) reported in the fund at June 30, 2017 is based on GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", which requires that a liability for claims be reported if information available prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount of the risk management claims liability due within one year is \$2,259,579. A loss analysis, which included an estimate of claims incurred but not reported (IBNR), was conducted by Glicksman Consulting LLC to compute this liability as of June 30, 2017.

Changes in the risk management claims liability amount in fiscal years 2017 and 2016, respectively, were as follows:

Risk Management:	2017	2016
Claims payable, beginning of year	\$ 13,601,354	14,261,874
Claims expense and changes in estimates	298,966	2,664,728
Claims payments	(3,713,552)	(3,325,248)
Claims payable, end of year	\$ 10,186,768	13,601,354

The city is also exposed to the risk of loss for employee and retired employee medical benefits. Effective January 1, 2001, the city established a self-insured health care benefits program for all city employees and retired employees. These benefits are accounted for in the Health Insurance and OPEB Fund, which is an internal service fund. Certain claims expenses paid on behalf of each employee during a single policy year are covered by excess loss insurance with a specific stop-loss limit of \$175,000 depending on the specific medical plan. Claims processing and payments for all medical claims are made through third party administrators. The computed medical claims liability as of June 30, 2017 is \$1,058,780 (undiscounted) and is due within one year. A loss analysis, which included an estimate of incurred but not reported claims, was conducted by Willis Tower Watson to compute the liability as of June 30, 2017.

Changes in the medical claim liability amount in fiscal years 2017 and 2016, respectively, were as follows:

Medical:	2017	2016
Claims payable, beginning of year	\$ 2,884,472	1,369,115
Claims expense and changes in estimates	10,424,630	19,086,581
Claims payments	(12,250,322)	(17,571,224)
Claims payable, end of year	\$ 1,058,780	2,884,472



***School Board***

The school board uses its Risk Management and Insurance Fund, an internal service fund, to account for and finance its uninsured risks of loss and to pay insurance premiums. The fund services all claims for risk of loss to which the school board is exposed, including worker's compensation, automobile, and general liability. A loss analysis was conducted by Glicksman Consulting, LLC to compute the liability for the fund. The actuarially computed liability as of June 30, 2017 was determined to be \$1,231,426 (undiscounted), of which \$554,301 due within one year. The non-current portion is \$677,125.

Changes in the school's claim liability amount in fiscal years 2017 and 2016 were:

School Board:	2017	2016
Claims payable, beginning of year	\$ 1,463,153	1,814,555
Claims and changes in estimates	3,323,620	280,059
Claim payments and changes in estimates	(3,555,347)	(631,461)
Claims payable, end of year	\$ 1,231,426	1,463,153

Effective January 1, 2015, the School Board established a Self-Insured Health Care Benefits Plan (Self-Insured Health Plan) for all school board employees and retirees. The Self-Insured Health Plan policy year is based on a calendar year. The Self-Insured Health Plan is accounted for within the General Fund with employer and employee premiums, medical claims, administrative costs, wellness program costs, and other health plan costs recorded in the General Fund. Expenditures charged to various School Board departments are based expected claims liability and administrative costs for a full calendar year as provided by the third party health care benefit consultant. Medical claim expenses paid on behalf of each individual employee covered during a single policy year are covered by excess loss insurance with a specific stop loss limit of \$150,000. The Self-Insured Health Plan also has aggregate stop loss coverage at 120% of expected medical claims during a single policy year.

Claim processing and payments for all health care claims are made through a third party administrator. The School Board uses information provided by the third party administrator and health care benefit consultant to aid in the determination of health self-insurance liabilities. The computed current liability as of June 30, 2017 is \$1,288,039 (undiscounted), as follows:

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

**Notes to Basic Financial Statements**  
**June 30, 2017**

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**(16) RELATED PARTIES**

*Joint Ventures*

**Southeastern Public Service Authority (SPSA)**

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

In June 2010, SPSA entered into a debt repayment plan with the Virginia Resources Authority (VRA), which required that the eight member communities' guarantee, through a general obligation pledge repayment of the remaining VRA bonds outstanding and previous guarantees, were rescinded. The individual member community guarantee percentages were calculated based on a three year average of proportional municipal tonnages. The member jurisdiction guarantees as of June 30, 2017 were as follows:

<u>Member community</u>	<u>Guarantee percentage</u>	<u>Principal guarantee</u>
Chesapeake	23%	\$ 2,225,386
Franklin	1%	95,982
Isle of Wight	4%	393,821
Norfolk	17%	1,680,171
Portsmouth	10%	1,016,217
Southampton	2%	207,795
Suffolk	13%	1,273,487
Virginia Beach	30%	3,002,143
	100%	\$ 9,895,002

As of October 1, 2017, SPSA has paid the debt in full.

*Jointly Governed Organizations*

**Hampton Roads Regional Jail Authority (HRRJA)**

HRRJA is a regional organization which includes the cities of Chesapeake, Hampton, Newport News, Norfolk, and Portsmouth and is governed by a 15 member Board of Directors, consisting of three representatives appointed by each of the member cities. HRRJA is a primary government with no component units created pursuant to Article #3 Chapter 3 Title 53 of the Code of Virginia. The Authority was created for the purpose of providing, operating and maintaining a regional jail facility for the correctional overflow from each community. The participating governments do not have an equity interest in HRRJA and accordingly no equity interest has been reflected in the city's financial statements at June 30, 2017. Completed financial statements of the Commission can be obtained from HRRJA, 2690 Elmhurst Lane, Portsmouth, Virginia 23701-2745.

**Notes to Basic Financial Statements  
June 30, 2017**

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**Hampton Roads Planning District Commission (the Commission)**

A regional planning agency authorized by the Virginia Area Development Act of 1968, it was created by the merger of the Southeastern Virginia Planning District Commission and the Peninsula Planning District Commission on July 1, 1990. The Commission performs various planning services for the cities of Chesapeake, Franklin, Hampton, Newport News, Norfolk, Portsmouth, Poquoson, Suffolk, Williamsburg and Virginia Beach, plus the counties of Gloucester, Isle of Wight, James City, Southampton, and York. Revenue of the Commission is received primarily from local governmental (member) contributions and various state and federal grant programs. The participating governments do not have an equity interest in the Commission and accordingly no equity interest has been reflected in the city's financial statements at June 30, 2016. Completed financial statements of the Commission can be obtained from the Commission.

**Transportation District Commission (TDC)**

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

**Hampton Roads Economic Development Alliance (HREDA)**

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

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

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

**New Port Community Development Authority**

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

**Notes to Basic Financial Statements  
June 30, 2017**

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**(17) FUND DEFICITS**

The Social Services Fund, a Special Revenue Fund, had a fund balance with an accumulated deficit of \$2,293,487. This accumulated deficit will be funded primarily by future intergovernmental revenues from the Commonwealth of Virginia. The Community Development fund had a fund balance with an accumulated deficit of \$150,435 which will be funded by future intergovernmental revenues from the federal government.

The Portsmouth Public Schools, a component unit of the city, is reporting a net position with an accumulated deficit of \$65,944,339 at June 30, 2017. This accumulated deficit is primarily due to the net pension obligation liability at June 30, 2017, which was \$155,894,507.

**Notes to Basic Financial Statements**  
**June 30, 2017**

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**(18) SUBSEQUENT EVENTS**

On July 14, 2017, the city amended the 1990 Chesapeake water sale contract to extend the term of the contract thirty years until July 1, 2047 and to amend the minimum guaranteed purchase of water and reduce the rate per gallon of water. With the new amendment, the volume of water sold over 30 years will increase by 18 million gallons and the revenue received will increase by over \$67 million.

On August 31, 2017, the Director of the Department of Environmental Quality (DEQ) tentatively approved the city's FY 2018 loan assistance from the Virginia Clean Water Revolving Loan Fund, in the amount of \$2,574,741, subject to the public review and final authorization from the State Water Control Board. The Board will meet in December to authorize loan rates, terms and conditions for the projects that are funded.

On October 10, 2017, City Council approved a resolution for the City Manager to execute a loan agreement with the Commonwealth of Virginia for Three Million Four Hundred Thousand Dollars (\$3,400,000) to cover the loss of personal property tax revenue resulting from a lease agreement between the Virginia Port Authority, a political subdivision of the Commonwealth of Virginia, and Virginia International Gateway Terminals (VIG). Under the Lease Amendment the ownership of certain personal property has been and will be transferred from the landlord to VPA, resulting in a substantial loss of personal property tax revenue to the city. The General Assembly included an interest-free treasury loan to the city of Portsmouth from the Commonwealth of Virginia for FY2017 and FY2018 in Chapter 836, Item 454 #1C in the 2017 Virginia Appropriation Act. The loan is scheduled to begin to be repaid in FY 2022 as it is anticipated that the development of VIG will cause personal property tax revenues to rise beginning in FY 2022.

On November 17, 2017, the city issued General Obligation Qualified Zone Academy Bonds of \$4,117,195 to finance the renovation of school buildings and replace equipment. Branch Bank and Trust (BB&T) won a competitive bidding process to provide the QZAB funding. The bonds require a private partnership with a 10% match: this has been pledged to the Portsmouth Public Schools as support from Starbase Victory. The bonds are 0% interest with a 12 year term and a tax credit will be paid to the lender. Payments will be made to a sinking fund account. The city will earn interest on the account as the funds accumulate until the bond matures.

**Notes to Basic Financial Statements, Continued**  
**June 30, 2017**

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**(19) NEW ACCOUNTING PRONOUNCEMENTS**

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

1. Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." The provisions in this Statement are effective for fiscal years beginning after June 15, 2017 (FY 2018).
2. Statement No. 81, "Irrevocable Split-Interest Agreements." The requirements of this Statement are effective for periods beginning after December 15, 2016 (FY 2018).
3. Statement No. 82, "Pension Issues - an amendment of GASB Statement No. 67, No. 68, and No. 73." The requirements of this Statement are effective for reporting periods beginning after June 15, 2016 (FY 2017), except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017 (FY 2018).
4. Statement No. 83, "Certain Asset Retirement Obligations". The requirements of this Statement are effective for reporting periods beginning after June 15, 2018 (FY2019).
5. Statement No. 84, "Fiduciary Activities". The requirements of this Statement are effective for reporting periods beginning after December 15, 2018 (FY2020).
6. Statement No. 85, "Omnibus 2017". The provisions of this Statement are effective for reporting periods beginning after June 15, 2017 (FY2018).
7. Statement No. 86, "Certain Debt Extinguishment Issues". The requirements of this Statement are effective for reporting periods beginning after June 15, 2017 (FY2018).
8. Statement No. 87, "Leases". The requirements of this Statement are effective for reporting periods beginning after December 15, 2019 (FY2021).

For the original pronouncements, please visit the GASB's website [www.gasb.org](http://www.gasb.org).



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

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## CITY OF PORTSMOUTH, VIRGINIA

## Exhibit I-1

**Budgetary Comparison Schedule**  
**Schedule of Revenues and Other Financing Sources**  
**General Fund**  
**For year ended June 30, 2017**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>Taxes:</b>				
General property taxes:				
Real property - current	\$ 89,141,076	89,141,076	90,285,401	1,144,325
Real property - delinquent	1,418,255	1,418,255	2,008,773	590,518
Real property - Public Services Corporation	1,910,000	1,910,000	1,631,424	(278,576)
Personal property - current	18,879,930	18,879,930	16,318,470	(2,561,460)
Personal property - delinquent	2,435,000	2,435,000	2,614,335	179,335
Personal property - Public Services Corporation	3,434,977	3,434,977	3,217,892	(217,085)
Machine and tool taxes	1,064,000	1,064,000	910,589	(153,411)
Penalties and other charges	1,185,860	1,185,860	1,421,787	235,927
Interest	438,372	438,372	604,437	166,065
<b>Total general property taxes</b>	<b>119,907,470</b>	<b>119,907,470</b>	<b>119,013,108</b>	<b>(894,362)</b>
Other local taxes:				
Admission and amusement taxes	298,296	298,296	253,864	(44,432)
Bank franchise taxes	378,750	378,750	530,767	152,017
Business and occupational license taxes	6,322,990	6,322,990	6,412,530	89,540
Cigarette taxes	3,599,080	3,599,080	3,451,881	(147,199)
Licensing fees - current	2,300,000	2,300,000	2,120,334	(179,666)
Licensing fees - delinquent	350,158	350,158	448,306	98,148
Lodging taxes	772,650	772,650	749,806	(22,844)
Motor vehicle license fee	-	-	33	33
Recordation taxes	858,500	858,500	1,034,155	175,655
Restaurant food taxes	7,680,558	7,680,558	8,094,174	413,616
Sales and use tax - local	7,650,000	7,650,000	7,316,344	(333,656)
Short-term rental taxes	38,884	38,884	23,760	(15,124)
Telecommunications	8,200,000	8,200,000	7,848,182	(351,818)
<b>Total other local taxes</b>	<b>38,449,866</b>	<b>38,449,866</b>	<b>38,284,136</b>	<b>(165,730)</b>
Utility taxes:				
Electricity taxes	4,040,000	4,040,000	3,963,826	(76,174)
E-911 taxes	447,169	447,169	492,881	45,712
Gas taxes	1,414,000	1,414,000	1,296,918	(117,082)
Water taxes	2,176,047	2,176,047	2,265,740	89,693
<b>Total utility taxes</b>	<b>8,077,216</b>	<b>8,077,216</b>	<b>8,019,365</b>	<b>(57,851)</b>
<b>Total taxes</b>	<b>166,434,552</b>	<b>166,434,552</b>	<b>165,316,609</b>	<b>(1,117,943)</b>
<b>Intergovernmental revenue:</b>				
Commonwealth of Virginia:				
Noncategorical aid:				
Mobile home sales taxes	2,020	2,020	717	(1,303)
Personal property tax relief act	9,862,962	9,862,962	9,862,962	-
Recordation tax distribution	300,000	300,000	258,818	(41,182)
Rolling stock taxes	45,450	45,450	39,006	(6,444)
Vehicle rental tax	242,400	242,400	261,228	18,828

(continued)

## CITY OF PORTSMOUTH, VIRGINIA

## Exhibit I-1 (continued)

**Budgetary Comparison Schedule**  
**Schedule of Revenues and Other Financing Sources**  
**General Fund**  
**For year ended June 30, 2017**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
Circuit Court Clerk	\$ 890,771	890,771	911,446	20,675
City Registrar	45,450	45,450	51,613	6,163
City Sheriff	6,013,751	6,013,751	5,504,998	(508,753)
City Treasurer	289,562	289,562	415,009	125,447
Commissioner of Revenue	257,260	257,260	273,807	16,547
Commonwealth Attorney	1,618,870	1,618,870	1,499,496	(119,374)
DMV select	70,000	70,000	91,772	21,772
VA Sports Hall of Fame	250,000	500,000	500,000	-
Other categorical aid:				
Build America Bond Subsidy	552,999	552,999	553,000	1
Correctional facilities block grant	1,067,512	1,067,512	412,620	(654,892)
Law enforcement grant	5,786,668	5,786,668	5,972,980	186,312
Library funds - books	159,410	159,410	159,917	507
Street and highway maintenance	12,397,101	12,397,101	12,418,187	21,086
<b>Total Commonwealth of Virginia</b>	<b>39,852,186</b>	<b>40,102,186</b>	<b>39,187,576</b>	<b>(914,610)</b>
<b>Total intergovernmental revenue</b>	<b>39,852,186</b>	<b>40,102,186</b>	<b>39,187,576</b>	<b>(914,610)</b>
Charges for services:				
Ambulance fees - current	2,700,000	2,700,000	1,855,209	(844,791)
Circuit Court Clerk fees	10,000	10,000	10,167	167
City Sheriff fees	142,031	330,852	48,137	(282,715)
Concession fees	14,754	14,754	-	(14,754)
ATM Fees	2,200	2,200	2,061	(139)
EZ Pass fees	17,500	17,500	20,580	3,080
Courthouse maintenance fees	45,118	45,118	38,678	(6,440)
Courthouse replacement fees	70,000	70,000	54,596	(15,404)
False alarm fees	9,000	9,000	6,870	(2,130)
Fire report fees	1,000	1,000	1,120	120
Fire and EMS attendance fees	27,612	27,612	29,044	1,432
Library fines and fees	21,000	21,000	27,167	6,167
DNA sample	-	-	670	670
Merchandise commissions	2,000	2,000	-	(2,000)
Erosion and sediment control	18,000	18,000	5,450	(12,550)
Museum admission charges	1,048,000	1,048,000	1,093,820	45,820
Cable TV local access channel fees	90,000	90,000	111,880	21,880
Notary Fees	-	-	300	300
Concealed carry permit	28,000	28,000	37,639	9,639
Police firearms buyback	400	400	4	(396)
Police record fees	40,000	40,000	51,787	11,787
Recreation activity fees	873,819	873,819	680,354	(193,465)
Rental inspection fees	55,000	55,000	54,197	(803)
Inspections	75,000	75,000	49,476	(25,524)
Street closure applications	-	-	110	110
Plans and specifications	3,500	3,500	4,249	749
Swimming fees	1,129	1,129	2,659	1,530
Vacant structure	7,000	7,000	5,930	(1,070)
UMOJA	70,000	70,000	22,100	(47,900)
Cock Island Race	14,046	14,046	-	(14,046)
Seawall Festival	-	-	2,950	2,950
Pokey Smokey II	4,298	4,298	888	(3,410)
Ticket sales-Visitor Center	10,000	10,000	860	(9,140)
EMS collections - delinquent	150,000	150,000	129,563	(20,437)
Bicycle storage	-	-	5	5
Certificate of Occupancy	1,125	1,125	2,375	1,250
<b>Total charges for services</b>	<b>5,551,532</b>	<b>5,740,353</b>	<b>4,350,895</b>	<b>(1,389,458)</b>

(continued)

## CITY OF PORTSMOUTH, VIRGINIA

## Exhibit I-1 (continued)

**Budgetary Comparison Schedule**  
**Schedule of Revenues and Other Financing Sources**  
**General Fund**  
**For year ended June 30, 2017**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Investment income-				
Investment income	\$ 10,000	10,000	356,816	346,816
Unrealized Gain or Loss	-	-	38,224	38,224
<b>Total investment income</b>	<b>10,000</b>	<b>10,000</b>	<b>395,040</b>	<b>385,040</b>
Recovered costs:				
City garage fund	456,374	456,374	456,374	-
Information technology fund	117,879	117,879	117,879	-
Court appointed attorneys	1,440	1,440	2,450	1,010
Golf fund	115,688	115,688	115,688	-
Health department	63,118	63,118	-	(63,118)
Health insurance fund	13,886	13,886	13,886	-
Law library fund	1,581	1,581	1,581	-
Behavioral health services fund	357,808	357,808	357,808	-
DEA	59,409	59,409	16,405	(43,004)
Training academy upkeep	25,000	25,000	7,605	(17,395)
Parking authority	46,725	46,725	46,725	-
Citywide telephone charges	134,272	134,272	151,950	17,678
Fire watch/EMS	9,122	9,122	56,220	47,098
Postage	296,426	296,426	261,314	(35,112)
Public utility fund	512,944	512,944	512,944	-
Social security payments - jail	1,400	1,400	200	(1,200)
Stormwater management fund	50,900	50,900	50,900	-
Social services fund	307,319	307,319	307,319	-
Waste management fund	206,432	206,432	206,432	-
Jail weekends	11,090	11,090	7,080	(4,010)
Prisoner upkeep fees	57,517	57,517	23,024	(34,493)
Fed prisoner transport	10,869	10,869	-	(10,869)
Other recovered costs	130,192	130,192	208,378	78,186
<b>Total recovered costs</b>	<b>2,987,391</b>	<b>2,987,391</b>	<b>2,922,162</b>	<b>(65,229)</b>
Fines and forfeitures:				
Circuit Court fines	20,000	20,000	12,933	(7,067)
Conviction fees	125,000	125,000	84,762	(40,238)
General District Court fines	600,000	600,000	294,120	(305,880)
Overweight vehicle fines	50,000	50,000	-	(50,000)
Juvenile Court fines	1,500	1,500	1,416	(84)
Fines - Other	1,500	1,500	-	(1,500)
<b>Total fines and forfeitures</b>	<b>798,000</b>	<b>798,000</b>	<b>393,231</b>	<b>(404,769)</b>
Licenses and permits:				
Bicycle licenses	300	300	118	(182)
Building plan review fees	35,835	35,835	58,360	22,525
Building reinspection fees	9,300	9,300	5,150	(4,150)
Building structure permits	220,222	220,222	314,139	93,917
Dog impounding fees	1,200	1,200	1,665	465
Dog licenses	28,000	28,000	26,874	(1,126)
Electrical inspection fees	16,200	16,200	22,575	6,375
Electrical permits	87,781	87,781	74,137	(13,644)
Elevator inspection fees	4,095	4,095	4,120	25
Hauling and permits fees	140,000	140,000	201,360	61,360

(continued)

## CITY OF PORTSMOUTH, VIRGINIA

## Exhibit I-1 (continued)

**Budgetary Comparison Schedule**  
**Schedule of Revenues and Other Financing Sources**  
**General Fund**  
**For year ended June 30, 2017**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
License transfer fees	\$ 3,000	3,000	3,100	100
Mechanical inspection fees	1,800	1,800	700	(1,100)
Mechanical permits	109,725	109,725	101,940	(7,785)
Miscellaneous permits	15,000	15,000	15,365	365
Permits-PRHA	3,000	3,000	-	(3,000)
Penalties on licenses	20,000	20,000	53,272	33,272
Plumbing inspection fees	-	-	550	550
Plumbing permits	81,079	81,079	51,875	(29,204)
Restricted parking permits	2,800	2,800	2,528	(272)
Right of way permits	110,000	110,000	135,377	25,377
Sign permit fees	4,200	4,200	3,680	(520)
Site plan review fees	7,000	7,000	7,000	-
State surcharge on permits	-	-	(57)	(57)
Taxi operators permits	2,000	2,000	1,570	(430)
Yard sale permits	2,500	2,500	2,555	55
Zoning and plat fees	21,000	21,000	13,750	(7,250)
<b>Total licenses and permits</b>	<b>926,037</b>	<b>926,037</b>	<b>1,101,703</b>	<b>175,666</b>
Use of property:				
Rental of antenna sites	90,000	90,000	66,400	(23,600)
Rental of recreation facilities	43,906	43,906	88,178	44,272
Rental of general properties	1,511,317	1,511,317	1,572,215	60,898
<b>Total use of property</b>	<b>1,645,223</b>	<b>1,645,223</b>	<b>1,726,793</b>	<b>81,570</b>
Miscellaneous:				
Admin fee - state income tax	-	-	270	270
Admin fee - RE	425,000	425,000	373,017	(51,983)
Admin fee - PP	800,000	800,000	845,588	45,588
Admin fee - Parking	20,000	20,000	31,414	11,414
Admin fee - EMS	10,000	10,000	10,956	956
Admin fee - Gen	-	-	240	240
Returned check fee	-	-	1,316	1,316
Vending Machine Commissions	15,000	15,000	12,640	(2,360)
Gift shop sales	182,700	182,700	160,044	(22,656)
Proceeds from land sales	-	-	40,387	40,387
Gain (loss) on disposal of assets	-	-	4,694	4,694
Other revenue	195,208	224,820	247,149	22,329
Unclaimed property tax refunds	-	-	89,962	89,962
Payments in lieu of taxes:				
PRHA	41,000	41,000	29,492	(11,508)
Regional Jail	494,800	494,800	501,388	6,588
Virginia Port Authority	400,000	400,000	357,871	(42,129)
So Norfolk Jordan Bridge	-	-	217,511	217,511
Public utility fund	1,138,822	1,138,822	1,138,822	-
Cash Over/Under	-	-	(25)	(25)
Payment from Portsmouth Public Schools	-	-	2,828,120	2,828,120
<b>Total miscellaneous revenue</b>	<b>3,722,530</b>	<b>3,752,142</b>	<b>6,890,856</b>	<b>3,138,714</b>
<b>Total revenues</b>	<b>221,927,451</b>	<b>222,395,884</b>	<b>222,284,865</b>	<b>(111,019)</b>

(continued)

## CITY OF PORTSMOUTH, VIRGINIA

## Exhibit I-1 (continued)

**Budgetary Comparison Schedule**  
**Schedule of Revenues and Other Financing Sources**  
**General Fund**  
**For year ended June 30, 2017**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
Transfers from other funds:				
Other financing sources:				
BHS	162,363	162,363	162,363	-
Stormwater Management	416,695	416,695	416,695	-
Public utility fund	8,875,000	8,875,000	8,875,000	-
Economic Development Authority	145,498	145,498	-	(145,498)
Capital improvement fund	510,000	510,000	510,000	-
Use of Fund Balance	6,000,000	6,237,208	-	(6,237,208)
<b>Total other financing sources</b>	16,109,556	16,346,764	9,964,058	(6,382,706)
<b>Total revenues and other financing sources</b>	<b>\$ 238,037,007</b>	<b>238,742,648</b>	<b>232,248,923</b>	<b>(6,493,725)</b>

Unaudited – see accompanying report of independent auditor.

**CITY OF PORTSMOUTH, VIRGINIA**  
**Budgetary Comparison Schedule**  
**Schedule of Expenditures and Other Financing Uses**  
**General Fund**  
**Year ended June 30, 2017**

**Exhibit I-2**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
General government:				
Administration:				
Legislative:				
City council	\$ 279,001	297,651	290,486	7,165
City clerk	338,023	349,873	340,754	9,119
City auditor	134,797	134,797	23,898	110,899
Total legislative	751,821	782,321	655,138	127,183
Executive:				
City manager	1,045,881	1,131,870	1,061,845	70,025
Management and legislative services	364,223	364,223	325,970	38,253
Marketing, Entertainment, & Tourism	1,742,550	1,615,082	1,413,291	201,791
Total executive	3,152,654	3,111,175	2,801,106	310,069
Boards and commissions				
Civil service commission	90,863	90,863	54,795	36,068
General registrar	693,403	693,403	644,100	49,303
Total boards and commissions	784,266	784,266	698,895	85,371
Total administration	4,688,741	4,677,762	4,155,139	522,623
City attorney	1,713,852	1,713,852	1,574,878	138,974
Human resource management	1,278,499	1,394,708	1,220,337	174,371
Financial administration:				
Commissioner of revenue	1,650,945	1,650,945	1,575,972	74,973
City assessor	1,001,084	1,001,084	992,036	9,048
City treasurer	2,222,874	2,222,874	2,098,938	123,936
Procurement and risk management	964,961	974,161	924,923	49,238
Finance	1,957,787	1,908,447	1,824,974	83,473
Total financial administration	7,797,651	7,757,511	7,416,843	340,668
Public transportation	2,991,545	2,991,545	2,912,526	79,019
<b>Total general government</b>	<b>18,470,288</b>	<b>18,535,378</b>	<b>17,279,723</b>	<b>1,255,655</b>
Nondepartmental:				
Miscellaneous	12,896,931	12,549,289	11,266,225	1,283,064
Support to civic organizations	358,378	358,378	343,078	15,300
<b>Total nondepartmental</b>	<b>13,255,309</b>	<b>12,907,667</b>	<b>11,609,303</b>	<b>1,298,364</b>

(continued)

## CITY OF PORTSMOUTH, VIRGINIA

## Exhibit I-2 (continued)

**Budgetary Comparison Schedule**  
**Schedule of Expenditures and Other Financing Uses**  
**General Fund**  
**Year ended June 30, 2017**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
Judicial:				
Circuit court judges	\$ 588,526	588,526	575,501	13,025
Circuit court clerk	1,566,156	1,569,497	1,389,716	179,781
Magistrate	6,802	105,344	3,617	101,727
General district court	114,408	114,408	97,295	17,113
Juvenile and domestic relations court	32,501	32,501	30,172	2,329
Juvenile court services	1,333,022	1,379,002	1,096,021	282,981
Commonwealths attorney	2,887,918	2,887,918	2,685,969	201,949
Sheriff	12,715,500	12,307,644	11,773,151	534,493
<b>Total judicial</b>	<b>19,244,833</b>	<b>18,984,840</b>	<b>17,651,442</b>	<b>1,333,398</b>
Public Safety:				
Police	28,820,376	29,378,175	28,578,066	800,109
E-911 communications	2,129,920	2,013,220	1,770,975	242,245
Operations Support bureau	61,352	61,352	181,832	(120,480)
Admin & Support bureau	-	-	307,617	(307,617)
Field Operations bureau	12,710	12,710	19,907	(7,197)
Animal control & security	948,851	987,752	987,753	(1)
Fire, rescue, and emergency services	23,551,137	23,772,137	24,038,391	(266,254)
<b>Total public safety</b>	<b>55,524,346</b>	<b>56,225,346</b>	<b>55,884,541</b>	<b>340,805</b>
Public works:				
Engineering	1,186,806	1,124,606	1,086,258	38,348
Streets and highways	3,305,621	3,663,717	3,665,730	(2,013)
Mosquito control	497,354	497,354	402,227	95,127
Traffic engineering	2,373,719	2,441,719	2,297,636	144,083
General services:				
Properties management	3,893,051	3,648,051	3,410,503	237,548
Utilities	2,720,000	2,720,000	2,575,593	144,407
Rental of land and buildings	208,612	208,612	168,613	39,999
Storeroom	-	-	28,975	(28,975)
Harbor Center pavilion	326,665	469,652	447,816	21,836
<b>Total public works</b>	<b>14,511,828</b>	<b>14,773,711</b>	<b>14,083,351</b>	<b>690,360</b>
<b>Health and welfare</b>	<b>1,276,976</b>	<b>1,276,976</b>	<b>1,276,976</b>	<b>-</b>
Parks, recreation, and cultural:				
Museum	2,332,594	2,332,594	2,121,277	211,317
Parks, recreational, and cultural	6,901,947	7,273,250	6,758,130	515,120
Public library	2,368,894	2,368,894	2,188,189	180,705
<b>Total parks, recreation, and cultural</b>	<b>11,603,435</b>	<b>11,974,738</b>	<b>11,067,596</b>	<b>907,142</b>

(continued)



## CITY OF PORTSMOUTH, VIRGINIA

## Exhibit I-2 (continued)

**Budgetary Comparison Schedule**  
**Schedule of Expenditures and Other Financing Uses**  
**General Fund**  
**Year ended June 30, 2017**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
Community development:				
Permits and inspections	\$ 2,277,504	2,337,504	2,271,036	66,468
Economic development	714,019	714,019	618,612	95,407
Planning	1,629,127	1,758,127	1,623,287	134,840
<b>Total community development</b>	<b>4,620,650</b>	<b>4,809,650</b>	<b>4,512,935</b>	<b>296,715</b>
<b>Education</b>	<b>52,900,000</b>	<b>52,400,000</b>	<b>52,400,000</b>	<b>-</b>
Capital outlay	40,000	63,000	52,849	10,151
<b>Total expenditures</b>	<b>191,447,665</b>	<b>191,951,306</b>	<b>185,818,716</b>	<b>6,132,590</b>
Other financing uses:				
Transfers to other funds:				
Behavioral health services fund	673,235	673,235	673,235	-
Social services fund	3,994,267	3,994,267	3,185,326	(808,941)
Comprehensive services fund	700,090	700,090	706,238	6,148
Parking authority	590,179	590,179	590,179	-
Golf	843,509	843,509	843,509	-
Debt service	36,209,062	36,209,062	35,167,034	(1,042,028)
Capital Improvements	3,579,000	3,781,000	3,781,000	-
Total transfers to other funds	46,589,342	46,791,342	44,946,521	(1,844,821)
<b>Total other financing uses</b>	<b>46,589,342</b>	<b>46,791,342</b>	<b>44,946,521</b>	<b>(1,844,821)</b>
<b>Total expenditures and other financing sources (uses)</b>	<b>238,037,007</b>	<b>238,742,648</b>	<b>230,765,237</b>	<b>(7,977,411)</b>
Net change in fund balance	-	-	1,483,686	1,483,686
Fund balance - beginning	-	-	66,134,200	66,134,200
Fund balance - ending	\$ -	-	67,617,886	67,617,886
Unaudited – see accompanying report of independent auditor.				

**Budgetary Comparison Schedule****Note to Required Supplementary Information****General Fund****Fiscal Year ended June 30, 2017**

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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, 2017, as amended. The budget as adopted by the City Council may be amended by the City Council through supplemental appropriations or transfers, as necessary. The legal level of budgetary control rests at the fund level with the exception of the General Fund, which is appropriated at the activity or function level. In addition, the City Code provides that the City Manager may transfer any unencumbered appropriation balance less than \$100,000 from one department, project, program, or purpose within the same fund. The City Manager shall make a monthly report to the City Council of all transfers greater than \$50,000. Also, the City Manager may transfer any or all of the unencumbered balance of the emergency contingency account to any item in the City budget provided that any such utilization from the emergency budget contingency is reported to the City Council at the next regular council meeting.

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

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

The General Fund's budget is adopted on a basis consistent with U.S. generally accepted accounting principles (GAAP).

**CITY OF PORTSMOUTH, VIRGINIA**  
**Required Supplementary Information (Unaudited)**  
**June 30, 2017**

**Exhibit I-4**

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

<b>Total pension liability</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Service cost	\$ 89,198	71,563	62,202
Interest	6,661,939	6,536,219	6,344,585
Changes in benefit terms	1,244,771	814,802	-
Differences between expected and actual experience	(1,195,876)	(1,680,961)	(1,383,499)
Changes of assumptions	-	-	(1,236,291)
Benefit payments, including refunds of member contributions	(8,512,885)	(8,478,761)	(8,326,253)
<b>Net change in total pension liability</b>	<b>(1,712,853)</b>	<b>(2,737,138)</b>	<b>(4,539,256)</b>
<b>Total pension liability - beginning</b>	<b>96,191,377</b>	<b>94,478,524</b>	<b>91,741,386</b>
<b>Total pension liability - ending (a)</b>	<b>94,478,524</b>	<b>91,741,386</b>	<b>87,202,130</b>
<b>Plan fiduciary net position</b>			
Contributions - employer	1,782,818	2,438,432	1,796,671
Contributions - member	-	-	-
Net investment income	7,874,597	418,733	960,609
Benefit payments, including refunds of member contributions	(8,512,885)	(8,478,761)	(8,326,253)
Administrative expense	(73,287)	(67,152)	(28,605)
Other	-	-	-
<b>Net change in plan fiduciary net position</b>	<b>1,071,243</b>	<b>(5,688,748)</b>	<b>(5,597,578)</b>
<b>Plan fiduciary net position - beginning</b>	<b>70,476,413</b>	<b>71,547,656</b>	<b>65,858,908</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>71,547,656</b>	<b>65,858,908</b>	<b>60,261,330</b>
<b>City's net pension liability (a) - (b)</b>	<b>22,930,868</b>	<b>25,882,478</b>	<b>26,940,800</b>
<b>Plan fiduciary net position as a percentage of total pension liability</b>	<b>75.73%</b>	<b>71.79%</b>	<b>69.11%</b>
<b>Covered employee payroll</b>	<b>\$ 1,195,973</b>	<b>1,034,003</b>	<b>887,695</b>
<b>City's net pension liability as a percentage of covered employee payroll</b>	<b>1917.34%</b>	<b>2503.13%</b>	<b>3034.92%</b>

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

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

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

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

Notes to schedule:

Methods and Assumptions used to determine contribution rate.

Measurement date	June 30, 2017
Timing	Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the plan year.
Actuarial Cost Method	Entry Age Normal-Level Percentage of Pay
Interest rate	7.25%
Salary increases	3.00%
Social Security wage bases	3.00%
Social Security cost of living increases	2.50%
Statutory limits on compensation and benefits	2.50%
Mortality	RP-2014 Generational Mortality Table Adjusted to 2006 with Generational Projection(Scale MP-2016)

**CITY OF PORTSMOUTH, VIRGINIA**  
**Required Supplementary Information (Unaudited)**  
**June 30, 2017**

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**Exhibit I-4 (continued)**

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

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

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

<b><u>Total pension liability</u></b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Service cost	\$ 875,496	655,555	469,262
Interest	17,479,148	17,755,749	17,775,245
Changes in benefit terms	3,220,420	2,226,338	-
Differences between expected and actual experience	2,306,432	483,962	2,934,513
Changes of assumptions	-	-	(2,264,494)
Benefit payments, including refunds of member contributions	(19,431,115)	(20,421,923)	(21,297,801)
<b>Net change in total pension liability</b>	<b>4,450,381</b>	<b>699,681</b>	<b>(2,383,275)</b>
<b>Total pension liability - beginning</b>	<b>250,415,803</b>	<b>254,866,184</b>	<b>255,565,865</b>
<b>Total pension liability - ending (a)</b>	<b>254,866,184</b>	<b>255,565,865</b>	<b>253,182,590</b>
<b>Plan fiduciary net position</b>			
Contributions - employer	5,186,714	6,734,263	5,794,277
Contributions - member	-	-	-
Net investment income	21,908,537	1,144,912	2,782,322
Benefit payments, including refunds of member contributions	(19,431,115)	(20,421,923)	(21,297,801)
Administrative expense	(205,149)	(184,118)	(120,447)
Other	-	-	-
<b>Net change in plan fiduciary net position</b>	<b>7,458,987</b>	<b>(12,726,866)</b>	<b>(12,841,649)</b>
<b>Plan fiduciary net position - beginning</b>	<b>187,926,711</b>	<b>195,385,698</b>	<b>182,658,832</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>195,385,698</b>	<b>182,658,832</b>	<b>169,817,183</b>
<b>City's net pension liability (a) - (b)</b>	<b>59,480,486</b>	<b>72,907,033</b>	<b>83,365,407</b>
<b>Plan fiduciary net position as a percentage of total pension liability</b>	<b>76.66%</b>	<b>71.47%</b>	<b>67.07%</b>
<b>Covered employee payroll</b>	<b>\$ 5,079,287</b>	<b>3,871,105</b>	<b>2,396,142</b>
<b>City's net pension liability as a percentage of covered employee payroll</b>	<b>1171.04%</b>	<b>1883.36%</b>	<b>3479.15%</b>

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

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

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

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

Notes to schedule:

Methods and Assumptions used to determine contribution rate.

Measurement date	June 30, 2017
Timing	Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the plan year.
Actuarial Cost Method	Entry Age Normal-Level Percentage of Pay
Interest rate	7.25%
Salary increases	3.00%
Social Security wage bases	3.00%
Social Security cost of living increases	2.50%
Statutory limits on compensation and benefits	2.50%
Mortality	RP-2014 Generational Mortality Table Adjusted to 2006 with Generational Projection(Scale MP-2016)

**CITY OF PORTSMOUTH, VIRGINIA**  
**Required Supplementary Information (Unaudited)**  
**June 30, 2017**

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**Exhibit I-4 (continued)**

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

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



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

	2014	2015	2016
<b>Total Pension Liability</b>			
Service cost	7,865,420	8,776,873	8,655,196
Interest	18,592,496	19,666,648	20,862,680
Changes of benefit terms	-	-	-
Differences between expected and actual experience	-	664,081	(4,862,954)
Changes in assumptions	-	-	-
Benefit Payments, including refunds of employee contributions	(10,723,367)	(11,502,410)	(12,540,446)
<b>Net change in total pension liability</b>	15,734,549	17,605,192	12,114,476
<b>Total pension liability - beginning</b>	270,968,771	286,703,320	304,308,512
<b>Total pension liability - ending (a)</b>	286,703,320	304,308,512	316,422,988
<b>Plan fiduciary net position</b>			
Contributions - employer	\$ 5,702,215	6,647,357	6,360,911
Contributions - employee	3,522,637	3,451,819	3,313,387
Net investment income	35,693,002	11,935,602	4,734,570
Benefit Payments, including refunds of employee contributions	(10,723,367)	(11,502,410)	(12,540,446)
Administrative expense	(191,765)	(162,543)	(168,003)
Other	1,881	(2,528)	(1,996)
<b>Net change in plan fiduciary net position</b>	34,004,603	10,367,297	1,698,423
<b>Plan fiduciary net position - beginning</b>	226,678,948	260,683,551	271,050,848
<b>Plan fiduciary net position - ending (b)</b>	260,683,551	271,050,848	272,749,271
<b>Net pension liability - ending (a) - (b)</b>	26,019,769	33,257,664	43,673,717
<b>Plan fiduciary net position as a percentage of the total</b>	90.92%	89.07%	86.20%

<b>Pension liability</b>			
<b>Covered - employee payroll</b>	69,382,620	67,648,253	66,384,667
<b>Net pension liability as a percentage of covered-employee payroll</b>	37.50%	49.16%	65.79%

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

**CITY OF PORTSMOUTH, VIRGINIA**  
**Required Supplementary Information (Unaudited)**  
**June 30, 2017**

**Exhibit I-4 (continued)**

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

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

**CITY OF PORTSMOUTH, VIRGINIA**  
**Required Supplementary Information (Unaudited)**  
**June 30, 2017**

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**Exhibit I-4 (continued)**

<b>Pension liability</b>			
<b>Covered - employee payroll</b>	8,517,527	8,465,913	9,733,000
<b>Net pension liability as a percentage of covered-employee payroll</b>	89.11%	97.38%	98.11%

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

**CITY OF PORTSMOUTH, VIRGINIA**  
**Required Supplementary Information (Unaudited)**  
**June 30, 2017**

**Exhibit I-4 (continued)**

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

	2015	2016	2017
Employer's Proportion of the Net Pension Liability (Asset)	1.08%	1.05%	1.04%
Employer's Proportionate Share of the Net Position Liability (Asset)	\$ 130,368,000	\$ 132,145,000	\$ 146,345,000
Employer's Covered- Employee Payroll	\$ 79,779,153	\$ 81,200,579	\$ 83,210,187
Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	163%	163%	176%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	70.88%	70.68%	68.28%

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

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
<i>City of Portsmouth</i>					
2017	\$ 7,832,373	6,814,182	\$ 1,018,191	66,384,667	10.26%
2016	\$ 7,507,199	6,516,822	\$ 990,377	69,382,620	9.39%
2015	\$ 7,507,199	8,202,685	\$ (695,486)	69,382,620	11.82%
2014	\$ 8,006,946	5,602,152	\$ 2,404,794	67,740,656	8.27%
2013	\$ 7,312,857	5,116,525	\$ 2,196,332	61,868,504	8.27%
2012	\$ 5,252,943	5,252,943	-	63,672,042	8.25%
2011	\$ 5,221,402	5,221,402	-	63,289,718	8.25%
2010	\$ 4,411,991	4,411,991	-	64,221,128	6.87%
2009	\$ 4,436,349	4,436,349	-	64,575,679	6.87%

**CITY OF PORTSMOUTH, VIRGINIA**  
**Required Supplementary Information (Unaudited)**  
**June 30, 2017**

**Exhibit I-4 (continued)**

2008	\$ 4,248,914	4,248,914	-	66,079,532	6.43%
<i>School Board (Professional)</i>					
2017	\$ 12,198,613	11,589,359	\$ 609,254	79,054,292	14.66%
2016	\$ 11,416,801	11,190,544	\$ 226,257	81,200,579	13.78%
2015	\$ 11,567,977	11,317,000	\$ 250,977	79,779,153	14.19%
2014	\$ 9,452,139	9,191,479	\$ 260,660	81,064,661	11.34%
2013	\$ 9,542,186	9,213,695	\$ 328,491	81,836,929	11.26%
2012	\$ 4,985,979	4,744,734	\$ 241,245	78,767,435	6.02%
2011	\$ 3,186,436	3,044,252	\$ 142,184	81,079,797	3.75%
2010	\$ 7,321,704	5,008,497	\$ 2,313,207	83,106,742	6.03%
2009	\$ 7,385,729	7,080,639	\$ 305,090	83,833,474	8.45%
2008	\$ 6,831,988	5,725,611	\$ 1,106,377	77,548,099	7.38%
<i>School Board (Non-Professional)</i>					
2017	\$ 1,137,788	902,396	\$ 235,392	7,719,383	11.69%
2016	\$ 882,148	813,358	\$ 68,790	8,465,913	9.61%
2015	\$ 885,543	731,636	\$ 153,907	8,498,497	8.61%
2014	\$ 789,538	649,001	\$ 140,537	8,647,732	7.50%
2013	\$ 790,470	644,890	\$ 145,580	8,657,941	7.45%
2012	\$ 766,574	603,630	\$ 162,944	8,508,035	7.09%
2011	\$ 769,926	643,311	\$ 126,615	8,545,234	7.53%
2010	\$ 755,369	685,941	\$ 69,428	9,078,953	7.56%
2009	\$ 776,138	715,023	\$ 61,115	9,328,576	7.66%
2008	\$ 727,356	585,079	\$ 142,277	8,742,264	6.69%

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

***Changes of benefit terms***

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

***Changes of assumptions (Non-professional retirement plan)***

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

period ending June 30, 2012:

Largest 10 – Non-LEOS:

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

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

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

**Schedule of Funding Progress for Defined Other Post Employment Benefit Plans**

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

1/1/2017	\$	-	26,986,000	26,986,000	-	66,071,400	40.84%
1/1/2016		-	26,986,000	26,986,000	-	66,071,400	40.84%
1/1/2015		-	43,459,500	43,459,500	-	76,188,000	57.04%
1/1/2014		-	167,607,600	167,607,600	-	76,188,000	219.99%
1/1/2013		-	195,796,500	195,796,500	-	70,574,100	277.43%
1/1/2012		-	195,796,500	195,796,500	-	70,574,100	277.43%
1/1/2011		-	221,375,695	221,375,695	-	78,275,583	282.82%
1/1/2010		-	221,375,695	221,375,695	-	73,342,372	301.84%
1/1/2009		-	187,436,612	187,436,612	-	77,011,285	243.39%

**SCHOOL BOARD PLAN:**

7/1/2017	\$	12,081,964	16,043,164	3,961,200	75.31%	96,277,315	4.11%
7/1/2016		11,424,994	13,026,375	1,601,381	87.71%	92,589,250	1.73%
7/1/2015		11,468,684	11,273,969	(194,715)	101.73%	91,342,343	-0.21%
7/1/2014		10,652,405	10,468,165	(184,240)	101.76%	92,083,073	-0.20%
7/1/2013		10,241,149	12,204,795	1,963,646	83.91%	89,605,502	2.19%
7/1/2012		10,241,149	12,204,795	1,963,646	83.91%	89,605,502	2.19%
7/1/2011		2,415,950	11,623,323	9,207,373	20.79%	95,870,390	9.60%
7/1/2010		650,000	10,802,915	10,152,915	6.02%	95,870,390	10.59%
7/1/2009		2,415,950	11,623,323	9,207,373	20.79%	95,870,390	9.60%



**Schedule of Employer Contributions for Defined Other Post Employment Benefit Plans**

Year Ended June 30	Annual Required Contribution	Percentage Contributed
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**CITY OF PORTSMOUTH RETIRED EMPLOYEES HEALTH CARE PROGRAM:**

6/30/2017	\$ 2,500,500	58%
6/30/2016	2,373,800	65%
6/30/2015	3,631,500	98%
6/30/2014	15,293,600	24%
6/30/2013	17,529,200	29%
6/30/2012	16,290,970	29%
6/30/2011	16,455,303	35%
6/30/2010	16,455,303	25%
6/30/2009	13,811,219	37%
6/30/2008	14,981,028	21%

**SCHOOL BOARD PLAN:**

6/30/2017	\$ 711,225	35%
6/30/2016	468,072	111%
6/30/2015	416,350	0%
6/30/2014	379,064	0%
6/30/2013	766,102	0%
6/30/2012	1,050,365	667%
6/30/2011	1,005,217	99%
6/30/2010	1,025,000	98%
6/30/2009	1,004,007	125%
6/30/2008	486,533	176%

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



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## **Nonmajor Governmental Funds**



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## CITY OF PORTSMOUTH, VIRGINIA

## Exhibit J-1

Combining Balance Sheet  
Nonmajor Government Funds  
June 30, 2017

	Special Revenue Funds										
	Behavioral Health Services	Public Law Library	Social Services	Stormwater Management	Grants	Children's Services	Willett Hall	Community Development	Asset Forfeiture Fund	Permanent Fund - Cemetery	Total
Assets:											
Cash and temporary investments	\$ 7,763,806	38,560	-	3,057,728	767,441	-	520,967	-	332,842	1,658,727	14,140,071
Accounts receivable (net of allowance for uncollectibles \$556,778)	231,094	-	12,303	440,013	-	-	641	-	-	-	684,051
Due from other governments	-	-	1,209,359	-	118,160	397,575	-	874,119	369	-	2,599,582
Inventory of supplies	-	-	-	-	-	-	519	-	-	-	519
Total assets	7,994,900	38,560	1,221,662	3,497,741	885,601	397,575	522,127	874,119	333,211	1,658,727	17,424,223
Liabilities:											
Accounts payable	217,630	541	218,084	180,753	106,584	224,464	11,539	346,348	6,779	-	1,312,722
Accrued payroll	-	-	483	2,177	3,464	-	-	-	-	-	6,124
Due to other funds	-	-	3,296,582	-	-	21,304	-	678,206	-	-	3,996,092
Total liabilities	217,630	541	3,515,149	182,930	110,048	245,768	11,539	1,024,554	6,779	-	5,314,938
Deferred inflows of resources:											
Deferred inflows from unavailable revenues	65,232	-	-	176,569	-	-	-	-	-	-	241,801
Total deferred inflows for resources	65,232	-	-	176,569	-	-	-	-	-	-	241,801
Total liabilities and deferred inflows of resources	282,862	541	3,515,149	359,499	110,048	245,768	11,539	1,024,554	6,779	-	5,556,739
Fund balances:											
Nonspendable	-	-	-	-	-	-	519	-	-	1,000,000	1,000,519
Restricted	7,712,038	38,019	-	3,138,242	775,553	151,807	510,069	-	326,432	658,727	13,310,887
Unassigned	-	-	(2,293,487)	-	-	-	-	(150,435)	-	-	(2,443,922)
Total fund balances	7,712,038	38,019	(2,293,487)	3,138,242	775,553	151,807	510,588	(150,435)	326,432	1,658,727	11,867,484
Total liabilities and fund balances	\$ 7,994,900	38,560	1,221,662	3,497,741	885,601	397,575	522,127	874,119	333,211	1,658,727	17,424,223

## CITY OF PORTSMOUTH, VIRGINIA

## Exhibit J-2

## Combining Statement of Revenues, Expenditures and Changes in Fund Balances

## Nonmajor Governmental Funds

Year ended June 30, 2017

	Special Revenue Funds										
	Behavioral Health Services	Public Law Library	Social Services	Stormwater Management	Grants	Children's Services	Willet Hall	Community Development	Asset Forfeiture Fund	Permanent Fund - Cemetery	Total
Revenues:											
Intergovernmental	\$ 9,663,293	-	14,667,513	-	3,107,999	2,126,760	-	2,790,572	60,179	-	32,416,316
Charges for services	408,565	25,172	-	7,400,061	-	-	15,720	65,126	-	34,500	7,949,144
Investment income	34,839	-	-	13,542	-	-	-	-	-	8,753	57,134
Recovered costs	-	-	100,303	-	-	-	71,685	-	-	-	171,988
Use of property	-	-	-	-	-	-	41,912	-	-	-	41,912
Miscellaneous	40,356	-	6,751	-	-	-	-	-	2,250	-	49,357
Total revenues	10,147,053	25,172	14,774,567	7,413,603	3,107,999	2,126,760	129,317	2,855,698	62,429	43,253	40,685,851
Expenditures:											
Current:											
Judicial	-	-	-	-	1,094,472	-	-	-	79,303	-	1,173,775
Public safety	-	-	-	-	499,950	-	-	-	-	-	499,950
Public works	-	-	-	1,905,218	-	-	-	-	63,156	-	1,968,374
Health and welfare	8,693,330	-	17,400,122	-	525,824	2,897,712	-	-	-	-	29,516,988
Parks, recreational, cultural	-	22,330	-	-	680,252	-	278,488	-	-	-	981,070
Community development	-	-	-	-	-	-	-	866,290	-	-	866,290
Capital outlay	126,006	-	-	450,996	517,231	-	-	1,944,012	91,364	-	3,129,609
Total expenditures	8,819,336	22,330	17,400,122	2,356,214	3,317,729	2,897,712	278,488	2,810,302	233,823	-	38,136,056
Revenues over (under) expenditures	1,327,717	2,842	(2,625,555)	5,057,389	(209,730)	(770,952)	(149,171)	45,396	(171,394)	43,253	2,549,795
Other financing sources (uses):											
Transfers from other funds	673,235	-	3,185,326	-	408	706,238	-	-	-	-	4,565,207
Transfers to other funds	(684,424)	-	(924,418)	(4,863,142)	-	-	-	-	(408)	-	(6,472,392)
Total other financing sources (uses)	(11,189)	-	2,260,908	(4,863,142)	408	706,238	-	-	(408)	-	(1,907,185)
Net change in fund balances	1,316,528	2,842	(364,647)	194,247	(209,322)	(64,714)	(149,171)	45,396	(171,802)	43,253	642,610
Fund balances, beginning of year	6,395,510	35,177	(1,928,840)	2,943,995	984,875	216,521	659,759	(195,831)	498,234	1,615,474	11,224,874
Fund balances, end of year	\$ 7,712,038	38,019	(2,293,487)	3,138,242	775,553	151,807	510,588	(150,435)	326,432	1,658,727	11,867,484

## CITY OF PORTSMOUTH, VIRGINIA

Exhibit J-3

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

## Special Revenue Funds

Year ended June 30, 2017

	Behavioral Health Services			Public Law Library		
	Budget	Actual	Variance favorable (unfavorable)	Budget	Actual	Variance favorable (unfavorable)
Revenues:						
Intergovernmental	\$ 10,564,430	9,663,293	(901,137)	-	-	-
Charges for services	475,500	408,565	(66,935)	31,026	25,172	(5,854)
Investment income	-	34,839	34,839	-	-	-
Miscellaneous	150,000	40,356	(109,644)	-	-	-
Total revenues	11,189,930	10,147,053	(1,042,877)	31,026	25,172	(5,854)
Expenditures:						
Health and welfare	11,031,591	8,693,330	2,338,261	-	-	-
Parks, recreational, and cultural	-	-	-	31,026	22,330	8,696
Capital outlay	129,800	126,006	3,794	-	-	-
Total expenditures	11,161,391	8,819,336	2,342,055	31,026	22,330	8,696
Revenues over (under) expenditures	28,539	1,327,717	1,299,178	-	2,842	2,842
Other financing sources (uses) -						
Transfers from other funds	673,235	673,235	-	-	-	-
Transfers to other funds	(701,774)	(684,424)	17,350	-	-	-
Total other financing sources (uses)	(28,539)	(11,189)	17,350	-	-	-
Revenues and other financing sources over/(under) expenditures and other financing uses	\$ -	1,316,528	1,316,528	\$ -	2,842	2,842
Fund balances at beginning of year		6,395,510	6,395,510		35,177	35,177
Fund balances at end of year		7,712,038	7,712,038		38,019	38,019

## CITY OF PORTSMOUTH, VIRGINIA

## Exhibit J-3 (continued)

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

## Special Revenue Funds

Year ended June 30, 2017

	Social Services			Stormwater Management		
	Budget	Actual	Variance favorable (unfavorable)	Budget	Actual	Variance favorable (unfavorable)
Revenues:						
Intergovernmental	\$ 16,794,009	14,667,513	(2,126,496)	-	-	-
Charges for services	-	-	-	7,511,211	7,400,061	(111,150)
Investment income	-	-	-	-	13,542	13,542
Recovered costs	96,000	100,303	4,303	-	-	-
Miscellaneous	20,000	6,751	(13,249)	-	-	-
Total revenues	16,910,009	14,774,567	(2,135,442)	7,511,211	7,413,603	(97,608)
Expenditures:						
Health and welfare	19,979,858	17,400,122	2,579,736	-	-	-
Public works	-	-	-	2,195,047	1,905,218	289,829
Capital outlay	-	-	-	451,000	450,996	4
Total expenditures	19,979,858	17,400,122	2,579,736	2,646,047	2,356,214	289,833
Revenues over (under) expenditures	(3,069,849)	(2,625,555)	444,294	4,865,164	5,057,389	192,225
Other financing sources (uses) -						
Transfers from other funds	3,994,267	3,185,326	(808,941)	-	-	-
Transfers to other funds	(924,418)	(924,418)	-	(4,865,164)	(4,863,142)	2,022
Total other financing sources (uses)	3,069,849	2,260,908	(808,941)	(4,865,164)	(4,863,142)	2,022
Revenues and other financing sources over/(under) expenditures and other financing uses	\$ -	(364,647)	(364,647)	\$ -	194,247	194,247
Fund balances at beginning of year		(1,928,840)	(1,928,840)		2,943,995	2,943,995
Fund balances at end of year		(2,293,487)	(2,293,487)		3,138,242	3,138,242



## CITY OF PORTSMOUTH, VIRGINIA

## Exhibit J-3 (continued)

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

## Special Revenue Funds

Year ended June 30, 2017

	Children's Services			Willett Hall		
	Budget	Actual	Variance favorable (unfavorable)	Budget	Actual	Variance favorable (unfavorable)
Revenues:						
Intergovernmental	\$ 1,994,910	2,126,760	131,850	-	-	-
Charges for services	-	-	-	20,000	15,720	(4,280)
Recovered costs	-	-	-	125,000	71,685	(53,315)
Use of property	-	-	-	70,000	41,912	(28,088)
Miscellaneous	-	-	-	2,156	-	(2,156)
Use of fund balance	-	-	-	200,000	-	(200,000)
Total revenues	1,994,910	2,126,760	131,850	417,156	129,317	(287,839)
Expenditures:						
Health and welfare	2,695,000	2,897,712	(202,712)	-	-	-
Parks, recreational, and cultural	-	-	-	417,156	278,488	138,668
Total expenditures	2,695,000	2,897,712	(202,712)	417,156	278,488	138,668
Revenues over (under) expenditures	(700,090)	(770,952)	(70,862)	-	(149,171)	(149,171)
Other financing sources (uses) -						
Transfers from other funds	700,090	706,238	6,148	-	-	-
Total other financing sources (uses)	700,090	706,238	6,148	-	-	-
Revenues and other financing sources over/(under) expenditures and other financing uses	\$ -	(64,714)	(64,714)	\$ -	(149,171)	(149,171)
Fund balances at beginning of year		216,521	216,521		659,759	659,759
Fund balances at end of year		151,807	151,807		510,588	510,588

## CITY OF PORTSMOUTH, VIRGINIA

Exhibit J-3 (continued)

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

## Special Revenue Funds

Year ended June 30, 2017

	Asset Forfeiture Fund		
	Budget	Actual	Variance favorable (unfavorable)
Revenues:			
Intergovernmental	\$ 281,223	60,179	(221,044)
Miscellaneous	-	2,250	2,250
Total revenues	281,223	62,429	(218,794)
Expenditures:			
Judicial	208,555	79,303	129,252
Public works	397,893	63,156	334,737
Capital outlay	128,445	91,364	37,081
Total expenditures	734,893	233,823	501,070
Revenues over (under) expenditures	(453,670)	(171,394)	282,276
Other financing sources (uses) -			
Transfers to other funds	(409)	(408)	1
Total other financing sources (uses)	(409)	(408)	1
Revenues and other financing sources over/(under) expenditures and other financing uses	\$ (454,079)	(171,802)	282,277
Fund balances at beginning of year		498,234	498,234
Fund balances at end of year		326,432	780,511

## **Nonmajor Proprietary Funds**



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**CITY OF PORTSMOUTH, VIRGINIA**  
**Combining Statement of Net Position**  
**Nonmajor Proprietary Funds**  
**June 30, 2017**

**Exhibit K-1**

	Golf	Waste Management	Total
Assets:			
Current assets:			
Cash and temporary investments	\$ 2,200	13,611,406	13,613,606
Accounts receivable	34,343	2,428,131	2,462,474
Inventory of supplies	55,993	-	55,993
Total current assets	92,536	16,039,537	16,132,073
Noncurrent assets:			
Capital assets:			
Land	9,605,289	2,909,275	12,514,564
Buildings	2,127,591	-	2,127,591
Improvements other than buildings	227,912	-	227,912
Machinery, furniture, and equipment	1,013,509	10,659,783	11,673,292
Total capital assets	12,974,301	13,569,058	26,543,359
Less accumulated depreciation	(2,555,459)	(5,573,159)	(8,128,618)
Total capital assets, net	10,418,842	7,995,899	18,414,741
Deferred outflows of resources:			
Deferred outflows from debt refunding	313,623	-	313,623
Deferred outflows related to pensions	213,172	858,991	1,072,163
Total outflows of resources	526,795	858,991	1,385,786
Total assets and deferred outflows of resources	11,038,173	24,894,427	35,932,600
Liabilities:			
Current liabilities:			
Accounts payable	95,989	424,358	520,347
Accrued interest payable	93,935	-	93,935
Accrued payroll	-	1,190	1,190
Deposits	12,483	-	12,483
Due to other funds	587,441	-	587,441
Compensated absences	29,227	80,297	109,524
General obligation bonds	543,917	-	543,917
Total current liabilities	1,362,992	505,845	1,868,837
Noncurrent liabilities:			
Other post employment benefit obligation	655,710	2,373,582	3,029,292
Compensated absences	53,695	139,603	193,298
Landfill closure and postclosure liability	-	5,197,503	5,197,503
General obligation bonds	4,286,706	-	4,286,706
Net pension liability	840,828	3,388,178	4,229,006
Total noncurrent liabilities	5,836,939	11,098,866	16,935,805
Deferred inflows related to pensions	19,339	77,927	97,266
Total liabilities	7,219,270	11,682,638	18,901,908
Net position:			
Net investment in capital assets	5,901,842	7,995,899	13,897,741
Unrestricted (deficit)	(2,082,939)	5,215,890	3,132,951
Total net position	3,818,903	13,211,789	17,030,692
Total liabilities and net position	\$ 11,038,173	24,894,427	35,932,600

## CITY OF PORTSMOUTH, VIRGINIA

## Exhibit K-2

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

## Nonmajor Proprietary Funds

Year ended June 30, 2017

	Golf	Waste Management	Total
Operating revenues:			
Charges for services	\$ 873,507	12,577,943	13,451,450
Other	200,983	596,415	797,398
Total operating revenues	1,074,490	13,174,358	14,248,848
Operating expenses:			
Personnel services	325,098	2,850,294	3,175,392
Contractual services	375,322	4,648,430	5,023,752
Supplies and materials	179,531	107,424	286,955
Utilities	95,715	1,350	97,065
Internal charges	45,629	1,521,827	1,567,456
Rent	88,778	-	88,778
Depreciation and amortization	102,143	735,111	837,254
Closure/postclosure	-	107,340	107,340
Other	267,111	214,884	481,995
Total operating expenses	1,479,327	10,186,660	11,665,987
Operating income (loss)	(404,837)	2,987,698	2,582,861
Nonoperating revenues (expenses):			
Investment income	-	59,902	59,902
Gain (loss) on disposal of capital assets	-	(4,099)	(4,099)
Interest expense and fiscal charges	(217,763)	(262)	(218,025)
Net nonoperating revenues (expenses)	(217,763)	55,541	(162,222)
Net income (loss) before transfers	(622,600)	3,043,239	2,420,639
Transfers from other funds	843,509	-	843,509
Transfers to other funds	(18,353)	(590,556)	(608,909)
Change in net position	202,556	2,452,683	2,655,239
Net position, beginning of year	3,616,347	10,759,106	14,375,453
Net position, end of year	\$ 3,818,903	13,211,789	17,030,692

## CITY OF PORTSMOUTH, VIRGINIA

Exhibit K-3

## Combining Statement of Cash Flows

## Nonmajor Proprietary Funds

Year ended June 30, 2016

	Golf	Waste Management	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers	\$ 1,059,116	13,196,989	14,256,105
Payments to suppliers	(558,044)	(6,519,073)	(7,077,117)
Payments to employees	(714,211)	(2,850,900)	(3,565,111)
Net cash provided by (used for) operating activities	(213,139)	3,827,016	3,613,877
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Transfers in	843,509	-	843,509
Transfers out	(18,353)	(590,556)	(608,909)
Net cash provided by (used in) noncapital financing activities	825,156	(590,556)	234,600
<b>CASH FLOWS FROM CAPITAL AND RELATING FINANCING ACTIVITIES:</b>			
Acquisition of capital assets	(24,891)	(1,927,139)	(1,952,030)
Gain or (Loss) on sale of capital assets	-	156,767	156,767
Principal paid on long-term debt	(371,480)	(26,508)	(397,988)
Interest paid	(215,646)	(262)	(215,908)
Net cash used in capital and related financing activities	(612,017)	(1,797,142)	(2,409,159)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest received	-	59,902	59,902
Net cash provided by investing activities	-	59,902	59,902
Net increase in cash and temporary investments	-	1,499,220	1,499,220
Cash and temporary investments, beginning of year	2,200	12,112,186	12,114,386
Cash and temporary investments, end of year	2,200	13,611,406	13,613,606
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>			
Operating income (loss)	(404,837)	2,987,698	2,582,861
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	102,143	735,111	837,254
Decrease (increase) in:			
Accounts receivable	(17,093)	22,631	5,538
Inventory of supplies	794	-	794
Deposits	1,719	-	1,719
Deferred outflows	(29,491)	(401,234)	(430,725)
Increase (decrease) in:			
Accounts payable	(17,272)	(25,158)	(42,430)
Accrued payroll	(18,142)	(64,146)	(82,288)
Compensated absences	8,927	15,731	24,658
Due to other funds	510,520	-	510,520
Net pension liability	(309,431)	521,579	212,148
Deferred inflows	(40,984)	(72,407)	(113,391)
Other post employment benefit obligation	8	(129)	(121)
Landfill closure and postclosure liability	-	107,340	107,340
Total adjustments	191,698	839,318	1,031,016
Net cash provided by (used for) operating activities	\$ (213,139)	3,827,016	3,613,877



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## **Internal Service Funds**

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## CITY OF PORTSMOUTH, VIRGINIA

## Exhibit L-1

## Combining Statement of Net Position

## Internal Service Funds

June 30, 2017

	City Garage	Information Technology	Health Insurance & OPEB	Risk Management	Total
<b>Assets:</b>					
Current assets:					
Cash and temporary investments	\$ 1,834,612	4,592,181	6,052,548	20,414,608	32,893,949
Accounts receivable	109,201	2,705	133,450	-	245,356
Inventory of supplies	512,112	-	-	-	512,112
Prepaid expenses	-	15,000	-	-	15,000
Deposits-held by others	-	-	-	240,000	240,000
Total current assets	2,455,925	4,609,886	6,185,998	20,654,608	33,906,417
Noncurrent assets:					
Capital assets:					
Land	15,048	-	-	-	15,048
Buildings	693,083	-	-	-	693,083
Machinery, furniture, and equipment	23,319,735	5,620,497	-	-	28,940,232
Intangible assets	-	1,020,537	-	-	1,020,537
Total capital assets	24,027,866	6,641,034	-	-	30,668,900
Less accumulated depreciation	(19,386,804)	(5,984,145)	-	-	(25,370,949)
Total capital assets, net	4,641,062	656,889	-	-	5,297,951
Deferred outflows of resources:					
Total outflows of resources	-	-	-	-	-
Total assets and deferred outflows of resources	7,096,987	5,266,775	6,185,998	20,654,608	39,204,368
<b>Liabilities:</b>					
Current liabilities:					
Accounts payable	394,800	172,778	225,986	142,432	935,996
Accrued payroll	275	-	-	-	275
Flex spending benefits	-	-	79,194	-	79,194
Due to other funds	250	-	25,000	-	25,250
Current compensated absences	72,985	90,783	-	1,095	164,863
Current obligations under capital leases	497,223	-	-	-	497,223
Current claims payable	-	-	1,058,780	2,259,579	3,318,359
Total current liabilities	965,533	263,561	1,388,960	2,403,106	5,021,160
Noncurrent liabilities:					
Noncurrent claims payable	-	-	-	7,927,189	7,927,189
Other post employment benefit obligation	1,392,231	1,061,984	-	116,621	2,570,836
Noncurrent compensated absences	74,867	119,168	-	3,070	197,105
Total noncurrent liabilities	1,467,098	1,181,152	-	8,046,880	10,695,130
Total liabilities	2,432,631	1,444,713	1,388,960	10,449,986	15,716,290
<b>Net position:</b>					
Net investment in capital assets	4,143,839	656,889	-	-	4,800,728
Unrestricted (deficit)	520,517	3,165,173	4,797,038	10,204,622	18,687,350
Total net position	4,664,356	3,822,062	4,797,038	10,204,622	23,488,078
Total liabilities and net position	\$ 7,096,987	5,266,775	6,185,998	20,654,608	39,204,368

## CITY OF PORTSMOUTH, VIRGINIA

Exhibit L-2

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

## Internal Service Funds

Year ended June 30, 2017

	City Garage	Information Technology	Health Insurance & OPEB	Risk Management	Total
Operating revenues:					
Charges for services	\$ 8,053,695	5,218,941	16,640,047	5,735,918	35,648,601
Contributions	80,347	-	-	-	80,347
Other	-	4,500	10,091	107,710	122,301
Total operating revenues	8,134,042	5,223,441	16,650,138	5,843,628	35,851,249
Operating expenses:					
Personnel services	1,919,578	2,519,164	-	188,805	4,627,547
Contractual services	741,872	1,330,169	1,198,250	343,631	3,613,922
Supplies and materials	2,740,051	220,022	-	78,118	3,038,191
Utilities	55,977	31,205	-	2,138	89,320
Internal charges	64,589	5,170	-	-	69,759
Claims, settlements, and refunds	-	-	14,051,770	298,966	14,350,736
Insurance premiums	-	-	-	1,315,509	1,315,509
Depreciation and amortization	1,378,214	234,223	-	-	1,612,437
Other - Operating Expense	462,211	132,186	13,886	3,174	611,457
Total operating expenses	7,362,492	4,472,139	15,263,906	2,230,341	29,328,878
Operating income (loss)	771,550	751,302	1,386,232	3,613,287	6,522,371
Nonoperating revenues (expenses):					
Gain (loss) on disposal of capital assets	33,989	-	-	-	33,989
Interest expense and fiscal charges	(23,592)	-	-	-	(23,592)
Net nonoperating revenues (expenses)	10,397	-	-	-	10,397
Net income before transfers	781,947	751,302	1,386,232	3,613,287	6,532,768
Transfers from other funds	41,978	-	-	-	41,978
Transfers to other funds	(44,660)	(250,982)	-	(9,675)	(305,317)
Change in net position	779,265	500,320	1,386,232	3,603,612	6,269,429
Net position (deficit), beginning of year	3,885,091	3,321,742	3,410,806	6,601,010	17,218,649
Net position (deficit), end of year	\$ 4,664,356	3,822,062	4,797,038	10,204,622	23,488,078

## CITY OF PORTSMOUTH, VIRGINIA

Exhibit L-3

## Combining Statement of Cash Flows

## Internal Service Funds

Year ended June 30, 2017

	City Garage	Information Technology	Health Insurance	Risk Management	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Receipts from customers	\$ 8,132,291	5,265,684	16,604,939	5,603,628	35,606,542
Payments to suppliers	(4,093,152)	(1,830,397)	(17,266,487)	(5,610,578)	(28,800,614)
Payments to employees	(1,970,516)	(2,584,805)	-	(192,900)	(4,748,221)
Net cash provided by (used in) operating activities	2,068,623	850,482	(661,548)	(199,850)	2,057,707
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>					
Transfers (out) / in	(2,682)	(250,982)	-	(9,675)	(263,339)
Net cash provided by (used in) noncapital financing activities	(2,682)	(250,982)	-	(9,675)	(263,339)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Acquisition and construction of capital assets	(80,347)	(87,728)	-	-	(168,075)
Proceeds from sale of capital assets	35,622	-	-	-	35,622
Principal paid on long-term debt	(804,632)	-	-	-	(804,632)
Interest paid	(23,592)	-	-	-	(23,592)
Net cash provided by (used in) capital and related financing activities	(872,949)	(87,728)	-	-	(960,677)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Interest received	-	-	-	-	-
Net cash provided by (used in) investing activities	-	-	-	-	-
Net increase (decrease) in cash and temporary investments	1,192,992	511,772	(661,548)	(209,525)	833,691
Cash and temporary investments, beginning of year	641,620	4,080,409	6,714,096	20,624,133	32,060,258
Cash and temporary investments, end of year	1,834,612	4,592,181	6,052,548	20,414,608	32,893,949
<b>Reconciliation of operating income to net cash provided by (used in) operating activities</b>					
Operating income/(loss)	771,550	751,302	1,386,232	3,613,287	6,522,371
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation and amortization	1,378,214	234,223	-	-	1,612,437
Decrease (increase) in:					
Accounts receivable	(1,751)	42,243	(45,199)	-	(4,707)
Prepaid expenses	-	-	-	-	-
Inventory of supplies	(55,615)	-	-	-	(55,615)
Deposits	-	-	-	(240,000)	(240,000)
Increase (decrease) in:					
Accounts payable	27,163	(111,645)	(224,067)	(154,456)	(463,005)
Accrued payroll	(50,606)	(66,637)	-	(3,787)	(121,030)
Compensated absences	(199)	857	-	(293)	365
Due to other funds	-	-	25,000	-	25,000
Flexible spending benefits	-	-	22,178	-	22,178
OPEB	(133)	139	-	(15)	(9)
Nonoperating revenues reported as operating revenues:					
Claims payable	-	-	(1,825,692)	(3,414,586)	(5,240,278)
Total adjustments	1,297,073	99,180	(2,047,780)	(3,813,137)	(4,464,664)
Net cash provided by (used in) operating activities	\$ 2,068,623	850,482	(661,548)	(199,850)	2,057,707



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## **Fiduciary Funds**

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**CITY OF PORTSMOUTH, VIRGINIA**  
**Combining Statement of Fiduciary Net Position**  
**Fiduciary Funds - Pension Trust Funds**  
**June 30, 2017**

**Exhibit M-1**

	Portsmouth Supplemental Retirement System	Portsmouth Fire and Police Retirement System	Total
Assets			
Cash and temporary investments	\$ 831,273	2,138,969	2,970,242
Investments:			
Cash equivalents	16,671,480	47,824,021	64,495,501
Stocks	28,587,611	82,006,788	110,594,399
Bonds	3,162,388	9,071,666	12,234,054
International investments	7,987,582	22,913,279	30,900,861
Real estate	1,358,222	3,896,213	5,254,435
Other investments	1,074,410	3,082,066	4,156,476
Total investments	58,841,693	168,794,033	227,635,726
Total assets	59,672,966	170,933,002	230,605,968
Net position restricted for pensions	\$ 59,672,966	170,933,002	230,605,968

**CITY OF PORTSMOUTH, VIRGINIA**

**Exhibit M-2**

**Combining Statement of Changes in Fiduciary Net Position**

**Fiduciary Funds - Pension Trust Funds**

**Year ended June 30, 2017**

	Portsmouth Supplement Retirement System	Portsmouth Fire and Police Retirement System	Total
Additions:			
Contributions			
Employers' contributions	\$ 2,005,018	6,566,388	8,571,406
Investment income -			
Interest	1,323,462	3,784,237	5,107,699
Realized gains (loss)	39,028	112,759	151,787
Unrealized gains (loss)	4,626,183	13,127,064	17,753,247
Net investment income	5,988,673	17,024,060	23,012,733
Total additions	7,993,691	23,590,448	31,584,139
Deductions:			
Benefit payments	8,403,048	22,016,787	30,419,835
Administrative expenses	93,826	217,610	311,436
Net decrease	8,496,874	22,234,397	30,731,271
Change in net position	(503,183)	1,356,051	852,868
Net position restricted for pension benefits, beginning of year	60,176,149	169,576,951	229,753,100
Net position restricted for pension benefits, end of year	\$ 59,672,966	170,933,002	230,605,968

## Statement of Changes in Assets and Liabilities

## Fiduciary Funds-Agency Fund

Year ended June 30, 2017

Description	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
Assets:				
Cash and temporary investments	\$ 4,736	62,251	(61,934)	5,053
	4,736	62,251	(61,934)	5,053
Liabilities:				
Accounts payable	4,736	62,251	(61,934)	5,053
	\$ 4,736	62,251	(61,934)	5,053



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## STATISTICAL SECTION

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This section of the city of Portsmouth's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the city's overall financial health.

### **Financial Trends**

These contain information to help the reader understand how the city's financial performance and well-being have changed over time.

### **Revenue Capacity**

These help the reader assess the factors affecting the city's ability to generate its own-source revenues.

### **Debt Capacity**

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

### **Demographic and Economic information**

These offer demographic and economic indicators to help the reader understand the environment within which the city's financial activities take place and to help make comparisons over time and with other governments.

### **Operating information**

These contain information about the city's operations and resources to help the reader understand how the city's financial information relates to the services the city provides and the activities it performs.

**Sources:** Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial report for the relevant year. The city implemented Governmental Accounting Standards Board Statement No. 34 in 2002; schedules presenting government-wide information include information beginning in that year.



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**CITY OF PORTSMOUTH, VIRGINIA**  
**Net Position by Component**  
**Last Ten Fiscal Years**  
*(accrual basis of accounting)*

A-1

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Governmental activities:										
Net investment in capital assets	187,359,078	176,415,840	179,076,283	186,101,165	196,244,783	210,854,679	232,550,945	244,408,023	241,411,418	242,691,679
Restricted	5,588,429	12,438,087	16,014,789	15,421,510	45,127,451	40,782,876	75,183,391	51,224,402	49,061,774	55,330,226
Unrestricted	24,710,887	27,319,933	32,818,638	33,924,914	11,685,932	17,497,544	(198,671,005)	(283,629,516)	(251,725,514)	(248,155,977)
<b>Total governmental activities net position</b>	<b>217,658,394</b>	<b>216,173,860</b>	<b>227,909,710</b>	<b>235,447,589</b>	<b>253,058,166</b>	<b>269,135,099</b>	<b>109,063,331</b>	<b>12,002,909</b>	<b>38,747,678</b>	<b>49,865,928</b>
Business-type activities:										
Net investment in capital assets	112,115,139	114,270,026	122,952,622	128,135,654	132,261,301	140,080,861	146,080,861	151,551,705	126,805,696	144,631,061
Restricted	3,389,920	4,117,658	12,131	-	22,450	-	-	-	-	2,508,031
Unrestricted	27,320,964	30,213,505	33,143,573	39,934,125	44,949,451	45,783,929	40,508,841	34,241,084	71,131,481	64,151,335
<b>Total business-type activities net position</b>	<b>142,826,023</b>	<b>148,601,189</b>	<b>156,108,326</b>	<b>168,069,779</b>	<b>177,233,202</b>	<b>185,864,790</b>	<b>186,589,702</b>	<b>185,792,789</b>	<b>197,937,177</b>	<b>211,290,427</b>
Primary government:										
Net investment in capital assets	299,474,217	290,685,866	302,028,905	314,236,819	328,506,084	350,935,540	378,631,806	395,959,728	368,217,114	387,322,740
Restricted	8,978,349	16,555,745	16,026,920	15,421,510	45,149,901	40,782,876	75,183,391	51,224,402	49,061,774	57,838,257
Unrestricted	52,031,851	57,533,438	65,962,211	73,859,039	56,635,383	63,281,473	(158,162,164)	(249,388,432)	(180,594,033)	(184,004,642)
<b>Total primary government net position</b>	<b>360,484,417</b>	<b>364,775,049</b>	<b>384,018,036</b>	<b>403,517,368</b>	<b>430,291,368</b>	<b>454,999,889</b>	<b>295,653,033</b>	<b>197,795,698</b>	<b>236,684,855</b>	<b>261,156,355</b>

## CITY OF PORTSMOUTH, VIRGINIA

## Changes in Net Position

## Last Ten Fiscal Years

(accrual basis of accounting)

A-2

	Fiscal year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Expenses:										
Governmental activities:										
General government	\$ 17,457,023	26,462,771	25,866,086	28,573,377	30,092,575	27,914,580	195,651,602	30,847,939	25,571,539	37,937,076
Nondepartmental	6,135,893	-	-	-	-	-	-	-	-	-
Judicial	20,995,575	22,068,062	21,162,771	20,042,432	19,262,329	23,819,021	25,931,635	22,663,405	24,814,308	23,792,900
Public safety	58,580,530	59,957,146	63,317,938	62,543,317	67,822,960	66,483,899	58,678,933	56,785,068	51,693,737	56,460,539
Public works	31,141,010	29,535,176	20,801,656	20,669,966	19,227,479	18,919,255	22,082,142	24,259,546	20,442,395	30,344,639
Health and welfare	41,037,989	40,267,351	39,291,574	38,261,597	37,676,063	34,805,940	35,701,774	32,894,672	32,409,223	30,170,881
Parks, recreational, and cultural	13,017,308	13,000,940	12,702,857	12,333,047	12,165,461	12,107,699	10,405,765	9,868,300	11,067,649	10,808,887
Community development	9,577,401	9,306,525	14,441,114	7,738,435	8,697,999	9,317,701	7,924,716	6,474,948	6,020,487	8,253,909
Education	57,072,177	53,881,305	54,518,784	50,591,187	51,759,963	41,411,783	52,948,197	55,140,801	53,908,322	55,180,440
Interest on long-term debt	11,642,071	10,573,858	10,486,906	13,258,680	12,743,363	13,535,905	19,560,389	19,484,834	18,198,185	15,532,828
Total governmental activities expenses	266,656,977	265,053,134	262,589,686	254,012,038	259,448,192	248,315,783	428,885,153	258,419,513	244,125,845	268,482,099
Business-type activities:										
Public Utility	21,132,727	22,589,478	21,621,779	21,142,197	23,289,442	21,168,537	25,719,104	23,945,770	22,974,962	22,740,807
Golf	2,467,403	2,400,930	2,393,003	2,322,045	2,218,731	2,104,720	2,406,829	2,336,303	2,050,694	1,697,090
Port Facility and Economic Development	86,922	86,922	66,520	46,118	46,119	46,118	46,118	46,119	-	-
Parking Authority	1,750,784	1,644,011	1,625,763	1,582,680	1,558,720	1,348,920	1,395,552	1,185,598	1,151,506	1,176,209
Waste Management	12,086,129	12,314,318	14,138,088	13,576,422	11,779,665	9,662,917	10,559,613	10,245,752	10,041,170	10,186,922
Total business-type activities expenses	37,523,965	39,035,659	39,845,153	38,669,462	38,892,677	34,331,212	40,127,216	37,759,542	36,218,332	35,801,028
Total primary government expenses	304,180,942	304,088,793	302,434,839	292,681,500	298,340,869	282,646,995	469,012,369	296,179,055	280,344,177	304,283,127
Program Revenues:										
Governmental activities:										
Charges for services										
General government	2,130,746	2,146,434	1,774,399	1,891,508	1,785,252	3,104,397	3,395,648	3,191,781	2,922,590	3,197,150
Judicial	384,600	224,907	240,998	708,180	1,004,567	343,106	271,277	576,660	571,659	178,372
Public safety	2,487,410	1,298,471	2,637,180	1,673,586	2,119,660	2,497,470	1,676,260	3,528,623	3,586,477	2,432,614
Public works	5,520,368	5,637,793	6,330,032	6,880,735	7,316,713	7,809,614	8,017,983	7,596,091	7,602,200	7,645,659
Health and welfare	523,597	431,309	414,062	538,388	519,049	600,194	596,831	973,317	1,242,294	806,120
Parks, recreation, and cultural	1,629,137	1,579,501	1,352,352	1,302,264	2,160,956	2,587,705	2,396,043	2,321,055	2,992,632	2,405,301
Community development	705,244	491,841	495,427	518,730	523,373	1,149,814	1,206,617	1,971,830	3,397,562	3,676,204
Operating grants and contributions	79,783,849	79,186,102	82,372,531	77,217,853	86,594,753	70,737,857	71,792,163	67,982,527	66,867,871	67,314,255
Capital grants and contributions	5,062,734	500,000	4,635,095	3,344,556	6,070,568	1,422,747	2,655,741	5,052,229	696,766	2,188,987
Total governmental activities program revenues	98,227,685	91,496,358	100,252,076	94,075,800	108,094,891	90,252,904	92,008,563	93,194,113	89,880,051	89,844,662
Business-type activities:										
Charges for services:										
Public Utility	33,522,674	35,337,953	35,530,749	39,910,309	39,594,823	39,563,702	41,678,038	41,521,351	44,203,060	42,498,157
Golf	1,688,008	1,363,934	1,329,452	1,305,030	1,355,710	1,128,337	1,082,375	1,096,110	1,175,592	873,507
Port Facility and Economic Development	290,000	-	-	-	-	-	-	-	-	-
Parking Authority	1,063,479	1,079,056	1,071,822	1,060,760	1,111,152	1,118,200	1,093,811	924,588	995,542	953,160
Waste Management	12,466,329	12,332,045	15,037,913	14,123,658	12,765,158	12,502,496	12,331,294	11,751,149	12,438,646	12,573,844



**CITY OF PORTSMOUTH, VIRGINIA**

**Changes in Net Position**

**Last Ten Fiscal Years**

(accrual basis of accounting)

A-2 (continued)

	Fiscal year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Business-type activities, continued:										
Operating grants and contributions	\$ 685,994	680,000	680,000	680,000	680,000	280,000	-	-	-	-
Capital grants and contributions	50,150	118,438	-	-	-	-	-	-	-	-
Total business-type activities program revenues	49,766,634	50,911,426	53,649,936	57,079,757	55,506,843	54,592,735	56,185,518	55,293,198	58,812,840	56,898,668
Total primary government program revenues	147,994,319	142,407,784	153,902,012	151,155,557	163,601,734	144,845,639	148,194,081	148,487,311	148,692,891	146,743,330
Net (Expense)/Revenue										
Governmental activities	(168,429,292)	(173,556,776)	(162,337,610)	(159,936,238)	(151,353,301)	(158,062,879)	(336,876,590)	(165,225,400)	(154,245,794)	(178,637,437)
Business-type activities	12,242,669	11,875,767	13,804,783	18,410,295	16,614,166	20,261,523	16,058,302	17,533,656	22,594,508	21,097,640
Total primary government net (expense)/revenue	(156,186,623)	(161,681,009)	(148,532,827)	(141,525,943)	(134,739,135)	(137,801,356)	(320,818,288)	(147,691,744)	(131,651,286)	(157,539,797)
General Revenues and Other Changes in Net Assets:										
Governmental activities:										
Taxes:										
General property taxes	105,883,360	117,984,153	120,258,870	115,291,349	118,370,186	116,035,670	116,536,186	116,197,273	119,741,652	118,800,657
Other local taxes	37,862,311	35,706,007	36,601,504	34,894,374	35,064,984	35,995,762	37,674,332	39,934,290	38,783,705	39,194,725
Utility taxes	7,698,211	7,676,029	7,579,044	7,709,251	7,418,449	8,047,196	8,145,465	8,001,981	8,053,834	8,019,365
Licenses, permits, and privilege fees	-	-	-	-	-	-	-	-	-	-
Payment from component unit	-	-	-	-	-	-	-	-	-	-
Investment earnings	2,090,950	693,008	168,877	168,418	102,301	1,291,260	591,371	662,555	1,480,919	1,040,792
Net gain on disposal of capital assets	-	-	-	-	(75,704)	-	-	-	-	-
Miscellaneous	2,956,892	2,424,036	2,568,498	2,302,921	2,433,785	3,863,492	6,192,905	3,776,579	4,193,125	12,577,198
Special Item	-	-	-	-	-	-	-	-	-	-
Transfers	8,606,628	7,382,948	6,896,667	7,106,789	8,008,973	9,928,251	9,006,934	9,244,703	9,336,088	10,122,950
Total governmental activities	165,098,352	171,866,181	174,073,460	167,473,102	171,322,974	175,161,631	178,147,193	177,817,381	181,589,323	189,755,687
Business-type activities:										
Contributions-Land	-	-	-	-	-	-	-	268,297	-	-
Investment earnings	1,884,812	610,492	154,560	106,869	95,376	170,968	537,392	486,790	485,672	747,570
Special item	-	-	-	-	-	-	-	-	-	-
Gain on sale of capital assets	31,984	4,176	32,775	(69,991)	-	-	-	-	-	-
Miscellaneous	654,304	667,679	499,410	716,744	462,854	713,526	593,289	587,082	772,630	1,630,990
Transfers	(8,606,628)	(7,382,948)	(6,984,391)	(7,106,789)	(8,008,973)	(9,928,251)	(9,006,934)	(9,244,703)	(9,921,248)	(10,122,950)
Total business-type activities	(6,035,528)	(6,100,601)	(6,297,646)	(6,353,167)	(7,450,743)	(9,043,757)	(7,876,253)	(7,902,534)	(8,662,946)	(7,744,390)
Total primary government	159,062,824	165,765,580	167,775,814	161,119,935	163,872,231	166,117,874	170,270,940	169,914,847	172,926,377	182,011,297
Change in Net Position:										
Governmental activities	(3,330,940)	(1,690,595)	11,735,850	7,536,864	19,969,673	17,098,752	(158,729,397)	12,591,981	27,343,529	11,118,250
Business-type activities	6,207,141	5,775,166	7,507,137	12,057,128	9,163,423	11,217,766	8,182,049	9,631,122	13,931,562	13,353,250
Total primary government	\$ 2,876,201	4,084,571	19,242,987	19,593,992	29,133,096	28,316,518	(150,547,348)	22,223,103	41,275,091	24,471,500

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

A-3

	Fiscal year									
	2008	2009	2010	2011*	2012	2013	2014	2015	2016	2017
General Fund										
Reserved	\$ 5,707,974	3,246,548	2,934,768	-	-	-	-	-	-	-
Unreserved	26,328,953	32,608,666	45,394,978	-	-	-	-	-	-	-
Nonspendable	-	-	-	2,660,735	2,464,610	2,278,106	2,081,981	1,635,945	1,439,820	-
Restricted	-	-	-	140,677	295,762	18,549,834	233,444	254,070	231,460	3,088,288
Committed	-	-	-	-	7,880,834	7,187,371	16,652,635	-	-	-
Assigned	-	-	-	60,627	5,846	-	-	4,640,047	6,035,208	5,835,038
Unassigned	-	-	-	48,667,799	53,631,444	236,707,641	52,168,051	54,088,231	58,427,712	57,358,331
<b>Total General Fund</b>	<b>32,036,927</b>	<b>35,855,214</b>	<b>48,329,746</b>	<b>51,529,838</b>	<b>64,278,496</b>	<b>264,722,952</b>	<b>71,136,111</b>	<b>60,618,293</b>	<b>66,134,200</b>	<b>67,617,886</b>
All Other Governmental Funds										
Reserved	12,390,140	9,013,543	17,861,357	-	-	-	-	-	-	-
Unreserved, reported in:										
Special revenue funds	5,230,281	6,219,375	19,580,665	-	-	-	-	-	-	-
Permanent funds (1)	407,268	394,025	448,205	-	-	-	-	-	-	-
Capital projects funds	5,390,537	21,751,465	56,173,437	-	-	-	-	-	-	-
Nonspendable	-	-	-	1,002,223	1,002,223	1,002,223	1,002,223	1,002,223	1,002,223	-
Restricted	-	-	-	72,136,623	43,831,689	39,629,756	55,095,264	49,610,850	48,830,314	46,150,142
Committed	-	-	-	689,701	623,988	367,043	423,876	-	-	-
Assigned	-	-	-	-	-	618,921	311,668	421,026	657,536	-
Unassigned	-	-	-	(29,999)	(278,692)	-	(617,700)	(3,194,659)	(2,124,671)	(2,443,922)
<b>Total all other governmental funds</b>	<b>\$ 23,418,226</b>	<b>37,378,408</b>	<b>94,063,664</b>	<b>73,798,548</b>	<b>45,179,208</b>	<b>41,617,943</b>	<b>56,215,331</b>	<b>47,839,440</b>	<b>48,365,402</b>	<b>44,706,739</b>

\*Classification change (GASB54) beginning in FY11 Special Revenue, Permanent, & Capital Projects fund balance is comprised of Restricted, Committed, and Assigned fund balances

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

A-4

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Revenues</b>										
Taxes	\$ 151,595,074	161,152,304	163,986,237	159,191,656	160,062,205	160,108,769	161,907,337	164,133,541	165,989,121	165,316,609
Licenses and permits	1,153,187	926,923	1,136,981	1,117,152	883,022	832,610	959,486	954,328	1,133,825	1,101,703
Fines and forfeitures	172,007	173,529	184,741	572,821	853,101	867,213	633,409	692,844	623,879	393,231
Investment income and use of property	4,539,471	3,181,215	2,287,625	2,316,889	2,179,404	1,952,293	2,034,326	2,104,418	1,864,034	2,256,497
Charges for services	9,264,732	8,189,038	9,773,256	9,468,478	11,795,141	12,796,551	12,659,493	12,795,031	13,227,327	12,300,039
Recovered costs	4,676,217	4,135,037	4,331,770	4,085,061	3,708,285	3,598,403	3,842,764	3,935,523	3,880,881	3,094,150
Miscellaneous	5,372,509	4,556,269	9,434,921	4,931,402	17,765,172	4,451,002	6,252,378	3,678,609	4,432,350	6,981,435
Intergovernmental	80,210,496	76,140,401	78,583,705	76,639,575	75,920,149	72,780,080	74,876,626	75,974,575	73,090,368	73,792,879
Sale of commodities and property	242,770	-	-	-	-	-	-	-	-	-
<b>Total revenues and other sources</b>	<b>257,226,463</b>	<b>258,454,716</b>	<b>269,719,236</b>	<b>258,323,034</b>	<b>273,166,479</b>	<b>257,386,921</b>	<b>263,165,819</b>	<b>264,268,869</b>	<b>264,241,785</b>	<b>265,236,543</b>
<b>Expenditures</b>										
General government	17,701,336	16,146,243	15,503,424	15,711,620	15,501,466	15,905,233	17,178,147	17,584,368	16,668,136	17,279,723
Nondepartmental	6,681,149	9,503,827	9,276,215	9,975,985	11,496,297	12,138,227	180,581,237	12,584,942	11,586,048	11,609,303
Judicial	19,869,269	20,605,038	19,198,298	18,945,494	18,496,993	20,179,701	20,547,549	20,977,970	19,135,481	18,825,217
Public safety	58,276,566	59,009,982	60,853,783	60,446,711	62,240,428	61,441,195	54,113,766	57,143,666	53,900,072	56,384,491
Public works	18,274,869	17,413,077	15,539,098	16,033,880	15,588,397	16,786,940	17,804,330	19,857,877	17,460,963	16,051,725
Health and welfare	42,530,195	41,062,430	38,131,285	37,792,064	35,594,381	32,239,186	34,072,749	34,041,970	32,037,049	30,793,964
Parks, recreation, and cultural	12,804,623	12,230,804	11,577,153	11,608,738	11,091,361	11,448,655	10,672,489	9,574,714	10,114,937	12,048,666
Community development	9,435,979	9,033,730	9,476,115	7,175,300	8,101,488	7,906,297	6,717,779	5,669,431	4,946,123	5,379,225
Debt service:										
Principal	15,818,354	14,251,629	10,467,075	9,843,352	10,075,319	10,739,261	19,951,362	18,912,510	20,049,788	21,413,187
Interest	11,465,427	10,329,837	11,185,563	12,332,018	13,029,154	14,313,937	16,213,438	19,147,205	18,507,554	16,428,402
Education	49,845,490	49,818,483	48,171,651	48,171,651	49,571,413	39,849,897	50,528,423	52,550,163	51,200,000	52,400,000
Capital outlay	32,181,996	21,638,382	33,782,150	58,653,655	46,037,429	13,961,951	23,674,694	25,025,125	11,866,954	24,188,084
<b>Total expenditures</b>	<b>294,885,253</b>	<b>281,043,462</b>	<b>283,161,810</b>	<b>306,690,468</b>	<b>296,824,126</b>	<b>256,910,480</b>	<b>452,055,963</b>	<b>293,069,941</b>	<b>267,473,105</b>	<b>282,801,987</b>
<b>Excess of revenues over (under) expenditures</b>	<b>(37,658,790)</b>	<b>(22,588,746)</b>	<b>(13,442,574)</b>	<b>(48,367,434)</b>	<b>(23,657,647)</b>	<b>476,441</b>	<b>(188,890,144)</b>	<b>(28,801,072)</b>	<b>(3,231,320)</b>	<b>(17,565,444)</b>
<b>Other financing sources (uses)</b>										
Transfers in	24,610,728	20,261,687	22,382,161	22,117,233	22,880,724	21,594,945	88,968,251	66,035,010	62,566,204	61,176,380
Transfers out	(15,483,292)	(11,137,307)	(16,730,817)	(16,492,768)	(15,331,422)	(12,459,843)	(78,447,095)	(56,502,867)	(53,326,537)	(51,928,913)
Proceeds from capital leases	-	358,080.00	-	-	-	-	-	-	-	-
Proceeds from debt issued	-	157,743.00	2,219,887	-	-	-	-	-	-	-
Payments from component unit	-	-	-	-	-	-	-	-	-	-
Discount on bonds issued	-	(351,552)	(1,777,830)	-	-	-	-	-	-	-
VPSA Subsidy	-	-	1,324,727	-	-	-	-	-	-	-
Payments to escrow agent	-	(45,565,623)	-	-	-	-	-	-	-	-
Payment for current refunding of debt	-	-	-	-	-	-	-	(30,446,686)	(56,930,880)	-
Premium on bonds issued	-	994,187	839,121	3,908,502	1,962,885	10,661,550	-	-	4,358,163	-
General obligation bonds issued	-	-	74,345,113	68,547,102	31,450,000	254,465,000	-	30,821,906	53,205,000	6,143,000
BAN Proceeds	-	29,925,000	-	-	-	-	-	-	-	-
Refunding bonds issued	-	45,725,000	-	(46,778,674)	(33,175,221)	(77,854,902)	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>9,127,436</b>	<b>40,367,215</b>	<b>82,602,362</b>	<b>31,301,395</b>	<b>7,786,966</b>	<b>196,406,750</b>	<b>10,521,156</b>	<b>9,907,363</b>	<b>9,871,950</b>	<b>15,390,467</b>
<b>Net change in fund balances</b>	<b>\$ (28,531,354)</b>	<b>17,778,469</b>	<b>69,159,788</b>	<b>(17,066,039)</b>	<b>(15,870,681)</b>	<b>196,883,191</b>	<b>(178,368,988)</b>	<b>(18,893,709)</b>	<b>6,640,630</b>	<b>(2,174,977)</b>
Debt service as a percentage of noncapital expenditure, as restated	10.39%	9.48%	8.68%	8.94%	9.21%	10.31%	8.44%	14.20%	15.08%	14.54%

**CITY OF PORTSMOUTH, VIRGINIA****B-1****Assessed Value and Estimated Actual Value of Taxable Real Property**

Last Ten Fiscal Years

*(in thousands of dollars)*

Fiscal Year Ended 6/30	Residential Property	Commercial Property	Industrial Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value
2017	\$ 5,094,814	\$ 1,775,072	\$ 399,322	\$ 7,269,208	1.30	\$ 7,269,208
2016	5,040,388	1,733,055	399,095	7,172,538	1.30	7,172,538
2015	5,024,940	1,745,055	399,665	7,169,660	1.27	7,169,660
2014	5,032,854	1,723,320	402,731	7,158,905	1.27	7,158,905
2013	5,039,792	1,697,096	396,839	7,133,727	1.27	7,133,727
2012	5,132,403	1,900,610	402,017	7,435,030	1.27	7,435,030
2011	5,198,747	1,729,629	404,688	7,333,064	1.24	7,333,064
2010	5,452,716	1,818,679	406,222	7,677,617	1.24	7,677,617
2009	5,456,525	1,717,052	418,087	7,591,664	1.21	7,591,664
2008	4,967,919	1,487,540	203,354	6,658,813	1.26	6,658,813

Source: City Assessor's Office

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

**B-2**

Fiscal Year	Real Property (1)	Personal Property (2)			Manufacturer's Machinery and and Tools (3)
		Vehicles	Boats	RV's	
2017	\$ 1.30	5.00	0.50	1.50	3.00
2016	1.30	5.00	0.50	1.50	3.00
2015	1.27	5.00	0.50	1.50	3.00
2014	1.27	5.00	0.50	1.50	3.00
2013	1.27	5.00	0.50	1.50	3.00
2012	1.27	5.00	0.50	1.50	3.00
2011	1.24	5.00	0.50	1.50	3.00
2010	1.24	5.00	0.50	1.50	3.00
2009	1.21	5.00	0.50	1.50	3.00
2008	1.26	5.00	0.50	1.50	3.00

(1) As required by State law, real estate is assessed at 100% of estimated fair market value.  
The real estate rate is per \$100 of assessed value.

(2) Most personal property, primarily vehicles and boats, is assessed at 100% of the National  
Automobile Dealer Association (NADA) average loan values and BUC Boat Price Guide values.  
Business personal property is assessed using a predetermined depreciation schedule.

(3) The assessment basis for Manufacturer's Machinery and Tool is calculated on a straight 50 percent of  
original cost method. The tax rate is per \$100 of assessed value.

**CITY OF PORTSMOUTH, VIRGINIA**  
**Principal Property Tax Payers**  
**Current Year and Nine Years Ago**

**B-3**

Taxpayer	2017		2008	
	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value (1)	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value
Virginia International Gateway Inc.	\$ 361,084,820	4.56%		
PRHA	44,444,410	0.56%		
Virginia Electric and Power Co.	37,449,988	0.47%		
GEM Portsmouth High LLC	31,459,500	0.40%		
G&E Apartment REIT The Myrtles	27,000,000	0.34%		
Columbia Gas of Virginia	25,696,238	0.32%		
Westwinds Property LLC	24,324,260	0.31%		
Wheelabrator Portsmouth Inc.	23,630,593	0.30%		
425 Water LLC (2)	22,099,250	0.28%		
Earl Industries LLC	22,071,490	0.28%		
APM Terminals			\$ 165,490,120	2.60%
Dominion Virginia Power			39,159,710	0.61%
Verizon			27,210,890	0.43%
GEM Portsmouth High LLC			25,086,140	0.39%
Economic Development Authority (2)			24,109,870	0.38%
Myrtles at Olde Towne			22,344,700	0.35%
Harper Ave LLC			21,628,740	0.34%
Westwinds Associates			21,440,490	0.34%
Walmart Real Estate			19,369,040	0.30%
Portsmouth Venture One LLC			19,167,700	0.30%
	<u>\$ 619,260,549</u>	<u>7.82%</u>	<u>\$ 385,007,400</u>	<u>6.04%</u>

(1) FY 2017 total city taxable assessed value- \$7,914,143,083

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

Source: Portsmouth City Assessor and Portsmouth Commissioner of the Revenue

**CITY OF PORTSMOUTH, VIRGINIA**  
**Property Tax Levies and Collections**  
**Last Ten Fiscal Years**

**B-4**

**Real Estate:**

Tax Year	Fiscal Year Ending	Original Tax Levy	Taxes Collected In Year of Levy	Percent of Taxes Collected In Year of Levy	Delinquent Taxes Collected to June 30, 2017	Total Tax Collections to June 30, 2017	Adjustments To Levy (3)	Outstanding Taxes A/R June 30, 2017	Percent of Adjusted Levy Collected to June 30, 2017
2016	June 30, 2017	\$ 92,868,293	\$ 86,739,589	93.40	-	\$ 86,739,589	\$ (1,250,384)	\$ 4,878,320	94.68
2015	June 30, 2016	91,537,233	85,998,777	93.95	3,755,038	89,753,815	(1,188,524)	594,894	99.34
2014	June 30, 2015	89,337,507	83,972,704	93.99	3,427,695	87,400,399	(1,329,530)	607,578	99.31
2013	June 30, 2014	89,135,633	83,706,341	93.91	4,204,782	87,911,123	(891,356)	333,154	99.62
2012	June 30, 2013	88,808,682	83,261,282	93.75	4,742,745	88,004,027	(560,908)	243,747	99.72
2011	June 30, 2012	92,659,186	85,681,654	92.47	3,897,707	89,579,361	(3,011,300)	68,525	99.92
2010	June 30, 2011	89,613,578	84,590,952	94.40	4,711,545	89,302,497	(273,950)	37,131	99.96
2009	June 30, 2010	92,594,347	88,287,197	95.35	3,890,425	92,177,622	(388,637)	28,088	99.97
2008	June 30, 2009	89,813,809	85,735,326	95.46	4,215,284	89,950,610	181,483	44,682	99.95
2007	June 30, 2008	82,061,047	80,767,754	98.42	3,570,118	84,337,872	2,302,375	25,550	99.97

**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, 2017	Total Tax Collections to June 30, 2017	Adjustments To Levy (3)	Outstanding Taxes A/R June 30, 2017	Percent of Adjusted Levy Collected to June 30, 2017
2017	June 30, 2017	\$ 20,208,249	\$ 14,992,869	74.19	-	\$ 14,992,869	482,802	\$ 5,698,182	72.46
2016	June 30, 2016	23,350,303	17,520,280	75.03	7,596,039	25,116,319	3,186,241	1,420,225	94.65
2015	June 30, 2015	22,974,088	17,782,605	77.40	7,956,680	25,739,285	3,504,874	739,677	97.21
2014	June 30, 2014	23,014,501	17,444,594	75.80	8,492,581	25,937,175	3,555,778	633,104	97.62
2013	June 30, 2013	23,241,660	17,511,643	75.35	8,148,244	25,659,887	2,969,217	550,990	97.90
2012	June 30, 2012	21,841,734	17,181,394	78.66	7,410,063	24,591,457	3,151,021	401,298	98.39
2011	June 30, 2011	18,093,172	13,653,563	75.46	9,539,935	23,193,498	5,100,327	-	100.00
2010	June 30, 2010	19,582,168	14,843,139	75.80	9,093,695	23,936,834	4,354,665	-	100.00
2009	June 30, 2009	19,030,247	14,156,894	74.39	8,550,388	22,707,282	3,677,035	-	100.00
2008	June 30, 2008	20,213,758	13,813,758	68.34	10,194,460	24,008,218	3,794,460	-	100.00

- (1) Personal property taxes are assessed on property owned as of January 1 and become due June 5th of each year. Because the due date falls so near the last day of the fiscal year, there is normally a substantial amount of delinquent taxes receivable as of the close of the fiscal year, the majority of which is collected in the following fiscal year.
- (2) The original levy for FY17 is \$30,477,726 less the tax credit of \$10,269,477 equaling \$20,208,249 as shown
- (3) Includes supplements, abatements, prorations, adjustments and writeoffs.

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

Fiscal Year	Governmental Activities						Business-Type Activities		Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	General Obligation Notes	Literary Loans	Capital Leases	Less: Restricted for Debt Service	Net Government Debt	General Obligation Bonds	Capital Leases			
2017	\$ 429,077	-	250	4,355	-	433,682	144,104	-	577,786	*	*
2016	444,257	-	500	6,072	-	450,829	151,784	27	602,640	*	6,221
2015	456,144	-	750	8,206	-	465,100	159,436	223	624,759	15.9%	6,441
2014	473,497	-	1,000	10,246	-	484,743	165,494	416	650,653	17.4%	6,588
2013	493,637	-	1,250	13,172	-	508,059	172,055	1,130	681,244	18.1%	6,991
2012	265,568	48,730	1,500	16,024	-	331,822	175,492	2,021	509,335	13.4%	5,263
2011	265,940	50,455	1,875	17,254	-	335,524	125,832	2,574	463,930	12.9%	4,864
2010	241,816	25,329	2,250	13,474	-	282,869	130,284	2,208	415,361	12.2%	4,348
2009	199,733	-	2,625	16,765	-	219,123	103,454	3,128	325,705	9.8%	3,319
2008	203,499	6,796	3,000	18,116	-	231,411	107,628	2,232	341,271	10.2%	3,428

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**

**C-2**

*(dollars in thousands, except per capita)*

Fiscal Year	General Bonded Debt Outstanding (1)		Percentage of Actual Taxable Value of Property	Per Capita
	General Obligation Bonds (1)	Total (2)		
2017	\$ 553,277	\$ 553,277	7.71%	-
2016	576,468	576,468	8.04%	5,951
2015	615,580	615,580	8.59%	6,399
2014	638,991	638,991	8.93%	6,596
2013	665,692	665,692	9.33%	6,831
2012	441,060	441,060	5.93%	4,557
2011	442,227	442,227	6.03%	4,636
2010	279,932	279,932	3.65%	2,930
2009	212,851	212,851	2.28%	2,169
2008	223,726	223,726	2.56%	2,248

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

(2) Amounts do not include premiums or discounts.

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

**C-3**

**Legal Debt Margin Calculation for Fiscal Year 2017**

Assessed value	\$	7,269,208
Debt limit (10% of assessed value)		726,921
Debt applicable to limit:		<u>536,765</u>
Legal debt margin	\$	<u>190,156</u>

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Debt limit	\$ 665,881	759,166	767,762	733,306	743,503	713,373	715,891	716,966	717,254	726,921
Total net debt applicable to limit	236,589	241,689	308,221	326,609	316,767	631,739	606,121	577,420	557,355	536,765
Legal debt margin	429,292	517,477	459,541	406,697	426,736	81,634	109,770	139,546	159,899	190,156
Total net debt applicable to limit as a percentage of debt limit	35.5 %	31.8 %	40.1 %	44.5 %	42.6 %	88.6 %	84.7 %	80.5 %	77.7 %	73.8 %

**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)
2017	96,179	*	*	*	14,212	5.70%
2016	96,874	*	*	*	14,632	6.00%
2015	96,201	3,780,804	39,301	35.0	14,809	6.20%
2014	96,871	3,728,416	37,391	35.0	14,809	7.30%
2013	97,450	3,756,474	36,486	34.9	14,215	8.10%
2012	96,470	3,795,731	39,346	35.0	14,256	8.80%
2011	95,388	3,596,088	37,583	36.0	14,103	9.40%
2010	95,535	3,412,511	35,686	36.0	14,224	9.60%
2009	98,124	3,317,088	34,776	34.0	14,331	8.50%
2008	99,542	3,358,386	35,055	34.0	14,287	5.20%

\*Information not available at this time.

(1) Bureau of Economic Analysis, U.S. Department of Commerce; Population for 2017 from Weldon Cooper Center for Public Service, University of Virginia

(2) Portsmouth Public Schools

(3) Virginia Employment Commission, Economic Information Services Division. Labor Market Information.  
[www.virginialmi.com](http://www.virginialmi.com)

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

**D-2**

Employer	2017			2008		
	# of Employees	Rank	Percentage of Total City Employment	# of Employees	Rank	Percentage of Total City Employment
Norfolk Naval Shipyard	14,000	1	32.62 %	7,500	1	16.63 %
Naval Medical Center, Portsmouth	7,000	2	16.31 %	5,400	2	11.97 %
City of Portsmouth	2,585	3	6.02 %	2,605	3	5.78 %
US Coast Guard Command- Portsmouth	2,500	4	5.83 %	1,500	6	3.33 %
Portsmouth Public Schools	2,192	5	5.11 %	2,507	4	5.56 %
Bon Secours Maryview Medical Center	2,000	6	4.73 %	2,200	5	4.88 %
Earl Industries	900	7	2.10 %	615	8	1.36 %
Tidewater Community College	622	8	1.45 %	-	-	- %
Smithfield of Portsmouth	435	9	1.01 %	500	9	1.11 %
Wal-Mart Supercenter	300	10	0.71 %	386	10	0.86 %
Hampton Roads Regional Jail	-	-	- %	-	-	- %
Alternative Behavior Services (FHC)	-	-	- %	800	7	1.77 %
	-	-	- %			- %
	-	-	- %	-	-	- %
Total	32,534		75.89 %	24,013		53.24 %

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

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

E-1

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>General Fund</b>										
General government	146	144	133	167	132	139	123	127	124	144
Judicial	252	252	249	240	242	253	246	242	227	221
Public Safety	600	597	591	590	611	625	584	576	530	537
Public Works	108	104	359	359	87	86	96	89	58	65
Health and Welfare	-	-	-	-	-	-	-	-	-	-
Parks, Recreational, and Cultural Services	126	120	127	126	106	107	73	70	92	170
Community Development	67	66	48	48	48	51	46	43	38	38
<b>Total General Fund</b>	<b>1,299</b>	<b>1,283</b>	<b>1,507</b>	<b>1,530</b>	<b>1,226</b>	<b>1,261</b>	<b>1,168</b>	<b>1,147</b>	<b>1,069</b>	<b>1,175</b>
<b>Special Revenue Funds</b>										
Willett Hall Fund	1	1	1	1	2	2	1	1	1	1
Children's Services Act Fund	3	3	3	3	3	3	2	1	-	-
Stormwater Management Fund	31	31	23	23	23	27	22	24	21	16
Grants	31	31	28	24	27	-	-	-	-	0
Behavioral Health Services Fund	137	137	122	120	120	120	94	85	82	100
Public Law Library Fund	-	-	-	-	-	-	-	-	-	-
Social Services Fund	254	254	248	245	245	246	216	174	175	186
<b>Total Special Revenue Funds</b>	<b>457</b>	<b>457</b>	<b>425</b>	<b>416</b>	<b>420</b>	<b>398</b>	<b>335</b>	<b>285</b>	<b>279</b>	<b>303</b>
<b>Enterprise Funds</b>										
Public Utilities Fund	145	145	138	138	138	139	103	102	85	77
Golf Fund	19	19	17	17	17	17	16	15	11	11
Waste Management Fund	75	75	68	68	68	62	50	45	44	45
Parking Authority Fund	6	6	6	6	6	6	3	2	2	3
<b>Total Enterprise Funds</b>	<b>245</b>	<b>245</b>	<b>229</b>	<b>229</b>	<b>229</b>	<b>224</b>	<b>172</b>	<b>164</b>	<b>142</b>	<b>136</b>
<b>Internal Service Funds</b>										
City Garage Fund	41	41	36	36	35	35	34	32	33	28
Information Technology Fund	39	39	26	26	33	26	25	22	23	29
Risk Management Fund	3	2	8	3	3	3	1	1	3	2
<b>Total Internal Service Funds</b>	<b>83</b>	<b>82</b>	<b>70</b>	<b>65</b>	<b>71</b>	<b>64</b>	<b>60</b>	<b>55</b>	<b>59</b>	<b>59</b>
<b>Total All Funds</b>	<b>2,084</b>	<b>2,067</b>	<b>2,231</b>	<b>2,240</b>	<b>1,946</b>	<b>1,947</b>	<b>1,735</b>	<b>1,651</b>	<b>1,549</b>	<b>1,673</b>

Source: Munis Employee Master download June 30, 2017

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

**E-2**

<u>Function/Program</u>	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Police										
Physical arrests	9,852	9,747	10,374	9,422	6,131	8,835	8,844	8,218	9,097	6,617
Parking violations	15,821	8,124	12,162	9,023	11,000	6,717	5,558	3,639	4,102	2,976
Traffic violations	11,431	11,424	16,140	15,594	18,648	14,343	12,297	17,119	18,580	6,715
Fire										
Emergency responses	17,035	14,073	16,135	17,447	17,618	17,421	17,517	17,787	18,561	18,724
Fires extinguished	623	590	506	626	382	307	291	322	295	429
Inspections	1,259	1,875	1,638	885	516	801	696	923	913	920
Refuse collection										
Refuse collected (tons/day)	165	126	158	*	*	*	183	142	135	75
Recyclables collected (pounds/day)	3	5	35	*	*	*	22,913	134,700	117,243	73,120
Other public works										
Street resurfacing (miles)	44.9	20.6	19.0	28.0	22	5.9	19.0	18.0	16.5	24.6
Potholes repaired	911	1,045	1,344	1,191	3,341	5,350	8,615	8,480	7,688	3,334
Parks and recreation										
Community center admissions	308,891	274,571	274,571	281,145	242,864	286,750	231,897	219,261	193,600	140,792
Library										
Volumes in collection	338,971	276,874	260,889	267,230	243,583	243,583	243,856	316,177	288,843	274,917
Total volumes borrowed	370,870	376,946	383,265	364,835	384,130	357,581	325,694	290,763	278,651	230,281
Water										
New connections	255	105	2,959	2,852	149	92	85	118	89	92
Water main breaks	102	105	88	104	91	107	118	163	94	81
Average daily consumption (millions of gallons)	13.9	13.8	14.0	13.0	17.0	24.6	18.0	20.2	15.1	17.8

\* Information not available at the time of publication.  
 Sources: City of Portsmouth Departments

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

**E-3**

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<u>Function/Program</u>										
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	255	255	255	236	262	268	256	256	253	249
Fire										
Stations	8	8	8	8	8	8	8	8	8	8
Fire trucks	*	*	12	12	12	12	12	12	12	12
Boat	*	*	1	1	1	1	1	1	1	1
Emergency Medical Services										
Ambulances	*	*	5	5	5	5	5	5	5	5
Refuse collection										
Collection trucks	27	27	27	27	27	27	27	27	28	28
Other public works										
Streets (miles)	351	403	393	393	399	399	399	399	398	398
Highway (miles)	888	888	888	887	887	887	887	887	881	881
Streetlights	10,665	10,665	10,665	*	10,706	10,714	10,723	10,747	10,747	10,747
Signalized Intersections	120	120	120	120	120	121	123	122	122	122
Parks and recreation										
Acreage	402	402	402	402	402	402	402	588	588	588
Playgrounds	13	13	13	13	13	13	13	15	15	15
Baseball/softball diamonds	36	36	36	36	36	36	36	36	36	36
Soccer/football fields	34	34	34	34	34	34	34	34	34	34
Community centers	7	7	7	7	7	7	7	7	7	7
Pools/Splash Park	*	*	*	*	*	*	*	3	3	3
Golf Course	3	3	3	3	3	3	3	3	3	3
Water										
Water mains (miles)	626	626	626	626	626	626	626	626	626	626
Fire hydrants	2,530	2,530	2,593	2,593	2,593	2,593	2,593	2,593	2,593	2,593
Storage capacity (millions of gallons)	9	9	9	9	9	9	9	9	9	9
Wastewater										
Sanitary sewers (miles)	438	438	438	438	438	438	438	438	438	438
Storm sewers (miles)	159	159	159	159	250	250	250	250	250	250
Treatment capacity (millions of gallons)	32	32	32	32	32	32	32	32	32	32

\* Information not available at the time of publication.

Sources: City of Portsmouth Departments

## **COMPLIANCE SECTION**

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Portsmouth, Virginia (the "City") as of and for the year ended June 30, 2017, and the related notes to the financial statements and have issued our report thereon dated November 20, 2017.

**Internal Control over Financial Reporting**

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

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

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

**Compliance and Other Matters**

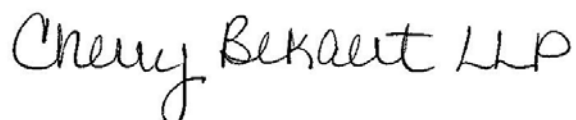
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and are described in the accompanying schedule of findings and questioned costs as items 2017-004 through 2017-005.

**City of Portsmouth, Virginia's Response to Findings**

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

**Purpose of this Report**

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

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

Virginia Beach, Virginia  
November 20, 2017

**Report of Independent Auditor on Compliance for Each Major  
Federal Program and on Internal Control over Compliance  
Required by the Uniform Guidance**

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

**Report on Compliance for Each Major Federal Program**

We have audited the City of Portsmouth, Virginia's (the "City") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2017. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2017-002, and 2017-003. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## Report Internal Control over Compliance

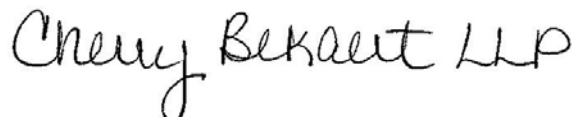
Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2017-001 that we consider to be a significant deficiency.

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

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

Virginia Beach, Virginia  
November 20, 2017

**CITY OF PORTSMOUTH, VIRGINIA**

**Schedule of Expenditures of Federal Awards**

Year ended June 30, 2017

<b>Federal Granting Agency</b>						
Pass thru Agency	Federal		Cluster			Total by
CFDA Title	Catalogue	Grant Agency Number	Program	Passed	Federal	CFDA #
Grant Program	Number		Total	through to	Expenditures	
<b>Department of Agriculture:</b>						
Pass-Through Payments:						
Virginia Department of Health						
Child & Adult Care Food Program (CACFP)	10.558				254,416	254,416
Summer Food Service Program for Children	10.559				419,341	419,341
Pilot Projects to Reduce Dependency and Increase Work Requirements	10.596	60115			13,607	13,607
Virginia Department of Social Services:						
State Administrative Matching Grants for Food Stamp Program	10.561	1			1,790,377	1,790,377
Virginia Department of Agriculture and Consumer Services -						
Food Distribution	10.555				441,514	441,514
Virginia Department of Education -						
National School Breakfast and Lunch Program	10.555				6,341,767	6,341,767
Fruits and Vegetables	10.582				185,336	185,336
Total Child Nutrition Cluster			7,202,622			
Total Department of Agriculture			7,202,622	-	9,446,358	9,446,358
<b>Department of Defense:</b>						
Direct payments:						
ROTC	12.000				252,648	252,648
Total Department of Defense			-	-	252,648	252,648
<b>Department of Education:</b>						
Direct payments:						
Impact Aid	84.041	SB41B20175285			575,409	575,409
Pass-through payments:						
Virginia Department of Education:						
Adult Education	84.002	V002A160047			224,664	224,664
Virginia Department of Education:						
Title I, Part A Cluster						
Title I Grants to Local Education Agencies	84.010	S010A140046			5,746,706	5,746,706
Title I Part-D	84.013	S010A160046			66,619	66,619
Special Education (IDEA) Cluster:						
Special Education (Title VI-B)	84.027	H027A160107			3,077,559	3,077,559
Special Education - Preschool Grants	84.173	H173A150112	3,268,139		190,580	190,580
Education Technology State Grants Cluster:						
Special Education - Grants for Infants and Family with Disabilities	84.181	720C-04446-15-28			102,204	102,204
English Language Acquisition (Title III)	84.365	S365A150046			2,726	2,726
Mathematics and Science Partnerships	84.366	S366B140047			2,225	2,225

**CITY OF PORTSMOUTH, VIRGINIA**

**Schedule of Expenditures of Federal Awards**

Year ended June 30, 2017

<b>Federal Granting Agency</b>		Federal Catalogue Number	Grant Agency Number	Cluster Program Total	Passed through to	Federal Expenditures	Total by CFDA #
Pass Through Agency	CFDA Title						
Grant Agency Name							
Improving Teacher Quality		84.367	S367A140044			1,077,862	1,077,862
Education for Homeless Children & Youth		84.196	S196A160048			32,316	32,316
Title IV Part B - 21st Century Community Learning Centers		84.287	S287C160047			340,682	340,682
Vocational Education		84.048	V0489A150046			471,014	471,014
Educational Opportunity Centers Program		84.066	P066A160024			151,519	151,519
Total Department of Education				3,268,139	-	12,062,085	12,062,085
<b>Department of Health and Human Services:</b>							
Virginia Department of Social Services:							
Social Services Block Grant		93.667	10,001,151,000,116			1,350,650	1,350,650
Temporary Assistance for Needy Families		93.558	4,001,150,400,116			1,704,779	1,704,779
Child Care and Development Fund Cluster:							
Child Care and Development Fund		<b>93.596</b>	7601150760116			279,275	279,275
Child Care and Development Block Grant		<b>93.575</b>	770116	279,255		(20)	(20)
Chafee Education & Training Vouchers Program		93.599	9160115			5,200	5,200
Medical Assistance Program - Title XIX		93.778	1,120,011,511,200,110			2,292,598	2,292,598
Foster Care - Title IV-E		93.658	11,001,151,100,116			1,260,295	1,260,295
Adoption Assistance		93.659				943,442	943,442
Independent Living		93.674	91,501,159,150,116			12,599	12,599
Low-Income Home Energy Assistance		93.568	6,004,150,600,415			207,052	207,052
Refugee and Entrant Assistance		93.566	500116			5,909	5,909
Promoting Safe and Stable Families		93.556	9,501,140,950,115			49,142	49,142
State Children's Insurance Program		93.767	5,401,150,540,116			73,677	73,677
Child Welfare Services		93.645	9,001,150,900,116			2,590	2,590
Virginia Department of Behavioral Health and							
Developmental Services:							
Block Grants for Community Mental Health Services							
MH FBG SED Child & Adolescent		93.958	SM010053-16			25,974	
MH FBG SMI		93.958	SM010053-16			133,888	159,862
Block Grants for Prevention and Treatment of Substance Abuse							
SA FBG Alcohol/Drug Treatment		93.959	TI010053-16			600,444	
SA FBG SARPOS		93.959	TI010053-16			84,205	
OccurringC-Occuring		93.959	TI010053-16			16,201	
SA FBG Women		93.959	TI010053-16			143,367	
SA FBG Prevention		93.959	TI010053-16			157,581	1,001,798
Projects for Assistance in Transition from Homelessness (PATH)		93.150	SM016047-16			11,422	
Mental Health Services for the Homeless- Block Grant		93.150	SM016047-15, SM016047-16			41,272	52,694
Total Department of Health and Human Services				279,255	-	9,401,542	9,401,542

**CITY OF PORTSMOUTH, VIRGINIA**

**Schedule of Expenditures of Federal Awards**

Year ended June 30, 2017

**Federal Granting Agency**

Pass Through Agency CFDA Title Grant Program	Federal Catalogue Number	Grant Agency Number	Cluster Program Number	Passed Through to	Federal Expenditures	Total by CFDA#
<b>Department of Homeland Security:</b>						
Direct Payments:						
Emergency Food and Shelter National Board Program	97.024	883200-002			6,027	6,027
Port Security FY14	97.056	EMW-2014-PU-0544			5,797	5,797
Pass through Payments:						
Virginia Department of Emergency Management						
LEMPG	97.042				56,622	56,622
Hazmat - Training and Equipment	97.067	GS-D7F-9597G			95,667	
Southside Hazardous Materials Team	97.067	VA16-SHSP-0093			33,708	129,375
Total Department of Homeland Security			-	-	197,821	197,821

**Department of Housing and Urban Development:**

Direct payments:						
Community Development Block Grant - 80014	14.218	B-13-MC-51-0018			47,636	
Community Development Block Grant - 80015	14.218	B-14-MC-51-0018			1,743,213	
Community Development Block Grant - 80016	14.218	B-12-MC-51-0018			30,400	
Community Development Block Grant - 80017	14.218	B-16-MC-51-0018			424,591	2,245,840
Pass through to:						
Planning Council P&A 2017	14.218	1597		5,376		
Endeppence Center	14.218	1598		18,000		
PARC	14.218	1600		49,280		
HOME Investment Partnerships Program-81010	14.239	M-09-MC-51-0204			5,461	
Passed through to:						
TBRA_HER 2017	14.239	1541		5,461		
HOME Investment Partnerships Program-81011	14.239	M-10-MC-51-0204			288,031	
Passed through to:						
HHR CO.	14.239	1583		16,500		
DPCC_HOME 2017	14.239	1584		18,059		
DPCC_HOME 2017	14.239	1585		19,354		
DPCC_HOME 2017	14.239	1586		19,497		
DPCC_HOME 2017	14.239	1587		19,353		
DPCC_HOME 2017	14.239	1588		19,367		
DPCC_HOME 2017	14.239	1589		19,639		
DPCC_HOME 2017	14.239	1590		19,146		
DPCC_HOME 2017	14.239	1591		19,224		
DPCC_HOME 2017	14.239	1603		19,015		
DPCC_HOME 2017	14.239	1606		19,608		
DPCC_HOME 2017	14.239	1607		19,774		
DPCC_HOME 2017	14.239	1609		19,790		
DPCC_HOME 2017	14.239	1610		19,912		



**CITY OF PORTSMOUTH, VIRGINIA**

**Schedule of Expenditures of Federal Awards**

Year ended June 30, 2017

**Federal Granting Agency**

Pass Through Agency CFDA Title Grant Program	Federal Catalogue Number	Grant Agency Number	Cluster Program Number	Passed Through to	Federal Expenditures	Total by CFDA#
DPCC_HOME 2017	14.239	1611		19,793		
HOME Investment Partnerships Program-81012	14.239	M-11-MC-51-0204			900	
Pass through to:						
HRPDC_HOME 2017	14.239	1442		900		
HOME Investment Partnerships Program-81015	14.239	M-14-MC-51-0204			114,763	
Passed through to:						
HHR CO.	14.239	1612		114,763		
HOME Investment Partnerships Program-81016	14.239	M-15-MC-51-0204			41,569	
Passed through to:						
TBRA_HOME 2017	14.239	1574		33,698		
TBRA_HOME ADMIN 2017	14.239	1575		7,871		
HOME Investment Partnerships Program-81017	14.239				113,735	
Passed through to:						
TBRA_HOME ADMIN 2017	14.239	1601		16,527		
TBRA_HOME ADMIN 2017	14.239	1602		13,867		
HRPDC_HOME 2017	14.239	1613		19,503		
HRPDC_HOME 2017	14.239	1614		19,394		
HRPDC_HOME 2017	14.239	1615		19,510		
HRPDC_HOME 2017	14.239	1617		24,934		564,459
Shelter Plus Care (CoC) April 15-March 16	14.238	VA0061L3F071407			23,872	
Shelter Plus Care (CoC) April 16-March 17	14.238	VA0061L3F071508			373,804	
Shelter Plus Care (Coc) April 17-March 18	14.238	VA0061L3F071609			122,121	519,797
Total Department of Housing and Urban Development				-	637,115	3,330,096

**Department of Justice:**

Direct Payments:

Weed and Seed	16.595	2009-WS-QX-0144			182	182
Police Department Federal Seizures	16.000				55,364	
Sheriff's Federal Forfeiture Funds	16.000				50,350	105,714
Bulletproof Vest Partnership Program	16.607				19,271	19,271
Justice Assistance Grant Program- FY13	16.738	2013-DJ-BX-0977		869		
Justice Assistance Grant Program- FY14	16.738	2014-DJ-BX-0948		41,097		
Justice Assistance Grant Program- FY15	16.738	2015-DJ-BX-0919		10,253		
Justice Assistance Grant Program - FY16	16.738	2016-DJ-BX-0513		27,118		79,337
Pass Through Payments:						
Virginia Department of Criminal Justice Services						
Victim Witness - FY16	16.575	16-V8577VG15			55,340	

**CITY OF PORTSMOUTH, VIRGINIA**

**Schedule of Expenditures of Federal Awards**

Year ended June 30, 2017

<b>Federal Granting Agency</b>						
Pass Through Agency	Federal Catalogue		Cluster	Passed	Federal	Total by
CFDA Title	Number	Grant Agency Number	Program Number	Through to	Expenditures	CFDA#
Grant Program						
Victim Witness - FY17	16.575	17-W8577VG15			313,941	369,281
One Time Training Grant	16.738	16-A3296BY11			8,164	
Recruiting & Retention of Criminal Justice Professionals	16.738	17-A6083AD13			2,668	
Police Athletic League (PAL)	16.738	17-A6084AD13			8,744	19,576
Total Department of Justice			-	-	593,361	593,361
<b>Department of Transportation:</b>						
Pass-through Payments:						
Federal Transit Administration-Hampton Roads Transit:						
Highway Planning and Construction (Safe Routes to School Grant)	20.205	VARIOUS			13,086	
Highway Planning and Construction (Capital Improvements)	20.205	VARIOUS			672,608	
Transportation Alternatives Program Grant	20.205				51,952	737,646
Virginia Department of Motor Vehicles:						
Selective Enforcement - DUI/Passenger - Alcohol FY 16	20.607	154AL-2016-56077-6277			11,352	
Selective Enforcement - DUI/Passenger- Alcohol FY 17	20.607	154AL-2017-57003-6652			31,510	42,862
Selective Enforcement - Comprehensive Speed FY 16	20.600	SC-2016-56082-6282			1,729	
Selective Enforcement - Comprehensive Speed FY 17	20.600	SC-2017-57705-6654			3,435	5,164
Selective Enforcement - Occupant Restraint Enforcement - FY 16	20.616	OP-2016-56079-6279			438	
Selective Enforcement - Occupant Restraint Enforcement - FY 17	20.616	OP-2017-57004-6653			6,633	7,071
Total Department of Transportation			-	-	792,743	792,743
Total all agencies			10,750,016	637,115	36,076,654	36,076,654

## CITY OF PORTSMOUTH, VIRGINIA

### Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2017

#### (1) General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all Federal awards of the city of Portsmouth, Virginia (the city). The city's reporting entity is defined in note 1 to the city's financial statements. All federal awards received directly from federal agencies as well as Federal awards passed through other government agencies are included in the schedule. The city reports federal grants for the School Board in its Schedule of Expenditures of Federal Awards because the city is the legal grantee of these funds.

#### (2) Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Exhibit H, Note 1 to the city's financial statements.

#### (3) Relationship to Financial Statements

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

Intergovernmental revenue:	Amount
City:	
Special Revenue Funds:	
Virginia Public Assistance	\$ 9,726,311
Mental Health Services	1,322,183
Asset Forfeiture	35,562
Grants	1,688,053
Capital Projects Funds -	
Capital Projects Funds	1,561,659
Community Development	2,855,696
Total City	17,189,464
Component Unit - School Board:	
Operating	828,057
Grants	11,397,558
Cafeteria	6,968,617
Total component unit - School Board	19,194,232
Total federal expenditures from Intergovernmental Revenue	36,383,696
Less: BHS revenues in excess of expenditures	(5,625)
Add: VPA expenditures in excess of revenues	270,888
Less: Grant revenues in excess of expenditures	240,039
Add: Asset Forfeiture expenditures in excess of revenues	70,152
Less: PU/CIP Fund revenues in excess of expenditures	(837,099)
Less: CDBG revenues in excess of expenditures	(45,397)
Total federal expenditures per Schedule of Expenditures of Federal Awards	\$ 36,076,654

#### (4) Indirect Cost Rate

The city does not elect to use a 10% de minimis indirect cost rate allowed under section 2 CFR 200.331(a)(4).

**City of Portsmouth, Virginia**  
**Schedule of Findings and Questioned Costs**  
**For the Fiscal Year Ended June 30, 2017**

**1) Summary of Auditor's Results**

Financial Statements:

Type of auditor's report issued on the financial statements:	<b>Unmodified</b>
Internal control over financial reporting:	
Material weaknesses identified:	<b>No</b>
Significant deficiencies identified:	<b>None reported</b>
Noncompliance material to the financial statements noted?	<b>No</b>

Federal Awards:

Type of auditor's report issued on compliance for major programs:	<b>Unmodified</b>
Internal control over financial reporting:	
Material weaknesses identified:	<b>No</b>
Significant deficiencies identified:	<b>Yes</b>
Any audit findings disclosed that are required to be reported in Accordance with Section 200.516(a) of the Uniform Guidance?	<b>Yes</b>

Identification of major federal programs:

<u><b>Name of Program</b></u>	<u><b>CFDA #</b></u>
Department of Agriculture:	
SNAP Cluster	10.551-CL
Department of Transportation:	
Highway Planning and Construction Cluster	20.205-CL
Department of Education:	
Title I Grants to Local Educational Agencies	84.010
Title II Improving Teacher Quality State Grants	84.367
Department of Health and Human Services:	
TANF Cluster	93.558-CL
Foster Care Title IV-E	93.658
Department of Housing and Urban Development:	
Community Development Block Grants/Entitlement Grants	14.218

Dollar threshold to distinguish between Types A and B Programs:	<b>\$1,082,300</b>
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The City of Portsmouth was qualified as a low risk auditee in Accordance with Section 200.520 of the Uniform Guidance?	<b>No</b>
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**2) Findings Related to Financial Statements Reported in Accordance with *Government Auditing Standards***

**None**

**3) Findings and Questioned Costs for Federal Awards**

**Finding:** 2017-001

**Program name:** Foster Care Title IV-E                      **CFDA#:** 93.658

**Federal Awarding Agency:** Department of Health and Human Services

**State Awarding Agency:** Virginia Department of Social Services

**Department:** Portsmouth Department of Social Services

**Compliance Requirement:** Eligibility

**Type of Finding:** Significant Deficiency

**Criteria:**

Foster care files are required to be reviewed on at least an annual basis to ensure that the participants remain eligible to participate in the program.

**Condition:**

While performing our audit procedures to ensure the effectiveness of internal controls over compliance, we identified one Foster Care participant out of our sample of fifteen that did not have their file reviewed on an annual basis.

**Cause:**

Procedures were not in place to ensure participant's file was reviewed on at least an annual basis.

**Effect:**

The City of Portsmouth is potentially at risk of having ineligible individuals participating in the program and at risk of having out-of-date information in participant files.

**Auditor's Recommendation:**

We recommend the City implement a process to ensure that all participant files are reviewed on at least an annual basis.

**Management's Response:**

The Portsmouth Department of Social Services has implemented a spreadsheet to track dates of annual review as well as a monitoring tool to ensure the agency is compliant for adoption and foster care cases.

**Finding:** 2017-002

**Program name:** Title I                **CFDA#:** 84.010

**Federal Awarding Agency:** Department of Education

**State Awarding Agency:** Virginia Department of Education

**Department:** Portsmouth School Board

**Compliance Requirement:** Special Tests and Provisions - Comparability

**Type of Finding:** Nonmaterial Noncompliance

**Criteria:**

An LEA may receive funds under Title I, Part A and the MEP (Title I, Part C) only if State and local funds will be used in participating schools to provide services that, taken as a whole, are at least comparable to services that the LEA is providing in schools not receiving Title I, Part A or MEP funds. Each LEA must develop procedures for complying with the comparability requirements and implement the procedures annually. The LEA must maintain records that are updated biennially documenting compliance with the comparability requirements.

**Condition:**

Portsmouth School Board was unable to produce the documentation to support the numbers used in the Comparability report submitted to the State.

**Cause:**

The grant manager did not have the backup documentation for the report and could not recreate the data in Powerschool or produce the email from the human resources department with the full time equivalents.

**Effect:**

The City of Portsmouth Public Schools is not in compliance with the Comparability requirements in code Section 1118(c) of ESEA (20 U.S.C. 6321(c)).

**Auditor's Recommendation:**

We recommend the School Board implement a process to maintain the documentation for the report prior to submitting it to the State.

**Management's Response:**

The Title I Office and Curriculum and Instruction have implemented a new process for preparation and review of the Comparability Report to ensure Portsmouth Public Schools submits accurate data. Steps in place include developing a methodology in which the Local Education Agency (LEA) will adhere to for the preparation of the Comparability Report, retaining all documentation electronically used to prepare the report, and performing thorough review of the report before submission to VDOE.

**Finding:** 2017-003

**Program name:** Title I                      **CFDA#:** 84.010

**Federal Awarding Agency:** Department of Education

**State Awarding Agency:** Virginia Department of Education

**Department:** Portsmouth School Board

**Compliance Requirement:** Special Tests and Provisions – High School Graduation Rate

**Type of Finding:** Nonmaterial Noncompliance

**Criteria:**

An SEA and its LEAs must report graduation rate data for all public high schools at the school, LEA, and State levels using the 4-year adjusted cohort rate. To remove a student from the cohort, a school or LEA must confirm, in writing, that the student transferred out, emigrated to another country, or is deceased. A student who is retained in grade, enrolls in a GED program, or leaves school for any other reason may not be counted as having transferred out for the purpose of calculating graduation rate and must remain in the adjusted cohort.

**Condition:**

It was noted that there were several students across multiple high schools that either (1) did not have adequate documentation to support the removal of the student from the cohort or (2) were found to have been improperly removed from the rate when the student should not have been removed.

**Cause:**

The guidance counselors did not receive and maintain the appropriate documentation to support the removal of the student and relied on verbal information without support.

**Effect:**

The City of Portsmouth Public Schools is not in compliance with the Annual Report Card, High School Graduation Rate in (Title I, Sections 1111(b)(2) and code section (h) of ESEA (20 USC 6311(b)(2) and (h)); 34 CFR section 200.19(b)).

**Auditor's Recommendation:**

We recommend the School Board implement a process to educate staff on when they are allowed to remove a student as well as procedures to obtain and retain documentation to support the proper removal of students from the cohort rate.

**Management's Response:**

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

- Chief of Schools will ensure student withdrawals, pertaining to transfers, are enrolled in another location. Student record requests from receiving school division will serve as backup documentation.
- VDOE's Student testing identifier (STI) will also be used to determine where student has transferred with regards to the Commonwealth of Virginia.
- Communication with out-of-state schools will be initiated where proof of records requests have not been sought by receiving division.
- State approved code for students who are incarcerated will be used to cross reference.
- Student(s) who is (are) a confirmed drop and who are removed from the cohort will be reclassified appropriately.

**4) Findings and Questioned Costs related to Compliance with State Specifications**

**Finding:** 2017-004

**Department:** Portsmouth Department of Social Services

**Compliance Requirement:** *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia Section 3-15

**Type of Finding:** Nonmaterial Noncompliance

**Prior Year Audit Finding Number:** 2016-003

**Criteria:**

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

**Condition:**

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

**Cause:**

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

**Effect:**

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



**Auditor's Recommendation:**

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

**Management's Response:**

Beginning in December 2017 and continuing each December thereafter, employees' access to each system application will be reviewed with their supervisor.

**Finding:** 2017-005

**Department:** Portsmouth Department of Social Services

**Compliance Requirement:** *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia Section 3-15

**Type of Finding:** Nonmaterial Noncompliance

**Criteria:**

The Code of Virginia, Section 63.2 requires that the Local Department of Social Services maintain Computer Access Request Forms documenting a user's access authority must be available for all users.

**Condition:**

While performing our audit procedures to ensure compliance with Section 3-15 of the *Specifications for Audits of Counties, Cities, and Towns*, we identified two employees in our sample of twenty that had user access to systems that did not match the Computer Access Request Forms.

**Cause:**

Procedures were not in place to ensure employees' access was accurately recorded based on current employee computer access request form files.

**Effect:**

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

**Auditor's Recommendation:**

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

**Management's Response:**

Beginning in December 2017 and each December thereafter, Computer Access Request Forms documenting a user's access authority will be reviewed to ensure that each user has a Computer Access Request Form and that it matches the user's access to the systems.

**Resolution of Prior Year's Findings and Questioned Costs Relating to Government Auditing Standards**

**Finding 2016-001 – Material Weakness over Financial Reporting – Prior Period Adjustment**

**Status:** Corrective action was taken. Finding not repeated in current year.

**Finding 2016-002 – Material Weakness over Financial Reporting – Prior Period Adjustment**

**Status:** Corrective action was taken. Finding not repeated in current year.

**Resolution of Prior Year's Findings and Questioned Costs Relating to Compliance with Commonwealth of Virginia Laws, Regulations, Contracts, and Grants**

**Finding 2016-003 – Nonmaterial Noncompliance – Social Services, Information System Controls**

**Status:** Finding repeated in the current year. See 2017-004. Initial finding occurred in fiscal year ended June 30, 2015 (refer to finding 2015-004).

**Reason for recurrence:** The Local Security Officer for Portsmouth Department of Social Services began in his position in November 2016, and was unable to find the files from the previous Local Security Officer to show evidence of her review. Additionally, he had not yet performed an annual review of system controls.

**Planned corrective action:** Beginning in December 2017 and continuing each December thereafter, employees' access to each system application will be reviewed with their supervisor.

**Finding 2016-004 – Nonmaterial Noncompliance – Economic Interest Disclosure Statements**

**Status:** Corrective action was taken. Finding not repeated in current year.



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