



Comprehensive Annual Financial Report

For The Fiscal Year Ended June 30, 2009



COMPREHENSIVE ANNUAL FINANCIAL REPORT
CITY OF PORTSMOUTH, VIRGINIA

YEAR ENDED JUNE 30, 2009

Prepared by:
DEPARTMENT OF FINANCE



CITY OF PORTSMOUTH, VIRGINIA

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INTRODUCTORY SECTION

CITY OF PORTSMOUTH, VIRGINIA

Principal Officials

June 30, 2009

City Council

Dr. James W. Holley, III Mayor
William E. Moody, Jr. Vice Mayor
Douglas L. Smith
Marlene W. Randall
Stephen E. Heretick
Elizabeth M. Psimas
Charles B. Whitehurst, Sr.

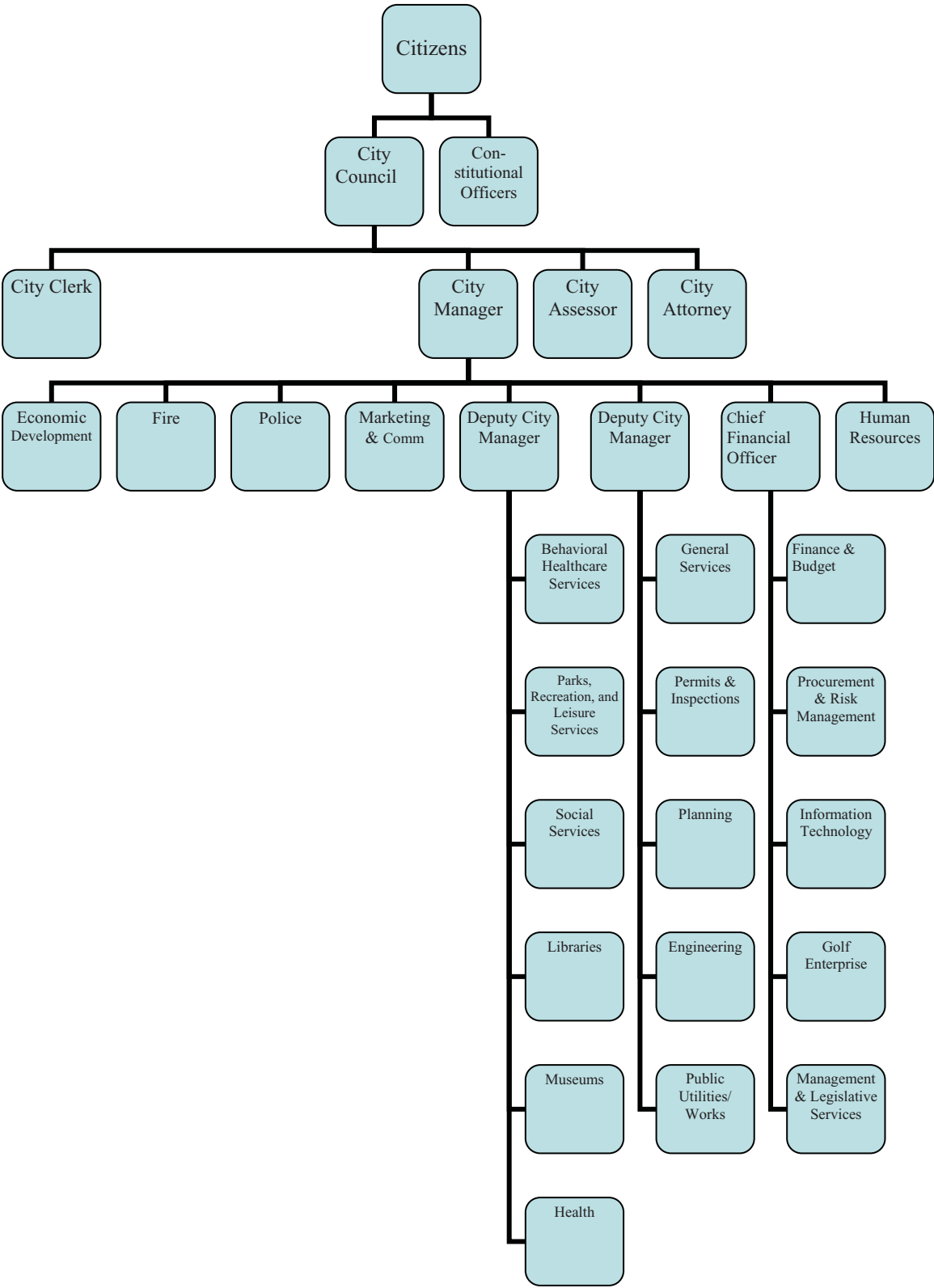
City Council Appointments

Kenneth L. Chandler City Manager
G. Timothy Oksman City Attorney
Alethia C. Bryce City Assessor
Debra Y. White City Clerk

Constitutional Officers

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

Organization of the City of Portsmouth



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Portsmouth
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2008

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



President

Executive Director



December 8, 2009

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

We are pleased to present the Comprehensive Annual Financial Report of the City of Portsmouth, Virginia (the City) for the fiscal year ended June 30, 2009, in accordance with State statutes and City Code. The City's Department of Finance prepared this report in accordance with generally accepted accounting principles as set forth in the pronouncements of the Governmental Accounting Standards Board. City management is responsible for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures. We believe the data as presented is accurate in all material respects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds; and, that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included. Generally accepted accounting principles require that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Portsmouth's MD&A can be found immediately preceding the Basic Financial Statements.

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

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

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

Office of the City Manager

801 Crawford Street • Portsmouth, VA 23704-3822 • (757) 393-8641 • Fax: (757) 393-5241

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

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

City Council Vision: Bold Leadership for the Future

In December 2008, the Portsmouth City Council reassessed and updated a series of long term vision statements that were designed to guide the City into the future, both as a community and an organization. The City is already nationally regarded for educational excellence and economic prosperity; its citizens are proud of themselves, their hometown, and their neighborhoods; Portsmouth City Council is recognized for involving all communities and citizens in its decision-making; Members of the City Council encourage and nurture new ideas from citizens, employees, business leaders, and the faith-based community to embrace new ways to meet the challenges of the future.

Building on that strong record of success, the City Council with its vision statements, sought to define an even more successful and liveable future for the City of Portsmouth. Each of the statements described the City of Portsmouth in the year 2025 and revolved around six key components, as follows:

- ***Bold New Directions***
- ***A Robust and Prospering Economy***
- ***World Class Maritime Center***
- ***Lifelong Learning Community***
- ***Thriving Neighborhoods and a Sense of Community***
- ***Pride of Past, Promise of Future***

The entire City organization has fully embraced these powerful vision principles and put into motion a number of one-time and multi-year projects designed to make our principles a reality. In the following sections each of the vision principles is outlined and Fiscal Year 2009 projects that address it are highlighted.

Bold New Directions

***Vision Principle:** Our visionary leadership is proactive in anticipating the ever-changing world. We boldly embrace the future in ways that inspire and challenge our citizens to seize the opportunities of the new era. As a historical regional partner, the City engages neighboring communities to solve area challenges. We are committed to using innovation and emerging technologies to succeed in the information and knowledge-based society. Portsmouth has become the hometown of choice and a community of international reputation.*

Cross-departmental collaboration is vital in implementing this vision principle, and it is directly responsible for movement on many City projects in furthering this vision principle. During fiscal year 2009, the City opened the new Churchland Branch library. The library will sponsor programs that will promote family literacy and encourage the use of libraries and a love of reading, and will provide a current, balanced and culturally diverse collection of materials and information in various formats, periodically surveying patrons about their wants and needs. The library will continue to provide a stable, easily accessible automation system that will be current with new technology. Named best by the Hampton Roads Association for Commercial Real Estate in the 2009 Excellence in Development Design Awards, the new Churchland Library has received an Award of Merit for its “hub/axial” concept with curved glass walls and a 28 foot-tall glass rotunda.

During fiscal year 2009 the Information Technology Department was honored with the 2008 Virginia Municipal League Award in the category of populations over 90,000 for the Portsmouth Online Legislative Information Tracking and Intergovernmental Communications Software (POLITICS), a legislative tracking system. All such efforts are directed toward improving the efficiency and effectiveness of City operations.

During fiscal year 2009, Council and management pursued plans for the undertaking of a new courts facility. The buildings that presently house the Portsmouth Courts are near or past the end of their useful life, and are inadequate for the public and the judicial system and must be repaired or replaced. A lawsuit was filed by the Commonwealth to compel the City to construct a new courts facility. The City determined that renovation of an existing facility on PortCentre Parkway (previously Court Street) would be a more practical and less costly location for the new courthouse to house all three courts. That decision was ratified after careful and thorough study by the independent Courthouse Advisory Panel, which was appointed pursuant to law in the pending lawsuit. The cost of the new courthouse will not exceed \$77,798,292. The new Courthouse project will be financed by a combination of short-term and long-term general obligation debt. The cost of the project is within the City’s debt policy limit based on current assumptions. This outcome will settle the pending courthouse construction lawsuit and avoid the possibility that the City could be required by court order to develop a courthouse at a different location at a far higher cost.

Portsmouth is one of eight Owner Communities that comprises the regional Southeastern Public Service Authority (SPSA), a public body politic and corporate created and existing under the Virginia Water and Waste Authorities Act. SPSA provides and operates a regional system for the reception, transfer, processing, combusting and disposal of solid waste. In January 2009, the

Virginia Resources Authority (VRA), the entity that held a majority of SPSA's debt, consulted with representatives from the Owner Communities regarding SPSA's untenable financial position. Ultimately SPSA sought to restructure near-term debt service payments in order to provide adequate time to evaluate proposals, options, and alternatives to address its financial condition.

It was deemed advisable and in the best interest of the City to severally guaranty the timely payment of a portion of the principal of and interest on Guaranteed Bonds in the maximum amount of \$26,481,454 pursuant to the Guaranty Agreement between SPSA and the Owner Communities. If in the future SPSA were to be in default, under usual and customary circumstances the City would be called upon to pay only the then current annual or semi-annual debt service (principal and interest), not the entire amount of outstanding debt guaranteed by the City. The City will benefit from SPSA's improved cash flow and financial stability as a result of the debt restructuring. The risk of SPSA default is low given the Commonwealth of Virginia is also pledging its moral obligation through its financial backing of VRA.

A Robust and Prospering Economy

***Vision Principle:** Portsmouth is a financially prosperous community with a superior quality of life. Residents enjoy diverse employment choices from maritime, manufacturing, medical, military, marketing, management and technology-based opportunities. Portsmouth municipal government has created an environment that has embraced a long-term strategic military presence and generated significant private investment. The City is broadly recognized for its quality housing, highly skilled workforce, expanded tax base, and one of the region's lowest real estate tax rates, along with its enviable bond rating.*

The City's degree of prosperity is a tangible and yet an intangible factor. As a tangible factor the growth and development of the City is progressing. The work to expand and enhance industries such as maritime, hospitality, retail and other general categories of commercial development persist. Our prosperity is exhibited through the growth in taxable assets and the creation of jobs that accompany these developments. The slowing economy is a reality that is currently impacting development in the City, but we are redoubling our efforts to continue to create material positive changes. Each new development is accompanied by an opportunity to create new or to sustain jobs, providing a direct benefit to the citizens of the City.

As new taxable assets materialize in the City, additional tangible value and benefits are realized. The business community contributes to the overall quality of life in the City as it provides goods and services needed and desired by the citizens. It also contributes to the revenue stream that supports and sustains City services required to maintain a quality of life and standard of living for our citizens.

A diversity of industries is the goal of development. This will provide a base of business in the City that is sustainable and less susceptible to the peaks and valleys of national and regional economic conditions. The pursuit and development of new businesses in the City is ongoing as is the goal to develop "A Robust and Prospering Economy".

General Fund Performance

The growth in the City's tax base is a significant factor of economic and fiscal health. General property and other local taxes account for more than 76% of General Fund revenues. The assessed value of real property rose by \$933 million, or 14% during 2009. The increase in assessment values is an extremely positive indicator in evaluating the health of Portsmouth's local economy and allowed the City Council to reduce the real estate tax rate by five from \$1.26 to \$1.21 per \$100 of assessed valuation.

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 undesignated fund balance is an indication of financial flexibility and fiscal strength. The City's undesignated fund balance at June 30, 2009 represents 15.25% of total revenues and transfers, which meets the City's adopted financial policy of 15%.

The following table presents the City's General Fund ratio of undesignated fund balance to total revenues and operating transfers for the last five fiscal years:

Fiscal Year	General Fund Undesignated Fund Balance	General Fund Total Revenues & Operating Transfers	Ratio
2009	\$ 32,533,819	\$ 213,390,123	15.25%
2008	26,302,440	216,638,631	12.14%
2007	35,399,112	203,773,001	17.37%
2006	35,738,764	193,183,661	18.50%
2005	25,269,657	173,571,495	14.56%

Cash Management

The City uses a pooled cash concept to allow greater investment flexibility and maximize its return on investment. The City pools cash from all funds, except those restricted for specific purposes or managed by fiscal agents, for investment purposes. The City invests any temporarily idle cash in overnight repurchase agreements and other investments ranging from one to thirty days to maturity. During fiscal year 2009, the City was able to manage its current resources to properly meet its operating cash requirements without issuing Revenue Anticipation Notes.

The City's ability to manage cash and to present a balanced budget was due to Council's willingness to accept the following recommendations from the Administration: right-sizing the City's workforce through implementation of the Management Efficiency Study recommendations; restructuring of outstanding debt to achieve cash-flow relief; offering retirement incentives to further reduce the workforce; elimination of certain vacant positions; 11% across-the-board reductions for all departments and agencies other than public safety and public schools; elimination of take-home vehicles for out-of-City employees and non-essential personnel; and, reduction of work-hours or complete elimination of certain of part-time positions. In addition, City Council required 5% reductions to certain programs such as Economic Development, support to the Virginia Sports Hall of Fame, and police overtime.

During fiscal year 2009, the City's Chief Financial Officer continued to work with Davenport and company, the City's Financial Advisors, to develop a cash flow/forecasting model. Council officially adopted a series of financial policies that will serve to guide future decision-making.

One can find additional information on the City's financial status in the Management's Discussion and Analysis section of this report.

World Class Maritime Center

***Vision Principle:** As a historic waterfront city, Portsmouth is strategically located in the center of the eastern seaboard on the world's largest natural harbor at mile marker "0" on the intra-coastal waterway. The City boasts a world-class, inter-modal transportation system supporting public and private marine terminals as well as thriving, diverse military facilities. Our waterfront features a diverse, unique mixture of recreational boating, marinas, tours, and maritime support industries. Portsmouth is the gateway to international shipping with a global reach.*

The eighth largest economic development project in the history of the Commonwealth, more specifically the operating entity of APM Terminals of Virginia, Inc. solidifies the City's position in the world and industry of maritime. This entity has brought national and international attention to the City from various aspects of the maritime industry. As this entity's presence in the City represents a significant achievement and advancement toward the City's status as a "World Class Maritime Center", it is serving as a catalyst to attract other industry related entities. Additionally, the Virginia Port Authority's future Craney Island development and expansion will further elevate the City's maritime status.

Lifelong Learning Community

***Vision Principle:** Education is the foundation of the City's social, political, and economic well-being and is the top priority of the City. Through collaborative efforts of City Council, School Board, and the private sector, Portsmouth has exceptional public and private schools. This includes learning opportunities for early childhood, primary and secondary education, higher education, career technical training, and workforce development. The City's preferred educational system has made Portsmouth a top choice for employers and families.*

The City desires to develop educational elements that will enhance the learning environment for all ages. As much has been done to advance the public school environment over the past several years, a partial shift in focus to higher education components is now ensuing.

Three primary new developments in the City to address this continuing direction are the ODU Tri-Cities Education Center, the Fred W. Beazley Portsmouth Campus of Tidewater Community College, and the Simonsdale Elementary School project.

The Tri-Cities Center was a collective vision and project between the private, public and education sectors. An extension of Old Dominion University located in the western area of the

City, this venue is already producing positive results as it currently hosts a student population in excess of 700 students.

The City gifted 30 acres to the Commonwealth of Virginia State Board of Community Colleges to facilitate the development of the Tidewater Community College Campus. Construction of the 184,000 square foot campus continues to progress. A targeted opening date of January 2010 will further enhance and fulfill the vision of a “Lifelong Learning Community”.

The Simonsdale Elementary School project will replace a 33,300 sq. ft. (325 student capacity) school built in 1946 with an 80,000 sq. ft. (700 student capacity) building which will be LEED certified. The new building will permit the consolidation of Simonsdale and Olive Branch elementary schools, and the conversion of Olive Branch into a Pre-Kindergarten center. This project has been made affordable by the Federal American Recovery and Reinvestment Act of 2009.

The following represents the City’s history of educational funding over the last five fiscal years. With education set as City Council’s number one priority, the City continues to make great strides in this vision area as evidenced by the commitment made to increase educational funding.

Fiscal Year	Operating Transfers to School Board	Education Debt Service Payments	Total Education Funding	Net Change
2009	\$ 49,818,483	2,819,470	52,637,953	(92,357)
2008	49,845,490	2,884,820	52,730,310	7,613,872
2007	42,683,991	2,432,447	45,116,438	6,002,863
2006	36,670,336	2,443,239	39,113,575	5,299,464
2005	31,352,585	2,461,526	33,814,111	2,386,869

Thriving Neighborhoods and a Sense of Community

Vision Principle: Portsmouth citizens are encouraged to become active participants in the process of creating their own quality of life, to ensure community safety and to elevate the livability of their own neighborhoods, creating true communities of choice for the 21st century. Citizens work together with local government to fully utilize human and community assets, thus producing a state-of-the-art environment that includes excellent schools, public facilities, parks, green spaces, gateways, and roadway corridors. Our neighborhoods have been transformed into communities that promote and celebrate diversity, equity, and the inclusiveness of all citizens.

Portsmouth’s rich cultural diversity is celebrated throughout the year in festivals, concerts, and ceremonies. The City’s exceptional facilities showcase the visual and performing arts. Portsmouth’s seasonal programs and entertainment celebrate its people, history and future.

Portsmouth is recognized as a leader in providing learning opportunities to students and adults in conjunction with world-class festivals, performances, and exhibitions for the citizens of the region.

As part of our commitment to the communities, the City is renovating the Children's Museum of Virginia. The enhancements to the Children's Museum will change the museum's community presence. As part of the enhancements, the main entrance will be moved with a clearly identifiable façade with new exhibits showcasing for the community and tourist alike to enjoy.

Victory Village represents the City's first mixed-use development initiative. It is being developed as a high-quality, pedestrian-oriented environment and will provide the backdrop for a rich and vital urban experience for employers, workers, residents, students and visitors alike. This new development is being constructed on a 100-acre site in the Victory area of the City. The village will include office, residential, retail, hospitality and education venues. During fiscal year 2009, construction began on the education component, the Fred W. Beazley Portsmouth Campus of Tidewater Community College. Victory Village is expected to have a minimum of 1,250,000 sq. ft. of new facilities. Construction of the road way for the first phase of Victory Village began in fiscal year 2009.

Pride of Past, Promise of Future

***Vision Principle:** Portsmouth's tomorrows are found in the footsteps of the richest traditions of America, from the earliest days of Colonial Virginia through the victories of equality, dignity, and diversity. As guardian of the collective heritage of many people, we have become one. The Portsmouth family preserves the proudest traditions of the past as the compass for our future, drawing the grace of our spirit into the nobility of what we have become.*

We implement this vision principle daily. We commemorate Portsmouth's exciting historical diversity throughout the year in museum programs, library programs, festivals, concerts, and other ceremonies. Seasonal programs and entertainment punctuate the year, drawing neighbors, families, and guests from throughout the City, the region, and the world to celebrate Portsmouth's people, history, and future. Portsmouth is also proud to be the home of the nation's oldest annually held parade, the Portsmouth Memorial Day Parade, which has been a tradition in the City since 1884.

Independent Audit

State law requires that a certified public accountant selected by the City Council audit the City's annual financial statements. Cherry, Bekaert, and Holland, L.L.P., Certified Public Accountants performed this annual audit of the financial records and transactions of all funds, component units, and departments of the City for the fiscal year ending June 30, 2009.

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

Certificate of Achievement

The Government Finance Officers Association (GFOA) awarded to the City of Portsmouth a Certificate of Achievement for Excellence in Financial Reporting for the City's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2008. The Certificate of

Achievement is a prestigious national award that recognizes conformance with the highest standards for the preparation of a state and local government CAFR.

A governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards to win the GFOA's Certificate of Achievement. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. The City of Portsmouth has received a Certificate of Achievement for the last thirty-two consecutive years (fiscal years 1977 through 2008). We believe our current CAFR continues to conform to the requirements of the Certificate of Achievement Program; therefore, we are submitting it to the GFOA.

Acknowledgments

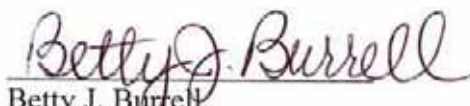
We sincerely appreciate the City Council's support and cooperation in planning and conducting the financial operations of the City.

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

Respectfully submitted,



Kenneth L. Chandler,
City Manager



Betty J. Burrell,
Chief Financial Officer



FINANCIAL SECTION





REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the 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, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Specifications for Audits of Counties, Cities and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2009, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the other required supplementary information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining nonmajor fund financial statements, budgetary comparison schedules, statistical section, as well as the accompanying schedule of expenditures of federal awards as required by the US Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements, budgetary comparison schedules, and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section of this report have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

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

Virginia Beach, Virginia
December 7, 2009

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, 2009. The MD&A should be read in conjunction with the transmittal letter found in the Introductory Section of this report and the City's financial statements that follow this section.

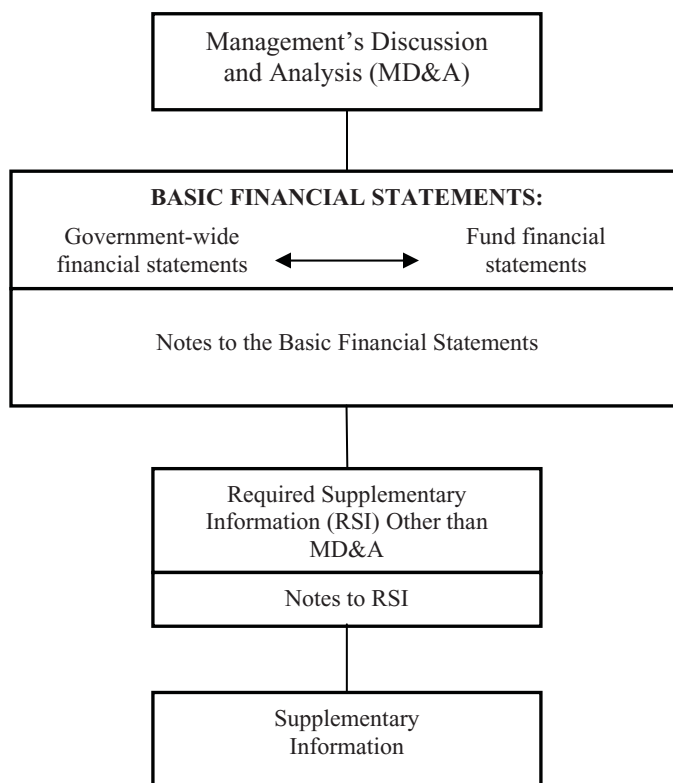
FINANCIAL HIGHLIGHTS

- ❖ The City's net assets totaled \$365 million at June 30, 2009, increasing \$4 million over June 30, 2008.
- ❖ The City's unrestricted net assets totaled \$57 million, which are comprised of \$27 million resulting from governmental activities and \$30 million resulting from business-type activities.
- ❖ Government-wide current assets totaled \$172 million, of which \$118 million was attributable to governmental activities and \$54 million was attributable to business-type activities; while current liabilities totaled \$44 million, with \$34 million from governmental activities and \$10 million from business-type activities. The ratio of current assets to current liabilities was 3.9:1 overall – 3.5:1 for governmental activities and 5.2:1 for business-type activities.
- ❖ The City's long-term indebtedness at June 30, 2009 (including the portions due in fiscal year 2010) totaled \$405 million, for an increase of \$46 million from the prior year. The long-term indebtedness includes landfill closure and postclosure care of \$5 million and compensated absences of \$8.3 million.
- ❖ The City's general revenues and transfers of \$166 million were \$4 million more than expenses, net of program revenues, of \$142 million. 94% percent of general revenues and transfers were funded through taxes.
- ❖ The General Fund undesignated fund balance increased 21% during the current year to \$33 million from \$26 million in the prior year.
- ❖ Total net assets for the Public Utility Fund rose 4% from \$133 million at June 30, 2008 to \$138 million at June 30, 2009. This \$5 million increase resulted from net income before transfers and capital contributions of \$13 million.

FINANCIAL SECTION OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

Components of the Financial Section



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

Government-wide Financial Statements

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

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

In the Statement of Net Assets and the Statement of Activities, the City is divided into the following:

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

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

Component units - The City includes 3 other separate legal entities in its report - the School Board, the EDA, and the PPIC, all discretely presented. Although legally separate, these "component units" are important in that the City is financially accountable for providing operating and capital funding to them.

Fund Financial Statements

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

The City has three types of funds:

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

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

In fact, the City's enterprise funds (one type of proprietary fund) are the same as business-type activities, but the fund financial statements provide more detailed and additional information, such as cash flows. The City has 2 major enterprise funds: the Public Utility Fund and the Parking Authority, a blended component unit.

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

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

FINANCIAL ANALYSIS OF THE CITY ENTITY

Statements of Net Assets

The following table reflects the condensed Statements of Net Assets:

Table 1						
Summary of Statements of Net Assets						
As of June 30, 2009 and 2008 (in millions)						
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 120	95	55	56	175	151
Capital assets	399	400	213	209	612	609
Total assets	\$ 519	495	268	265	787	760
Current and other liabilities	\$ 34	40	11	10	45	50
Long-term liabilities	269	238	109	112	378	350
Total liabilities	303	278	120	122	423	400
Net assets:						
Invested in capital assets, net of related debt	176	187	114	112	290	299
Restricted	13	5	4	4	17	9
Unrestricted	27	25	30	27	57	52
Total net assets	216	217	148	143	364	360
Total liabilities and net assets	\$ 519	495	268	265	787	760

Net assets (assets in excess of liabilities) may serve over time as a useful indicator of a government's financial position. In the case of the City of Portsmouth, assets exceeded liabilities by \$364 million at June 30, 2009. By far, the largest portion of the City's net assets, 80%, reflects its investment in capital assets (land, buildings, infrastructure, etc.) net of accumulated depreciation and related debt used to acquire those assets. The City uses these assets to provide services to its citizens and, consequently, these assets are not available for future spending. The resources needed to repay the debt related to these capital assets must be provided from other sources. Approximately 4% of the City's net assets are currently subject to various external restrictions. The remaining balance of unrestricted net assets (\$57 million or 16%) may be used to meet the City's ongoing obligations to citizens and creditors.

The net assets of the City's governmental activities decreased by \$1 million from \$217 million to \$216 million, as reflected in the Statement of Activities.

The net assets of the City's business-type activities increased by \$5 million from \$143 million to \$148 million, as reflected in the Statement of Activities.

Statements of Activities

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

Table 2						
Summary of Changes in Net Assets						
Years ended June 30, 2009 and 2008 (in millions)						
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Revenues						
Program revenues:						
Charges for services	\$ 12	13	50	49	62	62
Operating grants and contributions	79	80	1	1	80	81
Capital grants and contributions	1	5	-	-	1	5
General revenues:						
Taxes	161	151	-	-	161	151
Other	4	5	1	3	5	8
Total revenues	257	254	52	53	309	307
Expenses						
General government	26	23	-	-	26	23
Judicial	22	21	-	-	22	21
Public safety	60	59	-	-	60	59
Public works	30	31	-	-	30	31
Health and welfare	40	41	-	-	40	41
Parks, recreational, and cultural	13	13	-	-	13	13
Community development	9	10	-	-	9	10
Education	54	57	-	-	54	57
Public utility	-	-	23	21	23	21
Golf	-	-	2	2	2	2
Parking Authority	-	-	2	2	2	2
Waste management	-	-	12	12	12	12
Interest on long-term debt	11	12	-	-	11	12
Total expenses	265	267	39	37	304	304
Excess (deficiency) before transfers and special item	(8)	(13)	13	16	5	3
Transfers	7	9	(7)	(10)	-	-
Special item	-	-	-	-	-	-
Change in net assets	(1)	(4)	6	7	5	3
Net assets, beginning of year	217	221	143	136	360	357
Net assets, end of year	\$ 216	217	149	143	365	360

Governmental Activities

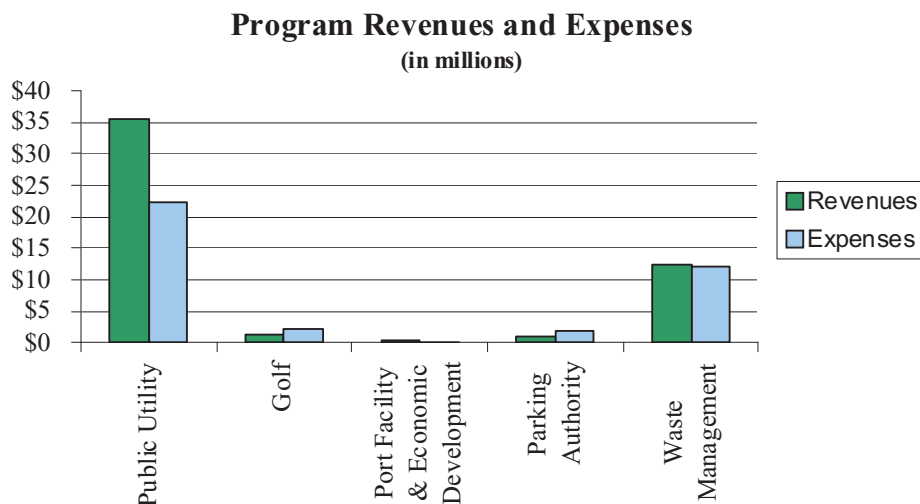
The City's total revenues from governmental activities were \$257 million for the fiscal year ended June 30, 2009, which represents an increase of 3 million from the prior year. The change is due in part to the increase in the assessment of real property values. The largest source of revenue is taxes, which represents 63% of the total and is comprised of property taxes, other local taxes, and utility taxes. The City's assessed real property value increased 16% from the prior year due in part to new commercial and residential construction.

Program revenues are derived from the program itself and reduce the cost of the function to the City. Total program revenues for governmental activities were \$91 million. The largest component of program revenues for governmental activities is operating grants and contributions totaling \$79 million, representing 87% of total program revenues for governmental activities.

For the fiscal year ended June 30, 2009, expenses for the City's governmental activities totaled \$265 million. The City's expenses cover a wide range of services, with 23% related to public safety, 20% related to education, and 15% related to health and welfare.

Business-Type Activities

The total net assets for business-type activities increased by \$6 million, which is due primarily to the \$6 million increase in net assets for public utility activities. Charges for services, including water and sewer utility fees, waste management fees, parking fees, and golf fees, represent 98% of total revenues for business-type activities. The following graph compares the program revenues and expenses of the business-type activities.



FINANCIAL ANALYSIS OF THE CITY FUNDS

Governmental Funds

The focus of the City's governmental funds is to provide information on current inflows, outflows, and balances of available resources. Such information is useful in assessing the City's financing requirements. For the fiscal year ended June 30, 2009, the governmental funds reflected a combined fund balance of \$73 million. The General Fund's fund balance totaled \$36 million at June 30, 2009, an increase of \$4 million from the prior year. The General Fund's undesignated fund balance totaled \$33 million at June 30, 2009, which increased by \$7 million from the prior year's undesignated fund balance of \$26 million.

The City spent \$21 million in the Capital Improvements Fund to fund major projects, including Holiday Inn site redevelopment, Tidewater Community College infrastructure, Parkview Elementary School, drainage facility

repairs, and the Churchland Library. The Capital Improvements Fund has a \$28 million fund balance at June 30, 2009, all of which is reserved or designated for future capital project costs.

General Fund Budgetary Highlights

General Fund Budgetary Highlights			
General Fund			
Fiscal Year Ended June 30, 2009 (in millions)			
	Original Budget	Final Budget	Actual
Revenues and Transfers			
Taxes	\$ 160	160	161
Intergovernmental	39	39	37
Other financing sources	1	1	47
Transfer	8	11	10
Other	17	17	14
Total	\$ 225	228	269
Expenditures, transfers, and other financing uses			
Expenditures	\$ 211	215	211
Other financing uses	-	-	46
Transfers	14	13	8
Total	\$ 225	228	265

Actual expenditures in the above chart are shown on the budgetary basis, which differs from the generally accepted accounting principle basis (see Schedule I-3). The General Fund had a \$4 million dollar increase in fund balance.

Actual General Fund revenues and transfers from other funds were above the final budgeted revenues by \$41 million during fiscal year 2009. This increase was primarily a result of refunding bonds issued of \$47 million which were not budgeted. Actual General Fund expenditures were \$4 million less than the final budget. Other financing uses totaling \$46 million, which were also not budgeted, are included in the total actual expenditures, transfers and other financing sources and uses totaling \$265 million.

Proprietary Funds

Total net assets of the Public Utility Fund increased \$5 million during fiscal year 2009 from \$133 million to \$138 million. Of the total net assets, \$105 million is invested in capital assets, net of related debt. Unrestricted net assets totaled \$33 million, an increase of \$3 million from the prior year. The increase in net assets is due primarily to the fund's net income before transfers and capital contributions of \$13 million.

Total net assets of the Parking Authority, a blended component unit, at June 30, 2009 remained the same as the prior year in the amount of \$847 thousand. Of the total net assets, \$1.3 million is invested in capital assets, net of related debt, and there is an unrestricted net assets deficit of \$502 thousand.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2009, the City had invested \$612 million in a broad range of capital assets, including vehicles and equipment, buildings, park and golf facilities, roads, bridges, and water and sewer lines, as reflected in the following schedule:

Capital Assets (net of depreciation)			
As of June 30, 2009 (in millions)			
	Governmental Activities	Business-Type Activities	Total Primary Government
Land	\$ 17	15	32
Site improvements	2	-	2
Infrastructure	141	-	141
Buildings	145	13	158
Improvements other than buildings	-	109	109
Machinery, furniture, and equipment	15	10	25
Construction in progress	79	66	145
Total	\$ 399	213	612

Major capital asset activity for the fiscal year ended June 30, 2009 included:

- Capital asset additions for governmental activities totaled \$52 million, including \$27 million for buildings, \$17 million for construction in progress and \$4 million from capital lease proceeds.
- Capital asset additions for business-type activities totaled \$9 million, including \$7 million for construction in progress.
- Depreciation expense totaled \$21 million and \$6 million for governmental and business-type activities, respectively.
- Construction in progress totaled \$79 million for governmental activities at June 30, 2009 (including certain school projects under construction).
- Construction in progress totaled \$66 million for business-type activities at June 30, 2009.

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

The City's fiscal year 2010 capital budget estimates spending another \$43 million for capital projects. The major projects include \$20 million for water and sewer improvements, \$8 million for drainage and sewer improvement, \$5 million for industrial and economic development, \$5 million for municipal facilities, and \$5 million for leisure services.

Long-term Debt

At year-end, the City had \$356 million in outstanding debt; excluding landfill closure and post closure care costs, and compensated absences. General obligation and revenue bonds outstanding represented \$303 million of this total, as reflected in the following schedule:

Outstanding Debt							
As of June 30, 2009 and 2008 (in millions)							
	Governmental Activities		Business-Type Activities		Total Primary Government		
	2009	2008	2009	2008	2009	2008	
General obligation and revenue bonds	\$ 200	\$ 203	103	108	303	311	
General obligation notes payable	-	7	-	-	-	7	
Obligations under capital leases	17	18	3	2	20	20	
Bond Anticipation Note	30	-	-	-	30	-	
Literary loans	3	3	-	-	3	3	
Total	\$ 250	\$ 231	106	110	356	341	

On December 18, 2008, the City issued a \$29,935,000 General Obligation Anticipation Note to provide interim financing for various capital projects. The effective interest rate of the note is 3.8%. Interest on the note is payable semi-annually beginning June 18, 2009, and each December 18 and June 18 thereafter until final maturity.

On March 18, 2009, the City issued \$6,450,000 of General Obligation Refunding Bonds, Series 2009A with a discount of \$52,502. The proceeds were used to advance refund the Series 1997A, Series 2001A and Series 2003 bonds.

On March 18, 2009, the City issued \$13,580,000 of General Obligation Refunding Bonds, Series 2009B with a premium of \$509,295. The proceeds were used to advance refund Series 2004 VML/VaCO lease revenue bonds, Series 2005A bonds, including a portion related to the Golf and Parking funds, Series 2006A and Series 2006C bonds.

On March 18, 2009, the City issued \$16,770,000 of Taxable General Obligation Refunding Bonds, Series 2009C with a discount of \$299,679. The proceeds were used to advance refund the Series 1997C, Series 2005C and Series 2006B Taxable G.O. and Refunding bonds.

On June 10, 2009, the City issued \$12,075,000 of General Obligation Refunding Bonds, Series 2009D with a premium of \$569,413. The proceeds were used to advance refund Series 1997A and Series 2001A General Obligation and Refunding Bonds and Series 2001B General Obligation Utility and Refunding Bonds.

The City also acquired \$3,583,012 in new equipment through capital leases during the year. The City maintained a Master Lease agreement with Banc of America Public Capital Corp to facilitate these lease transactions. The lease agreement expired June 30, 2009 and provided for a total four-year spending cap of \$24,000,000.

The state limits the amount of general obligation debt the City can legally issue to ten percent of the assessed value of real property within the City. The City's outstanding debt, not all of which is applicable to the state limits, is significantly below this limit - which is currently \$759 million.

The City maintains bond ratings on general obligation debt of "A1", "AA-," and "AA-," from Moody's Investors Service, Standard & Poor's Public Finance Ratings 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 2008 was 8.4%, which compares to the national unemployment rate of 9.5% for June 2009. Per capita income as of December 31, 2007 was \$30,029, an increase of 4% over the previous year.

FINANCIAL INQUIRIES

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



Basic Financial Statements

CITY OF PORTSMOUTH, VIRGINIA

Exhibit A

Statement of Net Assets

June 30, 2009

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Assets:				
Current assets:				
Cash and temporary investments (note 3)	\$ 73,272,494	35,186,917	108,459,411	43,092,854
Cash with fiscal agent (note 3)	-	-	-	1,051,045
Restricted cash and temporary investments (note 3)	5,265,892	14,787,699	20,053,591	-
Receivables (net of allowance for uncollectibles):				
Taxes	12,849,274	-	12,849,274	-
Accounts	5,476,920	7,191,813	12,668,733	191,155
Other	-	-	-	11,033
Internal balances (note 10)	3,788,772	(3,788,772)	-	-
Due from primary government (note 10)	-	-	-	341,265
Due from component units (note 10)	100,318	-	100,318	-
Due from other governments (note 11)	16,452,651	-	16,452,651	4,477,546
Prepaid items	40,204	-	40,204	-
Inventory of supplies	761,017	647,366	1,408,383	1,042,975
Notes receivable (note 12)	4,152	-	4,152	-
Total current assets	118,011,694	54,025,023	172,036,717	50,207,873
Noncurrent assets:				
Other assets	2,580,817	943,723	3,524,540	692,670
Property held for resale	-	-	-	11,687,114
Capital assets (note 4):				
Land	17,430,801	15,348,574	32,779,375	7,352,453
Site improvements	2,239,871	-	2,239,871	-
Infrastructure	478,875,822	-	478,875,822	-
Buildings	209,873,365	25,469,577	235,342,942	68,275,227
Improvements other than buildings	-	172,607,621	172,607,621	-
Machinery, furniture, and equipment	43,470,480	21,039,027	64,509,507	19,797,348
Construction in progress	79,256,192	66,248,557	145,504,749	4,684,503
Total capital assets	831,146,531	300,713,356	1,131,859,887	100,109,531
Less accumulated depreciation	(432,211,845)	(87,361,678)	(519,573,523)	(39,581,079)
Total capital assets, net	398,934,686	213,351,678	612,286,364	60,528,452
Total noncurrent assets	401,515,503	214,295,401	615,810,904	72,908,236
Total assets	\$ 519,527,197	268,320,424	787,847,621	123,116,109

See accompanying notes to basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA

Exhibit A, Continued

Statement of Net Assets

June 30, 2009

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Liabilities:				
Current liabilities:				
Accounts payable	\$ 8,163,294	1,654,736	9,818,030	16,370,000
Construction payable	-	220,964	220,964	-
Accrued interest payable	3,573,981	1,750,021	5,324,002	259,756
Deposits	221,160	713,129	934,289	3,525
Due to other governments (note 11)	634,895	-	634,895	-
Due to primary government (note 10)	-	-	-	100,318
Due to component units (note 10)	341,264	-	341,264	-
Unearned revenues (note 12)	4,152	48,391	52,543	-
Claims payable (note 15)	4,297,677	-	4,297,677	945,005
Compensated absences (note 5)	5,016,645	782,712	5,799,357	1,770,000
General obligation and revenue bonds, net (note 5)	8,213,933	4,363,142	12,577,075	-
Obligations under capital leases (notes 5 and 6)	3,290,608	920,090	4,210,698	571,337
Literary loans (note 5)	375,000	-	375,000	-
Total current liabilities	34,132,609	10,453,185	44,585,794	20,019,941
Noncurrent liabilities:				
Claims payable (note 15)	11,388,196	-	11,388,196	1,537,836
Arbitrage liability	86,196	71,638	157,834	-
Other post employment benefit obligation (note 8)	18,048,975	2,414,081	20,463,056	-
Compensated absences (note 5)	2,519,360	-	2,519,360	2,944,203
General obligation and revenue bonds, net (note 5)	191,518,783	99,090,444	290,609,227	-
Obligations under capital leases (notes 5 and 6)	13,474,218	2,208,079	15,682,297	6,503,228
Bond anticipation notes (note 5)	29,935,000	-	29,935,000	-
Landfill closure and postclosure care (notes 5 and 13)	-	5,481,808	5,481,808	-
Literary loans (note 5)	2,250,000	-	2,250,000	-
Net pension obligation (notes 5 and 8)	-	-	-	113,194
Total noncurrent liabilities	269,220,728	109,266,050	378,486,778	11,098,461
Total liabilities	303,353,337	119,719,235	423,072,572	31,118,402
Net assets:				
Invested in capital assets, net of related debt	176,415,840	114,270,026	290,685,866	53,453,887
Restricted for:				
Capital projects	6,540,701	4,117,658	10,658,359	829,897
Behavioral health services	1,982,807	-	1,982,807	-
Grants and donations	2,913,566	-	2,913,566	-
Other purposes:				
Expendable	1,013	-	1,013	617,670
Nonexpendable	1,000,000	-	1,000,000	-
Unrestricted	27,319,933	30,213,505	57,533,438	37,096,253
Total net assets	216,173,860	148,601,189	364,775,049	91,997,707
Total liabilities and net assets	\$ 519,527,197	268,320,424	787,847,621	123,116,109

See accompanying notes to basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA

Exhibit B

Statement of Activities

Year ended June 30, 2009

Function/Program Activities	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Component Units
Primary Government:	Expenses				Total	
Governmental:						
General government	\$ 26,462,771	2,146,434	-	(11,534,866)	(11,534,866)	-
Judicial	22,068,062	224,907	-	(11,890,330)	(11,890,330)	-
Public safety	59,957,146	1,298,471	-	(48,794,279)	(48,794,279)	-
Public works	29,535,176	5,637,793	-	(14,392,250)	(14,392,250)	-
Health and welfare	40,267,351	431,309	-	(7,512,160)	(7,512,160)	-
Parks, recreational and cultural	13,000,940	1,286,155	-	(9,868,859)	(9,868,859)	-
Community development	9,306,525	3,105,240	500,000	(5,209,444)	(5,209,444)	-
Education	53,881,305	367,000	-	(53,514,305)	(53,514,305)	-
Interest on long-term debt	10,573,858	-	-	(10,573,858)	(10,573,858)	-
Total governmental activities	265,113,498	11,810,256	500,000	(173,350,715)	(173,350,715)	-
Business-Type:						
Public Utility	22,589,478	35,337,953	118,438	-	12,866,913	-
Golf	2,400,930	1,363,934	-	-	(1,036,996)	-
Port Facility and Economic Development	86,922	-	-	-	(86,922)	-
Parking Authority	1,644,011	1,079,056	-	-	(564,955)	-
Waste Management	12,314,318	12,332,045	-	-	697,727	-
Total business-type activities	39,035,659	50,112,988	118,438	-	11,875,767	-
Total primary government	304,149,157	61,923,244	618,438	(173,350,715)	(161,474,948)	-
Component Units:						
School Board	174,376,052	3,289,559	1,455,056	-	-	(118,135,089)
Economic Development Authority	3,458,385	143,656	-	-	-	(2,227,397)
Port and Industrial Commission	124,826	6,020	-	-	-	(118,806)
Total component units	177,959,263	3,439,235	1,455,056	-	-	(120,481,292)
General Revenues:						
Taxes:						
General property taxes				\$ 117,984,153	117,984,153	-
Business and occupational license taxes				5,797,880	5,797,880	-
Restaurant food taxes				6,225,392	6,225,392	-
Sales and Use Tax				7,147,057	7,147,057	-
Telecommunications				9,343,627	9,343,627	-
Other local taxes				7,192,051	7,192,051	-
Utility taxes				7,676,029	7,676,029	-
Grants and contributions not restricted to specific programs				-	-	73,743,711
Investment earnings				693,008	610,492	523,476
Net gain on disposal of capital assets				-	4,176	-
Miscellaneous				2,424,036	667,679	1,607,268
Payment from primary government				-	-	52,203,059
Transfers				7,382,948	(7,382,948)	-
Total general revenues and transfers				171,866,181	(6,100,601)	128,077,514
Change in net assets				(1,484,534)	5,775,166	7,596,222
Net assets, beginning of year				217,658,394	142,826,023	360,484,417
Net assets, end of year				\$ 216,173,860	148,601,189	364,775,049

See accompanying notes to basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA

Exhibit C

Balance Sheet

Governmental Funds

June 30, 2009

	General	Capital Improvements	Other Governmental Funds	Total
Assets:				
Cash and temporary investments (note 3)	\$ 13,318,364	23,721,383	8,910,743	45,950,490
Restricted cash and temporary investments (note 3)	-	5,265,892	-	5,265,892
Receivables (net of allowance for uncollectibles):				
Taxes	12,849,274	-	-	12,849,274
Accounts	4,910,764	9,092	302,298	5,222,154
Due from other funds (note 10)	2,781,110	-	-	2,781,110
Due from component units (note 10)	100,318	-	-	100,318
Due from other governments (note 11)	12,066,883	-	4,385,768	16,452,651
Prepaid items	37,981	-	2,223	40,204
Inventory of supplies	76,610	-	-	76,610
Advances receivable	3,169,938	-	-	3,169,938
Notes receivable (note 12)	-	4,152	-	4,152
Total assets	\$ 49,311,242	29,000,519	13,601,032	91,912,793
Liabilities:				
Accounts payable	\$ 5,673,094	638,107	1,211,489	7,522,690
Deposits	18,684	202,476	-	221,160
Due to other governments (note 11)	-	-	634,895	634,895
Due to other funds (note 10)	-	-	2,162,276	2,162,276
Due to component units (note 10)	-	341,264	-	341,264
Deferred revenues (note 12)	7,764,250	4,152	28,484	7,796,886
Total liabilities	13,456,028	1,185,999	4,037,144	18,679,171
Fund balances:				
Reserved for encumbrances (notes 2 and 4)	-	6,361,702	1,447,483	7,809,185
Reserved for advances (note 2)	3,169,938	-	-	3,169,938
Reserved for revenue maximization (note 2)	-	-	204,358	204,358
Reserved for inventory of supplies (note 2)	76,610	-	-	76,610
Reserved for cemetery care (note 2)	-	-	1,000,000	1,000,000
Unreserved:				
Designated for subsequent year's expenditures	74,847	21,452,818	-	21,527,665
Designated for subsequent year's expenditures - Special Revenue Funds	-	-	330,501	330,501
Undesignated	32,533,819	-	5,888,874	38,422,693
Undesignated - Capital Projects Funds	-	-	298,647	298,647
Undesignated - Permanent Fund	-	-	394,025	394,025
Total fund balances	35,855,214	27,814,520	9,563,888	73,233,622
Total liabilities and fund balances	\$ 49,311,242	29,000,519	13,601,032	91,912,793

See accompanying notes to basic financial statements.

(continued)

CITY OF PORTSMOUTH, VIRGINIA

Exhibit C, Continued

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

Governmental Funds

June 30, 2009

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

Total fund balances for governmental funds		\$ 73,233,622
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:		
Land	17,415,753	
Site improvements	2,239,871	
Infrastructure	478,875,822	
Buildings	209,180,282	
Machinery, furniture and equipment	19,843,882	
Construction in progress	79,256,192	
Accumulated depreciation	(417,758,047)	389,053,755
Other assets (bond issuance costs) used in governmental activities are not financial resources and therefore are not reported in the funds.		2,556,447
Some of the City's taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and therefore are reported as deferred revenue in the funds.		
		7,792,734
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds. Those liabilities consist of:		
Compensated absences	(7,137,378)	
Net pension asset	24,370	
Other post employment benefit obligation	(17,235,345)	
Accrued interest payable	(3,573,981)	
General obligation bonds	(199,732,716)	
Obligations under capital leases	(10,435,240)	
Bond anticipation notes	(29,935,000)	
Arbitrage liability	(86,197)	
Literary loans	(2,625,000)	(270,736,487)
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.		
		14,273,789
Net assets of governmental activities		\$ 216,173,860

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, 2009

	General	Capital Improvements	Other Governmental Funds	Total
Revenues:				
Taxes	\$ 161,152,304	-	-	161,152,304
Intergovernmental	37,174,022	500,000	38,466,379	76,140,401
Charges for services	2,243,822	-	5,945,216	8,189,038
Investment income	93,418	504,448	53,318	651,184
Recovered costs	4,135,037	-	-	4,135,037
Fines and forfeitures	173,529	-	-	173,529
Licenses and permits	926,923	-	-	926,923
Use of property	2,146,161	-	383,870	2,530,031
Miscellaneous	3,921,425	41,144	593,700	4,556,269
Total revenues	211,966,641	1,045,592	45,442,483	258,454,716
Expenditures:				
Current:				
General government	15,921,024	-	225,219	16,146,243
Nondepartmental	9,503,827	-	-	9,503,827
Judicial	18,778,895	-	1,826,143	20,605,038
Public safety	57,960,178	-	1,049,804	59,009,982
Public works	15,671,185	-	1,741,892	17,413,077
Health and welfare	1,240,194	-	39,822,236	41,062,430
Parks, recreational, and cultural	10,923,216	-	1,307,588	12,230,804
Community development	6,238,976	-	2,794,754	9,033,730
Education	49,818,483	-	-	49,818,483
Debt service	24,581,466	-	-	24,581,466
Capital outlay	358,080	21,103,394	176,908	21,638,382
Total expenditures	210,995,524	21,103,394	48,944,544	281,043,462
Revenues over (under) expenditures	971,117	(20,057,802)	(3,502,061)	(22,588,746)
Other financing sources (uses):				
Transfers from other funds (note 10)	9,788,000	2,888,553	7,585,134	20,261,687
Transfers to other funds (note 10)	(8,364,518)	-	(2,772,789)	(11,137,307)
Discount on bonds issued (note 5)	(351,552)	-	-	(351,552)
Payments to escrow agent for refunded bonds (note 5)	(45,565,623)	-	-	(45,565,623)
Proceeds from capital leases (note 5)	358,080	-	-	358,080
Premium on bonds issued (note 5)	994,187	-	-	994,187
Proceeds - Cost of Issuance	263,596	(105,853)	-	157,743
BAN Proceeds	-	29,925,000	-	29,925,000
Issuance of refunding bonds (note 5)	45,725,000	-	-	45,725,000
Total other financing sources (uses)	2,847,170	32,707,700	4,812,345	40,367,215
Net change in fund balances	3,818,287	12,649,898	1,310,284	17,778,469
Fund balances, beginning of year	32,036,927	15,164,622	8,253,604	55,455,153
Fund balances, end of year	\$ 35,855,214	27,814,520	9,563,888	73,233,622

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, 2009

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

Net change in fund balances - total governmental funds	\$ 17,778,469
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Donated assets and loss on disposal of assets are not reported in the governmental funds but are reflected in the statement of activities.

Purchases of assets	17,607,999	
Depreciation expense	(18,245,300)	(637,301)

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

Proceeds from debt issued	(76,660,715)	
Principal payments of debt	12,690,310	
Payments to escrow agent	45,358,400	
Bond issuance costs	918,022	
Amortization expense	(152,419)	(17,846,402)

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.	204,620
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Some expenses in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Change in arbitrage liability	292,549	
Change in compensated absences	164,882	
Change in other post employment benefit obligation	(7,308,527)	
Change in net pension asset	(320,611)	
Change in accrued interest	318,627	(6,853,080)

Internal service funds are used by the City to charge costs of certain activities to individual funds. The net revenue of internal service funds is reported as a component of governmental funds.	5,869,160
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Change in net assets of governmental activities	\$ (1,484,534)
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See accompanying notes to basic financial statements.

Statement of Net Assets
Proprietary Funds
June 30, 2009

	Public Utility	Parking Authority	Nonmajor Enterprise Funds	Total	Governmental Activities - Internal Service Funds
Assets:					
Current assets:					
Cash and temporary investments (note 3)	\$ 31,378,859	84,629	3,723,429	35,186,917	27,322,004
Restricted cash and temporary investments (note 3)	14,391,040	396,659	-	14,787,699	-
Accounts receivable (net of allowance for uncollectibles)	4,890,827	23,844	2,277,142	7,191,813	254,766
Inventory of supplies, at cost	647,366	-	-	647,366	684,407
Total current assets	51,308,092	505,132	6,000,571	57,813,795	28,261,177
Noncurrent assets:					
Capital assets (note 4):					
Land	324,079	679,680	14,344,815	15,348,574	15,048
Buildings	736,018	18,667,910	6,065,649	25,469,577	693,083
Improvements other than buildings	170,274,136	260,636	2,072,849	172,607,621	-
Machinery, furniture and equipment	11,453,196	431,083	9,154,748	21,039,027	23,626,598
Construction in progress	66,248,557	-	-	66,248,557	-
Total capital assets	249,035,986	20,039,309	31,638,061	300,713,356	24,334,729
Less accumulated depreciation	(67,594,707)	(9,349,942)	(10,417,029)	(87,361,678)	(14,453,798)
Total capital assets, net	181,441,279	10,689,367	21,221,032	213,351,678	9,880,931
Other assets	819,079	45,713	78,931	943,723	-
Total noncurrent assets	182,260,358	10,735,080	21,299,963	214,295,401	9,880,931
Total assets	\$ 233,568,450	11,240,212	27,300,534	272,109,196	38,142,108
Liabilities:					
Current liabilities:					
Accounts payable	\$ 822,684	15,287	816,765	1,654,736	640,604
Construction payable	220,964	-	-	220,964	-
Accrued interest payable	1,526,460	143,798	79,763	1,750,021	-
Deposits	703,129	-	10,000	713,129	-
Due to other funds (note 10)	-	359,010	259,824	618,834	-
Unearned revenues (note 12)	-	48,391	-	48,391	-
Compensated absences (note 5)	415,724	29,938	337,050	782,712	398,627
Advances payable	-	335,835	-	335,835	-
General obligation bonds (note 5)	4,022,508	280,634	60,000	4,363,142	-
Obligations under capital leases (notes 5 and 6)	-	-	920,090	920,090	2,419,684
Claims payable (note 15)	-	-	-	-	4,297,677
Total current liabilities	7,711,469	1,212,893	2,483,492	11,407,854	7,756,592
Noncurrent liabilities:					
Claims payable (note 15)	-	-	-	-	11,388,196
Other post employment benefit obligation (note 8)	1,428,741	59,121	926,219	2,414,081	813,630
Obligations under capital leases (notes 5 and 6)	-	-	2,208,079	2,208,079	3,909,901
Landfill closure and postclosure liability (notes 5 and 13)	-	-	5,481,808	5,481,808	-
Advances payable	-	2,834,103	-	2,834,103	-
Arbitrage payable	71,638	-	-	71,638	-
General obligation bonds (note 5)	86,313,756	6,286,913	6,489,775	99,090,444	-
Total noncurrent liabilities	87,814,135	9,180,137	15,105,881	112,100,153	16,111,727
Total liabilities	95,525,604	10,393,030	17,589,373	123,508,007	23,868,319
Net assets:					
Invested in capital assets, net of related debt	105,496,055	1,283,227	8,451,435	115,230,717	3,551,346
Restricted for:					
Capital projects	-	65,314	-	65,314	-
Unrestricted (deficit)	32,546,791	(501,359)	1,259,726	33,305,158	10,722,443
Total net assets	138,042,846	847,182	9,711,161	148,601,189	14,273,789
Total liabilities and net assets	\$ 233,568,450	11,240,212	27,300,534	272,109,196	38,142,108

See accompanying notes to basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA

Exhibit E-2

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

Proprietary Funds

Year ended June 30, 2009

	Public Utility	Parking Authority	Nonmajor Enterprise Funds	Total	Governmental Activities - Internal Service Funds
Operating revenues:					
Charges for services	\$ 35,255,404	1,079,056	13,591,231	49,925,691	42,543,317
Intergovernmental revenue	-	-	680,000	680,000	-
Use of property	82,549	-	70,000	152,549	-
Other	272,252	386,426	9,001	667,679	449,573
Total operating revenues	35,610,205	1,465,482	14,350,232	51,425,919	42,992,890
Operating expenses:					
Personnel services	6,491,353	465,443	4,669,493	11,626,289	5,563,274
Contractual services	2,393,148	98,279	6,110,433	8,601,860	2,581,895
Supplies and materials	3,117,642	26,229	335,651	3,479,522	4,000,715
Utilities	1,311,749	144,986	119,476	1,576,211	193,498
Internal charges	1,195,454	65,938	1,782,587	3,043,979	-
Claims, settlements, and refunds	-	-	-	-	17,683,477
Insurance premiums	-	-	-	-	1,026,852
Payments in lieu of taxes	1,008,568	-	-	1,008,568	-
Rent	-	-	81,728	81,728	-
Depreciation and amortization	4,239,604	497,535	1,041,548	5,778,687	2,372,530
Other	1,423,490	71,823	228,272	1,723,585	770,502
Total operating expenses	21,181,008	1,370,233	14,369,188	36,920,429	34,192,743
Operating income (loss)	14,429,197	95,249	(18,956)	14,505,490	8,800,147
Nonoperating revenues (expenses):					
Investment income	602,315	3,372	4,805	610,492	41,824
Gain (loss) on disposal of capital assets	4,176	-	(18,728)	(14,552)	(5,627)
Interest expense and fiscal charges	(2,417,038)	(273,778)	(379,506)	(3,070,322)	(217,184)
Net nonoperating revenues (expenses)	(1,810,547)	(270,406)	(393,429)	(2,474,382)	(180,987)
Net income (loss) before transfers and capital contributions	12,618,650	(175,157)	(412,385)	12,031,108	8,619,160
Capital contributions	118,438	-	-	118,438	-
Transfers from other funds (note 10)	-	175,620	650,000	825,620	3,500,000
Transfers to other funds (note 10)	(7,200,000)	-	-	(7,200,000)	(6,250,000)
Change in net assets	5,537,088	463	237,615	5,775,166	5,869,160
Net assets (deficit), beginning of year	132,505,758	846,719	9,473,546	142,826,023	8,404,629
Net assets (deficit), end of year	\$ 138,042,846	847,182	9,711,161	148,601,189	14,273,789

See accompanying notes to basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA

Exhibit E-3

Statement of Cash Flows

Proprietary Funds

Year ended June 30, 2009

	Public Utility	Parking Authority	Nonmajor Enterprise Funds	Total	Governmental Activities - Internal Service Funds
Cash flows from operating activities:					
Receipts from customers	\$ 28,374,341	1,655,994	14,267,623	44,297,958	43,050,120
Payments to suppliers	(10,832,738)	(404,957)	(8,245,733)	(19,483,428)	(25,691,231)
Payments to employees	(6,515,754)	(438,217)	(4,274,808)	(11,228,779)	(5,248,986)
Net cash provided by operating activities	11,025,849	812,820	1,747,082	13,585,751	12,109,903
Cash flows from noncapital financing activities:					
Transfers in	-	175,620	650,000	825,620	-
Transfers out	(7,200,000)	-	-	(7,200,000)	(2,750,000)
Net cash provided by (used for) noncapital financing activities	(7,200,000)	175,620	650,000	(6,374,380)	(2,750,000)
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	(1,298,001)	-	-	(1,298,001)	(1,643,665)
Proceeds from sale of capital assets	4,175	-	10,357	14,532	20,967
Decrease in arbitrage liability	(242,196)	-	-	(242,196)	-
Intergovernmental revenue received	48,688	-	-	48,688	-
Cost of issuance	(79,399)	-	-	(79,399)	-
Proceeds from long-term debt	545,304	-	-	545,304	-
Principal paid on long-term debt	(3,941,977)	(264,999)	(712,515)	(4,919,491)	(1,004,383)
Payment to other funds	-	(335,835)	-	(335,835)	-
Interest paid	(2,461,135)	(305,236)	(424,258)	(3,190,629)	(179,255)
Net cash provided by (used for) capital and related financing activities	(7,424,541)	(906,070)	(1,126,416)	(9,457,027)	(2,806,336)
Cash flows from investing activities:					
Interest received	57,014	3,372	4,805	65,191	3,895
Net cash provided by investing activities	57,014	3,372	4,805	65,191	3,895
Net increase (decrease) in cash and temporary investments	(3,541,678)	85,742	1,275,471	(2,180,465)	6,557,462
Cash and temporary investments, beginning of year	49,311,577	395,546	2,447,958	52,155,081	20,764,542
Cash and temporary investments, end of year	\$ 45,769,899	481,288	3,723,429	49,974,616	27,322,004
Adjustments to reconcile operating income (loss) to net cash provided by operating activities					
Operating income (loss)	\$ 14,429,197	95,249	(18,956)	14,505,490	8,800,147
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation and amortization	4,239,604	497,536	1,041,548	5,778,688	2,372,530
Changes in assets and liabilities increasing (decreasing) cash and temporary investments:					
Accounts receivable	(523,974)	(8,740)	(82,609)	(615,323)	57,230
Inventory of supplies	2,819	-	-	2,819	306,799
Due to other funds	-	202,766	-	202,766	-
Accounts payable	(7,195,242)	2,297	366,981	(6,825,964)	7,363
Deposits	97,845	-	-	97,845	-
Unearned revenues	-	(3,514)	-	(3,514)	-
Compensated absences	(24,400)	2,024	(144)	(22,520)	(30,137)
Landfill closure and postclosure liability	-	-	45,433	45,433	-
Other post employment benefit obligation	-	25,202	394,829	420,031	344,425
Claims payable	-	-	-	-	251,546
Net cash provided by operating activities	\$ 11,025,849	812,820	1,747,082	13,585,751	12,109,903

See accompanying notes to basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA

Exhibit F-1

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2009

		Agency Special Welfare Fund
	Pension Trusts	
Assets:		
Cash and temporary investments (note 3)	\$ 2,005,263	104,492
Accounts receivable	-	-
Investments (note 3):		
Common stock	54,155,570	-
Corporate bonds	22,757,756	-
Real estate	8,222,727	-
Alternatives	2,682,156	-
Total assets	89,823,472	104,492
Liabilities - Cash held for others	-	104,492
Net assets -		
Net assets held in trust for pension benefits	\$ 89,823,472	-

See accompanying notes to basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA**Exhibit F-2****Statement of Changes in Fiduciary Net Assets****Fiduciary Funds - Pension Trust Funds****Year ended June 30, 2009**

Additions:	
Contributions	\$ 13,020,008
Investment income -	
Net decrease in the fair value of investments	(28,528,395)
Less investment expense	(609,373)
Net investment income	(29,137,768)
Total additions	(16,117,760)
Deductions - benefits and refunds	23,370,417
Change in net assets	(39,488,177)
Net plan assets held in trust for pension benefits, beginning of year	129,311,649
Net plan assets held in trust for pension benefits, end of year	\$ 89,823,472

See accompanying notes to basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA

Exhibit G-1

Statement of Net Assets

Component Units

June 30, 2009

	School Board	Economic Development Authority	Port and Industrial Commission	Total
Assets:				
Current assets:				
Cash and temporary investments (note 3)	\$ 41,897,290	770,515	425,049	43,092,854
Cash with fiscal agent (note 3)	1,051,045	-	-	1,051,045
Receivables:				
Accounts	191,155		-	191,155
Other	-	11,033	-	11,033
Due from other governments (net of allowance for uncollectibles)	3,977,546	-	500,000	4,477,546
Deposits	-	-	-	-
Due from primary government		341,265	-	341,265
Inventory	1,042,975	-	-	1,042,975
Total current assets	48,160,011	1,122,813	925,049	50,207,873
Noncurrent assets:				
Property held for resale	-	10,562,369	1,124,745	11,687,114
Capital assets (note 4):				
Land	6,146,793	1,205,660	-	7,352,453
Buildings	68,275,227	-	-	68,275,227
Machinery, furniture, and equipment	19,797,348	-	-	19,797,348
Construction in progress	4,684,503	-	-	4,684,503
Total capital assets	98,903,871	1,205,660	-	100,109,531
Less accumulated depreciation	(39,581,079)	-	-	(39,581,079)
Total capital assets, net	59,322,792	1,205,660	-	60,528,452
Other assets	617,670	75,000	-	692,670
Total noncurrent assets	59,940,462	11,843,029	1,124,745	72,908,236
Total assets	\$ 108,100,473	12,965,842	2,049,794	123,116,109

See accompanying notes to basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA

Exhibit G-1, Continued

Statement of Net Assets

Component Units

June 30, 2009

	School Board	Economic Development Authority	Port and Industrial Commission	Total
Liabilities:				
Current liabilities:				
Accounts payable	\$ 15,504,851	862,634	2,515	16,370,000
Accrued interest payable	259,756	-	-	259,756
Deposits	-	2,600	925	3,525
Due to primary government (note 10)	100,318	-	-	100,318
Claims payable (note 15)	945,005	-	-	945,005
Compensated absences (note 5)	1,770,000	-	-	1,770,000
Obligations under capital leases (note 5)	571,337	-	-	571,337
Total current liabilities	19,151,267	865,234	3,440	20,019,941
Noncurrent liabilities:				
Claims payable (note 15)	1,537,836	-	-	1,537,836
Compensated absences (note 5)	2,944,203	-	-	2,944,203
Obligations under capital leases (notes 5 and 7)	6,503,228	-	-	6,503,228
Net pension obligation (notes 5 and 8)	113,194	-	-	113,194
Total noncurrent liabilities	11,098,461	-	-	11,098,461
Total liabilities	30,249,728	865,234	3,440	31,118,402
Net assets:				
Invested in capital assets, net of related debt	52,248,227	1,205,660	-	53,453,887
Restricted for capital projects	829,897	-	-	829,897
Restricted for other purposes	617,670	-	-	617,670
Unrestricted	24,154,951	10,894,948	2,046,354	37,096,253
Total net assets	77,850,745	12,100,608	2,046,354	91,997,707
Total liabilities and net assets	\$ 108,100,473	12,965,842	2,049,794	123,116,109

See accompanying notes to basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA

Exhibit G-2

Statement of Activities

Component Units

Year ended June 30, 2009

Function/Program Activities	Program Revenues			Net (Expense) Revenue and Changes in Net Assets				Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	School Board	Economic Development Authority	Port and Industrial Commission	
School Board:								
Administration	\$ 5,655,194	-	-	-	(5,655,194)	-	-	(5,655,194)
Instruction	126,005,907	62,284	46,544,936	-	(79,398,687)	-	-	(79,398,687)
Attendance and health services	3,603,084	283,774	-	-	(3,319,310)	-	-	(3,319,310)
Pupil transportation	7,273,274	499,889	-	-	(6,773,385)	-	-	(6,773,385)
Operations and maintenance	18,619,097	105,209	-	1,455,056	(17,058,832)	-	-	(17,058,832)
Information technology	5,703,015	-	-	-	(5,703,015)	-	-	(5,703,015)
Food services	7,258,248	2,338,403	4,951,412	-	31,567	-	-	31,567
Interest on long-term debt	258,233	-	-	-	(258,233)	-	-	(258,233)
Total School Board	174,376,052	3,289,559	51,496,348	1,455,056	(118,135,089)	-	-	(118,135,089)
Economic Development Authority:								
Economic Development Authority operations	3,458,385	143,656	1,087,332	-	-	(2,227,397)	-	(2,227,397)
Total Economic Development Authority	3,458,385	143,656	1,087,332	-	-	(2,227,397)	-	(2,227,397)
Port and Industrial Commission -								
Port and Industrial Commission operations	124,826	6,020	-	-	-	-	(118,806)	(118,806)
Total Port and Industrial Commission	124,826	6,020	-	-	-	-	(118,806)	(118,806)
Total component units	177,959,263	3,439,235	52,583,680	1,455,056	(118,135,089)	(2,227,397)	(118,806)	(120,481,292)
General Revenues:								
Payment from primary government				\$	49,862,858	2,340,201	-	52,203,059
Grants and contributions not restricted to specific programs					73,743,711	-	-	73,743,711
Investment earnings					498,527	18,351	6,598	523,476
Miscellaneous					1,607,268	-	-	1,607,268
Total general revenues					125,712,364	2,358,552	6,598	128,077,514
Change in net assets					7,577,275	131,155	(112,208)	7,596,222
Net assets, beginning of year					70,273,470	11,969,453	2,158,562	84,401,485
Net assets, end of year				\$	77,850,745	12,100,608	2,046,354	91,997,707

See accompanying notes to basic financial statements.

Notes to Basic Financial Statements

June 30, 2009

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The following is a summary of the more significant policies:

A. Financial Reporting Entity

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

As required by generally accepted accounting principles, the accompanying financial statements include all activities of the City, such as general operation and support services. The School Board's governmental operations and the proprietary operations of the Economic Development Authority and the Portsmouth Port and Industrial Commission are separately disclosed on Exhibit G-2.

Discretely Presented Component Units

The component unit columns in the basic financial statements include the financial data of the City's three discretely presented component units. The discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government. These component units are fiscally dependent on the City and provide services primarily to the citizens of Portsmouth. The School Board has an elected board, however the primary government may impose its will, as all appropriations must be approved by City Council. The Economic Development Authority and the Portsmouth Port and Industrial Commission have boards appointed by the primary government and were created to facilitate economic development activity in the community that would provide financial benefits to the City of Portsmouth. All component units have a June 30 year-end. A description of the discretely presented component units follows:

Notes to Basic Financial Statements, Continued

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

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

2. The Economic Development Authority is authorized to acquire, own, lease, and dispose of properties to the extent that such activities may promote industry and develop trade by inducing enterprises to locate and remain in Portsmouth. The Economic Development Authority has only one fund. Complete, audited financial statements may be obtained as follows:

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

3. The Portsmouth Port and Industrial Commission is authorized to acquire, own, lease, and dispose of properties in and around the various ports within the City to the extent that such activities may promote industry and develop trade by inducing enterprises to locate and remain in Portsmouth. The Portsmouth Port and Industrial Commission has only one fund. Complete, audited financial statements may be obtained as follows:

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

Blended Component Unit

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 considered to be a blended component unit in the City's financial statements. The Parking Authority is responsible for the operation and maintenance of six parking garages, nine parking lots, and all street parking meters. In addition, the Parking Authority receives fines from parking meter violations. 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 Presentation**Government-wide and Fund Financial Statements**

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

Notes to Basic Financial Statements, Continued

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 all 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).

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.

Notes to Basic Financial Statements, Continued

Community Development Fund – The Community Development Fund is used to account for the implementation of a variety of capital project programs pursuant to the provisions of the 1974 Housing and Community Development Act.

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

Proprietary Fund Types

Proprietary funds are used to account for the City's ongoing organizations and activities which are similar to those often found in the private sector. The measurement focus is upon determination of net income. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating revenues include charges for services, certain rental fees and recovered costs. Operating expenses include the cost of sales and services, administrative expenses, and depreciation. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses. In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting* (Statement No. 20), proprietary fund types follow all applicable GASB pronouncements as well as all Financial Accounting Standards Board (FASB) pronouncements and predecessor APB Opinions and Accounting Research Bulletins issued on or before November 30, 1989. Under paragraph 7 of Statement No. 20, the City has elected not to apply FASB pronouncements issued after November 30, 1989.

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

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

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

Fiduciary Fund Types

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

Notes to Basic Financial Statements, Continued

Reconciliation of Government-wide and Fund Financial Statements

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

C. Measurement Focus and Basis of Accounting

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

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

The governmental funds utilize the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. Measurable means the amount of the transaction can be determined and available 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 to eligibility criteria are met. Real estate and personal property taxes are recorded as revenues and receivables when levied and billed, net of allowances for uncollectible amounts. Property taxes levied but not collected within 45 days after year-end are reflected as deferred revenues. Sales and utility taxes, which are collected by the State or utility companies and subsequently remitted to the City, are recognized as revenues and receivables upon collection by the State or utility companies, which is generally in the month preceding receipt by the City, because they are generally not measurable until actually received. Licenses and permits, fines and forfeitures, charges for services (except those charges for services recognized when billed) and miscellaneous revenues (except interest on temporary investments) are recorded as revenues when received in cash because they are generally not measurable until actually received. Stormwater management fees are also recognized as revenue when earned. Expenditures are recorded when the related liability is incurred and payment is due, except for principal and interest on long-term debt which is recorded when due.

Notes to Basic Financial Statements, Continued

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

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

D. Property Taxes

The two major sources of property taxes are described below:

Real Estate Taxes

The City levies real estate taxes on all real estate within its boundaries, except that exempted by statute, each year as of July 1 on the estimated market value of the property. Real estate taxes become a lien on real property the first day of the levy year. The City, as required by state statute, follows the practice of reassessing all property annually. Real estate taxes are collected in equal quarterly payments due September 30, December 31, March 31 and June 30 and are considered delinquent after each due date. The real estate tax rate during 2009 was \$1.21 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 2009, 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, mobile homes, and recreational vehicles was \$3.00, \$.50, \$1.21, and \$1.50 per \$100 of assessed value, respectively.

Notes to Basic Financial Statements, Continued

E. Allowance for Uncollectibles

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

Governmental Activities:

General Fund:	
Allowance for taxes receivable	\$ 2,619,448
Allowance for doubtful accounts receivable	1,044,909
Total General Fund	3,664,357
Special Revenue Fund - Stormwater Management Fund -	
Allowance for doubtful accounts receivable	334,207
Total governmental activities	\$ 3,998,564

Business-Type Activities - allowance for doubtful accounts receivable:

Enterprise Funds:	
Public Utility Fund	\$ 765,570
Portsmouth Parking Authority	2,915
Waste Management Fund	592,396
Total business-type activities	\$ 1,360,881

Component Units - allowance for doubtful accounts receivable:

Portsmouth School Board	\$ 570,000
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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. Capital Assets

Capital assets and improvements include substantially all land, buildings, equipment, water distribution and sewage collection systems, and other elements of the City's infrastructure having a useful life of more than one year with a cost of more than \$5,000 with the exception of infrastructure assets, which have a threshold of \$100,000. Capital assets, which are used for general governmental purposes and are not available for expenditure, are accounted for and reported in the government-wide financial statements. Infrastructure elements include the roads, bridges, curbs and gutters, streets and sidewalks, parkland and improvements, and tunnels.

Notes to Basic Financial Statements, Continued

Capital assets are generally stated at historical cost, or at estimated historical cost based on appraisals or on other acceptable methods when historical cost is not available. Donated capital assets are stated at their fair market value as of the date of the donation. Capital leases are classified as capital assets in amounts equal to the lesser of the fair market value or the present value of net minimum lease payments at the inception of the lease. Accumulated depreciation and amortization are reported as reductions of fixed 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:	
Site improvements	20
Infrastructure	30 - 50
Buildings	20 - 50
Improvements other than buildings	10 - 50
Machinery, furniture, and equipment	5 - 15
Component unit - School Board:	
Buildings	20 - 50
Machinery, furniture, and equipment	5 - 30

J. Compensated Absences

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

City employees accrue sick leave at the rate of eight hours for each full calendar month of work completed. Sick leave may be accumulated and carried forward until the time of retirement, termination, or death when the leave is forfeited.

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

K. 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.

Notes to Basic Financial Statements, Continued

L. Estimates and Assumptions

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

(2) EQUITY

The fund equity balances have been classified to reflect the limitations and restrictions placed on the respective funds. Reserved fund balance represents that portion of fund balance not available for appropriation or expenditure. Designated fund balance represents amounts that are tentatively planned for financial resource utilization in a future period. Undesignated fund balance represents the remainder of the City's equity in governmental fund type fund balances. Fund balances reserved at June 30, 2009 are composed of the following:

	General Fund	Capital Improvements	Other Nonmajor
Current year encumbrances	\$ -	6,361,702	1,447,483
Advances	3,169,938	-	-
Revenue maximization program	-	-	204,358
Inventory	76,610	-	-
Cemetery care	-	-	1,000,000
	\$ 3,246,548	6,361,702	2,651,841

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

At June 30, 2009, the carrying value of the City's deposits with banks and savings institutions was \$84,132,166 and includes \$101,378 in the fiduciary funds. All cash of the City except petty cash of \$45,307 is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. Seq. of the Code of Virginia or covered by federal depository insurance. As of June 30, 2009 restricted cash totaled \$20,053,590, which represents the City's unspent bond proceeds and related investment income.

Investments

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

Notes to Basic Financial Statements, Continued

As of June 30, 2009, the City's investment balances were as follows:

	Carrying Amount	Actual Credit Ratings	Required Credit Ratings	Average Days/Years to Maturity
SNAP investments	\$ 40,245,156	AAAm	n/a	1 day
CCRF	35,017	AAAm	n/a	1 day
Money market funds	5,265,892	AAAm	n/a	1 day
	\$ 45,546,065			

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

Virginia State Non-Arbitrage Program (SNAP), Commonwealth Cash Reserve Fund (CCRF), and Money Market Funds

As of June 30, 2009, the SNAP Fund's investment portfolio as well as CCRF was comprised of investments which were, in aggregate, rated AAAm by Standard and Poor's. The SNAP funds are subject to credit risk as well as interest rate risk.

Pension Investments – Common Collective Trust Fund

As of June 30, 2009, the City's pension investments were professionally managed by Frank Russell Trust Company which invests primarily in fixed income and equity funds and New York Life Investment Management LLC which invests primarily in Equity Funds. The fair value of the funds is determined by daily trades of securities with the exception of the Russell Diversified Alternatives Fund and the Russell Real Estate Equity Fund investments which are priced quarterly. The allocation of the investment accounts are authorized between the Board of Trustees of the Portsmouth Fire and Police, the Portsmouth Supplemental Retirement Systems, Scott & Stringfellow and New York Life Investment Management LLC. Frank Russell Trust Company for the Portsmouth Supplemental Retirement and the Portsmouth Fire and Police Retirement Systems holdings include RTC Russell Real Estate Equity Fund and Russell Capital Russell Diversified Alternatives Fund. The target allocation for all funds is 62% for equities, 28% for fixed income securities and 10% for alternative investments, which include real estate and hedge funds. None of the City's pension investments have credit ratings.

Notes to Basic Financial Statements, Continued

At June 30, 2009, the fair value of the City's pension investments is as follows:

Fund Name	Investment Type	Weighted Average Maturity/Liquidation	Fair Value
New York Life Fund:			
The Bond Fund of America R5	Equity	1 day	\$ 22,757,756
Davis new York Venture fund (Y)	Equity	1 day	15,069,554
Goldman Sachs Sm Cap Val Inst	Equity	1 day	4,830,657
American EuroPacific Growth R5	Equity	1 day	10,185,381
Pioneer Cullen Value Fund (Y)	Equity	1 day	24,069,978
RTC Real Estate Equity Fund	Other	1 day	8,222,727
Russell DivAlternative Fund	Other	1 day	2,682,156
			\$ 87,818,209

Component Unit - School Board

All of the deposits of the School Board, a discretely presented component unit, of \$41,897,290 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 \$2,324,765 invested in the American Government Obligation Fund as of June 30, 2009. These funds had a credit rating of AAAM by Standard & Poor's. The School Board has \$517,670 invested in Evergreen Treasury Money Market Fund and \$100,000 invested in Wachovia Money Market Funds, for a total OPEB Trust investment of \$617,670. The School Board has \$1,051,045 in the School Construction Fund that is held with a fiscal agent. The City Treasurer's policies on deposits and investments, as noted above, also apply to the School Board.

Component Unit – Economic Development Authority

At year end, the carrying value of deposits with banks for the Economic Development Authority, a discretely presented component unit, was \$770,515. 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 \$425,049. All cash of the Commission is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. Seq. of the Code of Virginia or covered by federal depository insurance.

Notes to Basic Financial Statements, Continued

(4) CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009 was as follows:

Primary Government - Governmental Activities	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009
Capital assets not being depreciated:				
Land	\$ 17,430,801	-	-	17,430,801
Construction in progress	95,305,006	17,012,999	33,061,813	79,256,192
Total capital assets not being depreciated	112,735,807	17,012,999	33,061,813	96,686,993
Capital assets being depreciated:				
Infrastructure	472,999,541	5,876,281	-	478,875,822
Site improvements	2,239,871	-	-	2,239,871
Buildings	182,752,188	27,121,177	-	209,873,365
Machinery, furniture, and equipment	42,014,984	2,303,020	847,524	43,470,480
Total capital assets being depreciated	700,006,584	35,300,478	847,524	734,459,538
Less accumulated depreciation for:				
Infrastructure	(325,567,876)	(12,571,471)	-	(338,139,347)
Site improvements	(531,992)	(98,597)	-	(630,589)
Buildings	(61,054,919)	(4,059,898)	-	(65,114,817)
Machinery, furniture, and equipment	(25,260,158)	(3,887,865)	(820,931)	(28,327,092)
Total accumulated depreciation	(412,414,945)	(20,617,831)	(820,931)	(432,211,845)
Total capital assets being depreciated, net	287,591,639	14,682,647	26,593	302,247,693
Governmental activities capital assets, net	\$ 400,327,446	31,695,646	33,088,406	398,934,686

Notes to Basic Financial Statements, Continued

Under Virginia Law, certain property, with a net book value of \$82,262,241 maintained by the School Board is subject to tenancy-in-common with the City, if the City has incurred a financial obligation for the property, which is payable over more than one fiscal year. The School Board and City have agreed that such property will be carried on the City's financial statements until the outstanding debt is repaid.

Depreciation expense was charged to functions as follows:

General government	\$ 1,031,898
Judicial	413,387
Public safety	1,175,900
Public works	12,561,591
Health and welfare	538,263
Parks, recreation and cultural	496,527
Community development	311,292
Education	1,716,443
<hr/>	
Total governmental funds	18,245,301
Depreciation on capital assets held by the City's internal service funds (see Exhibit E-2) is charged to the various functions based on their usage of the assets.	
	2,372,530
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Total governmental activities	\$ 20,617,831

Notes to Basic Financial Statements, Continued

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

	Project Authorization	Expended to June 30, 2009	Commitments
Drainage Facilities Repair & Lake Mgt	\$ 13,554,005	12,439,121	322,616
Victory Boulevard (2% City Match to VDOT)	16,358,250	8,317,910	1,307,205
New library - Joint with Suffolk	6,747,590	6,116,708	730,206
Behavioral Health building	7,529,003	183,485	454,397
Midtown redevelopment acquisition	6,814,986	6,790,167	1,268
New courts complex	11,250,000	3,011,199	779,969
Tower Mall redevelopment	5,558,000	5,132,591	-
Traffic Signal Improvements	2,100,000	587,527	8,762
Churchland High School - air quality	3,691,307	3,608,812	59,985
PAC Ntelos Pavilion	3,480,478	3,436,341	39,481
McLean Street / Cavalier Boulevard	3,400,000	27,205	17,700
City / Schools joint financial management system	2,936,486	2,234,930	745,551
Cavalier Boulevard drainage improvements	2,700,000	2,679,017	2,183
Midtown Corridor	2,700,000	82,400	27,600
Downtown Crawford roundabout	2,127,355	2,119,768	7,453
Ebony Heights improvements	2,001,212	231,077	767,796
Civic Center specifications	1,984,453	1,938,304	6,040
Highland Biltmore improvements	1,944,385	1,931,860	10,826
Children's Museum expansion	7,005,000	1,862,935	41,088
Street improvements - South Portsmouth	1,868,356	818,335	46,610
Bridge repairs	1,797,985	1,554,662	1,575
Holiday Inn Site Redevelopment	7,000,000	7,000,000	-
Renovations to various buildings	2,058,693	1,880,465	35,343
Parking garage repairs - Harbor Tower	1,196,978	1,057,983	29,190
Hope 6 project - Jeffry Wilson	1,050,000	347,101	-
Terminal Impact Mitigation	1,000,000	934,509	14,386
Various projects under \$1,000,000 each	5,766,504	2,931,780	27,092
	\$ 125,621,026	79,256,192	5,484,322

When a project is authorized, financing is either presently available or general obligation bonds are authorized to be issued. In anticipation of the issuance of general obligation bonds, bond anticipation notes may be utilized to provide temporary financing. Commitments totaling \$6,361,702 have been reserved for encumbrances for capitalizable and noncapitalizable expenditures in the capital improvements fund.

Notes to Basic Financial Statements, Continued

Primary Government - Business-Type Activities				
	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009
Capital assets not being depreciated:				
Land	\$ 15,348,574	-	-	15,348,574
Construction in progress	59,342,750	7,368,720	462,913	66,248,557
Total capital assets not being depreciated	74,691,324	7,368,720	462,913	81,597,131
Capital assets being depreciated:				
Buildings	25,469,577	-	-	25,469,577
Improvements other than buildings	172,050,978	556,643	-	172,607,621
Machinery, furniture, and equipment	19,359,082	2,242,063	562,118	21,039,027
Total capital assets being depreciated	216,879,637	2,798,706	562,118	219,116,225
Less accumulated depreciation for:				
Buildings	(12,019,727)	(651,880)	-	(12,671,607)
Improvements other than buildings	(60,420,338)	(3,306,052)	-	(63,726,390)
Machinery, furniture, and equipment	(9,774,299)	(1,722,416)	(533,034)	(10,963,681)
Total accumulated depreciation	(82,214,364)	(5,680,348)	(533,034)	(87,361,678)
Total capital assets being depreciated, net	134,665,273	(2,881,642)	29,084	131,754,547
Business-type activities capital assets, net	\$ 209,356,597	4,487,078	491,997	213,351,678
Public utilities	\$ 4,148,544			
Parking Authority	494,526			
Port facility	86,922			
Golf	135,960			
Waste Management	814,397			
Total business-type activities	\$ 5,680,349			

Notes to Basic Financial Statements, Continued

**Primary Government -
Major Enterprise Funds**

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009
<u>Public Utility Fund</u>				
Capital assets not being depreciated:				
Land	\$ 324,079	-	-	324,079
Construction in progress	59,342,750	7,368,720	462,913	66,248,557
Total capital assets not being depreciated	59,666,829	7,368,720	462,913	66,572,636
Capital assets being depreciated:				
Buildings	736,018	-	-	736,018
Improvements other than buildings	169,717,493	556,643	-	170,274,136
Machinery, furniture, and equipment	10,913,684	633,514	94,002	11,453,196
Total capital assets being depreciated	181,367,195	1,190,157	94,002	182,463,350
Less accumulated depreciation for:				
Buildings	(68,839)	(18,871)	-	(87,710)
Improvements other than buildings	(58,152,131)	(3,290,266)	-	(61,442,397)
Machinery, furniture, and equipment	(5,319,196)	(839,407)	(94,003)	(6,064,600)
Total accumulated depreciation	(63,540,166)	(4,148,544)	(94,003)	(67,594,707)
Total capital assets being depreciated, net	117,827,029	(2,958,387)	(1)	114,868,643
Public Utility Fund capital assets, net	\$ 177,493,858	4,410,333	462,912	181,441,279
<u>Parking Authority</u>				
Capital assets not being depreciated:				
Land	\$ 679,680	-	-	679,680
Total capital assets not being depreciated	679,680	-	-	679,680
Capital assets being depreciated:				
Buildings	18,667,910	-	-	18,667,910
Improvements other than buildings	260,636	-	-	260,636
Machinery, furniture, and equipment	431,083	-	-	431,083
Total capital assets being depreciated	19,359,629	-	-	19,359,629
Less accumulated depreciation for:				
Buildings	(8,446,007)	(460,982)	-	(8,906,989)
Improvements other than buildings	(219,283)	(14,336)	-	(233,619)
Machinery, furniture, and equipment	(190,126)	(19,208)	-	(209,334)
Total accumulated depreciation	(8,855,416)	(494,526)	-	(9,349,942)
Total capital assets being depreciated, net	10,504,213	(494,526)	-	10,009,687
Parking Authority capital assets, net	\$ 11,183,893	(494,526)	-	10,689,367

Notes to Basic Financial Statements, Continued

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

	Project Authorization	Expended to June 30, 2009	Commitments
Public Utility Fund:			
Infrastructure improvements	\$ 34,219,780	24,267,564	1,848,516
Godwin Street reservoir replacement	10,896,371	10,580,348	299,245
Lake Kilby raw water pumping station	7,749,000	1,190,441	186,593
Replacement of water plant equipment	6,628,213	3,436,506	1,023
Downtown master utility	9,850,000	414,091	69,782
Suction well rehabilitation	7,018,290	2,967,218	65,251
Water plant residuals management and disposal	6,133,500	4,371,702	1,231,875
Sewer cave-in repair	3,478,762	2,285,449	554,512
Camden Avenue sewer rehabilitation	2,685,000	1,578,390	82,520
Sanitary sewer overflow elimination	5,100,000	1,058,089	2,769,430
Miscellaneous sewer improvements	1,662,500	1,654,852	5,736
Meter replacement program	1,991,000	194,815	56,680
Miscellaneous water improvements	1,547,615	902,790	215
Low pressure transmission mains	1,250,000	877,713	372,286
Replacement 2" water mains	1,217,000	309,671	-
Various projects under \$1,000,000 each	1,159,313	191,152	-
	\$ 102,586,344	56,280,791	7,543,664

In addition to the amount of \$56,280,791 shown above as expended to June 30, 2009, \$9,967,767 is included in construction in progress for capitalized interest, bringing total construction in progress to \$66,248,558. 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. When a project is authorized, financing is either presently available or general obligation public bonds are authorized to be issued.

Notes to Basic Financial Statements, Continued

School Board Component Unit				
	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009
Capital assets not being depreciated:				
Land	\$ 6,146,793	-		6,146,793
Construction in progress	5,272,675	4,545,667	5,133,839	4,684,503
Total capital assets not being depreciated	11,419,468	4,545,667	5,133,839	10,831,296
Capital assets being depreciated:				
Buildings	65,697,075	2,578,152		68,275,227
Machinery, furniture, and equipment	17,793,868	2,076,547	73,067	19,797,348
Total capital assets being depreciated	83,490,943	4,654,699	73,067	88,072,575
Less accumulated depreciation for:				
Buildings	(25,862,030)	(1,221,626)	(12,716)	(27,070,940)
Machinery, furniture, and equipment	(11,535,937)	(981,850)	(7,648)	(12,510,139)
Total accumulated depreciation	(37,397,967)	(2,203,476)	(20,364)	(39,581,079)
Total capital assets being depreciated, net	46,092,976	2,451,223	52,703	48,491,496
School Board capital assets, net	\$ 57,512,444	6,996,890	5,186,542	59,322,792

Notes to Basic Financial Statements, Continued

(5) LONG - TERM DEBT

Details of Long-Term Indebtedness

At June 30, 2009, the long-term indebtedness of the City consisted of the following:

		Interest Rate	Amount Outstanding
Governmental Activities			
General obligation bonds, net:			
1999	Qualified Zone Academy Bonds	0 \$	1,647,239
2001	Qualified Zone Academy Bonds	0	536,908
2001	VPSA - Series 2001B Bonds	4.1 - 5.35%	2,246,634
2006	VPSA - Series 2006B Bonds	4.2 - 5.1%	5,682,516
2003	Public Improvement (Refunding) bonds	3.8 - 5.0%	46,189,845
2004	BHS Lease Revenue Bond	3.5 - 5.0%	3,851,905
2005A	Public Improvement bonds	3.75 - 5.0%	40,044,217
2005C	Public Improvement (Refunding) bonds	5.0 - 5.4%	9,543,941
2006A	Public Improvement & Refunding bonds	4.1 - 5.0%	40,421,044
2006B	Taxable Public Improvement (Refunding) bonds	5.75%	4,680,222
2009A	Public Improvement (Refunding) bonds	4.0 - 4.750%	6,181,115
2009B	Public Improvement (Refunding) bonds	3.0 - 5.25%	12,585,822
2009C	Taxable Public Improvement (Refunding) bonds	5.62 - 6.4%	15,509,724
2009D	Public Improvement (Refunding) bonds	3.0 - 4.0%	10,611,584
Total general obligation bonds, net			199,732,716
Bond anticipation note			29,935,000
Obligations under capital leases			16,764,828
Literary loans			2,625,000
Compensated absences			7,536,005
Arbitrage liability			86,196
Total governmental activities			\$ 256,679,745
Business-Type Activities			
General obligation bonds, net:			
1992	Port Improvement Bonds	6.25 - 6.60% \$	-
1997	Public Utility bonds	4.45 - 5.25% \$	1,461,345
2003	Public Utility (Refunding) bonds	3.0 - 5.0%	25,223,606
2005A	Public Utility bonds	3.5 - 5.0%	28,463,620
2005B	Public Utility (Refunding) bonds	3.25 - 5.0%	16,591,079
2006A	Public Utility bonds	4.12 - 5.0%	16,701,776
2009D	Public Utility (Refunding) bonds	3.0 - 4.0%	1,894,838
2003	Public Improvement (Refunding-Parking)	3.0 - 5.0%	6,297,130
2005A	Public Improvement bonds (Parking Fund)	3.5 - 5.0%	176,337
2009A	Public Improvement (Refunding-Parking)	4.0 - 4.75%	73,589
2009B	Public Improvement (Refunding-Parking)	3.0 - 5.25%	20,491
2005A	Public Improvement (Refunding Golf)	3.5 - 5.0%	5,421,102
2009B	Public Improvement (Refunding-Golf)	3.0 - 5.25%	1,128,673
Total general obligation bonds, net			103,453,586
Obligations under capital leases			3,128,169
Landfill closure and postclosure care			5,481,808
Compensated absences			782,712
Arbitrage liability			71,638
Total business type-activities			\$ 112,917,913

Notes to Basic Financial Statements, Continued

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

At June 30, 2009, the long-term indebtedness of Component Units consisted of the following:

	Amount Outstanding
School Board:	
Obligations under capital leases	7,074,565
Net pension obligation	113,194
Compensated absences	4,714,203
	\$ 11,901,962

Changes in Indebtedness

The following is a summary of changes in long-term indebtedness of the City for the year ended June 30, 2009:

	Balance June 30, 2008	Increases	Decreases	Balance June 30, 2009	Due Within One Year
Primary Government -					
Governmental Activities:					
General obligation bonds	203,499,055	44,925,063	(48,691,402)	199,732,716	8,213,933
General obligation notes	6,796,146	1,927	(6,798,073)	-	-
Bond Anticipation Note	-	29,935,000	-	29,935,000	-
Compensated absences	7,731,024	8,263	(203,282)	7,536,005	5,016,645
Literary loans	3,000,000	-	(375,000)	2,625,000	375,000
Capital leases	18,115,974	1,974,463	(3,325,609)	16,764,828	3,290,608
Arbitrage liability	378,745	-	(292,549)	86,196	-
Total Governmental Activities	\$ 239,520,944	76,844,716	(59,685,915)	256,679,745	16,896,186
Business Type Activities					
General obligation bonds	107,627,775	3,175,520	(7,349,709)	103,453,586	4,363,142
Landfill closure and postclosure c	5,436,375	45,433	-	5,481,808	-
Compensated absences	805,232	19,569	(42,089)	782,712	782,712
Capital leases	2,232,135	1,608,549	(712,515)	3,128,169	920,090
Arbitrage liability	313,834	-	(242,196)	71,638	-
Total Governmental Activities	116,415,351	4,849,071	(8,346,509)	112,917,913	6,065,944
Major Enterprise Funds:					
Public Utility Fund:					
General obligation bonds	94,196,485	1,939,954	(5,800,175)	90,336,264	4,022,508
Compensated absences	440,124	2,100	(26,500)	415,724	415,724
Arbitrage liability	313,834	-	(242,196)	71,638	-
Total Public Utility Fund	94,950,443	1,942,054	(6,068,871)	90,823,626	4,438,232
Parking Authority					
General Obligation bond	6,853,475	94,080	(380,008)	6,567,547	280,634
Compensated absences	27,914	2,523	(499)	29,938	29,938
Total Parking Authority	\$ 6,881,389	\$ 96,603	\$ (380,507)	\$ 6,597,485	\$ 310,572

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

Notes to Basic Financial Statements, Continued

reported in the government-wide Statement of Net Assets. The amount due within one year for compensated absences has been estimated and is generally liquidated by the fund for which the employee works.

Section 148 of the Internal Revenue Code of 1986 requires public entities to refund interest earned in excess of interest paid over the first five years outstanding on tax exempt borrowings. The regulations are applicable to borrowings incurred subsequent to August 1986. The City has calculated the rebate due as if June 30, 2009 was the settlement date, and reflected the liability, if any, in either the Public Utility Fund or the governmental activities column of the Statement of Net Assets, depending on the bond issue and timing of payment.

The following is a summary of changes in long-term indebtedness of the Component Units for the year ended June 30, 2009:

	Balance, July 1, 2008	Increases	Decreases	Balance June 30, 2009	Due Within One Year
School Board:					
Capital leases	\$ 7,600,413	-	(525,848)	7,074,565	571,337
Net pension obligation	112,948	246	-	113,194	-
Compensated absences	4,677,893	1,800,228	(1,763,918)	4,714,203	1,770,000
Total School Board	\$ 12,391,254	1,800,474	(2,289,766)	11,901,962	2,341,337

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

As of June 30, 2009 there were \$44,965,490 of general obligation public improvement bonds and \$53,667,000 of general obligation public utility bonds that were authorized but unissued. As of June 30, 2009, the City's legal margin for additional debt is \$517,476,493.

Defeased Debt

In prior years, the City defeased certain revenue bonds of the Economic Development Authority of the City of Portsmouth which had been assumed as an obligation of the City through a Cooperation Agreement between the City and the EDA. The defeasance was accomplished by placing funds in an irrevocable escrow account to provide for future debt service payments on the defeased debt. Accordingly, the escrow account assets and liabilities for the defeased debt are not included in the City's financial statements. At June 30, 2009, the outstanding balance of the defeased debt is \$15,635,000 of which \$870,000 is related to the Golf Fund and \$85,000 is for the Parking Fund.

Debt Issued

On December 18, 2008, the City issued a \$29,935,000 General Obligation Bond Anticipation Note to provide interim financing for various capital projects. The effective interest rate of the note is 3.8%. Interest on the note is payable semi-annually beginning on June 18, 2009, and each December 18 and June 18 thereafter until final maturity.

On March 18, 2009, the City issued \$6,450,000 of General Obligation Refunding Bonds, Series 2009A with a discount of \$52,502. The proceeds were used to advance refund certain general obligation bonds of the City as follows:

Series 1997A	G.O. & Refunding Bonds	\$2,615,000
Series 2001A	G.O. & Refunding Bonds	1,820,000
Series 2003	G.O. & Refunding Bonds	1,630,000
Series 2003 (Parking)	G.O. & Refunding Bonds	70,000

Of the total amount of refunding payments made, \$1,790,023 was used to purchase U.S. Treasury Securities. These will be placed in an irrevocable trust together with an initial cash deposit to be used solely to refund the Series 1997A, 2001A

Notes to Basic Financial Statements, Continued

and 2003 tax-exempt bonds. The advance refunding of the general obligation and refunding bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$142,012. This difference, reported in the accompanying government-wide financial statements as a deduction from bonds payable, is being amortized over the life of the new debt. The advance refunding of the Series 2003 Parking bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$782. This refunding was made to restructure the debt to extend certain maturity dates to provide short-term cash flow relief under current economic conditions. The difference between the old debt cash flow and the new debt cash flow is a loss of \$3,550,836. Consequently, there was an overall economic loss (difference between the present values of the debt service payments on the old and the new debt) of \$244,817.

On March 18, 2009, the City issued \$13,580,000 of General Obligation Refunding Bonds, Series 2009B with a premium of \$509,295. The proceeds were used to advance refund certain general obligation bonds and general obligation notes of the City as follows:

Series 2004 VML/VACO	Revenue bonds	\$ 405,000
Series 2005A	G.O. & Refunding Bonds	3,195,000
Series 2005A (Golf)	G.O. & Refunding Bonds	1,140,000
Series 2005A (Parking)	G.O. & Refunding Bonds	20,000
Series 2006A	G.O. & Refunding Bonds	1,855,000
Series 2006C	G.O. Notes	6,800,000

Of the total amount of refunding payments made, \$5,887,945 was used to purchase U.S. Treasury Securities which will be placed in an irrevocable trust, along with an initial cash deposit, to be used solely to refund a portion of the Series 2004 VML/VaCO, Series 2005A and Series 2006A general obligation bonds and Series 2006C general obligation notes of the City. The advance refunding of the general obligation bonds and notes resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$315,591. This difference, reported in the accompanying government-wide financial statements as a deduction from bonds payable, is being amortized over the life of the new debt. The advance refunding of the 2005A Golf Fund bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$38,432. The advance refunding of the 2005A Parking Fund bonds resulted in a difference between the reacquisition price and the net carrying value of the old debt of \$287. This refunding was made to restructure the debt to extend certain maturity dates to provide short-term cash flow relief under current economic conditions. The difference between the old debt cash flow and the new debt cash flow is a loss of \$7,121,943. As a result, there was an overall economic loss (difference between the present values of the debt service payments on the old and new debt) of \$630,778.

On March 18, 2009, the City issued \$16,770,000 of Taxable General Obligation Refunding Bonds, Series 2009C with a discount of \$299,679. The proceeds were used to advance refund certain taxable general obligation bonds of the City as follows:

Series 1997C	Taxable G.O. & Ref Bonds	\$5,020,000
Series 2005C	Taxable G.O. & Ref Bonds	7,985,000
Series 2006B	Taxable G.O. & Ref Bonds	2,200,000

Of the total amount of refunding payments made, \$8,984,134 was used to purchase U.S. Treasury Securities which will be placed in an irrevocable trust, along with an initial cash deposit, to be used solely to refund a portion of the Series 1997C, Series 2005C and Series 2006B general obligation bonds of the City. The advance refunding of the general obligation bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$960,597. This difference, reported in the accompanying government-wide financial statements as a deduction from bonds payable, is being amortized over the life of the new debt. This refunding was made to restructure the debt to extend certain maturity dates to provide short-term cash flow relief under current economic conditions. The difference between the old debt cash flow and the new debt cash flow is a loss of \$13,155,078. Consequently, this caused an

Notes to Basic Financial Statements, Continued

overall economic loss (difference between the present values of the debt service payments on the old and new debt) of \$3,875,387.

On June 10, 2009, the City issued \$12,075,000 of General Obligation Refunding Bonds, Series 2009D with a premium of \$569,413. The proceeds were used to advance refund certain general obligation bonds of the City as follows:

Series 1997A	G.O.Imprv & Ref Bonds	\$3,760,000
Series 2001A	G.O.Imprv & Ref Bonds	6,640,000
Series 2001B	G.O. Utility & Ref Bonds	1,935,000

Of the total amount of refunding payments made, \$12,432,077 was used to refund all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from general long term debt. The advance refunding of the general obligation bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$61,190. This difference, reported in the accompanying government-wide financial statements as a deduction from bonds payable, is being amortized over the life of the new debt. This refunding was made to restructure the debt to extend certain maturity dates to provide short-term cash flow relief under current economic conditions. The difference between the old debt cash flow and the new debt cash flow is a gain of \$1,834,688. This resulted in an overall economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,461,526.

Debt Compliance and Repayment

The annual requirements to amortize to maturity all long-term indebtedness of the City which is outstanding as of June 30, 2009 (except compensated absences and landfill closure and post closure care) are as follows:

Notes to Basic Financial Statements, Continued

Governmental Activities:

Fiscal Year Ending	General Obligation Bonds		Literary Loans		Capital Leases		
	Principal	Interest	Principal	Interest	Principal	Interest	
2010	\$ 8,213,934	17,416,233	375,000	52,500	3,290,608	1,190,780	
2011	8,516,327	18,103,419	375,000	45,000	2,650,665	1,100,936	
2012	8,537,784	17,838,339	375,000	37,500	1,965,330	1,028,227	
2013	11,185,965	24,701,818	250,000	30,000	1,500,858	950,021	
2014	12,025,882	25,285,303	250,000	25,000	977,177	829,359	
2015-2019	57,852,150	123,471,414	1,000,000	50,000	4,594,167	3,236,098	
2020-2024	48,734,940	108,801,528	-	-	1,786,023	211,289	
2025-2029	37,770,087	76,823,487	-	-	-	-	
2030-2034	6,895,647	13,832,508	-	-	-	-	
	\$199,732,716	426,274,049	-	2,625,000	240,000	16,764,828	8,546,710

Business-Type Activities:

Fiscal Year Ending	General Obligation		Capital Leases	
	Principal	Interest	Principal	Interest
2010	\$ 4,352,721	4,677,350	920,090	77,433
2011	4,493,788	4,509,087	880,786	51,317
2012	4,626,290	4,320,152	670,906	27,456
2013	5,178,411	4,099,527	389,967	11,147
2014	4,507,378	3,864,623	266,420	3,384
2015-2019	27,065,628	15,707,635	-	-
2020-2024	28,493,966	9,161,444	-	-
2025-2029	17,572,073	3,604,414	-	-
2030-2034	7,163,331	485,158	-	-
	\$103,453,586	50,429,390	3,128,169	170,737

(6) LEASING ARRANGEMENTS

As a lessee, the City leases certain land, buildings, equipment and vehicles under capital leases and certain facilities under operating leases that expire in years through 2024. Included in capital assets are the following amounts applicable to capital leases:

	Governmental	Internal Service	Enterprise
Buildings	\$ 12,347,181	-	-
Machinery, furniture, and equipment	7,572,317	15,922,707	6,747,197
Less accumulated depreciation	(7,775,972)	(7,944,994)	(2,765,827)
Capital assets, net	\$ 12,143,526	7,977,713	3,981,370

The total amount of equipment acquired through a capital lease during fiscal year ended June 30, 2009, was \$3,583,012. Leased equipment included in capital assets and with a net value of \$37,847 was deleted during the fiscal year. Depreciation expense on leased assets was \$3,674,508 for the fiscal year ended June 30, 2009.

Notes to Basic Financial Statements, Continued

The present value of future minimum capital and operating lease payments of the City as of June 30, 2009 is as follows:

Fiscal Year Ending	Capital	Operating
2010	5,478,911	1,064,359
2011	4,683,704	782,581
2012	3,691,919	448,151
2013	2,851,993	-
2014	2,076,340	-
2015-2019	7,830,265	-
2020-2024	1,997,312	-
Total minimum lease payments	28,610,444	\$ 2,295,092
Less amount representing interest	(8,717,447)	
Present value of minimum capital lease payments	\$ 19,892,997	

Total governmental operating lease payments for the year ended June 30, 2009 were \$1, 446,060.

(7) RETIREMENT PLANS

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

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

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

Portsmouth Retirement Systems

Plan Description - Portsmouth Supplemental Retirement System

The Portsmouth Supplemental Retirement System (PSRS) is a single-employer non-contributory retirement system that was established on October 1, 1953. It was designed to provide retirement, death, or disability benefits for all regular full-time, permanent employees who were not eligible for membership in VRS or the Portsmouth Fire and Police Retirement System (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 are members of VRS as required by State statutes. Therefore, the PSRS has become a "closed" system.

All regular full-time permanent employees (except for members of VRS and FPRS, as noted above) that were hired prior to December 1, 1984 were eligible to participate in the PSRS. Benefits vest after five years of service. Employees at age 50 with five years of service are eligible for an unreduced annual retirement benefit payable monthly for life in an amount equal to 2% of their average final compensation (AFC) for each year of credited service. AFC is defined as the highest consecutive 36 months of compensation. An optional reduced retirement benefit is available to members of PSRS as early as age 50 with five years of credited service. At age 65, the annual retirement benefit is adjusted to an amount equal to the greater of 1.15% of their AFC multiplied by years of credited service or the excess of 2% of such salary multiplied by years of credited service over 2% of the primary social security benefit multiplied by years of credited service not in excess of 25 years.

Benefits may be increased from time to time by percentage adjustments approved by City Council. Effective July 1, 1994, retirees receive a supplement of \$200 per month until age 65. The married member shall be provided a 50%

Notes to Basic Financial Statements, Continued

spousal option at no cost if the spouse is not more than 5 years younger than the member. The PSRS also provides death and disability benefits. These benefit provisions and all other requirements are established by City Council.

The employer is required by City Code to contribute the amounts necessary to fund the system based on an actuarially determined percentage of payroll. There are no required contributions from the employees.

Plan Description - Portsmouth Fire and Police Retirement System

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

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

The employer is required by City Code to contribute the amounts necessary to fund the system based on an actuarially determined percentage of payroll. There are no required contributions from the employees.

Payroll and Participants

The payroll at June 30, 2009 for employees covered by PSRS and FPRS and the total payroll for all City employees was as follows:

Payroll for employees covered by PSRS	\$ 2,701,606
Payroll for employees covered by FPRS	10,531,279
Total City payroll	75,392,799

Participation in the Portsmouth Supplemental Retirement System and the Fire and Police Retirement System consisted of the following as of July 1, 2009:

	PSRS	FPRS
Retirees and beneficiaries	381	552
Vested terminated employees not yet receiving benefits	54	60
Current vested employees	56	150
	491	762

Summary of Significant Accounting Policies

The City accounts for the Portsmouth Supplemental Retirement System and the Fire and Police Retirement System as pension trust funds and does not separately issue financial reports for these plans. The financial statements of the

Notes to Basic Financial Statements, Continued

pension trust funds are prepared using the accrual basis of accounting. Contributions to each plan are recognized when due. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

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

Contributions

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

Total contributions to the PSRS and FPRS for fiscal year 2009 were \$2,260,008 and \$10,760,000, respectively. The annual required contributions of \$2,265,220 and \$10,895,934 were calculated in accordance with actuarially determined requirements computed through an actuarial valuation performed as of July 1, 2007.

Annual Pension Cost

The required contributions were determined as part of the July 1, 2007 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, and (b) projected salary increases ranging from 5.0% to 6.0% per year, and (c) 3.0% per year cost-of-living adjustments. The actuarial value of the City's assets is equal to the market value of assets. The net pension asset is recorded in the government-wide Statement of Net Assets.

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

	PSRS	FPRS
Annual required contribution	\$ 2,265,220	10,895,934
Interest on net pension asset/obligation	(21,603)	8,222
Adjustment to annual required contribution	24,436	(9,300)
Annual pension cost	2,268,053	10,894,856
Contributions made	2,260,008	10,760,000
Decrease in net pension asset /increase in net pension obligation	8,045	134,856
Net pension (asset) obligation at beginning of year	(270,042)	102,771
Net pension (asset) obligation at end of year	\$ (261,997)	237,627

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

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

Notes to Basic Financial Statements, Continued

Statement of Fiduciary Net Assets
June 30, 2009

	PSRS	FPRS
Assets:		
Investments:		
Cash	\$ 641,235	\$ 1,364,028
Common stock	15,455,354	38,700,216
Corporate bonds	6,494,792	16,262,964
Real estate	2,346,668	5,876,059
Alternatives	765,455	1,916,701
Total investments	25,703,504	64,119,968
Total assets	\$ 25,703,504	64,119,968
Net assets held in trust for pension benefits	\$ 25,703,504	64,119,968

Statement of Changes in Fiduciary Net Assets
Year Ended June 30, 2009

	PSRS	FPRS
Additions:		
Contributions	\$ 2,260,008	10,760,000
Investment income -		
Net decrease in fair value of investments	(9,119,139)	(19,409,256)
Less investment expense	(184,859)	(424,514)
Net investment income	(9,303,998)	(19,833,770)
Total additions	(7,043,990)	(9,073,770)
Deductions - benefits and refunds	7,372,828	15,997,589
Change in net assets	(14,416,818)	(25,071,359)
Net plan assets held in trust for pension benefits, beginning of year, as restated	40,120,322	89,191,327
Net plan assets held in trust for pension benefits, end of year	\$ 25,703,504	64,119,968

Virginia Retirement System
Plan Description

The City of Portsmouth and the School Board Component Unit contribute to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System (the System). All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with five years of service (age 60 with 5 years of service for participating law enforcement officers and firefighters) or at age 50 with 30 years of service for participating employees (age 50 with 25 years of service for participating law enforcement officers and firefighters) payable monthly for life in an amount equal to 1.7 percent of their average final compensation (AFC) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for an annual cost-of-living adjustment (COLA) beginning in their second year of retirement. The COLA is limited to 5% per year. AFC is

Notes to Basic Financial Statements, Continued

defined as the average of the member's highest consecutive 36 months of reported compensation. Participating law enforcement officers and firefighters may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing the System at P.O. Box 2500, Richmond, VA 23218-2500.

Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their annual reported compensation to the VRS. This 5% member contribution may be assumed by the employer. In addition, the City and the School Board are required to contribute the remaining amounts necessary to fund their participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The City's and School Board's contribution rates for the fiscal year ended June 30, 2009 were 11.2% and 14% of the annual covered payroll, respectively.

Additionally, required and actual contributions to the VRS state-wide teacher pool for the current year and each of the two preceding years were \$11,099,159 and \$11,948,682 and \$10,830,686, respectively.

Annual Pension Cost

For the fiscal year ended June 30, 2009, the City's annual pension cost of \$7,460,102 which includes the 5% employee contribution assumed by the City, was equal to the City's required and actual contributions. The School Board's annual pension cost of \$1,144,971 was not equal to the School Board's required or actual contributions. The School Board's actual contributions were \$1,144,725. The required contributions were determined as part of the June 30, 2008 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.5% investment rate of return, (b) projected salary increases ranging from 3.75% to 5.60% per year, and (c) 2.5% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3%. The actuarial value of the City's and School Board's assets is equal to the modified market value of assets. This method was determined using techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The School Board's unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis within a period of 19 years.

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

	City	School Board
Annual required contribution	\$ 7,460,102	1,144,725
Interest on net pension obligation	-	8,471
Adjustment to annual required contribution	-	(8,225)
Annual pension cost	7,460,102	1,144,971
Contributions made	7,460,102	1,144,725
Increase in net pension obligation	-	246
Net pension obligation at beginning of year	-	112,948
Net pension obligation at end of year	\$ -	113,194

Notes to Basic Financial Statements, Continued

Three-Year Contribution Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
VRS - City:			
June 30, 2009	\$ 7,460,102	100%	\$ -
June 30, 2008	7,143,724	100%	-
June 30, 2007	6,716,777	100%	-
VRS - School Board:			
June 30, 2009	1,144,725	100%	113,194
June 30, 2008	946,642	100%	112,948
June 30, 2007	929,900	100%	113,030
Portsmouth Supplemental:			
June 30, 2009	2,268,053	100%	(261,997)
June 30, 2008	2,157,687	102%	(270,042)
June 30, 2007	2,328,090	100%	(228,958)
Portsmouth Fire and Police:			
June 30, 2009	10,894,856	100%	237,627
June 30, 2008	9,812,923	102%	102,771
June 30, 2007	9,279,432	96%	163,943

Funded Status of Pension Plans

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded (Overfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
CITY-ADMINISTERED PLANS:						
<i>Portsmouth Supplemental Retirement System:</i>						
7/1/2009	\$ 30,844,205	73,446,501	42,602,296	42%	\$ 2,701,606	1577%
<i>Fire and Police Retirement System:</i>						
7/1/2009	\$ 76,943,962	214,676,887	137,732,925	36%	\$ 10,531,279	1308%
VIRGINIA RETIREMENT SYSTEM PLANS:						
<i>City of Portsmouth Employees:</i>						
6/30/2008	\$ 192,508,238	203,073,948	10,565,710	95%	\$ 66,204,197	16%
<i>School Board Nonprofessional Employees:</i>						
6/30/2008	\$ 26,548,549	30,249,399	3,700,850	88%	\$ 8,007,998	46%

The Schedule of Funding Progress for Defined Benefit Pension Plans, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actual accrued liability for benefits.

Notes to Basic Financial Statements, Continued

(8) OTHER POST EMPLOYMENT BENEFITS (OPEB)***Plan Description - The City of Portsmouth Retired Employees Health Care Program***

The City of Portsmouth Retired Employee Health Care Program is a single-employer defined benefit healthcare program administered by the City of Portsmouth. The Program provides medical and dental insurance benefits to eligible retirees and their families through the same self-insured program that provides coverage to active City employees. The City of Portsmouth Public Schools (School Board) administer a similar defined benefit healthcare plan. In connection with this, the City has established a plan to provide post-employment benefits other than pensions as defined in Section 15.2-1545 of the Code of Virginia.

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

Funding Policy. The contribution requirements of plan members and the City are established and may be amended by the City Council. The School Board has the authority to establish and amend the funding policy of their plan. The required contribution is based on projected pay-as-you-go financing requirements, with the potential for additional amounts to prefund benefits as determined annually by the City Council. For Fiscal Year 2009, the City contributed \$3,129,193 to the program, all for current premiums (approximately 63% of total premiums), and there was no additional prefunding contribution. Retired employees receiving benefits contributed \$1,807,707 (approximately 37% of total premiums) through required monthly contributions that vary from \$195.45 to \$797.43 depending on the retiree's choice of Health Maintenance Organization or Preferred Provider coverage, the retiree's age, and whether the coverage is for the retiree only or includes family members.

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

	City	School Board
Annual required contribution	\$ 13,811,219	1,004,077
Interest on net OPEB obligation	-	-
Adjustment to annual required contribution	-	-
Annual OPEB cost	13,811,219	1,004,077
Contributions made	5,129,191	1,250,252
Increase (decrease) in net OPEB obligation	8,682,028	(246,175)
Net OPEB obligation (asset) at beginning of year	11,781,028	(371,495)
Net OPEB obligation (asset) at end of year	\$ 20,463,056	(617,670)

The fiscal year ended June 30, 2009 was the second year for which an actuarially determined ARC of \$13,811,219 had been calculated for the City of Portsmouth Retired Employees Health Care Program. The City's contribution to the ARC was \$5,129,193 and \$3,200,000 for fiscal year 2009 and 2008 respectfully.

Notes to Basic Financial Statements, Continued

The City's and School's annual OPEB cost, the percentage of annual OPEB cost contributed to the program, and the net OPEB obligation for Fiscal Year 2009 is as follows:

City of Portsmouth

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2008	\$14,981,028	21.4%	\$11,781,028
6/30/2009	\$13,811,219	37.1%	\$20,463,054

School Board

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation/ (Asset)
6/30/2008	\$ 486,533	176%	\$(371,495)
6/30/2009	\$1,004,077	125%	\$(617,670)

Funded Status and Funding Progress.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
City of Portsmouth:						
7/1/2008	-	\$187,436,612	187,436,612	0.0%	77,011,285	243.4%
School Board:						
7/1/2008	\$650,000	\$ 10,802,915	10,152,915	6.02%	95,870,390	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 actuarial liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Notes to Basic Financial Statements, Continued

In the June 30, 2007 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.0% investment rate of return, relating it to the City's rate of investment return on its general unrestricted cash assets due to the unfunded status of the program's actuarial accrued liability; and an annual healthcare cost increase rate of 9 percent initially, reduced by decrements to an ultimate rate of 5 percent for the year beginning July 1, 2013 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 UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2007 was 29 years.

(9) DEFERRED COMPENSATION PLAN

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

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

(10) INTERFUND BALANCES AND TRANSFERS**Due From/To Other Funds**

Individual fund interfund receivable and payable balances at June 30, 2009 are as follows:

Due from Other Funds	Due to Other Funds				Total
	Nonmajor Governmental Funds	Public Utility Fund	Parking Authority	Nonmajor Enterprise Funds	
General Fund	\$ 2,162,276	\$ -	\$ 359,010	259,824	2,781,110

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

Notes to Basic Financial Statements, Continued

Due From/To Primary Government/Component Units

Amounts due at June 30, 2009 between the City and the Component Units are as follows:

Due From (To) Component Units	Primary Government		Total
	Economic Development Authority	School Board	
General Fund	\$ -	100,318	100,318
Capital Improvements	(341,264)	-	(341,264)
Nonmajor governmental funds	-	(100,318)	(100,318)
	\$ (341,264)	-	(341,264)

The Statement of Net Assets reflects \$100,318 as due from component units and \$441,582 as due to component units for a net due to component units of \$341,264 as noted in the above table.

Transfers From/To Other Funds

Individual fund interfund transfers for the primary government were made for operating as well as capital purposes. These interfund transfers for the year ended June 30, 2009 are as follows:

Transfers to:	Transfers from:					Total
	General Fund	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	Public Utility Fund	Internal Service Funds	
General Fund	\$ -	338,000	-	7,200,000	2,250,000	9,788,000
Capital Improvements Fund	26,513	2,362,040	-	-	500,000	2,888,553
Nonmajor governmental funds	7,512,385	72,749	-	-	-	7,585,134
Nonmajor enterprise funds	825,620	-	-	-	-	825,620
Total	\$ 8,364,518	2,772,789	-	7,200,000	2,750,000	21,087,307

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

Amounts due from other governments at June 30, 2009 are as follows:

Notes to Basic Financial Statements, Continued

	Federal	State	Total
Governmental activities:			
General Fund:			
Sales and use tax	\$ -	1,140,503	1,140,503
Personal property tax relief	-	9,862,962	9,862,962
Correctional facilities block grant	-	284,230	284,230
Constitutional officers' support	-	771,593	771,593
Other	-	7,595	7,595
Total General Fund	-	12,066,883	12,066,883
Nonmajor governmental funds:			
Community Services Act Fund	-	979,886	979,886
Social Services Fund	-	2,492,674	2,492,674
Grants Fund	508,731	148,815	657,546
Community Development Fund	255,661	-	255,661
Total nonmajor governmental funds	764,392	3,621,375	4,385,767
Total governmental activities	\$ 764,392	15,688,258	16,452,650

(12) DEFERRED AND UNEARNED REVENUES

Deferred and unearned revenues represent amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available.

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

	Governmental Funds				Business-Type	
	General Fund	Capital Improvements Fund	Nonmajor Governmental Funds	Total	Governmental Activities	Parking Authority
Property taxes	\$ 7,764,249	-	-	7,764,249	-	-
Parking space rentals	-	-	-	-	-	48,391
Unearned grant revenue	-	-	-	-	-	-
Notes receivable	-	4,152	-	4,152	4,152	-
Stormwater fees	-	-	28,484	28,484	-	-
Total deferred and unearned revenues	\$ 7,764,249	4,152	28,484	7,796,885	4,152	48,391

Notes to Basic Financial Statements, Continued

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

State and federal laws and regulations require the City to place a final cover on its Craney Island landfill site when it stops accepting waste and then perform certain maintenance and monitoring functions at the site for thirty years after closure. The \$5,481,808 reported as landfill closure and postclosure care liability at June 30, 2009 represents the cumulative amount reported to date based on the use of 52 percent of the estimated capacity of the landfill. The City will recognize the remaining estimated cost of closure and postclosure care of \$5,033,689 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2009. 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 42 years. The City is required by Federal and State statutes to prepare a Local Government Financial Test Worksheet to demonstrate how closure and postclosure care financial assurance requirements will be met.

(14) CONTINGENT LIABILITIES**Litigation**

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

Federally Assisted Grant Programs

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

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

The City has agreed to pay its proportionate share of the debt service, issued by the Hampton Roads Regional Jail Authority (the Jail Authority), subject to the appropriation of funds for such purpose, if the Jail Authority lacks sufficient funds to do so. The outstanding balance as of June 30, 2009 is \$44,450,000. The purpose of the Jail Authority is to operate a jail facility in the City to hold prisoners primarily from member jurisdictions and from other jurisdictions on a space available basis. The Jail Authority is governed by a twelve-member board consisting of three representatives from each member jurisdiction, namely the City Manager, the Sheriff, and one member of the City Council (as designated by the City Council). The agreement of the member jurisdictions to pay is not legally binding and is allocated as follows: Portsmouth, 21.43%; Hampton, 22.00%; Newport News, 25.14%; and Norfolk, 31.43%. No payments were made under the provisions of this agreement during the year ended June 30, 2009.

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

Notes to Basic Financial Statements, Continued

(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 internal service funds such as, the Risk Management Fund to account for and finance its uninsured risks of loss and the Health Insurance Fund to pay health insurance premiums. The Risk Management Fund pays insurance premiums and provides for payment of approved claims for workers' compensation, general liability, fidelity, wharfingers, hull and machinery and property. The property deductible is \$100,000 per occurrence with \$200,000,000 limit per occurrence. The City purchases commercial excess insurance policies for workers' compensation and general liability. Therefore, for the fiscal years ended June 30, 2009, 2008, and 2007, property damage claims liability did not exceed \$100,000.

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 \$14,386,836 (undiscounted) reported in the fund at June 30, 2009 is based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The amount due within one year is \$2,998,640. A loss analysis, which included an estimate of incurred but not reported claims, was conducted by Mercer Oliver Wyman Actuarial Consulting, Incorporated as of June 30, 2009 to compute this liability.

Changes in the fund's claims liability amount in fiscal years 2009 and 2008 were:

		2009	2008
Risk management claims payable at beginning of year	\$	14,093,327	15,225,125
Risk management claims expense and changes in estimates		3,085,767	1,653,212
Risk management claims payments, net		(2,792,258)	(2,785,010)
Risk management claims payable at end of year	\$	14,386,836	14,093,327

The City is also exposed to the risk of loss for employee and retired employee medical benefits. Effective January 1, 2001, the City established a self-insured health care benefits program for all City employees and retired employees. These benefits are accounted for in the Health Insurance Fund, an internal service fund. Certain claims expenses paid on behalf of each employee during a single policy year are covered by excess loss insurance with a specific stop-loss limit of \$175,000 depending on the specific medical plan. Claims processing and payments for all medical claims are made through third party administrators. The computed medical claims liability as of June 30, 2009 is \$1,299,037 (undiscounted) and is due within one year. A loss analysis, which included an estimate of incurred but not reported claims, was conducted by Mercer Human Resource Consulting, Incorporated as of June 30, 2009 to compute this liability.

Notes to Basic Financial Statements, Continued

Changes in the medical claim liability amount in fiscal years 2009 and 2008 were:

	2009	2008
Medical claims payable at beginning of year	\$ 1,341,000	1,218,000
Medical claims expense and changes in estimates	14,891,220	12,053,529
Medical claims payments	(14,933,183)	(11,930,529)
Medical claims payable at end of year	\$ 1,299,037	1,341,000

School Board

The School Board uses its Risk Management and Insurance Fund, an internal service fund, to account for and finance its uninsured risks of loss and to pay insurance premiums. The fund services all claims for risk of loss to which the School Board is exposed, including worker's compensation, automobile and general liability. A loss analysis was conducted by Mercer Oliver Wyman Actuarial Consulting, Inc on this fund. The actuarially computed liability as of June 30, 2009 was determined to be \$2,482,841 (undiscounted), of which \$945,005 is due within one year.

Changes in the school's claim liability amount in fiscal years 2009 and 2008 were:

	2009	2008
Claims payable at beginning of year	\$ 1,969,691	2,246,477
Claims and changes in estimates	1,052,503	356,947
Claim payments	(539,353)	(633,733)
Claims payable at end of year	\$ 2,482,841	1,969,691

(16) RELATED ORGANIZATIONS

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

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

(17) NET ASSET/FUND BALANCE DEFICITS AND EXPENDITURES IN EXCESS OF APPROPRIATIONS

The Risk Management Fund has an accumulated net asset deficit balance of \$1,830,843 at June 30, 2009. The deficit is expected to be eliminated by charging other City funds for risk management costs in subsequent fiscal years.

There were no functional expenditure categories of the General Fund that had expenditures in excess of appropriations at June 30, 2009.

Required Supplementary Information
Other than Management's Discussion and Analysis



CITY OF PORTSMOUTH, VIRGINIA

Schedule I-1

Budgetary Comparison Schedule

Schedule of Revenues and Other Financing Sources

General Fund

Year ended June 30, 2009

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Taxes:				
General property taxes:				
Real property - current	\$ 85,469,908	\$ 85,469,908	79,342,478	(6,127,430)
Real property - delinquent	1,900,000	1,900,000	8,742,042	6,842,042
Real property - Public Service Corporation	2,155,268	2,155,268	2,044,653	(110,615)
Personal property - current	15,827,760	15,827,760	17,486,387	1,658,627
Personal property - delinquent	2,710,904	2,710,904	5,179,011	2,468,107
Personal property - Public Service Corporation	838,379	838,379	1,060,529	222,150
Machine and tool taxes	3,208,253	3,208,253	1,978,331	(1,229,922)
Penalties and other charges	1,163,642	1,163,642	1,427,649	264,007
Interest	409,254	409,254	509,188	99,934
Total general property taxes	113,683,368	113,683,368	117,770,268	4,086,900
Other local taxes:				
Admission and amusement taxes	322,130	322,130	262,460	(59,670)
Bank franchise taxes	351,979	351,979	556,460	204,481
Business and occupational license taxes	8,546,234	8,546,234	5,797,880	(2,748,354)
Cigarette taxes	1,983,226	1,983,226	2,578,777	595,551
Franchise tax - cable television	412,497	412,497	-	(412,497)
Licensing fees - current	1,671,236	1,671,236	1,571,071	(100,165)
Licensing fees - delinquent	658,517	658,517	460,755	(197,762)
Lodging taxes	994,525	994,525	828,155	(166,370)
Motor vehicle license fee	-	-	1,814	1,814
Recordation taxes	1,542,944	1,542,944	897,500	(645,444)
Restaurant food taxes	6,352,519	6,352,519	6,225,392	(127,127)
Sales and use tax - local	7,468,301	7,468,301	7,147,057	(321,244)
Short-term rental taxes	52,573	52,573	35,059	(17,514)
Telecommunications	8,589,474	8,589,474	9,343,627	754,153
Total other local taxes	38,946,155	38,946,155	35,706,007	(3,240,148)
Utility taxes:				
Electricity taxes	4,022,634	4,022,634	4,143,597	120,963
Gas taxes	1,483,219	1,483,219	1,429,610	(53,609)
Water taxes	2,189,336	2,189,336	2,102,822	(86,514)
Total utility taxes	7,695,189	7,695,189	7,676,029	(19,160)
Total taxes	160,324,712	160,324,712	161,152,304	827,592
Intergovernmental revenue:				
Commonwealth of Virginia:				
Noncategorical aid:				
Mobile home sales taxes	662	662	2,567	1,905
Personal property tax relief act	9,862,962	9,862,962	9,862,962	-
Recordation tax distribution	233,100	233,100	310,872	77,772
Rolling stock taxes	21,582	21,582	27,776	6,194
Vehicle rental tax	127,644	127,644	151,617	23,973
Wine tax	58,459	58,459	-	(58,459)

(continued)

CITY OF PORTSMOUTH, VIRGINIA

Schedule I-1, Continued

Budgetary Comparison Schedule

Schedule of Revenues and Other Financing Sources

General Fund

Year ended June 30, 2009

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Commonwealth of Virginia, continued:				
Categorical aid - shared costs:				
Circuit Court Clerk	\$ 840,615	\$ 840,615	1,009,209	168,594
City Registrar	55,654	55,654	32,559	(23,095)
City Sheriff	6,404,661	6,415,424	4,089,674	(2,325,750)
City Treasurer	331,601	331,601	353,372	21,771
Commissioner of Revenue	288,872	301,171	295,124	(6,047)
Commonwealth Attorney	1,734,722	1,734,722	1,614,734	(119,988)
DMV select	-	-	45,246	45,246
Escheated property	-	-	2,247	2,247
Medical Examiner	2,093	2,093	-	(2,093)
Other categorical aid:				
Correctional facilities block grant	1,728,029	1,728,029	1,105,117	(622,912)
Law enforcement grant	7,641,194	7,641,194	6,621,309	(1,019,885)
Library funds - books	217,018	217,018	189,908	(27,110)
Street and highway maintenance	9,242,264	9,242,264	9,504,902	262,638
Wireless E-911	94,600	94,600	44,488	(50,112)
Total Commonwealth of Virginia	38,885,732	38,908,794	35,263,683	(3,645,111)
Federal -				
FEMA reimbursement	-	-	1,090	1,090
Stimulus/ARRA Funds	-	-	1,909,249	1,909,249
Total Federal	-	-	1,910,339	1,910,339
Total intergovernmental revenue	38,885,732	38,908,794	37,174,022	(1,734,772)
Charges for services:				
Ambulance fees - current	1,326,665	1,326,665	1,236,798	(89,867)
Animal crematory fees	3,766	3,766	30	(3,736)
Circuit Court Clerk fees	182,400	182,400	7,734	(174,666)
City Sheriff fees	19,197	19,197	17,696	(1,501)
Concession fees	-	-	14,561	14,561
Courthouse maintenance fees	60,986	60,986	49,662	(11,324)
Library fines and fees	28,000	28,000	43,366	15,366
Museum admission charges	541,059	541,059	478,832	(62,227)
Police record fees	53,802	53,802	28,286	(25,516)
Recreation activity fees	201,333	201,333	145,165	(56,168)
Rental inspection fees	90,008	90,008	70,831	(19,177)
Street closure applications	-	-	220	220
Swimming fees	1,100	1,100	1,420	320
Miscellaneous recoveries	782,477	782,477	149,221	(633,256)
Total charges for services	3,290,793	3,290,793	2,243,822	(1,046,971)

(continued)

CITY OF PORTSMOUTH, VIRGINIA

Schedule I-1, Continued

Budgetary Comparison Schedule
Schedule of Revenues and Other Financing Sources
General Fund
Year ended June 30, 2009

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Investment income-				
Investment income	\$ 600,000	600,000	93,418	(506,582)
Total investment income	600,000	600,000	93,418	(506,582)
Recovered costs:				
City garage fund	395,421	395,421	395,421	-
Information technology fund	254,265	254,265	254,265	-
Court appointed attorneys	2,026	2,026	1,330	(696)
Golf fund	183,903	183,903	138,224	(45,679)
Health department	-	-	57,149	57,149
Health insurance fund	3,770	3,770	16,301	12,531
Law library fund	3,636	3,636	3,636	-
Lockup fees - federal prisoners	455,844	455,844	455,844	-
Behavioral health services fund	646,487	646,487	646,487	-
Miscellaneous recoveries	54,594	79,594	151,662	72,068
Parking authority	71,594	71,594	71,594	-
Citywide telephone charges	18,675	18,675	23,804	5,129
Postage	473,550	473,550	404,012	(69,538)
Public utility fund	761,342	761,342	761,342	-
Risk management fund	39,033	39,033	39,033	-
School Board salaries	50,000	50,000	50,000	-
Social security payments - jail	-	-	12,000	12,000
Stormwater management fund	88,480	88,480	88,480	-
Social services fund	478,726	478,726	269,380	(209,346)
VDOT salaries	65,000	65,000	20,760	(44,240)
Waste management fund	224,818	224,818	224,818	-
Sheriff's department	-	-	49,495	49,495
Total recovered costs	4,271,164	4,296,164	4,135,037	(161,127)
Fines and forfeitures:				
Circuit Court fines	7,923	7,923	9,374	1,451
Conviction fees	71,407	71,407	132,494	61,087
General District Court fines	118,285	118,285	31,109	(87,176)
Overweight vehicle fines	74,112	74,112	-	(74,112)
Reimb DEA overtime	11,255	11,255	-	(11,255)
Reimb FBI overtime	22,511	22,511	-	(22,511)
Reimb HazMat Fire overtime	2,971	2,971	-	(2,971)
Juvenile Court fines	2,727	2,727	552	(2,175)
Total fines and forfeitures	311,191	311,191	173,529	(137,662)
Licenses and permits:				
Bicycle licenses	225	225	651	426
Building plan review fees	28,672	28,672	17,515	(11,157)
Building reinspection fees	630	630	4,500	3,870
Building structure permits	254,722	254,722	205,833	(48,889)
Dog impounding fees	1,250	1,250	1,857	607
Dog licenses	18,562	18,562	31,500	12,938
Electrical inspection fees	11,069	11,069	12,090	1,021
Electrical permits	128,517	128,517	92,221	(36,296)
Elevator inspection fees	1,575	1,575	3,570	1,995
Hauling and permit fees	105,000	105,000	75,875	(29,125)

(continued)

CITY OF PORTSMOUTH, VIRGINIA

Schedule I-1, Continued

Budgetary Comparison Schedule
Schedule of Revenues and Other Financing Sources
General Fund
Year ended June 30, 2009

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Licenses and permits, continued:				
License transfer fees	\$ 3,556	3,556	2,377	(1,179)
Mechanical inspection fees	4,582	4,582	3,125	(1,457)
Mechanical permits	110,822	110,822	121,250	10,428
Miscellaneous permits	38,428	38,428	33,847	(4,581)
Penalties on licenses	53,943	53,943	109,342	55,399
Plumbing inspection fees	971	971	480	(491)
Plumbing permits	54,180	54,180	47,321	(6,859)
Restricted parking permits	2,900	2,900	3,668	768
Right of way permits	310,000	310,000	103,955	(206,045)
Sign permit fees	2,136	2,136	4,239	2,103
Site plan review fees	-	-	11,690	11,690
State surcharge on permits	2,100	2,100	(2,856)	(4,956)
Taxi operators permits	2,200	2,200	1,840	(360)
Yard sale permits	5,298	5,298	3,985	(1,313)
Zoning and plat fees	40,894	40,894	37,048	(3,846)
Total licenses and permits	1,182,232	1,182,232	926,923	(255,309)
Use of property:				
Rental of antenna sites	45,067	45,067	74,914	29,847
Rental of lockers	-	-	38,330	38,330
Payments from Economic Development Authority	125,000	125,000	124,998	(2)
Rental of general properties	2,236,552	2,236,552	1,907,919	(328,633)
Total use of property	2,406,619	2,406,619	2,146,161	(260,458)
Miscellaneous:				
Community share - incentive fund	10,000	10,000	480	(9,520)
Admin fee - state income tax	1,650	1,650	2,250	600
Admin fee - RE	1,152,113	1,152,113	424,172	(727,941)
Admin fee - PP	1,695,709	1,695,709	1,153,408	(542,301)
Admin fee - Parking	56,778	56,778	64,469	7,691
Admin fee - EMS	-	-	2,191	2,191
Admin fee - Gen	-	-	2,367	2,367
Sale of abandoned property	-	-	5,043	5,043
Other revenue	74,479	74,479	(11,536)	(86,015)
Unclaimed property tax refunds	75,000	75,000	15,423	(59,577)
Payments in lieu of taxes:				
Housing Authority	67,041	67,041	29,185	(37,856)
Regional Jail	524,155	524,155	495,900	(28,255)
Virginia Port Authority	555,500	555,500	362,505	(192,995)
Public utility fund	1,008,568	1,008,568	1,008,568	-
Payment from Portsmouth Public Schools	267,204	267,204	367,000	99,796
Total miscellaneous revenue	5,488,197	5,488,197	3,921,425	(1,566,772)
Total revenues	216,760,640	216,808,702	211,966,641	(4,842,061)

(continued)

CITY OF PORTSMOUTH, VIRGINIA

Schedule I-1, Continued

Budgetary Comparison Schedule

Schedule of Revenues and Other Financing Sources

General Fund

Year ended June 30, 2009

Other financing sources:

Refunding bonds issued	-	-	45,725,000	45,725,000
Premium on bonds issued	-	-	994,187	994,187
Discount on bonds issued	-	-	(351,552)	(351,552)
Bond proceeds - cost of issuance	600,000.00	600,000	263,596	(336,404)
Transfers from other funds:				
Health Insurance Fund	-	2,000,000	2,000,000	-
Garage Fund	-	250,000	250,000	-
BHS	338,000	338,000	338,000	-
Parking Authority	335,835	335,835	-	(335,835)
Public utility fund	7,200,000	7,200,000	7,200,000	-
Total other financing sources	8,473,835	10,723,835	56,419,231	45,695,396
Total revenues and other financing sources	\$ 225,234,475	227,532,537	268,385,872	40,853,335

Unaudited - see accompanying independent auditors' report.

CITY OF PORTSMOUTH, VIRGINIA

Schedule I-2

Budgetary Comparison Schedule
Schedule of Expenditures and Other Financing Uses (Non-GAAP Basis)
General Fund
Year ended June 30, 2009

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
General government:				
Administration:				
Legislative:				
City council	\$ 440,969	440,969	382,634	58,335
City clerk	363,066	363,066	334,568	28,498
Total legislative	804,035	804,035	717,202	86,833
Executive:				
City manager	1,255,826	1,147,797	732,964	414,833
Management and legislative services	572,053	524,371	418,053	106,318
Video services	398,220	398,220	356,051	42,169
UMOJA	-	-	-	-
Events	-	-	-	-
Office of marketing	1,089,810	1,013,297	893,697	119,600
Total executive	3,315,909	3,083,685	2,400,765	682,920
Boards and commissions:				
Civil service commission	79,400	79,400	73,727	5,673
General registrar	617,704	614,774	654,751	(39,977)
Total boards and commissions	697,104	694,174	728,478	(34,304)
Total administration	4,817,048	4,581,894	3,846,445	735,449
City attorney	1,575,660	1,575,660	1,448,191	127,469
Human resource management	1,217,607	1,217,607	983,436	234,171
Financial administration:				
Commissioner of revenue	1,527,697	1,531,222	1,483,952	47,270
City assessor	885,687	885,687	832,331	53,356
City treasurer	1,875,278	1,865,176	1,846,766	18,410
Procurement and risk management	1,270,061	1,270,061	1,200,653	69,408
Finance	2,047,863	1,995,879	1,784,752	211,127
Total financial administration	7,606,586	7,548,025	7,148,454	399,571
Public transportation	2,494,498	2,494,498	2,494,498	-
Total general government	17,711,399	17,417,684	15,921,024	1,496,660
Nondepartmental:				
Miscellaneous	(71,609)	4,805,130	8,910,027	(4,104,897)
Support to civic organizations	592,500	594,000	593,800	200
Total nondepartmental	520,891	5,399,130	9,503,827	(4,104,697)

(continued)

CITY OF PORTSMOUTH, VIRGINIA

Schedule I-2, Continued

Budgetary Comparison Schedule
Schedule of Expenditures and Other Financing Uses (Non-GAAP Basis)
General Fund
Year ended June 30, 2009

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Judicial:				
Circuit court judges	\$ 551,700	551,700	551,778	(78)
Circuit court clerk	1,400,107	1,508,368	1,546,658	(38,290)
Magistrate	12,269	12,269	9,240	3,029
General district court	49,938	54,688	41,434	13,254
Juvenile and domestic relations court	24,909	24,632	18,433	6,199
Juvenile court services	1,247,647	1,244,064	1,166,769	77,295
Commonwealth's attorney	2,858,299	2,791,038	2,660,790	130,248
Sheriff	14,065,613	13,727,688	12,783,793	943,895
Total judicial	20,210,482	19,914,447	18,778,895	1,135,552
Public safety:				
Police	29,094,106	28,698,602	27,513,381	1,185,221
E-911 communications	-	2,210,476	1,737,375	473,101
Operations Spt bureau	885,296	456,909	808,175	(351,266)
Admin & Support bureau	-	-	414,319	(414,319)
Field Operations bureau	2,416,861	196,153	553,108	(356,955)
Animal control & security	-	491,089	102,083	389,006
Fire, rescue, and emergency services	26,252,816	26,210,467	26,831,737	(621,270)
Total public safety	58,649,079	58,263,696	57,960,178	303,518
Public works:				
Engineering	1,712,176	1,712,176	1,632,613	79,563
Streets and highways	4,517,689	4,472,109	3,886,753	585,356
Mosquito control	501,823	501,823	382,563	119,260
Traffic engineering	2,597,303	2,782,321	2,525,904	256,417
General services:				
Properties management	3,775,083	3,649,584	3,600,437	49,147
Utilities	2,123,200	2,365,860	2,368,209	(2,349)
Rental of land and buildings	987,921	949,082	949,081	1
Storeroom	-	-	6,123	(6,123)
Harbor Center pavilion	397,836	395,336	319,502	75,834
Total public works	16,613,031	16,828,291	15,671,185	1,157,106
Public health and welfare - Health department	1,327,506	1,327,506	1,240,194	87,312
Parks, recreation, and cultural:				
Parks and recreation - administration	4,735,772	4,928,387	4,538,001	390,386
Parks and recreation - recreation	439,319	396,573	278,570	118,003
Parks	2,451,764	2,126,764	1,923,528	203,236
Museums	1,968,599	1,923,870	1,882,087	41,783
Public library	2,527,155	2,411,718	2,301,030	110,688
Total parks, recreation, and cultural	12,122,609	11,787,312	10,923,216	864,096

(continued)

Budgetary Comparison Schedule
Schedule of Expenditures and Other Financing Uses (Non-GAAP Basis)
General Fund
Year ended June 30, 2009

		Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Community development:					
Permits and inspections	\$	3,499,080	3,356,280	3,074,865	281,415
Economic development		1,477,497	1,355,708	1,030,543	325,165
Planning		2,180,249	2,059,871	1,777,555	282,316
Convention and visitors bureau		663,797	476,459	356,013	120,446
Total community development		7,820,623	7,248,318	6,238,976	1,009,342
Education - Payments to school board		49,791,970	49,791,970	49,818,483	(26,513)
Capital Outlay - HVAC Capital Lease		-	-	358,080	(358,080)
Debt service:					
Principal		15,856,907	15,508,010	12,690,309	2,817,701
Interest and fiscal charges		10,710,483	11,059,380	10,968,853	90,527
Costs of issuance		-	-	922,304	(922,304)
Total debt service		26,567,390	26,567,390	24,581,466	1,985,924
Total expenditures		211,334,980	214,545,744	210,995,524	3,550,220
Other financing uses:					
Payment to escrow agent	\$	-	-	45,565,623	(45,565,623)
Transfers to other funds:					
Behavioral health services fund		633,562	633,562	633,562	-
Social services fund		6,233,445	6,002,934	5,264,517	738,417
Community services fund		2,739,507	2,191,629	1,610,723	580,906
Donations fund		47,000	47,000	-	47,000
Grants fund		-	3,583	3,583	-
PRHA (Com Dev)		250,000	250,000	-	250,000
Parking authority		472,500	472,500	175,620	296,880
Golf		1,127,481	1,127,481	650,000	477,481
Capital improvement fund		2,396,000	2,422,514	26,513	2,396,001
Total transfers to other funds		13,899,495	13,151,203	53,930,141	(40,778,938)
Total other financing uses		13,899,495	13,151,203	53,930,141	(40,778,938)
Total expenditures and other financing uses	\$	225,234,475	\$ 227,696,947	\$ 264,925,665	(37,228,718)

Unaudited - see accompanying independent auditors' report.

Budgetary Comparison Schedule
Note to Required Supplementary Information
General Fund

Year ended June 30, 2009

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, 2009, as amended. The budget as adopted by the City Council may be amended by the City Council through supplemental appropriations or transfers, as necessary. The legal level of budgetary control rests at the fund level with the exception of the General Fund, which is appropriated at the activity or function level. In addition, the City Code provides that the City Manager may transfer any unencumbered appropriation balance less than \$100,000 from one department, project, program, or purpose within the same fund. Also, the City Manager may transfer any or all of the unencumbered balance of the emergency contingency account to any item in the City budget provided that any such utilization from the emergency budget contingency is reported to the City Council at the next regular council meeting.

The General, special revenue, and all proprietary funds have legally adopted annual budgets except the Grants Fund and the Donations Fund. The capital projects funds, Grants Fund, and Donations Fund utilize project budgets in lieu of annual budgets.

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

The General Fund's budget is adopted on a basis consistent with generally accepted accounting principles (GAAP) except for the recognition of encumbrances as expenditures. A reconciliation of expenditures from the budgetary basis to the GAAP basis is as follows:

Total General Fund expenditures - Budgetary basis - per Schedule I-2	\$ 210,995,524
Add: Expenditures from prior year encumbrances	
Less: Current year encumbrances	-
Total General Fund expenditures - GAAP basis - per Exhibit D	\$ 210,995,524

Unaudited - see accompanying independent auditors' report.

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AAL) - Entry Age	Unfunded (Overfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
I. CITY-ADMINISTERED PLANS:						
<i>A. Portsmouth Supplemental Retirement System:</i>						
7/1/2009	\$ 30,844,205	73,446,501	42,602,296	42%	\$ 3,831,000	1112%
7/1/2008	44,887,703	73,205,749	28,318,046	61%	4,155,000	682%
7/1/2007	47,383,449	70,564,879	23,181,430	67%	4,354,000	532%
7/1/2006	44,984,706	67,253,150	22,268,444	67%	4,472,000	498%
7/1/2005	45,070,186	69,629,486	24,559,300	65%	4,821,000	509%
7/1/2004	45,692,761	67,497,029	21,804,268	68%	5,700,000	383%
7/1/2003	44,274,255	66,382,397	22,108,142	67%	6,367,000	347%
<i>B. Fire and Police Retirement System:</i>						
7/1/2009	\$ 76,943,962	214,676,887	137,732,925	36%	\$ 11,048,000	1247%
7/1/2008	99,468,964	210,696,128	111,227,164	47%	11,615,000	958%
7/1/2007	99,524,229	202,807,233	103,283,004	49%	12,015,000	860%
7/1/2006	91,076,751	184,555,196	93,478,445	49%	11,642,000	803%
7/1/2005	87,799,085	173,938,719	86,139,634	50%	11,823,000	729%
7/1/2004	84,719,127	163,976,841	79,257,714	52%	12,394,000	639%
7/1/2003	80,456,440	161,935,321	81,478,881	50%	12,688,000	642%
II. VIRGINIA RETIREMENT SYSTEM PLANS:						
<i>A. City of Portsmouth Employees:</i>						
6/30/2008	\$ 192,508,238	203,073,948	10,565,710	95%	\$ 66,204,197	16%
6/30/2007	172,051,577	180,513,208	8,461,631	95%	63,792,347	13%
6/30/2006	150,091,584	161,435,702	11,344,118	93%	59,578,054	19%
6/30/2005	139,340,446	153,228,560	13,888,114	91%	54,901,414	25%
<i>B. School Board Nonprofessional Employees:</i>						
6/30/2008	\$ 26,548,549	30,249,399	3,700,850	88%	\$ 8,007,998	46%
6/30/2007	24,480,702	27,907,908	3,427,206	88%	8,046,557	43%
6/30/2006	22,044,655	25,078,308	3,033,653	88%	8,002,672	38%
6/30/2005	21,058,942	24,171,379	3,112,437	87%	7,759,979	40%

Unaudited - see accompanying independent auditors' report.

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

Year Ended June 30	Portsmouth Supplemental		Fire and Police	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2009	\$ 2,265,220	100%	\$ 10,895,934	99%
2008	2,155,485	102%	9,814,500	102%
2007	2,326,033	100%	9,277,615	96%
2006	2,084,812	100%	8,583,893	100%
2005	1,678,576	99%	8,544,079	99%
2004	1,116,961	96%	5,790,202	97%
2003	1,191,196	100%	5,758,510	100%
2002	696,400	100%	4,241,278	100%
2001	755,044	102%	4,510,105	100%
2000	757,778	113%	4,005,179	105%
1999	749,790	118%	3,668,374	107%

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

	Portsmouth Supplemental	Fire and Police	Virginia Retirement System
Valuation date	7/1/2009	7/1/2009	6/30/2008
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level dollar, open	Level dollar, open	Level percent, open
Remaining amortization period	28 years	28 years	20 years
Asset valuation method	Long-Range Yield	Long-Range Yield	Modified Market
Actuarial assumptions:			
Investment rate of return	8.00%	8.00%	7.50%
Projected salary increases:			
City-Administered Plans	5.00%	6.00%	-
Virginia Retirement System:			
Non-LEO Employees	-	-	3.75 - 5.60%
LEO Employees	-	-	3.50 - 4.75%
Cost-of-living adjustments	3.00%	3.00%	2.50%

Unaudited - see accompanying independent auditors' report.

Required Supplementary Information (Unaudited)

Schedule of Funding Progress for Defined Other Post Employment Benefit Plans

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded (Overfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
CITY OF PORTSMOUTH RETIRED EMPLOYEES HEALTH CARE PROGRAM:						
7/1/2008	-	\$ 187,436,612	187,436,612	0%	77,011,285	243%
SCHOOL BOARD PLAN:						
7/1/2008	650,000	\$ 10,802,915	10,152,915	6%	95,870,390	11%

Schedule of Employer Contributions for Defined Other Post Employment Benefit Plans

Year Ended June 30	Annual Required Contribution	Percentage Contributed
CITY OF PORTSMOUTH RETIRED EMPLOYEES HEALTH CARE PROGRAM:		
6/30/2009	\$ 13,811,219	37.1%
6/30/2008	\$ 14,981,028	21.4%
SCHOOL BOARD PLAN:		
6/30/2009	\$ 1,004,007	125.0%
6/30/2008	\$ 486,533	176.0%

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

Nonmajor Governmental Funds

CITY OF PORTSMOUTH, VIRGINIA

Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2009

Schedule J-1

	Special Revenue Funds										Capital Projects		
	Behavioral Health Services	Public Law Library	Social Services	Stormwater Management	Grants	Comprehensive Services	Donations	Shuttle Bus	Willet Hall	Recreation	Fund - Community Development	Permanent Fund - Cemetery	Total
Assets:													
Cash and temporary investments	\$ 2,178,417	22,035	-	1,949,581	500,340	-	1,905,555	\$ -	427,916	197,569	335,305	1,394,025	8,910,743
Accounts receivable (net of allowance for uncollectibles)	4,335	-	10,029	268,564	-	-	-	-	19,370	-	-	-	302,298
Due from other governments	-	-	2,492,674	-	657,547	979,886	-	-	-	-	255,661	-	4,385,768
Prepaid items	-	-	-	-	-	-	-	-	2,223	-	-	-	2,223
Total assets	\$ 2,182,752	22,035	2,502,703	2,218,145	1,157,887	979,886	1,905,555	-	449,509	197,569	590,966	1,394,025	13,601,032
Liabilities:													
Accounts payable	\$ 199,945	8,077	768,636	20,626	54,797	-	11,863	-	85,501	-	62,044	-	1,211,489
Due to other governments	-	-	-	-	-	551,679	83,216	-	-	-	-	-	634,895
Due to other funds	-	-	1,734,067	-	-	427,194	-	1,015	-	-	-	-	2,162,276
Due to component units	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred revenues	-	-	-	28,484	-	-	-	-	-	-	-	-	28,484
Total liabilities	199,945	8,077	2,502,703	49,110	54,797	978,873	95,079	1,015	85,501	-	62,044	-	4,037,144
Fund balances:													
Reserved for current year encumbrances	200,518	-	-	-	1,016,690	-	-	-	-	-	230,275	-	1,447,483
Reserved for revenue maximization	-	-	204,358	-	-	-	-	-	-	-	-	-	204,358
Reserved for cemetery care	-	-	-	-	-	-	-	-	-	-	-	1,000,000	1,000,000
Unreserved:													
Designated for subsequent year's expenditures	-	-	-	330,501	-	-	-	-	-	-	-	-	330,501
Undesignated	1,782,289	13,958	(204,358)	1,838,534	86,400	1,013	1,810,476	(1,015)	364,008	197,569	298,647	394,025	6,581,546
Total fund balances	1,982,807	13,958	-	2,169,035	1,103,090	1,013	1,810,476	(1,015)	364,008	197,569	528,922	1,394,025	9,563,888
Total liabilities and fund balances	\$ 2,182,752	22,035	2,502,703	2,218,145	1,157,887	979,886	1,905,555	-	449,509	197,569	590,966	1,394,025	13,601,032

CITY OF PORTSMOUTH, VIRGINIA
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year ended June 30, 2009

	Special Revenue Funds										Capital Projects			
	Behavioral Health Services	Public Law Library	Social Services	Stormwater Management	Grants	Comprehensive Services	Donations	Shuttle Bus	Willett Hall	Recreation	Community Development	Permanent Fund - Cemetery	Total	
Revenues:														
Intergovernmental	\$ 9,223,513	-	18,241,564	-	3,582,325	4,332,337	531,592	-	-	-	2,555,048	-	38,466,379	
Charges for services	431,309	25,948	-	4,820,811	-	-	-	50	164,831	455,867	-	46,400	5,945,216	
Investment income	3,388	45	-	5,163	-	-	3,547	-	561	257	-	40,357	53,318	
Use of property	-	-	-	-	-	-	-	-	87,908	-	295,962	-	383,870	
Miscellaneous	-	-	-	-	-	-	593,643	-	57	-	-	-	593,700	
Total revenues	9,658,210	25,993	18,241,564	4,825,974	3,582,325	4,332,337	1,128,782	50	253,357	456,124	2,851,010	86,757	45,442,483	
Expenditures:														
Current:														
General government	-	-	-	-	85,987	-	39,232	-	-	-	-	100,000	225,219	
Judicial	-	31,787	-	-	1,080,842	-	713,514	-	-	-	-	-	1,826,143	
Public safety	-	-	-	-	898,682	-	151,122	-	-	-	-	-	1,049,804	
Public works	-	-	-	1,741,892	-	-	-	-	-	-	-	-	1,741,892	
Health and welfare	10,024,392	-	23,495,787	-	355,824	5,942,970	3,263	-	-	-	-	-	39,822,236	
Parks, recreational, and cultural	-	-	-	-	575,950	-	219,947	-	186,016	325,675	-	-	1,307,588	
Community development	-	-	-	-	44,226	-	-	1,065	-	-	2,749,463	-	2,794,754	
Capital outlay	17,230	-	10,294	-	149,384	-	-	-	-	-	-	-	176,908	
Total expenditures	10,041,622	31,787	23,506,081	1,741,892	3,190,895	5,942,970	1,127,078	1,065	186,016	325,675	2,749,463	100,000	48,944,544	
Revenues over (under) expenditures	(383,412)	(5,794)	(5,264,517)	3,084,082	391,430	(1,610,633)	1,704	(1,015)	67,341	130,449	101,547	(13,243)	(3,502,061)	
Other financing sources (uses):														
Transfers from other funds	633,562	-	5,264,517	-	76,332	1,610,723	-	-	-	-	-	-	7,585,134	
Transfers to other funds	(351,843)	-	-	(2,362,040)	-	-	(58,906)	-	-	-	-	-	(2,772,789)	
Total other financing sources (uses)	281,719	-	5,264,517	(2,362,040)	76,332	1,610,723	(58,906)	-	-	-	-	-	4,812,345	
Net change in fund balances	(101,693)	(5,794)	-	722,042	467,762	90	(57,202)	(1,015)	67,341	130,449	101,547	(13,243)	1,310,284	
Fund balances, beginning of year	2,084,500	19,752	-	1,446,993	635,328	923	1,867,678	-	296,667	67,120	427,375	1,407,268	8,253,604	
Fund balances, end of year	\$ 1,982,807	13,958	-	2,169,035	1,103,090	1,013	1,810,476	(1,015)	364,008	197,569	528,922	1,394,025	9,563,888	

CITY OF PORTSMOUTH, VIRGINIA

Schedule J-3

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

Special Revenue Funds

Year ended June 30, 2009

	Behavioral Health Services			Public Law Library		
	Budget	Actual	Variance favorable (unfavorable)	Budget	Actual	Variance favorable (unfavorable)
Revenues:						
Intergovernmental	\$ 10,538,184	9,223,513	(1,314,671)	-	-	-
Charges for services	985,000	431,309	(553,691)	33,757	25,948	(7,809)
Investment income	-	3,388	3,388	-	45	45
Miscellaneous	300,000	-	(300,000)	-	-	-
Total revenues	11,823,184	9,658,210	(2,164,974)	33,757	25,993	(7,764)
Expenditures:						
Current:						
Judicial	-	-	-	36,089	31,787	4,302
Health and welfare	12,287,874	10,224,910	2,062,964	-	-	-
Capital outlay	17,230	17,230	-	-	-	-
Total expenditures	12,305,104	10,242,140	2,062,964	36,089	31,787	4,302
Revenues over (under) expenditures	(481,920)	(583,930)	(102,010)	(2,332)	(5,794)	(3,462)
Other financing sources (uses) -						
Transfers from other funds	633,562	633,562	-	-	-	-
Transfers to other funds	(351,843)	(351,843)	-	-	-	-
Fund balance	-	-	-	-	-	-
Total other financing sources (uses)	281,719	281,719	-	-	-	-
Revenues and other financing sources over/ (under) expenditures and other financing uses	(200,201)	(302,211)	(102,010)	(2,332)	(5,794)	(3,462)
Fund balances at beginning of year	-	2,084,500	2,084,500	-	19,752	19,752
Cancellation of unexpended prior year encumbrances	-	394,359	394,359	-	4,537	4,537
Increase (decrease) in reserve for encumbrances	-	(193,841)	(193,841)	-	(4,537)	(4,537)
Fund balances at end of year	\$ -	1,982,807	2,183,008	-	13,958	16,290

(continued)

Schedule J-3, Continued

CITY OF PORTSMOUTH, VIRGINIA
Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
Special Revenue Funds
Year ended June 30, 2009

	Social Services			Stormwater Management		
	Budget	Actual	Variance favorable (unfavorable)	Budget	Actual	Variance favorable (unfavorable)
Revenues:						
Intergovernmental	\$ 20,952,118	18,241,565	(2,710,553)	4,871,023	4,820,811	(50,212)
Charges for services	-	-	-	-	-	-
Investment income	-	-	-	-	5,163	5,163
Miscellaneous	-	-	-	-	-	-
Total revenues	20,952,118	18,241,565	(2,710,553)	4,871,023	4,825,974	(45,049)
Expenditures:						
Current:						
Public works	-	-	-	2,212,180	1,741,892	470,288
Health and welfare	27,294,661	23,495,788	3,798,873	-	-	-
Capital outlay	144,850	10,294	134,556	300,000	-	300,000
Total expenditures	27,439,511	23,506,082	3,933,429	2,512,180	1,741,892	770,288
Revenues over (under) expenditures	(6,487,393)	(5,264,517)	1,222,876	2,358,843	3,084,082	725,239
Other financing sources (uses):						
Transfers from other funds	6,389,745	5,264,517	(1,125,228)	-	-	-
Transfers to other funds	-	-	-	(2,362,040)	(2,362,040)	-
Fund balance	97,648	-	(97,648)	-	-	-
Total other financing sources (uses)	6,487,393	5,264,517	(1,222,876)	(2,362,040)	(2,362,040)	-
Revenues and other financing sources over (under) expenditures and other financing uses	-	-	-	(3,197)	722,042	725,239
Fund balances at beginning of year	-	-	-	-	1,446,993	1,446,993
Cancellation of unexpended prior year encumbrances	-	-	-	-	23,950	23,950
Decrease in reserve for encumbrances	-	-	-	-	(23,950)	(23,950)
Fund balances at end of year	\$ -	-	-	-	2,169,035	2,172,232

(continued)

CITY OF PORTSMOUTH, VIRGINIA

Schedule J-3, Continued

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

Special Revenue Funds

Year ended June 30, 2009

	Comprehensive Services				Willett Hall	
	Budget	Actual	Variance favorable (unfavorable)	Budget	Actual	Variance favorable (unfavorable)
Revenues:						
Intergovernmental	\$ 6,101,148	4,332,337	(1,768,811)	280,000	164,831	(115,169)
Charges for services	-	-	-	-	-	-
Investment income	-	-	-	-	561	561
Use of property	-	-	-	105,000	87,908	(17,092)
Miscellaneous	-	-	-	1,000	57	(943)
Total revenues	6,101,148	4,332,337	(1,768,811)	386,000	253,357	(132,643)
Expenditures -						
Current:						
Health and welfare	8,680,685	5,942,970	2,737,715	-	-	-
Parks, recreational and cultural	-	-	-	289,708	186,016	103,692
Total expenditures	8,680,685	5,942,970	2,737,715	289,708	186,016	103,692
Revenues over (under) expenditures	(2,579,537)	(1,610,633)	968,904	96,292	67,341	(28,951)
Other financing sources -						
Contribution to net assets	-	-	-	(96,468)	-	96,468
Transfers from other funds	2,583,204	1,610,723	(972,481)	-	-	-
Fund balance	-	-	-	176	-	(176)
Total other financing sources	2,583,204	1,610,723	(972,481)	(96,292)	-	(176)
Revenues and other financing sources over (under) expenditures	3,667	90	(3,577)	-	67,341	67,341
Fund balances at beginning of year	-	1,013	1,013	-	296,667	296,667
Cancellation of unexpended prior year encumbrances	-	-	-	-	-	-
Increase (decrease) in reserve for encumbrances	-	-	-	-	-	-
Fund balances at end of year	\$ -	1,103	(2,564)	-	364,008	364,008

CITY OF PORTSMOUTH, VIRGINIA

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

Special Revenue Funds

Year ended June 30, 2009

Schedule J-3, Continued

	Recreation			Shuttle Bus		
	Budget	Actual	Variance favorable (unfavorable)	Budget	Actual	Variance favorable (unfavorable)
Revenues:						
Charges for services	\$ 600,000	455,867	(144,133)	15,000	50	(14,950)
Investment income	-	257	257	-	-	-
Total revenues	600,000	456,124	(143,876)	15,000	50	(14,950)
Expenditures -						
Current -						
Community Development	-	-	-	15,000	1,065	(13,935)
Parks, recreational and cultural	427,563	325,675	101,888	-	-	-
Revenues over (under) expenditures	172,437	130,449	(41,988)	-	(1,015)	(28,885)
Other financing use -						
Transfers to other funds	(86,218)	-	86,218	-	-	-
Revenues under expenditures and other financing use	86,219	130,449	(44,230)	-	(1,015)	(1,015)
Fund balances at beginning of year	-	67,120	67,120	-	-	-
Increase/ (decrease) in reserve for encumbrances	-	-	-	-	-	-
Fund balances at end of year	\$ -	197,569	22,890	\$ -	(1,015)	(1,015)



Nonmajor Proprietary Funds

CITY OF PORTSMOUTH, VIRGINIA

Schedule K-1

Combining Statement of Net Assets

Nonmajor Proprietary Funds

June 30, 2009

	Port Facility and Economic Development	Golf	Waste Management	Total
Assets:				
Current assets:				
Cash and temporary investments	\$ -	50,031	3,673,398	3,723,429
Accounts receivable (net of allowance for uncollectibles \$592,396)	-	397	2,276,745	2,277,142
Total current assets	-	50,428	5,950,143	6,000,571
Noncurrent assets:				
Capital assets:				
Land	1,830,251	9,605,289	2,909,275	14,344,815
Buildings	3,938,058	2,127,591	-	6,065,649
Improvements other than buildings	2,043,849	29,000	-	2,072,849
Machinery, furniture and equipment	-	1,042,600	8,112,148	9,154,748
Total capital assets	7,812,158	12,804,480	11,021,423	31,638,061
Less accumulated depreciation	(4,912,270)	(1,693,977)	(3,810,782)	(10,417,029)
Total capital assets, net	2,899,888	11,110,503	7,210,641	21,221,032
Other assets				
Cost of Debt Issuance	-	78,931	-	78,931
Total noncurrent assets	2,899,888	11,189,434	7,210,641	21,299,963
Total assets	\$ 2,899,888	11,239,862	13,160,784	27,300,534
Liabilities:				
Current liabilities:				
Accounts payable	\$ -	44,369	772,396	816,765
Accrued interest payable	-	79,763	-	79,763
Deposits	10,000	-	-	10,000
Due to other funds	259,824	-	-	259,824
Compensated absences	-	104,439	232,611	337,050
Obligations under capital leases	-	-	920,090	920,090
General obligation bonds	-	60,000	-	60,000
Total current liabilities	269,824	288,571	1,925,097	2,483,492
Noncurrent liabilities:				
Other post employment benefit obligations	-	187,215	739,004	926,219
Obligations under capital leases	-	-	2,208,079	2,208,079
Landfill closure and postclosure liability	-	-	5,481,808	5,481,808
General obligation bonds	-	6,489,775	-	6,489,775
Total noncurrent liabilities	-	6,676,990	8,428,891	15,105,881
Total liabilities	269,824	6,965,561	10,353,988	17,589,373
Net assets:				
Invested in capital assets, net of related debt	2,899,888	-	5,551,547	8,451,435
Unrestricted (deficit)	(269,824)	4,274,301	(2,744,751)	1,259,726
Total net assets	2,630,064	4,274,301	2,806,796	9,711,161
Total liabilities and net assets	\$ 2,899,888	11,239,862	13,160,784	27,300,534

CITY OF PORTSMOUTH, VIRGINIA

Schedule K-2

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

Nonmajor Proprietary Funds

Year ended June 30, 2009

	Port Facility and Economic Development	Golf	Waste Management	Total
Operating revenues:				
Intergovernmental	\$ -	-	680,000	680,000
Charges for services		1,293,934	12,332,045	13,625,979
Use of property	-	70,000	-	70,000
Other	-	5,491	3,510	9,001
Total operating revenues	-	1,369,425	13,015,555	14,384,980
Operating expenses:				
Personnel services	-	1,044,141	3,625,352	4,669,493
Contractual services	-	482,615	5,627,818	6,110,433
Supplies and materials	-	199,636	136,015	335,651
Utilities	-	114,925	4,551	119,476
Internal charges	-	31,890	1,750,697	1,782,587
Rent	-	81,728	-	81,728
Depreciation and amortization	86,922	140,229	814,397	1,041,548
Bad debt expense	-	-	34,748	34,748
Other	-	3,319	224,953	228,272
Total operating expenses	86,922	2,098,483	12,218,531	14,403,936
Operating income (loss)	(86,922)	(729,058)	797,024	(18,956)
Nonoperating revenues (expenses):				
Investment income	-	-	4,805	4,805
Gain (loss) on disposal of capital assets	-	-	(18,728)	(18,728)
Interest expense and fiscal charges	-	(302,447)	(77,059)	(379,506)
Net nonoperating revenues (expenses)	-	(302,447)	(90,982)	(393,429)
Net income (loss) before transfers	(86,922)	(1,031,505)	706,042	(412,385)
Transfers from other funds	-	650,000	-	650,000
Change in net assets	(86,922)	(381,505)	706,042	237,615
Net assets, beginning of year	2,716,986	4,655,806	2,100,754	9,473,546
Net assets, end of year	\$ 2,630,064	4,274,301	2,806,796	9,711,161

CITY OF PORTSMOUTH, VIRGINIA

Schedule K-3

Combining Statement of Cash Flows

Nonmajor Proprietary Funds

Year ended June 30, 2009

	Port Facility and Economic Development	Golf	Waste Management	Total
Cash flows from operating activities:				
Receipts from customers	\$ -	1,370,197	12,897,426	14,267,623
Payments to suppliers	-	(905,647)	(7,340,086)	(8,245,733)
Payments to employees	-	(951,627)	(3,323,181)	(4,274,808)
Net cash provided by (used for) operating activities	-	(487,077)	2,234,159	1,747,082
Cash flows from noncapital financing activity -				
Transfers in / (out)	-	650,000	-	650,000
Net cash used for noncapital financing activities	-	650,000	-	650,000
Cash flows from capital and related financing activities:				
Acquisition and construction of fixed assets	-	-	-	-
Proceeds from sale of capital assets	-	-	10,357	10,357
Principal paid on long-term debt	-	-	(712,515)	(712,515)
Interest paid	-	(347,199)	(77,059)	(424,258)
Net cash used for capital and related financing activities	-	(347,199)	(779,217)	(1,126,416)
Cash flows from investing activities -				
Interest received	-	-	4,805	4,805
Net cash provided by investing activities	-	-	4,805	4,805
Net increase (decrease) in cash and temporary investments	-	(184,276)	1,459,747	1,275,471
Cash and temporary investments, beginning of year	-	234,307	2,213,651	2,447,958
Cash and temporary investments, end of year	\$ -	50,031	3,673,398	3,723,429
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities				
Operating income (loss)	\$ (86,922)	(729,058)	797,024	(18,956)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation and amortization	86,922	140,229	814,397	1,041,548
Changes in assets and liabilities increasing (decreasing) cash and temporary investments:				
Accounts receivable	-	772	(83,381)	(82,609)
Due from other funds	-	-	-	-
Accounts payable	-	8,466	358,515	366,981
Compensated absences	-	12,708	(12,852)	(144)
Other post employment benefit obligation	-	79,806	315,023	394,829
Landfill closure and postclosure liability	-	-	45,433	45,433
Net cash provided by (used for) operating activities	\$ -	(487,077)	2,234,159	1,747,082

Supplemental information on significant noncash transactions:

Borrowing under capital leases:

Waste Management Fund \$1,608,549

Internal Service Funds

CITY OF PORTSMOUTH, VIRGINIA

Schedule L-1

Combining Statement of Net Assets

Internal Service Funds

June 30, 2009

	City Garage	Information Technology	Health Insurance	OPEB	Risk Management	Total
Assets:						
Current assets:						
Cash and temporary investments	\$ 1,943,210	1,320,052	9,347,199	2,000,000	12,711,543	27,322,004
Accounts receivable	45,849	52,136	95,156	-	61,625	254,766
Inventory of supplies	684,407	-	-	-	-	684,407
Total current assets	2,673,466	1,372,188	9,442,355	2,000,000	12,773,168	28,261,177
Capital assets:						
Land	15,048	-	-	-	-	15,048
Buildings	693,083	-	-	-	-	693,083
Machinery, furniture and equipment	17,843,353	5,783,245	-	-	-	23,626,598
Total capital assets	18,551,484	5,783,245	-	-	-	24,334,729
Less accumulated depreciation	(10,522,694)	(3,931,104)	-	-	-	(14,453,798)
Total capital assets, net	8,028,790	1,852,141	-	-	-	9,880,931
Total assets	\$ 10,702,256	3,224,329	9,442,355	2,000,000	12,773,168	38,142,108
Liabilities:						
Current liabilities:						
Accounts payable	\$ 310,182	157,150	-	-	173,272	640,604
Compensated absences	162,527	217,557	-	-	18,543	398,627
Obligations under capital leases	1,916,478	503,206	-	-	-	2,419,684
Claims payable	-	-	1,299,037	-	2,998,640	4,297,677
Total current liabilities	2,389,187	877,913	1,299,037	-	3,190,455	7,756,592
Noncurrent liabilities:						
Claims payable	-	-	-	-	11,388,196	11,388,196
Other post employment benefit obligation	403,988	384,282	-	-	25,360	813,630
Obligations under capital leases	3,735,681	174,220	-	-	-	3,909,901
Total noncurrent liabilities	4,139,669	558,502	-	-	11,413,556	16,111,727
Total liabilities	6,528,856	1,436,415	1,299,037	-	14,604,011	23,868,319
Net assets:						
Invested in capital assets, net of related debt	2,376,631	1,174,715	-	-	-	3,551,346
Unrestricted (deficit)	1,796,769	613,199	8,143,318	2,000,000	(1,830,843)	10,722,443
Total net assets	4,173,400	1,787,914	8,143,318	2,000,000	(1,830,843)	14,273,789
Total liabilities and net assets	\$ 10,702,256	3,224,329	9,442,355	2,000,000	12,773,168	38,142,108

CITY OF PORTSMOUTH, VIRGINIA

Schedule L-2

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

Internal Service Funds

Year ended June 30, 2009

	City Garage	Information Technology	Health Insurance	OPEB	Risk Management	Total
Operating revenues:						
Charges for services	\$ 9,407,708	5,325,627	20,946,726	-	6,863,256	42,543,317
Other	3,686	29,795	257,846	-	158,246	449,573
Total operating revenues	9,411,394	5,355,422	21,204,572	-	7,021,502	42,992,890
Operating expenses:						
Personnel services	2,335,395	2,935,977	-	-	291,902	5,563,274
Contractual services	462,115	1,018,457	786,486	-	314,837	2,581,895
Supplies and materials	3,526,344	465,444	-	-	8,927	4,000,715
Utilities	82,783	108,200	-	-	2,515	193,498
Claims, settlements, and refunds	-	-	14,891,219	-	2,792,258	17,683,477
Insurance premiums	-	-	-	-	1,026,852	1,026,852
Depreciation and amortization	1,789,508	583,022	-	-	-	2,372,530
Other	413,996	255,497	56,591	-	44,418	770,502
Total operating expenses	8,610,141	5,366,597	15,734,296	-	4,481,709	34,192,743
Operating income	801,253	(11,175)	5,470,276	-	2,539,793	8,800,147
Nonoperating revenues (expenses):						
Investment income	2,279	1,616	20,805	-	17,124	41,824
Gain (loss) on disposal of capital assets	(5,627)	-	-	-	-	(5,627)
Interest expense and fiscal charges	(171,114)	(46,070)	-	-	-	(217,184)
Net nonoperating revenues (expenses)	(174,462)	(44,454)	20,805	-	17,124	(180,987)
Net income before transfers	626,791	(55,629)	5,491,081	-	2,556,917	8,619,160
Transfers from other funds	-	-	-	2,000,000	1,500,000	3,500,000
Transfers to other funds	(250,000)	-	(5,500,000)	-	(500,000)	(6,250,000)
Change in net assets	376,791	(55,629)	(8,919)	2,000,000	3,556,917	5,869,160
Net assets (deficit), beginning of year	3,796,609	1,843,543	8,152,237	-	(5,387,760)	8,404,629
Net assets (deficit), end of year	\$ 4,173,400	1,787,914	8,143,318	2,000,000	(1,830,843)	14,273,789

CITY OF PORTSMOUTH, VIRGINIA

Schedule L-3

Combining Statement of Cash Flows

Internal Service Funds

Year ended June 30, 2009

	City Garage	Information Technology	Health Insurance	OPEB	Risk Management	Total
Cash flows from operating activities:						
Receipts from customers	\$ 9,481,333	5,377,059	21,231,851	-	6,959,877	43,050,120
Payments to suppliers	(4,103,787)	(1,899,259)	(15,776,259)	-	(3,911,926)	(25,691,231)
Payments to employees	(2,164,293)	(2,790,652)	-	-	(294,041)	(5,248,986)
Net cash provided by operating activities	3,213,253	687,148	5,455,592	-	2,753,910	12,109,903
Cash flows from noncapital financing activity -						
Transfers (out) / in	(250,000)	-	(5,500,000)	2,000,000	1,000,000	(2,750,000)
Net cash provided by noncapital financing activities	(250,000)	-	(5,500,000)	2,000,000	1,000,000	(2,750,000)
Cash flows from capital and related financing activities:						
Acquisition and construction of capital assets	(1,643,665)	-	-	-	-	(1,643,665)
Proceeds from sale of capital assets	20,967	-	-	-	-	20,967
Principal paid on long-term debt	(392,136)	(612,247)	-	-	-	(1,004,383)
Interest (paid) / received	(171,114)	(46,070)	20,805	-	17,124	(179,255)
Net cash used for capital and related financing activities	(2,185,948)	(658,317)	20,805	-	17,124	(2,806,336)
Cash flows from investing activities -						
Interest received	2,279	1,616	-	-	-	3,895
Net cash provided by investing activities	2,279	1,616	-	-	-	3,895
Net increase in cash and temporary investments	779,584	30,447	(23,603)	2,000,000	3,771,034	6,557,462
Cash and temporary investments, beginning of year	1,163,626	1,289,605	9,370,802	-	8,940,509	20,764,542
Cash and temporary investments, end of year	\$ 1,943,210	1,320,052	9,347,199	2,000,000	12,711,543	27,322,004
Adjustments to reconcile operating income to net cash provided by operating activities						
Operating income	\$ 801,253	(11,175)	5,470,276	-	2,539,793	8,800,147
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation and amortization	1,789,508	583,022	-	-	-	2,372,530
Changes in assets and liabilities increasing (decreasing) cash and temporary investments:						
Accounts receivable	69,939	21,637	27,279	-	(61,625)	57,230
Inventory of supplies	306,799	-	-	-	-	306,799
Accounts payable	74,652	(51,661)	-	-	(15,628)	7,363
Compensated absences	(1,110)	(18,487)	-	-	(10,540)	(30,137)
Other post employment benefit obligation	172,212	163,812	-	-	8,401	344,425
Claims payable	-	-	(41,963)	-	293,509	251,546
Net cash provided by operating activities	\$ 3,213,253	687,148	5,455,592	-	2,753,910	12,109,903

Supplemental information on significant noncash transactions:

Borrowing under capital leases:
City Garage Fund \$1,616,383

Fiduciary Funds

CITY OF PORTSMOUTH, VIRGINIA**Schedule M-1****Combining Statement of Fiduciary Net Assets****Fiduciary Funds - Pension Trust Funds****June 30, 2009**

	Portsmouth Supplemental Retirement System	Portsmouth Fire and Police Retirement System	Total
Assets:			
Investments:			
Cash	\$ 641,235	1,364,028	2,005,263
Common stock	15,455,354	38,700,216	54,155,570
Corporate bonds	6,494,792	16,262,964	22,757,756
Real estate	2,346,668	5,876,059	8,222,727
Alternatives	765,455 #	1,916,701	2,682,156
Total assets	\$ 25,703,504	64,119,968	89,823,472
Net assets held in trust for pension benefits	\$ 25,703,504	64,119,968	89,823,472

CITY OF PORTSMOUTH, VIRGINIA

Schedule M-2

Combining Statement of Changes in Fiduciary Net Assets

Fiduciary Funds - Pension Trust Funds

Year ended June 30, 2009

	Portsmouth Supplemental Retirement System	Portsmouth Fire and Police Retirement System	Total
Additions:			
Contributions	\$ 2,260,008	10,760,000	13,020,008
Investment income -			
Net decrease in the fair value of investments	(9,119,139)	(19,409,256)	(28,528,395)
Less investment expense	(184,859)	(424,514)	(609,373)
Net investment income	(9,303,998)	(19,833,770)	(29,137,768)
Total additions	(7,043,990)	(9,073,770)	(16,117,760)
Deductions - benefits and refunds	7,372,828	15,997,589	23,370,417
Change in net assets	(14,416,818)	(25,071,359)	(39,488,177)
Net plan assets held in trust for pension benefits, beginning of year	40,120,322	89,191,327	129,311,649
Net plan assets held in trust for pension benefits, end of year	\$ 25,703,504	64,119,968	89,823,472

CITY OF PORTSMOUTH, VIRGINIA**Schedule M-3****Statement of Changes in Assets and Liabilities****Fiduciary Funds - Agency Fund****Year ended June 30, 2009**

	Balance July 1, 2008	Additions	Deductions	Balance June 30, 2009
Assets:				
Cash and temporary investments	\$ 126,011	251,624	273,143	104,492
Liabilities:				
Cash held for others	\$ 126,011	251,624	273,143	104,492

STATISTICAL SECTION

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

Financial Trends

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

Revenue Capacity

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

Debt Capacity

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

Demographic and Economic information

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

Operating information

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

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



CITY OF PORTSMOUTH, VIRGINIA

Net Assets by Component

Last Eight Fiscal Years

(accrual basis of accounting)

A-1

		Fiscal year							
		2002	2003	2004	2005	2006	2007	2008	2009
Governmental activities:									
Invested in capital assets, net of related debt	\$	186,348,840	179,158,480	174,607,640	175,288,130	167,581,045	178,183,374	187,359,078	176,415,840
Restricted		4,729,274	6,325,007	9,560,635	6,341,840	14,958,699	10,510,194	5,588,429	12,438,087
Unrestricted		(8,966,313)	(12,181,708)	(975,637)	10,112,505	30,296,025	32,295,766	24,710,887	27,319,933
Total governmental activities net assets	\$	182,111,801	173,301,779	183,192,638	191,742,475	212,835,769	220,989,334	217,658,394	216,173,860
Business-type activities:									
Invested in capital assets, net of related debt	\$	83,536,450	94,189,421	95,356,124	105,115,529	104,805,799	108,111,466	112,115,139	114,270,026
Restricted		7,041,762	5,097,480	7,943,529	-	-	2,190,726	3,389,920	4,117,658
Unrestricted		8,347,171	9,562,355	12,176,618	15,026,250	23,530,011	26,316,690	27,320,964	30,213,505
Total business-type activities net assets	\$	98,925,383	108,849,256	115,476,271	120,141,779	128,335,810	136,618,882	142,826,023	148,601,189
Primary government:									
Invested in capital assets, net of related debt	\$	269,885,290	273,347,901	269,963,764	280,403,659	272,386,844	286,294,840	299,474,217	290,685,866
Restricted		11,771,036	11,422,487	17,504,164	6,341,840	14,958,699	12,700,920	8,978,349	16,555,745
Unrestricted		(619,142)	(2,619,353)	11,200,981	25,138,755	53,826,036	58,612,456	52,031,851	57,533,438
Total primary government net assets	\$	281,037,184	282,151,035	298,668,909	311,884,254	341,171,579	357,608,216	360,484,417	364,775,049

Note: GASB Statement Number 34 was implemented in Fiscal Year 2002, therefore information prior to 2002 is not available.

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

A-2

	Fiscal year							
	2002	2003	2004	2005	2006	2007	2008	2009
Expenses:								
Governmental activities:								
General government	\$ 13,770,252	11,720,023	11,692,728	13,328,360	20,456,662	30,899,380	17,457,023	26,462,771
Nondepartmental	5,591,277	8,366,152	4,762,967	5,898,408	-	-	6,135,893	-
Judicial	18,374,317	15,773,813	17,691,137	16,427,965	17,340,546	18,098,589	20,995,575	22,068,062
Public safety	39,012,705	42,400,606	40,994,089	46,918,455	49,239,795	53,309,122	58,580,530	59,957,146
Public works	30,752,346	27,141,064	27,619,634	27,842,278	29,444,928	29,347,705	31,141,010	29,535,176
Health and welfare	33,280,478	31,324,968	29,243,499	32,467,973	36,185,435	39,099,957	41,037,989	40,267,351
Parks, recreational, and cultural	7,296,226	10,253,492	11,772,825	11,774,542	11,154,672	12,440,345	13,017,308	13,000,940
Community development	9,131,049	9,199,557	7,787,772	10,543,456	10,226,594	12,716,520	9,577,401	9,306,525
Education	32,735,751	29,338,070	29,686,110	32,897,229	38,499,873	44,642,509	57,072,177	53,881,305
Interest on long-term debt	11,314,569	10,736,872	8,763,884	9,456,475	10,933,509	11,135,778	11,642,071	10,573,858
Total governmental activities expenses	201,258,970	196,254,617	190,014,645	207,555,141	223,482,014	251,689,905	266,656,977	265,053,134
Business-type activities:								
Public Utility	14,350,847	14,220,589	14,943,547	16,370,484	16,642,684	18,073,378	21,132,727	22,589,478
Golf	2,006,630	2,078,915	2,287,630	2,129,150	1,897,023	2,322,069	2,467,403	2,400,930
Port Facility and Economic Development	235,695	206,270	237,204	200,977	87,904	86,922	86,922	86,922
Parking Authority	-	-	-	-	1,599,666	1,615,350	1,750,784	1,644,011
Waste Management	-	8,203,881	16,106,743	8,467,640	8,762,865	9,567,874	12,086,129	12,314,318
Total business-type activities expenses	16,593,172	24,709,655	33,575,124	27,168,251	28,990,142	31,665,593	37,523,965	39,035,659
Total primary government expenses	217,852,142	220,964,272	223,589,769	234,723,392	252,472,156	283,355,498	304,180,942	304,088,793
Program Revenues:								
Governmental activities:								
Charges for services								
General government	2,102,369	1,914,330	2,518,350	3,101,531	4,578,378	4,118,356	2,130,746	2,146,434
Judicial	609,289	567,627	874,555	623,452	723,516	663,258	384,600	224,907
Public safety	1,793,520	1,384,989	1,355,608	1,421,276	1,927,252	2,108,401	2,487,410	1,298,471
Public works	16,547,400	9,462,417	11,057,015	4,214,193	4,767,368	5,270,651	5,520,368	5,637,793
Health and welfare	2,115,958	2,412,970	2,764,962	2,456,517	3,283,363	2,928,297	523,597	431,309
Parks, recreation, and cultural	314,176	804,581	1,560,925	1,433,282	1,705,343	1,157,796	1,629,137	1,579,501
Community development	205,715	506,917	859,665	2,765,041	1,773,415	986,880	705,244	491,841
Operating grants and contributions	64,068,194	62,284,664	66,646,513	68,278,728	73,251,426	74,604,092	79,783,849	79,186,102
Capital grants and contributions	3,364,918	3,857,871	1,817,612	1,416,967	2,788,448	3,773,230	5,062,734	500,000
Total governmental activities program revenues	91,121,539	83,196,366	89,455,205	85,710,987	94,798,509	95,610,961	98,227,685	91,496,358
Business-type activities:								
Charges for services:								
Public Utility	20,658,121	20,872,297	23,337,218	29,771,198	31,023,177	32,433,324	33,522,674	35,337,953
Golf	1,680,535	1,483,492	1,523,235	1,508,307	1,660,710	1,735,064	1,688,008	1,363,934
Port Facility and Economic Development	544,836	544,836	544,836	544,836	568,279	580,000	290,000	-
Parking Authority	-	-	-	-	1,010,413	991,755	1,063,479	1,079,056
Waste Management	-	6,884,627	7,342,536	7,290,352	7,440,339	9,375,993	12,466,329	12,332,045

Note: GASB Statement Number 34 was implemented in Fiscal Year 2002, therefore information prior to 2002 is not available.

(continued)

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

A-2, Continued

	Fiscal year							
	2002	2003	2004	2005	2006	2007	2008	2009
Business-type activities, continued:								
Operating grants and contributions	\$ 182,625	-	6,720,303	1,312,180	685,994	685,994	685,994	680,000
Capital grants and contributions	-	1,333,457	-	-	987,911	246,200	50,150	118,438
Total business-type activities program revenues	23,066,117	31,118,709	39,468,128	40,426,873	43,376,823	46,048,330	49,766,634	50,911,426
Total primary government program revenues	114,187,656	114,315,075	128,923,333	126,137,860	138,175,332	141,659,291	147,994,319	142,407,784
Net (Expense)/Revenue								
Governmental activities	(110,137,431)	(113,058,251)	(100,559,440)	(121,844,154)	(128,683,505)	(156,078,944)	(168,429,292)	(173,556,776)
Business-type activities	6,472,945	6,409,054	5,893,004	13,258,622	14,386,681	14,382,737	12,242,669	11,875,767
Total primary government net (expense)/revenue	(103,664,486)	(106,649,197)	(94,666,436)	(108,585,532)	(114,296,824)	(141,696,207)	(156,186,623)	(161,681,009)
General Revenues and Other Changes in Net Assets:								
Governmental activities:								
Taxes:								
General property taxes	59,774,970	65,341,144	66,675,560	77,027,006	86,704,528	101,207,980	105,883,360	117,984,153
Other local taxes	20,436,570	22,426,385	24,370,065	25,714,884	27,002,058	27,929,104	37,862,311	35,706,007
Utility taxes	13,868,373	14,572,822	14,523,797	14,627,996	15,032,684	14,794,915	7,698,211	7,676,029
Licenses, permits, and privilege fees	629,774	-	-	-	-	-	-	-
Payment from component unit	237,921	-	-	-	-	-	-	-
Investment earnings	524,431	235,171	123,576	891,305	1,532,174	3,198,654	2,090,950	693,008
Net gain on disposal of capital assets	-	-	-	-	3,574,493	139,440	-	-
Miscellaneous	3,688,715	3,595,513	3,531,490	2,848,605	5,125,187	2,621,370	2,956,892	2,424,036
Special item	-	-	-	-	(2,236,629)	-	-	-
Transfers	2,272,389	1,290,579	1,225,811	9,284,195	8,537,144	9,553,108	8,606,628	7,382,948
Total governmental activities	101,433,143	107,461,614	110,450,299	130,393,991	145,271,639	159,444,571	165,098,352	171,866,181
Business-type activities:								
Investment earnings	522,957	226,357	125,694	793,616	1,127,642	2,622,827	1,884,812	610,492
Special item - gain on sale of golf course	3,600,000	-	-	-	-	-	-	-
Gain on sale of capital assets	-	30,169	-	426,323	20,006	(147,433)	31,984	4,176
Miscellaneous	1,279,870	1,335,487	1,834,128	371,142	479,866	1,029,816	654,304	667,679
Transfers	(2,272,389)	(1,290,579)	(1,225,811)	(9,284,195)	(8,537,144)	(9,553,108)	(8,606,628)	(7,382,948)
Total business-type activities	3,130,438	301,434	734,011	(7,693,114)	(6,909,630)	(6,047,898)	(6,035,528)	(6,100,601)
Total primary government	104,563,581	107,763,048	111,184,310	122,700,877	138,362,009	153,396,673	159,062,824	165,765,580
Change in Net Assets:								
Governmental activities	(8,704,288)	(5,596,637)	9,890,859	8,549,837	16,588,134	3,365,627	(3,330,940)	(1,690,595)
Business-type activities	9,603,383	6,710,488	6,627,015	5,565,508	7,477,051	8,334,839	6,207,141	5,775,166
Total primary government	899,095	1,113,851	16,517,874	14,115,345	24,065,185	11,700,466	2,876,201	4,084,571

Note: GASB Statement Number 34 was implemented in Fiscal Year 2002, therefore information prior to 2002 is not available.

CITY OF PORTSMOUTH, VIRGINIA

Fund Balances, Governmental Funds

Last Ten Fiscal Years (modified accrual basis of accounting)

A-3

	Fiscal year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
General Fund										
Reserved	2,409,932	1,311,794	3,468,710	1,978,078	3,319,963	1,997,783	6,300,760	5,069,051	5,707,974	3,246,548
Unreserved	12,800,008	11,419,715	13,319,176	14,924,689	18,730,024	27,492,525	36,473,047	35,452,633	26,328,953	32,608,666
Total General Fund	15,209,940	12,731,509	16,787,886	16,902,767	22,049,987	29,490,308	42,773,807	40,521,684	32,036,927	35,855,214
All Other Governmental Funds										
Reserved	11,222,317	4,212,848	5,255,341	4,559,671	4,072,248	6,745,024	13,796,697	12,992,195	12,390,140	9,013,543
Unreserved, reported in:										
Special revenue funds	1,104,889	3,088,850	2,059,431	3,272,243	5,764,887	6,043,199	6,380,664	5,933,041	5,230,281	6,219,375
Permanent funds (1)	-	-	41,585	100,213	120,002	140,468	185,397	297,604	407,268	394,025
Capital projects funds	13,075,578	549,618	4,683,728	810,330	2,100,788	(2,530,084)	14,573,363	24,241,983	5,390,537	21,751,465
Total all other governmental funds	25,402,784	7,851,316	12,040,085	8,742,457	12,057,925	10,398,607	34,936,121	43,464,823	23,418,226	37,378,408

(1) Permanent funds not used before fiscal year 2002.

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

A-4

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Revenues										
Taxes	88,898,682	90,838,944	93,735,729	101,887,513	105,968,051	116,523,150	129,336,845	142,304,393	151,595,074	161,152,304
Licenses and permits	613,506	514,563	629,774	584,412	952,160	991,695	1,162,977	1,341,290	1,153,187	926,923
Fines and forfeitures	312,832	226,140	229,371	237,563	480,247	409,096	292,244	292,244	172,007	173,529
Investment income and use of property	3,344,559	2,279,203	2,162,290	2,799,451	3,104,812	5,754,735	5,331,493	6,058,766	4,539,471	2,239,579
Charges for services	19,846,863	19,497,944	21,817,344	14,112,958	17,029,881	9,668,285	13,324,845	12,541,445	9,264,732	2,243,822
Recovered costs	3,250,890	2,547,810	3,433,912	3,113,520	2,992,593	3,460,190	6,220,227	3,622,340	4,676,217	4,135,037
Miscellaneous	3,899,249	2,055,203	1,925,019	3,029,616	2,847,396	2,499,809	3,030,478	3,114,090	5,372,509	3,921,425
Intergovernmental	67,437,118	77,733,351	66,566,787	61,837,855	65,943,667	66,665,474	73,155,576	76,192,266	80,210,496	37,174,022
Sale of commodities and property	53,779	175,296	664,878	394,649	296,891	2,064	3,574,493	139,440	242,770	-
Total revenues and other sources	187,657,478	195,868,454	191,165,104	187,997,537	199,615,698	205,974,498	235,472,145	245,606,274	257,226,463	211,966,641
Expenditures										
General government	12,101,796	11,784,866	11,831,386	9,929,164	11,900,198	13,415,671	20,992,502	23,229,371	17,701,336	15,921,024
Nondepartmental	6,365,491	4,889,064	5,299,684	8,074,445	4,904,095	5,977,663	-	-	6,681,149	9,503,827
Judicial	14,687,443	15,613,866	17,018,620	14,646,606	17,500,634	16,322,948	17,215,246	18,424,590	19,869,269	18,778,895
Public safety	35,259,621	37,793,036	36,638,079	39,670,980	41,291,931	46,172,069	49,027,166	53,524,102	58,276,566	57,960,178
Public works	18,051,594	17,765,303	17,742,543	14,365,424	16,241,531	14,650,017	16,626,200	17,092,893	18,274,869	15,671,185
Health and welfare	28,937,153	30,902,950	31,510,843	30,361,124	30,711,542	32,985,326	37,175,910	40,762,079	42,530,195	1,240,194
Parks, recreation, and cultural	6,784,718	7,469,663	6,811,007	9,599,708	11,758,214	11,530,155	11,077,141	12,010,340	12,804,623	10,923,216
Community development	12,247,582	16,618,253	7,294,938	7,673,720	7,009,129	9,858,641	9,383,948	11,418,822	9,435,979	6,238,976
Debt service:										
Principal	9,752,696	11,160,132	7,559,714	9,368,684	11,644,093	10,664,670	12,044,668	13,681,588	15,818,354	14,251,629
Interest	6,093,983	8,561,258	11,810,710	10,309,474	8,184,113	9,840,530	10,867,394	10,708,805	11,465,427	10,329,837
Education	38,413,965	44,007,696	32,012,359	28,166,130	28,541,291	31,352,585	36,670,336	42,683,991	49,845,490	49,818,483
Capital outlay	24,025,377	43,770,678	19,592,723	10,523,767	13,192,881	18,728,969	14,604,621	27,392,620	32,181,996	358,080
Total expenditures	212,721,419	250,336,765	205,122,606	192,689,226	202,879,652	221,499,244	235,685,132	270,929,201	294,885,253	210,995,524
Excess of revenues over (under) expenditures	(25,063,941)	(54,468,311)	(13,957,502)	(4,691,689)	(3,263,954)	(15,524,746)	(212,987)	(25,322,927)	(37,658,790)	971,117
Other financing sources (uses)										
Transfers in										
Transfers out	11,684,082	10,875,517	11,032,383	9,062,933	9,424,450	16,346,941	19,874,456	23,954,536	24,610,728	9,788,000
Proceeds from capital leases	(9,547,780)	(8,929,729)	(9,487,088)	(9,612,570)	(9,068,639)	(7,891,613)	(12,085,891)	(15,449,048)	(15,483,292)	(8,364,518)
Proceeds from debt issued	-	16,333,181	-	-	-	1,715,354	-	-	-	358,080
Payments from component unit	5,950,764	14,046,167	30,727,391	4,031,858	80,715,550	11,167,049	-	-	-	263,596
Discount on bonds issued	1,088,616	152,011	237,921	-	-	-	-	-	-	-
Payments to escrow agent	-	-	-	-	-	(49,926)	(67,183)	(24,491)	-	(351,552)
Payment for current refunding of debt	-	-	-	-	(69,336,929)	-	(38,330,411)	(36,133,012)	-	(45,565,623)
Premium on bonds issued	-	-	(24,205,213)	-	-	-	-	(7,980,000)	-	-
General obligation bonds issued	-	-	768,467	-	-	-	1,440,585	310,130	-	994,187
Refunding bonds issued	-	-	-	-	-	-	24,635,213	23,259,753	-	-
Total other financing sources (uses)	9,175,682	32,477,147	33,279,074	3,482,221	11,734,432	21,287,805	36,091,556	31,577,868	9,127,436	2,847,170
Special item - payment to component unit	-	-	-	-	-	-	(2,236,629)	-	-	-
Net change in fund balances	(15,888,259)	(21,991,164)	19,321,572	(1,209,468)	8,470,478	5,763,059	33,641,940	6,254,941	(28,531,354)	3,818,287
Debt service as a percentage of noncapital expenditures	8.40%	9.55%	10.44%	10.80%	10.45%	10.11%	10.36%	9.88%	10.09%	13.19%

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 30-Jun	Residential Property	Commercial Property	Industrial Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value
2009	\$ 5,456,525	\$ 1,717,052	\$ 418,087.00	7,591,664	1.21	9,338,509
2008	4,967,919	1,487,540	203,354	6,658,814	1.26	8,747,238
2007	4,128,828	1,507,162	104,730	5,740,721	1.36	7,752,616
2006	3,314,028	1,091,120	87,007	4,492,155	1.44	6,239,104
2005	2,886,714	995,814	78,203	3,960,731	1.45	4,125,762
2004	2,581,971	960,422	66,868	3,609,261	1.42	3,759,647
2003	2,432,943	909,501	92,597	3,435,041	1.42	3,578,168
2002	2,309,567	850,129	90,687	3,250,383	1.42	3,385,816
2001	2,228,225	808,543	89,362	3,126,130	1.36	3,338,099
2000	2,161,455	758,391	99,270	3,019,116	1.36	3,158,071

Source: City Assessor's Office

CITY OF PORTSMOUTH, VIRGINIA**B-2****Property Tax Rates**

Last Ten Fiscal Years

Fiscal Year	Real Property (1)		Personal Property (2)			Manufacturer's Machinery and and Tools (3)
			Vehicles	Boats	RV's	
2009	\$	1.21	5.00	0.50	1.50	3.00
2008		1.26	5.00	0.50	1.50	3.00
2007		1.36	5.00	0.01	1.50	3.00
2006		1.44	5.00	0.01	1.50	3.00
2005		1.45	5.00	0.01	1.50	3.00
2004		1.42	4.35	0.01	1.50	3.00
2003		1.42	4.35	0.01	1.50	3.00
2002		1.42	4.35	0.01	1.50	3.00
2001		1.36	4.35	0.01	1.50	3.00
2000		1.36	4.35	0.01	1.50	3.00

- (1) As required by State law, real estate is assessed at 100% of estimated fair market value. The real estate rate is per \$100 of assessed value.
- (2) Most personal property, primarily vehicles and boats, is assessed at 100% of the National Automobile Dealer Association (NADA) average loan values and BUC Boat Price Guide values. Business personal property is assessed using a predetermined depreciation schedule.
- (3) The assessment basis for Manufacturer's Machinery and Tools is calculated on a straight 50 percent of original cost method. The tax rate is per \$100 of assessed value.

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

B-3

Taxpayer	2009		2000	
	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value
APM Terminals of Virginia	410,902,320	5.00%		
Virginia Electric and Power	47,213,180	0.57%	75,708,000	2.00%
GEM Portsmouth High LLC	33,851,910	0.46%		
G & E Apartment REIT The Myrtles	30,144,020	0.41%		
Verizon Virginia Inc.	26,462,930	0.36%		
Portsmouth Economic Development Authority	25,356,290	0.35%		
Harper Avenue LLC	23,756,610	0.32%		
Columbia Gas of Virginia Inc	22,771,920	0.31%		
Westwinds Property LLC	22,597,350	0.31%		
Portsmouth Venture One	21,988,498	0.30%		
Bell Atlantic - Virginia , Inc.		0.00%	52,108,528	1.40%
Cogentrix		0.00%	50,926,289	1.40%
BASF Corporation		0.00%	43,421,633	1.20%
Commonwealth Gas Services		0.00%	32,086,418	0.90%
KMC Telecom of Virginia, Inc		0.00%	21,455,013	0.60%
Virginia Metromet, Inc.		0.00%	17,682,763	0.50%
First Hospital Corp. (Pines Res.)		0.00%	14,766,805	0.40%
Gwaltney of Smithfield LTD	12,555,706	0.17%	13,338,019	0.40%
Moon Engineering		0.00%	9,031,951	0.20%
	<u>\$ 677,600,734</u>	<u>3.57%</u>	<u>330,525,419</u>	<u>9.00%</u>

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

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

B-4

Real Estate:

Tax FY Year	Tax Levy	Taxes Collected In Year of Levy (1)	Percent of Taxes Collected In Year of Levy (1)	Delinquent Taxes Collected to June 30, 2009	Total Tax Collections to June 30, 2008	Adjustments To Levy (3)	Outstanding Delinquent Taxes June 30, 2009	Percent of Adjusted Levy Collected to June 30, 2009
June 30, 2009	89,813,809	85,735,327	95.5	-	85,735,327	381,167	4,459,649	95.06
June 30, 2008	82,061,047	80,767,754	98.4	3,341,895	84,109,649	2,408,549	359,947	99.57
June 30, 2007	74,858,725	71,559,330	95.6	3,769,778	75,329,108	520,040	49,657	99.93
June 30, 2006	64,686,492	60,652,216	93.8	2,934,136	63,586,352	(1,070,106)	30,034	99.95
June 30, 2005	57,430,022	53,835,077	93.7	2,571,332	56,406,409	(1,013,221)	10,391	99.98
June 30, 2004	51,250,872	47,590,435	92.9	2,291,906	49,882,341	(1,360,073)	8,458	100.0
June 30, 2003	47,827,632	45,196,717	94.5	2,910,092	48,106,809	286,952	7,775	100.0
June 30, 2002	45,398,154	42,537,095	93.7	2,914,085	45,451,180	60,664	7,638	100.0
June 30, 2001	41,629,769	39,420,848	94.7	2,278,828	41,699,676	75,229	5,322	100.0
June 30, 2000	40,197,575	38,149,079	94.9	2,034,125	40,183,204	(9,533)	4,838	100.0

Personal Property:

Tax FY Year	Tax Levy (2)	Taxes Collected In Year of Levy	Percent of Taxes Collected In Year of Levy	Delinquent Taxes Collected to June 30, 2009	Total Tax Collections to June 30, 2008 (2)	Adjustments To Levy (3)	Outstanding Delinquent Taxes June 30, 2009 (4)	Percent of Adjusted Levy Collected to June 30, 2009
June 30, 2009	19,030,247	14,156,895	74.4	-	14,156,895	2,272,850	7,146,203	66.5
June 30, 2008	20,213,758	13,813,759	68.3	9,634,272	23,448,030	4,145,174	910,901	96.3
June 30, 2007	21,976,362	16,079,906	73.2	5,669,472	21,749,379	272,063	499,046	97.8
June 30, 2006	22,160,657	16,589,424	74.9	5,485,600	22,075,024	194,241	279,874	98.7
June 30, 2005	25,437,164	19,732,957	77.6	8,945,017	28,677,974	3,494,613	253,803	99.1
June 30, 2004	21,146,587	16,418,177	77.6	7,538,425	23,956,602	2,810,016	0	100.0
June 30, 2003	21,210,705	15,908,602	75.0	6,570,141	22,478,743	1,268,038	0	100.0
June 30, 2002	18,725,282	14,725,710	78.6	8,346,718	23,072,428	4,347,146	0	100.0
June 30, 2001	19,555,842	14,851,684	75.9	6,930,799	21,782,483	2,226,642	0	100.0
June 30, 2000	17,562,612	14,073,458	80.1	6,749,571	20,823,029	3,260,417	0	100.0

- (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) Excludes \$8,930,068.24 tax credit and the collection of \$9,862,962 tax credit payment from the Commonwealth for FY09. The original levy for FY09 is \$27,960,315.69 less the tax credit of \$8,930,068.24 equaling the \$19,030,247 as shown. The same applies to FY06, FY07, and FY08.
- (3) Includes supplements, abatements, prorrations, adjustments and writeoffs.
- (4) The statute of limitations on the collection of 2004 and prior year delinquent personal property taxes expired on July 1, 2009 and have been removed from the books of the City effective that date.

CITY OF PORTSMOUTH, VIRGINIA

Ratios of Outstanding Debt by Type

Last Ten Fiscal Years

(dollars in thousands, except per capita)

C-1

Fiscal Year	Governmental Activities						Business-Type Activities						Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	General Obligation Notes	Cooperation Agreements	Literary Loans	Capital Leases	Less: Restricted for Debt Service	Net Government Debt	General Obligation Notes	Revenue Bonds	Capital Leases					
2009	\$ 199,733	-	-	2,625	16,765	-	219,123	103,454	-	3,128	-	325,705	*	*	
2008	203,499	6,796	-	3,000	18,116	-	231,411	107,628	-	2,232	-	341,271	*	3,497	
2007	217,814	6,794	-	3,375	18,451	3	246,437	111,996	-	2,219	-	360,652	11.78%	3,660	
2006	171,311	7,980	34,725	3,850	18,949	683	236,132	98,372	-	1,227	-	335,731	11.32%	3,415	
2005	120,384	7,980	51,014	4,325	22,584	644	205,643	70,198	8,138	970	-	284,949	10.33%	2,892	
2004	122,058	7,980	53,144	4,800	22,343	1,050	209,275	67,154	8,423	564	-	285,416	10.81%	2,906	
2003	128,879	-	55,174	5,275	22,893	1,747	210,474	69,789	8,698	339	-	289,300	11.35%	2,955	
2002	135,492	-	56,495	5,750	23,016	649	220,104	73,400	8,963	991	-	303,458	12.59%	3,081	
2001	114,061	-	44,631	-	26,960	428	185,224	36,155	9,214	64	-	230,657	10.11%	2,332	
2000	123,421	-	39,270	-	8,158	-	170,849	59,273	9,459	188	-	239,769	11.25%	2,384	

* 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)	General Obligation Leases	Literary Loans	Cooperation Agreement	Total		
2009	\$ 303,186	10,435	2,625	-	316,246	3.62%	*
2008	223,726	10,782	3,000	-	237,508	2.72%	2,434
2007	238,621	10,291	3,375	-	252,287	3.25%	2,560
2006	193,867	10,684	3,850	-	208,401	3.34%	2,120
2005	128,364	15,920	4,325	10,200	158,809	3.85%	1,612
2004	130,038	17,773	4,800	11,380	163,991	4.36%	1,670
2003	128,879	18,239	5,275	12,500	164,893	4.61%	1,684
2002	135,492	18,520	5,750	13,000	172,762	5.10%	1,754
2001	114,061	18,778	-	-	132,839	3.98%	1,343
2000	123,421	6,555	-	-	129,976	4.12%	1,292

(1) Includes general obligation bonds and notes, governmental and business type

* Information not available at this time

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

C-3

Legal Debt Margin Calculation for Fiscal Year 2009

Assessed value	\$ 7,591,664
Debt limit (10% of assessed value)	759,166
Debt applicable to limit:	241,689
Legal debt margin	<u>\$ 517,477</u>

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Debt limit	312,613	325,038	343,504	360,926	396,073	396,073	449,215	574,072	665,881	759,166
Total net debt applicable to limit	161,268	157,064	172,762	167,125	171,992	176,610	208,401	252,287	236,589	241,689
Legal debt margin	151,345	167,974	170,742	193,801	224,081	219,463	240,814	321,785	429,292	517,477
Total net debt applicable to limit as a percentage of debt limit	51.6%	48.3%	50.3%	46.3%	43.4%	44.6%	46.4%	43.9%	35.5%	31.8%

CITY OF PORTSMOUTH, VIRGINIA
Pledged-Revenue Coverage
Last Ten Fiscal Years

C-4

(dollars in thousands)

Golf Bonds						
Fiscal Year	Gross Revenue	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
2009	\$ -	-	-	-	-	- *
2008	-	-	-	-	-	- *
2007	-	-	-	-	-	- *
2006	-	-	-	-	-	- *
2005	2,510	1,550	960	290	410	1.37
2004	1,813	1,645	168	275	426	0.24
2003	2,306	1,422	884	270	431	1.26
2002	5,791	1,343	4,448	255	441	6.39
2001	2,362	1,456	906	250	471	1.26
2000	2,283	1,445	838	210	459	1.25

* There are no outstanding revenue bonds for fiscal years 2006, 2007, 2008 and 2009.

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

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

D-1

Year	Population (1)	Personal Income (thousands of dollars) (2)	Per Capita Personal Income (2)	Median Age (4)	School Enrollment	Unemployment Rate (3)
2009	*	*	*	*	15,250	8.40%
2008	97,599	*	*	35.0	14,092	5.30%
2007	98,543	\$ 3,060,882	30,029	34.0	15,394	4.30%
2006	98,318	2,965,323	28,866	42.0	16,303	4.90%
2005	98,514	2,757,321	27,334	34.8	15,309	6.20%
2004	98,200	2,639,569	26,433	*	15,642	6.90%
2003	97,900	2,548,957	25,616	*	15,928	6.30%
2002	98,500	2,410,747	24,204	*	16,221	6.30%
2001	98,900	2,280,901	22,866	*	16,578	5.60%
2000	100,565	2,132,179	21,202	*	17,172	4.20%

- (1) Population is as of July 1 per the Weldon Cooper Center for Public Service, University of Virginia, except for 2000 which is as of April 1 per the U.S. Census Bureau.
- (2) Source - Bureau of Economic Analysis, U.S. Department of Commerce. Per Capita Income is as of December 31.
- (3) Source - Virginia Employment Commission (Job Service Division) - Average rate for calendar year. Figure for 2008 is for June 2008
- (4) Virginia Employment Commission, Economic Information Services Division; 2007 from Weldon Cooper Center for Public Service, University of Virginia.
- * Information not available at this time.

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

D-2

Employer	2009			2000		
	# of Employees (1)	Rank	Percentage of Total City Employment (1)	# of Employees (2)	Rank	Percentage of Total City Employment (2)
Norfolk Naval Shipyard	8,000	1	16.47%	7,800	1	18.27%
Naval Medical Center, Portsmouth	5,400	2	11.12%	5,000	2	11.71%
City of Portsmouth	2,645	3	5.44%	2,406	4	5.64%
Portsmouth Public Schools	2,400	4	4.94%	2,801	3	6.56%
Maryview Medical Center/Bon Secours	2,000	5	4.12%	-	-	0.00%
US Fifth District Coast Guard Command	1,500	6	3.09%	-	-	0.00%
Alternative Behavioral Services	800	7	1.65%	736	5	1.72%
Earl Industries	571	8	1.18%	450	8	1.05%
Gwaltney of Smithfield	500	9	1.03%	500	7	1.17%
Direct Home Healthcare, Inc.	375	10	0.77%	-	-	0.00%
Ceres Marine Terminals	-	-	-	620	6	1.45%
Spectrum Healthcare Resolutions	-	-	-	204	10	0.48%
Food Lion	-	-	-	350	9	0.82%
Total	24,191		49.80%	20,867		48.88%

(1) Source: Portsmouth Department of Economic Development

(2) Source: Virginia Employment Commission, Economic Information Services Division

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

E-1

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
General Fund										
General government	323	202	196	142	138	131	138	134	146	144
Judicial	233	241	242	235	236	233	233	237	252	252
Public Safety	604	613	599	603	598	598	599	599	600	597
Public Works	71	68	63	114	108	107	107	110	108	104
Health and Welfare	1	1	1	1	1	-	-	-	-	-
Parks, Recreational, and Cultural	111	154	140	131	153	126	146	124	126	120
Community Development	54	61	57	59	44	65	44	70	67	66
Total General Fund	1,397	1,340	1,298	1,285	1,278	1,260	1,267	1,274	1,299	1,283
Special Revenue Funds										
Willet Hall Fund	-	-	-	-	3	-	1	1	1	1
Comprehensive Services Fund	-	2	2	2	3	3	3	3	3	3
Stormwater Management Fund	32	33	33	34	33	33	33	33	31	31
Grants	-	-	-	31	-	-	31	31	31	31
Behavioral Health Services Fund	162	165	147	128	128	129	129	130	137	137
Public Law Library Fund	1	1	-	-	-	-	-	-	-	-
Social Services Fund	244	244	244	244	245	247	247	254	254	254
Total Special Revenue Funds	439	445	426	439	412	412	444	452	457	457
Capital Projects Fund										
Community Development	-	-	-	2	2	2	2	-	-	-
Enterprise Funds										
Public Utilities Fund	145	145	145	145	143	143	143	146	145	145
Golf Fund	20	20	19	19	19	19	19	19	19	19
Waste Management Fund	-	78	75	75	73	73	73	76	75	75
Parking Authority Fund	4	6	6	6	6	6	6	6	6	6
Total Enterprise Funds	169	249	245	245	241	241	241	247	245	245
Internal Service Funds										
City Garage Fund	41	44	41	41	42	41	41	41	41	41
Information Technology Fund	29	45	41	42	40	40	40	32	39	39
Risk Management Fund	3	4	4	5	-	1	3	3	3	2
Total Internal Service Funds	73	93	86	88	82	82	84	76	83	82
Total All Funds	2,078	2,127	2,055	2,059	2,015	1,997	2,038	2,049	2,084	2,067

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

E-2

<u>Function/Program</u>	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Police										
Physical arrests	9,859	9,965	10,835	10,506	15,333	10,724	10,571	7,895	9,852	9,747
Parking violations	12,078	10,288	7,857	8,698	8,124	8,652	8,228	8,001	15,821	8,124
Traffic violations	13,932	15,824	8,496	17,006	13,603	17,896	12,294	6,774	11,431	11,424
Fire										
Emergency responses	*	*	*	*	*	*	17,310	17,386	17,035	14,073
Fires extinguished	*	*	*	*	*	*	855	662	623	590
Inspections	*	*	*	*	*	*	1,785	900	1,259	1,875
Refuse collection										
Refuse collected (tons/day)	*	*	*	*	*	*	162	151	165	126
Recyclables collected (pounds/day)	*	*	*	*	*	*	2	2	3	5
Other public works										
Street resurfacing (miles)	*	*	*	*	*	*	26.3	17.8	44.9	20.6
Potholes repaired	*	*	*	*	*	*	1,324	1,491	911	1,045
Parks and recreation										
Community center admissions	*	*	*	*	*	*	262,399	308,891	308,891	274,571
Library										
Volumes in collection	*	*	*	*	*	*	338,601	371,256	338,971	276,874
Total volumes borrowed	*	*	*	*	*	*	380,040	337,447	370,870	376,946
Water										
New connections	*	*	*	*	*	*	136	176	255	105
Water main breaks	*	*	*	*	*	*	125	126	102	105
Average daily consumption (millions of gallons)										
Peak daily consumption (millions of gallons)	17.61	17.61	17.74	17.74	17.85	17.97	18.81	16.56	13.90	13.80
	*	*	*	*	*	*	26.69	17.53	16.90	16.70

* Information not available at this time.

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

E-3

<u>Function/Program</u>	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	241	247	244	235	234	234	242	252	255	255
Fire stations	9	9	8	8	8	8	8	8	8	8
Refuse collection										
Collection trucks	*	*	*	*	*	*	26	26	27	27
Other public works										
Streets (miles)	396	395	402	402	403	402	398	398	351	403
Highway (miles)	*	*	*	*	*	*	888	888	82	82
Streetlights	11,114	11,114	11,585	11,585	11,634	10,722	10,693	10,661	10,665	10,665
Traffic signals	*	*	*	*	*	*	115	130	120	120
Parks and recreation										
Acreage	402	402	402	402	203	203	250	402	402	402
Playgrounds	*	*	*	*	*	*	12	13	13	13
Baseball/softball diamonds	*	*	*	*	*	*	39	36	36	36
Soccer/football fields	*	*	*	*	*	*	35	34	34	34
Community centers	8	8	8	8	7	7	7	7	7	7
Water										
Water mains (miles)	625	540	625	625	625	625	543	543	626	626
Fire hydrants	2,517	2,517	2,523	2,521	2,523	2,530	2,514	2,514	2,530	2,530
Storage capacity (millions of gallons)	*	*	*	*	*	*	8.50	8.50	8.50	8.50
Wastewater										
Sanitary sewers (miles)	435	416	437	437	437	437	437	437	438	438
Storm sewers (miles)	107	107	107	107	107	107	159	159	159	159
Treatment capacity (millions of gallons)	32	32	32	32	32	32	32	32	32	32

* Information not available at this time.

COMPLIANCE SECTION





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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Portsmouth, Virginia (City), as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 7, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* 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 misstatements on a timely basis.

A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider deficiencies 2009-1, 2009-2, 2009-3, and 2009-5 described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider deficiency 2009-1 and 2009-3 in the accompanying schedule of findings and questioned costs to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests discovered instances of noncompliance or other matters that are required to be reported in accordance with *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2009-4.

We did identify three matters of noncompliance with State compliance requirements which are described in the accompanying schedule of findings and questioned costs as findings 2009-8, 2009-9, and 2009-10.

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

We noted certain other matters that we reported to management of the City in a separate letter dated December 7, 2009.

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

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

Virginia Beach, Virginia
December 7, 2009



***REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133***

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

Compliance

We have audited the compliance of the City of Portsmouth, Virginia (the "City") with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City of Portsmouth complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2009-5, 2009-6 and 2009-7.

Internal Control Over Compliance

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

procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider deficiency 2009-5 described in the accompanying schedule of findings and questioned costs to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

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

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

Virginia Beach, Virginia
December 7, 2009

CITY OF PORTSMOUTH, VIRGINIA
Schedule of Expenditures of Federal Awards
Year ended June 30, 2009

Federal Granting Agency/Pass Through Agency/Grant Program	Federal Catalogue Number	Federal Expenditures
Department of Agriculture:		
Direct payments -		
Summer Food Service Program for Children	10.559	\$ 380,659
Virginia Department of Social Services:		
Food Stamps	10.551	-
State Administrative Matching Grants for Food Stamp Program	10.561	2,083,838
Virginia Department of Agriculture and Consumer Services -		
Virginia Department of Education -		
National School Breakfast and Lunch Program	10.555, 10.553	4,482,116
Total Department of Agriculture		6,946,613
Department of Commerce, Economic Development Administration:		
Direct payments -		
Economic Adjustment Assistance Program	11.307	118,438
Total Economic Development Administration		118,438
Department of Defense -		
Direct payments -		
ROTC	12.xxx	198,425
Total Department of Defense		198,425
Department of Education:		
Direct payments -		
Impact Aid	84.041	480,080
Virginia Department of Education:		
Adult Education	84.002	169,288
Title I Grants to Local Education Agencies	84.010	6,893,171
Title I Grants A (ARRA)	84.389	2,830
Elementary and Secondary Education Act (ESEA):		-
Special Education (Title VI-B)	84.027	2,845,062
IDEA Title (VIB) Section 619 (ARRA)	84.391	15,320
Twenty-First Century Community Learning Centers	84.287	157,580
Special Education Grant (Part C)	84.181	440,780
Safe and Drug Free Schools and Communities	84.186	58,242
Innovative Education Program Strategies (Title VI)	84.298	40,100
Education Improvement Fund	84.215	424,460
Special Education - Preschool Grants	84.173	192,160
Safe School/Healthy Students	84.184	120,647
Tech Prep Education	84.243	1,660
Education Technology	84.318	32,720
Advanced Placement Program	84.330	3,572
Improving Teacher Quality	84.367	1,347,901
Education for Homeless Children & Youth	84.196	16,294
Vocational Education	84.048	416,634
Va. Comp Board -State Fiscal Stability- Govt Services ARRA	84.397	1,909,249
Total Department of Education		15,567,750

CITY OF PORTSMOUTH, VIRGINIA
Schedule of Expenditures of Federal Awards
Year ended June 30, 2009

Federal Granting Agency/Pass Through Agency/Grant Program	Federal Catalogue Number	Federal Expenditures
Department of Health and Human Services:		
Direct payments -		
Virginia Department of Social Services:		
Social Services Block Grant	93.667	792,139
Temporary Assistance for Needy Families	93.558	1,765,309
Child Care and Development Fund	93.596	1,285,561
Chafee Education & Training Vouchers Program	93.599	50,433
Medical Assistance Program - Title XIX	93.778	1,347,166
Foster Care - Title IV-E	93.658	1,507,251
Child Care and Development Block Grant	93.575	670,072
Adoption Assistance	93.659	427,296
Independent Living	93.674	79,683
Low-Income Home Energy Assistance	93.568	90,086
Refugee and Entrant Assistance	93.566	3,581
Promoting Safe and Stable Families	93.556	135,020
Adoption Incentive	93.603	5,784
State Children's Insurance Program	93.767	153,232
Child Welfare Services	93.645	10,635
Virginia Department of Mental Health, Mental Retardation and		
Substance Abuse Services:		
MH Emergency Preparedness	93.889	-
AIDS Activity	93.118	93,374
Projects for Assistance in Transition from Homelessness	93.150	54,043
Block Grants for Community Mental Health Services	93.958	187,928
Block Grants for Prevention and Treatment of Substance Abuse	93.959	1,073,561
Total Department of Health and Human Services		9,732,154
Department of Homeland Security:		
Direct Payments:		
FEMA	97.036	-
State Domestic Preparedness Equipment Support Program	97.004	-
Urban Areas Security Initiative	97.008	-
FEMA	97.024	-
MH FEMA Project Rebound	97.032	-
Assistance to Firefighters	97.044	-
State and Local All Hazards Emergency Operations Planning	97.051	4,533
Community Emergency Response Teams	97.053	5,694
State Homeland Security	97.067	240,778
State Homeland Security	97.073	-
Total Department of Homeland Security		251,005

CITY OF PORTSMOUTH, VIRGINIA
Schedule of Expenditures of Federal Awards
Year ended June 30, 2009

Federal Granting Agency/Pass Through Agency/Grant Program	Federal Catalogue Number	Federal Expenditures
Department of Housing and Urban Development:		
Direct payments:		
Community Development Block Grant	14.218	1,071,074
Special Purpose Grant	14.225	55,665
HOME Investment Partnerships Program	14.239	1,380,842
Emergency Shelter Grants Program	14.231	-
Shelter Plus Care	14.238	366,393
Supportive Housing	14.235	79,877
Program and other income:		
Community Development Block Grant	14.218	111,235
HOME Investment Partnerships Program	14.239	184,727
Total Department of Housing and Urban Development		3,249,813
Department of Justice:		
Direct Payments:		
Local Law Enforcement Block Grant Program	16.592	-
Weed and Seed	16.595	56,595
Federal Seizures	16.xxx	141,251
Sheriff's Federal Forfeiture Funds	16.xxx	389,576
Virginia Department of Criminal Justice Services:		
Crime Victim Assistance	16.575	325,533
Violence Against Women Formula Grants	16.588	-
Edward Byrne Memorial Formula Program	16.579	81,214
Drug Court Program	16.585	-
Juvenile Accountability Incentive Block Grant	16.523	43,823
One-Time Special - Carbon Monoxide		
Bulletproof vest	16.607	4,517
Total Department of Justice		1,042,509
Aerospace Education Services Program	43.001	-
Department of Transportation:		
Virginia Department of Motor Vehicles -		
Speed Control (Selective Enforcement)	20.600	21,439
VDOT Buffer Zone	20.xxx	25,500
Total Department of Transportation		46,939
Total all agencies		\$ 37,153,646

CITY OF PORTSMOUTH, VIRGINIA
Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2009

(1) General

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

(2) Basis of Accounting

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

(3) Relationship to Financial Statements

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

Intergovernmental revenue:

<u>City:</u>	
Governmental Fund	
General Fund	\$ 1,909,249
Special Revenue Funds:	
Virginia Public Assistance	10,407,086
Mental Health Services	1,849,686
Donations	422,020
Grants	1,954,140
Capital Projects Funds -	
Community Development	2,851,010
Enterprise Funds -	
Public Utilities	118,438
Total City	19,511,629
<u>Component Unit - School Board:</u>	
Operating	678,505
Grants	12,737,435
Cafeteria	4,482,116
Total component unit - School Board	17,898,056
Total federal expenditures from Intergovernmental Revenue	37,409,685
Less: Grant unspent revenues	(261,714)
Less: CDBG Unspent Revenue	(103,132)
Total federal expenditures per Schedule of Expenditures of Federal Awards	37,153,646
Less: School Board intergovernmental revenues	(17,898,056)
Value of federal assistance not included in City's financial statements:	
Donations Fund expenditures in excess of revenues	(108,807)
CDBG Fund expenditures in excess of revenues	103,132
Grant Expenditures in excess of Revenue	261,714
Intergovernmental Revenue per basic financial statements - City	\$ 19,511,629

(4) Subrecipients

Federal funds passed through to subrecipients for the year ended June 30, 2009 were as follows:

Federal Granting Agency/Grant Program	Amount
Department of Health and Human Services -	
Child Care and Development Fund	1,285,561
Department of Housing and Urban Development:	
Community Development Block Grant	1,071,074
HOME Investment Partnerships Program	1,380,842
Shelter Plus Care	366,393
Total federal funds passed through to subrecipients	\$ 4,103,870

CITY OF PORTSMOUTH, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2009

1. SUMMARY OF AUDITORS' RESULTS

- (a) The type of report issued on the basic financial statements: **Unqualified opinions**
- (b) Significant deficiencies in internal control were disclosed by the audit of the financial statements:
Yes

Material weaknesses: **Yes**
- (c) Noncompliance which is material to the basic financial statements: **Yes**
- (d) Significant deficiencies in internal control over major programs: **Yes**

Material weaknesses: **No**
- (e) The type of report issued on compliance for major programs: **Unqualified opinion**
- (f) Any audit findings which are required to be reported under Section .510(a) of OMB Circular A-133: **Yes**
- (f) Major Programs:
 - Community Development Block Grants (CFDA No. 14.218)
 - Supplemental Nutritional Assistance Program (CFDA No. 10.551/10.561)
 - Block Grant for Prevention and Treatment of Substance Abuse (CFDA No. 93.959)
 - ARRA -State Fiscal Stabilization Fund (CFDA No. 84.397)
 - Home Investment Partnership Program (CFDA No. 14.239)
 - Special Education Grants (CFDA No. 84.027/84.173)
 - Title I Grants to Local Educational Agencies (CFDA No. 84.010)
 - Impact Aid (CFDA No. 84.041)
 - Child Nutrition Cluster (CFDA No. 10.553/10.555/10.556/10.559)
- (h) The dollar threshold used to distinguish between Type A and Type B program: **\$1,114,609**
- (i) The auditee qualified as a low-risk auditee: **No**

CITY OF PORTSMOUTH, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Year Ended June 30, 2009

2. FINDINGS RELATING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

2009-1 Internal Control over Financial Reporting

Criteria:

Proper interperiod cutoff should be determined to ensure all accounts payable and expenditures are recorded in the appropriate period.

Condition:

While performing our audit procedures to test the valuation of accounts payable, we determined there were invoices received after year end that should have been accrued as accounts payable as of June 30, 2009. Conversely, invoices which had been previously paid were still included in the accounts payable balance at June 30, 2009.

Cause:

A couple of invoices were not properly accrued as accounts payable as of June 30, 2009 because they were received several weeks after the fiscal year end. In addition, several invoices were still recorded in the accounts payable balance because the cash wires that occurred to pay for them were not recorded in the accounting system.

Effect:

Accounts payable and cash were overstated and expenses were understated in the June 30, 2009 financial statements.

Recommendation:

We recommend the Finance Department develop a formal system of review during the closing process to ensure all transactions are posted to the correct period. This will allow the City to identify all items that should be recorded and included in the financial statements.

Management Response:

Finance Management concurs with the finding. Fiscal year 2009 was the second year of system implementation. During fiscal year end Finance processed approximately 5,000 transactions from which the above mentioned errors were found. The errors made represents less than 1% of the total number of transactions processed during fiscal year-end. The Finance Department will continue to carefully review all invoices received subsequent to year end and wire transfers made to ensure that payments are posted in the correct accounting period.

2009-2 Internal Control over Financial Reporting

Criteria:

Bank reconciliations should be performed monthly throughout the year.

Condition:

While performing our audit procedures to test the accuracy of cash balances, we determined that bank reconciliations were not prepared during the year for the Public Utilities account.

Cause:

The bank reconciliations were previously prepared by an employee who is no longer employed by the City and the responsibility was not properly transferred to another employee.

Effect:

The cash balances were not reconciled at June 30, 2009.

Recommendation:

We recommend the Finance Department develop a formal system of review to ensure Public Utilities bank reconciliations are being performed.

Management Response:

Finance management concurs with the finding. To ensure that bank reconciliations are performed regularly and timely, the Finance Department will start preparing the bank reconciliations for the Department of Public Utilities.

2009-3 Internal Control over Financial Reporting

Criteria:

Generally accepted accounting principles require that receivables be reviewed for collectibility and a provision be made for uncollectible amounts.

Condition:

The year end closing process at the School Board did not identify all uncollectible amounts.

Cause:

The School Board has made staffing changes and has been correcting the controls and accounting over accounts receivable.

Effect:

Accounts receivable without an adequate provision for uncollectible amounts results in an overstatement of assets and revenues in the financial statements.

Recommendation:

We recommend the School Board periodically review the schedule of accounts receivable, make all collection efforts, and make provision for uncollectible amounts.

Management Response:

The School Board will provide for doubtful accounts, We will make all collection efforts for continuing grants i.e. authorized transfer to the new grant year. Eligible expenditures will be moved to the new grant year reducing uncollectible amounts. There will be a one time transfer of funds as a recovery of accounts receivable.

The School Board will periodically analyze estimated revenues and actual expenditures in subsequent years, We will also use Munis functionality of budget checks for one time and continuing grants.

2009-4 Internal Control Over Budget and Spending

Criteria:

The Codes of the Commonwealth of Virginia and the City of Portsmouth require that the School Board not expend amounts that are not appropriated.

Condition:

For the year ended June 30, 2009, the School Board expended approximately \$2,400,000 of funds that were available to them but were in excess of their appropriation for the General Fund.

Cause:

The School Board did not adequately budget for their miscellaneous revenue and did not request a supplemental appropriation when these revenues exceeded budgeted amounts.

Effect:

The School Board is not in compliance with State and City Codes.

Recommendation:

We recommend the School Board implement a plan to more effectively budget their miscellaneous revenue, monitor compliance with the budget and request supplemental appropriations if necessary.

Management Response:

The School Board will review the following:

1. VDOE final entitlements based on March ADM, and
2. Realized miscellaneous revenue by March 30

3. FINDINGS AND QUESTIONED COSTS FOR MAJOR FEDERAL AWARDS PROGRAMS

2009 -5 Record-keeping in the Constitutional Officers' Information Network system for the State Stabilization Fund reimbursements

Criteria:

Localities and regional jails must maintain documentation that individuals paid under the State Stabilization Fund program did work or were entitled to payment as required by the Compensation Board. This information must be entered into the Constitutional Officers' Information Network (COIN) system to obtain reimbursement.

Condition:

While performing our audit procedures to ensure compliance with the State Stabilization Fund program requirements, we noted one instance of an employee who was terminated during the month but was not removed from the COIN system until the following month.

Amount of Questioned Costs:

Approximately \$1,000 of unallowable reimbursements were received.

Effect:

The City was reimbursed for one week of an employee's salary who had been terminated.

Cause:

This resulted from an oversight by the employee who removes terminated employees from the system.

Recommendation:

We recommend that the Sheriff's department work with the Finance department to implement procedures so this will not occur in the future.

Views of responsible officials and planned corrective actions:

The Sheriff's Office concur with the finding: The Sheriff's office will implement processes and procedures for a formal review process to ensure that such errors will not occur in the future.

2009-6 – Recordkeeping for Local Inmate Data System report

Criteria:

Localities and regional jails must maintain documentation of the number of state inmates recorded in the Local Inmate Data System (LIDS) as required by the Compensation Board.

Condition:

While performing our audit procedures to ensure compliance with the State Stabilization Fund requirements, the Sheriff's department could not produce documentation supporting the number of inmates which was submitted through the LIDS system for reimbursement.

Amount of Questioned Costs:

We were unable to determine a dollar amount, if any, associated with this finding.

Effect:

Information submitted for reimbursement could not be verified; therefore, reimbursement amounts may be incorrect.

Recommendation:

We recommend that the Sheriff's department maintain detailed records of information submitted through the LIDS system for inmate reimbursement.

Views of responsible officials and planned corrective actions:

The Sheriff's Office does not concur with the finding. The process applied by the LIDS Technician is in compliance with the State Compensation Board Guidelines. The State Compensation Board has nothing in writing that requires the LIDS Technician to reconcile what inmates are inputted in our Jail Management System to what is inputted in the LIDS System. The State Compensation Board performs LIDS Audits regularly and the Sheriff's Office has always received an excellent rating with the State Compensation Board.

2009-7 Subrecipient Monitoring for Community Development Block Grant (CDBG)

Criteria:

Before disbursing any CDBG funds to a subrecipient, the recipient shall sign a written agreement with the subrecipient. The agreement shall include provisions concerning: the statement of work, records and reports, program income and uniform administrative requirements (24 CFR section 570.503).

Condition:

While performing our audit procedures to ensure compliance with the CDBG program, we noted that there was no signed agreement between the City and the subrecipient using these funds.

Amount of Questioned Costs:

We were unable to determine a dollar amount, if any, associated with this finding.

Effect:

The City does not have an agreement with the subrecipient ensuring proper use of the CDBG funds.

Cause:

The City was working with the subrecipient on the agreement, but it was never signed.

Recommendation:

We recommend that the City draw up a thorough agreement that addresses the proper provisions and obtain the subrecipient's signature.

Views of responsible officials and planned corrective actions:

Finance management concurs with the finding. There is a formal signed agreement in place for fiscal year 2010. In addition, the City has established a formal subrecipient monitoring program.

4.FINDINGS AND QUESTIONED COSTS FOR STATE COMPLIANCE

2009-8 Department of Social Services System Controls

Criteria:

Anti-Virus software must be active and virus definition files must be current on all personal computers and servers.

Condition:

While performing our audit procedures to ensure compliance with the Social Services section 3-15 of the *Specifications for Audits of Counties, Cities and Towns*, we determined that anti-virus software was not on, and virus definition files were not current on all personal computers and servers.

Cause:

Procedures were not in place to ensure that anti-virus software was on and that virus definition files were current on all personal computers and servers.

Effect:

The City of Portsmouth's Social Services Department is not in compliance with section 3-15 of the *Specifications for Audits of Counties, Cities and Towns*.

Recommendation:

We recommend a procedure be put in place to ensure that anti-virus software is on all personal computers and servers and that the virus definition files are current.

Management Response:

We concur with the finding. We are currently using the State's automated system for this procedure with their parameters. All enabling or disabling is done at the State level.

5.FINDINGS AND QUESTIONED COSTS FOR STATE COMPLIANCE

2009-9 Department of Social Services LASER reconciliations

Criteria:

The Virginia Department of Social Services reimburses local governments for the state and federal shares of expenses using the Locality Automated System for Expenditure Reimbursement (LASER). Amounts reported in LASER must be periodically reconciled to the local government's general ledger.

Condition:

While performing our audit procedures to ensure compliance with the Social Services section 3-15 of the *Specifications for Audits of Counties, Cities and Towns*, we noted that LASER reports were not being properly reconciled to the City's general ledger.

Cause:

The reconciliations of the LASER reports were being done by different individuals over the past year, including a temporary employee resulting in many being completed incorrectly.

Effect:

The City of Portsmouth's Social Services Department is not in compliance with section 3-15 of the

Specifications for Audits of Counties, Cities and Towns.

Recommendation:

We recommend that reconciliations between the LASER reports and the City's general ledger be performed on a regular basis and be reviewed for accuracy in order to meet the requirements of section 3-15 of the *Specifications for Audits of Counties, Cities and Towns*.

Management Response:

We concur with the findings. The Finance Unit complies with the State directive that reconciliations be performed monthly. In FY 09, several vacancies and extended sick leave left the unit understaffed and without the knowledge base necessary to perform the Laser reconciliations in a consistent manner. The department has acquired an Accounting Manager and an Accounting Coordinator to fill vacant positions. The Laser certification process has become the Accounting Coordinator's chief responsibility. The City management hired a consultant to examine the unit's reimbursement processes including the Laser Reconciliation Process and we are implementing some of his recommendations to strengthen the process.

2009-10 Sheriff Work Release Procedures

Criteria:

In accordance with chapter 5 of the *Virginia Sheriff's Accounting Manual*, the Sheriff must always deposit with the local Treasurer or Director of Finance the fees collected for work release inmate care and custody and the home/electronic incarceration program to cover the cost of equipment rental. The Sheriff should never deposit these fees into the Sheriff's official bank account.

Condition:

While performing our audit procedures to ensure compliance with the Sheriff's Internal Controls section 2-8 of the *Specifications for Audits of Counties, Cities and Towns*, which references the requirements set forth in the *Virginia Sheriff's Accounting Manual*, we noted that fees collected from work release participant were not being remitted to the Treasurer. The funds were being deposited to and disbursed from the Sheriff's office without going through the Treasurer or the City's procurement and accounts payable offices.

Cause:

The Sheriff's office was not aware of the requirement as set for the in chapter 5 of the *Virginia Sheriff's Accounting Manual*.

Effect:

The City of Portsmouth's Sheriff's Department is not in compliance with section 2-8 of the *Specifications for Audits of Counties, Cities and Towns*.

Recommendation:

We recommend that the fees collected from the work release participants be remitted to the City Treasurer as required per the *Virginia Sheriff's Accounting Manual*.

Management Response:

The Sheriff's Office concur with the finding: The Sheriff's office will implement processes and procedures for a formal review process to ensure that such errors will not occur in the future.

CITY OF PORTSMOUTH, VIRGINIA

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

Year Ended June 30, 2009

2008-1 Internal Control over Financial Reporting

Criteria:

Proper cutoff should be observed near fiscal year end to ensure all accounts payable are recorded in the appropriate period.

Condition:

While performing our audit procedures to test the completeness of accounts payable, we determined there were invoices received after year end that should have been accrued as accounts payable as of June 30, 2008.

Resolution:

Not corrected. Repeat finding.

2008-2 Internal Control over Financial Reporting

Criteria:

Balances reflected on bank reconciliations should agree with the accounting system.

Condition:

While performing our audit procedures to test the accuracy of cash balances, we determined there were funds wired out at year end, which were properly accounted for in the bank reconciliations, but were not recorded in the accounting system as of June 30, 2008.

Resolution:

Corrected.

2008-3 Child Welfare Trust Accounts

Criteria:

Unexpended special welfare funds and dedicated funds should be returned to individuals who leave the agency's custody, refunded to applicable funding sources, or escheated to the state.

Condition:

While performing our audit procedures to ensure compliance with the Social Services section 3-15 of the *Specifications for Audits of Counties, Cities and Towns*, we determined that unexpended funds were not being returned when individuals leave the agency's custody.

Resolution:

Corrected.

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