

COMPREHENSIVE ANNUAL FINANCIAL REPORT
CITY OF PORTSMOUTH, VIRGINIA

YEAR ENDED JUNE 30, 2010

Prepared by:
DEPARTMENT OF FINANCE



CITY OF PORTSMOUTH, VIRGINIA

Comprehensive Annual Financial Report
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INTRODUCTORY SECTION

CITY OF PORTSMOUTH, VIRGINIA

Principal Officials

June 30, 2010

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.

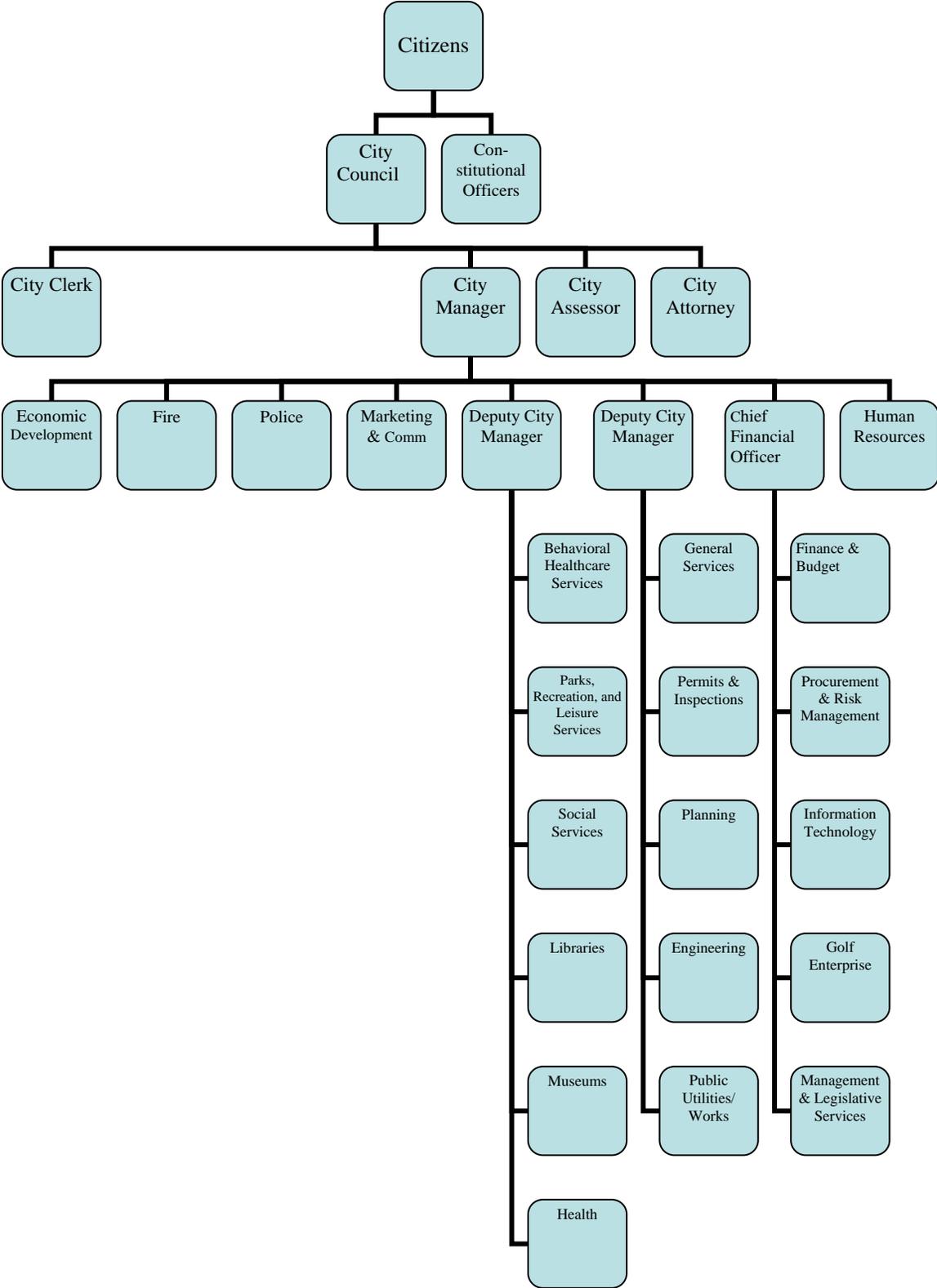
City Council Appointments

Kenneth L. Chandler City Manager
G. Timothy Oksman City Attorney
Maria Kattmann 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, 2009

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.

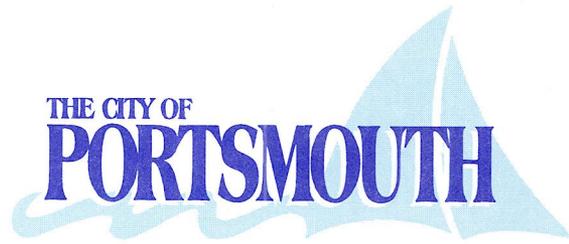


A stylized handwritten signature in black ink, appearing to be "J.R. Emer".

President

A handwritten signature in black ink that reads "Jeffrey R. Emer".

Executive Director



November 22, 2010

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, 2010, 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.

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 • Phone 757-393-8718
(757) 393-8641 Office • (757) 393-5241 Fax

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. In the fulfillment of Council's vision, the City will be nationally regarded for educational excellence and economic prosperity, where citizens are proud of themselves, their hometown, and their neighborhoods; Portsmouth City Council is recognized for involving all communities and citizens in its decision-making; Members of the City Council encourage and nurture new ideas from citizens, employees, business leaders, and the faith-based community to embrace new ways to meet the challenges of the future.

Building on that strong record of success, the City Council with its vision statements, sought to define an even more successful and liveable future for the City of Portsmouth. Each of the statements described the future of the City of Portsmouth in the year 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 2010 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. In August 2009, the City officially opened the new Churchland Branch library. The library sponsors programs that promote family literacy and encourage the use of libraries and a love of reading, and 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 continues to provide a stable, easily accessible automation system that is current with new technology. Some of the features of this state-of-the-art facility include a technology room with computers, radio frequency identification self check out and security system, a children's areas with a story telling room, group study and community meeting rooms, and a conference room with SmartBoard technology. The Library services were expanded to include the acceptance of payments to the City Treasurer and to Public Utilities. Named best by the Hampton Roads Association for Commercial Real Estate in the 2009 Excellence in Development Design Awards, the new Churchland Library received an Award of Merit for its "hub/axial" concept with curved glass walls and a 28 foot-tall glass rotunda.

During fiscal year 2010, Council and management continued plans for the undertaking of a new Portsmouth Judicial Center. 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. The new Portsmouth Judicial Center is planned to provide 12 new courtrooms and administrative offices for the Commonwealth Attorney, Juvenile Court Services, and the Sheriff. The Portsmouth Judicial Center is scheduled to be completed in September 2012.

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 \$86 million, or 1% during 2010. The increase in assessment values is an extremely positive indicator in evaluating the health of Portsmouth’s local economy. City Council increased the real estate tax rate from 1.21 in fiscal year 2009 to 1.24 for fiscal year 2010.

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, 2010 represents 21.46% of total revenues and transfers, which exceeds the City’s adopted financial policy of 15%.

The following table presents the City’s General Fund ratio of 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
2010	45,377,732	211,496,674	21.46%
2009	32,533,819	213,390,123	15.25%
2008	26,302,440	216,638,631	12.14%
2007	35,399,112	203,773,001	17.37%
2006	35,738,764	193,183,661	18.50%

Financial Policies

The financial integrity of our City government is of utmost importance. To that end, the establishment of appropriate financial management, debt administration, budget and capital plan development, and long-range planning policies (“Financial Policies”) will promote the fiscal health of Portsmouth, as well as the cost-effective and efficient delivery of services to our citizens.

Written, adopted financial policies have many benefits, such as assisting the elected officials and staff in the financial management of the City, saving time and energy when discussing financial matters, engendering public confidence, and providing continuity over time as elected officials and staff members change. The City’s Financial Policies will be reviewed annually and reaffirmed by City Council at least once every three years. The policies discussed below had a significant impact on the financial results reported for fiscal year 2010.

Use of Fund Balance - While accumulated fund balance in the General Fund may legally be used as revenue to support the budget, the City’s intention is not to use fund balance to fund recurring operating expenditures. Accumulated fund balance over and above the City’s fund balance target may be considered for funding one-time expenditures. During fiscal year 2010, the City remained in compliance with this policy by not using the general fund balance to fund recurring operating expenditures, but allowing it to increase from \$35,855,214 in fiscal year 2009 to \$48,329,746 in fiscal year 2010.

Fund Balance Policy Minimum

The City will maintain an unreserved, undesignated general fund balance equal to 15% of general fund revenues. During fiscal year 2010, the City remained in compliance with this policy. The general fund unreserved, undesignated fund balance equals 21% of general fund revenues.

Cash Management

The City uses a pooled cash concept to allow greater investment flexibility and maximize its return on investment. The City pools cash from all funds, except those restricted for specific purposes or managed by fiscal agents, for investment purposes. The City invests any temporarily idle cash in overnight repurchase agreements and other investments ranging from one to thirty days to maturity. During fiscal year 2010, 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; establish or amend fees pertaining to erosion and sediment control; increase in the real estate tax rate; increase the City’s tax on cigarettes; establish or amend certain fees for services provided by the Department of Fire, Rescue and Emergency Services; reductions for all departments other than public safety and public schools; reduction to certain programs and civic organizations; and unfortunately no general wage increase for employees or retirees.

During fiscal year 2010, 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.

In December, 2009, The United States Coast Guard named The City of Portsmouth a "Coast Guard City". The Coast Guard selected Portsmouth due to the city's nearly 200 years of support for the Coast Guard. The honorary distinction is indication of the productive, and ongoing relationship between the City and the local Coast Guard units. Prior to the designation of being a Coast Guard City, only seven other cities had been awarded the designation since the inception of the program establishment date of November 1998.

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 Old Dominion University Tri-Cities Higher Education Center full service facility offers undergraduate degree completion programs, graduate and certificate programs.

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. The new Portsmouth Campus of the Tidewater Community College consists of four buildings which include administrative offices, student services, academic programs, and physical plant operations. The new Tidewater Community College facility opening in December 2009 further enhances and fulfills the vision of a “Lifelong Learning Community”. The school features the Beazley School of Nursing, which houses its own simulated hospital clinical setting and the state’s first four human-patient simulator labs for evaluating student performance. The school comes as a timely answer to the region’s shortage of nursing professionals.

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 Leadership in Energy and Environmental Design (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 towards this vision.

Fiscal Year	Operating Transfers to School Board	Education Debt Service Payments	Total Education Funding	Net Change
2010	\$ 48,171,651	1,871,167	50,042,818	(2,595,135)
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

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 vastly 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. 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 and continued in fiscal year 2010.

In February 2010, Portsmouth was selected to become part of Action Communities for Health, Innovation, and Environmental Change, ACHIEVE. Portsmouth is one of only ten U. S. Communities in nine states and one territory that the National Association of Chronic Disease Directors (NACDD) has selected to advance community leadership in the national effort to prevent chronic diseases and related risk-factors through a local collaborative approach .

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, 2010.

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

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Portsmouth for its comprehensive annual financial report for the fiscal year ended June 30, 2009. This was the 33rd consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

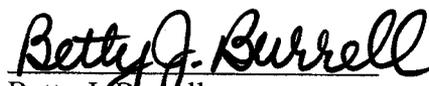
Acknowledgments

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

We also acknowledge and extend special recognition to 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





INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the 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, 2010, 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, 2010, 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 November 22, 2010, 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, budgetary comparison information and schedules of funding progress, 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 this information and express no opinion thereon.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The introductory section, combining non-major fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining non-major fund financial statements 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 and statistical sections 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, Bekert & Holland, L.L.P.

Virginia Beach, Virginia
November 22, 2010

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, 2010. 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.

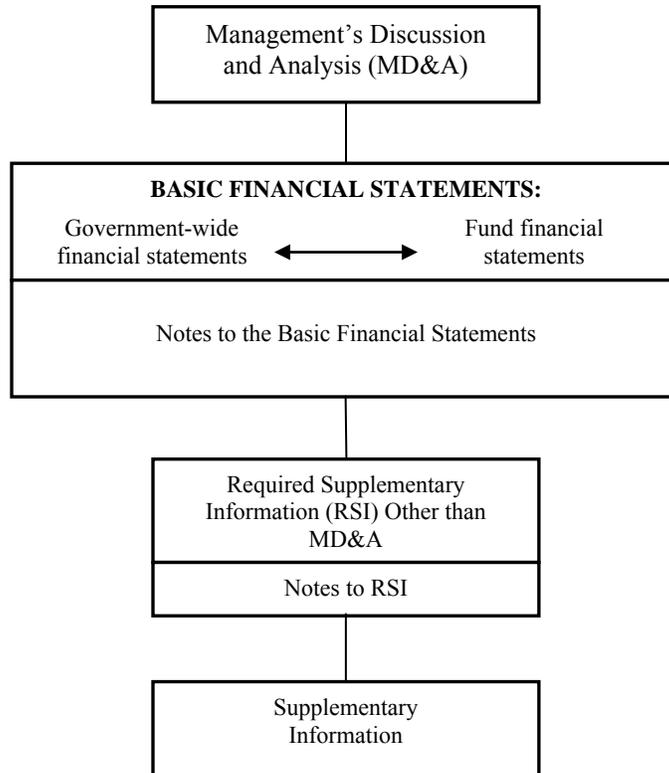
FINANCIAL HIGHLIGHTS

- ❖ The City's net assets totaled \$384 million at June 30, 2010, increasing \$19 million over June 30, 2009. This was in part due to grant funding received as part of the American Recovery and Reinvestment Act of 2009.
- ❖ The City's unrestricted net assets totaled \$85 million, which are comprised of \$52 million resulting from governmental activities and \$33 million resulting from business-type activities.
- ❖ Government-wide current assets totaled \$271 million, of which \$189 million was attributable to governmental activities and \$82 million was attributable to business-type activities; while current liabilities totaled \$45 million, with \$33 million from governmental activities and \$12 million from business-type activities. The ratio of current assets to current liabilities was 6.0:1 overall – 5.7:1 for governmental activities and 6.7:1 for business-type activities.
- ❖ The City's long-term indebtedness at June 30, 2010 (including the portions due in fiscal year 2011) totaled \$507 million, for an increase of \$102 million from the prior year. During fiscal year 2010, the City issued General Obligation debt in the amount of approximately \$108 million which includes \$19 million for a school capital project. The long-term indebtedness includes landfill closure and post-closure care of \$5.6 million and compensated absences of \$8.4 million.
- ❖ The City's general revenues and transfers of \$168 million were \$20 million more than expenses, net of program revenues, of \$154 million. Ninety-eight percent of general revenues and transfers were funded through taxes.
- ❖ The General Fund undesignated fund balance increased 40% during the current year to \$45 million from \$33 million in the prior year.
- ❖ Total net assets for the Public Utility Fund rose 4% from \$138 million at June 30, 2009 to \$144 million at June 30, 2010.

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:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 193	120	84	55	277	175
Capital assets	412	399	221	213	633	612
Total assets	\$ 605	519	305	268	910	787
Current and other liabilities	\$ 33	34	13	11	46	45
Long-term liabilities	344	269	136	109	480	378
Total liabilities	377	303	149	120	526	423
Net assets:						
Invested in capital assets, net of related debt	109	176	123	114	232	290
Restricted	67	13	-	4	67	17
Unrestricted	52	27	33	30	85	57
Total net assets	228	216	156	148	384	364
Total liabilities and net assets	\$ 605	519	305	268	910	787

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 \$384 million at June 30, 2010. By far, the largest portion of the City's net assets, 60%, 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 17% of the City's net assets are currently subject to various external restrictions. The remaining balance of unrestricted net assets (\$85 million or 22%) may be used to meet the City's ongoing obligations to citizens and creditors.

The net assets of the City's governmental activities increased by \$12 million from \$216 million to \$228 million, as reflected in the Statement of Activities.

The net assets of the City's business-type activities increased by \$7 million from \$149 million to \$156 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:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Revenues						
<u>Program revenues:</u>						
Charges for services	\$ 13	12	53	50	66	62
Operating grants and contributions	82	79	1	1	83	80
Capital grants and contributions	5	1	-	-	5	1
<u>General revenues:</u>						
Taxes	165	161	-	-	165	161
Other	3	4	-	1	3	5
Total revenues	268	257	54	52	322	309
Expenses						
General government	26	26	-	-	26	26
Judicial	21	22	-	-	21	22
Public safety	63	60	-	-	63	60
Public works	21	30	-	-	21	30
Health and welfare	39	40	-	-	39	40
Parks, recreational, and cultural	13	13	-	-	13	13
Community development	15	9	-	-	15	9
Education	55	54	-	-	55	54
Public utility	-	-	22	23	22	23
Golf	-	-	2	2	2	2
Parking Authority	-	-	2	2	2	2
Waste management	-	-	14	12	14	12
Interest on long-term debt	10	11	-	-	10	11
Total expenses	263	265	40	39	303	304
Excess (deficiency) before transfers	5	(8)	14	13	19	5
Transfers	7	7	(7)	(7)	-	-
Change in net assets	12	(1)	7	6	19	5
Net assets, beginning of year	216	217	149	143	365	360
Net assets, end of year	\$ 228	216	156	149	384	365

Governmental Activities

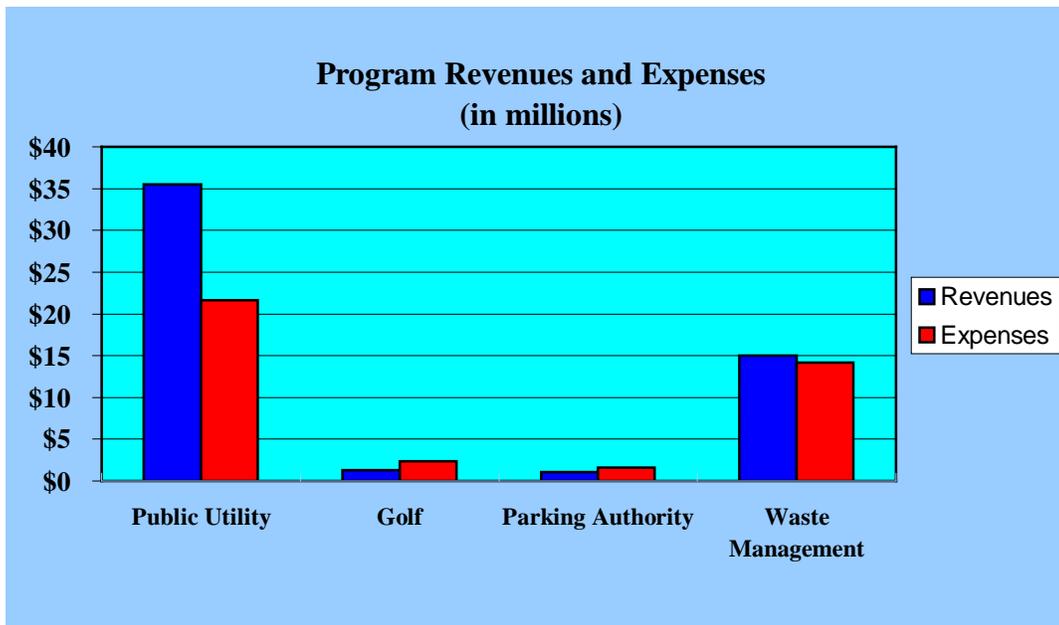
The City's total revenues from governmental activities were \$268 million for the fiscal year ended June 30, 2010, which represents an increase of \$11 million from the prior year. The change is due in part to the increase in the assessment of real property values. The largest source of revenue is taxes, which represents 61% of the total and is comprised of property taxes, other local taxes, and utility taxes. The City's assessed real property value increased 1% from the prior year due solely to new commercial construction.

Program revenues are derived from the program itself and reduce the cost of the function to the City. Total program revenues for governmental activities were \$100 million. The largest component of program revenues for governmental activities is operating grants and contributions totaling \$82 million, representing 82% of total program revenues for governmental activities.

For the fiscal year ended June 30, 2010, expenses for the City's governmental activities totaled \$263 million. The City's expenses cover a wide range of services, with 24% related to public safety, 21% related to education, and 15% related to health and welfare.

Business-Type Activities

The total net assets for business-type activities increased by \$7 million, primarily due to a \$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 97% 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, 2010, the governmental funds reflected a combined fund balance of \$142 million. The General Fund's fund balance totaled \$48 million at June 30, 2010, an increase of \$12 million from the prior year. The General Fund's undesignated fund balance totaled \$45 million at June 30, 2010, which increased by \$12 million from the prior year's undesignated fund balance of \$33 million. The increase is primarily due to stringent

budgeting to reduce expenditures in all departments, a reduction to certain programs and civic organizations, no general wage increase for employees or retirees, an increase in the real estate tax rate and the establishment or amendment of certain fees for services of various city departments.

The City spent \$27 million in the Capital Improvements Fund to fund major projects, including the New Courts Complex, Tidewater Community College infrastructure, Children’s Museum Expansion and Victory Village. The Capital Improvements Fund has a \$72 million fund balance at June 30, 2010, all of which is reserved or designated for future capital project costs.

General Fund Budgetary Highlights

General Fund

Fiscal Year Ended June 30, 2010 (in millions)

	Original Budget	Final Budget	Actual
Revenues, transfers and other financing sources			
Taxes	\$ 161	161	164
Intergovernmental	37	37	36
Other financing sources	-	-	1
Transfer	8	8	8
Other	17	18	15
Total	\$ 223	224	224
Expenditures and transfers			
Expenditures	\$ 209	209	200
Transfers	14	15	12
Total	\$ 223	224	212

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 \$12 million dollar increase in fund balance. This increase is primarily due to the decrease in expenditures as a result of management’s decision to review and reduce expenditures in all departments.

Actual General Fund revenues and transfers from other funds were equal to the final budgeted revenues during fiscal year 2010. This was a result of the refined budgeting process and the projections of the City’s financial advisors. Actual general fund expenditures and transfers were \$12 million less than the final budget. This was primarily due to management’s efforts to curtail spending in all departments and a moratorium on travel.

Proprietary Funds

Total net assets of the Public Utility Fund increased \$6 million during fiscal year 2010 from \$138 million to \$144 million. Of the total net assets, \$110 million is invested in capital assets, net of related debt. Unrestricted net assets totaled \$34 million, an increase of \$1 million from the prior year. The increase in net assets is due primarily to the fund’s net income before transfers of \$13 million.

Total net assets of the Parking Authority, a blended component unit, at June 30, 2010 increased from \$847 thousand to \$1 million. Of the total net assets, \$1.5 million is invested in capital assets, net of related debt, and there is an unrestricted net assets deficit of \$485 thousand.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2010, the City had invested \$633 million in a broad range of capital assets, including machinery and equipment, buildings, park and golf facilities, roads, bridges, and water and sewer lines, as reflected in the following schedule:

Capital Assets (net of depreciation)			
As of June 30, 2010 (in millions)			
	Governmental Activities	Business-Type Activities	Total Primary Government
Land	\$ 17	15	32
Site improvements	1	-	1
Infrastructure	148	-	148
Buildings	141	12	153
Intangibles	1	-	1
Improvements other than buildings	-	105	105
Machinery, furniture, and equipment	13	9	22
Construction in progress	91	80	171
Total	\$ 412	221	633

Major capital asset activity for the fiscal year ended June 30, 2010 included:

- Capital asset additions for governmental activities totaled \$34 million, including \$11 million for infrastructure and machinery and equipment and \$23 million for construction in progress.
- Capital asset additions for business-type activities totaled \$14 million, including \$14 million for construction in progress.
- Depreciation expense totaled \$10 million and \$6 million for governmental and business-type activities, respectively.
- Construction in progress totaled \$91 million for governmental activities at June 30, 2010. (including certain school projects under construction).
- Construction in progress totaled \$80 million for business-type activities at June 30, 2010.

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

The City's fiscal year 2011 capital budget estimates spending another \$54 million for capital projects. The major projects include \$13 million for water and sewer improvements, \$9 million for drainage and sewer improvement, \$31 million for municipal facilities, and \$1 million for education.

Long-term Debt

At year-end, the City had \$445 million in outstanding debt; excluding landfill closure and post closure care costs, and compensated absences. General obligation and revenue bonds outstanding represented \$372 million of this total, as reflected in the following schedule:

Outstanding Debt						
As of June 30, 2010 and 2009 (in millions)						
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
General obligation and revenue bonds	\$ 242	\$ 200	130	103	372	303
General obligation notes payable	25	-	-	-	25	-
Obligations under capital leases	14	17	2	3	16	20
Bond Anticipation Note	30	30	-	-	30	30
Literary loans	2	3	-	-	2	3
Total	\$ 313	\$ 250	132	106	445	356

On November 13, 2009, the City sold \$19,000,000 in General Obligation School Bonds (Series 2009) to the Virginia Public School Authority at a true interest cost of 0% and a discount of \$1,777,830. The bonds were issued to fund the construction of Simonsdale Elementary School.

On December 18, 2009, the City sold \$2,404,125 in General Obligation Bonds (Series 2009E) to Virginia Resources Authority (VRA), as Administrator of Virginia Drinking Water Supply Revolving Fund (DWSRF), at a true interest cost of 0%. The bonds were issued to finance the Prentice Park Waterline Replacement Project.

On April 8, 2010, the City issued \$7,035,000 in General Obligation Public Improvement Bonds, Series 2010A (Tax-exempt) with a true interest cost of 2.44% and a premium of \$469,093. Of the total par amount, \$3,595,000 was for general capital and \$3,440,000 for was public utility projects. The bonds were issued to fund various capital improvements in the City.

On April 8, 2010, the City issued \$54,350,000 in General obligation Public Improvement Bonds, Series 2010B (Taxable-Direct Pay Build America bonds) with a true interest cost of 3.92%. Of the total par amount, \$29,240,000 was for general capital and \$25,110,000 was for public utility projects. The bonds were issued to fund various capital improvements in the City.

On April 8, 2010, the City issued \$24,730,000 in General Obligation Notes, Series 2010C with a true interest cost of 2.35% with a premium of \$599,479. The notes were issued to fund the new City Courts Complex in the City.

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 \$768 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 2010 was 9.3%, which compares to the national unemployment rate of 9.5% for June 2010. Per capita income as of June 30, 2008 was \$34,102, an increase of 6% 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, 2010

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Assets:				
Current assets:				
Cash and temporary investments (note 3)	\$ 143,052,167	38,404,232	181,456,399	47,540,299
Cash with fiscal agent (note 3)	-	-	-	532,666
Restricted cash and temporary investments (note 3)	5,340,111	37,056,863	42,396,974	-
Receivables (net of allowance for uncollectibles):				
Taxes	13,115,676	-	13,115,676	-
Accounts	7,250,900	8,352,306	15,603,206	164,197
Other	-	-	-	10,775
Internal balances (note 10)	3,430,194	(3,416,713)	13,481	-
Due from primary government (note 10)	-	-	-	626,357
Due from component units (note 10)	22,994	-	22,994	-
Due from other governments (note 11)	15,904,107	1,393,121	17,297,228	3,279,395
Prepaid items	110,126	-	110,126	-
Inventory of supplies	649,485	665,209	1,314,694	931,018
Notes receivable (note 12)	4,152	-	4,152	-
Total current assets	188,879,912	82,455,018	271,334,930	53,084,707
Noncurrent assets:				
Other assets	4,536,929	1,101,438	5,638,367	667,670
Property held for resale	-	-	-	11,533,974
Capital assets (note 4):				
Land	17,430,801	15,348,574	32,779,375	7,330,864
Site improvements	2,239,871	-	2,239,871	-
Infrastructure	488,807,198	-	488,807,198	-
Buildings	209,873,365	25,469,577	235,342,942	68,968,906
Intangibles	866,100	-	866,100	422,270
Improvements other than buildings	-	172,607,621	172,607,621	-
Machinery, furniture, and equipment	44,014,681	20,934,716	64,949,397	21,458,915
Construction in progress	91,120,429	79,995,746	171,116,175	13,562,810
Total capital assets	854,352,445	314,356,234	1,168,708,679	111,743,765
Less accumulated depreciation	(442,195,544)	(93,201,654)	(535,397,198)	(41,253,239)
Total capital assets, net	412,156,901	221,154,580	633,311,481	70,490,526
Total noncurrent assets	416,693,830	222,256,018	638,949,848	82,692,170
Total assets	\$ 605,573,742	304,711,036	910,284,778	135,776,877

See accompanying notes to basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA
Statement of Net Assets
June 30, 2010

Exhibit A, Continued

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Liabilities:				
Current liabilities:				
Accounts payable	\$ 7,943,136	1,716,899	9,660,035	14,203,018
Construction payable	-	1,518,471	1,518,471	-
Accrued interest payable	3,854,052	1,821,755	5,675,807	234,974
Deposits	220,742	1,004,696	1,225,438	2,600
Due to other governments (note 11)	17,928	-	17,928	-
Due to primary government (note 10)	-	-	-	22,994
Due to component units (note 10)	626,357	-	626,357	-
Unearned revenues (note 12)	4,152	55,754	59,906	-
Claims payable (note 15)	4,249,828	-	4,249,828	878,284
Compensated absences (note 5)	4,653,464	453,061	5,106,525	1,437,000
General obligation and revenue bonds, net (note 5)	8,601,701	4,522,493	13,124,194	-
Obligations under capital leases (notes 5 and 6)	2,650,660	880,787	3,531,447	619,364
General obligation notes payable (note 5)	119,896	-	119,896	-
Literary loans (note 5)	375,000	-	375,000	-
Total current liabilities	33,316,916	11,973,916	45,290,832	17,398,234
Noncurrent liabilities:				
Claims payable (note 15)	11,121,049	-	11,121,049	1,632,458
Arbitrage liability	54,254	-	54,254	-
Other post employment benefit obligation (note 8)	29,124,019	3,680,907	32,804,926	-
Compensated absences (note 5)	2,990,760	289,664	3,280,424	3,503,839
General obligation and revenue bonds, net (note 5)	233,213,893	125,761,969	358,975,862	-
Obligations under capital leases (notes 5 and 6)	10,823,558	1,327,292	12,150,850	5,883,864
General obligation notes payable (note 5)	25,209,583	-	25,209,583	-
Bond anticipation notes (note 5)	29,935,000	-	29,935,000	-
Landfill closure and postclosure care (notes 5 and 13)	-	5,568,962	5,568,962	-
Literary loans (note 5)	1,875,000	-	1,875,000	-
Net pension obligation (notes 5 and 8)	-	-	-	113,440
Total noncurrent liabilities	344,347,116	136,628,794	480,975,910	11,133,601
Total liabilities	377,664,032	148,602,710	526,266,742	28,531,835
Net assets:				
Invested in capital assets, net of related debt	179,076,283	122,926,522	302,002,805	63,987,298
Restricted for:				
Capital projects	12,048,925	12,131	12,061,056	532,666
Behavioral health services	1,541,823	-	1,541,823	-
Grants and donations	1,073,632	-	1,073,632	-
Community development	349,396	-	349,396	-
Other purposes:				
Expendable	1,013	-	1,013	-
Nonexpendable	1,000,000	-	1,000,000	-
Unrestricted	32,818,638	33,169,673	65,988,311	42,725,078
Total net assets	227,909,710	156,108,326	384,018,036	107,245,042
Total liabilities and net assets	\$ 605,573,742	304,711,036	910,284,778	135,776,877

See accompanying notes to basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA

Exhibit B

Statement of Activities
Year ended June 30, 2010

Function/Program Activities	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Primary Government:							
Governmental:							
General government	\$ 25,866,086	13,245,125	-	(10,846,562)	-	(10,846,562)	-
Judicial	21,162,771	10,910,353	-	(10,011,420)	-	(10,011,420)	-
Public safety	63,317,938	8,010,891	-	(52,669,867)	-	(52,669,867)	-
Public works	20,801,656	12,405,216	-	(2,066,408)	-	(2,066,408)	-
Health and welfare	39,291,574	414,062	-	(7,703,960)	-	(7,703,960)	-
Parks, recreational and cultural	12,702,857	1,172,805	-	(10,177,700)	-	(10,177,700)	-
Community development	14,441,114	5,181,637	4,635,095	(4,128,955)	-	(4,128,955)	-
Education	54,518,784	272,952	-	(54,245,832)	-	(54,245,832)	-
Interest on long-term debt	10,486,906	-	-	(10,486,906)	-	(10,486,906)	-
Total governmental activities	262,589,686	82,372,531	4,635,095	(162,337,610)	-	(162,337,610)	-
Business-Type:							
Public Utility	22,632,779	35,530,749	-	-	12,897,970	12,897,970	-
Golf	2,393,003	1,329,452	-	-	(1,063,551)	(1,063,551)	-
Port Facility and Economic Development	66,520	--	-	-	(66,520)	(66,520)	-
Parking Authority	1,625,763	1,071,822	-	-	(553,941)	(553,941)	-
Waste Management	14,138,088	15,037,913	-	-	1,579,825	1,579,825	-
Total business-type activities	40,856,153	52,969,936	-	-	12,793,783	12,793,783	-
Total primary government	303,445,839	66,214,386	4,635,095	(162,337,610)	12,793,783	(149,543,827)	-
Component Units:							
School Board	158,316,744	2,816,193	-	-	-	-	(101,412,709)
Economic Development Authority	3,408,787	138,101	-	-	-	-	(3,176,627)
Port and Industrial Commission	116,032	5,925	-	-	-	-	(110,107)
Total component units	161,841,563	2,960,219	-	-	-	-	(104,699,443)
General Revenues:							
Taxes:							
General property taxes				\$ 120,258,870	-	120,258,870	-
Business and occupational license taxes				6,383,132	-	6,383,132	-
Restaurant food taxes				6,221,438	-	6,221,438	-
Sales and Use Tax				6,306,346	-	6,306,346	-
Telecommunications				9,766,016	-	9,766,016	-
Other local taxes				7,924,572	-	7,924,572	-
Utility taxes				7,579,044	-	7,579,044	-
Grants and contributions not restricted to specific programs				-	-	-	66,989,896
Investment earnings				168,877	154,560	323,437	282,267
Net gain on disposal of capital assets				-	32,775	32,775	-
Miscellaneous				2,568,498	499,410	3,067,908	1,507,880
Payment from primary government				-	-	-	51,166,735
Transfers				6,896,667	(5,973,391)	923,276	-
Total general revenues and transfers				174,073,460	(5,286,646)	168,786,814	119,946,778
Change in net assets							
Net assets, beginning of year, as restated				11,735,850	7,507,137	19,242,987	15,247,335
Net assets, end of year				216,173,860	148,601,189	364,775,049	91,997,707
Net assets, end of year							
				\$ 227,909,710	156,108,326	384,018,036	107,245,042

See accompanying notes to basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA

Exhibit C

Balance Sheet

Governmental Funds

June 30, 2010

	General	Capital Improvements	Other Governmental Funds	Total
Assets:				
Cash and temporary investments (note 3)	\$ 20,573,896	68,808,911	24,412,655	113,795,462
Restricted cash and temporary investments (note 3)	254,421	5,085,690	-	5,340,111
Receivables (net of allowance for uncollectibles):				
Taxes	13,115,676	-	-	13,115,676
Accounts	6,650,873	-	352,474	7,003,347
Due from other funds (note 10)	4,150,519	-	-	4,150,519
Due from component units (note 10)	22,994	-	-	22,994
Due from other governments (note 11)	11,880,422	-	4,023,685	15,904,107
Prepaid items	77,908	-	32,218	110,126
Inventory of supplies	76,610	-	-	76,610
Advances receivable	2,780,250	13,480	-	2,793,730
Notes receivable (note 12)	-	4,152	-	4,152
Total assets	\$ 59,583,569	73,912,233	28,821,032	162,316,834
Liabilities:				
Accounts payable	\$ 3,018,126	2,070,783	2,187,373	7,276,282
Deposits	18,266	202,476	-	220,742
Due to other governments (note 11)	-	-	17,928	17,928
Due to other funds (note 10)	-	-	3,514,055	3,514,055
Due to component units (note 10)	-	3,880	622,477	626,357
Deferred revenues (note 12)	8,217,431	4,152	46,477	8,268,060
Total liabilities	11,253,823	2,281,291	6,388,310	19,923,424
Fund balances:				
Reserved for encumbrances (notes 2 and 4)	-	15,457,505	1,167,276	16,624,781
Reserved for advances (note 2)	2,780,250	-	-	2,780,250
Reserved for revenue maximization (note 2)	-	-	204,358	204,358
Reserve for prepaid items (note 2)	77,908	-	32,218	110,126
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	17,246	56,173,437	-	56,190,683
Designated for subsequent year's expenditures - Special Revenue Funds	-	-	330,501	330,501
Undesignated	45,377,732	-	-	45,377,732
Undesignated - Special Revenue Funds	-	-	19,588,198	19,588,198
Undesignated - Capital Projects Funds	-	-	(338,034)	(338,034)
Undesignated - Permanent Fund	-	-	448,205	448,205
Total fund balances	48,329,746	71,630,942	22,432,722	142,393,410
Total liabilities and fund balances	\$ 59,583,569	73,912,233	28,821,032	162,316,834

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, 2010

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

Total fund balances for governmental funds		\$ 142,393,410
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	488,807,198	
Buildings	209,180,282	
Machinery, furniture and equipment	20,667,996	
Construction in progress	91,120,429	
Accumulated depreciation	(425,640,540)	403,790,989
Other assets (bond issuance costs) used in governmental activities are not financial resources and therefore are not reported in the funds.		
		3,185,722
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.		
		8,263,908
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	(7,287,057)	
Net pension asset	1,351,207	
Other post employment benefit obligation	(27,923,149)	
Accrued interest payable	(3,854,052)	
General obligation bonds	(241,815,594)	
Obligations under capital leases	(9,564,316)	
Obligations under notes payable	(25,329,479)	
Bond anticipation notes	(29,935,000)	
Arbitrage liability	(54,254)	
Literary loans	(2,250,000)	(346,661,694)
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.		
		16,937,375
Net assets of governmental activities		\$ 227,909,710

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, 2010

	General	Capital Improvements	Other Governmental Funds	Total
Revenues:				
Taxes	\$ 163,986,237	-	-	163,986,237
Intergovernmental	35,711,361	1,588,323	41,284,021	78,583,705
Charges for services	3,355,403	-	6,417,853	9,773,256
Investment income	7,066	104,692	44,388	156,146
Recovered costs	4,331,770	-	-	4,331,770
Fines and forfeitures	184,741	-	-	184,741
Licenses and permits	1,136,981	-	-	1,136,981
Use of property	1,807,776	-	323,703	2,131,479
Miscellaneous	4,791,187	3,863,105	780,629	9,434,921
Total revenues	215,312,522	5,556,120	48,850,594	269,719,236
Expenditures:				
Current:				
General government	15,123,053	-	380,371	15,503,424
Nondepartmental	9,276,215	-	-	9,276,215
Judicial	17,589,066	-	1,609,232	19,198,298
Public safety	58,873,869	-	1,979,914	60,853,783
Public works	13,591,919	-	1,947,179	15,539,098
Health and welfare	1,216,917	-	36,914,368	38,131,285
Parks, recreational, and cultural	9,981,554	-	1,595,599	11,577,153
Community development	4,713,592	-	4,762,523	9,476,115
Education	48,171,651	-	-	48,171,651
Debt service	21,308,199	-	344,439	21,652,638
Capital outlay	-	26,901,009	6,881,141	33,782,150
Total expenditures	199,846,035	26,901,009	56,414,766	283,161,810
Revenues over (under) expenditures	15,466,487	(21,344,889)	(7,564,172)	(13,442,574)
Other financing sources (uses):				
Transfers from other funds (note 10)	7,929,434	6,256,356	8,196,371	22,382,161
Transfers to other funds (note 10)	(11,745,282)	-	(4,985,535)	(16,730,817)
VPSA subsidy	-	1,324,727	-	1,324,727
Premium on bonds issued (note 5)	381,836	457,285	-	839,121
Discount on bonds issued (note 5)	(1,777,830)	-	-	(1,777,830)
Issuance of general obligation bonds (note 5)	2,219,887	57,122,943	17,222,170	76,565,000
Total other financing sources (uses)	(2,991,955)	65,161,311	20,433,006	82,602,362
Net change in fund balances	12,474,532	43,816,422	12,868,834	69,159,788
Fund balances, beginning of year	35,855,214	27,814,520	9,563,888	73,233,622
Fund balances, end of year	\$ 48,329,746	71,630,942	22,432,722	142,393,410

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, 2010

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

Net change in fund balances - total governmental funds	\$	69,159,788
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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	23,633,035	
Depreciation expense	(8,029,701)	15,603,334

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	(75,626,291)	
Principal payments of debt	9,501,442	
Bond issuance costs	828,754	
Amortization expense	(241,063)	(65,537,158)

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.

471,174

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	31,943	
Change in compensated absences	(149,679)	
Change in other post employment benefit obligation	(10,687,804)	
Change in net pension asset	1,326,837	
Change in accrued interest	(280,071)	(9,758,774)

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

1,797,486

Change in net assets of governmental activities	\$	11,735,850
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See accompanying notes to basic financial statements.

Statement of Net Assets
Proprietary Funds
June 30, 2010

	Public Utility	Parking Authority	Nonmajor Enterprise Funds	Total	Governmental Activities - Internal Service Funds
Assets:					
Current assets:					
Cash and temporary investments (note 3)	\$ 32,950,001	103,298	5,350,933	38,404,232	29,256,705
Restricted cash and temporary investments (note 3)	36,659,579	397,284	-	37,056,863	-
Accounts receivable (net of allowance for uncollectibles)	5,515,599	14,263	2,822,444	8,352,306	247,553
Due from other governments	1,393,121	-	-	1,393,121	-
Inventory of supplies, at cost	665,209	-	-	665,209	572,875
Total current assets	77,183,509	514,845	8,173,377	85,871,731	30,077,133
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
Intangible Assets	-	-	-	-	866,100
Improvements other than buildings	170,274,136	260,636	2,072,849	172,607,621	-
Machinery, furniture and equipment	11,440,070	486,889	9,007,757	20,934,716	23,346,685
Construction in progress	79,995,746	-	-	79,995,746	-
Total capital assets	262,770,049	20,095,115	31,491,070	314,356,234	24,920,916
Less accumulated depreciation	(71,996,626)	(9,828,021)	(11,377,007)	(93,201,654)	(16,555,004)
Total capital assets, net	190,773,423	10,267,094	20,114,063	221,154,580	8,365,912
Other assets	985,198	42,705	73,535	1,101,438	-
Total noncurrent assets	191,758,621	10,309,799	20,187,598	222,256,018	8,365,912
Total assets	\$ 268,942,130	10,824,644	28,360,975	308,127,749	38,443,045
Liabilities:					
Current liabilities:					
Accounts payable	\$ 933,413	40,467	743,019	1,716,899	666,854
Construction payable	1,518,471	-	-	1,518,471	-
Accrued interest payable	1,594,931	138,469	88,355	1,821,755	-
Deposits	994,696	-	10,000	1,004,696	-
Due to other funds (note 10)	-	376,639	259,824	636,463	-
Unearned revenues (note 12)	-	55,754	-	55,754	-
Compensated absences (note 5)	245,161	17,109	190,791	453,061	357,167
Advances payable	-	196,125	-	196,125	-
General obligation bonds (note 5)	4,177,300	290,613	54,580	4,522,493	-
Obligations under capital leases (notes 5 and 6)	-	-	880,787	880,787	1,725,296
Claims payable (note 15)	-	-	-	-	4,249,828
Total current liabilities	9,463,972	1,115,176	2,227,356	12,806,504	6,999,145
Noncurrent liabilities:					
Claims payable (note 15)	-	-	-	-	11,121,049
Other post employment benefit obligation (note 8)	2,192,156	92,313	1,396,438	3,680,907	1,200,870
Compensated absences	156,742	10,939	121,983	289,664	-
Obligations under capital leases (notes 5 and 6)	-	-	1,327,292	1,327,292	2,184,606
Landfill closure and postclosure liability (notes 5 and 13)	-	-	5,568,962	5,568,962	-
Advances payable	-	2,584,125	-	2,584,125	-
General obligation bonds (note 5)	113,320,033	5,996,321	6,445,615	125,761,969	-
Total noncurrent liabilities	115,668,931	8,683,698	14,860,290	139,212,919	14,506,525
Total liabilities	125,132,903	9,798,874	17,087,646	152,019,423	21,505,670
Net assets:					
Invested in capital assets, net of related debt	109,935,670	1,585,063	11,405,789	122,926,522	4,456,010
Restricted for:					
Capital projects	-	12,131	-	12,131	-
Unrestricted (deficit)	33,873,557	(571,424)	(132,460)	33,169,673	12,481,365
Total net assets	143,809,227	1,025,770	11,273,329	156,108,326	16,937,375
Total liabilities and net assets	\$ 268,942,130	10,824,644	28,360,975	308,127,749	38,443,045

See accompanying notes to basic financial statements.

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

Proprietary Funds

Year ended June 30, 2010

	Public Utility	Parking Authority	Nonmajor Enterprise Funds	Total	Governmental Activities - Internal Service Funds
Operating revenues:					
Charges for services	\$ 35,459,944	1,071,822	16,287,365	52,819,131	35,635,628
Intergovernmental revenue	-	-	680,000	680,000	-
Use of property	70,805	-	80,000	150,805	-
Other	170,730	304,527	8,866	484,123	608,745
Total operating revenues	35,701,479	1,376,349	17,056,231	54,134,059	36,244,373
Operating expenses:					
Personnel services	6,471,167	420,483	4,355,060	11,246,710	5,037,614
Contractual services	2,641,468	103,582	8,353,951	11,099,001	3,083,817
Supplies and materials	2,629,405	50,775	338,892	3,019,072	3,291,110
Utilities	1,175,935	111,507	102,126	1,389,568	183,774
Internal charges	1,002,502	60,788	1,575,818	2,639,108	-
Claims, settlements, and refunds	-	-	-	-	18,658,067
Insurance premiums	-	-	-	-	1,039,946
Payments in lieu of taxes	1,011,000	-	-	1,011,000	-
Rent	-	-	87,919	87,919	-
Depreciation and amortization	4,765,135	472,028	1,103,238	6,340,401	2,377,630
Bad debt expense	-	-	54,541	54,541	-
Other	870,266	124,928	222,068	1,217,262	853,270
Total operating expenses	20,566,878	1,344,091	16,193,613	38,104,582	34,525,228
Operating income (loss)	15,134,601	32,258	862,618	16,029,477	1,719,145
Nonoperating revenues (expenses):					
Investment income	151,770	625	2,165	154,560	12,731
Gain (loss) on disposal of capital assets	30,624	768	1,383	32,775	(16,778)
Intergovernmental revenue	15,287	-	-	15,287	-
Interest expense and fiscal charges	(2,065,901)	(281,672)	(403,998)	(2,751,571)	(151,935)
Net nonoperating revenues (expenses)	(1,868,220)	(280,279)	(400,450)	(2,548,949)	(155,982)
Net income (loss) before transfers	13,266,381	(248,021)	462,168	13,480,528	1,563,163
Transfers from other funds (note 10)	-	426,609	1,100,000	1,526,609	1,361,323
Transfers to other funds (note 10)	(7,500,000)	-	-	(7,500,000)	(1,127,000)
Change in net assets	5,766,381	178,588	1,562,168	7,507,137	1,797,486
Net assets, beginning of year as restated (note 17)	138,042,846	847,182	9,711,161	148,601,189	15,139,889
Net assets, end of year	\$ 143,809,227	1,025,770	11,273,329	156,108,326	16,937,375

See accompanying notes to basic financial statements.

Statement of Cash Flows

Proprietary Funds

Year ended June 30, 2010

	Public Utility	Parking Authority	Nonmajor Enterprise Funds	Total	Governmental Activities - Internal Service Funds
Cash flows from operating activities:					
Receipts from customers	\$ 33,903,515	1,393,293	16,510,929	51,807,737	36,251,586
Payments to suppliers	(7,176,768)	(426,400)	(10,721,908)	(18,325,076)	(27,314,163)
Payments to employees	(6,484,988)	(389,181)	(3,909,116)	(10,783,285)	(4,691,834)
Net cash provided by operating activities	20,241,759	577,712	1,879,905	22,699,376	4,245,589
Cash flows from noncapital financing activities:					
Transfers in	-	426,609	1,100,000	1,526,609	-
Transfers out	(7,500,000)	-	-	(7,500,000)	234,323
Net cash provided by (used for) noncapital financing activities	(7,500,000)	426,609	1,100,000	(5,973,391)	234,323
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	(14,006,649)	(67,360)	-	(14,074,009)	-
Proceeds from sale of capital assets	30,624	768	10,512	41,904	13,676
Decrease in arbitrage liability	(71,638)	-	-	(71,638)	-
Intergovernmental revenue received	15,287	-	-	15,287	-
Cost of issuance	(214,079)	-	-	(214,079)	-
Proceeds from long-term debt	31,183,576	-	-	31,183,576	-
Principal paid on long-term debt	(4,065,175)	(260,000)	(980,090)	(5,305,265)	(2,419,683)
Payment to other funds	-	(372,059)	-	(372,059)	-
Interest paid	(1,997,432)	(287,001)	(384,988)	(2,669,421)	(147,700)
Net cash provided by (used for) capital and related financing activities	10,874,514	(985,652)	(1,354,566)	8,534,296	(2,553,707)
Cash flows from investing activities:					
Interest received	151,770	625	2,165	154,560	8,496
Net cash provided by investing activities	151,770	625	2,165	154,560	8,496
Net increase (decrease) in cash and temporary investments	23,768,043	19,294	1,627,504	25,414,841	1,934,701
Cash and temporary investments, beginning of year	45,769,899	481,288	3,723,429	49,974,616	27,322,004
Cash and temporary investments, end of year	\$ 69,537,942	500,582	5,350,933	75,389,457	29,256,705
Adjustments to reconcile operating income (loss) to net cash provided by operating activities					
Operating income	\$ 15,134,601	32,258	862,618	16,029,477	1,719,145
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation and amortization	4,765,135	472,028	1,103,238	6,340,401	2,377,630
Changes in assets and liabilities increasing (decreasing) cash and temporary investments:					
Accounts receivable	(2,017,893)	9,581	(545,302)	(2,553,614)	7,213
Inventory of supplies	(17,843)	-	-	(17,843)	111,532
Accounts payable	1,408,236	25,180	(73,746)	1,359,670	(715)
Arbitrage liability	(71,638)	-	-	(71,638)	-
Deposits	291,567	-	-	291,567	-
Unearned revenues	-	7,363	-	7,363	-
Compensated absences	(13,821)	(1,890)	(24,276)	(39,987)	(41,460)
Landfill closure and postclosure liability	-	-	87,154	87,154	-
Other post employment benefit obligation	763,415	33,192	470,219	1,266,826	387,240
Claims payable	-	-	-	-	(314,996)
Net cash provided by operating activities	\$ 20,241,759	577,712	1,879,905	22,699,376	4,245,589

See accompanying notes to basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA

Exhibit F-1

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2010

	Pension Trusts	<u>Agency Special Welfare Fund</u>
Assets:		
Cash and temporary investments (note 3)	\$ 2,050,121	81,095
Investments (note 3):		
Common stock	51,964,777	-
Corporate bonds	26,725,326	-
Real estate	6,757,747	-
Alternatives	1,218,790	-
Total assets	88,716,761	81,095
Liabilities - Cash held for others	-	81,095
Net assets -		
Net assets held in trust for pension benefits	\$ 88,716,761	-

See accompanying notes to basic financial statements.

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds - Pension Trust Funds

Year ended June 30, 2010

Additions:	
Contributions	\$ 15,282,000
Transfer from General Fund	87,723
Investment income -	
Net decrease in the fair value of investments	8,226,908
Less investment expense	(297,340)
Net investment income	7,929,568
Total additions	23,299,291
Deductions - benefits and refunds	24,406,002
Change in net assets	(1,106,711)
Net plan assets held in trust for pension benefits, beginning of year	89,823,472
Net plan assets held in trust for pension benefits, end of year	\$ 88,716,761

See accompanying notes to basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA

Exhibit G-1

Statement of Net Assets

Component Units

June 30, 2010

	School Board	Economic Development Authority	Port and Industrial Commission	Total
Assets:				
Current assets:				
Cash and temporary investments (note 3)	\$ 46,458,769	738,585	342,945	47,540,299
Cash with fiscal agent (note 3)	532,666	-	-	532,666
Receivables:				
Accounts	164,197	-	-	164,197
Other	-	10,775	-	10,775
Due from other governments (net of allowance for uncollectibles)	3,279,395	-	-	3,279,395
Due from primary government	622,477	3,880	-	626,357
Inventory	931,018	-	-	931,018
Total current assets	51,988,522	753,240	342,945	53,084,707
Noncurrent assets:				
Property held for resale	-	10,409,229	1,124,745	11,533,974
Capital assets (note 4):				
Land	6,125,204	1,205,660	-	7,330,864
Buildings	68,968,906	-	-	68,968,906
Machinery, furniture, and equipment	21,458,915	-	-	21,458,915
Intangible	422,270	-	-	422,270
Construction in progress	13,562,810	-	-	13,562,810
Total capital assets	110,538,105	1,205,660	-	111,743,765
Less accumulated depreciation	(41,253,239)	-	-	(41,253,239)
Total capital assets, net	69,284,866	1,205,660	-	70,490,526
Other assets	592,670	75,000	-	667,670
Total noncurrent assets	69,877,536	11,689,889	1,124,745	82,692,170
Total assets	\$ 121,866,058	12,443,129	1,467,690	135,776,877

See accompanying notes to basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA

Exhibit G-1, Continued

Statement of Net Assets

Component Units

June 30, 2010

	School Board	Economic Development Authority	Port and Industrial Commission	Total
Liabilities:				
Current liabilities:				
Accounts payable	\$ 14,161,581	12,409	29,028	14,203,018
Accrued interest payable	234,974	-	-	234,974
Deposits	-	2,600	-	2,600
Due to primary government (note 10)	22,994	-	-	22,994
Claims payable (note 15)	878,284	-	-	878,284
Compensated absences (note 5)	1,437,000	-	-	1,437,000
Obligations under capital leases (note 5)	619,364	-	-	619,364
Total current liabilities	17,354,197	15,009	29,028	17,398,234
Noncurrent liabilities:				
Claims payable (note 15)	1,632,458	-	-	1,632,458
Compensated absences (note 5)	3,503,839	-	-	3,503,839
Obligations under capital leases (notes 5 and 7)	5,883,864	-	-	5,883,864
Net pension obligation (notes 5 and 8)	113,440	-	-	113,440
Total noncurrent liabilities	11,133,601	-	-	11,133,601
Total liabilities	28,487,798	15,009	29,028	28,531,835
Net assets:				
Invested in capital assets, net of related debt	62,781,638	1,205,660	-	63,987,298
Restricted for capital projects	532,666	-	-	532,666
Unrestricted	30,063,956	11,222,460	1,438,662	42,725,078
Total net assets	93,378,260	12,428,120	1,438,662	107,245,042
Total liabilities and net assets	\$ 121,866,058	12,443,129	1,467,690	135,776,877

See accompanying notes to basic financial statements.

Statement of Activities

Component Units

Year ended June 30, 2010

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	\$ 5,593,602	-	-	-	(5,593,602)	-	-	(5,593,602)
Instruction	116,857,035	54,789	49,136,211	-	(67,666,035)	-	-	(67,666,035)
Attendance and health services	3,266,564	196,896	-	-	(3,069,668)	-	-	(3,069,668)
Pupil transportation	6,577,674	214,243	-	-	(6,363,431)	-	-	(6,363,431)
Operations and maintenance	15,820,741	76,924	-	-	(15,743,817)	-	-	(15,743,817)
Information technology	3,493,477	-	-	-	(3,493,477)	-	-	(3,493,477)
Food services	6,453,576	2,273,341	4,951,631	-	771,396	-	-	771,396
Interest on long-term debt	254,075	-	-	-	(254,075)	-	-	(254,075)
Total School Board	158,316,744	2,816,193	54,087,842	-	(101,412,709)	-	-	(101,412,709)
Economic Development Authority:								
Economic Development Authority operations	3,408,787	138,101	94,059	-	-	(3,176,627)	-	(3,176,627)
Total Economic Development Authority	3,408,787	138,101	94,059	-	-	(3,176,627)	-	(3,176,627)
Port and Industrial Commission -								
Port and Industrial Commission operations	116,032	5,925	-	-	-	-	(110,107)	(110,107)
Total Port and Industrial Commission	116,032	5,925	-	-	-	-	(110,107)	(110,107)
Total component units	161,841,563	2,960,219	54,181,901	-	(101,412,709)	(3,176,627)	(110,107)	(104,699,443)
General Revenues:								
Payment from primary government		\$	48,171,651		2,995,084			51,166,735
Grants and contributions not restricted to specific programs			66,989,896		-			66,989,896
Investment earnings			270,797		9,055		2,415	282,267
Miscellaneous			1,507,880		500,000		(500,000)	1,507,880
Total general revenues			116,940,224		3,504,139		(497,585)	119,946,778
Change in net assets			15,527,515		327,512		(607,692)	15,247,335
Net assets, beginning of year			77,850,745		12,100,608		2,046,354	91,997,707
Net assets, end of year		\$	93,378,260		12,428,120		1,438,662	107,245,042

See accompanying notes to basic financial statements.

Notes to Basic Financial Statements

June 30, 2010

(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:

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

Notes to Basic Financial Statements, Continued

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 fiscally dependent on the City. The Parking Authority's resources and services provided are almost entirely for the direct benefit of the primary government. The City Council appoints all of the members of the Board of Directors and appropriate funds annually to the Authority. Council can remove members at will, modify or approve the budget, set rates/fees, and hire or dismiss those persons responsible for the day-to-day operations of the Authority. Additionally, the City is legally entitled to or can otherwise access the Authority's resources and is also obligated for the debt of the Authority. During fiscal year 2010, sixty percent of the Parking Authority's operating revenues were generated from the primary government. 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.

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

Notes to Basic Financial Statements, Continued

(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. During fiscal year 2010 City Council adopted ordinances to create two additional Special Revenue Funds as follows: Budget Stabilization Fund for the purpose of capturing and accumulating excess funds above the City's 15% established Unreserved and undesignated General Fund Balance to be used for one-time nonrecurring expenditures; and the Economic Development Incentive Fund which funds may be appropriated for use to attract companies that

Notes to Basic Financial Statements, Continued

will have a significant positive impact on the tax base, the employment rate, and the quality of life in the City of Portsmouth.

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 2010 was \$1.24 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 2010, 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, \$1.24, and \$1.50 per \$100 of assessed value, respectively.

E. Allowance for Uncollectibles

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

Governmental Activities:	
General Fund:	
Allowance for taxes receivable	\$ 2,619,448
Allowance for doubtful accounts receivable	715,171
Total General Fund	3,334,619
Special Revenue Fund - Stormwater Management Fund -	
Allowance for doubtful accounts receivable	409,198
Total governmental activities	\$ 3,743,817
Business-Type Activities - allowance for doubtful accounts receivable:	
Enterprise Funds:	
Public Utility Fund	\$ 725,408
Portsmouth Parking Authority	2,242
Waste Management Fund	646,937
Total business-type activities	\$ 1,374,587

Notes to Basic Financial Statements, Continued

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.

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

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

Notes to Basic Financial Statements, Continued

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

Notes to Basic Financial Statements, Continued

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.

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, 2010 are composed of the following:

Current year encumbrances	\$	-	15,457,505	1,167,276
Advances		2,780,250	-	-
Revenue maximization program		-	-	204,358
Prepaid items		77,908	-	32,218
Inventory		76,610	-	-
Cemetery care		-	-	1,000,000
	\$	2,934,768	15,457,505	2,403,852

Notes to Basic Financial Statements, Continued

(3) CASH

Deposits and Restricted Cash

At June 30, 2010, the carrying value of the City's deposits with banks and savings institutions was \$104,620,325 which includes \$105,526 in the fiduciary funds. All cash of the City except petty cash of \$49,047 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, 2010 restricted cash totaled \$57,480,471 of which \$55,610,115 represent unspent bond proceeds.

Investments

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

Investment Policy

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

As of June 30, 2010, the City's investment balances were as follows:

	Carrying Amount	Actual Credit Ratings	Required Credit Ratings	Average Days/Years to Maturity
SNAP investments	\$ 115,576,324	AAAm	n/a	1 day
PFM Funds-Prime, Institutional Class	35,099	AAAm	n/a	1 day
Money market funds	5,085,690	AAAm	n/a	1 day
	\$ 120,697,113			

Notes to Basic Financial Statements, Continued

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

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

As of June 30, 2010, the SNAP Fund's investment portfolio as well as PFM Funds-Prime, Institutional Class was comprised of investments which were, in aggregate, rated AAAM by Standard and Poor's. The SNAP funds are subject to credit risk as well as interest rate risk.

Pension Investments – Common Collective Trust Fund

As of June 30, 2010, 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 60% for equities, 31% for fixed income securities and 9% for alternative investments, which include real estate and hedge funds. None of the City's pension investments have credit ratings.

At June 30, 2010, 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:			
Davis New York Venture fund (Y)	Equity	1 day	\$ 14,208,788
Goldman Sachs Sm Cap Val Inst	Equity	1 day	4,848,689
American EuroPacific Growth R5	Equity	1 day	9,329,994
Pioneer Cullen Value Fund (Y)	Equity	1 day	23,577,306
RTC Real Estate Equity Fund	Other	1 day	6,757,747
Russell DivAlternative Fund	Other	1 day	1,218,790
Blackrock Infl Protected Bnd Inst	Equity	1 day	9,375,433
Templeton Global Bond Fund Adv	Equity	1 day	17,349,893
Cash	Equity	1 day	2,050,121
			\$ 88,716,761

Component Unit - School Board

All of the deposits of the School Board, a discretely presented component unit, of \$46,458,769 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 \$2,415,949 invested in the School OPEB Trust Fund. The School Board has \$532,666 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.

Notes to Basic Financial Statements, Continued

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 \$738,585. 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 \$342,945. All cash of the Commission is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. Seq. of the Code of Virginia or covered by federal depository insurance.

(4) CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 was as follows:

Primary Government - Governmental Activities	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
Capital assets not being depreciated:				
Land	\$ 17,430,801	-	-	17,430,801
Construction in progress	79,256,192	15,860,503	10,797,476	84,319,219
Construction in progress - Stimulus Fund	-	6,801,210	-	6,801,210
Total capital assets not being depreciated	96,686,993	22,661,713	10,797,476	108,551,230
Capital assets being depreciated:				
Infrastructure	478,875,822	9,931,376	-	488,807,198
Site improvements	2,239,871	-	-	2,239,871
Intangible	866,100	-	-	866,100
Buildings	209,873,365	-	-	209,873,365
Machinery, furniture, and equipment	43,470,479	998,287	454,085	44,014,681
Total capital assets being depreciated	735,325,637	10,929,663	454,085	745,801,215
Less accumulated depreciation for:				
Infrastructure	(338,139,347)	(2,262,600)	-	(340,401,947)
Site improvements	(630,589)	(98,596)	-	(729,185)
Buildings	(65,114,817)	(4,194,273)	-	(69,309,090)
Machinery, furniture, and equipment	(28,327,094)	(3,851,859)	(423,631)	(31,755,322)
Total accumulated depreciation	(432,211,847)	(10,407,328)	(423,631)	(442,195,544)
Total capital assets being depreciated, net	303,113,790	522,335	30,454	303,605,671
Governmental activities capital assets, net	\$ 399,800,783	23,184,048	10,827,930	412,156,901

Under Virginia Law, certain property, with a net book value of \$80,307,845 maintained by the School Board is subject to tenancy-in-common with the City, if the City has incurred a financial obligation for the property, which is payable over more than one fiscal year. The School Board and City have agreed that such property will be carried on the City's financial statements until the outstanding debt is repaid.

Notes to Basic Financial Statements, Continued

Depreciation expense was charged to functions as follows:

General government	\$ 1,792,478
Judicial	263,975
Public safety	676,523
Public works	2,161,265
Health and welfare	481,894
Parks, recreation and cultural	391,371
Community development	307,797
Education	1,954,395
<hr/>	
Total governmental funds	8,029,698
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.	
	<hr/> 2,377,630
Total governmental activities	<hr/> \$ 10,407,328

Notes to Basic Financial Statements, Continued

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

	Project Authorization	Expended to June 30, 2010	Commitments
Drainage Facilities Repair & LakeMgt	\$ 16,276,745	13,904,084	671,199
Victory Boulevard (2% City Match to VDOT)	12,363,250	8,398,797	994,590
New library - Joint with Suffolk	6,747,590	6,698,857	33,505
Behavioral Health building	7,529,008	209,650	428,232
Midtown redevelopment acquisition	6,814,986	6,791,720	1,268
New courts complex	14,950,259	11,060,644	824,408
Traffic Signal Improvements	2,200,000	647,123	8,762
Churchland Bridge	4,000,000	236,657	3,508
Churchland High School - air quality	3,691,307	3,665,441	5,356
PAC Nelos Pavilion	3,480,478	3,436,341	39,481
McLean Street / Cavalier Boulevard	3,400,000	227,010	58,643
Update Traffic Signal-8 Intersections	3,244,800	30,076	
City/ Schools joint financial management system	2,070,386	1,575,360	451,189
Midtown Corridor	2,700,000	82,400	27,600
Ebony Heights improvements	2,001,212	735,141	862,938
Civic Center specifications	2,059,453	1,966,126	8,792
Highland Biltmore improvements	1,944,385	1,931,860	10,826
Children's Museum expansion	14,837,000	5,045,943	8,913,375
Street improvements - South Portsmouth	1,868,356	836,555	28,390
Bridge repairs	1,897,985	1,580,905	45,214
Holiday Inn Site Redevelopment	7,000,000	7,000,000	-
Renovations to various buildings	2,258,693	1,907,461	1,221
Parking garage repairs - Harbor Tower	1,396,978	1,057,983	29,190
Hope 6 project - Jeffrey Wilson	2,100,000	60,780	-
Crawford Parkway Bulkhead Replacement	1,125,000	258,535	207,388
Terminal Impact Mitigation	1,000,000	934,509	14,386
Various projects under \$1,000,000 each	8,241,157	3,469,261	245,613
	\$ 137,199,023	84,319,219	13,915,064

Notes to Basic Financial Statements, Continued

Stimulus Fund Open Projects	Project Authorization	Expended to June 30, 2010	Commitments
Traffic Signal Improvements	\$ 2,023,543	397,018	8,762
ARRA- JAG 2009	654,981	245,826	37,387
Prentis Park Waterline Replacement	4,808,250	2,764,370	2,181,296
CDBG-Recovery Funds	473,578	200,000	6,687
ARRA-Energy Effcy Cons Block Grant	1,002,000	59,303	119,035
Simonsdale School	17,222,196	3,134,694	-
	\$ 26,184,548	6,801,210	2,353,167

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 \$15,457,505 have been reserved for encumbrances for capitalizable and noncapitalizable expenditures in the capital improvements fund.

Primary Government - Business-Type Activities	Balance	Additions	Deletions	Balance
	July 1, 2009			June 30, 2010
Capital assets not being depreciated:				
Land	\$ 15,348,574	-	-	15,348,574
Construction in progress	66,248,558	13,747,188	-	79,995,746
Total capital assets not being depreciated	81,597,132	13,747,188	-	95,344,320
Capital assets being depreciated:				
Buildings	25,469,577	-	-	25,469,577
Improvements other than buildings	172,607,621	-	-	172,607,621
Machinery, furniture, and equipment	21,039,029	326,819	431,132	20,934,716
Total capital assets being depreciated	219,116,227	326,819	431,132	219,011,914
Less accumulated depreciation for:				
Buildings	(12,671,607)	(631,476)	-	(13,303,083)
Improvements other than buildings	(63,726,390)	(3,798,724)	-	(67,525,114)
Machinery, furniture, and equipment	(10,963,683)	(1,831,777)	(422,003)	(12,373,457)
Total accumulated depreciation	(87,361,680)	(6,261,977)	(422,003)	(93,201,654)
Total capital assets being depreciated, net	131,754,547	(5,935,158)	9,129	125,810,260
Business-type activities capital assets, net	\$ 213,351,679	7,812,030	9,129	221,154,580

Notes to Basic Financial Statements, Continued

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

Public utilities	\$ 4,674,505
Parking Authority	489,632
Port facility	66,520
Golf	131,828
Waste Management	899,492
Total business-type activities	\$ 6,261,977

**Primary Government -
Major Enterprise Funds**

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
<u>Public Utility Fund</u>				
Capital assets not being depreciated:				
Land	\$ 324,079	-	-	324,079
Construction in progress	66,248,558	13,747,188	-	79,995,746
Total capital assets not being depreciated	66,572,637	13,747,188	-	80,319,825
Capital assets being depreciated:				
Buildings	736,018	-	-	736,018
Improvements other than buildings	170,274,136	-	-	170,274,136
Machinery, furniture, and equipment	11,453,197	259,460	272,587	11,440,070
Total capital assets being depreciated	182,463,351	259,460	272,587	182,450,224
Less accumulated depreciation for:				
Buildings	(87,710)	(18,871)	-	(106,581)
Improvements other than buildings	(61,442,397)	(3,786,812)	-	(65,229,209)
Machinery, furniture, and equipment	(6,064,601)	(868,822)	(272,587)	(6,660,836)
Total accumulated depreciation	(67,594,708)	(4,674,505)	(272,587)	(71,996,626)
Total capital assets being depreciated, net	114,868,643	(4,415,045)	-	110,453,598
Public Utility Fund capital assets, net	\$ 181,441,280	9,332,143	-	190,773,423
<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	67,359	11,553	486,889
Total capital assets being depreciated	19,359,629	67,359	11,553	19,415,435
Less accumulated depreciation for:				
Buildings	(8,906,989)	(460,981)	-	(9,367,970)
Improvements other than buildings	(233,619)	(10,463)	-	(244,082)
Machinery, furniture, and equipment	(209,334)	(18,188)	(11,553)	(215,969)
Total accumulated depreciation	(9,349,942)	(489,632)	(11,553)	(9,828,021)
Total capital assets being depreciated, net	10,009,687	(422,273)	-	9,587,414
Parking Authority capital assets, net	\$ 10,689,367	(422,273)	-	10,267,094

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, 2010	Commitments
Public Utility Fund:			
Infrastructure improvements	\$ 37,269,500	29,015,199	6,305,320
Godwin Street reservoir replacement	10,896,371	10,674,118	151,118
Lake Kilby raw water pumping station	7,749,000	1,872,521	5,730,977
Replacement of water plant equipment	8,143,913	3,764,013	81,117
Downtown master utility	16,900,000	498,527	60,331
Suction well rehabilitation	7,018,290	2,967,672	64,797
Water plant residuals management and disposal	6,133,500	5,603,577	-
Sewer cave-in repair	4,134,762	3,371,727	284,846
Camden Avenue sewer rehabilitation	2,685,000	1,599,865	63,488
Sanitary sewer overflow elimination	8,600,000	2,825,681	2,869,368
Miscellaneous sewer improvements	3,857,016	1,739,614	220,616
Meter replacement program	2,499,000	237,853	70,847
Miscellaneous water improvements	1,618,615	928,174	215
Low pressure transmission mains	1,250,000	1,069,556	180,444
Replacement 2" water mains	1,649,319	309,671	-
Various projects under \$1,000,000 each	1,692,313	433,935	-
	\$ 122,096,599	66,911,703	16,083,484

In addition to the amount of \$66,911,703 shown above as expended to June 30, 2010, \$12,073,039 is included in construction in progress for capitalized interest and \$1,011,004 for Prentis Park Water Project, bringing total construction in progress to \$79,995,746. 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, 2009	Additions	Deletions	Balance June 30, 2010
Capital assets not being depreciated:				
Land	\$ 6,146,793	-	21,589	6,125,204
Construction in progress	4,684,503	12,086,832	3,208,525	13,562,810
Total capital assets not being depreciated	10,831,296	12,086,832	3,230,114	19,688,014
Capital assets being depreciated:				
Buildings	68,275,227	2,366,449	1,672,770	68,968,906
Machinery, furniture, and equipment	19,797,348	2,404,331	742,764	21,458,915
Total capital assets being depreciated	88,072,575	4,770,780	2,415,534	90,427,821
Less accumulated depreciation for:				
Buildings	(27,070,940)	(1,273,189)		(28,344,129)
Machinery, furniture, and equipment	(12,510,139)	(1,090,408)	(742,764)	(12,857,783)
Total accumulated depreciation	(39,581,079)	(2,363,597)	(742,764)	(41,201,912)
Capital assets being amortized				
Intangible assets	-	422,270	-	422,270
Total capital assets - being depreciated	-	422,270	-	422,270
Less accumulated depreciation for:				
Intangible assets	-	(51,327)	-	(51,327)
Total accumulated depreciation	-	(51,327)	-	(51,327)
School Board capital assets, net	\$ 59,322,792	\$ 14,864,958	\$ 4,902,884	\$ 69,284,866

Economic Development Authority Component Unit				
	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
Capital assets not being depreciated:				
Land	1,205,660	-	-	1,205,660
Total capital assets not being depreciated	1,205,660	-	-	1,205,660

Notes to Basic Financial Statements, Continued

(5) LONG - TERM DEBT

Details of Long-Term Indebtedness

At June 30, 2010, 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	0.00% \$ 1,098,164
2001	Qualified Zone Academy Bonds	0.00% 480,851
2001	VPSA - Series 2001B Bonds	4.1 - 5.35% 2,097,486
2006	VPSA - Series 2006B Bonds	4.2 - 5.1% 5,421,996
2003	Public Improvement (Refunding) bonds	3.8 - 5.0% 39,897,075
2004	BHS Lease Revenue Bond	3.5 - 5.0% 3,853,719
2005A	Public Improvement bonds	3.75 - 5.0% 39,829,839
2005C	Public Improvement (Refunding) bonds	5.0 - 5.4% 9,551,262
2006A	Public Improvement & Refunding bonds	4.1 - 5.0% 39,729,041
2006B	Taxable Public Improvement (Refunding) bonds	5.75% 4,673,319
2009A	Public Improvement (Refunding) bonds	4.0 - 4.75% 6,192,520
2009B	Public Improvement (Refunding) bonds	3.0 - 5.25% 12,576,950
2009C	Taxable Public Improvement (Refunding) bonds	5.62 - 6.4% 15,583,858
2009D	Public Improvement (Refunding) bonds	3.0 - 4.0% 10,532,702
2009	QSCB	0.00% 17,222,170
2010A	Public Improvement bonds	3.0-4.0% 3,834,642
2010B	Taxable Public Improvement bonds (BABs)	4.68-6.28% 29,240,000
Total general obligation bonds, net		241,815,594
Bond anticipation note		29,935,000
General obligation note-Series 2010C		25,329,479
Obligations under capital leases		13,474,218
Literary loans		2,250,000
Compensated absences		7,644,224
Arbitrage liability		54,254
Total governmental activities		\$ 320,502,769
Business-Type Activities		
General obligation bonds, net:		
1997	Public Utility bonds	4.45 - 5.25% \$ 1,094,759
2003	Public Utility (Refunding) bonds	3.0 - 5.0% 22,876,436
2005A	Public Utility bonds	3.5 - 5.0% 27,676,637
2005B	Public Utility (Refunding) bonds	3.25 - 5.0% 16,591,015
2006A	Public Utility bonds	4.12 - 5.0% 16,268,003
2009D	Public Utility (Refunding) bonds	3.0 - 4.0% 1,806,907
2009E	General Obligation bond	0.00% 2,404,125
2010A	Public Improvement bonds	3.0-4.0% 3,669,451
2010B	Taxable Public Improvement bonds (BABs)	4.68-6.28% 25,110,000
2003	Public Improvement (Refunding-Parking)	3.0 - 5.0% 6,016,655
2005A	Public Improvement bonds (Parking Fund)	3.5 - 5.0% 176,145
2009A	Public Improvement (Refunding-Parking)	4.0 - 4.75% 73,672
2009B	Public Improvement (Refunding-Parking)	3.0 - 5.25% 20,462
2005A	Public Improvement (Refunding Golf)	3.5 - 5.0% 5,371,738
2009B	Public Improvement (Refunding-Golf)	3.0 - 5.25% 1,128,457
Total general obligation bonds, net		130,284,462
Obligations under capital leases		2,208,080
Landfill closure and postclosure care		5,568,962
Compensated absences		742,725
Total business type-activities		\$ 138,804,229

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, 2010, the long-term indebtedness of Component Units consisted of the following:

	Amount Outstanding
School Board:	
Obligations under capital leases	\$ 6,503,228
Net pension obligation	113,440
Compensated absences	4,940,839
	<u>\$ 11,557,507</u>

Changes in Indebtedness

The following is a summary of changes in long-term indebtedness of the City for the year ended June 30, 2010:

	Balance June 30, 2009	Increases	Decreases	Balance June 30, 2010	Due Within One Year
Primary Government - Governmental Activities:					
General obligation bonds	\$ 200,813,719	51,835,000	(8,255,518)	244,393,201	8,717,910
General obligation notes	-	24,730,000	-	24,730,000	-
Plus (less) bond premiums (discounts)	5,050,123	839,121	(2,236,471)	3,652,773	503,913
Less refunding costs	(6,131,126)		500,225	(5,630,901)	(500,226)
	<u>\$ 199,732,716</u>	<u>\$ 77,404,121</u>	<u>\$ (9,991,764)</u>	<u>\$ 267,145,073</u>	<u>\$ 8,721,597</u>
Bond Anticipation Note	29,935,000	-	-	29,935,000	-
Compensated absences	7,536,005	162,319	(54,100)	7,644,224	4,653,464
Literary loans	2,625,000	-	(375,000)	2,250,000	375,000
Capital leases	16,764,828	-	(3,290,610)	13,474,218	2,650,660
Arbitrage liability	86,196	-	(31,942)	54,254	-
Total Governmental Activities	<u>\$ 256,679,745</u>	<u>\$ 77,566,440</u>	<u>\$ (13,743,416)</u>	<u>\$ 320,502,769</u>	<u>\$ 16,400,721</u>
Business Type Activities					
General obligation bonds	\$ 103,453,586	31,236,665	(4,405,789)	130,284,462	4,522,493
Landfill closure and postclosure car	5,481,808	87,154	-	5,568,962	-
Compensated absences	782,712	1,569	(41,556)	742,725	453,061
Capital leases	3,128,169	-	(920,090)	2,208,079	880,787
Arbitrage liability	71,638	-	(71,638)	-	-
Total Business Type Activities	<u>\$ 112,917,913</u>	<u>\$ 31,325,388</u>	<u>\$ (5,439,073)</u>	<u>\$ 138,804,228</u>	<u>\$ 5,856,341</u>
Major Enterprise Funds:					
<u>Public Utility Fund:</u>					
General obligation bonds	\$ 90,336,264	31,226,245	(4,065,176)	117,497,333	4,177,300
Compensated absences	415,724	-	(13,821)	401,903	245,161
Arbitrage liability	71,638	-	(71,638)	-	-
Total Public Utility Fund	<u>\$ 90,823,626</u>	<u>\$ 31,226,245</u>	<u>\$ (4,150,635)</u>	<u>\$ 117,899,236</u>	<u>\$ 4,422,461</u>
<u>Parking Authority</u>					
General Obligation bond	\$ 6,567,547	-	(280,613)	6,286,934	290,613
Compensated absences	29,938	1,262	(3,152)	28,048	17,109
Total Parking Authority	<u>\$ 6,597,485</u>	<u>\$ 1,262</u>	<u>\$ (283,765)</u>	<u>\$ 6,314,982</u>	<u>\$ 307,722</u>

Notes to Basic Financial Statements, Continued

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

Section 148 of the Internal Revenue Code of 1986 requires public entities to refund interest earned in excess of interest paid over the first five years outstanding on tax exempt borrowings. The regulations are applicable to borrowings incurred subsequent to August 1986. The City has calculated the rebate due as if June 30, 2010 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, 2010:

	Balance, July 1, 2009	Increases	Decreases	Balance June 30, 2010	Due Within One Year
School Board:					
Capital leases	\$ 7,074,565	-	(571,337)	6,503,228	619,364
Net pension obligation	113,194	246	-	113,440	-
Compensated absences	4,714,203	1,663,691	(1,437,055)	4,940,839	1,437,000
Total School Board	\$ 11,901,962	1,663,937	(2,008,392)	11,557,507	2,056,364

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, 2010 there were \$29,873,259 of general obligation public improvement bonds and \$36,007,000 of general obligation public utility bonds that were authorized but unissued. As of June 30, 2010, the City's legal margin for additional debt is \$459,540,941.

Defeased Debt

In prior years, the City defeased certain general obligation public improvement bonds by placing funds in irrevocable escrow accounts to provide for future debt service payments on the defeased debt. Accordingly, the escrow account assets and liabilities for the defeased debt are not included in the City's financial statements. At June 30, 2010, the outstanding balance of the defeased debt is \$10,645,000 of which \$590,000 is related to the Golf Fund and \$57,000 is for the Parking Fund.

Debt Issued

On November 13, 2009, the City sold \$19,000,000 in General Obligation School Bonds (Series 2009) to the Virginia Public School Authority at a true interest cost of 0% and a discount of \$1,777,830. The bonds were issued to fund construction of Simonsdale Elementary School.

On December 18, 2009, the City sold \$2,404,125 in General Obligation Bonds (Series 2009E) to Virginia Resources Authority (VRA), as Administrator of Virginia Drinking Water Supply Revolving Fund (DWSRF), at a true interest cost of 0%. The bonds were issued to finance the Prentice Park Waterline Replacement Project (Project). The bonds were part of an authorized funding by the Virginia Department of Health from the DWSRF as well as an Environmental Protection Agency grant awarded pursuant to the provisions of the American Recovery and Reinvestment Act of 2009. The funding consisted of an interest-free principal repayment loan in the amount of \$2,404,125 (Series 2009E bonds) and a principal forgiveness loan in the amount of \$2,404,125 for a total funding package of \$4,808,250.

Notes to Basic Financial Statements, Continued

On April 8, 2010, the City issued \$7,035,000 in General Obligation Public Improvement Bonds, Series 2010A (Tax-exempt) with a true interest cost of 2.44% and a premium of \$469,093. Of the total par amount, \$3,595,000 was for public improvement projects while \$3,440,000 was for public utility projects. Interest will be payable on each January 15 and July 15, commencing July 15, 2010. The bonds were issued to fund various capital improvements in the City.

On April 8, 2010, the City issued \$54,350,000 in General Obligation Public Improvement Bonds, Series 2010B (Taxable-Direct Pay Build America Bonds) with a true interest cost of 3.92%. Of the total par amount, \$29,240,000 was for public improvement projects while \$25,110,000 was for public utility projects. The City will receive interest subsidy payments (per Section 54AA(g) of the Internal Revenue Code) from the U.S. Treasury with each interest payment. Interest will be payable on each January 15 and July 15, commencing July 15, 2010. The bonds were issued to fund various capital improvements in the City.

On April 8, 2010, the City issued \$24,730,000 in General Obligation Notes, Series 2010C with a true interest cost of 2.35% and a premium of \$599,479. Interest will be payable on each January 15 and July 15, commencing July 15, 2010. The notes were issued to fund the New Courts Facility.

Debt Compliance and Repayment

The annual requirements to amortize all outstanding long-term indebtedness of the City to maturity as of June 30, 2010 (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		Literary Loans		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 8,601,704	19,537,361	375,000	45,000	2,650,665	1,100,936
2012	8,623,161	19,692,971	375,000	37,500	1,965,330	1,028,227
2013	11,671,342	26,556,450	250,000	30,000	1,500,858	925,011
2014	13,171,259	27,799,935	250,000	25,000	977,177	829,359
2015	13,420,203	28,618,740	250,000	20,000	771,103	737,995
2016-2020	67,447,997	133,667,701	750,000	30,000	4,997,296	2,238,348
2021-2025	62,635,208	121,843,277	-	-	611,791	30,536
2026-2030	41,961,514	75,314,040	-	-	-	-
2031-2035	14,283,206	20,301,229	-	-	-	-
	\$ 241,815,594	473,331,704	2,250,000	187,500	13,474,220	6,890,412

Business-Type Activities:

Fiscal Year Ending	General Obligation		Capital Leases	
	Principal	Interest	Principal	Interest
2011	\$ 4,522,491	5,753,033	880,786	51,317
2012	4,735,109	5,936,833	670,906	27,456
2013	5,287,230	5,716,208	389,967	11,147
2014	5,256,198	5,481,304	266,421	3,384
2015	5,663,273	5,225,834	-	-
2016-2020	32,650,344	22,024,083	-	-
2021-2025	31,564,844	14,560,074	-	-
2026-2030	21,495,887	8,169,723	-	-
2031-2035	10,918,264	3,829,802	-	-
2036-2040	8,110,685	1,491,262	-	-
2041-2045	80,137	-	-	-
	\$ 130,284,462	78,188,156	2,208,080	93,304

Notes to Basic Financial Statements, Continued

(6) LEASING ARRANGEMENTS

As a lessee, the City leases certain land, buildings, equipment and vehicles under capital leases and certain facilities under operating leases that expire in years through 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	15,829,761	6,688,101
Less accumulated depreciation		(8,827,721)	(9,817,540)	(3,512,963)
Capital assets, net	\$	11,091,777	6,012,221	3,175,138

There was no equipment acquired through capital lease during fiscal year ended June 30, 2010. Leased equipment included in capital assets and with a net value of \$152,041 was deleted during the fiscal year. Depreciation expense on leased assets was \$3,809,478 for the fiscal year ended June 30, 2010.

The present value of future minimum capital and operating lease payments of the City as of June 30, 2010 is as follows:

Fiscal Year Ending		Capital		Operating
2011	\$	4,683,704	\$	912,142
2012		3,691,919		579,762
2013		2,826,983		369,976
2014		2,076,340		137,916
2015		1,509,098		94,896
2016-2020		7,235,644		-
2021-2024		642,327		-
Total minimum lease payments		22,666,015	\$	2,094,692
Less amount representing interest		(6,983,716)		
Present value of minimum capital lease payments	\$	15,682,299		

Total governmental operating lease payments for the year ended June 30, 2010 were \$1,186,059.

(7) RETIREMENT PLANS

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

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

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

Notes to Basic Financial Statements, Continued

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

The Portsmouth Supplemental Retirement System (PSRS) is a single-employer non-contributory retirement system that was established on October 1, 1953. It was designed to provide retirement, death, or disability benefits for all regular full-time, permanent employees who were not eligible for membership in VRS or the Portsmouth Fire and Police Retirement System (PFPRS). On December 1, 1984, the City offered an option to all employees of the PSRS to either remain with their current system or transfer to VRS. All regular full-time employees hired after December 1, 1984 are members of VRS as required by State statutes. Therefore, the PSRS has become a "closed" system.

All regular full-time permanent employees (except those eligible for membership in the Virginia Retirement System and the Portsmouth Fire and Police Retirement System as noted above) that were hired prior to December 1, 1984 were eligible to participate in the PSRS. Employees who have attained age 50 with five years of service are eligible for a retirement benefit payable monthly during the lifetime of the member, equal to 2% of their average final compensation (AFC) multiplied by years of creditable service. AFC is the average annual compensation during the 36 consecutive months of creditable service that yields the highest average. At age 65, the annual retirement benefit is adjusted to an amount equal to the greater of 1.15% of their AFC multiplied by years of creditable service or the excess of 2% of such salary multiplied by years of creditable service over 2% of the primary social security benefit multiplied by years of creditable service not in excess of 25 years.

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

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

Plan Description - Portsmouth Fire and Police Retirement System

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

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

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

Notes to Basic Financial Statements, Continued

Payroll and Participants

The payroll at June 30, 2010 for employees covered by PSRS and FPRS and the total payroll for all City employees was as follows:

Payroll for employees covered by PSRS	\$ 2,213,874
Payroll for employees covered by FPRS	9,820,608
Total City payroll	73,342,372

Participation in the Portsmouth Supplemental Retirement System and the Fire and Police Retirement System consisted of the following as of July 1, 2010:

	PSRS	FPRS
Retirees and beneficiaries	387	561
Vested terminated employees not yet receiving benefits	46	55
Current vested employees	48	138
	481	754

Summary of Significant Accounting Policies

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

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

Contributions

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

Total contributions to the PSRS and FPRS for fiscal year 2010 were \$2,615,000 and \$12,667,000, respectively. The annual required contributions of \$2,570,503 and \$11,384,382 were calculated in accordance with actuarially determined requirements computed through an actuarial valuation performed as of July 1, 2008.

Annual Pension Cost

The required contributions were determined as part of the July 1, 2008 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 3% inflation rate, (b) 8% investment rate of return, and (c) projected salary increases ranging from 5.0% to 6.0% per year, and (d) 3.0% per year cost-of-living adjustments. The 30-year amortization period for Unfunded Actuarial Accrued Liability is phasing down in one-year increments beginning July 1, 2007. The actuarial value of the City's assets is equal to the market value of assets. The net pension asset is recorded in the government-wide Statement of Net Assets.

Notes to Basic Financial Statements, Continued

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

	PSRS	FPRS
Annual required contribution	\$ 2,570,503	11,384,382
Interest on net pension asset/obligation	(20,960)	19,010
Adjustment to annual required contribution	23,959	(21,731)
Annual pension cost	2,573,502	11,381,661
Contributions made	2,615,000	12,667,000
(Increase)/Decrease in net pension (asset) obligation	(41,498)	(1,285,339)
Net pension (asset) obligation at beginning of year	(261,997)	237,627
Net pension (asset) obligation at end of year	\$ (303,495)	(1,047,712)

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

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

Statement of Fiduciary Net Assets
June 30, 2010

	PSRS	FPRS
Assets:		
Investments:		
Cash	\$ 649,136	1,400,985
Common stock	13,334,454	38,630,323
Corporate bonds	6,857,869	19,867,457
Real estate	1,734,076	5,023,671
Alternatives	312,748	906,042
Total investments	22,888,283	65,828,478
Total assets	\$ 22,888,283	65,828,478
Net assets held in trust for pension benefits	\$ 22,888,283	65,828,478

Notes to Basic Financial Statements, Continued

Statement of Changes in Fiduciary Net Assets
Year Ended June 30, 2010

	PSRS	FPRS
Additions:		
Contributions	\$ 2,615,000	12,667,000
Transfer from general fund	70,395	17,328
Investment income -		
Net increase in fair value of investments	2,424,585	5,802,323
Less investment expense	(84,026)	(213,314)
Net investment income	2,340,559	5,589,009
Total additions	5,025,954	18,273,337
Deductions:		
Benefits	7,770,780	16,547,499
Pension supplement	70,395	17,328
Change in net assets	(2,815,221)	1,708,510
Net plan assets held in trust for pension benefits, beginning of year	25,703,504	64,119,968
Net plan assets held in trust for pension benefits, end of year	\$ 22,888,283	65,828,478

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 local law enforcement officers, firefighters, and sheriffs) or at age 50 with 30 years of service if elected by the employer (age 50 with 25 years of service for participating local law enforcement officers and firefighters) payable monthly for life in an amount equal to 1.70% of their average final compensation (AFC) for each year of credited service (1.85% for sheriffs and, if the employer elects, other employees in hazardous duty positions receiving enhanced benefits). 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 5.00% per year. AFC is defined as the average of the member's highest consecutive 36 months of reported compensation. Sheriffs and participating eligible law enforcement officers and firefighters may also receive a monthly benefit supplement if they retire prior to age 65. The VRS plan also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report is available on our web site at <http://www.varetire.org/Pdf/Publications/2009-Annual-Report.pdf> or obtained by writing the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Notes to Basic Financial Statements, Continued

Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their annual reported compensation to the VRS. This 5.00% member contribution may be assumed by the employer. In addition, the City and the School Board are required to contribute the remaining amounts necessary to fund their participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The City's and School Board's contribution rates for the fiscal year ended June 30, 2009 were 11.87% and 9.0% of the annual covered payroll, respectively.

Additionally, required and actual contributions to the VRS state-wide teacher pool for the current year and each of the two preceding years were \$8,999,661 and \$11,099,159 and \$11,948,682, respectively.

Annual Pension Cost

For the fiscal year ended June 30, 2010, the City's annual pension cost of \$7,128,723 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 \$1,098,411 was not equal to the School Board's required or actual contributions. The School Board's actual contributions were \$1,098,165.

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	\$ 7,128,723	1,098,165
Interest on net pension obligation	-	8,490
Adjustment to annual required contribution	-	(8,244)
Annual pension cost	7,128,723	1,098,411
Contributions made	7,128,723	1,098,165
Increase in net pension obligation	-	246
Net pension obligation at beginning of year	-	113,194
Net pension obligation at end of year	\$ -	113,440

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)
Portsmouth Supplemental:			
June 30, 2010	2,573,502	102%	(303,495)
June 30, 2009	2,268,053	100%	(261,997)
June 30, 2008	2,157,687	102%	(270,042)
Portsmouth Fire and Police:			
June 30, 2010	11,381,661	111%	(1,047,712)
June 30, 2009	10,894,856	100%	237,627
June 30, 2008	9,812,923	102%	102,771
VRS - City:			
June 30, 2010	\$ 7,128,723	100%	\$ -
June 30, 2009	7,460,102	100%	-
June 30, 2008	7,143,724	100%	-
VRS - School Board:			
June 30, 2010	1,098,411	100%	113,440
June 30, 2009	1,144,725	100%	113,194
June 30, 2008	946,642	100%	112,948

The FY 2010 required contribution was determined as part of the June 30, 2007 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at June 30, 2007 included (a) an investment rate of return (net of administrative expenses) of 7.50%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% per year for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year. Both the investment rate of return and the projected salary increases also include an inflation component of 2.50%. The actuarial value of the City's and School Board's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The City's and School Board's unfunded actuarial accrued liability is being amortized as level percentage of projected payroll on an open basis. The remaining amortization period for the June 30, 2007 actuarial valuation was 20 years.

Notes to Basic Financial Statements, Continued

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 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>						
7/1/2010	\$ 27,465,940	73,797,071	46,331,131	37%	\$ 2,702,000	1715%
<i>Fire and Police Retirement System:</i>						
7/1/2010	\$ 78,994,174	216,550,641	137,556,467	36%	\$ 10,531,000	1306%
VIRGINIA RETIREMENT SYSTEM PLANS:						
<i>City of Portsmouth Employees:</i>						
6/30/2009	\$ 196,708,288	215,980,918	19,272,630	91%	\$ 64,429,140	30%
<i>School Board Nonprofessional Employees:</i>						
6/30/2009	\$ 26,438,978	32,184,146	5,745,168	82%	\$ 8,645,713	66%

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

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

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

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 2010, the City contributed \$3,113,434 to the program, all for current premiums (approximately 55% of total premiums), and there was no additional prefunding contribution. Retired employees receiving benefits contributed \$2,574,032 (approximately 45% of total premiums) through required monthly contributions that vary from \$201.35 to \$821.35 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

Notes to Basic Financial Statements, Continued

funding excess) over a period not to exceed thirty years. The following table shows the components of the City's and School's OPEB cost for the year, the amount actually contributed to the plan, and the changes in the City's OPEB obligation for the program:

	City	School Board
Annual required contribution	\$ 16,455,303	1,045,600
Interest on net OPEB obligation	900,002	(87,900)
Adjustment to annual required contribution	(900,002)	67,300
Annual OPEB cost	16,455,303	1,025,000
Contributions made	4,113,433	1,000,000
Increase (decrease) in net OPEB obligation	12,341,870	25,000
Net OPEB obligation (asset) at beginning of year	20,463,056	(617,670)
Net OPEB obligation (asset) at end of year	\$ 32,804,926	(592,670)

The fiscal year ended June 30, 2010 was the third year for which an actuarially determined ARC had been calculated for the City of Portsmouth Retired Employees Health Care Program. Fiscal year 2010 actuarially determined ARC was calculated to be \$16,455,303. The City's contribution to the ARC was \$4,113,434, \$5,129,193 and \$3,200,000 for fiscal years 2010, 2009 and 2008 respectively.

Notes to Basic Financial Statements, Continued

The City's and School's annual OPEB cost, the percentage of annual OPEB cost contributed to the program, and the net OPEB obligation for Fiscal Year 2010 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%	\$20,463,056
6/30/2010	\$16,455,303	24.9%	\$32,804,926

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)
6/30/2010	\$1,025,000	98%	\$(592,670)

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:						
7/1/2009	-	\$221,375,695	221,375,695	0.0%	73,342,372	301.8%
School Board:						
7/1/2008	\$650,000	\$ 10,802,915	10,152,915	6.02%	95,870,390	11.0%

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 January 1, 2010 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 3.5% inflation (payroll growth) rate, a 4.0% investment rate of return, relating it to the City’s rate of investment return on its general unrestricted cash assets due to the unfunded status of the program’s actuarial accrued liability; an annual healthcare cost increase rate of 9 percent initially, reduced by decrements to an ultimate rate of 5 percent for the year beginning July 1, 2018 and thereafter. It was assumed that 60% of future retirees would elect medical coverage and that the City of Portsmouth would maintain a consistent level of cost sharing for benefits with retirees in the future. The calculation of the ARC of \$16,455,303 for fiscal year 2010 is the amount determined under the actuarial cost method selected and consists of the normal cost plus amortization of the unfunded actuarial accrued liability (UAAL, or the excess of the past service liability over the actuarial value of assets). The UAAL is amortized as a level percent of projected payroll on a closed basis over a period of 28 years in developing the annual required contribution.

(9) DEFERRED COMPENSATION PLAN

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

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

(10) INTERFUND BALANCES AND TRANSFERS

Due From/To Other Funds

Individual fund interfund receivable and payable balances at June 30, 2010 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	\$ 3,514,055	\$ -	\$ 376,639	259,824	4,150,518

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, 2010 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	\$ -	22,994	22,994
Capital Improvements	(3,880)	-	(3,880)
Nonmajor governmental funds	-	(622,477)	(622,477)
	\$ (3,880)	(599,483)	(603,363)

The Statement of Net Assets reflects \$22,994 as due from component units and \$626,357 as due to component units for a net due to component units of \$603,363 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, 2010 are as follows:

Transfers to:	Transfers from:					Total
	General Fund	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	Public Utility Fund	Internal Service Funds	
General Fund	\$ -	429,434	-	7,500,000	-	7,929,434
Capital Improvements Fund	3,133,616	3,122,740	-	-	-	6,256,356
Nonmajor governmental funds	6,636,011	1,433,360	-	-	127,000	8,196,371
Nonmajor enterprise funds	1,526,609	-	-	-	-	1,526,609
Internal Service Funds	361,323	-	-	-	-	361,323
Retirement	87,723	-	-	-	-	87,723
Total	\$ 11,745,282	4,985,534	-	7,500,000	127,000	24,357,816

Notes to Basic Financial Statements, Continued

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

Amounts due from other governments at June 30, 2010 are as follows:

	Federal	State	Total
Governmental activities:			
General Fund:			
Sales and use tax	\$ -	1,094,564	1,094,564
Personal property tax relief	-	9,862,962	9,862,962
Correctional facilities block grant	-	147,170	147,170
Constitutional officers' support	-	724,325	724,325
Other	-	51,401	51,401
Total General Fund	-	11,880,422	11,880,422
Nonmajor governmental funds:			
Community Services Act Fund	-	624,516	624,516
Social Services Fund	-	2,048,764	2,048,764
Grants Fund	376,246	316,272	692,518
Community Development Fund	657,887	-	657,887
Total nonmajor governmental funds	1,034,133	2,989,552	4,023,685
Total governmental activities	\$ 1,034,133	14,869,974	15,904,107

(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				Governmental Activities	Business-Type Activity - Parking Authority
	General Fund	Capital Improvements Fund	Nonmajor Governmental Funds	Total		
Property taxes	\$ 8,217,431	-	-	8,217,431	-	-
Parking space rentals	-	-	-	-	-	55,754
Unearned grant revenue	-	-	-	-	-	-
Notes receivable	-	4,152	-	4,152	4,152	-
Stormwater fees	-	-	46,477	46,477	-	-
Total deferred and unearned revenues	\$ 8,217,431	4,152	46,477	8,268,060	4,152	55,754

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 \$5,568,962 reported as landfill closure and postclosure care liability at June 30, 2010 represents the cumulative amount reported to date based on the use of 52.9 percent of the estimated capacity of the landfill. The City will recognize the remaining estimated cost of closure and postclosure care of \$4,958,376 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2010. 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 47.8 years. The City is required by Federal and State statutes to prepare a Local Government Financial Test Worksheet to demonstrate how closure and postclosure care financial assurance requirements will be met.

(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, 2010 is \$42,530,000. 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, 2010.

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

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

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

Notes to Basic Financial Statements, Continued

property. The property deductible is \$100,000 per occurrence with \$308,308,285 loss limit per occurrence. The City purchases commercial excess insurance policies for workers' compensation and general liability. Therefore, for the fiscal years ended June 30, 2010, 2009, and 2008, 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 \$14,041,922 (undiscounted) reported in the fund at June 30, 2010 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 \$2,920,873. 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, 2010 to compute this liability.

Changes in the fund's claims liability amount in fiscal years 2010 and 2009 were:

		2010	2009
Risk management claims payable at beginning of year	\$	14,386,836	14,093,327
Risk management claims expense and changes in estimates		2,369,656	3,085,767
Risk management claims payments, net		(2,714,570)	(2,792,258)
Risk management claims payable at end of year	\$	14,041,922	14,386,836

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, 2010 is \$1,328,955 (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, 2010 to compute this liability.

Changes in the medical claim liability amount in fiscal years 2010 and 2009 were:

		2010	2009
Medical claims payable at beginning of year	\$	1,299,037	1,341,000
Medical claims expense and changes in estimates		15,943,497	14,891,220
Medical claims payments		(15,913,579)	(14,933,183)
Medical claims payable at end of year	\$	1,328,955	1,299,037

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, 2010 was determined to be \$2,510,742 (undiscounted), of which \$878,284 is due within one year.

Notes to Basic Financial Statements, Continued

Changes in the school’s claim liability amount in fiscal years 2010 and 2009 were:

	2010	2009
Claims payable at beginning of year	\$ 2,482,841	1,969,691
Claims and changes in estimates	820,101	1,052,503
Claim payments	(792,200)	(539,353)
Claims payable at end of year	\$ 2,510,742	2,482,841

(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) PRIOR YEAR RESTATEMENTS

The City Implemented GASB Statement No. 51 – Accounting and Financial Reporting for Intangible Assets in the current fiscal year 2010 financial statements. As a result of the implementation, the Governmental Activities- Internal Service Funds, Net Asset, beginning of year reflects a balance of \$15,139,889 instead of prior years ending balance of \$14,273,789. The difference of \$866,100 reflects the addition of the Intangible Asset.

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



**Schedule of Revenues and Other Financing Sources
General Fund
Year ended June 30, 2010**

Schedule I-1

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Taxes:				
General property taxes:				
Real property - current	\$ 89,023,188	\$ 89,023,188	88,875,878	(147,310)
Real property - delinquent	3,682,237	3,682,237	2,967,690	(714,547)
Real property - Public Service Corporation	2,058,132	2,058,132	2,594,997	536,865
Personal property - current	14,640,794	14,640,794	18,083,114	3,442,320
Personal property - delinquent	1,311,653	1,311,653	1,866,144	554,491
Personal property - Public Service Corporation	944,251	944,251	1,166,663	222,412
Machine and tool taxes	1,486,240	1,486,240	2,054,923	568,683
Penalties and other charges	1,553,506	1,553,506	1,473,858	(79,648)
Interest	550,021	550,021	722,422	172,401
Total general property taxes	115,250,022	115,250,022	119,805,689	4,555,667
Other local taxes:				
Admission and amusement taxes	259,584	259,584	245,648	(13,936)
Bank franchise taxes	326,842	326,842	519,107	192,265
Business and occupational license taxes	5,999,884	5,999,884	6,383,132	383,248
Cigarette taxes	3,020,842	3,020,842	2,884,253	(136,589)
Licensing fees - current	1,655,993	1,655,993	1,566,735	(89,258)
Licensing fees - delinquent	471,934	471,934	486,025	14,091
Lodging taxes	903,777	903,777	725,682	(178,095)
Motor vehicle license fee	5,423	5,423	1,720	(3,703)
Recordation taxes	1,358,316	1,358,316	949,253	(409,063)
Restaurant food taxes	6,478,764	6,478,764	6,221,438	(257,326)
Sales and use tax - local	7,538,055	7,538,055	6,306,346	(1,231,709)
Short-term rental taxes	37,305	37,305	24,896	(12,409)
Miscellaneous	-	-	521,253	521,253
Telecommunications	10,002,959	10,002,959	9,766,016	(236,943)
Total other local taxes	38,059,678	38,059,678	36,601,504	(1,458,174)
Utility taxes:				
Electricity taxes	4,231,617	4,231,617	4,110,554	(121,063)
Gas taxes	1,420,111	1,420,111	1,410,368	(9,743)
Water taxes	2,274,720	2,274,720	2,058,122	(216,598)
Total utility taxes	7,926,448	7,926,448	7,579,044	(347,404)
Total taxes	161,236,148	161,236,148	163,986,237	2,750,089
Intergovernmental revenue:				
Commonwealth of Virginia:				
Noncategorical aid:				
Mobile home sales taxes	1,000	1,000	1,260	260
Personal property tax relief act	9,862,962	9,862,962	9,862,962	-
Recordation tax distribution	257,000	257,000	178,995	(78,005)
Rolling stock taxes	24,000	24,000	34,886	10,886
Vehicle rental tax	125,000	125,000	117,763	(7,237)
Wine tax	61,000	61,000	-	(61,000)

(continued)

Budgetary Comparison Schedule
Schedule of Revenues and Other Financing Sources
General Fund
Year ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Commonwealth of Virginia, continued:				
Categorical aid - shared costs:				
Circuit Court Clerk	\$ 919,000	\$ 919,000	808,438	(110,562)
City Registrar	66,000	66,000	129,993	63,993
City Sheriff	6,037,000	6,037,000	5,795,749	(241,251)
City Treasurer	332,000	332,000	301,374	(30,626)
Commissioner of Revenue	279,000	279,000	262,929	(16,071)
Commonwealth Attorney	1,635,000	1,635,000	1,517,432	(117,568)
DMV select	37,000	37,000	68,404	31,404
Escheated property	5,000	5,000	-	(5,000)
Other categorical aid:				
Correctional facilities block grant	1,217,000	1,217,000	916,689	(300,311)
Law enforcement grant	6,621,307	6,621,307	6,068,511	(552,796)
Library funds - books	191,000	191,000	215,379	24,379
Street and highway maintenance	9,175,000	9,175,000	9,314,911	139,911
Other	-	12,509	-	(12,509)
Total Commonwealth of Virginia	36,845,269	36,857,778	35,595,675	(1,262,103)
Federal -				
FEMA reimbursement	-	-	115,686	115,686
Total Federal	-	-	115,686	115,686
Total intergovernmental revenue	36,845,269	36,857,778	35,711,361	(1,146,417)
Charges for services:				
Ambulance fees - current	2,048,348	2,048,348	2,574,025	525,677
Animal crematory fees	3,000	3,000	-	(3,000)
Circuit Court Clerk fees	30,000	30,000	4,518	(25,482)
City Sheriff fees	17,000	17,000	17,696	696
Concession fees	-	-	11,094	11,094
Courthouse maintenance fees	55,000	55,000	55,132	132
Courthouse replacement fees	-	-	1,690	1,690
Library fines and fees	33,000	33,000	41,339	8,339
Museum admission charges	225,000	225,000	203,211	(21,789)
Police record fees	32,000	32,000	31,272	(728)
Recreation activity fees	145,600	145,600	135,161	(10,439)
Rental inspection fees	90,000	90,000	124,400	34,400
Street closure applications	-	-	330	330
Swimming fees	-	-	2,246	2,246
Miscellaneous recoveries	976,375	976,375	153,289	(823,086)
Total charges for services	3,655,323	3,655,323	3,355,403	(299,920)

(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, 2010

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Investment income-				
Investment income	\$ 328,200	328,200	7,066	(321,134)
Total investment income	328,200	328,200	7,066	(321,134)
Recovered costs:				
City garage fund	467,636	467,636	467,636	-
Information technology fund	270,133	270,133	270,133	-
Court appointed attorneys	2,092	2,092	916	(1,176)
Golf fund	212,034	212,034	212,034	-
Health department	29,948	29,948	48,428	18,480
Health insurance fund	22,935	22,935	22,935	-
Law library fund	4,203	4,203	4,203	-
Lockup fees - federal prisoners	470,750	470,750	470,750	-
Behavioral health services fund	672,346	672,346	672,346	-
Miscellaneous recoveries	314,647	314,647	197,192	(117,455)
Parking authority	98,221	98,221	98,221	-
Citywide telephone charges	19,286	19,286	18,813	(473)
Postage	489,035	489,035	362,910	(126,125)
Public utility fund	844,649	844,649	844,649	-
Risk management fund	44,630	44,630	44,630	-
School Board salaries	50,000	50,000	50,000	-
Social security payments - jail	14,458	14,458	10,400	(4,058)
Stormwater management fund	114,830	114,830	114,830	-
Social services fund	520,000	520,000	166,559	(353,441)
VDOT salaries	67,126	67,126	-	(67,126)
Waste management fund	218,893	218,893	218,893	-
Sheriff's department	25,000	25,000	35,292	10,292
Total recovered costs	4,972,852	4,972,852	4,331,770	(641,082)
Fines and forfeitures:				
Circuit Court fines	11,000	11,000	9,816	(1,184)
Conviction fees	74,000	74,000	146,630	72,630
General District Court fines	122,000	122,000	32,786	(89,214)
Overweight vehicle fines	1,000	1,000	(5,140)	(6,140)
Juvenile Court fines	3,000	3,000	649	(2,351)
Total fines and forfeitures	211,000	211,000	184,741	(26,259)
Licenses and permits:				
Bicycle licenses	1,000	1,000	260	(740)
Building plan review fees	30,000	30,000	28,535	(1,465)
Building reinspection fees	1,000	1,000	6,820	5,820
Building structure permits	338,000	338,000	390,301	52,301
Dog impounding fees	2,000	2,000	3,250	1,250
Dog licenses	20,000	20,000	32,083	12,083
Electrical inspection fees	11,000	11,000	20,080	9,080
Electrical permits	126,000	126,000	98,907	(27,093)
Elevator inspection fees	2,100	2,100	4,785	2,685
Hauling and permit fees	205,425	205,425	108,325	(97,100)

(continued)

Budgetary Comparison Schedule
Schedule of Revenues and Other Financing Sources
General Fund
Year ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Licenses and permits, continued:				
License transfer fees	\$ 3,100	3,100	2,578	(522)
Mechanical inspection fees	5,000	5,000	1,860	(3,140)
Mechanical permits	115,000	115,000	132,518	17,518
Miscellaneous permits	39,000	39,000	18,725	(20,275)
Penalties on licenses	48,000	48,000	72,601	24,601
Plumbing inspection fees	1,000	1,000	105	(895)
Plumbing permits	56,000	56,000	69,270	13,270
Restricted parking permits	3,100	3,100	3,749	649
Right of way permits	227,000	227,000	111,111	(115,889)
Sign permit fees	2,100	2,100	3,745	1,645
Site plan review fees	11,000	11,000	5,342	(5,658)
State surcharge on permits	1,000	1,000	7	(993)
Taxi operators permits	1,000	1,000	1,845	845
Yard sale permits	4,100	4,100	4,550	450
Zoning and plat fees	41,000	41,000	15,629	(25,371)
Total licenses and permits	1,293,925	1,293,925	1,136,981	(156,944)
Use of property:				
Rental of antenna sites	73,000	73,000	85,181	12,181
Rental of recreation facilities	33,000	33,000	33,588	588
Payments from Economic Development Authority	125,000	125,000	124,997	(3)
Rental of general properties	1,983,000	1,983,000	1,564,010	(418,990)
Total use of property	2,214,000	2,214,000	1,807,776	(406,224)
Miscellaneous:				
Community share - incentive fund	2,100	2,100	255	(1,845)
Admin fee - state income tax	2,100	2,100	1,260	(840)
Admin fee - RE	560,000	560,000	384,388	(175,612)
Admin fee - PP	1,490,000	1,490,000	957,193	(532,807)
Admin fee - Parking	69,000	69,000	82,957	13,957
Admin fee - EMS	3,100	3,100	9,153	6,053
Admin fee - Gen	-	-	99	99
Sale of abandoned property	8,000	8,000	4,290	(3,710)
Other revenue	77,000	77,000	41,460	(35,540)
Unclaimed property tax refunds	77,000	77,000	279,195	202,195
Payments in lieu of taxes:				
Housing Authority	161,000	161,000	16,434	(144,566)
Regional Jail	486,000	486,000	505,657	19,657
Virginia Port Authority	257,000	257,000	374,894	117,894
SPSA	-	850,000	850,000	-
Public utility fund	1,011,000	1,011,000	1,011,000	-
Payment from Portsmouth Public Schools	267,204	267,204	272,952	5,748
Total miscellaneous revenue	4,470,504	5,320,504	4,791,187	(529,317)
Total revenues	215,227,221	216,089,730	215,312,522	(777,208)

(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, 2010

Other financing sources:				
Discount on bonds issued	-	-	(1,777,830)	(1,777,830)
Proceeds - VPSA 2009 QSCBS	-	-	1,777,830	1,777,830
Proceeds - Bonds 2010B (BABs)	-	-	442,057	442,057
Proceeds - Bonds Premium 2010C	-	-	329,479	329,479
Proceeds - Bonds Premium 2010A	-	-	52,357	52,357
Transfers from other funds:				
Donations fund	-	91,434	91,434	-
BHS	338,000	338,000	338,000	-
Parking Authority	335,835	335,835	-	(335,835)
Public utility fund	7,500,000	7,500,000	7,500,000	-
Total other financing sources	8,173,835	8,265,269	8,753,327	488,058
Total revenues and other financing sources	\$ 223,401,056	224,354,999	224,065,849	(289,150)

Unaudited - see accompanying independent auditors' report.

CITY OF PORTSMOUTH, VIRGINIA

Schedule I-2

Budgetary Comparison Schedule
Schedule of Expenditures and Other Financing Uses
General Fund
Year ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
General government:				
Administration:				
Legislative:				
City council	\$ 416,494	416,494	378,004	38,490
City clerk	304,864	304,864	285,937	18,927
Total legislative	721,358	721,358	663,941	57,417
Executive:				
City manager	969,180	969,180	724,379	244,801
Management and legislative services	351,328	351,328	357,379	(6,051)
Communications and marketing	1,245,851	1,353,961	1,371,926	(17,965)
Total executive	2,566,359	2,674,469	2,453,684	220,785
Boards and commissions:				
Civil service commission	64,400	64,400	31,112	33,288
General registrar	521,928	521,928	489,831	32,097
Total boards and commissions	586,328	586,328	520,943	65,385
Total administration	3,874,045	3,982,155	3,638,568	343,587
City attorney	1,329,335	1,454,335	1,368,578	85,757
Human resource management	940,083	952,083	899,344	52,739
Financial administration:				
Commissioner of revenue	1,438,064	1,421,135	1,353,539	67,596
City assessor	735,980	805,980	751,579	54,401
City treasurer	1,808,439	1,788,789	1,810,136	(21,347)
Procurement and risk management	1,095,950	1,095,950	1,024,898	71,052
Finance	1,743,849	1,878,345	1,781,913	96,432
Total financial administration	6,822,282	6,990,199	6,722,065	268,134
Public transportation	2,494,498	2,494,498	2,494,498	-
Total general government	15,460,243	15,873,270	15,123,053	750,217
Nondepartmental:				
Miscellaneous	10,611,606	10,737,635	8,936,659	1,800,976
Contingency	581,199	539,652	20,000	519,652
Support to civic organizations	332,106	324,606	319,556	5,050
Total nondepartmental	11,524,911	11,601,893	9,276,215	2,325,678

(continued)

Budgetary Comparison Schedule
Schedule of Expenditures and Other Financing Uses
General Fund
Year ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Judicial:				
Circuit court judges	\$ 565,583	565,583	528,209	37,374
Circuit court clerk	1,342,852	1,286,024	1,272,518	13,506
Magistrate	12,115	12,115	9,262	2,853
General district court	51,140	51,140	33,403	17,737
Juvenile and domestic relations court	25,627	25,627	19,271	6,356
Juvenile court services	1,237,343	1,233,742	1,123,756	109,986
Commonwealth's attorney	2,355,594	2,377,743	2,421,568	(43,825)
Sheriff	12,839,734	12,649,446	12,181,079	468,367
Total judicial	18,429,988	18,201,420	17,589,066	612,354
Public safety:				
Police	31,271,680	30,812,823	28,489,067	2,323,756
E-911 communications	2,400,611	2,400,611	2,238,462	162,149
Operations Support bureau	62,702	62,702	383,128	(320,426)
Admin & Support bureau	-	-	360,819	(360,819)
Field Operations bureau	15,210	15,210	43,749	(28,539)
Animal control & security	741,432	785,072	560,775	224,297
Fire, rescue, and emergency services	28,372,511	28,072,511	26,797,869	1,274,642
Total public safety	62,864,146	62,148,929	58,873,869	3,275,060
Public works:				
Engineering	1,485,116	1,493,189	1,330,867	162,322
Streets and highways	3,679,863	3,679,863	3,431,680	248,183
Mosquito control	415,202	415,202	313,961	101,241
Traffic engineering	2,510,210	2,510,210	2,177,635	332,575
General services:				
Properties management	3,230,641	3,273,177	3,217,065	56,112
Utilities	1,761,000	2,051,412	2,030,961	20,451
Rental of land and buildings	755,185	734,737	734,736	1
Storeroom	-	-	14,319	(14,319)
Harbor Center pavilion	317,409	339,145	340,695	(1,550)
Total public works	14,154,626	14,496,935	13,591,919	905,016
Public health and welfare - Health department	1,245,479	1,257,988	1,216,917	41,071
Parks, recreation, and cultural:				
Parks and recreation - administration	4,571,144	4,490,780	4,239,940	250,840
Parks and recreation - recreation	301,076	368,330	311,482	56,848
Parks	1,940,232	1,940,232	1,580,948	359,284
Museums	1,702,850	1,702,850	1,610,868	91,982
Public library	2,295,750	2,286,459	2,238,316	48,143
Total parks, recreation, and cultural	10,811,052	10,788,651	9,981,554	807,097

(continued)

Budgetary Comparison Schedule
Schedule of Expenditures and Other Financing Uses
General Fund
Year ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Community development:				
Permits and inspections	\$ 2,656,580	2,656,580	2,382,081	274,499
Economic development	939,476	804,980	732,085	72,895
Planning	1,960,868	1,960,868	1,599,426	361,442
Total community development	5,556,924	5,422,428	4,713,592	708,836
Education - Payments to school board	48,171,651	48,171,651	48,171,651	-
Debt service:				
Principal	10,600,426	10,634,426	9,501,442	1,132,984
Interest and fiscal charges	10,136,817	10,063,744	11,195,821	(1,132,077)
Costs of issuance	-	41,547	610,936	(569,389)
Total debt service	20,737,243	20,739,717	21,308,199	(568,482)
Total expenditures	208,956,263	208,702,882	199,846,035	8,856,847
Other financing uses:				
Transfers to other funds:				
Behavioral health services fund	\$ 504,708	347,470	504,708	(157,238)
Social services fund	6,307,510	6,103,423	4,381,737	1,721,686
Courts cap reserve	758,769	758,769	758,769	-
Community services fund	3,175,591	3,175,591	1,728,998	1,446,593
Donations fund	47,000	13,000	17,000	(4,000)
Grants fund	-	3,601	3,568	33
Health Insurance	-	361,325	361,323	2
Retirement	-	87,723	87,723	-
Parking authority	426,609	426,609	426,609	-
Golf	1,224,606	1,224,606	1,100,000	124,606
Capital improvement fund	2,000,000	2,300,000	2,374,847	(74,847)
Total transfers to other funds	14,444,793	14,802,117	11,745,282	3,056,835
Total other financing uses	14,444,793	14,802,117	11,745,282	3,056,835
Total expenditures and other financing uses	\$ 223,401,056	\$ 223,504,999	\$ 211,591,317	11,913,682

Unaudited - see accompanying independent auditors' report.

**Budgetary Comparison Schedule
Note to Required Supplementary Information
General Fund****Year ended June 30, 2010**

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, 2010, as amended. The budget as adopted by the City Council may be amended by the City Council through supplemental appropriations or transfers, as necessary. The legal level of budgetary control rests at the fund level with the exception of the General Fund, which is appropriated at the activity or function level. In addition, the City Code provides that the City Manager may transfer any unencumbered appropriation balance less than \$100,000 from one department, project, program, or purpose within the same fund. Also, the City Manager may transfer any or all of the unencumbered balance of the emergency contingency account to any item in the City budget provided that any such utilization from the emergency budget contingency is reported to the City Council at the next regular council meeting.

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

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

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

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial 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>						
1/1/2010	\$ 27,465,940	73,797,071	46,331,131	37%	\$ 2,702,000	1715%
7/1/2009	30,844,205	73,446,501	42,602,296	42%	3,831,000	1112%
7/1/2008	44,887,703	73,205,749	28,318,046	61%	4,155,000	682%
7/1/2007	47,383,449	70,564,879	23,181,430	67%	4,354,000	532%
7/1/2006	44,984,706	67,253,150	22,268,444	67%	4,472,000	498%
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%
<i>B. Fire and Police Retirement System:</i>						
1/1/2010	\$ 78,994,174	216,550,641	137,556,467	36%	\$ 10,531,000	1306%
7/1/2009	76,943,962	214,676,887	137,732,925	36%	11,048,000	1247%
7/1/2008	99,468,964	210,696,128	111,227,164	47%	11,615,000	958%
7/1/2007	99,524,229	202,807,233	103,283,004	49%	12,015,000	860%
7/1/2006	91,076,751	184,555,196	93,478,445	49%	11,642,000	803%
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%
II. VIRGINIA RETIREMENT SYSTEM PLANS:						
<i>A. City of Portsmouth Employees:</i>						
6/30/2009	\$ 196,708,288	215,980,918	19,272,630	91%	\$ 64,429,140	30%
6/30/2008	192,508,238	203,073,948	10,565,710	95%	66,204,197	16%
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%
<i>B. School Board Nonprofessional Employees:</i>						
6/30/2009	\$ 26,438,978	32,184,146	5,745,168	82%	\$ 8,645,713	66%
6/30/2008	26,548,549	30,249,399	3,700,850	88%	8,007,998	46%
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%

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
2010	\$ 2,570,503	102%	\$ 11,384,382	111%
2009	2,265,220	100%	10,895,934	99%
2008	2,155,485	102%	9,814,500	102%
2007	2,326,033	100%	9,277,615	96%
2006	2,084,812	100%	8,583,893	100%
2005	1,678,576	99%	8,544,079	99%
2004	1,116,961	96%	5,790,202	97%
2003	1,191,196	100%	5,758,510	100%
2002	696,400	100%	4,241,278	100%
2001	755,044	102%	4,510,105	100%
2000	757,778	113%	4,005,179	105%

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	1/1/2010	1/1/2010	6/30/2009
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	26 years	26 years	Five-Year Smoothed Market Rate
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 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:						
7/1/2009	-	\$ 221,375,695	221,375,695	0%	73,342,372	302%
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:		
6/30/2010	\$ 16,455,303	25.0%
6/30/2009	\$ 13,811,219	37.1%
6/30/2008	\$ 14,981,028	21.4%
SCHOOL BOARD PLAN:		
6/30/2010	\$ 1,025,000	98.0%
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 had been calculated for the City of Portsmouth Retired Employees Health Care Program, therefore, two prior years of history can be presented in the schedules on this page. Additional historical information will be added in future years.

Nonmajor Governmental Funds

CITY OF PORTSMOUTH, VIRGINIA
 Combining Balance Sheet
 Nonmajor Governmental Funds
 June 30, 2010

Schedule J-1

	Special Revenue Funds												Total	
	Behavioral Health Services	Public Law Library	Social Services	Stormwater Management	Grants	Stimulus	Comprehensive Services	Donations	Shuttle Bus	Willet Hall	Recreation	Community Development		Permanent Fund - Cemetery
Assets:														
Cash and temporary investments	\$ 1,726,034	13,309	-	2,302,569	93,728	15,083,518	-	3,022,486	-	469,528	253,125	153	1,448,205	24,412,655
Accounts receivable (net of allowance for uncollectibles \$409,198)	4,335	-	15,598	254,473	-	58,877	-	-	-	19,191	-	-	-	352,474
Due from other governments	-	-	2,048,764	-	692,518	-	624,516	-	-	-	-	657,887	-	4,023,685
Prepaid items	-	-	-	-	29,995	-	-	-	-	2,223	-	-	-	32,218
Total assets	\$ 1,730,369	13,309	2,064,362	2,557,042	816,241	15,142,395	624,516	3,022,486	-	490,942	253,125	658,040	1,448,205	28,821,032
Liabilities:														
Accounts payable	\$ 188,546	500	622,251	244,860	41,737	447,066	491,067	39,809	-	44,756	53,779	13,002	-	2,187,373
Due to other governments	-	-	-	-	-	17,928	-	-	-	-	-	-	-	17,928
Due to other funds	-	-	1,402,455	-	-	1,682,507	132,436	-	1,015	-	-	295,642	-	3,514,055
Due to component units	-	-	-	-	-	622,477	-	-	-	-	-	-	-	622,477
Deferred revenues	-	-	-	46,477	-	-	-	-	-	-	-	-	-	46,477
Total liabilities	188,546	500	2,024,706	291,337	41,737	2,752,050	623,503	57,737	1,015	44,756	53,779	308,644	-	6,388,310
Fund balances:														
Reserved for current year encumbrances	-	-	-	-	479,846	-	-	-	-	-	-	687,430	-	1,167,276
Reserved for revenue maximization	-	-	204,358	-	-	-	-	-	-	-	-	-	-	204,358
Reserved for cemetery care	-	-	-	-	-	-	-	-	-	-	-	-	1,000,000	1,000,000
Reserved for prepaid items	-	-	-	-	29,995	-	-	-	-	2,223	-	-	-	32,218
Unreserved:														
Designated for subsequent year's expenditures	-	-	-	330,501	-	-	-	-	-	-	-	-	-	330,501
Undesignated	1,541,823	12,809	(164,702)	1,935,204	264,663	12,390,345	1,013	2,964,749	(1,015)	443,963	199,346	(338,034)	448,205	19,698,369
Total fund balances	1,541,823	12,809	39,656	2,265,705	774,504	12,390,345	1,013	2,964,749	(1,015)	446,186	199,346	349,396	1,448,205	22,432,722
Total liabilities and fund balances	\$ 1,730,369	13,309	2,064,362	2,557,042	816,241	15,142,395	624,516	3,022,486	-	490,942	253,125	658,040	1,448,205	28,821,032

CITY OF PORTSMOUTH, VIRGINIA
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Nonmajor Governmental Funds
 Year ended June 30, 2010

	Special Revenue Funds											Total
	Behavioral Health Services	Public Law Library	Social Services	Stormwater Management	Grants	Stimulus	Comprehensive Services	Donations	Shuttle Bus	Willett Hall Recreation	Community Development	
Revenues:												
Inergovernmental Charges for services	\$ 9,556,103	-	17,086,641	-	3,394,518	3,970,179	4,036,726	213,082	-	-	3,046,772	-
Investment income	414,062	28,903	-	5,237,937	-	-	-	-	170,944	523,807	-	42,200
Use of property	1,385	-	-	2,182	-	27,587	-	914	226	114	-	11,980
Miscellaneous	19,394	-	-	-	94,281	-	-	664,833	77,673	-	246,030	-
	-	-	-	-	-	-	-	-	2,121	-	-	-
Total revenues	9,970,944	28,903	17,086,641	5,240,119	3,488,799	3,997,766	4,036,726	878,829	250,964	523,921	3,292,802	54,180
Expenditures:												
Current:												
General government	-	-	-	-	191,484	141,478	-	47,409	-	-	-	-
Judicial	-	30,052	-	-	1,202,271	-	-	376,909	-	-	-	-
Public safety	-	-	-	-	1,626,035	252,269	-	101,610	-	-	-	-
Health and welfare	-	-	-	1,946,859	-	-	-	320	-	-	-	-
Parks, recreational, and cultural	9,261,286	-	21,422,641	-	458,970	-	5,765,724	5,747	-	-	-	-
Community development	-	-	-	-	602,553	-	-	302,116	168,786	522,144	3,472,328	-
Debt Service	-	-	-	-	-	1,290,195	-	-	-	-	-	-
Capital outlay	-	-	6,081	73,850	-	344,439	-	-	-	-	-	-
	-	-	-	-	-	6,801,210	-	-	-	-	-	-
Total expenditures	9,261,286	30,052	21,428,722	2,020,709	4,081,313	8,829,591	5,765,724	834,111	168,786	522,144	3,472,328	54,180
Revenues over (under) expenditures	709,658	(1,149)	(4,342,081)	3,219,410	(592,514)	(4,831,825)	(1,728,998)	44,718	82,178	1,777	(179,526)	54,180
Other financing sources (uses):												
Issuance of long-term debt	-	-	-	-	-	17,222,170	-	-	-	-	-	-
Transfers from other funds	504,708	-	4,381,737	-	263,928	-	1,728,998	1,317,000	-	-	-	-
Transfers to other funds	(1,655,350)	-	-	(3,122,740)	-	-	-	(207,445)	-	-	-	-
Total other financing sources (uses)	(1,150,642)	-	4,381,737	(3,122,740)	263,928	17,222,170	1,728,998	1,109,555	-	-	-	-
Net change in fund balances	(440,984)	(1,149)	39,656	96,670	(328,586)	12,390,345	1,013	1,154,273	82,178	1,777	(179,526)	54,180
Fund balances, beginning of year	1,982,807	13,958	-	2,169,035	1,103,090	-	1,013	1,810,476	364,008	197,569	528,922	1,394,025
Fund balances, end of year	\$ 1,541,823	12,809	39,656	2,265,705	774,504	12,390,345	1,013	2,964,749	446,186	199,346	349,396	1,448,205

CITY OF PORTSMOUTH, VIRGINIA
Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual

Special Revenue Funds

Year ended June 30, 2010

	Behavioral Health Services			Public Law Library		
	Budget	Actual	Variance favorable (unfavorable)	Budget	Actual	Variance favorable (unfavorable)
Revenues:						
Intergovernmental	\$ 10,292,475	9,536,103	(756,372)	-	-	-
Charges for services	595,415	414,062	(181,353)	33,757	28,903	(4,854)
Investment income	-	1,385	1,385	-	-	-
Miscellaneous	231,875	19,394	(212,481)	-	-	-
Total revenues	11,119,765	9,970,944	(1,148,821)	33,757	28,903	(4,854)
Expenditures:						
Current:						
Judicial	-	-	-	33,757	30,052	3,705
Health and welfare	11,268,123	9,261,286	2,006,837	-	-	-
Capital outlay	-	-	-	-	-	-
Total expenditures	11,268,123	9,261,286	2,006,837	33,757	30,052	3,705
Revenues over (under) expenditures	(148,358)	709,658	858,016	-	(1,149)	(1,149)
Other financing sources (uses) -						
Transfers from other funds	504,708	504,708	-	-	-	-
Transfers to other funds	(1,655,350)	(1,655,350)	-	-	-	-
Fund balance	-	-	-	-	-	-
Total other financing sources (uses)	(1,150,642)	(1,150,642)	-	-	-	-
Revenues and other financing sources over/ (under) expenditures and other financing uses	\$ (1,299,000)	(440,984)	858,016	-	(1,149)	(1,149)
Fund balances at beginning of year						
Cancellation of unexpended prior year encumbrances		1,982,807	1,982,807		13,958	13,958
Increase (decrease) in reserve for encumbrances		-	-		-	-
Fund balances at end of year	\$ 1,541,823	2,840,823	2,840,823	\$ 12,809	12,809	12,809

(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, 2010

	Social Services			Stormwater Management		
	Budget	Actual	Variance favorable (unfavorable)	Budget	Actual	Variance favorable (unfavorable)
Revenues:						
Intergovernmental	\$ 22,053,516	17,086,641	(4,966,875)	-	-	-
Charges for services	-	-	-	5,311,488	5,237,937	(73,551)
Investment income	-	-	-	-	2,182	2,182
Miscellaneous	-	-	-	-	-	-
Total revenues	22,053,516	17,086,641	(4,966,875)	5,311,488	5,240,119	(71,369)
Expenditures:						
Current:						
Public works	-	-	-	1,976,339	1,946,859	29,480
Health and welfare	28,278,896	21,422,641	6,856,255	-	-	-
Capital outlay	82,130	6,081	76,049	100,000	73,850	26,150
Total expenditures	28,361,026	21,428,722	6,932,304	2,076,339	2,020,709	55,630
Revenues over (under) expenditures	(6,307,510)	(4,342,081)	1,965,429	3,235,149	3,219,410	(15,739)
Other financing sources (uses):						
Transfers from other funds	6,307,510	4,381,737	(1,925,773)	-	-	-
Transfers to other funds	-	-	-	(3,122,740)	(3,122,740)	-
Fund balance	97,648	-	(97,648)	(112,409)	-	112,409
Total other financing sources (uses)	6,405,158	4,381,737	(2,023,421)	(3,235,149)	(3,122,740)	112,409
Revenues and other financing sources over (under) expenditures and other financing uses	\$ 97,648	39,656	(57,992)	-	96,670	96,670
Fund balances at beginning of year					2,169,035	2,169,035
Cancellation of unexpended prior year encumbrances					-	-
Increase in reserve for encumbrances					-	-
Fund balances at end of year	\$	\$ 39,656	(57,992)	\$	\$ 2,265,705	2,265,705

(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, 2010

	Comprehensive Services				Willett Hall				
	Budget	Actual	Variance favorable (unfavorable)	Budget	Actual	Variance favorable (unfavorable)	Budget	Actual	Variance favorable (unfavorable)
Revenues:									
Intergovernmental	\$ 5,441,450	4,036,726	(1,404,724)	-	-	-	-	-	-
Charges for services	-	-	-	280,000	170,944	(109,056)			
Investment income	-	-	-	-	226	226			
Use of property	-	-	-	105,000	77,673	(27,327)			
Miscellaneous	-	-	-	607	2,121	1,514			
Total revenues	5,441,450	4,036,726	(1,404,724)	385,607	250,964	(134,643)			
Expenditures -									
Current:									
Health and welfare	8,305,640	5,765,724	2,539,916	-	-	-			
Parks, recreational and cultural	-	-	-	289,139	168,786	120,353			
Total expenditures	8,305,640	5,765,724	2,539,916	289,139	168,786	120,353			
Revenues over (under) expenditures	(2,864,190)	(1,728,998)	1,135,192	96,468	82,178	(14,290)			
Other financing sources -									
Contribution to net assets	-	-	-	(96,468)	-	96,468			
Transfers from other funds	3,175,591	1,728,998	(1,446,593)	-	-	-			
Fund balance	-	-	-	-	-	-			
Total other financing sources	3,175,591	1,728,998	(1,446,593)	(96,468)	-	96,468			
Revenues and other financing sources over (under) expenditures	\$ 311,401	-	(311,401)	-	82,178	82,178			
Fund balances at beginning of year		1,013	1,013		364,008	364,008			
Cancellation of unexpended prior year encumbrances		-	-		-	-			
Increase (decrease) in reserve for encumbrances		-	-		-	-			
Fund balances at end of year	\$ 1,013	\$ 1,013	(310,388)	\$ 446,186	\$ 446,186	446,186			

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, 2010

	Recreation			Shuttle Bus		
	Budget	Actual	Variance favorable (unfavorable)	Budget	Actual	Variance favorable (unfavorable)
Revenues:						
Charges for services	\$ 600,000	523,807	(76,193)	-	-	-
Investment income	-	114	114	-	-	-
Total revenues	600,000	523,921	(76,079)	-	-	-
Expenditures -						
Current -						
Community Development	-	-	-	-	-	-
Parks, recreational and cultural	573,782	522,144	51,638	-	-	-
Revenues over (under) expenditures	26,218	1,777	(24,441)	-	-	-
Other financing use -						
Transfers to other funds	(26,218)	-	26,218	-	-	-
Revenues over (under) expenditures and other financing use	-	1,777	1,777	-	-	-
Fund balances at beginning of year		197,569	197,569		(1,015)	(1,015)
Increase/(decrease) in reserve for encumbrances		-	-		-	-
Fund balances at end of year		\$ 199,346	199,346		\$ (1,015)	(1,015)

Nonmajor Proprietary Funds

Combining Statement of Net Assets

Nonmajor Proprietary Funds

June 30, 2010

	Port Facility and Economic Development	Golf	Waste Management	Total
Assets:				
Current assets:				
Cash and temporary investments	\$ -	280,339	5,070,594	5,350,933
Accounts receivable (net of allowance for uncollectibles \$646,937)	-	1,219	2,821,225	2,822,444
Total current assets	-	281,558	7,891,819	8,173,377
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	7,965,157	9,007,757
Total capital assets	7,812,158	12,804,480	10,874,432	31,491,070
Less accumulated depreciation	(4,978,790)	(1,825,805)	(4,572,412)	(11,377,007)
Total capital assets, net	2,833,368	10,978,675	6,302,020	20,114,063
Other assets	-	73,535	-	73,535
Total noncurrent assets	2,833,368	11,052,210	6,302,020	20,187,598
Total assets	\$ 2,833,368	11,333,768	14,193,839	28,360,975
Liabilities:				
Current liabilities:				
Accounts payable	\$ -	53,885	689,134	743,019
Accrued interest payable	-	88,355	-	88,355
Deposits	10,000	-	-	10,000
Due to other funds	259,824	-	-	259,824
Compensated absences	-	57,702	133,089	190,791
Obligations under capital leases	-	-	880,787	880,787
General obligation bonds	-	54,580	-	54,580
Total current liabilities	269,824	254,522	1,703,010	2,227,356
Noncurrent liabilities:				
Other post employment benefit obligations	-	281,259	1,115,179	1,396,438
Compensated absences	-	36,893	85,090	121,983
Obligations under capital leases	-	-	1,327,292	1,327,292
Landfill closure and postclosure liability	-	-	5,568,962	5,568,962
General obligation bonds	-	6,445,615	-	6,445,615
Total noncurrent liabilities	-	6,763,767	8,096,523	14,860,290
Total liabilities	269,824	7,018,289	9,799,533	17,087,646
Net assets:				
Invested in capital assets, net of related debt	2,833,368	4,478,480	4,093,941	11,405,789
Unrestricted (deficit)	(269,824)	(163,001)	300,365	(132,460)
Total net assets	2,563,544	4,315,479	4,394,306	11,273,329
Total liabilities and net assets	\$ 2,833,368	11,333,768	14,193,839	28,360,975

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

Nonmajor Proprietary Funds

Year ended June 30, 2010

	Port Facility and Economic Development	Golf	Waste Management	Total
Operating revenues:				
Intergovernmental	\$ -	-	680,000	680,000
Charges for services	-	1,249,452	15,037,913	16,287,365
Use of property	-	80,000	-	80,000
Other	-	4,729	4,137	8,866
Total operating revenues	-	1,334,181	15,722,050	17,056,231
Operating expenses:				
Personnel services	-	954,943	3,400,117	4,355,060
Contractual services	-	546,828	7,807,123	8,353,951
Supplies and materials	-	210,581	128,311	338,892
Utilities	-	98,466	3,660	102,126
Internal charges	-	27,522	1,548,296	1,575,818
Rent	-	87,919	-	87,919
Depreciation and amortization	66,520	137,226	899,492	1,103,238
Bad debt expense	-	-	54,541	54,541
Other	-	2,955	219,113	222,068
Total operating expenses	66,520	2,066,440	14,060,653	16,193,613
Operating income (loss)	(66,520)	(732,259)	1,661,397	862,618
Nonoperating revenues (expenses):				
Investment income	-	-	2,165	2,165
Gain (loss) on disposal of capital assets	-	-	1,383	1,383
Interest expense and fiscal charges	-	(326,563)	(77,435)	(403,998)
Net nonoperating revenues (expenses)	-	(326,563)	(73,887)	(400,450)
Net income (loss) before transfers	(66,520)	(1,058,822)	1,587,510	462,168
Transfers from other funds	-	1,100,000	-	1,100,000
Change in net assets	(66,520)	41,178	1,587,510	1,562,168
Net assets, beginning of year	2,630,064	4,274,301	2,806,796	9,711,161
Net assets, end of year	\$ 2,563,544	4,315,479	4,394,306	11,273,329

Combining Statement of Cash Flows

Nonmajor Proprietary Funds

Year ended June 30, 2010

	Port Facility and Economic Development	Golf	Waste Management	Total
Cash flows from operating activities:				
Receipts from customers	\$ -	1,333,359	15,177,570	16,510,929
Payments to suppliers	-	(964,756)	(9,757,152)	(10,721,908)
Payments to employees	-	(870,742)	(3,038,374)	(3,909,116)
Net cash provided by (used for) operating activities	-	(502,139)	2,382,044	1,879,905
Cash flows from noncapital financing activity -				
Transfers in / (out)	-	1,100,000	-	1,100,000
Net cash used for noncapital financing activities	-	1,100,000	-	1,100,000
Cash flows from capital and related financing activities:				
Proceeds from sale of capital assets	-	-	10,512	10,512
Principal paid on long-term debt	-	(60,000)	(920,090)	(980,090)
Interest paid	-	(307,553)	(77,435)	(384,988)
Net cash used for capital and related financing activities	-	(367,553)	(987,013)	(1,354,566)
Cash flows from investing activities -				
Interest received	-	-	2,165	2,165
Net cash provided by investing activities	-	-	2,165	2,165
Net increase in cash and temporary investments	-	230,308	1,397,196	1,627,504
Cash and temporary investments, beginning of year	-	50,031	3,673,398	3,723,429
Cash and temporary investments, end of year	\$ -	280,339	5,070,594	5,350,933
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities				
Operating income (loss)	\$ (66,520)	(732,259)	1,661,397	862,618
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation and amortization	66,520	137,226	899,492	1,103,238
Changes in assets and liabilities increasing (decreasing) cash and temporary investments:				
Accounts receivable	-	(822)	(544,480)	(545,302)
Accounts payable	-	9,516	(83,262)	(73,746)
Compensated absences	-	(9,844)	(14,432)	(24,276)
Other post employment benefit obligation	-	94,044	376,175	470,219
Landfill closure and postclosure liability	-	-	87,154	87,154
Net cash provided by (used for) operating activities	\$ -	(502,139)	2,382,044	1,879,905

Internal Service Funds

CITY OF PORTSMOUTH, VIRGINIA

Schedule L-1

Combining Statement of Net Assets

Internal Service Funds

June 30, 2010

	City Garage	Information Technology	Health Insurance	OPEB	Risk Management	Total
Assets:						
Current assets:						
Cash and temporary investments	\$ 2,270,753	1,462,785	8,051,940	3,000,000	14,471,227	29,256,705
Accounts receivable	63,133	33,856	150,564	-	-	247,553
Inventory of supplies	572,875	-	-	-	-	572,875
Total current assets	2,906,761	1,496,641	8,202,504	3,000,000	14,471,227	30,077,133
Capital assets:						
Land	15,048	-	-	-	-	15,048
Buildings	693,083	-	-	-	-	693,083
Intangible Assets	-	866,100	-	-	-	866,100
Machinery, furniture and equipment	17,536,475	5,810,210	-	-	-	23,346,685
Total capital assets	18,244,606	6,676,310	-	-	-	24,920,916
Less accumulated depreciation / amortization	(11,989,436)	(4,565,568)	-	-	-	(16,555,004)
Total capital assets, net	6,255,170	2,110,742	-	-	-	8,365,912
Total assets	\$ 9,161,931	3,607,383	8,202,504	3,000,000	14,471,227	38,443,045
Liabilities:						
Current liabilities:						
Accounts payable	\$ 200,610	56,430	-	-	409,814	666,854
Compensated absences	120,436	217,667	-	-	19,064	357,167
Obligations under capital leases	1,551,075	174,221	-	-	-	1,725,296
Claims payable	-	-	1,328,955	-	2,920,873	4,249,828
Total current liabilities	1,872,121	448,318	1,328,955	-	3,349,751	6,999,145
Noncurrent liabilities:						
Claims payable	-	-	-	-	11,121,049	11,121,049
Other post employment benefit obligation	603,140	528,114	-	-	69,616	1,200,870
Obligations under capital leases	2,184,606	-	-	-	-	2,184,606
Total noncurrent liabilities	2,787,746	528,114	-	-	11,190,665	14,506,525
Total liabilities	4,659,867	976,432	1,328,955	-	14,540,416	21,505,670
Net assets:						
Invested in capital assets, net of related debt	2,519,489	1,936,521	-	-	-	4,456,010
Unrestricted (deficit)	1,982,575	694,430	6,873,549	3,000,000	(69,189)	12,481,365
Total net assets	4,502,064	2,630,951	6,873,549	3,000,000	(69,189)	16,937,375
Total liabilities and net assets	\$ 9,161,931	3,607,383	8,202,504	3,000,000	14,471,227	38,443,045

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

Internal Service Funds

Year ended June 30, 2010

	City Garage	Information Technology	Health Insurance	OPEB	Risk Management	Total
Operating revenues:						
Charges for services	\$ 8,389,098	4,898,774	16,244,959	-	6,102,797	35,635,628
Other	5,276	28,931	328,596	-	245,942	608,745
Total operating revenues	8,394,374	4,927,705	16,573,555	-	6,348,739	36,244,373
Operating expenses:						
Personnel services	2,069,940	2,684,534	-	-	283,140	5,037,614
Contractual services	420,600	1,053,071	1,239,109	-	371,037	3,083,817
Supplies and materials	3,106,969	178,781	-	-	5,360	3,291,110
Utilities	78,191	103,765	-	-	1,818	183,774
Claims, settlements, and refunds	-	-	15,943,497	-	2,714,570	18,658,067
Insurance premiums	-	-	-	-	1,039,946	1,039,946
Depreciation and amortization	1,743,166	634,464	-	-	-	2,377,630
Other	500,448	275,397	26,276	-	51,149	853,270
Total operating expenses	7,919,314	4,930,012	17,208,882	-	4,467,020	34,525,228
Operating income	475,060	(2,307)	(635,327)	-	1,881,719	1,719,145
Nonoperating revenues (expenses):						
Investment income	941	620	4,235	-	6,935	12,731
Gain (loss) on disposal of capital assets	(16,778)	-	-	-	-	(16,778)
Interest expense and fiscal charges	(130,559)	(21,376)	-	-	-	(151,935)
Net nonoperating revenues (expenses)	(146,396)	(20,756)	4,235	-	6,935	(155,982)
Net income before transfers	328,664	(23,063)	(631,092)	-	1,888,654	1,563,163
Transfers from other funds	-	-	361,323	1,000,000	-	1,361,323
Transfers to other funds	-	-	(1,000,000)	-	(127,000)	(1,127,000)
Change in net assets	328,664	(23,063)	(1,269,769)	1,000,000	1,761,654	1,797,486
Net assets (deficit), beginning of year as restated (note 17)	4,173,400	2,654,014	8,143,318	2,000,000	(1,830,843)	15,139,889
Net assets (deficit), end of year	\$ 4,502,064	2,630,951	6,873,549	3,000,000	(69,189)	16,937,375

Combining Statement of Cash Flows

Internal Service Funds

Year ended June 30, 2010

	City Garage	Information Technology	Health Insurance	OPEB	Risk Management	Total
Cash flows from operating activities:						
Receipts from customers	\$ 8,377,090	4,945,985	16,518,147	-	6,410,364	36,251,586
Payments to suppliers	(4,104,248)	(1,738,699)	(17,178,964)	-	(4,292,252)	(27,314,163)
Payments to employees	(1,912,879)	(2,540,592)	-	-	(238,363)	(4,691,834)
Net cash provided by operating activities	2,359,963	666,694	(660,817)	-	1,879,749	4,245,589
Cash flows from noncapital financing activity -						
Transfers (out) / in	-	-	(638,677)	1,000,000	(127,000)	234,323
Net cash provided by noncapital financing activities	-	-	(638,677)	1,000,000	(127,000)	234,323
Cash flows from capital and related financing activities:						
Proceeds from sale of capital assets	13,676	-	-	-	-	13,676
Principal paid on long-term debt	(1,916,478)	(503,205)	-	-	-	(2,419,683)
Interest (paid) / received	(130,559)	(21,376)	4,235	-	-	(147,700)
Net cash used for capital and related financing activities	(2,033,361)	(524,581)	4,235	-	-	(2,553,707)
Cash flows from investing activities -						
Interest received	941	620	-	-	6,935	8,496
Net cash provided by investing activities	941	620	-	-	6,935	8,496
Net increase in cash and temporary investments	327,543	142,733	(1,295,259)	1,000,000	1,759,684	1,934,701
Cash and temporary investments, beginning of year	1,943,210	1,320,052	9,347,199	2,000,000	12,711,543	27,322,004
Cash and temporary investments, end of year	\$ 2,270,753	1,462,785	8,051,940	3,000,000	14,471,227	29,256,705
Adjustments to reconcile operating income to net cash provided by operating activities						
Operating income	\$ 475,060	(2,307)	(635,327)	-	1,881,719	1,719,145
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation and amortization	1,743,166	634,464	-	-	-	2,377,630
Changes in assets and liabilities increasing (decreasing) cash and temporary investments:						
Accounts receivable	(17,284)	18,280	(55,408)	-	61,625	7,213
Inventory of supplies	111,532	-	-	-	-	111,532
Accounts payable	(109,572)	(127,685)	-	-	236,542	(715)
Compensated absences	(42,091)	110	-	-	521	(41,460)
Other post employment benefit obligation	199,152	143,832	-	-	44,256	387,240
Claims payable	-	-	29,918	-	(344,914)	(314,996)
Net cash provided by operating activities	\$ 2,359,963	666,694	(660,817)	-	1,879,749	4,245,589

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, 2010**

	Portsmouth Supplemental Retirement System	Portsmouth Fire and Police Retirement System	Total
Assets:			
Cash	\$ 649,136	1,400,985	2,050,121
Investments:			
Common stock	13,334,454	38,630,323	51,964,777
Corporate bonds	6,857,869	19,867,457	26,725,326
Real estate	1,734,076	5,023,671	6,757,747
Alternatives	312,748	906,042	1,218,790
Total assets	\$ 22,888,283	65,828,478	88,716,761
Net assets held in trust for pension benefits	\$ 22,888,283	65,828,478	88,716,761

CITY OF PORTSMOUTH, VIRGINIA

Schedule M-2

Combining Statement of Changes in Fiduciary Net Assets

Fiduciary Funds - Pension Trust Funds

Year ended June 30, 2010

	Portsmouth Supplemental Retirement System	Portsmouth Fire and Police Retirement System	Total
Additions:			
Contributions	2,615,000	12,667,000	15,282,000
Transfers from General Fund	70,395	17,328	87,723
Investment income -			
Net increase in the fair value of investments	2,424,585	5,802,323	8,226,908
Less investment expense	(84,026)	(213,314)	(297,340)
Net investment income	2,340,559	5,589,009	7,929,568
Total additions	5,025,954	18,273,337	23,299,291
Deductions - benefits and refunds	7,841,175	16,564,827	24,406,002
Change in net assets	(2,815,221)	1,708,510	(1,106,711)
Net plan assets held in trust for pension benefits, beginning of year	25,703,504	64,119,968	89,823,472
Net plan assets held in trust for pension benefits, end of year	\$ 22,888,283	65,828,478	88,716,761

CITY OF PORTSMOUTH, VIRGINIA

Schedule M-3

Statement of Changes in Assets and Liabilities

Fiduciary Funds - Agency Fund

Year ended June 30, 2010

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010
Assets:				
Cash and temporary investments	\$ 104,492	201,680	225,077	81,095
Liabilities:				
Cash held for others	\$ 104,492	205,724	229,121	81,095

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.

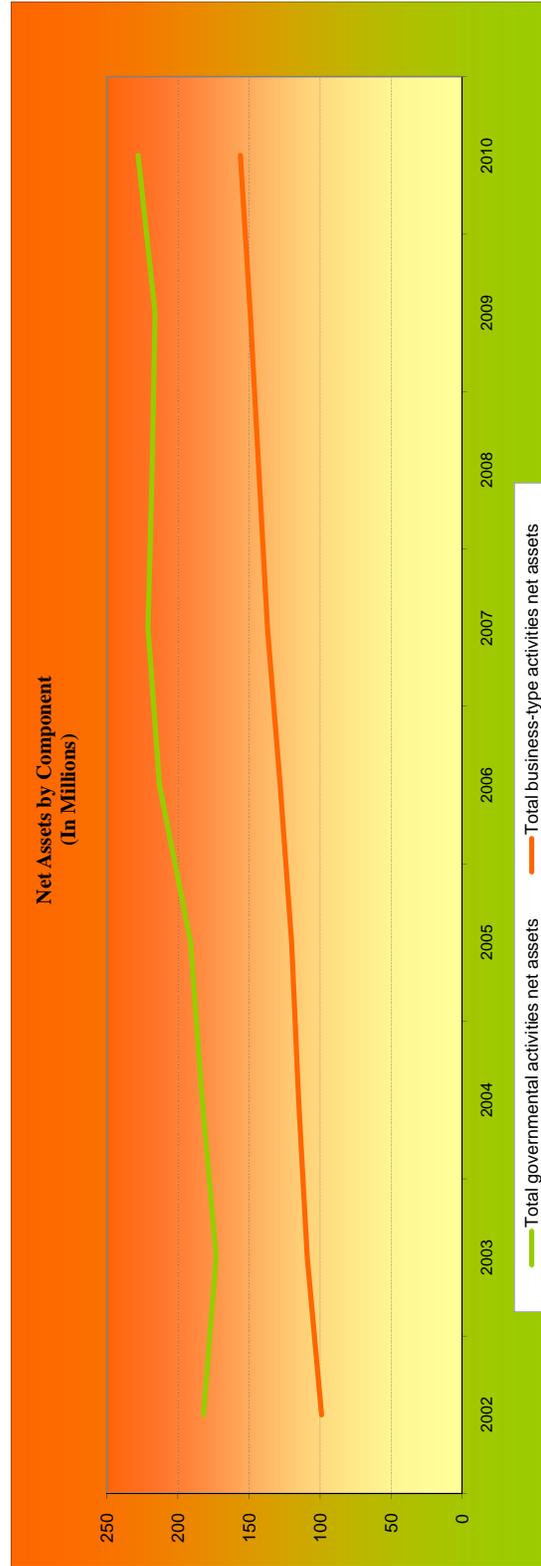


CITY OF PORTSMOUTH, VIRGINIA
Net Assets by Component
Last Nine Fiscal Years
(accrual basis of accounting)

A-1

	Fiscal year								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
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	109,304,572
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	67,077,969
Unrestricted	(8,966,313)	(12,181,708)	(975,637)	10,112,505	30,296,025	32,295,766	24,710,887	27,319,933	51,527,169
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	227,909,710
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	122,952,622
Restricted	7,041,762	5,097,480	7,943,529	-	-	2,190,726	3,389,920	4,117,658	12,131
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	33,143,573
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	156,108,326
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	232,257,194
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	67,090,100
Unrestricted	(619,142)	(2,619,353)	11,200,981	25,138,755	53,826,036	58,612,456	52,031,851	57,533,438	84,670,742
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	384,018,036

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 Nine Fiscal Years
 (accrual basis of accounting)

A-2

	Fiscal year								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
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	25,866,086
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	21,162,771
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	63,317,938
Public works	30,752,346	27,141,064	27,619,634	29,444,278	29,444,278	29,347,705	31,141,010	29,535,176	20,801,656
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	39,291,574
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	12,702,857
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	14,441,114
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	54,518,784
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	10,486,906
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	262,589,686
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	21,621,779
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	2,393,003
Port Facility and Economic Development	-	206,270	237,204	200,977	87,904	86,922	86,922	86,922	66,520
Parking Authority	-	-	-	-	1,599,666	1,615,350	1,750,784	1,644,011	1,625,763
Waste Management	-	8,203,881	16,106,743	8,467,640	8,762,865	9,567,874	12,086,129	12,314,318	14,138,088
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	39,033,659	39,845,153
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	302,434,839
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	1,774,399
Judicial	609,289	567,627	874,555	623,452	723,516	663,258	384,600	224,907	240,998
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	2,637,180
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	6,330,032
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	414,062
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	1,352,352
Community development	205,715	506,917	859,665	2,765,041	1,773,415	986,880	705,244	491,841	495,427
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	82,372,531
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	4,635,095
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	100,252,076
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	35,530,749
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	1,329,452
Port Facility and Economic Development	544,836	544,836	544,836	544,836	580,000	580,000	290,000	-	-
Parking Authority	-	-	-	-	1,010,413	991,755	1,063,479	1,079,056	1,071,822
Waste Management	-	6,884,627	7,342,536	7,290,352	7,440,339	9,375,993	12,466,329	12,332,045	15,037,913

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 Nine Fiscal Years
(accrual basis of accounting)

A-2, Continued

	Fiscal year								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
Business-type activities, continued:									
Operating grants and contributions	\$ 182,625	-	6,720,303	1,312,180	685,994	685,994	685,994	680,000	680,000
Capital grants and contributions	-	1,333,457	-	-	987,911	246,200	50,150	118,438	-
Total business-type activities program revenues	23,066,117	31,118,709	39,468,128	40,426,873	43,376,823	46,048,330	49,766,634	50,911,426	53,649,936
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	153,902,012
Net (Expense)/Revenue	(110,137,431)	(113,058,251)	(100,559,440)	(121,844,154)	(128,683,505)	(156,078,944)	(168,429,292)	(173,556,776)	(162,337,610)
Governmental 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	13,804,783
Business-type activities	(103,664,486)	(106,649,197)	(94,666,436)	(108,585,532)	(114,296,824)	(141,696,207)	(156,186,623)	(161,681,009)	(148,532,827)
Total primary government net (expense)/revenue									
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	120,258,870
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	36,601,504
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	7,579,044
Licenses, permits, and privilege fees	629,774	-	-	-	-	-	-	-	-
Payment from component unit	237,921	-	-	-	1,532,174	-	-	-	-
Investment earnings	524,431	235,171	123,576	891,305	3,574,493	3,198,654	2,090,950	693,008	168,877
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	2,568,498
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	6,896,667
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	174,073,460
Business-type activities:									
Investment earnings	522,957	226,357	125,694	793,616	1,127,642	2,622,827	1,884,812	610,492	154,560
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	32,775
Miscellaneous	1,279,870	1,335,487	1,834,128	371,142	479,866	1,029,816	654,304	667,679	499,410
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)	(6,984,391)
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)	(6,297,646)
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	167,775,814
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)	11,735,850
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	7,507,137
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	\$ 19,242,987

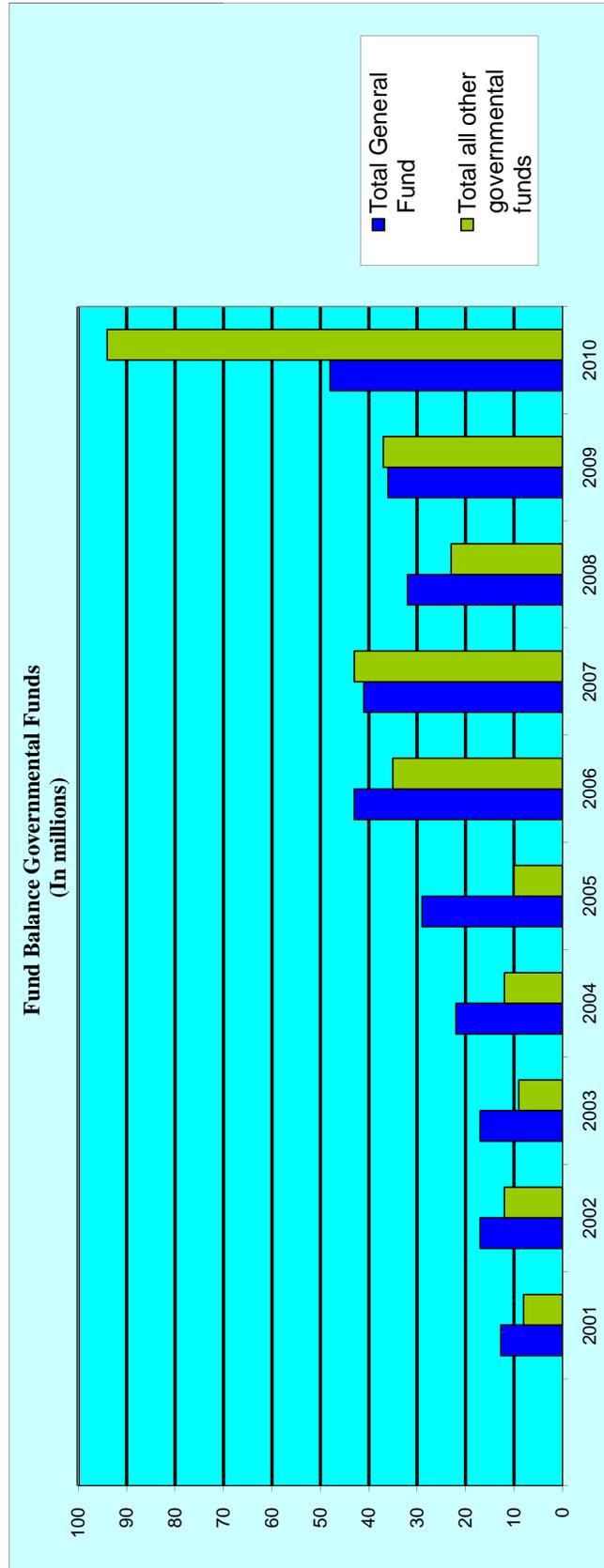
Note: GASB Statement Number 34 was implemented in Fiscal Year 2002, therefore information prior to 2002 is not available.

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

A-3

	Fiscal year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General Fund										
Reserved	\$ 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	2,934,768
Unreserved	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	45,394,978
Total General Fund	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	48,329,746
All Other Governmental Funds										
Reserved	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	17,861,357
Unreserved, reported in:										
Special revenue funds	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	19,580,665
Permanent funds (1)	-	41,585	100,213	120,002	140,468	185,397	297,604	407,268	394,025	448,205
Capital projects funds	549,618	4,683,728	810,330	2,100,788	(2,530,084)	14,573,363	24,241,983	5,390,557	21,751,465	56,173,437
Total all other governmental funds	\$ 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	94,063,664

(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

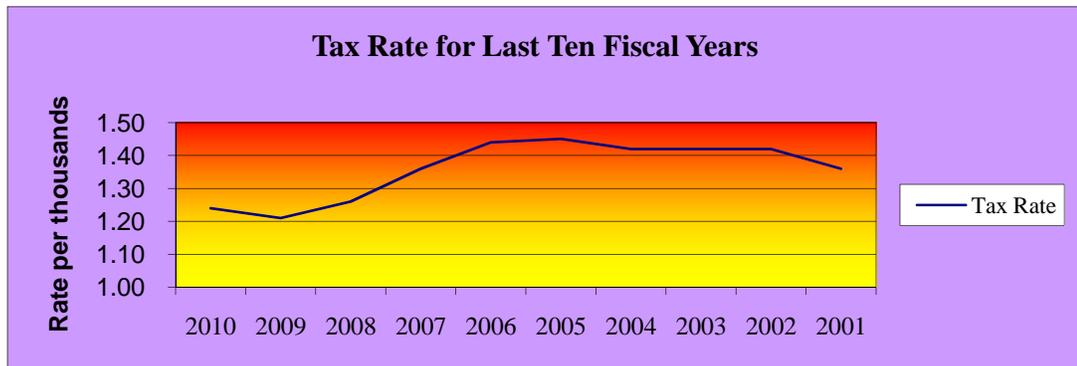
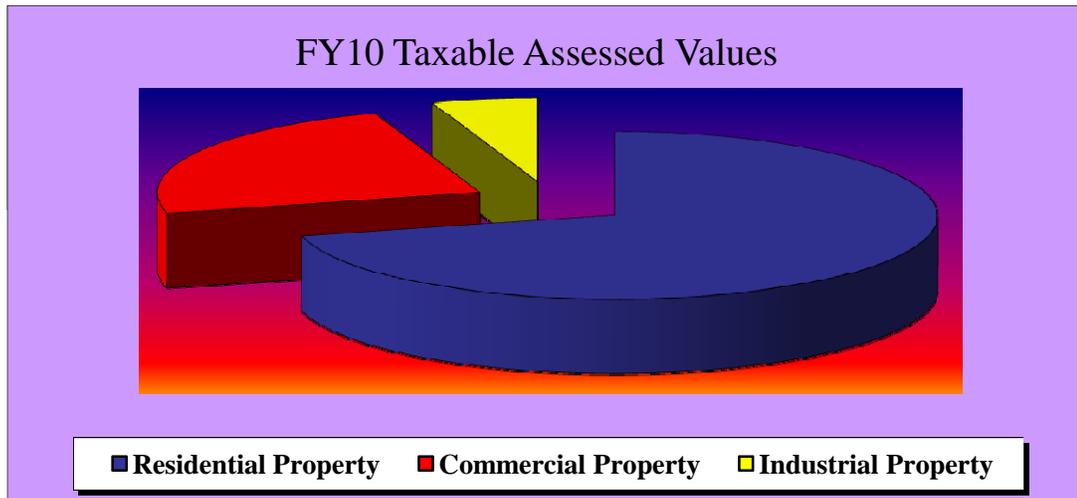
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Revenues										
Taxes	\$ 90,838,944	93,735,729	101,887,513	105,968,051	116,523,150	129,336,845	142,304,393	151,595,074	161,152,304	163,986,237
Licenses and permits	514,563	629,774	584,412	952,160	991,695	1,162,977	1,341,290	1,153,187	926,923	1,136,981
Fines and forfeitures	226,140	229,371	237,563	480,247	409,096	335,211	292,244	172,007	173,529	184,741
Investment income and use of property	2,279,203	2,162,290	2,799,451	3,104,812	5,754,735	5,331,493	6,058,766	4,539,471	3,812,115	2,287,625
Charges for services	19,497,944	21,817,344	14,112,958	17,029,881	13,324,845	12,541,445	9,264,732	8,189,038	8,189,038	9,773,256
Recovered costs	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	4,331,770
Miscellaneous	2,055,203	1,925,019	3,029,616	2,847,396	3,030,478	3,030,478	3,114,090	5,372,509	4,556,269	9,434,921
Intergovernmental	77,733,351	66,566,787	61,837,855	65,943,667	66,665,474	73,155,576	76,192,266	80,210,496	76,140,401	78,583,705
Sale of commodities and property	175,296	664,878	394,649	296,891	2,064	3,574,493	139,440	242,770	-	-
Total revenues and other sources	195,868,454	191,165,104	187,997,537	199,615,698	205,974,498	235,472,145	245,606,274	257,226,463	258,454,716	269,719,236
Expenditures										
General government	11,784,866	11,831,586	9,929,164	11,900,198	13,415,671	20,992,502	23,229,371	17,701,336	16,146,243	15,503,424
Nondepartmental	4,889,064	5,299,684	8,074,445	4,904,095	5,977,663	-	-	6,681,149	9,503,827	9,276,215
Judicial	15,613,866	17,018,620	14,646,606	17,500,634	16,322,948	17,215,246	18,424,590	19,869,269	20,605,038	19,198,298
Public safety	37,793,036	36,638,079	39,670,980	41,291,931	46,172,069	49,027,166	53,524,102	58,276,566	59,009,982	60,853,783
Public works	17,765,303	17,742,543	14,365,424	16,241,531	14,650,017	16,626,200	17,092,893	18,274,869	17,413,077	15,539,098
Health and welfare	30,902,950	31,510,843	30,361,124	30,711,542	32,985,326	37,175,910	40,762,079	42,530,195	41,062,430	38,131,285
Parks, recreation, and cultural	7,469,663	6,811,007	9,599,708	11,758,214	11,530,155	11,077,141	12,010,340	12,804,623	12,230,804	11,577,153
Community development	16,618,253	7,294,938	7,673,720	7,009,129	9,858,641	9,383,948	11,418,822	9,435,979	9,033,730	9,476,115
Debt service:										
Principal	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	10,467,075
Interest	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	11,185,563
Education	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	48,171,651
Capital outlay	43,770,678	19,592,723	10,523,767	13,192,881	18,728,969	14,604,621	27,392,620	32,181,996	21,638,382	33,782,150
Total expenditures	250,336,765	205,122,606	192,689,226	202,879,652	221,499,244	235,685,132	270,929,201	294,885,253	281,043,462	283,161,810
Excess of revenues over (under) expenditures	(54,468,311)	(13,957,502)	(4,691,689)	(3,263,954)	(15,524,746)	(212,987)	(25,322,927)	(37,658,790)	(22,588,746)	(13,442,574)
Other financing sources (uses)										
Transfers in	10,875,517	11,032,383	9,062,933	9,424,450	16,346,941	19,874,456	23,954,536	24,610,728	20,261,687	22,382,161
Transfers out	(8,929,729)	(9,487,088)	(9,612,570)	(9,068,639)	(7,891,613)	(12,085,891)	(15,449,048)	(15,483,292)	(11,137,307)	(16,730,817)
Proceeds from capital leases	16,333,181	-	-	-	1,715,354	-	-	-	358,080	-
Proceeds from debt issued	14,046,167	30,727,391	4,031,858	80,715,550	11,167,049	-	-	-	157,743	2,219,887
Payments from component unit	152,011	237,921	-	-	-	-	-	-	-	-
Discount on bonds issued	-	-	-	-	(49,926)	(67,183)	(24,491)	-	(351,552)	(1,777,830)
VPSA Subsidy	-	-	-	-	-	-	-	-	-	1,324,727
Payments to escrow agent	-	-	-	(69,336,929)	-	(38,330,411)	(36,133,012)	-	(45,565,623)	-
Payment for current refunding of debt	-	(24,205,213)	-	-	-	-	(7,980,000)	-	-	-
Premium on bonds issued	-	768,467	-	-	1,440,585	310,130	-	-	994,187	839,121
General obligation bonds issued	-	-	-	-	24,635,213	23,259,753	-	-	-	74,345,113
BAN Proceeds	-	-	-	-	-	-	-	-	29,925,000	-
Refunding bonds issued	-	24,205,213	-	-	-	40,624,787	43,640,000	-	45,725,000	-
Total other financing sources (uses)	32,477,147	33,279,074	3,482,221	11,734,432	21,287,805	36,091,556	31,577,868	9,127,436	40,367,215	82,602,362
Special item - payment to component unit	-	-	-	-	(2,236,629)	-	-	-	-	-
Net change in fund balances	\$ (21,991,164)	19,321,572	(1,209,468)	8,470,478	5,763,059	33,641,940	6,254,941	(28,531,354)	17,778,469	69,159,788
Debt service as a percentage of noncapital expenditures	9.55%	10.44%	10.80%	10.45%	10.11%	10.36%	10.02%	10.39%	9.48%	8.68%

CITY OF PORTSMOUTH, VIRGINIA
Assessed Value and Estimated Actual Value of Taxable Real Property
 Last Ten Fiscal Years
(in thousands of dollars)

B-1

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

Source: City Assessor's Office

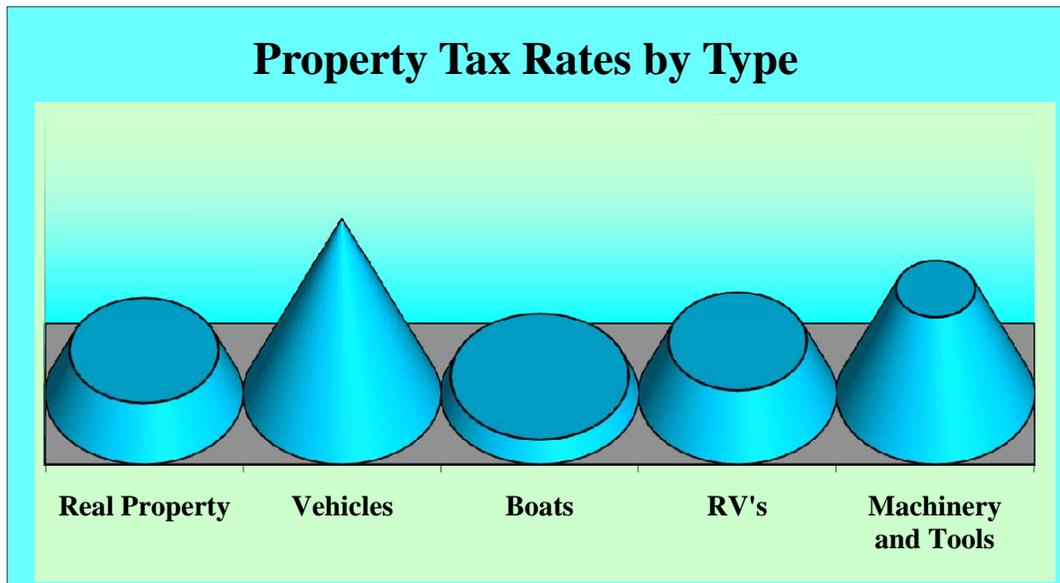


CITY OF PORTSMOUTH, VIRGINIA
Property Tax Rates
 Last Ten Fiscal Years

B-2

Fiscal Year	Real Property (1)	Personal Property (2)			Manufacturer's Machinery and Tools (3)
		Vehicles	Boats	RV's	
2010	\$ 1.24	5.00	0.50	1.50	3.00
2009	1.21	5.00	0.50	1.50	3.00
2008	1.26	5.00	0.50	1.50	3.00
2007	1.36	5.00	0.01	1.50	3.00
2006	1.44	5.00	0.01	1.50	3.00
2005	1.45	5.00	0.01	1.50	3.00
2004	1.42	4.35	0.01	1.50	3.00
2003	1.42	4.35	0.01	1.50	3.00
2002	1.42	4.35	0.01	1.50	3.00
2001	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	2010		2001	
	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value
APM Terminals of Virginia	\$ 403,995,518	4.85%		
Virginia Electric and Power	69,672,088	0.84%	75,733,610	2.00%
GEM Portsmouth High LLC	33,851,910	0.41%		
Verizon Virginia Inc.	31,883,445	0.38%	49,863,918	1.30%
G & E Apartment REIT The Myrtles	30,144,020	0.36%		
Columbia Gas of Virginia Inc	28,519,247	0.34%		
Wheelabrator Portsmouth LLC	27,495,830	0.33%		
Portsmouth Economic Development Authority	25,356,290	0.30%		
Harper Avenue LLC	23,756,610	0.29%		
Westwinds Property LLC	22,597,350	0.27%		
BASF Corporation			45,028,334	1.20%
Cogentrix			50,578,574	1.30%
KMC Telecom of Virginia, Inc			32,085,143	.80%
Commonwealth Gas Services			31,887,328	.80%
Gwaltney of Smithfield			13,623,725	.40%
Virginia Metronet, Inc.			18,966,093	.50%
First Hospital Corp. (Pines Res.)			14,886,457	.40%
Moon Engineering			9,031,951	.20%
	<u>\$ 697,272,308</u>	<u>8.37%</u>	<u>341,685,133</u>	<u>8.90%</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**

Real Estate:

Tax Year	Fiscal Year Ending	Tax Levy	Taxes Collected In Year of Levy	Percent of Taxes Collected In Year of Levy	Delinquent Taxes Collected to June 30, 2010	Total Tax Collections to June 30, 2010	Adjustments To Levy (3)	Outstanding Delinquent Taxes June 30, 2010	Percent of Adjusted Levy Collected to June 30, 2010
2010	June 30, 2010	\$ 92,594,347	88,287,197	95.3	-	88,287,197	(262,955)	4,044,195	95.62
2009	June 30, 2009	89,813,809	85,735,327	95.5	3,892,508	89,627,834	276,999	462,974	99.49
2008	June 30, 2008	82,061,047	80,767,754	98.4	3,512,128	84,279,882	2,377,567	158,731	99.81
2007	June 30, 2007	74,858,725	71,559,330	95.6	3,784,935	75,344,265	461,995	(23,545)	100.00
2006	June 30, 2006	64,686,492	60,652,216	93.8	2,947,477	63,599,693	(1,072,071)	14,727	99.98
2005	June 30, 2005	57,430,022	53,835,077	93.7	2,573,303	56,408,380	(1,013,622)	8,020	99.99
2004	June 30, 2004	51,250,872	47,590,435	92.9	2,292,636	49,883,071	(1,360,389)	7,412	99.99
2003	June 30, 2003	47,827,632	45,196,717	94.5	2,910,860	48,107,577	286,664	6,719	99.99
2002	June 30, 2002	45,398,154	42,537,095	93.7	2,914,233	45,451,328	60,388	7,214	99.98
2001	June 30, 2001	41,629,769	39,420,848	94.7	2,278,985	41,699,833	74,956	4,892	99.99

Personal Property:

Tax Year	Fiscal Year Ending	Tax Levy (2)	Taxes Collected In Year of Levy (1)	Percent of Taxes Collected In Year of Levy (1)	Delinquent Taxes Collected to June 30, 2010	Total Tax Collections to June 30, 2010	Adjustments To Levy (3)	Outstanding Delinquent Taxes June 30, 2010	Percent of Adjusted Levy Collected to June 30, 2010
2010	June 30, 2010	\$ 19,582,168	14,843,140	75.8	-	14,843,140	2,516,847	7,255,875	67.17
2009	June 30, 2009	19,030,247	14,156,895	74.4	8,121,779	22,278,673	4,229,273	980,847	95.78
2008	June 30, 2008	20,213,758	13,813,759	68.3	9,945,225	23,758,984	4,147,340	602,114	97.53
2007	June 30, 2007	21,976,362	16,079,906	73.2	5,800,108	21,880,015	288,882	385,229	98.27
2006	June 30, 2006	22,160,657	16,589,424	74.9	5,513,416	22,102,841	178,759	236,575	98.94
2005	June 30, 2005	25,437,164	19,732,957	77.6	8,961,707	28,694,664	3,257,500	0	100.00
2004	June 30, 2004	21,146,587	16,418,177	77.6	7,538,425	23,956,602	2,810,016	0	100.00
2003	June 30, 2003	21,210,705	15,908,602	75.0	6,570,141	22,478,743	1,268,038	0	100.00
2002	June 30, 2002	18,725,282	14,725,710	78.6	8,346,718	23,072,428	4,347,146	0	100.00
2001	June 30, 2001	19,555,842	14,851,684	75.9	6,930,799	21,782,483	2,226,642	0	100.00

(1) Personal property taxes are assessed on property owned as of January 1 and become due June 5th of each year. Because the due date falls so near the last day of the fiscal year, there is normally a substantial amount of delinquent taxes receivable as of the close of the fiscal year, the majority of which is collected in the following fiscal year.

(2) Excludes \$9,887,920.89 tax credit and the collection \$9,862,962 tax credit payment from the Commonwealth for FY10. The original levy for FY10 is \$29,470,089.38 less the tax credit of \$9,887,920.89 equaling the \$19,582,168 as shown.

(3) Includes supplements, abatements, proratons, adjustments and writeoffs

CITY OF PORTSMOUTH, VIRGINIA

Ratios of Outstanding Debt by Type

Last Ten Fiscal Years

(dollars in thousands, except per capita)

Fiscal Year	Governmental Activities						Business-Type Activities						Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	General Obligation Notes	Cooperation Agreements	Literary Loans	Capital Leases	Less: Restricted for Debt Service	Net Government Debt	General Obligation Notes	Revenue Bonds	Capital Leases					
2010	\$ 241,816	25,329	-	2,250	13,474	-	282,869	130,284	-	2,208	-	415,361	*	*	
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	10.05%	3,428	
2007	217,814	6,794	-	3,375	18,451	3	246,437	111,996	-	2,219	-	360,652	11.06%	3,558	
2006	171,311	7,980	34,725	3,850	18,949	683	236,132	98,372	-	1,227	-	335,731	10.78%	3,280	
2005	120,384	7,980	51,014	4,325	22,584	644	205,643	70,198	8,138	970	284,949	9.67%	2,827		
2004	122,058	7,980	53,144	4,800	22,343	1,050	209,275	67,154	8,423	564	285,416	10.12%	2,860		
2003	128,879	-	55,174	5,275	22,893	1,747	210,474	69,789	8,698	339	289,300	10.67%	2,909		
2002	135,492	-	56,495	5,750	23,016	649	220,104	73,400	8,963	991	303,458	11.92%	3,048		
2001	114,061	-	44,631	-	26,960	428	185,224	36,155	9,214	64	230,657	9.75%	2,313		

* Information not available at this time

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

C-2

Fiscal Year	General Bonded Debt Outstanding (1)					Percentage of Actual Taxable Value of Property	Per Capita
	General Obligation Bonds (1)	General Obligation Leases	Literary Loans	Cooperation Agreement	Total		
2010	\$ 279,932	9,564	2,250		291,746	3.05%	*
2009	212,851	10,435	2,625	-	225,911	2.42%	2,302
2008	223,726	10,782	3,000	-	237,508	2.72%	2,386
2007	238,621	10,291	3,375	-	252,287	3.25%	2,489
2006	193,867	10,684	3,850	-	208,401	3.34%	2,036
2005	128,364	15,920	4,325	10,200	158,809	3.85%	1,576
2004	130,038	17,773	4,800	11,380	163,991	4.36%	1,643
2003	128,879	18,239	5,275	12,500	164,893	4.61%	1,658
2002	135,492	18,520	5,750	13,000	172,762	5.10%	1,735
2001	114,061	18,778	-	-	132,839	3.98%	1,332

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

* Information not available at this time

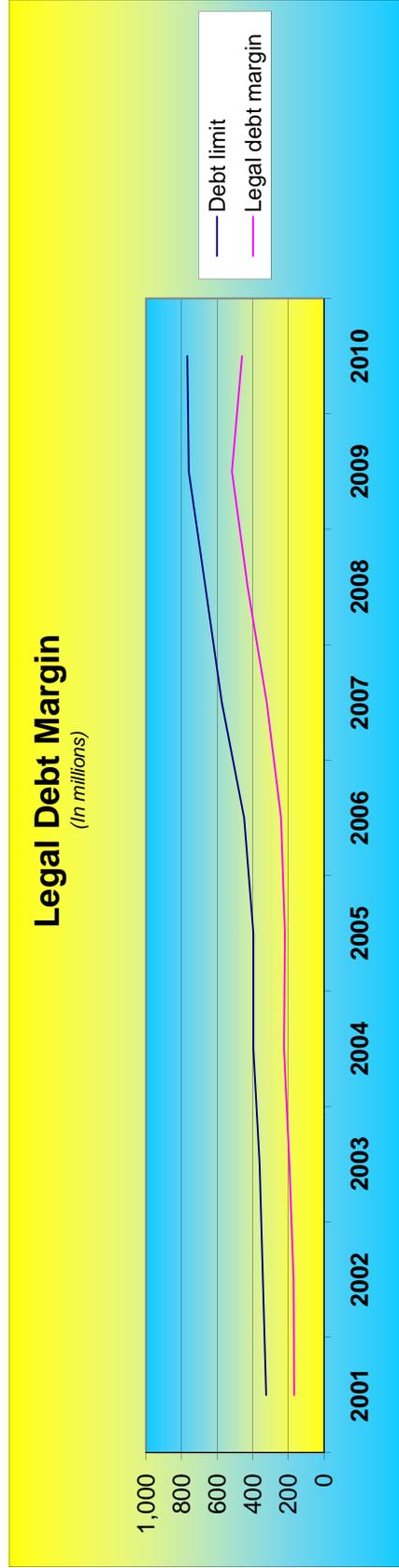
CITY OF PORTSMOUTH, VIRGINIA
Legal Debt Margin Information
Last Ten Fiscal Years
(dollars in thousands)

C-3

Legal Debt Margin Calculation for Fiscal Year 2010

Assessed value	\$ 7,677,618
Debt limit (10% of assessed value)	767,762
Debt applicable to limit:	308,221
Legal debt margin	<u>\$ 459,541</u>

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Debt limit	\$ 325,038	343,504	360,926	396,073	396,073	449,215	574,072	665,881	759,166	767,762
Total net debt applicable to limit	157,064	172,762	167,125	171,992	176,610	208,401	252,287	236,589	241,689	308,221
Legal debt margin	\$ 167,974	170,742	193,801	224,081	219,463	240,814	321,785	429,292	517,477	459,541
Total net debt applicable to limit as a percentage of debt limit	48.3%	50.3%	46.3%	43.4%	44.6%	46.4%	43.9%	35.5%	31.8%	40.1%



CITY OF PORTSMOUTH, VIRGINIA
Pledged-Revenue Coverage

C-4

Last Ten Fiscal Years

(dollars in thousands)

Fiscal Year	Gross Revenue	Less: Operating Expenses	Golf Bonds		Coverage	
			Net Available Revenue	Debt Service		
				Principal		Interest
2010	\$ -	-	-	-	-	*
2009	-	-	-	-	-	*
2008	-	-	-	-	-	*
2007	-	-	-	-	-	*
2006	-	-	-	-	-	*
2005	2,510	1,550	960	290	410	1.37
2004	1,813	1,645	168	275	426	0.24
2003	2,306	1,422	884	270	431	1.26
2002	5,791	1,343	4,448	255	441	6.39
2001	2,362	1,456	906	250	471	1.26

* There are no outstanding revenue bonds for fiscal years 2006, 2007, 2008, 2009 and 2010.

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

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

D-1

Year	Population (1)	Personal Income (thousands of dollars) (1)	Per Capita Personal Income (1)	Median Age (2)	School Enrollment (3)	Unemployment Rate (4)
2010	*	*	*	*	14,225	9.30%
2009	98,124	*	*	34.0	14,331	8.30%
2008	99,542	3,394,538	34,102	34.0	14,287	5.10%
2007	101,377	3,261,006	32,167	34.0	14,990	4.10%
2006	102,346	3,113,454	30,421	42.0	15,243	4.30%
2005	100,783	2,946,028	29,231	34.8	15,309	5.30%
2004	99,785	2,821,237	28,273	*	15,642	5.40%
2003	99,459	2,712,472	27,272	*	15,928	5.40%
2002	99,569	2,545,662	25,567	*	16,221	5.30%
2001	99,737	2,365,858	23,721	*	16,473	4.40%

(1) Bureau of Economic Analysis, U.S. Department of Commerce; 2009 from Weldon Cooper Center for Public Service, University of Virginia

(2) Virginia Employment Commission, Economic Information Services Division; 2007-2008 from Weldon Cooper Center for Public Service, University of Virginia; 2009 Estimated

(3) Portsmouth School Board

(4) Virginia Employment Commission, Economic Information Services Division. Labor Market Information.

* Information not available at this time.

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

D-2

Employer	2010			2001		
	# of Employees	Rank	Percentage of Total City Employment	# of Employees	Rank	Percentage of Total City Employment
Norfolk Naval Shipyard	9,000	1	18.89%	7,000	1	16.15%
Naval Medical Center, Portsmouth	5,400	2	11.33%	4,028	2	9.29%
City of Portsmouth	2,585	3	5.43%	2,100	4	4.84%
Portsmouth Public Schools	2,500	4	5.25%	2,743	3	6.33%
Bon Secours Maryview Medical Center	2,400	5	5.04%	1,987	5	4.58%
US Fifth District Coast Guard Command	1,500	6	3.15%	1,900	6	4.38%
Earl Industries	800	7	1.68%	450	9	1.04%
Gwaltney of Smithfield	450	8	0.94%	500	8	1.15%
Wal-Mart Supercenter	380	9	0.80%	500		1.15%
CDI Marine	330	10	0.69%	-	-	0.00%
Alternative Behavior Services (FHC)	-	-	-	736	7	1.70%
BASF Corporation	-	-	-	260	10	0.60%
Total	25,345		53.19%	22,204		51.22%

Source: Portsmouth Department of Economic Development

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

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General Fund										
General government	202	196	142	138	131	138	134	146	144	133
Judicial	241	242	235	236	233	233	237	252	252	249
Public Safety	613	599	603	598	598	599	599	600	597	591
Public Works	68	63	114	108	107	107	110	108	104	359
Health and Welfare	1	1	1	1	-	-	-	-	-	-
Parks, Recreational, and Leisure Services	154	140	131	153	126	146	124	126	120	127
Community Development	61	57	59	44	65	44	70	67	66	48
Total General Fund	1,340	1,298	1,285	1,278	1,260	1,267	1,274	1,299	1,283	1,507
Special Revenue Funds										
Willlett Hall Fund	-	-	-	3	-	1	1	1	1	1
Comprehensive Services Fund	2	2	2	3	3	3	3	3	3	3
Stormwater Management Fund	33	33	34	33	33	33	33	31	31	23
Grants	-	-	31	-	-	31	31	31	31	28
Behavioral Health Services Fund	165	147	128	128	129	129	130	137	137	122
Public Law Library Fund	1	-	-	-	-	-	-	-	-	-
Social Services Fund	244	244	244	245	247	247	254	254	254	248
Total Special Revenue Funds	445	426	439	412	412	444	452	457	457	425
Capital Projects Fund										
Community Development	-	-	2	2	2	2	-	-	-	-
Enterprise Funds										
Public Utilities Fund	145	145	145	143	143	143	146	145	145	138
Golf Fund	20	19	19	19	19	19	19	19	19	17
Waste Management Fund	78	75	75	73	73	73	76	75	75	68
Parking Authority Fund	6	6	6	6	6	6	6	6	6	6
Total Enterprise Funds	249	245	245	241	241	241	247	245	245	229
Internal Service Funds										
City Garage Fund	44	41	41	42	41	41	41	41	41	36
Information Technology Fund	45	41	42	40	40	40	32	39	39	26
Risk Management Fund	4	4	5	-	1	3	3	3	2	8
Total Internal Service Funds	93	86	88	82	82	84	76	83	82	70
Total All Funds	2,127	2,055	2,059	2,015	1,997	2,038	2,049	2,084	2,067	2,231

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

<u>Function/Program</u>	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Police										
Physical arrests	9,965	10,835	10,506	15,333	10,724	10,571	7,895	9,852	9,747	10,374
Parking violations	10,288	7,857	8,698	8,124	8,652	8,228	8,001	15,821	8,124	12,162
Traffic violations	15,824	8,496	17,006	13,603	17,896	12,294	6,774	11,431	11,424	16,140
Fire										
Emergency responses	*	*	*	*	*	17,310	17,386	17,035	14,073	16,135
Fires extinguished	*	*	*	*	*	855	662	623	590	506
Inspections	*	*	*	*	*	1,785	900	1,259	1,875	1,638
Refuse collection										
Refuse collected (tons/day)	*	*	*	*	*	162	151	165	126	158
Recyclables collected (pounds/day)	*	*	*	*	*	2	2	3	5	35
Other public works										
Street resurfacing (miles)	*	*	*	*	*	26.3	17.8	44.9	20.6	19.2
Potholes repaired	*	*	*	*	*	1,324	1,491	911	1,045	1,344
Parks and recreation										
Community center admissions	*	*	*	*	*	262,399	308,891	308,891	274,571	274,571
Library										
Volumes in collection	*	*	*	*	*	338,601	371,256	338,971	276,874	260,889
Total volumes borrowed	*	*	*	*	*	380,040	337,447	370,870	376,946	383,265
Water										
New connections	*	*	*	*	*	136	176	255	105	2,959
Water main breaks	*	*	*	*	*	125	126	102	105	88
Average daily consumption (millions of gallons)	17.61	17.74	17.74	17.85	17.97	18.81	16.56	13.90	13.80	13.60
Peak daily consumption (millions of gallons)	*	*	*	*	*	26.69	17.53	16.90	16.70	16.70

* Information not available at this time.

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

<u>Function/Program</u>	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	247	244	235	234	234	242	252	255	255	255
Fire stations	9	8	8	8	8	8	8	8	8	8
Refuse collection										
Collection trucks	*	*	*	*	*	26	26	27	27	27
Other public works										
Streets (miles)	395	402	402	403	402	398	398	351	403	393
Highway (miles)	*	*	*	*	*	888	888	82	82	82
Streetlights	11,114	11,585	11,585	11,634	10,722	10,693	10,661	10,665	10,665	10,665
Traffic signals	*	*	*	*	*	115	130	120	120	120
Parks and recreation										
Acres	402	402	402	203	203	250	402	402	402	402
Playgrounds	*	*	*	*	*	12	13	13	13	13
Baseball/softball diamonds	*	*	*	*	*	39	36	36	36	36
Soccer/football fields	*	*	*	*	*	35	34	34	34	34
Community centers	8	8	8	7	7	7	7	7	7	7
Water										
Water mains (miles)	540	625	625	625	625	543	543	626	626	626
Fire hydrants	2,517	2,523	2,521	2,523	2,530	2,514	2,514	2,530	2,530	2,593
Storage capacity (millions of gallons)	*	*	*	*	*	8.50	8.50	8.50	8.50	9
Wastewater										
Sanitary sewers (miles)	416	437	437	437	437	437	437	438	438	438
Storm sewers (miles)	107	107	107	107	107	159	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, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 22, 2010. 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.

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

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

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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
November 22, 2010



**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT
AND MATERIAL EFFECT ON 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 could have a direct and material effect on its major federal programs for the year ended June 30, 2010. The City’s major federal programs are identified in the summary of auditors’ results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City’s management. Our responsibility is to express an opinion on the City’s compliance based on our audit.

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

In our opinion, the City of Portsmouth complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

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 the auditing procedures for the purpose of expressing an opinion on compliance and to test and report on internal control over

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

A deficiency in internal control exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in internal control over compliance is deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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, Bekart & Holland, L.L.P.

Virginia Beach, Virginia
November 22, 2010

CITY OF PORTSMOUTH, VIRGINIA
Schedule of Expenditures of Federal Awards
Year ended June 30, 2010

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	\$	506,923
Pass-through payments:			
Virginia Department of Social Services:			
State Administrative Matching Grants for Food Stamp Program	10.561		2,063,999
Virginia Department of Education -			
National School Breakfast and Lunch Program	10.555, 10.553		4,569,426
Total Department of Agriculture			7,140,348
Department of Defense:			
Direct payments:			
ROTC	12.000		209,189
Total Department of Defense			209,189
Department of Education:			
Direct payments:			
Impact Aid	84.041		309,235
Pass-through payments:			
Virginia Department of Education:			
Adult Education	84.002		162,196
Virginia Department of Education:			
Title I, Part A Cluster			
Title I Grants to Local Education Agencies	84.010	6,042,991	
Title I School Improvements (1003g)	84.377	146,993	
ARRA -Title I Grants A	84.389	2,750,143	8,940,127
Special Education (IDEA) Cluster:			
Special Education (Title VI-B)	84.027	3,494,402	
ARRA - IDEA Title (VIB) Section 619	84.391	2,788,924	
Special Education - Preschool Grants	84.173	163,036	
ARRA - Special Education - Preschool Grants	84.392	58,337	6,504,699
Twenty-First Century Community Learning Centers	84.287		12,725
Education Technology State Grants Cluster:			
Special Education - Grants for Infants and Family	84.181	230,899	
ARRA - Special Education Grants for Infants and Family	84.393	59,921	290,820
Safe and Drug Free Schools and Communities	84.186		84,674
Innovative Education Program Strategies (Title VI)	84.298		807
Education Improvement Fund	84.215		359,869
Safe School/Healthy Students	84.184		1,774
Education Technology State Grant	84.318		45,637
ARRA - Education Technology State Grants	84.396		19,490
Improving Teacher Quality	84.367		1,217,568
Performing Arts After School Program	84.351		15,327
ARRA - State Stabilization Fund	84.394		5,870,282
Education for Homeless Children & Youth	84.196		23,449
Vocational Education	84.048		399,697
Total Department of Education			24,258,376

CITY OF PORTSMOUTH, VIRGINIA
Schedule of Expenditures of Federal Awards
Year ended June 30, 2010

Federal Granting Agency/Pass Through Agency/Grant Program	Federal Catalogue Number		Federal Expenditures
Environmental Protection Agency, Office of Environmental Education:			
Direct payments:			
ARRA - Capitalization for Drinking Water State Revolving Fund	66.468		2,764,370
Total Environmental Protection Agency			2,764,370
Department of Health and Human Services:			
Direct payments:			
Social Services Block Grant	93.667		663,741
Temporary Assistance for Needy Families	93.558		1,886,616
Child Care and Development Fund Cluster:			
Child Care and Development Fund	93.596	1,188,973	
Child Care and Development Block Grant	93.575	553,446	1,742,419
Chafee Education & Training Vouchers Program	93.599		49,296
Medical Assistance Program - Title XIX	93.778		1,160,657
Foster Care - Title IV-E	93.658		1,275,066
Adoption Assistance	93.659		510,548
Independent Living	93.674		63,486
Low-Income Home Energy Assistance	93.568		106,012
Refugee and Entrant Assistance	93.566		4,962
Promoting Safe and Stable Families	93.556		107,680
Adoption Incentive	93.603		12,961
State Children's Insurance Program	93.767		94,856
Child Welfare Services	93.645		7,124
Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services:			
MH Emergency Preparedness	93.889		875
Projects for Assistance in Transition from Homelessness	93.150		52,878
Block Grants for Community Mental Health Services	93.958		177,928
Block Grants for Prevention and Treatment of Substance Abuse	93.959		1,082,376
Total Department of Health and Human Services			8,999,481
Department of Homeland Security:			
Direct Payments:			
FEMA	97.036		538,262
Homeland Security Cluster:			
State Domestic Preparedness Equipment Support Program	97.004	95,628	
Community Emergency Response Teams	97.053	31,974	127,602
State and Local All Hazards Emergency Operations Planning	97.051		551
Port Security	97.056		494,664
State Homeland Security	97.073		219,884
Total Department of Homeland Security			1,380,963
Department of Housing and Urban Development:			
Direct payments:			
Community Development Block Grant	14.218		2,449,920
ARRA - Community Development Block Grant-R	14.218		468,989
HOME Investment Partnerships Program	14.239		776,378
Shelter Plus Care	14.238		377,683
Supportive Housing	14.235		63,565
Neighborhood Stabilization Program	14.256		726,938
ARRA - Housing Prevention Rapid Rehousing	14.257		294,268
Program and other income:			
Community Development Block Grant	14.218		123,816
HOME Investment Partnerships Program	14.239		122,214
Total Department of Housing and Urban Development			5,403,771

CITY OF PORTSMOUTH, VIRGINIA
Schedule of Expenditures of Federal Awards
Year ended June 30, 2010

Federal Granting Agency/Pass Through Agency/Grant Program	Federal Catalogue Number	Federal Expenditures
Department of Justice:		
Direct Payments:		
Weed and Seed	16.595	52,166
Federal Seizures	16.000	65,795
Sheriff's Federal Forfeiture Funds	16.000	253,554
Pass-through payments:		
Virginia Department of Criminal Justice Services:		
Violence Against Women Formula Grants	16.588	7,087
Edward Byrne Memorial Formula Program	16.579	33,692
Juvenile Accountability Incentive Block Grant	16.523	20,744
Bulletproof Vest Partnership Program	16.607	1,125
ARRA - Edward Byrne Memorial Justice Assistance Grant Program	16.804	498,095
Total Department of Justice		932,258
Department of Labor:		
Pass-through Payments:		
Opportunity, Inc.:		
ARRA - WIA Summer Youth Work Experience	17.259	141,478
Total Department of Labor		141,478
Department of Transportation:		
Pass-through Payments:		
Federal Transit Administration-Hampton Roads Transit -		
ARRA - Traffic Signal Improvements	20.932	397,018
Virginia Department of Motor Vehicles -		
Speed Control (Selective Enforcement)	20.600	59,642
Total Department of Transportation		456,660
Department of Energy:		
Direct Payments:		
ARRA - Energy Efficiency Cons Block Grant	81.128	59,302
Total Department of Energy		59,302
Total all agencies		\$ 51,746,196

CITY OF PORTSMOUTH, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

(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		\$	111,592
Special Revenue Funds:			
Virginia Public Assistance			9,749,423
Mental Health Services			1,604,877
Donations			96,125
Grants			1,920,958
Stimulus			3,522,129
Capital Projects Funds -			
Community Development			3,740,852
<hr/>			
Total City			20,745,956
<hr/>			
<u>Component Unit - School Board:</u>			
Operating			6,388,706
Grants			17,772,712
Cafeteria			4,569,426
<hr/>			
Total component unit - School Board			28,730,844
<hr/>			
Total federal expenditures from Intergovernmental Revenue			49,476,800
Add: Donations Fund expenditures in excess of revenues			223,224
Add: General Fund Fema expenditures in excess of revenue			426,670
Add: CDBG Expenditures in excess of revenues			517,716
Add: Grant Expenditures in excess of revenues			59,697
Add: Stimulus in Excess of Revenue			1,042,089
<hr/>			
Total federal expenditures per Schedule of Expenditures of Federal Awards			51,746,196

(4) Subrecipients

Federal Granting Agency/Grant Program	Amount
<hr/>	
Department of Education -	
Department of Health and Human Services -	
Child Care and Development Fund	1,188,973
Department of Housing and Urban Development:	
Community Development Block Grant	3,176,858
HOME Investment Partnerships Program	776,378
Shelter Plus Care	377,683
<hr/>	
Total federal funds passed through to subrecipients	\$ 5,519,892

CITY OF PORTSMOUTH, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2010

1. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

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

Internal control over financial reporting:

Material weaknesses identified: **No**

Significant deficiencies identified: **None reported**

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

Federal Awards:

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

Internal control over financial reporting:

Material weaknesses identified: **No**

Significant deficiencies identified: **None reported**

Any audit findings disclosed that are required to be reported in
Accordance with Section 510(a) of OMB Circular A-133: **No**

Major Programs:

- ARRA – Transportation Incentive (CFDA No. 20.932)
- ARRA – Edward Byrne Memorial Justice Assistance Grant Program (CFDA No. 16.804)
- ARRA -State Fiscal Stabilization Fund (CFDA No. 84.394)
- Special Education Cluster (CFDA No. 84.027/84.173/84.392/84.391)
- Title I Part A Cluster (CFDA No. 84.010/84.389)
- ARRA - Capitalization for Drinking Water State Revolving Grants (CFDA No. 66.468)
- Adoption Assistance (CFDA No. 93.659)
- Foster Care IV-E (CFDA No. 93.658)
- Medical Assistance (CFDA No. 93.778)
- Title II Improving Teacher Quality (CFDA No. 84.347)
- Child Care and Development Fund Cluster(CFDA No. 93.596/93.575/93.713)

(h) The dollar threshold used to distinguish between Type A and Type B program: **\$1,530,578**

(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, 2010

- 2. FINDINGS - FINANCIAL STATEMENT AUDIT - None**
- 3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS - None**
- 4. FINDINGS AND QUESTIONED COSTS FOR STATE COMPLIANCE - None**

CITY OF PORTSMOUTH, VIRGINIA

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

Year Ended June 30, 2010

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.

Resolution:

Corrected.

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.

Resolution:

Corrected.

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.

Resolution:

Corrected.

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.

Resolution:

Corrected.

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.

Resolution:

Corrected.

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.

Resolution:

Corrected.

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.

Resolution:

Corrected.

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.

Resolution:

Corrected.

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.

Resolution:

Corrected.

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.

Resolution:

Corrected.

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