



December 8, 2009

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

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

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

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

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

Office of the City Manager

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

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

City Council Vision: Bold Leadership for the Future

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

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

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

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

Bold New Directions

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

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

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

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

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

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

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

A Robust and Prospering Economy

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

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

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

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

General Fund Performance

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

The General Fund accounts for all revenues and expenditures that are not accounted for in specific purpose funds. It finances the regular day-to-day operations of the City. A strong undesignated fund balance is an indication of financial flexibility and fiscal strength. The City’s undesignated fund balance at June 30, 2009 represents 15.25% of total revenues and transfers, which meets the City’s adopted financial policy of 15%.

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

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

Cash Management

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

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

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

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

World Class Maritime Center

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

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

Lifelong Learning Community

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

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

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

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

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

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

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

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

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

Thriving Neighborhoods and a Sense of Community

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

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

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

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

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

Pride of Past, Promise of Future

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

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

Independent Audit

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

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

Certificate of Achievement

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

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

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

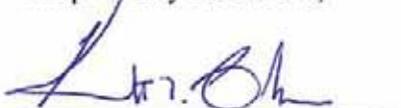
A Certificate of Achievement is valid for a period of one year. The City of Portsmouth has received a Certificate of Achievement for the last thirty-two consecutive years (fiscal years 1977 through 2008). We believe our current CAFR continues to conform to the requirements of the Certificate of Achievement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

Acknowledgments

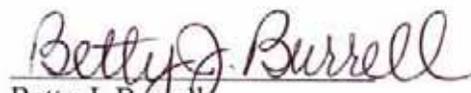
We sincerely appreciate the City Council's support and cooperation in planning and conducting the financial operations of the City.

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

Respectfully submitted,



Kenneth L. Chandler,
City Manager



Betty J. Burrell,
Chief Financial Officer