(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

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

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

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

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

Blended Component Unit

Blended component units are entities that are legally separate from the City, but which provide services entirely, or almost entirely, to the City or otherwise exclusively benefit the City. Activities of blended component units are considered to be so intertwined with the City's that they are, in substance, part of the City's operations. The Parking Authority is considered to be a blended component unit in the City's financial statements. The Parking Authority is responsible for the operation and maintenance of six parking garages, nine parking lots, and all street parking meters. In addition, the Parking Authority receives fines from parking meter violations. No distinction is made between the activities of the Parking Authority and the City. As a result, the Parking Authority is reported as an enterprise fund in the City's financial statements. Separately audited financial statements are not available for the Parking Authority.

B. Basis of Presentation

Government-wide and Fund Financial Statements

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

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

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

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

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

Governmental Fund Types

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

The City reports the following major governmental funds:

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

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

The City reports the following nonmajor governmental funds:

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

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

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

Proprietary Fund Types

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

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

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

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

Fiduciary Fund Types

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

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.

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

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

D. Property Taxes

The two major sources of property taxes are described below:

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

Personal Property Taxes
The City levies personal property taxes on motor vehicles and business and other tangible personal property. Personal property taxes do not create a lien on property. These levies are made each year as of January 1 with payment due the following June 5. Taxes on motor vehicles bought and sold after January 1 are prorated and the tax levies are adjusted. During the fiscal year, the personal property taxes reported as revenue are the adjusted levies less an allowance for uncollectibles. Personal property taxes are considered delinquent after the June 5 due date or, in the case of supplemental levies, thirty days after the taxes are levied and billed. The personal property tax rate for 2009, excluding machinery and tools, boats and recreational vehicles, was $5.00 per $100 of assessed value. The personal property tax rate on machinery and tools, boats, mobile homes, and recreational vehicles was $3.00, $.50, $1.21, and $1.50 per $100 of assessed value, respectively.

E. Allowance for Uncollectibles

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

Governmental Activities:		
General Fund:		
Allowance for taxes receivable	$	2,619,448
Allowance for doubtful accounts receivable		1,044,909
Total General Fund		3,664,357
Special Revenue Fund - Stormwater Management Fund -		
Allowance for doubtful accounts receivable		334,207
Total governmental activities	$	3,998,564
Business-Type Activities - allowance for doubtful accounts receivable:		
Enterprise Funds:		
Public Utility Fund	$	765,570
Portsmouth Parking Authority		2,915
Waste Management Fund		592,396
Total business-type activities	$	1,360,881
Component Units - allowance for doubtful accounts receivable:		
Portsmouth School Board	$	570,000

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 fixed assets.

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

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

J. Compensated Absences

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

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

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

K. Intra-entity Activity

Payments from a fund receiving revenue to a fund through which the revenue is to be expended are reported as transfers. Such payments include transfers for debt service and capital construction. Resource flows between the primary government and the discretely presented component units are reported as if they were external transactions.

L. Estimates and Assumptions

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

(2) EQUITY

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

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

(3) CASH

Deposits and Restricted Cash

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

Investments

State statutes authorize the City to invest in obligations of the United States or agencies thereof, securities unconditionally guaranteed by the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, certificates of deposit, and the State Treasurer's Local Government Investment Pool (LGIP). The pension trust funds are also authorized to invest in common stocks and marketable debt securities which mature within twenty years with credit ratings no lower than Baa or BBB as measured by Moody's, Standard and Poor's, or Fitch IBCA's rating services. The City's investment policy addresses custodial credit risk, interest rate risk, concentration of risk, and credit risk, in which instruments are to be diversified and maturities timed according to anticipated needs in order to minimize any exposure. The City's policy does not address foreign currency risk.

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

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

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

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

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

Pension Investments – Common Collective Trust Fund

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

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

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

Component Unit - School Board
All of the deposits of the School Board, a discretely presented component unit, of $41,897,290 are maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia or covered by Federal depository insurance. The School Board has $2,324,765 invested in the American Government Obligation Fund as of June 30, 2009. These funds had a credit rating of AAAm by Standard & Poor's. The School Board has $517,670 invested in Evergreen Treasury Money Market Fund and $100,000 invested in Wachovia Money Market Funds, for a total OPEB Trust investment of $617,670. The School Board has $1,051,045 in the School Construction Fund that is held with a fiscal agent. The City Treasurer's policies on deposits and investments, as noted above, also apply to the School Board.

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

Component Unit – Portsmouth Port and Industrial Commission
At year end, the carrying value of deposits with banks for the Portsmouth Port and Industrial Commission, a discretely presented component unit, was $425,049. All cash of the Commission is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. Seq. of the Code of Virginia or covered by federal depository insurance.

(4) CAPITAL ASSETS

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

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

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

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

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

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

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

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

Public utilities	$	4,148,544
Parking Authority		494,526
Port facility		86,922
Golf		135,960
Waste Management		814,397
Total business-type activities	$	5,680,349

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

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

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

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

School Board Component Unit

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

(5) LONG - TERM DEBT

Details of Long-Term Indebtedness

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

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

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

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

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

Changes in Indebtedness

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

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

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

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

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

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

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

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

Defeased Debt

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

Debt Issued

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

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

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

Of the total amount of refunding payments made, $1,790,023 was used to purchase U.S. Treasury Securities. These will be placed in an irrevocable trust together with an initial cash deposit to be used solely to refund the Series 1997A, 2001A and 2003 tax-exempt bonds. The advance refunding of the general obligation and refunding bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $142,012. This difference, reported in the accompanying government-wide financial statements as a deduction from bonds payable, is being amortized over the life of the new debt. The advance refunding of the Series 2003 Parking bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $782. This refunding was made to restructure the debt to extend certain maturity dates to provide short-term cash flow relief under current economic conditions. The difference between the old debt cash flow and the new debt cash flow is a loss of $3,550,836. Consequently, there was an overall economic loss (difference between the present values of the debt service payments on the old and the new debt) of $244,817.

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

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

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

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

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

Of the total amount of refunding payments made, $8,984,134 was used to purchase U.S. Treasury Securities which will be placed in an irrevocable trust, along with an initial cash deposit, to be used solely to refund a portion of the Series 1997C, Series 2005C and Series 2006B general obligation bonds of the City. The advance refunding of the general obligation bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $960,597. This difference, reported in the accompanying government-wide financial statements as a deduction from bonds payable, is being amortized over the life of the new debt. This refunding was made to restructure the debt to extend certain maturity dates to provide short-term cash flow relief under current economic conditions. The difference between the old debt cash flow and the new debt cash flow is a loss of $13,155,078. Consequently, this caused an overall economic loss (difference between the present values of the debt service payments on the old and new debt) of $3,875,387.

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

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

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

Debt Compliance and Repayment

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

Governmental Activities:

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

Business-Type Activities:

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

(6) LEASING ARRANGEMENTS

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

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

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

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

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

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

(7) RETIREMENT PLANS

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

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

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

Portsmouth Retirement Systems

Plan Description - Portsmouth Supplemental Retirement System

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

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

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

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

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

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

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

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

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

Payroll and Participants

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

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

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

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

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

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

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

Contributions

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

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

Annual Pension Cost

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

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

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

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

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

Statement of Fiduciary Net Assets
June 30, 2009

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

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

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

Virginia Retirement System

Plan Description

The City of Portsmouth and the School Board Component Unit contribute to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System (the System). All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with five years of service (age 60 with 5 years of service for participating law enforcement officers and firefighters) or at age 50 with 30 years of service for participating employees (age 50 with 25 years of service for participating law enforcement officers and firefighters) payable monthly for life in an amount equal to 1.7 percent of their average final compensation (AFC) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for an annual cost-of-living adjustment (COLA) beginning in their second year of retirement. The COLA is limited to 5% per year. AFC is defined as the average of the member's highest consecutive 36 months of reported compensation. Participating law enforcement officers and firefighters may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

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

Funding Policy

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

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

Annual Pension Cost

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

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

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

Three-Year Contribution Trend Information

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

Funded Status of Pension Plans

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

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

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

(8) OTHER POST EMPLOYMENT BENEFITS (OPEB)

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

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

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

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

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

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

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

City of Portsmouth

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

School Board

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

Funded Status and Funding Progress.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
City of Portsmouth:						
7/1/2008	-	$187,436,612	187,436,612	0.0%	77,011,285	243.4%
School Board:						
7/1/2008	$650,000	$ 10,802,915	10,152,915	6.02%	95,870,390	11%

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

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2007 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.0% investment rate of return, relating it to the City's rate of investment return on its general unrestricted cash assets due to the unfunded status of the program's actuarial accrued liability; and an annual healthcare cost increase rate of 9 percent initially, reduced by decrements to an ultimate rate of 5 percent for the year beginning July 1, 2013 and thereafter. It was assumed that 60% of future retirees would elect medical coverage and that the City of Portsmouth would maintain a consistent level of cost sharing for benefits with retirees in the future. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2007 was 29 years.

(9) DEFERRED COMPENSATION PLAN

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

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

(10) INTERFUND BALANCES AND TRANSFERS

Due From/To Other Funds
Individual fund interfund receivable and payable balances at June 30, 2009 are as follows:

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

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

Due From/To Primary Government/Component Units

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

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

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

Transfers From/To Other Funds

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

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

(11) DUE FROM/TO OTHER GOVERNMENTS

Due From Other Governments

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

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

(12) DEFERRED AND UNEARNED REVENUES

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

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

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

(13) COMMITMENTS

Landfill Closure and Postclosure Care Cost

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

(14) CONTINGENT LIABILITIES

Litigation

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

Federally Assisted Grant Programs

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

Joint Ventures

Hampton Roads Regional Jail Authority

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

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

(15) SELF-INSURANCE PROGRAMS

City

The City is self-insured for exposures to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; terrorist acts; and natural disasters. The City uses internal service funds such as, the Risk Management Fund to account for and finance its uninsured risks of loss and the Health Insurance Fund to pay health insurance premiums. The Risk Management Fund pays insurance premiums and provides for payment of approved claims for workers' compensation, general liability, fidelity, wharfingers, hull and machinery and property. The property deductible is $100,000 per occurrence with $200,000,000 limit per occurrence. The City purchases commercial excess insurance policies for workers' compensation and general liability. Therefore, for the fiscal years ended June 30, 2009, 2008, and 2007, property damage claims liability did not exceed $100,000.

All funds of the City participate in the program and make payments to the Risk Management Fund based on actuarial estimates of the amounts needed to pay prior and current year claims and to establish a reserve for catastrophic losses. The risk management claims liability of $14,386,836 (undiscounted) reported in the fund at June 30, 2009 is based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The amount due within one year is $2,998,640. A loss analysis, which included an estimate of incurred but not reported claims, was conducted by Mercer Oliver Wyman Actuarial Consulting, Incorporated as of June 30, 2009 to compute this liability.

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

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

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

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

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

School Board

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

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

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

(16) RELATED ORGANIZATIONS

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

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

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

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

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