

November 22, 2010

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

We are pleased to present the Comprehensive Annual Financial Report of the City of Portsmouth, Virginia (the City) for the fiscal year ended June 30, 2010, in accordance with State statutes and City Code. The City's Department of Finance prepared this report in accordance with generally accepted accounting principles as set forth in the pronouncements of the Governmental Accounting Standards Board. City management is responsible for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures. We believe the data as presented is accurate in all material respects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds; and, that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included. Generally accepted accounting principles require that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Portsmouth's MD&A can be found immediately preceding the Basic Financial Statements.

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

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

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

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

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

City Council Vision: Bold Leadership for the Future

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

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

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

The entire City organization has fully embraced these powerful vision principles and put into motion a number of one-time and multi-year projects designed to make our principles a reality. In the following sections each of the vision principles is outlined and Fiscal Year 2010 projects that address it are highlighted.

Bold New Directions

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

Cross-departmental collaboration is vital in implementing this vision principle, and it is directly responsible for movement on many City projects in furthering this vision principle. In August 2009, the City officially opened the new Churchland Branch library. The library sponsors programs that promote family literacy and encourage the use of libraries and a love of reading, and provide a current, balanced and culturally diverse collection of materials and information in various formats, periodically surveying patrons about their wants and needs. The library continues to provide a stable, easily accessible automation system that is current with new technology. Some of the features of this state-of-the-art facility include a technology room with computers, radio frequency identification self check out and security system, a children's areas with a story telling room, group study and community meeting rooms, and a conference room with SmartBoard technology. The Library services were expanded to include the acceptance of payments to the City Treasurer and to Public Utilities. Named best by the Hampton Roads Association for Commercial Real Estate in the 2009 Excellence in Development Design Awards, the new Churchland Library received an Award of Merit for its "hub/axial" concept with curved glass walls and a 28 foot-tall glass rotunda.

During fiscal year 2010, Council and management continued plans for the undertaking of a new Portsmouth Judicial Center. The buildings that presently house the Portsmouth Courts are near or past the end of their useful life, and are inadequate for the public and the judicial system and must be repaired or replaced. The new Portsmouth Judicial Center is planned to provide 12 new courtrooms and administrative offices for the Commonwealth Attorney, Juvenile Court Services, and the Sheriff. The Portsmouth Judicial Center is scheduled to be completed in September 2012.

A Robust and Prospering Economy

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

The City's degree of prosperity is a tangible and yet an intangible factor. As a tangible factor the growth and development of the City is progressing. The work to expand and enhance industries

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

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

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

General Fund Performance

The growth in the City’s tax base is a significant factor of economic and fiscal health. General property and other local taxes account for more than 76% of General Fund revenues. The assessed value of real property rose by \$86 million, or 1% during 2010. The increase in assessment values is an extremely positive indicator in evaluating the health of Portsmouth’s local economy. City Council increased the real estate tax rate from 1.21 in fiscal year 2009 to 1.24 for fiscal year 2010.

The General Fund accounts for all revenues and expenditures that are not accounted for in specific purpose funds. It finances the regular day-to-day operations of the City. A strong undesignated fund balance is an indication of financial flexibility and fiscal strength. The City’s undesignated fund balance at June 30, 2010 represents 21.46% of total revenues and transfers, which exceeds the City’s adopted financial policy of 15%.

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

Fiscal Year	General Fund Undesignated Fund Balance	General Fund Total Revenues & Operating Transfers	Ratio
2010	45,377,732	211,496,674	21.46%
2009	32,533,819	213,390,123	15.25%
2008	26,302,440	216,638,631	12.14%
2007	35,399,112	203,773,001	17.37%
2006	35,738,764	193,183,661	18.50%

Financial Policies

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

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

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

Fund Balance Policy Minimum

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

Cash Management

The City uses a pooled cash concept to allow greater investment flexibility and maximize its return on investment. The City pools cash from all funds, except those restricted for specific purposes or managed by fiscal agents, for investment purposes. The City invests any temporarily idle cash in overnight repurchase agreements and other investments ranging from one to thirty days to maturity. During fiscal year 2010, the City was able to manage its current resources to properly meet its operating cash requirements without issuing Revenue Anticipation Notes.

The City’s ability to manage cash and to present a balanced budget was due to Council’s willingness to accept the following recommendations from the Administration; establish or amend fees pertaining to erosion and sediment control; increase in the real estate tax rate; increase the City’s tax on cigarettes; establish or amend certain fees for services provided by the Department of Fire, Rescue and Emergency Services; reductions for all departments other than public safety and public schools; reduction to certain programs and civic organizations; and unfortunately no general wage increase for employees or retirees.

During fiscal year 2010, the City’s Chief Financial Officer continued to work with Davenport and company, the City’s Financial Advisors, to develop a cash flow/forecasting model. Council officially adopted a series of financial policies that will serve to guide future decision-making.

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

World Class Maritime Center

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

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

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

Lifelong Learning Community

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

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

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

The Tri-Cities Center was a collective vision and project between the private, public and education sectors. An extension of Old Dominion University located in the western area of the City, this venue is already producing positive results as it currently hosts a student population in excess of 700 students. The Old Dominion University Tri-Cities Higher Education Center full service facility offers undergraduate degree completion programs, graduate and certificate programs.

The City gifted 30 acres to the Commonwealth of Virginia State Board of Community Colleges to facilitate the development of the Tidewater Community College Campus. The new Portsmouth Campus of the Tidewater Community College consists of four buildings which include administrative offices, student services, academic programs, and physical plant operations. The new Tidewater Community College facility opening in December 2009 further enhances and fulfills the vision of a “Lifelong Learning Community”. The school features the Beazley School of Nursing, which houses its own simulated hospital clinical setting and the state’s first four human-patient simulator labs for evaluating student performance. The school comes as a timely answer to the region’s shortage of nursing professionals.

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

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

Fiscal Year	Operating Transfers to School Board	Education Debt Service Payments	Total Education Funding	Net Change
2010	\$ 48,171,651	1,871,167	50,042,818	(2,595,135)
2009	49,818,483	2,819,470	52,637,953	(92,357)
2008	49,845,490	2,884,820	52,730,310	7,613,872
2007	42,683,991	2,432,447	45,116,438	6,002,863
2006	36,670,336	2,443,239	39,113,575	5,299,464

Thriving Neighborhoods and a Sense of Community

***Vision Principle:** Portsmouth citizens are encouraged to become active participants in the process of creating their own quality of life, to ensure community safety and to elevate the livability of their own neighborhoods, creating true communities of choice for the 21st century.*

Citizens work together with local government to fully utilize human and community assets, thus producing a state-of-the-art environment that includes excellent schools, public facilities, parks, green spaces, gateways, and roadway corridors. Our neighborhoods have been transformed into communities that promote and celebrate diversity, equity, and the inclusiveness of all citizens.

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

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

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

Victory Village represents the City's first mixed-use development initiative. It is being developed as a high-quality, pedestrian-oriented environment and will provide the backdrop for a rich and vital urban experience for employers, workers, residents, students and visitors alike. This new development is being constructed on a 100-acre site in the Victory area of the City. The village will include office, residential, retail, hospitality and education venues. Victory Village is expected to have a minimum of 1,250,000 sq. ft. of new facilities. Construction of the road way for the first phase of Victory Village began in fiscal year 2009 and continued in fiscal year 2010.

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

Pride of Past, Promise of Future

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

We implement this vision principle daily. We commemorate Portsmouth's exciting historical diversity throughout the year in museum programs, library programs, festivals, concerts, and other ceremonies. Seasonal programs and entertainment punctuate the year, drawing neighbors, families, and guests from throughout the City, the region, and the world to celebrate Portsmouth's people, history, and future. Portsmouth is also proud to be the home of the

nation's oldest annually held parade, the Portsmouth Memorial Day Parade, which has been a tradition in the City since 1884.

Independent Audit

State law requires that a certified public accountant selected by the City Council audit the City's annual financial statements. Cherry, Bekaert, and Holland, L.L.P., Certified Public Accountants performed this annual audit of the financial records and transactions of all funds, component units, and departments of the City for the fiscal year ending June 30, 2010.

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

Certificate of Achievement

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

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

Acknowledgments

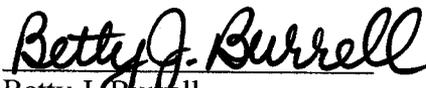
We sincerely appreciate the City Council's support and cooperation in planning and conducting the financial operations of the City.

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

Respectfully submitted,



Kenneth L. Chandler,
City Manager



Betty J. Burrell,
Chief Financial Officer