

Notes to Basic Financial Statements

June 30, 2008

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The following is a summary of the more significant policies:

A. Financial Reporting Entity

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

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

Discretely Presented Component Units

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

Notes to Basic Financial Statements, Continued

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

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

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

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

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

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

Blended Component Unit

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

B. Basis of Presentation**Government-wide and Fund Financial Statements**

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

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public

Notes to Basic Financial Statements, Continued

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

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

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

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

Governmental Fund Types

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

The City reports the following major governmental funds:

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

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

The City reports the following nonmajor governmental funds:

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

Notes to Basic Financial Statements, Continued

Capital Projects Fund – 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 four nonmajor internal service funds: City Garage Fund, Information Technology Fund, Risk Management Fund, and Health Insurance Fund.

The City reports the following other nonmajor fund types:

Fiduciary Fund Types

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

Notes to Basic Financial Statements, Continued

Reconciliation of Government-wide and Fund Financial Statements

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

C. Measurement Focus and Basis of Accounting

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

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

The governmental funds utilize the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the City. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the accrual to eligibility criteria are met. Real estate and personal property taxes are recorded as revenues and receivables when levied and billed, net of allowances for uncollectible amounts. Property taxes levied but not collected within 45 days after year-end are reflected as deferred revenues. Sales and utility taxes, which are collected by the State or utility companies and subsequently remitted to the City, are recognized as revenues and receivables upon collection by the State or utility companies, which is generally in the month preceding receipt by the City, because they are generally not measurable until actually received. Licenses and permits, fines and forfeitures, charges for services (except those charges for services recognized when billed) and miscellaneous revenues (except interest on temporary investments) are recorded as revenues when received in cash because they are generally not measurable until actually received. Stormwater management fees are also recognized as revenue when earned. Expenditures are recorded when the related liability is incurred and payment is due, except for principal and interest on long-term

Notes to Basic Financial Statements, Continued

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 2008 was \$1.26 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 2008, 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, \$1.26, and \$1.50 per \$100 of assessed value, respectively.

E. Allowance for Uncollectibles

Notes to Basic Financial Statements, Continued

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	435,045
Total General Fund	3,054,493
Special Revenue Fund - Stormwater Management Fund -	
Allowance for doubtful accounts receivable	238,664
Total governmental activities	\$ 3,293,157
Business-Type Activities - allowance for doubtful accounts receivable:	
Enterprise Funds:	
Public Utility Fund	\$ 699,029
Portsmouth Parking Authority	2,287
Waste Management Fund	557,648
Total business-type activities	\$ 1,258,964
Component Units - allowance for doubtful accounts receivable:	
Portsmouth School Board	\$ 275,000

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

Notes to Basic Financial Statements, Continued

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

Notes to Basic Financial Statements, Continued

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, 2008 are composed of the following:

	General Fund	Capital Improvements	Other Nonmajor
Current year encumbrances	\$ 2,123,355	9,295,463	1,890,319
Advances	3,505,772	-	-
Revenue maximization program	-	-	204,358
Inventory	78,847	-	-
Cemetery care	-	-	1,000,000
	\$ 5,707,974	9,295,463	3,094,677

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

At June 30, 2008, the carrying value of the City's deposits with banks and savings institutions was \$26,651,190 and includes \$126,011 in the fiduciary funds. All cash of the City except petty cash of \$45,557 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, 2008 restricted cash totaled \$24,712,713, 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, 2008, the City's investment balances were as follows:

Notes to Basic Financial Statements, Continued

	Carrying Amount	Actual Credit Ratings	Required Credit Ratings	Average Days/Years to Maturity
SNAP investments	\$ 36,239,161	AAAm	n/a	1 day
CCRF	34,448	AAAm	n/a	1 day
Money market funds	43,086,046	AAAm	n/a	1 day
	\$ 79,359,655			

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, 2008, the SNAP Fund's investment portfolio as well as CCRF was comprised of investments which were, in aggregate, rated A-1+ 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, 2008, the City's pension investments were professionally managed by Frank Russell Trust Company which invests primarily in fixed income and 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 and Portsmouth Supplemental Retirement Systems and Frank Russell Trust Company for the Portsmouth Supplemental Retirement and the Portsmouth Fire and Police Retirement Systems. The City owns units in Russell's commingled Employee Benefit Fund Trusts. The target allocation for all funds is 55% for equities, 30% for fixed income securities and 15% for alternative investments, which include real estate and hedge funds. None of the City's pension investments have credit ratings.

Russell International Fund - This fund invests in non-U.S. stocks. International equities are sensitive to foreign currency fluctuations, thus subjecting the investment to foreign currency risk. The estimated percentage invested in each foreign currency is illustrated below by allocating the total investment value (in U.S. dollars) to the specific currency represented in the fund's portfolio.

At June 30, 2008, the fair value of the City's pension investments is as follows:

Notes to Basic Financial Statements, Continued

Fund Name	Investment Type	Weighted Average Maturity	Fair Value
Russell International Fund:			
Euro Dollar	Equity	1 day	\$ 7,427,420
Pound Sterling	Equity	1 day	4,021,019
Japanese Yen	Equity	1 day	3,587,443
U.S. Dollar	Equity	1 day	1,680,646
Swiss Franc	Equity	1 day	1,590,896
Australian Dollar	Equity	1 day	922,227
Canadian Dollar	Equity	1 day	877,884
Brazilian Real	Equity	1 day	713,626
Denmark and Norway Krone	Equity	1 day	711,590
South Korean Won	Equity	1 day	441,741
Russia Ruble	Equity	1 day	418,055
Hong Kong Yuan	Equity	1 day	355,529
Mexican Peso	Equity	1 day	336,348
Taiwan Dollar	Equity	1 day	309,144
Bermuda Dollar	Equity	1 day	252,431
Isreal Shekel	Equity	1 day	221,781
South African Rand	Equity	1 day	191,262
Sweden Krona	Equity	1 day	187,607
Cayman KYD	Equity	1 day	175,592
Signapore Dollar	Equity	1 day	173,596
Indian Rupee	Equity	1 day	172,180
Chinese Yuan	Equity	1 day	124,069
Indonesia Rupiah	Equity	1 day	89,735
Egyptian Pound	Equity	1 day	67,561
Turkey New Lira	Equity	1 day	63,069
Malaysian Ringgit	Equity	1 day	49,405
Czech Republic Crown	Equity	1 day	32,218
New Zealand Dollar	Equity	1 day	24,051
Thailand Baht	Equity	1 day	23,181
Poland Zioty	Equity	1 day	16,261
Pakistan Rupee	Equity	1 day	14,360
Chile Peso	Equity	1 day	12,995
Oman Riai	Equity	1 day	12,207
Hungary Forint	Equity	1 day	11,537
United Arab Emirates Dirham	Equity	1 day	8,462
Columbia Peso	Equity	1 day	7,565

Notes to Basic Financial Statements, Continued

Fund Name	Investment Type	Weighted Average Maturity	Fair Value
Phillipines Peso	Equity	1 day	6,239
Nigeria Naira	Equity	1 day	5,389
Jersey Pound	Equity	1 day	4,045
Kazakhstan Tenge	Equity	1 day	3,171
Zimbabwe Dollar	Equity	1 day	2,155
Mauritius Rupee	Equity	1 day	1,733
Cyprus Pound	Equity	1 day	1,728
New Guinea Kina	Equity	1 day	1,609
Argentina Peso	Equity	1 day	1,378
Russell Multi-Manager Bond Fund	Fixed Income	4.3 years	32,558,185
Russell Large Cap Structured	Equity	1 day	12,969,030
Russell Equity I Fund	Equity	1 day	24,855,027
Russell Small Cap Fund	Equity	1 day	6,030,139
Russell Real Estate Equity Fund	Other	1 day	14,993,395
Russell Diversified Alternatives	Other	1 day	12,553,733
			\$ 129,311,649

Component Unit - School Board

All of the deposits of the School Board, a discretely presented component unit, of \$27,202,892 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 \$4,197,677 invested in the American Government Obligation Fund as of June 30, 2008. These funds had a credit rating of AAAM by Standard & Poor's. The School Board has \$550,103 invested in Evergreen Treasury Money Market Fund and \$100,000 invested in Wachovia Money Market Funds, for a total OPEB Trust investment of \$650,103. The School Board has \$4,203,589 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 \$851,675. 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 \$535,633. All cash of the Commission is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. Seq. of the Code of Virginia or covered by federal depository insurance.

Notes to Basic Financial Statements, Continued

(4) CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows:

Primary Government - Governmental Activities	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Capital assets not being depreciated:				
Land	\$ 17,387,241	43,560		17,430,801
Construction in progress	78,972,710	23,569,137	7,236,841	95,305,006
Total capital assets not being depreciated	96,359,951	23,612,697	7,236,841	112,735,807
Capital assets being depreciated:				
Infrastructure	466,881,964	6,117,577	-	472,999,541
Site improvements	1,436,092	803,779	-	2,239,871
Buildings	182,419,663	399,135	66,610	182,752,188
Machinery, furniture, and equipment	40,354,991	3,880,642	2,220,649	42,014,984
Total capital assets being depreciated	691,092,710	11,201,133	2,287,259	700,006,584
Less accumulated depreciation for:				
Infrastructure	(313,089,868)	(12,478,008)	-	(325,567,876)
Site improvements	(446,793)	(85,199)	-	(531,992)
Buildings	(57,053,834)	(4,063,532)	(62,447)	(61,054,919)
Machinery, furniture, and equipment	(23,763,152)	(3,657,914)	(2,160,908)	(25,260,158)
Total accumulated depreciation	(394,353,647)	(20,284,653)	(2,223,355)	(412,414,945)
Total capital assets being depreciated, net	296,739,063	(9,083,520)	63,904	287,591,639
Governmental activities capital assets, net	\$ 393,099,014	14,529,177	7,300,745	400,327,446

Notes to Basic Financial Statements, Continued

Under Virginia Law, certain property, with a net book value of \$59,988,985 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.

During the fiscal year ended June 30, 2008, an unused and surplus school facility, previously turned over to the City by the Portsmouth School Board and with no net carrying value, was substantially damaged by a fire. The City received an insurance settlement from its excess insurance carrier of \$2,291,732 and this amount is included in the revenues of the City's Risk Management Internal Service Fund and as a governmental activities general revenue on the government-wide Statement of Activities. Additional expenditures for demolition of the remains of the facility and disposition of the site will be recognized by the City in subsequent periods.

Depreciation expense was charged to functions as follows:

General government	\$ 1,060,077
Judicial	414,924
Public safety	1,136,478
Public works	12,480,999
Health and welfare	504,016
Parks, recreation and cultural	505,138
Community development	311,292
Education	1,722,562
<hr/>	
Total governmental funds	18,135,486
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.	
	2,149,167
<hr/>	
Total governmental activities	\$ 20,284,653

Notes to Basic Financial Statements, Continued

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

	Project Authorization	Expended to June 30, 2008	Commitments
Parkview School	\$ 16,803,358	14,830,136	-
Drainage facilities repair	13,554,005	11,259,344	192,490
Victory Boulevard	12,363,250	8,317,910	1,307,915
New library - Joint with Suffolk	7,847,590	3,043,222	3,073,761
Behavioral Health building	7,529,003	183,485	454,397
Midtown redevelopment acquisition	6,814,986	6,785,493	7,428
New courts complex	6,250,000	2,458,759	1,018,688
Victory Elementary School	5,825,496	5,025,496	-
Tower Mall redevelopment	5,558,000	5,132,591	47,142
City Hall repairs	4,292,500	4,292,323	177
Roof/ mechanical renovation	3,957,293	802,764	-
Churchland High School - air quality	3,616,306	3,546,312	67,371
PAC Ntelos Pavilion	3,480,478	3,413,608	62,214
McLean Street / Cavalier Boulevard	3,400,000	14,000	18,700
City / Schools joint financial management system	2,936,486	2,086,349	887,829
Cavalier Boulevard drainage improvements	2,700,000	2,671,785	13,546
Midtown Corridor	2,700,000	82,400	27,600
Lee Avenue improvements	2,500,000	1,037,543	-
Downtown Crawford roundabout	2,127,355	2,111,479	15,876
Ebony Heights improvements	2,001,212	201,128	84
Civic Center specifications	1,984,453	1,898,481	16,121
Highland Biltmore improvements	1,944,385	1,931,710	10,826
Frederick Boulevard/ Bart St.	1,878,586	1,794,249	1
Children's Museum expansion	1,875,000	1,786,795	17,379
Street improvements - South Portsmouth	1,868,356	771,163	97,192
Bridge repairs	1,797,985	1,406,765	74,892
Substructure painting - London Boulevard Bridge	1,759,217	1,679,039	6
Renovations to various buildings	1,758,693	1,561,204	152,724
Parking garage repairs - Harbor Tower	1,196,978	791,006	296,166
Hope 6 project - Jeffrey Wilson	1,050,000	-	-
Port Industrial Infrastructure	1,000,000	560,608	118,061
Various projects under \$1,000,000 each	7,051,287	3,827,859	55,828
	\$ 141,422,258	95,305,006	8,034,414

Notes to Basic Financial Statements, Continued

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 \$9,295,463 have been reserved for encumbrances for capitalizable and noncapitalizable expenditures in the capital improvements fund.

Primary Government - Business-Type Activities	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Capital assets not being depreciated:				
Land	\$ 15,348,574	-	-	15,348,574
Construction in progress	75,940,477	10,229,985	26,827,712	59,342,750
Total capital assets not being depreciated	91,289,051	10,229,985	26,827,712	74,691,324
Capital assets being depreciated:				
Buildings	25,469,577	-	-	25,469,577
Improvements other than buildings	144,685,053	27,365,925	-	172,050,978
Machinery, furniture, and equipment	18,505,999	1,270,395	417,312	19,359,082
Total capital assets being depreciated	188,660,629	28,636,320	417,312	216,879,637
Less accumulated depreciation for:				
Buildings	(9,787,931)	(597,776)	-	(10,385,707)
Improvements other than buildings	(59,123,771)	(2,930,587)	-	(62,054,358)
Machinery, furniture, and equipment	(8,736,070)	(1,450,358)	(412,129)	(9,774,299)
Total accumulated depreciation	(77,647,772)	(4,978,721)	(412,129)	(82,214,364)
Total capital assets being depreciated, net	111,012,857	23,657,599	5,183	134,665,273
Business-type activities capital assets, net	\$ 202,301,908	33,887,584	26,832,895	209,356,597

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

Public utilities	\$ 3,511,759
Parking Authority	499,282
Port facility	86,922
Golf	126,966
Waste Management	753,792
Total business-type activities	\$ 4,978,721

Notes to Basic Financial Statements, Continued

**Primary Government -
Major Enterprise Funds**

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
<u>Public Utility Fund</u>				
Capital assets not being depreciated:				
Land	\$ 324,079	-	-	324,079
Construction in progress	75,940,477	10,229,985	26,827,712	59,342,750
Total capital assets not being depreciated	76,264,556	10,229,985	26,827,712	59,666,829
Capital assets being depreciated:				
Buildings	736,018	-	-	736,018
Improvements other than buildings	142,369,595	27,347,898	-	169,717,493
Machinery, furniture, and equipment	10,607,892	573,315	267,523	10,913,684
Total capital assets being depreciated	153,713,505	27,921,213	267,523	181,367,195
Less accumulated depreciation for:				
Buildings	(58,093)	(10,746)	-	(68,839)
Improvements other than buildings	(55,288,063)	(2,864,068)	-	(58,152,131)
Machinery, furniture, and equipment	(4,949,774)	(636,945)	(267,523)	(5,319,196)
Total accumulated depreciation	(60,295,930)	(3,511,759)	(267,523)	(63,540,166)
Total capital assets being depreciated, net	93,417,575	24,409,454	-	117,827,029
Public Utility Fund capital assets, net	\$ 169,682,131	34,639,439	26,827,712	177,493,858
<u>Parking Authority</u>				
Capital assets not being depreciated:				
Land	\$ 679,680	-	-	679,680
Total capital assets not being depreciated	679,680	-	-	679,680
Capital assets being depreciated:				
Buildings	18,667,910	-	-	18,667,910
Improvements other than buildings	242,609	18,027	-	260,636
Machinery, furniture, and equipment	431,083	-	-	431,083
Total capital assets being depreciated	19,341,602	18,027	-	19,359,629
Less accumulated depreciation for:				
Buildings	(7,979,939)	(466,068)	-	(8,446,007)
Improvements other than buildings	(205,277)	(14,006)	-	(219,283)
Machinery, furniture, and equipment	(170,918)	(19,208)	-	(190,126)
Total accumulated depreciation	(8,356,134)	(499,282)	-	(8,855,416)
Total capital assets being depreciated, net	10,985,468	(481,255)	-	10,504,213
Parking Authority capital assets, net	\$ 11,665,148	(481,255)	-	11,183,893

Notes to Basic Financial Statements, Continued

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

	Project Authorization	Expended to June 30, 2008	Commitments
Public Utility Fund:			
Infrastructure improvements	\$ 30,169,500	22,950,665	2,986,647
Godwin Street reservoir replacement	10,896,371	10,394,155	39,794
Lake Kilby raw water pumping station	7,749,000	657,737	241,728
Replacement of water plant equipment	5,828,213	3,351,311	144,577
Downtown master utility	5,250,000	276,709	282,149
Suction well rehabilitation	4,746,290	2,371,358	789,760
Water plant residuals management and disposal	4,433,500	4,331,891	40,341
Sewer cave-in repair	2,841,762	1,259,976	241,603
Camden Avenue sewer rehabilitation	2,685,000	1,556,145	50,336
Sanitary sewer overflow elimination	1,850,000	380,539	791,521
Miscellaneous sewer improvements	1,662,500	1,654,852	7,260
Meter replacement program	1,500,000	128,409	6,222
Miscellaneous water improvements	1,413,615	881,007	57,421
Low pressure transmission mains	1,250,000	535,188	172,966
Replacement 2" water mains	1,046,000	309,671	32,329
Various projects under \$1,000,000 each	442,313	131,004	5,075
	\$ 83,764,064	51,170,617	5,889,729

In addition to the amount of \$51,170,617 shown above as expended to June 30, 2008, \$8,172,133 is included in construction in progress for capitalized interest, bringing total construction in progress to \$59,342,750. 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.

Construction in progress in the Parking Authority is composed of the following:

	Project Authorization	Expended to June 30, 2008	Commitments
City Hall garage repairs	\$ 200,000	-	-

Notes to Basic Financial Statements, Continued

School Board Component Unit

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Capital assets not being depreciated:				
Land	\$ 6,337,645	-	190,852	6,146,793
Construction in progress	12,211,741	2,962,031	9,901,097	5,272,675
Total capital assets not being depreciated	18,549,386	2,962,031	10,091,949	11,419,468
Capital assets being depreciated:				
Buildings	55,680,190	12,945,335	2,928,450	65,697,075
Machinery, furniture, and equipment	17,173,211	620,657	-	17,793,868
Total capital assets being depreciated	72,853,401	13,565,992	2,928,450	83,490,943
Less accumulated depreciation for:				
Buildings	(27,720,353)	(1,070,127)	(2,928,450)	(25,862,030)
Machinery, furniture, and equipment	(10,667,265)	(868,672)	-	(11,535,937)
Total accumulated depreciation	(38,387,618)	(1,938,799)	(2,928,450)	(37,397,967)
Total capital assets being depreciated, net	34,465,783	11,627,193	-	46,092,976
School Board capital assets, net	\$ 53,015,169	14,589,224	10,091,949	57,512,444

Notes to Basic Financial Statements, Continued

(5) LONG - TERM DEBT

Details of Long-Term Indebtedness

At June 30, 2008, the long-term indebtedness of the City consisted of the following:

		Interest Rate	Amount Outstanding
Governmental Activities			
General obligation bonds, net:			
1997	Public Improvement Bonds	6.46 - 6.65%	\$ 5,680,000
1997	Public Improvement Bonds	4.40 - 5.25%	7,215,000
1999	Qualified Zone Academy Bonds	0%	2,196,314
2001	Public Improvement Bonds	4.50 - 5.25%	8,506,282
2001	Qualified Zone Academy Bonds	0%	592,965
2001	Virginia Public School Authority Bonds	4.10 - 5.35%	2,392,759
2003	Public Improvement Refunding Bonds	3.00 - 5.00%	54,703,332
2004	BHS Lease Revenue Bonds	3.00 - 5.00%	4,376,065
2005	Public Improvement Bonds	3.50 - 5.00%	43,532,070
2005	Public Improvement Refunding Bonds	5.00 - 5.40%	17,348,404
2006	Virginia Public School Authority Bonds	4.20 - 5.1%	5,937,805
2006	Public Improvement and Refunding Bonds	4.10 - 5.0%	43,446,383
2006	Taxable Public Improvement Refunding Bonds	5.75%	7,571,676
Total general obligation bonds, net			203,499,055
General obligation notes payable			6,796,146
Obligations under capital leases			18,115,974
Literary loans			3,000,000
Compensated absences			7,731,024
Total governmental activities			\$ 239,142,199
Business-Type Activities			
General obligation bonds, net:			
1997	Public Utility Bonds	4.45 - 5.25%	\$ 1,837,932
2001	Public Utility Bonds	4.00 - 5.00%	1,928,683
2003	Public Utility Refunding Bonds	3.00 - 5.00%	27,497,575
2003	Public Improvement Refunding Bonds	3.00 - 5.00%	6,656,433
2005	Public Utility Bonds	3.50 - 5.00%	29,225,603
2005	Public Utility Refunding Bonds	3.25 - 5.00%	16,591,143
2005	Public Improvement Bonds	3.50 - 5.00%	6,774,857
2006	Public Utility Bonds	4.12 - 5.00%	17,115,549
Total general obligation bonds, net			107,627,775
Obligations under capital leases			2,232,135
Landfill closure and postclosure care			5,436,375
Compensated absences			805,232
Total business type-activities			\$ 116,101,517

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

Notes to Basic Financial Statements, Continued

At June 30, 2008, the long-term indebtedness of Component Units consisted of the following:

	Amount Outstanding
School Board:	
Obligations under capital leases	\$ 7,600,413
Net pension obligation	112,948
Compensated absences	4,677,893
	\$ 12,391,254

Changes in Indebtedness

The following is a summary of changes in long-term indebtedness of the City for the year ended June 30, 2008:

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008	Due Within One Year
Primary Government -					
Governmental Activities:					
General obligation bonds, net	\$ 217,813,724	76,969	(14,391,638)	203,499,055	14,619,499
General obligation notes payable	6,794,220	1,926	-	6,796,146	-
Compensated absences	7,136,422	603,279	(8,677)	7,731,024	4,728,186
Literary loans	3,375,000	-	(375,000)	3,000,000	375,000
Capital leases (note 7)	18,451,380	2,824,924	(3,160,330)	18,115,974	3,264,449
Total Governmental Activities	\$ 253,570,746	3,507,098	(17,935,645)	239,142,199	22,987,134
Business-Type Activities:					
General obligation	\$ 111,996,030	57,931	(4,426,186)	107,627,775	4,504,121
Landfill closure and postclosure care	5,436,375	-	-	5,436,375	-
Compensated absences	739,794	67,964	(2,526)	805,232	805,232
Capital leases (note 7)	2,218,783	630,053	(616,701)	2,232,135	650,472
Total Business-Type Activities	\$ 120,390,982	755,948	(5,045,413)	116,101,517	5,959,825
Major Enterprise Funds:					
<i>Public Utility Fund</i>					
General obligation bonds, net	\$ 97,982,610	45,119	(3,831,244)	94,196,485	3,896,858
Compensated absences	400,502	40,007	(385)	440,124	440,124
Total Public Utility Fund	\$ 98,383,112	85,126	(3,831,629)	94,636,609	4,336,982
<i>Parking Authority</i>					
General obligation bonds, net	\$ 7,133,417	-	(279,942)	6,853,475	290,075
Compensated absences	19,490	8,424	-	27,914	27,914
Total Parking Authority	\$ 7,152,907	8,424	(279,942)	6,881,389	317,989

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.

Notes to Basic Financial Statements, Continued

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, 2008 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, 2008:

	Balance, July 1, 2007	Increases	Decreases	Balance June 30, 2008	Due Within One Year
School Board:					
Capital leases	\$ 8,083,189	-	(482,776)	7,600,413	525,848
Net pension obligation	113,030	-	(82)	112,948	-
Compensated absences	4,329,111	2,016,398	(1,667,616)	4,677,893	1,660,000
Total School Board	\$ 12,525,330	2,016,398	(2,150,474)	12,391,254	2,185,848

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, 2008, there were \$3,045,000 of bonds that were authorized but unissued. As of June 30, 2008, the City's legal margin for additional debt is \$429,292,255.

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, 2008, the outstanding balance of the defeased debt is \$32,955,000.

Notes to Basic Financial Statements, Continued

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, 2008 (except compensated absences and landfill closure and post closure care) are as follows:

Governmental Activities:

Fiscal Year Ending	General Obligation Bonds		General Obligation Notes		Literary Loans		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 14,619,499	9,290,505	-	255,000	375,000	60,000	3,264,449	1,321,089
2010	14,879,373	8,657,995	6,796,146	127,500	375,000	52,500	2,858,721	1,173,185
2011	15,156,583	8,003,873	-	-	375,000	45,000	2,212,051	1,085,930
2012	15,437,884	7,329,718	-	-	375,000	37,500	1,519,883	1,016,632
2013	11,730,882	6,652,845	-	-	250,000	30,000	1,171,781	918,317
2014-2018	60,876,903	24,137,374	-	-	1,250,000	75,000	4,223,558	3,293,074
2019-2023	29,942,505	13,168,598	-	-	-	-	2,865,531	540,320
2024-2028	28,434,848	6,462,004	-	-	-	-	-	-
2029-2033	12,420,578	958,737	-	-	-	-	-	-
	\$203,499,055	84,661,649	6,796,146	382,500	3,000,000	300,000	18,115,974	9,348,547

Business-Type Activities:

Fiscal Year Ending	General Obligation		Capital Leases	
	Principal	Interest	Principal	Interest
2009	\$ 4,504,121	4,884,948	650,472	55,359
2010	4,642,500	4,698,274	609,492	38,371
2011	4,803,793	4,501,787	563,991	22,430
2012	4,946,429	4,296,623	347,786	8,317
2013	5,168,886	4,061,369	60,394	-
2014-2018	25,528,285	16,718,046	-	-
2019-2023	28,805,748	10,335,842	-	-
2024-2028	19,231,920	4,473,205	-	-
2029-2033	9,996,093	907,049	-	-
	\$107,627,775	54,877,143	2,232,135	124,477

Notes to Basic Financial Statements, Continued

(6) LEASING ARRANGEMENTS

As a lessee, the City leases certain land, buildings, equipment and vehicles under capital leases and certain facilities under operating leases that expire in years through 2023. Included in capital assets are the following amounts applicable to capital leases:

		Governmental	Internal Service	Enterprise
Buildings	\$	12,347,181	-	-
Machinery, furniture, and equipment		7,214,237	14,542,006	5,194,924
Less accumulated depreciation		(6,735,250)	(6,211,810)	(2,119,335)
Capital assets, net	\$	12,826,168	8,330,196	3,075,589

The total amount of equipment acquired through a capital lease during fiscal year ended June 30, 2008, was \$3,454,977. Leased equipment included in capital assets and with a net value of \$33,396 was deleted during the fiscal year. Depreciation expense on leased assets was \$3,277,300 for the fiscal year ended June 30, 2008.

The present value of future minimum capital and operating lease payments of the City as of June 30, 2008 is as follows:

Fiscal Year		Capital	Operating
Ending			
2009	\$	5,291,369	983,011
2010		4,679,769	676,609
2011		3,884,402	450,099
2012		2,892,618	-
2013		2,150,492	-
2014-2018		7,516,632	-
2019-2023		3,405,851	-
Total minimum lease payments		29,821,133	\$ 2,109,719
Less amount representing interest		(9,473,024)	
Present value of minimum capital lease payments	\$	20,348,109	

Total governmental operating lease payments for the year ended June 30, 2008 were \$1,399,816.

(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 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 retirement system that was established on October 1, 1953. It was designed to provide retirement, death, or disability benefits for all regular

Notes to Basic Financial Statements, Continued

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 55 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. In addition, an automatic 50% survivor option has been added for all retirees at no cost to the retirees. 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.

Notes to Basic Financial Statements, Continued

Payroll and Participants

The payroll at June 30, 2008 for employees covered by PSRS and FPRS and the total payroll for all City employees was as follows:

Payroll for employees covered by PSRS	\$ 3,830,883
Payroll for employees covered by FPRS	11,047,660
Total City payroll	78,138,729

Participation in the Portsmouth Supplemental Retirement System and the Fire and Police Retirement System consisted of the following as of July 1, 2008:

	PSRS	FPRS
Retirees and beneficiaries	361	530
Vested terminated employees not yet receiving benefits	53	64
Current vested employees	83	172
	497	766

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 2008 were \$2,214,186 and \$10,036,390 respectively. The annual required contributions of \$2,155,485 and \$9,814,500 were calculated in accordance with actuarially determined requirements computed through an actuarial valuation performed as of July 1, 2006.

Annual Pension Cost

The required contributions were determined as part of the July 1, 2006 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.

Notes to Basic Financial Statements, Continued

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

	PSRS	FPRS
Annual required contribution	\$ 2,155,485	9,814,500
Interest on net pension asset/obligation	(18,317)	13,115
Adjustment to annual required contribution	20,519	(14,692)
Annual pension cost	2,157,687	9,812,923
Contributions made	2,214,186	10,036,390
Increase in net pension asset	(56,499)	(223,467)
Net pension (asset) obligation at beginning of year	(228,958)	163,943
Net pension (asset) obligation at end of year	\$ (285,457)	(59,524)

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, 2008

	PSRS	FPRS
Assets:		
Investments:		
Common stock	\$ 21,472,006	47,734,331
Corporate bonds	2,212,234	4,918,008
Mortgage and mortgage-backed securities	4,161,828	9,252,144
U.S., state, and municipal government securities	3,727,463	8,286,507
Real estate	4,651,861	10,341,534
Alternatives	3,894,930	8,658,803
Total investments	40,120,322	89,191,327
Total assets	\$ 40,120,322	89,191,327
Net assets held in trust for pension benefits	\$ 40,120,322	89,191,327

Notes to Basic Financial Statements, Continued

Statement of Changes in Fiduciary Net Assets
Year Ended June 30, 2008

	PSRS	FPRS
Additions:		
Contributions	\$ 2,214,186	10,036,390
Investment income -		
Net decrease in fair value of investments	(2,123,891)	(4,662,734)
Less investment expense	(237,069)	(506,966)
Net investment income	(2,360,960)	(5,169,700)
Total additions	(146,774)	4,866,690
Deductions - benefits and refunds	7,090,094	15,225,851
Change in net assets	(7,236,868)	(10,359,161)
Net plan assets held in trust for pension benefits, beginning of year, as restated	47,357,190	99,550,488
Net plan assets held in trust for pension benefits, end of year	\$ 40,120,322	89,191,327

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, 2008 were 11.43% and 15% of the annual covered payroll, respectively.

Notes to Basic Financial Statements, Continued

Additionally, required and actual contributions to the VRS state-wide teacher pool for the current year and each of the two preceding years were \$11,948,682 and \$10,830,686 and \$8,230,067, respectively.

Annual Pension Cost

For the fiscal year ended June 30, 2008, the City's annual pension cost of \$7,143,724, 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 \$946,642 was not equal to the School Board's required or actual contributions. The School Board's actual contributions were \$946,724. The required contributions were determined as part of the June 30, 2005 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	\$ 7,143,724	946,724
Interest on net pension obligation	-	8,483
Adjustment to annual required contribution	-	(8,565)
Annual pension cost	7,143,724	946,642
Contributions made	7,143,724	946,724
Decrease in net pension obligation	-	(82)
Net pension obligation at beginning of year	-	113,030
Net pension obligation at end of year	\$ -	112,948

Notes to Basic Financial Statements, Continued

Three-Year Contribution Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
VRS - City:			
June 30, 2008	\$ 7,143,724	100%	\$ -
June 30, 2007	6,716,777	100%	-
June 30, 2006	5,183,087	100%	-
VRS - School Board:			
June 30, 2008	946,642	100%	112,948
June 30, 2007	929,900	100%	113,030
June 30, 2006	903,037	100%	113,112
Portsmouth Supplemental:			
June 30, 2008	2,157,687	102%	(285,457)
June 30, 2007	2,328,090	100%	(228,958)
June 30, 2006	2,086,290	100%	(233,031)
Portsmouth Fire and Police:			
June 30, 2008	9,812,923	102%	(59,524)
June 30, 2007	9,279,432	96%	163,943
June 30, 2006	8,586,020	98%	(205,789)

Funded Status of Pension Plans

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AAL) - Entry Age	Unfunded (Overfunded) AAL (UAAL)	Funded Ratio	UAAL as a Percentage Covered of Covered Payroll
CITY-ADMINISTERED PLANS:					
<i>Portsmouth Supplemental Retirement System:</i>					
7/1/2008	\$ 44,887,703	73,205,749	28,318,046	61%	\$ 3,830,883 739%
<i>Fire and Police Retirement System:</i>					
7/1/2008	\$ 99,468,964	210,696,128	111,227,164	47%	\$ 11,047,660 1007%
VIRGINIA RETIREMENT SYSTEM PLANS:					
<i>City of Portsmouth Employees:</i>					
6/30/2007	\$ 172,051,577	180,513,208	8,461,631	95%	\$ 63,792,347 13%
<i>School Board Nonprofessional Employees:</i>					
6/30/2007	\$ 24,480,702	27,907,908	3,427,206	88%	\$ 8,046,557 43%

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

Notes to Basic Financial Statements, Continued

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

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

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

Funding Policy. The contribution requirements of plan members and the City are established and may be amended by the City Council. The School Board has the authority to establish and amend the funding policy of their plan. The required contribution is based on projected pay-as-you-go financing requirements, with the potential for additional amounts to prefund benefits as determined annually by the City Council. For Fiscal Year 2008, the City contributed \$3,200,000 to the program, all for current premiums (approximately 64% of total premiums), and there was no additional prefunding contribution. Retired employees receiving benefits contributed \$1,812,027 (approximately 36% of total premiums) through required monthly contributions that vary from \$186.04 to \$759.02 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	\$ 14,981,028	486,533
Interest on net OPEB obligation	-	-
Adjustment to annual required contribution	-	-
Annual OPEB cost (expense)	14,981,028	486,533
Contributions made	3,200,000	858,028
Increase (decrease) in net OPEB obligation	11,781,028	(371,495)
Net OPEB obligation (asset) at beginning of year	-	-
Net OPEB obligation (asset) at end of year	\$ 11,781,028	(371,495)

The fiscal year ended June 30, 2008 was the first year for which an actuarially determined ARC has been calculated for the City of Portsmouth Retired Employees Health Care Program, so there is no prior year OPEB obligation, there is no interest or amortization adjustment of that obligation, and only a one year comparison of the City's OPEB contribution to ARC is presented.

Notes to Basic Financial Statements, Continued

The City's and School's annual OPEB cost, the percentage of annual OPEB cost contributed to the program, and the net OPEB obligation for Fiscal Year 2008 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

School Board

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2008	\$486,533	176%	\$(371,495)

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:						
6/30/2007	-	\$187,436,612	187,436,612	0.0%	77,011,285	243.4%
School Board:						
6/30/2006	-	\$ 4,531,972	4,531,972	0.0%	92,199,238	5%

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

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

Notes to Basic Financial Statements, Continued

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

(9) DEFERRED COMPENSATION PLAN

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

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

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

Individual fund interfund receivable and payable balances at June 30, 2008 are as follows:

Due from Other Funds	Due to Other Funds				Total
	Nonmajor Governmental Funds	Public Utility Fund	Parking Authority	Nonmajor Enterprise Funds	
General Fund	\$ 1,789,052	\$ 744,234	\$ 156,244	259,824	2,949,354

These interfund balances result from short-term operational borrowing and are due within one year. At June 30, 2008, the General Fund has a long-term advance receivable from Parking Authority in the amount of \$3,505,772 for repayment of debt service.

Notes to Basic Financial Statements, Continued

Due From/To Primary Government/Component Units

Amounts due at June 30, 2008 between the City and the Component Units are as follows:

Due From (To) Component Units	Primary Government		Total
	Economic Development Authority	School Board	
General Fund	\$ -	35,873	35,873
Capital Improvements	(602,758)	-	(602,758)
Nonmajor governmental funds	-	(89,480)	(89,480)
	\$ (602,758)	(53,607)	(656,365)

The Statement of Net Assets reflects \$35,873 as due from component units and \$692,238 as due to component units for a net due to component units of \$656,365 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, 2008 are as follows:

Transfers to:	Transfers from:					Total
	General Fund	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	Public Utility Fund	Internal Service Funds	
General Fund	\$ -	1,515,274	575,000	7,500,000	1,500,000	11,090,274
Capital Improvements Fund	2,600,000	2,237,877	-	-	-	4,837,877
Nonmajor governmental funds	8,620,274	62,303	-	-	-	8,682,577
Parking Authority	447,564	-	-	-	-	447,564
Total	\$ 11,667,838	3,815,454	575,000	7,500,000	1,500,000	25,058,292

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

Amounts due from other governments at June 30, 2008 are as follows:

Notes to Basic Financial Statements, Continued

	Federal	State	Total
Governmental activities:			
General Fund:			
Sales and use tax	\$ -	1,241,087	1,241,087
Personal property tax relief	-	9,862,962	9,862,962
Correctional facilities block grant	-	256,551	256,551
Constitutional officers' support	-	771,531	771,531
Other	-	13,833	13,833
Total General Fund	-	12,145,964	12,145,964
Nonmajor governmental funds:			
Community Services Act Fund	-	844,576	844,576
Social Services Fund	-	2,314,665	2,314,665
Grants Fund	666,639	90,158	756,797
Community Development Fund	288,890	-	288,890
Total nonmajor governmental funds	955,529	3,249,399	4,204,928
Total governmental activities	\$ 955,529	15,395,363	16,350,892

The Statement of Net Assets also reflects \$18,504 as due to other governments from a Nonmajor Governmental Fund.

(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:

Notes to Basic Financial Statements, Continued

	Governmental Funds				Total	Governmental Activities	Business-Type Activity- Parking Authority
	General Fund	Capital Improvements Fund	Nonmajor Governmental Funds				
Property taxes	\$ 7,550,365	-	-		7,550,365	-	-
Parking space rentals	-	-	-		-	-	51,905
Unearned grant revenue	-	-	4,000		4,000	4,000	-
Notes receivable	-	4,152	-		4,152	4,152	-
Stormwater fees	-	-	37,749		37,749	-	-
Total deferred and unearned revenues	\$ 7,550,365	4,152	41,749		7,596,266	8,152	51,905

(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 \$5,436,375 reported as landfill closure and postclosure care liability at June 30, 2008 represents the cumulative amount reported to date based on the use of 57 percent of the estimated capacity of the landfill. The City will recognize the remaining estimated cost of closure and postclosure care of \$4,582,201 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2008. 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, 2008 is \$45,895,000. 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

Notes to Basic Financial Statements, Continued

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, 2008.

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 exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City uses the Risk Management Fund and the Health Insurance Funds, internal service funds, to account for and finance its uninsured risks of loss and to pay insurance premiums. Under this program, the Risk Management Fund provides total coverage for worker's compensation claims and general liability claims, and a maximum of \$100,000 for each property damage claim. The City purchases commercial insurance for claims in excess of coverage provided by the fund for property damage. For the fiscal years ended June 30, 2008, 2007, and 2006, no individual property damage claim has exceeded \$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 \$14,093,327 (undiscounted) reported in the fund at June 30, 2008 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 \$3,302,065. A loss analysis, which included an estimate of incurred but not reported claims and claim adjustment expenses, was conducted by Oliver Wyman Actuarial Consulting, Incorporated as of June 30, 2008 to compute this liability.

Changes in the fund's claims liability amount in fiscal years 2008 and 2007 were:

		2008	2007
Risk management claims payable at beginning of year	\$	15,225,125	15,388,946
Risk management claims expense and changes in estimates		1,653,512	3,790,170
Risk management claims payments, net		(2,785,310)	(3,953,991)
Risk management claims payable at end of year	\$	14,093,327	15,225,125

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 \$150,000 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, 2008 is \$1,341,000 (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, 2008 to compute this liability.

Changes in the medical claim liability amount in fiscal years 2008 and 2007 were:

Notes to Basic Financial Statements, Continued

	2008	2007
Medical claims payable at beginning of year	\$ 1,218,000	1,581,000
Medical claims expense and changes in estimates	12,053,529	12,121,017
Medical claims payments	(11,930,529)	(12,484,017)
Medical claims payable at end of year	\$ 1,341,000	1,218,000

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, 2008 was determined to be \$1,969,691 (undiscounted), of which \$1,025,942 is due within one year.

Changes in the school's claim liability amount in fiscal years 2008 and 2007 were:

	2008	2007
Claims payable at beginning of year	\$ 2,246,477	2,759,322
Claims and changes in estimates	356,947	306,049
Claim payments	(633,733)	(818,894)
Claims payable at end of year	\$ 1,969,691	2,246,477

Notes to Basic Financial Statements, Continued

(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 \$5,370,801 at June 30, 2008. The deficit is expected to be eliminated by charging other City funds for risk management costs in subsequent fiscal years.

Following are the functional expenditure categories of the General Fund that had expenditures in excess of appropriations at June 30, 2008 and the amount of the excess:

Judicial	\$ 277,580
Public Safety	631,075
Public Works	441,108
Education	52,520

The Public Law Library Fund, a nonmajor governmental fund, had total expenditures in excess of appropriations at June 30, 2008 of \$2,750.