



October 30, 2006

The Honorable Mayor and  
Members of City Council  
City of Portsmouth  
Portsmouth, Virginia 23704

Dear City of Portsmouth, Virginia Citizens and Council Members:

We are pleased to present the Comprehensive Annual Financial Report of the City of Portsmouth, Virginia (the City) for the fiscal year ended June 30, 2006, in accordance with State statutes and City Code. This report was prepared by the City's Department of Finance in accordance with generally accepted accounting principles as set forth in the pronouncements of the Governmental Accounting Standards Board. In accordance with those guidelines, this report is presented in four sections, as follows:

- (1) Introductory Section - which contains the City's organizational structure, this Transmittal Letter and the Government Finance Officers Association's (GFOA) Certificate of Achievement for Excellence in Financial Reporting;
- (2) Financial Section - which consists of the independent auditors' report, management's discussion and analysis, the basic financial statements, including the notes to the basic financial statements, required supplementary information and supplementary information;
- (3) Statistical Section - which is unaudited and includes selected financial and general information presented on a multi-year comparative basis; and
- (4) Compliance Section - which is comprised of the independent auditors' reports on internal control and compliance with applicable laws and regulations as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, the Schedule of Expenditures of Federal Awards with related notes and the Schedule of Findings and Questioned Costs.

Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with City management. We believe the data as presented is accurate in all material respects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds; and, that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included.

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

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

The financial reporting entity includes all funds of the primary government (the City), as well as the component units for which the City is financially accountable. The Portsmouth School Board (School Board), the Economic Development Authority of the City of Portsmouth (Economic Development Authority or the EDA) and the Portsmouth Port and Industrial Commission (PPIC) are included in the report as discretely presented component units in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City and to differentiate their financial position and results of operations from that of the City. Each of these component units are administered by separate boards which are appointed by City Council or are elected by the general public as in the case of the School Board. Excluded are the financial statements of the Portsmouth Redevelopment and Housing Authority (PRHA). PRHA is associated with the City, but is a legally separate entity operating with considerable autonomy outside of the direct control of the Portsmouth City Council, and is not financially accountable to the City.

## **City Council Vision: Bold Leadership for the Future**

**Vision Statement:** In the year 2025, Portsmouth City Council has produced a progressive, responsive leadership team and community partnerships that have created unparalleled success. The City is nationally regarded for educational excellence, and economic prosperity. Our citizens are proud of themselves, their hometown, and their neighborhoods. Portsmouth City Council is recognized for involving all communities and citizens in its decision-making. Members of the City Council encourage and nurture new ideas from citizens, business leaders, and the faith-based community to embrace new ways to meet the challenges of the future.

The City has focused on moving the community forward by completing and implementing plans for many multi-year projects that will lead to the achievement of the Portsmouth City Council vision, which was adopted in January 2005. The vision contains six components, as follows:

***Bold New Leadership from the Portsmouth City Council and its partners has led to ...***

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

## **Bold New Directions**

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

Cross-departmental collaboration is directly responsible for movement on many City projects. These collaborative efforts for project management are orchestrated daily to ensure better management and inclusiveness of all necessary human resources to warrant success. The following projects are a direct reflection of the City's commitment to seek innovation and emerging technologies to succeed in the information and knowledge-based society: New Communications Center, GovMax Budgeting System, Human Services Collaboration, Meth Lab Standard Operating Procedures, Portsmouth Online Legislative Information Tracking and Intergovernmental Communications System, and WIFI across Downtown and the Main Library.

## **A Robust and Prospering Economy**

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

Prosperity implies financial performance. Although several financial objectives were met in fiscal year 2006, none was as important to the City's credit rating as achieving a General Fund undesignated fund balance of 18.5% of total revenues and transfers. The following section of this letter summarizes selected financial data that directly relates to the City's commitment to fiscal strength.

### ***General Fund Performance***

The growth in the City's tax base is a significant factor of economic and fiscal health. More than 70% of General Fund revenues are provided by general property and other local taxes. The assessed value of real property rose by \$531 million, or 13.4% during 2006. The assessed value of personal property rose by \$128 million, or 21% during 2006. These increases reflect the current national and regional trends of increasing values. This increase in assessment values is an extremely positive indicator in evaluating Portsmouth's local economy.

The General Fund accounts for all revenues and expenditures that are not accounted for in specific purpose funds. It finances the regular day-to-day operations of the City. A strong undesignated fund balance is an indication of financial flexibility and fiscal strength. The City's undesignated fund balance rose to over 18.5% of total revenues and transfers in fiscal year 2006.

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

Fiscal Year	General Fund Undesignated Fund Balance	General Fund Total Revenues & Operating Transfers	Ratio
2006	\$ 35,738,764	193,183,661	18.50%
2005	25,269,657	173,571,495	14.56%
2004	18,730,024	163,614,570	11.45%
2003	14,924,689	155,015,700	9.63%
2002	13,319,176	155,356,600	8.57%

### ***Cash Management***

The City uses a pooled cash concept to allow greater investment flexibility and maximize its return on investment. Cash from all funds, except those restricted for specific purposes or managed by fiscal agents, is pooled for investment purposes. Cash temporarily idle during the year was invested in overnight repurchase agreements and other investments ranging from one to thirty days to maturity. During fiscal year 2006 the City was able to manage its current resources to properly meet its operating cash requirements without issuing Revenue Anticipation Notes.

Additional information on the City’s financial status can be found in the Management’s Discussion and Analysis section of this report.

## **World Class Maritime Center**

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

### ***Maritime Summits***

The City has hosted a maritime summit each of the last two years with representatives from the business, education, government, technology, and military sectors of the maritime industry. The purpose of these summits is to brainstorm and develop integrated strategies and solutions for fully developing the vast potential of the City’s waterfront as a world-class maritime center.

### ***APM Terminals of Virginia***

In 2004 APM Terminals announced plans to build the country’s first major, privately owned shipping terminal on the Elizabeth River. The \$450 million terminal is the single largest private investment in Hampton Roads and the 8<sup>th</sup> largest in Virginia. Dredging began in late 2004, and construction of Phase I is expected to be completed in July 2007.

## Lifelong Learning Community

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

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

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

Fiscal Year	Operating Transfers to School Board	Education Debt Service Payments	Total Education Funding	Net Increase
2006	\$ 36,670,336	2,443,239	39,113,575	5,299,464
2005	31,352,585	2,461,526	33,814,111	2,931,017
2004	28,390,142	2,492,952	30,883,094	981,143
2003	27,379,813	2,522,138	29,901,951	1,405,726
2002	26,591,550	1,904,675	28,496,225	811,203

## Thriving Neighborhoods and a Sense of Community

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

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

As the core city of Hampton Roads, Portsmouth has expended considerable efforts and resources to revitalization. Since Portsmouth is surrounded by other independent cities, annexation is not possible; development and redevelopment are focused inside City limits. Consequently, the City has undertaken an asset management strategy of developing an inventory and analyzing the best and highest uses for the properties located within the City for potential development activities.

### ***Victory Village***

Victory Crossing is a reinvented 500-acre mixed-use development centrally located within Portsmouth at the intersection of Victory Boulevard, Greenwood Drive and I-264. This area includes a golf course, shopping center, business park, and residential development.

The 450,000 square foot Victory Crossing Shopping Center opened in mid-to-late 2002 on a 51-acre site formerly occupied by an obsolete mall. It was a public-private partnership and the first major shopping center to be developed in Portsmouth in nearly 20 years. The center is anchored by Lowe's Home Improvement Warehouse and Farm Fresh.

The Corporate Village at Victory is one of Portsmouth's largest developable tracts of land and the site of the second planned business park in the City. The 135-acre park will host Class A and B office buildings and Tidewater Community College's (TCC's) Portsmouth Campus, a state-of-the-art center of higher education for the 21<sup>st</sup> Century. TCC is expected to open in 2008 with a projected enrollment of 16,500 students upon completion of all phases of construction. Master developer, Victory Crossing Developers LLC, is responsible for designing, constructing and arranging financing for development of the park. Infrastructure improvements to the site are currently underway. Virginia Department of Transportation's improvements to Victory Boulevard, the primary corridor to the business park, began in late spring 2006 and will be completed in the spring of 2007.

Portsmouth Venture One, L.L.C., an entity related to L.M. Sandler & Sons, broke ground on the first phase of a 1,600 home community called New Port. Models opened in February 2006 and thirty homes have sold or are under contract for an average sales price of \$285,000. Instilling the standard of a traditional neighborhood design, New Port will offer a variety of housing styles from single-family homes to stylish town homes and condos. Complete build out on the 208-acre site is expected within five to seven years.

### ***PortCentre Commerce Park***

PortCentre Commerce Park is a 60-acre office and light industrial park located between I-264 and the Norfolk Naval Shipyard in downtown. The Economic Development Authority markets the park, which opened in 1987 on the former US Coast Guard Base.

In 1998, the Economic Development Authority completed construction on a 100,000 square foot speculative office/warehouse building located in the park. The building, known as PortCentre I, was an initiative by the EDA to spur additional development in PortCentre Commerce Park.

Since 2003, twelve businesses have announced plans to locate in the park representing \$19.1 million in capital investment creating 375 jobs. There is currently one building under construction. The Economic Development Authority is working to develop the last available site in the park.

There are 26 businesses located in the park employing over 1,000 people. Tenants include: the NBC and Fox affiliates WAVY 10/Fox 43, Neighbor Care, DACS, P&O Nedloyd, B&B Manufacturing, Premier Copper & Brass, and Wright's Engineering. Port Centre Commerce Park is also designated as a Federal Empowerment Zone, Foreign Trade Zone, and HUB Zone.

### *Westbury (formerly Ida Barbour)*

In October 1997, Portsmouth was one of 27 cities awarded a \$24.8 million Federal Hope VI grant to revitalize Ida Barbour, a 663-unit low-income housing community located on 41 acres in the downtown area of the City. The application was submitted by the PRHA. When complete, the new \$60 million mixed-income neighborhood, Westbury, will include 278 single-family homes and rental units. The final phases consisting of 99 homeownership and 59 rental units are currently under construction. This development, to be completed by 2007, will convert the property to a taxable status and is expected to yield annual tax revenue of \$400,000 upon completion. An additional 199 units will be added in conjunction with the Jeffrey Wilson Hope VI redevelopment project in the Midtown area of the city. Infrastructure for the first 57 units is scheduled to begin in September 2006, with completion by 2011.

## **Pride of Past, Promise of Future**

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

### *City's Comprehensive Plan – Destination 2025*

**Mission:** Setting a **Bold New Course** for the future through enlightened leadership, the City of Portsmouth shall become a **Community of Choice**. We shall attract citizens and businesses seeking to locate in a city that prides itself for quality lifelong learning, safe and attractive neighborhoods, progressive economic development, and cultural diversity in an historic and waterfront environment.

**Vision:** In the Year 2025, the City of Portsmouth is a **Community of Choice**. Our prosperity is the result of deliberate action by city leaders with foresight to set a **Bold New Course** for the future. The City is renowned for its **Learning Environment, Quality Neighborhoods, Healthy Economy, and Sense of Place**. The City and its citizens shall achieve this Vision by focusing its efforts in several key areas: Investing in People, Investing in Places, and Exercising Leadership.

The Destination 2025 Comprehensive Plan sets a clear direction for the City to follow as it charts a course to a positive future. This plan articulates a vision of the City in the year 2025 based on the expressed values and aspirations of the City's citizens. It provides the means to realize the vision through clear and consistent goals and policies and through specific action strategies that the City will take over time to achieve the desired future. The plan was developed through a two-year planning process that included extensive citizen involvement. The citizen involvement was received through a 25-member citizen committee, stakeholder interviews with civic leagues, neighborhoods, business interests, and community meetings. This input is reflected in the importance that the plan places on improving the quality of the City's education system, consistently identified by City residents and members of the committee as the highest priority for the City's future. In 2006, the City's Comprehensive Plan received the top state award from the Virginia Association of Planning.

## **Independent Audit**

State law requires that the financial statements of the City be audited by a certified public accountant selected by the City Council. An annual audit of the financial records and transactions of all funds, component units, and departments of the City has been performed by Cherry, Bekaert, and Holland, L.L.P., Certified Public Accountants for the fiscal year ended June 30, 2006.

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

## **Certificate of Achievement**

The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Portsmouth for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2005. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards for the preparation of a state and local government CAFR.

To be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. The City of Portsmouth has received a Certificate of Achievement for the last twenty-nine consecutive years (fiscal years 1977 through 2005). We believe our current CAFR continues to conform to the requirements of the Certificate of Achievement Program; therefore, we are submitting it to the GFOA.

## **Acknowledgments**

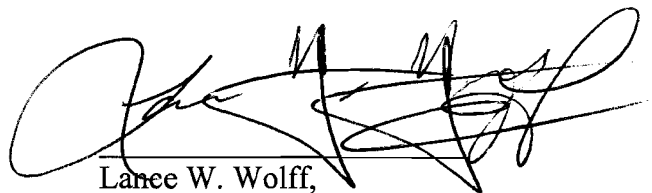
The City Council's support and cooperation in planning and conducting the financial operations of the City is acknowledged and appreciated.

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

Respectfully submitted,



James B. Oliver, Jr.,  
City Manager



Lance W. Wolff,  
Chief Financial Officer