



November 26, 2007

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, 2007, in accordance with State statutes and City Code. The City's Department of Finance prepared this report in accordance with generally accepted accounting principles as set forth in the pronouncements of the Governmental Accounting Standards Board. City management is responsible for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures. We believe the data as presented is accurate in all material respects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds; and, that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included.

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

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

**Office of the City Manager**

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

## **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 updated in November of 2006. 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 future in 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. Portsmouth has become the hometown of choice and a community of international reputation.

Our cross-departmental collaboration is vital in implementing this vision principle, and it 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 City closed this fiscal year with the implementation of our new performance management strategy, taking giant steps forward in the areas of project management and performance measurement. The City's commitment to seek innovation and emerging technologies to succeed in our information and knowledge-based society is evident in the following projects: MUNIS Financial Management System, POLITICS Legislative Tracking System, Mobile Fire Management Software, and City Law Case Management System.

## 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 generated significant private investment resulting in job creation, expanded tax revenue, one of the region's lowest real estate tax rates, along with an enviable bond rating.

Our degree of prosperity is one measure of making progress on achieving this vision principle; one can equate prosperity to improved financial performance. As a result of the demonstrated progress and continuous improvement reflected in the City's overall financial condition, the City maintained its double-A bond rating with all three credit rating agencies and was upgraded by Fitch on its credit watch to a stable outlook. This upgrade represents a major milestone for the City and will improve the marketability and reduce the cost of all future bond sales and issuances. 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. General property and other local taxes account for more than 73% of General Fund revenues. The assessed value of real property rose by \$1.14 billion, or 25% during 2007. The increase in assessment values is an extremely positive indicator in evaluating the health of 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 at June 30, 2007 represents 17.4% of total revenues and transfers, which exceeds the City's target of 15%.

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

Fiscal Year	General Fund Undesignated Fund Balance	General Fund Total Revenues & Operating Transfers	Ratio
2007	\$ 35,399,112	203,773,001	17.37%
2006	35,738,764	193,183,661	18.50%
2005	25,269,657	173,571,495	14.56%
2004	18,730,024	163,614,570	11.45%
2003	14,924,689	155,015,700	9.63%

## ***Cash Management***

The City uses a pooled cash concept to allow greater investment flexibility and maximize its return on investment. The City pools cash from all funds, except those restricted for specific purposes or managed by fiscal agents, for investment purposes. The City invests any temporarily idle cash in overnight repurchase agreements and other investments ranging from one to thirty days to maturity. During fiscal year 2007, the City was able to manage its current resources to properly meet its operating cash requirements without issuing Revenue Anticipation Notes.

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

## **World Class Maritime Center**

**Vision Principle:** As a historic waterfront city, Portsmouth is strategically located in the center of the eastern seaboard on the world's largest natural harbor at mile marker "0" on the intra-coastal waterway. The City boasts a world-class, inter-modal transportation system and is home to the world's largest container line and American's oldest naval shipyard. Portsmouth is the gateway to international shipping, hosting private and state operated shipping terminals with a worldwide reach. Our waterfront features a diverse, unique mixture of recreational boating, marinas, tours, and maritime support industries.

We are well underway to achieving this vision principle with the construction and opening of the new APM Terminals of Virginia, Inc (APM). The construction of the APM Terminals is the eighth largest project investment in Virginia. Along with its economic impact, this terminal will offer a host of environmental, safety, and security benefits through its innovative design and infrastructure. Some of these progressive benefits include the formation of 41 acres of wetlands and stormwater run-off ponds, a significant reduction in noisy and dangerous neighborhood truck traffic, and state-of-the-art security systems. The commitment symbolized in APM's investment truly shows that Portsmouth is a World Class Maritime Center.

## **Lifelong Learning Community**

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

In implementing this vision principle, 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
2007	\$ 42,683,991	2,432,447	45,116,438	6,002,863
2006	36,670,336	2,443,239	39,113,575	5,299,464
2005	31,352,585	2,461,526	33,814,111	2,931,017
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

### **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. We have transformed our neighborhoods into communities that promote and celebrate diversity, equity, and the inclusiveness of all citizens.

Our celebration of our rich cultural diversity is testimony to the City’s attention to achieving this vision principle. We celebrate Portsmouth’s rich cultural diversity 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 every where to celebrate its people, history, and future.

As one of the core cities of the Hampton Roads region, Portsmouth has expended considerable efforts and resources on revitalization. Because 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.

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

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

We implement this vision principle daily. We commemorate Portsmouth's rich historical diversity throughout the year in museum programs, library programs, festivals, concerts, and other ceremonies. Seasonal programs and entertainment punctuate the year, drawing neighbors, families, and guests from throughout the City, the region, and the world to celebrate Portsmouth's people, history, and future. The Path of History, a historic tour of Downtown and Olde Towne Portsmouth that tells the history of the City, had its official grand opening in May 2007. The interpretive path weaves together the story of Portsmouth by showcasing activities, personalities, landmarks, and the history that shaped the City.

### *A Community of Choice*

If City Council's Vision is a roadmap to Portsmouth's future, then the Destination 2025 Comprehensive Plan is its compass. Adopted in 2005, it establishes the long-range plan for future development, revitalization, and preservation of the City. A product of over two years of planning that included extensive involvement by citizens, community leaders, administrative staff, and consultants, Destination 2025 looks forward to the future with a renewed sense of confidence and optimism. The strategies for achieving these goals and policies set forth in the Plan are based on expressed values and aspirations of Portsmouth's citizens. In Destination 2025, Portsmouth is a community of choice, continuing its journey as a city renowned for its learning environment, quality neighborhoods, healthy economy, and for its unique character and sense of place.

### **Independent Audit**

State law requires that a certified public accountant selected by the City Council audit the City's annual financial statements. Cherry, Bekaert, and Holland, L.L.P., Certified Public Accountants performed this annual audit of the financial records and transactions of all funds, component units, and departments of the City for the fiscal year ending June 30, 2007.

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

### **Certificate of Achievement**

The Government Finance Officers Association (GFOA) awarded to the City of Portsmouth a Certificate of Achievement for Excellence in Financial Reporting for the City's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2006. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards for the preparation of a state and local government CAFR.

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

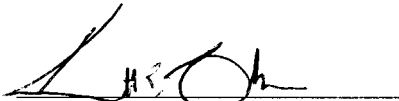
A Certificate of Achievement is valid for a period of one year. The City of Portsmouth has received a Certificate of Achievement for the last thirty consecutive years (fiscal years 1977 through 2006). We believe our current CAFR continues to conform to the requirements of the Certificate of Achievement Program; therefore, we are submitting it to the GFOA.

### **Acknowledgments**

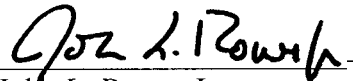
We sincerely appreciate the City Council's support and cooperation in planning and conducting the financial operations of the City.

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

Respectfully submitted,



Kenneth L. Chandler,  
City Manager



John L. Rowe, Jr.,  
Chief Financial Officer