

Notes to Basic Financial Statements

June 30, 2007

(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 included 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. All component units have a June 30 year-end. A description of the discretely presented component units follows:

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

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

Notes to Basic Financial Statements, Continued

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

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

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

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

Blended Component Unit

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

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

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

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

Notes to Basic Financial Statements, Continued

In the fund financial statements, financial transactions and accounts of the City are organized on the basis of funds. The operation of 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. The nonmajor funds are combined in a single column in the fund financial statements and detailed in the combining statements. The fund statements are presented on a current financial resources measurement focus and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental activities column, a reconciliation is presented which briefly explains the adjustments necessary to reconcile the fund financial statements to the governmental activities column of the government-wide financial 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.

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.

Notes to Basic Financial Statements, Continued

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. Fiduciary funds are not included in the government-wide financial statements.

Reconciliation of Government-wide and Fund Financial Statements

A summary reconciliation of the difference between total fund balances as reflected on the governmental funds Balance Sheet and total net assets for governmental activities as shown on the government-wide Statement of Net Assets is presented in a schedule accompanying the governmental funds Balance Sheet. A summary reconciliation of the differences between net change in total fund balances as reflected on the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances, and the change in net assets for governmental activities as shown on the government-wide Statement of Activities, is presented in a schedule accompanying the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances.

Notes to Basic Financial Statements, Continued

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. Basis of Accounting

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. Long-term assets and long-term liabilities are included in the government-wide statements. 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.

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

The government-wide financial statements (i.e., Statement of Net Assets and Statement of Activities) 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 are 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.

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.

Notes to Basic Financial Statements, Continued

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 2007 was \$1.36 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 2007, 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, \$.01, \$1.45, and \$1.50 per \$100 of assessed value, respectively.

E. Allowance for Uncollectibles

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

Governmental Activities:

General Fund:	
Allowance for taxes receivable	\$ 2,619,448
Allowance for doubtful accounts receivable	438,242
<u> Total General Fund</u>	<u>3,057,690</u>
Special Revenue Fund - Stormwater Management Fund -	
Allowance for doubtful accounts receivable	225,735
<u>Total governmental activities</u>	<u>\$ 3,283,425</u>

Business-Type Activities - allowance for doubtful accounts receivable:

Enterprise Funds:	
Public Utility Fund	\$ 732,163
Portsmouth Parking Authority	1,385
Waste Management Fund	513,846
<u>Total business-type activities</u>	<u>\$ 1,247,394</u>

Component Units - allowance for doubtful accounts receivable:

Portsmouth School Board	\$ 200,000
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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

Notes to Basic Financial Statements, Continued

income from the pooled monies has been allocated to the respective funds based on the pooled cash balances of each fund at the end of each month. For purposes of the statement of cash flows, investments with original maturities of three months or less from date of purchase are considered cash equivalents and are reported as cash and temporary investments.

G. Investments

Investments are carried at fair value. Fair value is determined by quoted market prices. Investments in corporate bonds and commercial paper are valued at amortized cost if the maturity date is less than one year.

H. Inventories

Inventories consist of expendable materials and supplies held for future consumption and are valued at cost using the first-in, first-out (FIFO) basis. All inventories are recorded under the purchases method, as expenditures or expenses when purchased, rather than when consumed.

I. Capital Assets

Capital assets and improvements include substantially all land, buildings, equipment, water distribution and sewage collection systems, and other elements of the City’s infrastructure having a useful life of more than one year with a cost of more than \$5,000 with the exception of infrastructure assets, which have a threshold of \$100,000. Capital assets, which are used for general governmental purposes and are not available for expenditure, are accounted for and reported in the government-wide financial statements. Infrastructure elements include the roads, bridges, curbs and gutters, streets and sidewalks, parkland and improvements, and tunnels.

Capital assets are generally stated at historical cost, or at estimated historical cost based on appraisals or on other acceptable methods when historical cost is not available. Donated capital assets are stated at their fair market value as of the date of the donation. Capital leases are classified as capital assets in amounts equal to the lesser of the fair market value or the present value of net minimum lease payments at the inception of the lease. Accumulated depreciation and amortization are reported as reductions of fixed assets.

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

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

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,

Notes to Basic Financial Statements, Continued

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.

J. 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.

K. Estimates and Assumptions

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

(2) EQUITY

The fund equity balances have been classified to reflect the limitations and restrictions placed on the respective funds. Reserved fund balance represents that portion of fund balance not available for appropriation or expenditure. Designated fund balance represents amounts that are tentatively planned for financial resource utilization in a future period. Undesignated fund balance represents the remainder of the City's equity in governmental fund type fund balances. Fund balances reserved at June 30, 2007 are composed of the following:

	General Fund	Capital Improvements	Other Nonmajor
Current year encumbrances	\$ 1,149,250	10,080,654	1,707,183
Advances	3,841,607	-	-
Revenue maximization	-	-	204,358
Inventory	78,194	-	-
Cemetery care	-	-	1,000,000
	\$ 5,069,051	10,080,654	2,911,541

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

At June 30, 2007, the carrying value of the City's deposits with banks and savings institutions was \$4,095,094 and includes \$100,070 in the fiduciary funds. All cash of the City except petty cash of \$43,857 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, 2007 restricted cash totaled \$31,057,910, which represents the City's unspent bond proceeds and related investment income.

Notes to Basic Financial Statements, Continued

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, 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, 2007, the City’s investment balances were as follows:

	Carrying Amount	Actual Credit Ratings	Required Credit Ratings	Average Days/Years to Maturity
SNAP investments	\$ 54,634,969	AAA	n/a	1 day
CCRF	33,020	AAA	n/a	1 day
Money market funds	68,550,714	A/AAA	n/a	1 day
	\$ 123,218,703			

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, 2007, the SNAP Fund’s investment portfolio as well as CCRF was comprised of investments which were, in aggregate, rated AAA 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

The City’s pension investments are 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 Supplemental Retirement System and Frank Russell Trust Company for the Portsmouth Supplemental Retirement System and the Portsmouth Fire and Police Retirement System. The City owns units in Russell’s commingled Employee Benefit Fund Trusts. The target allocation for all funds is 63% for equities, 26% for fixed income securities and 11% for alternative investments, which include real estate. 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.

Notes to Basic Financial Statements, Continued

At June 30, 2007, the fair value of the City's pension investments is as follows:

Fund Name	Investment Type	Weighted Average Maturity	Fair Value
Russell International Fund:			
Japanese Yen	Equity	1 day	\$ 3,332,355
Euro Dollar	Equity	1 day	6,895,509
Swiss Franc	Equity	1 day	1,457,985
Pound Sterling	Equity	1 day	3,538,590
Bermuda Dollar	Equity	1 day	212,314
Canadian Dollar	Equity	1 day	551,848
Cayman Dollar	Equity	1 day	64,162
Hong Kong Dollar	Equity	1 day	287,218
Australian Dollar	Equity	1 day	898,898
Netherland Antilles Guilder	Equity	1 day	83,362
Sweden Krona	Equity	1 day	290,615
Denmark and Norway Krone	Equity	1 day	260,166
Mexican Peso	Equity	1 day	278,849
Brazilian Real	Equity	1 day	237,770
Signapore Dollar	Equity	1 day	169,480
Taiwan Dollar	Equity	1 day	46,754
United States Dollar	Equity	1 day	1,184,057
South Korean Won	Equity	1 day	279,368
Chinese Yuan	Equity	1 day	90,200
Indian Rupee	Equity	1 day	56,914
Indonesian Rupiah	Equity	1 day	53,840
New Zealand Dollar	Equity	1 day	28,781
South African Rand	Equity	1 day	19,553
Turkey New Lira	Equity	1 day	17,722
Czech Republic Crown	Equity	1 day	14,367
Egyptian Pound	Equity	1 day	13,888
Malaysian Ringgit	Equity	1 day	7,866
Thailand Baht	Equity	1 day	4,670
Russia Ruble	Equity	1 day	1,742
Russell Multi-Manager Bond Fund	Fixed Income	5.7 years	36,609,186
Russell Large Cap Structured	Equity	1 day	28,770,131
Russell Equity I Fund	Equity	1 day	28,770,131
Russell Small Cap Fund	Equity	1 day	7,192,533
Russell Real Estate Equity Fund	Other	1 day	17,213,916
Russell Diversified Alternatives	Other	1 day	7,942,511
			\$ 146,877,251

Notes to Basic Financial Statements, Continued

Component Unit - School Board

All of the deposits of the School Board, a discretely presented component unit, of \$6,194,391 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 had \$19,370,000 invested in the Evergreen Money Market Fund, \$379,662 invested in Fidelity Treasury Fund, and \$4,064,765 invested in the American Government Obligation Fund as of June 30, 2007. These funds had a credit rating of AAAM by Standard & Poor's. The School Board has \$4,444,427 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 \$134,193. 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 \$800,731. 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, 2007 was as follows:

Primary Government - Governmental Activities	Balance, as restated, July 1, 2006	Additions	Deletions	Balance June 30, 2007
Capital assets not being depreciated:				
Land	\$ 23,662,254	-	6,275,013	17,387,241
Construction in progress	66,784,142	23,400,455	11,211,887	78,972,710
Total capital assets not being depreciated	90,446,396	23,400,455	17,486,900	96,359,951
Capital assets being depreciated:				
Infrastructure	457,752,880	9,129,084	-	466,881,964
Site improvements	1,436,092	-	-	1,436,092
Buildings	181,578,663	1,987,800	1,146,800	182,419,663
Machinery, furniture, and equipment	40,099,038	4,273,445	4,017,492	40,354,991
Total capital assets being depreciated	680,866,673	15,390,329	5,164,292	691,092,710
Less accumulated depreciation for:				
Infrastructure	(300,916,162)	(12,173,706)	-	(313,089,868)
Site improvements	(374,988)	(71,805)	-	(446,793)
Buildings	(54,097,451)	(3,978,415)	(1,022,032)	(57,053,834)
Machinery, furniture, and equipment	(24,205,097)	(3,395,661)	(3,837,606)	(23,763,152)
Total accumulated depreciation	(379,593,698)	(19,619,587)	(4,859,638)	(394,353,647)
Total capital assets being depreciated, net	301,272,975	(4,229,258)	304,654	296,739,063
Governmental activities capital assets, net	\$ 391,719,371	19,171,197	17,791,554	393,099,014

As discussed in note 18, the beginning balance of net assets for governmental activities has been restated.

Under Virginia Law, certain property, with a net book value of \$61,711,548 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.

Notes to Basic Financial Statements, Continued

Depreciation expense was charged to functions as follows:

General government	\$ 1,137,229
Judicial	403,744
Public safety	991,177
Public works	12,429,554
Health and welfare	521,907
Parks, recreation and cultural	487,421
Community development	6,989
Education	1,720,489
<hr/>	
Total governmental funds	17,698,510
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.	
	1,921,077
<hr/>	
Total governmental activities	\$ 19,619,587

Notes to Basic Financial Statements, Continued

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

	Project Authorization	Expended to June 30, 2007	Commitments
Victory Boulevard	\$ 12,363,250	7,031,968	3,560,840
Midtown redevelopment acquisition	6,814,986	6,769,321	4,014
Downtown Crawford roundabout	2,200,000	1,952,789	99,293
Midtown Corridor	2,700,000	19,500	90,500
Victory Elementary School	3,325,496	2,500,000	-
Tower Mall redevelopment	5,558,000	5,130,801	47,142
New library joint with Suffolk	6,747,590	1,325,417	209,702
Drainage facilities repair	9,554,087	8,588,478	344,379
Behavioral Health building	4,529,003	37,882	-
City / Schools joint financial management system	2,936,486	1,723,956	1,232,485
Port Industrial Infrastructure	1,000,000	476,059	6,731
City Hall repairs	4,292,500	4,266,143	4,711
Computerized traffic signals	3,599,060	3,597,613	12
PAC Ntelos pavilion	3,435,467	3,287,158	104,723
Churchland High School - air quality	3,616,307	3,158,224	407,110
Parkview School	14,803,358	4,623,429	-
New courts complex	4,500,000	1,002,297	2,412,990
Lee Avenue improvements	2,500,000	1,037,543	-
Simonsdale Street improvements	2,293,131	2,290,175	2,909
Highland Biltmore improvements	2,857,000	1,883,347	15,058
Cavalier Boulevard drainage improvements	2,700,000	2,084,332	752,011
Frederick Boulevard/ Bart St.	1,878,586	1,793,738	-
Roof / mechanical renovation	3,957,293	802,764	-
Civic Center specifications	1,909,453	1,881,280	16,656
Substructure painting - London Boulevard Bridge	1,759,217	1,657,121	6
Bridge repairs	1,697,985	1,317,560	30,595
Renovations to various buildings	1,558,693	1,501,136	2,097
McLean Street / Cavalier Boulevard	1,500,000	-	-
Children's Museum expansion	1,681,060	1,295,276	35,136
Various projects under \$1,000,000 each	10,776,612	5,937,403	306,975
	\$ 129,044,620	78,972,710	9,686,075

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 \$10,080,654 have been reserved for encumbrances for capitalizable and noncapitalizable expenditures in the capital improvements fund.

Primary Government - Business-Type Activities	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Capital assets not being depreciated:				
Land	\$ 15,211,274	137,300	-	15,348,574
Construction in progress	70,035,598	10,476,309	4,571,430	75,940,477
Total capital assets not being depreciated	85,246,872	10,613,609	4,571,430	91,289,051
Capital assets being depreciated:				
Buildings	22,297,714	668,154	-	22,965,868
Improvements other than buildings	146,123,742	1,065,020	-	147,188,762
Machinery, furniture, and equipment	13,221,597	6,082,559	798,157	18,505,999
Total capital assets being depreciated	181,643,053	7,815,733	798,157	188,660,629
Less accumulated depreciation for:				
Buildings	(9,233,000)	(554,931)	-	(9,787,931)
Improvements other than buildings	(56,215,827)	(2,902,927)	-	(59,118,754)
Machinery, furniture, and equipment	(8,281,036)	(1,067,315)	(607,264)	(8,741,087)
Total accumulated depreciation	(73,729,863)	(4,525,173)	(607,264)	(77,647,772)
Total capital assets being depreciated, net	107,913,190	3,290,560	190,893	111,012,857
Business-type activities capital assets, net	\$ 193,160,062	13,904,169	4,762,323	202,301,908

Notes to Basic Financial Statements, Continued

**Primary Government -
Major Enterprise Funds**

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
<u>Public Utility Fund</u>				
Capital assets not being depreciated:				
Land	\$ 186,779	137,300	-	324,079
Construction in progress	70,035,598	10,476,309	4,571,430	75,940,477
Total capital assets not being depreciated	70,222,377	10,613,609	4,571,430	76,264,556
Capital assets being depreciated:				
Buildings	67,864	668,154	-	736,018
Improvements other than buildings	141,304,575	1,065,020	-	142,369,595
Machinery, furniture, and equipment	6,165,284	4,587,304	144,696	10,607,892
Total capital assets being depreciated	147,537,723	6,320,478	144,696	153,713,505
Less accumulated depreciation for:				
Buildings	(56,017)	(2,076)	-	(58,093)
Improvements other than buildings	(52,450,240)	(2,837,823)	-	(55,288,063)
Machinery, furniture, and equipment	(4,720,806)	(366,790)	(137,822)	(4,949,774)
Total accumulated depreciation	(57,227,063)	(3,206,689)	(137,822)	(60,295,930)
Total capital assets being depreciated, net	90,310,660	3,113,789	6,874	93,417,575
Public utility capital assets, net	\$ 160,533,037	13,727,398	4,578,304	169,682,131
<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	-	-	242,609
Machinery, furniture, and equipment	431,083	-	-	431,083
Total capital assets being depreciated	19,341,602	-	-	19,341,602
Less accumulated depreciation for:				
Buildings	(7,548,047)	(431,892)	-	(7,979,939)
Improvements other than buildings	(187,669)	(17,608)	-	(205,277)
Machinery, furniture, and equipment	(158,327)	(12,591)	-	(170,918)
Total accumulated depreciation	(7,894,043)	(462,091)	-	(8,356,134)
Total capital assets being depreciated, net	\$ 12,127,239	(462,091)	-	11,665,148

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, 2007	Commitments
Public Utility Fund:			
Lake Kilby-Pilot testing program	\$ 18,492,301	18,475,739	-
Lake Kilby raw water pumping station	4,051,000	227,689	423,692
Miscellaneous sewer improvements	1,662,500	1,654,852	7,261
Infrastructure improvements	24,669,500	18,736,922	1,784,808
Godwin Street reservoir replacement	10,896,371	9,711,355	710,042
Drought emergency water main	4,838,287	4,838,287	-
Replacement of water plant equipment	5,228,213	2,469,872	1,254,263
Water plant residuals management and disposal	4,433,500	4,331,891	40,341
Miscellaneous water improvements	1,283,615	800,604	124,901
Sewer cave-in repair	2,223,762	1,251,916	184,703
Camden Avenue sewer rehabilitation	2,070,000	1,161,867	22,895
Suction well rehabilitation	3,196,290	1,957,403	140,452
Meter replacement program	1,022,000	39,466	-
Sanitary sewer overflow elimination	1,850,000	124,384	90,397
Downtown master utility	2,500,000	74,985	444,570
Various projects under \$1,000,000 each	2,776,072	1,236,737	39,774
	\$ 91,193,411	67,093,969	5,268,099

In addition to the amount of \$67,093,969 shown above as expended to June 30, 2007, \$8,846,508 is included in construction in progress for capitalized interest, bringing total construction in progress to \$75,940,477. 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, 2007	Commitments
City Hall garage repairs	\$ 200,000	-	-

Notes to Basic Financial Statements, Continued

School Board Component Unit				
	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Capital assets not being depreciated:				
Land	\$ 6,337,645	-	-	6,337,645
Construction in progress	7,817,162	7,005,209	2,610,630	12,211,741
Total capital assets not being depreciated	14,154,807	7,005,209	2,610,630	18,549,386
Capital assets being depreciated:				
Buildings	50,444,635	5,235,555	-	55,680,190
Machinery, furniture, and equipment	16,344,413	1,496,701	667,903	17,173,211
Total capital assets being depreciated	66,789,048	6,732,256	667,903	72,853,401
Less accumulated depreciation for:				
Buildings	(26,610,893)	(1,109,460)	-	(27,720,353)
Machinery, furniture, and equipment	(9,323,536)	(2,011,632)	(667,903)	(10,667,265)
Total accumulated depreciation	(35,934,429)	(3,121,092)	(667,903)	(38,387,618)
Total capital assets being depreciated, net	30,854,619	3,611,164	-	34,465,783
School Board capital assets, net	\$ 45,009,426	10,616,373	2,610,630	53,015,169

Notes to Basic Financial Statements, Continued

(5) LONG - TERM DEBT

Details of Long-Term Indebtedness

At June 30, 2007, 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%	\$ 6,295,000
1997	Public Improvement Bonds	4.40 - 5.25%	9,485,000
1999	Qualified Zone Academy Bonds	0%	2,745,389
2001	Public Improvement Bonds	4.50 - 5.25%	10,159,843
2001	Qualified Zone Academy Bonds	0%	649,022
2001	Virginia Public School Authority Bonds	4.10 - 5.35%	2,536,161
2003	Public Improvement Refunding Bonds	3.00 - 5.00%	58,989,784
2004	BHS Lease Revenue Bonds	3.00 - 5.00%	4,499,068
2005	Public Improvement Bonds	3.50 - 5.00%	44,466,066
2005	Public Improvement Refunding Bonds	5.00 - 5.40%	19,005,231
2006	Virginia Public School Authority Bonds	4.20 - 5.1%	6,175,273
2006	Public Improvement and Refunding Bonds	4.10 - 5.0%	44,611,025
2006	Taxable Public Improvement Refunding Bonds	5.75%	8,196,862
Total general obligation bonds, net			217,813,724
General obligation notes payable			6,794,220
Obligations under capital leases			18,451,380
Literary loans			3,375,000
Compensated absences			7,136,422
Total governmental activities			\$ 253,570,746
Business-Type Activities			
General obligation bonds, net:			
1997	Public Utility Bonds	4.45 - 5.25%	2,219,517
2001	Public Utility Bonds	4.00 - 5.00%	2,964,165
2003	Public Utility Refunding Bonds	3.00 - 5.00%	28,735,815
2003	Public Improvement Refunding Bonds	3.00 - 5.00%	6,932,148
2005	Public Utility Bonds	3.50 - 5.00%	29,957,585
2005	Public Utility Refunding Bonds	3.25 - 5.00%	16,591,206
2005	Public Improvement Bonds	3.50 - 5.00%	7,081,272
2006	Public Utility Bonds	4.12 - 5.00%	17,514,322
Total general obligation bonds, net			111,996,030
Obligations under capital leases			2,218,783
Landfill closure and postclosure care			5,436,375
Compensated absences			739,794
Total business type-activities			\$ 120,390,982

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, 2007, the long-term indebtedness of Component Units consisted of the following:

	Amount Outstanding
School Board:	
Obligations under capital leases	\$ 8,083,189
Net pension obligation	113,030
Compensated absences	4,329,111
	\$ 12,525,330

Changes in Indebtedness

The following is a summary of changes in long-term indebtedness of the City for the year ended June 30, 2007:

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007	Due Within One Year
Primary Government - Governmental Activities:					
General obligation bonds, net	\$ 171,311,235	58,983,160	(12,480,671)	217,813,724	14,154,058
General obligation notes payable	7,980,000	6,794,220	(7,980,000)	6,794,220	-
Compensated absences	7,107,476	98,180	(69,234)	7,136,422	4,996,059
Cooperation agreements (note 6)	34,725,000	-	(34,725,000)	-	-
Literary loans	3,850,000	-	(475,000)	3,375,000	375,000
Capital leases (note 7)	18,949,199	2,212,695	(2,710,514)	18,451,380	3,128,816
Total Governmental Activities	\$ 243,922,910	68,088,255	(58,440,419)	253,570,746	22,653,933
Business-Type Activities:					
General obligation	\$ 98,372,700	17,514,322	(3,890,992)	111,996,030	4,368,259
Landfill closure and postclosure care	5,436,375	-	-	5,436,375	-
Compensated absences	790,221	18,775	(69,202)	739,794	739,794
Capital leases (note 7)	1,226,587	1,348,381	(356,185)	2,218,783	616,673
Total Business-Type Activities	\$ 105,825,883	18,881,478	(4,316,379)	120,390,982	5,724,726
Major Enterprise Funds:					
<i>Public Utility Fund</i>					
General obligation bonds, net	\$ 83,797,287	17,514,322	(3,328,999)	97,982,610	3,786,130
Compensated absences	389,748	12,639	(1,885)	400,502	400,502
Total Public Utility Fund	\$ 84,187,035	17,526,961	(3,330,884)	98,383,112	4,186,632
<i>Parking Authority</i>					
General obligation bonds, net	\$ 7,403,222	-	(269,805)	7,133,417	279,941
Compensated absences	33,419	-	(13,929)	19,490	19,490
Total Parking Authority	\$ 7,436,641	-	(283,734)	7,152,907	299,431

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 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, 2007 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, 2007:

	Balance, July 1, 2006	Increases	Decreases	Balance June 30, 2007	Due Within One Year
School Board:					
Capital leases	\$ 8,504,696	-	(421,507)	8,083,189	482,776
Net pension obligation	113,112	-	(82)	113,030	-
Compensated absences	4,153,236	1,715,332	(1,539,457)	4,329,111	1,540,000
Total School Board	\$ 12,771,044	1,715,332	(1,961,046)	12,525,330	2,022,776

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, 2007, there were \$3,045,000 of bonds that were authorized but unissued. As of June 30, 2007, the City's legal margin for additional debt is \$321,785,099.

Defeased Debt

In prior years, the City defeased certain general obligation public improvement, public utility, and port improvement bonds by placing funds in irrevocable escrow accounts 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, 2007, the outstanding balance of the defeased debt is \$60,705,000 of which \$26,160,000 is for the Public Utility Fund.

Debt Issued

- a. On August 24, 2006, the City issued \$63,540,000 of General Obligation and Refunding Bonds, Series 2006A with a net discount of \$6,640. The proceeds of the Series 2006A bonds were used to pay \$10,500,000 of public improvement bonds, \$17,325,000 of public utility bonds, and to advance refund \$34,725,000 of the Series 1999 revenue bonds of the Economic Development Authority of the City of Portsmouth in advance of their stated maturities. The refunded Economic Development Authority bonds had been an obligation of the City under a cooperation agreement as discussed in note 6.

Of the total amount of refunding payments made, \$36,133,012 was used to purchase U.S. Treasury Securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from general long term debt.

The advance refunding of the Series 1999 Revenue Bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1,408,012. This difference, reported in the accompanying government-wide financial statements as a deduction from bonds payable, is being amortized over the life of the new debt. The City completed the advance refunding to reduce its total debt service payments over the next 22 years by \$3,576,142 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,029,695.

Notes to Basic Financial Statements, Continued

- b. On August 24, 2006, the City issued \$8,095,000 of Taxable General Obligation Refunding Bonds, Series 2006B with a premium of \$101,862. The proceeds of the 2006B Bonds were used to refund \$2,530,000 of the outstanding balance of the City's General Obligation Note, Series 2004, and \$5,450,000 of the outstanding balance of the City's General Obligation Note, Series 2003. The City completed the current refunding in order to convert the interim financing (general obligation notes) to general obligation bonds, a more permanent form of financing. The refunding resulted in an increase in debt service over the next 10 years of \$2,694,198 and an economic loss (the difference between the present value of the debt service payments on the old and new debt) of \$107,123.
- c. On August 24, 2006, the City issued \$6,800,000 of General Obligation Notes, Series 2006C with a discount of \$5,780. The proceeds of the Series 2006C Notes will be used to pay the costs of various capital improvements, including but not limited to a new courts complex, the existing courts building, and the costs related to the temporary relocation of the courts.
- d. On November 9, 2006, the City issued \$6,009,753 of General Obligation Bonds Series 2006B from the Virginia Public School Authority with a premium of \$165,520. The proceeds will be used to pay capital costs for Parkview Elementary School.
- e. On December 12, 2006, the City amended the Master Lease agreement with Banc of America Public Capital Corp to increase the funding capacity for fiscal year 2007 by an additional \$500,000. In addition, the master lease agreement was extended through fiscal year 2009 for a total four-year spending cap of \$24,000,000.

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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, 2007 (except compensated absences and landfill closure and postclosure care) are as follows:

Governmental Activities

Fiscal Year Ending	General Obligation Bonds, net		General Obligation Notes		Literary Loans		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 14,154,058	9,967,917	-	255,000	375,000	67,500	3,128,816	1,381,510
2009	14,659,652	9,290,505	-	255,000	375,000	60,000	2,694,114	1,243,610
2010	14,919,525	8,657,995	6,794,220	127,500	375,000	52,500	2,270,681	1,113,516
2011	15,196,736	8,003,873	-	-	375,000	45,000	1,611,482	1,044,503
2012	15,478,037	7,329,718	-	-	375,000	37,500	1,005,485	992,264
2013 - 2017	62,535,397	27,153,261	-	-	1,250,000	100,000	3,882,847	3,735,622
2018 - 2022	34,605,037	14,730,794	-	-	250,000	5,000	3,857,955	1,005,667
2023 - 2027	28,116,770	7,781,112	-	-	-	-	-	-
2028 - 2032	18,148,512	1,714,391	-	-	-	-	-	-
	\$ 217,813,724	94,629,566	6,794,220	637,500	3,375,000	367,500	18,451,380	10,516,692

Business-Type Activities

Fiscal Year Ending	General Obligation		Capital Leases	
	Principal	Interest	Principal	Interest
2008	\$ 4,368,259	2,079,521	616,673	76,399
2009	4,504,120	4,884,948	484,124	55,359
2010	4,642,500	4,698,274	439,256	38,371
2011	4,803,793	4,501,787	389,774	22,430
2012	4,946,429	4,296,623	288,956	8,317
2013 - 2017	25,060,866	17,927,847	-	-
2018 - 2022	29,219,879	11,660,705	-	-
2023 - 2027	21,748,272	5,457,621	-	-
2028 - 2032	12,701,912	1,449,238	-	-
	\$ 111,996,030	56,956,564	2,218,783	200,876

Notes to Basic Financial Statements, Continued

(6) OBLIGATIONS UNDER COOPERATION AGREEMENTS

On March 1, 1999, the Economic Development Authority (EDA), a discretely presented component unit, issued \$39,270,000 of Revenue Bonds, Series 1999 (the bonds), net of \$380,639 of original issue discount, to construct a hotel, conference center, and parking garage. In lieu of providing upfront funding to the EDA to fund the cost of this project, the City and the EDA entered into a Cooperation Agreement in which the City agrees to contribute funds to the EDA, subject to appropriation by City Council and upon the request of the EDA, to pay annual debt service costs on the bonds. The bonds are limited obligations of the EDA payable solely from payments received by the EDA from the City under the terms of the Cooperation Agreement and from certain funds established under the Indenture. The payment of principal and interest on the bonds is additionally secured by the City Hall and the Civic Center, currently owned by the City, a leasehold interest which was conveyed by the City to the EDA for such purpose. The City maintains the right to use and operate such properties through a separate lease agreement. Accordingly, the City Hall and the Civic Center are being maintained in the City's capital assets and the obligation, equal to the amount of bonds outstanding, is reflected as long-term debt. As discussed in note 5, this cooperation agreement was refunded during fiscal year 2007. Therefore, the outstanding balance at June 30, 2007 was zero.

(7) LEASING ARRANGEMENTS**As Lessee**

The City leases certain land, buildings, equipment and vehicles under capital leases and certain facilities under operating leases that expire in years through 2022. 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	12,030,329	4,564,871
Less accumulated depreciation	(5,694,529)	(4,853,886)	(1,520,531)
Capital assets, net	\$ 13,866,889	7,176,443	3,044,340

The total amount of equipment acquired through a capital lease during fiscal year ended June 30, 2007, was \$3,561,076. Depreciation expense on leased assets was \$2,941,883 for the fiscal year ended June 30, 2007.

The present value of future minimum capital and operating lease payments of the City as of June 30, 2007 is as follows:

Fiscal Year Ending	Capital	Operating
2008	\$ 5,203,426	1,042,557
2009	4,477,207	857,000
2010	3,861,824	677,651
2011	3,068,189	454,196
2012	2,294,994	-
2013-2017	7,618,469	-
2018-2022	4,863,622	-
Total minimum lease payments	31,387,731	\$ 3,031,404
Less amount representing interest	(10,717,568)	
Present value of minimum capital lease payments	\$ 20,670,163	

Total governmental operating lease payments for the year ended June 30, 2007 were \$1,412,413.

Notes to Basic Financial Statements, Continued

As Lessor

The City has a long-term lease with Universal Maritime for real property that has been accounted for as an operating lease in the Port Facility and Economic Development Fund. The property, identified as the Universal Maritime Facility, is located in the Pinner's Point section of Portsmouth and is leased through October 2009.

Included in capital assets of the Port Facility and Economic Development Fund are the following amounts applicable to the operating lease:

	Port and Economic Development Fund
Land	\$ 1,830,251
Buildings	1,434,349
Improvements other than buildings	4,547,558
Less accumulated depreciation	(4,738,426)
Capital assets, net	\$ 3,073,732

Future minimum lease receipts under operating leases as of June 30, 2007 are:

Fiscal Year Ending	Operating
2008	\$ 580,000
2009	580,000
2010	193,333
Total minimum lease receipts	\$ 1,353,333

Rental income under these operating leases was \$580,000 for the year ended June 30, 2007.

(8) 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 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

Notes to Basic Financial Statements, Continued

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.

Payroll and Participants

The payroll at June 30, 2007 for employees covered by PSRS and FPRS and the total payroll for all City employees was as follows:

Payroll for employees covered by PSRS	\$ 4,354,212
Payroll for employees covered by FPRS	12,014,733
Total City payroll	79,948,205

Notes to Basic Financial Statements, Continued

Participation in the Portsmouth Supplemental Retirement System and the Fire and Police Retirement System consisted of the following as of July 1, 2007:

	PSRS	FPRS
Retirees and beneficiaries	357	511
Vested terminated employees not yet receiving benefits	65	72
Current vested employees	92	187
	514	770

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 2007 were \$2,324,017 and \$8,909,700 respectively. The annual required contributions of \$2,326,033 and \$9,277,615 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) 2.25% per year cost-of-living adjustments. The actuarial value of the City's assets is equal to the market value of assets. The net pension asset is recorded in the government-wide Statement of Net Assets.

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

	PSRS	FPRS
Annual required contribution	\$ 2,326,033	9,277,615
Interest on net pension asset	(18,642)	(16,463)
Adjustment to annual required contribution	20,699	18,280
Annual pension cost	2,328,090	9,279,432
Contributions made	2,324,017	8,909,700
Decrease in net pension asset	4,073	369,732
Net pension (asset) obligation at beginning of year	(233,031)	(205,789)
Net pension (asset) obligation at end of year	\$ (228,958)	163,943

Notes to Basic Financial Statements, Continued

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, 2007**

	PSRS	FPRS
Assets:		
Accounts receivable	\$ -	30,427
Investments:		
Common stock	27,922,092	58,713,204
Corporate bonds	2,882,497	6,064,313
Mortgage and mortgage-backed securities	5,086,759	10,701,729
U.S., state, and municipal government securities	3,334,653	7,015,577
Real estate	5,546,005	11,667,911
Alternatives	2,558,930	5,383,581
Total investments	47,330,936	99,576,742
Total assets	\$ 47,330,936	99,576,742
Net assets held in trust for pension benefits	\$ 47,330,936	99,576,742

Statement of Changes in Fiduciary Net Assets**Year Ended June 30, 2007**

	PSRS	FPRS
Additions:		
Contributions	\$ 2,324,017	8,909,700
Investment income -		
Net increase in fair value of investments	7,066,506	14,489,587
Less investment expense	(235,077)	(481,561)
Net investment income	6,831,429	14,008,026
Total additions	9,155,446	22,917,726
Deductions - benefits and refunds	6,809,216	14,417,735
Change in net assets	2,346,230	8,499,991
Net plan assets held in trust for pension benefits, beginning of year	44,984,706	91,076,751
Net plan assets held in trust for pension benefits, end of year	\$ 47,330,936	99,576,742

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

Notes to Basic Financial Statements, Continued

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 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, 2007 were 11.43% and 11.5% of the annual covered payroll, respectively.

Additionally, required and actual contributions to the VRS state-wide teacher pool for the current year and each of the two preceding years were \$10,830,686 and \$8,230,067 and \$7,308,906, respectively. These contributions represent contribution rates of 14%, 12%, and 11% respectively, of annual covered payroll.

Annual Pension Cost

For the fiscal year ended June 30, 2007, the City's annual pension cost of \$6,716,777, 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 \$929,900 was not equal to the School Board's required or actual contributions. The School Board's actual contributions were \$929,982. 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.

Notes to Basic Financial Statements, Continued

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	\$ 6,716,777	929,982
Interest on net pension obligation	-	8,483
Adjustment to annual required contribution	-	(8,565)
Annual pension cost	6,716,777	929,900
Contributions made	6,716,777	929,982
Increase in net pension obligation	-	(82)
Net pension obligation at beginning of year	-	113,112
Net pension obligation at end of year	\$ -	113,030

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
VRS - City:			
June 30, 2007	\$ 6,716,777	100%	\$ -
June 30, 2006	5,183,087	100%	-
June 30, 2005	4,786,372	100%	-
VRS - School Board:			
June 30, 2007	929,900	100%	113,030
June 30, 2006	903,037	100%	113,112
June 30, 2005	958,145	100%	112,951
Portsmouth Supplemental:			
June 30, 2007	2,328,090	100%	(228,958)
June 30, 2006	2,086,290	100%	(233,031)
June 30, 2005	1,679,946	94%	(234,509)
Portsmouth Fire and Police:			
June 30, 2007	9,279,432	96%	163,943
June 30, 2006	8,586,020	98%	(205,789)
June 30, 2005	8,546,261	97%	(336,615)

(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.

Notes to Basic Financial Statements, Continued

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

Individual fund interfund receivable and payable balances at June 30, 2007 are as follows:

Due from Other Funds	Due to Other Funds		
	Nonmajor Governmental Funds	Parking Authority	Total
General Fund	\$ 3,248,277	170,328	3,418,605

These interfund balances result from short-term operational borrowing and are due within one year. At June 30, 2007, the General Fund has a long-term advance receivable from Parking Authority in the amount of \$3,841,607 for repayment of debt service.

Due From/To Primary Government/Component Units

Amounts due at June 30, 2007 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	\$ 22,233	71,721	93,954
Capital Improvements	(241,088)	-	(241,088)
Nonmajor governmental funds	-	(104,075)	(104,075)
	\$ (218,855)	(32,354)	(251,209)

The Statement of Net Assets reflects \$93,594 as due from component units and \$345,163 as due to component units for a net due from component units of \$251,209 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, 2007 are as follows:

Transfers to:	Transfers from:				Total
	General Fund	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	Public Utility Fund	
General Fund	\$ -	24,539	1,150,000	7,900,000	9,074,539
Capital Improvements Fund	3,171,288	4,395,468	-	-	7,566,756
Nonmajor governmental funds	7,294,163	19,078	-	-	7,313,241
Parking Authority	447,564	-	-	-	447,564
Internal service funds	96,948	-	-	-	96,948
Total	\$ 11,009,963	4,439,085	1,150,000	7,900,000	24,499,048

Notes to Basic Financial Statements, Continued

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

Amounts due from other governments at June 30, 2007 are as follows:

	Federal	State	Total
Governmental activities:			
General Fund:			
Sales and use tax	\$ -	558,357	558,357
Personal property tax relief	-	9,862,962	9,862,962
Correctional facilities block grant	-	319,625	319,625
Constitutional officers	-	753,627	753,627
Other	-	8,046	8,046
Total General Fund	-	11,502,617	11,502,617
Nonmajor governmental funds:			
Community Services Act Fund	-	1,484,305	1,484,305
Social Services Fund	-	2,501,294	2,501,294
Grants Fund	685,103	67,893	752,996
Community Development Fund	257,767	-	257,767
Total nonmajor governmental funds	942,870	4,053,492	4,996,362
Total governmental activities	\$ 942,870	15,556,109	16,498,979

The Statement of Net Assets reflects \$17,351 as due to other governments and \$16,498,979 as due from other governments, for a net due from other governments of \$16,481,628.

(12) DEFERRED AND UNEARNED REVENUES

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

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

	Governmental Funds				Total	Business-Type	
	General Fund	Capital Improvements Fund	Nonmajor Governmental Funds	Governmental Activities		Parking Authority	
Property taxes	\$ 7,689,123	-	-	7,689,123	-	-	
Parking space rentals	-	-	-	-	-	43,148	
Notes receivable	-	4,152	-	4,152	4,152	-	
Stormwater fees	-	-	12,434	12,434	-	-	
Total deferred and unearned revenues	\$ 7,689,123	4,152	12,434	7,705,709	4,152	43,148	

Notes to Basic Financial Statements, Continued

(13) COMMITMENTS**Capital Improvement Program**

The City Council adopted a five-year Capital Improvement Program (CIP) on April 24, 2007, the total estimated cost of which amounted to \$303,381,029. The program is to be funded from anticipated State and Federal funds, general obligation and public utility bond issues, and funds on hand. The CIP does not represent a legal commitment to expend funds, and appropriations for projects contained in the CIP are made on a project by project basis. The CIP is prepared annually and funding sources are identified in the CIP for only one year at a time.

A summary of the source of funds for the first year of the proposed five-year capital improvement program is as follows:

General obligation bonds	\$ 18,000,000
General obligation notes	750,000
Public Utility bonds	16,727,000
Stormwater funds	2,237,878
Non-local funds	4,661,469
Other local funds	4,249,750
	\$ 46,626,097

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, 2007 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 2007. 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

Notes to Basic Financial Statements, Continued

sufficient funds to do so. The outstanding balance as of June 30, 2007 is \$47,035,000. The purpose of the Jail Authority is to operate a jail facility in the City to hold prisoners primarily from member jurisdictions and from other jurisdictions on a space available basis. The Jail Authority is governed by a twelve-member board consisting of three representatives from each member jurisdiction, namely the City Manager, the Sheriff, and one member of the City Council (as designated by the City Council). The agreement of the member jurisdictions to pay is not legally binding and is allocated as follows: Portsmouth, 21.43%; Hampton, 22.00%; Newport News, 25.14%; and Norfolk, 31.43%. No payments were made under the provisions of this agreement during the year ended June 30, 2007.

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, 2006, 2005, and 2004, 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 \$15,225,125 (undiscounted) reported in the fund at June 30, 2007 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 \$3,500,471. A loss analysis, which included an estimate of incurred but not reported claims, was conducted by Oliver Wyman Actuarial Consulting, Incorporated as of June 30, 2007 to compute this liability.

Changes in the fund's claims liability amount in fiscal years 2007 and 2006 were:

		2007	2006
Risk management claims payable at beginning of year	\$	15,388,946	16,921,682
Risk management claims expense and changes in estimates		3,790,170	1,195,406
Risk management claims payments, net		(3,953,991)	(2,728,142)
Risk management claims payable at end of year	\$	15,225,125	15,388,946

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, 2007 is \$1,218,000 (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, 2007 to compute this liability.

Notes to Basic Financial Statements, Continued

Changes in the medical claim liability amount in fiscal years 2007 and 2006 were:

	2007	2006
Medical claims payable at beginning of year	\$ 1,581,000	1,570,000
Medical claims expense and changes in estimates	12,121,017	13,703,872
Medical claims payments	(12,484,017)	(13,692,872)
Medical claims payable at end of year	\$ 1,218,000	1,581,000

Hospitalization Benefits for Retired Employees

Under administrative regulation, the City offers health care benefits to all retired employees and their dependents that choose to remain on the City's health insurance plans. As of June 30, 2007, 546 retired employees and their dependents were receiving these benefits. These benefits are included in the medical claims liability above. The City contributes to the costs of the retiree health care.

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, 2007 was determined to be \$2,246,477 (undiscounted), of which \$1,281,648 is due within one year.

Changes in the school's claim liability amount in fiscal years 2007 and 2006 were:

	2007	2006
Claims payable at beginning of year	\$ 2,759,322	2,362,185
Claims and changes in estimates	306,049	1,390,549
Claim payments	(818,894)	(993,412)
Claims payable at end of year	\$ 2,246,477	2,759,322

(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 this organization does not extend beyond making these appointments.

The City Council is responsible for appointing members of the board of the New Port Community Development Authority, but the City's accountability for this organization does not extend beyond making these appointments.

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

The Social Services Fund has an accumulated deficit fund balance of \$427,932 at June 30, 2007. The deficit is expected to be eliminated through transfers from the General Fund in subsequent fiscal years.

The Recreation Fund has an accumulated deficit fund balance of \$1,932 at June 30, 2007. The deficit is expected to be eliminated through revenue recoveries in subsequent fiscal years.

The Health Insurance Fund has an accumulated net asset deficit balance of \$845,787 at June 30, 2007. The deficit is expected to be eliminated by charging other City funds for health insurance costs in subsequent fiscal years.

Notes to Basic Financial Statements, Continued

The Risk Management Fund has an accumulated net asset deficit balance of \$9,805,233 at June 30, 2007. The deficit is expected to be eliminated by charging other City funds for risk management costs in subsequent fiscal years.

The public safety function in the General Fund had expenditures in excess of appropriations of \$703,117 at June 30, 2007.

(18) RESTATED BEGINNING BALANCES

In prior fiscal years, certain infrastructure improvements should have been capitalized. As a result, the beginning net assets for governmental activities for fiscal year 2007 have been restated as follows:

Net assets, beginning of year	\$ 212,835,769
Construction in progress	4,787,938
Net assets, beginning of year, as restated	\$ 217,623,707

In fiscal years 2005 and 2006, the Parking Authority overstated parking ticket revenue by \$51,767. As a result, the beginning net assets for fiscal year 2007 have been restated as follows:

Parking Authority:	
Net assets, beginning of year	\$ 757,202
Restatement related to overstated revenue	(51,767)
Net assets, beginning of year, as restated	\$ 705,435
Business-type Activities:	
Net assets, beginning of year	\$ 128,335,810
Restatement related to overstated revenue	(51,767)
Net assets, beginning of year, as restated	\$ 128,284,043