



***INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
COMMONWEALTH OF VIRGINIA'S LAWS, REGULATIONS,
CONTRACTS AND GRANTS***

Honorable Mayor and City Council
City of Portsmouth, Virginia

We have audited the basic financial statements of the City of Portsmouth, Virginia (the "City"), as of and for the year ended June 30, 2008, and have issued our report thereon dated December 5, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of the Commonwealth of Virginia's laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, the objective of our audit of the basic financial statements was not to provide an opinion on overall compliance with such provisions, and, accordingly, we do not express such an opinion.

The following is a summary of the Commonwealth of Virginia's laws, regulations, contracts, and grants for which we performed tests of compliance:

Code of Virginia

- Budget and Appropriation Laws
- Cash and Investments
- Conflicts of Interest Act
- Retirement Systems
- Debt Provisions
- Procurement
- Unclaimed Property Act

State Agency Requirements

- Education
- Highway Maintenance Funds
- Social Services
- Comprehensive Services Act Funds

The results of our tests disclosed no instances of noncompliance with the provisions referred to in the preceding paragraph, with exception of unexpended special welfare and dedicated funds not being returned to individuals who leave the agency's custody, refunded to applicable funding sources, or escheated to the state. This is indicated in the accompanying schedule of findings and questioned costs as state finding 2008-3. This finding is considered immaterial.

This report is intended solely for the information of City Council, management, the Auditor of Public Accounts and applicable state agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Cherry, Bekant & Holland, L.L.P.

Virginia Beach, Virginia
December 5, 2008