City of Norfolk, Virginia

2012

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

City of Norfolk, Virginia Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2012

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www.norfolk.gov

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Municipal Officials

Honorable City Council

President and Mayor	Paul D. Fraim
Vice Mayor	Anthony L. Burfoot
Member	Andrew A. Protogyrou
Member	Paul R. Riddick
Member	Thomas R. Smigiel
Member	Theresa W. Whibley, M.D.
Member	Angelia M. Williams
Member	Barclay C. Winn

City Manager
Marcus D. Jones

Assistant City Manager	Darrell V. Hill
Assistant City Manager	Sabrina Joy-Hogg
Assistant City Manager	Anne Odell
Assistant City Manager	Ronald H. Williams, Jr.

Director of Finance
Alice Kelly

City Assessor	Deborah K. Bunn, CAE
City Attorney	Bernard A. Pishko, Esquire
City Auditor	John H. Sanderlin, Jr., CPA
City Clerk	R. Breckenridge Daughtrey
City Treasurer	Thomas W. Moss, Jr.
Commissioner of the Revenue	Sharon M. McDonald
Director of Budget & Grant Management	Sabrina Joy-Hogg
Director of Civic Facilities	John S. Rhamstine
Director of Communications	Robert Batcher
Acting Director of Economic Development	Charles E. Rigney, Sr.
Director of Fire & Paramedical Services	Jeffrey Wise
Director of General Services	David S. Freeman, AICP
Director of Human Resources	Capri Stanley, CCP, PHR
Director of Human Services	Stephen Hawks
Director of Information Technology	David Sullivan
Office of Intergovernmental Relations	William Bryan Pennington, Jr.
Director of Libraries	Norman L. Maas
Director of Maritime Center (Nauticus)	Hank Lynch
Director of Planning & Community Development	Frank Duke, AICP
Director of Public Health	Demetria Lindsay, M.D.
Director of Public Works	John M. Keifer, P.E.
Director of Utilities	Kristen M. Lentz, P.E.
Police Chief	Michael Goldsmith
Registrar of Voters	Elisa J. Long

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Municipal Officials

JUDICIAL

Fourth Judicial Circuit Court

Chief Judge	Junius P. Fulton, III
Judge	Karen J. Burrell
Judge	John R. Doyle, III
Judge	Mary Jane Hall
Judge	Jerrauld C. Jones
Judge	Everett A. Martin, Jr.
Judge	Charles E. Poston
Judge	Louis A. Sherman
Clerk	George E. Schaefer, III

Norfolk General District Courts

Chief Judge	S. Clark Daugherty
Judge, Civil Division	Gwendolyn J. Jackson
Judge, Criminal Division	Ray W. Dezern, Jr.
Judge, Traffic Division	Bruce A. Wilcox
Judge	Joseph A. Migliozzi
Clerk	Thomas E. Baldwin

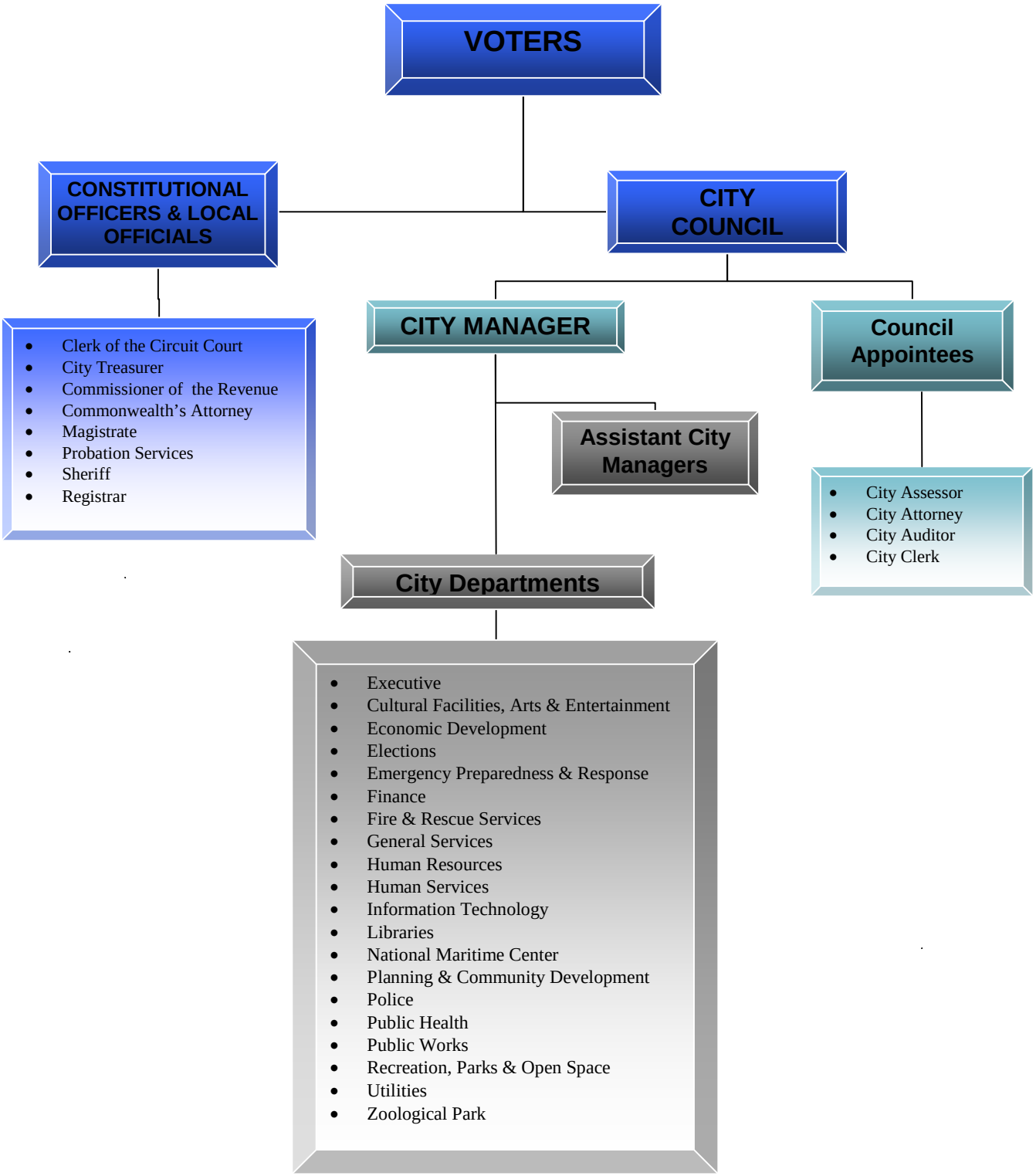
Norfolk Juvenile and Domestic Relations District Court

Chief Judge	Michelle J. Atkins
Judge	M. Randolph Carlson, II
Judge	Lauri D. Hogge
Judge	Joseph P. Massey
Judge	William P. Williams
Clerk	Debra A. Hill

Other Judicial Officials

Sheriff	Robert J. McCabe
Commonwealth's Attorney	Gregory D. Underwood

ORGANIZATIONAL CHART



City of Norfolk

Office of the City Manager

January 15, 2013

To the Honorable Council and
Citizens of Norfolk, Virginia:

The Comprehensive Annual Financial Report ("CAFR") of the City of Norfolk (the "City") for the fiscal year ended June 30, 2012, is hereby submitted. At the close of each fiscal year, State law and the City's charter require the City to publish a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States of America ("GAAP"). This report fulfills that requirement.

Management assumes full responsibility for the completeness and reliability of the information presented in this report based upon a comprehensive internal control framework designed both to protect the City's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the objective is to provide reasonable rather than absolute assurance that the financial statements are free from material misstatement.

KPMG LLP, a firm of licensed certified public accountants, has issued an unqualified opinion on the City's financial statements for the fiscal year ended June 30, 2012. The independent auditors' report is located in the financial section of the CAFR.

Management's Discussion and Analysis ("MD&A") immediately follows the independent auditors' report and provides a narrative introduction, overview and analysis of the basic financial statements. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The independent audit of the financial statements of the City was also part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the internal controls over financial reporting and on compliance and other matters and on compliance with requirements applicable to each major program and internal controls over compliance in accordance with OMB Circular A-133. These reports are available in the Other Reports of Independent Auditors section of this report.

Profile of the City

Norfolk is the business, financial, medical, educational and cultural center of southeast Virginia and home to an estimated 243,000 residents. Its 66 square miles lie at the mouth of the James, Elizabeth and Nansemond Rivers and the southern shores of the Chesapeake Bay, and are adjacent to the Atlantic Ocean and the cities of Chesapeake, Portsmouth and Virginia Beach. The waterways have been central to Norfolk's identity and an ongoing source of its financial stability, thanks to a major international port, significant military facilities and related businesses. Miles of bay, riverfront and lake shore provide ample recreational opportunities and are the centerpiece of dozens of historic neighborhoods. Norfolk has tapped into the nationwide demand for waterfront property by revitalizing older neighborhoods and creating new ones.

Profile of the Government

Norfolk was officially incorporated as a city in 1845. It is organized under a Charter, granted by the General Assembly of Virginia in 1918, which authorizes a council-manager form of government. It is authorized to exercise all powers conferred upon the City by the Commonwealth of Virginia in the State constitution, State laws and the Charter of the City of Norfolk. The City Council is composed of eight members. Seven members are elected through a ward system, and the Mayor is elected at-large. The Vice Mayor is elected by the City Council from among its members.

Among the City officials appointed by the City Council is the City Manager, the administrative head of the municipal government. The City Manager carries out policies of the City Council, directs business and appoints the "at-will" heads of departments and other employees of the City except those otherwise specifically covered by statutory provisions.

Cities in Virginia have jurisdiction over the entire area within their boundaries and operate independently from a county government. There are no overlapping jurisdictions; consequently citizens of a Virginia city are not subject to overlapping debt or taxation. Cities in Virginia are prohibited from annexation to adjust their boundaries.

The City provides a full range of services including: police protection; fire and paramedical services; public health and social services; planning and zoning management; neighborhood preservation and code enforcement; environmental storm water management; local street maintenance; traffic control; design and construction of public buildings and infrastructure; parks and cemeteries operations and maintenance; recreation and library services; solid waste disposal and recycling; general administrative services; water and wastewater utilities; and construction and operation of parking facilities. The City budget allocates State and Federal pass through funds for education, public health and other programs.

The City is financially accountable for a legally separate school district and the Norfolk Community Services Board (City Council appoints the board members). Effective July 1, 2012, the Norfolk Community Services Board became a department of the City. The City also has a financial relationship with Waterside Associates Limited Partnership, as it began providing direct assistance during the fiscal year ended June 30, 2011. Additional information on these entities can be found in Note I of the notes to the basic financial statements contained within this document.

Budget Process

The annual operating budget is proposed by the City Manager and adopted by City Council at least 30 days before the close of the previous fiscal year. The budget is prepared by fund (e.g., general, special revenue, capital projects), function (e.g., public safety) and department (e.g., police). Department heads may transfer funds within a departmental budget with approval from the City Manager or the Office of the Budget & Grants Management. The City Manager is authorized to transfer resources between any fund, department, or activity without further approval by City Council. The State mandates a balanced budget and the budget is regularly reviewed and periodically operational adjustments are made as needed.

Local Economy

While all economies continue to feel the effects of the global recession, many areas of the local economy remained healthy, supported in part by a strong and consistent military presence. However, the slow economic recovery presents financial challenges to provide funding for the wide variety of functions and services the City provides its citizens, business community and visitors. The region is experiencing job growth in some sectors. Unemployment for the region fell from 7.1 percent in September 2011 to 6.3 percent in September 2012, and the local unemployment rate fell from 8.4 percent in September 2011 to 7.6 percent in September 2012.

The presence and role of the military in Norfolk remains a positive force and continues to have a significant and stabilizing impact on the local economy. The City is home to the world's largest naval complex, with headquarters for U.S. Fleet Forces Command, Allied Command Transformation (ACT) – NATO and other major naval commands. According to information released by the U.S. Navy in October 2012, the Navy's direct economic impact on the region increased by approximately $1.5 billion, from approximately $13.4 billion in fiscal year 2010 to $14.9 billion in fiscal year 2011. More than 83,000 active-duty Navy military personnel were in Hampton Roads in 2011, of which approximately 59 percent were assigned to Norfolk. In addition, there were approximately 40,000 Navy civilian employees in Hampton Roads, of which approximately 49 percent were located in Norfolk in fiscal year 2011.

The City hosts the region's international airport, Norfolk International, which was designated as Virginia's first green airport. Served by American, Continental, Delta, Southwest, United Express and US Airways airlines, it has an average of 78 daily departures. The airport generates nearly 10,300 jobs and $1.1 billion in economic activity annually and in calendar year 2011, served nearly 3.2 million passengers and over 64 million pounds of cargo. The passenger count of 270,929 in September 2012 was an increase of 5% over September 2011, and 6.1 million pounds of cargo shipped through the airport in September 2012, an increase of 7% over September 2011.

The City also serves as a gateway between world commerce centers and the industrial heartland of the United States. With one of the world's largest natural deep-water harbors and a temperate climate, the Port of Virginia is an integral part of Norfolk's economy. On 648 acres, Norfolk International Terminals (NIT) is the Port of Virginia's largest terminal and one of the largest general cargo ports on the east coast. Over 15.6 million tons of cargo were shipped from the region's three main marine cargo terminals in calendar year 2011, an increase of 1.9 percent. Container traffic at the Port's Roads terminals jumped to 182,318 TEUs in September, an 11% increase from a year ago. The

port continues to be attractive to shippers as Norfolk Southern, a major Fortune 500 company headquartered in Norfolk, has completed its $313 million Heartland Corridor project which reduced more than 225 miles off (approximately one day) existing routes to the Midwest. A 2008 study by the College of William and Mary's Mason School of Business estimated the port's economic impact in Hampton Roads to be $12.3 billion in business revenue, plus $4.1 billion in compensation paid to approximately 100,000 workers. With containerized cargo expected to triple in the next 20 years, the 300-acre expansion of NIT's north berth doubled its cargo capacity, making it the largest inter-modal center in the country.

The City's new light rail system, Virginia's first light rail system, the Tide, began operation in August 2011, exceeding passenger count expectations. The Tide runs from the Eastern Virginia Medical Complex near Fort Norfolk to Newtown Road at the Virginia Beach city line. The Amtrak Virginia passenger rail line connecting Norfolk to Washington, D.C. via Petersburg and Richmond and continuing north to Boston began operation in December 2012. The estimated annual ridership is 67,000 passengers. This intercity passenger rail will soon be supported by a new passenger rail station, a $3 million project which will include a 3,500 square foot station. Construction began on The Downtown Tunnel/Midtown Tunnel/Martin Luther King Freeway (MLK) Extension in 2012. This $1.9 billion project is planned to take place over the next five years and involves State-backed outreach for Small, Women and Minority (SWAM) and disadvantaged businesses, as well as an on-the-job training program.

One of Norfolk's most exciting development projects is the conversion of the former Ford Motor Plant into the Virginia Renaissance Center. The property was purchased in March 2011 by the Atlanta-based Jacoby Group. Belgium-based Katoen Natie (KTN), a worldwide global logistics provider, invested $10.5 million to purchase a portion of the former Ford Plant from Jacoby and is refurbishing the 662,000-square-foot former body shop for the warehouse and distribution of plastic pellets. KTN will invest an additional $1.5 million in new equipment. Phase I of the project is expected to create 225 new jobs when fully staffed. KTN has also exercised their option to purchase an additional adjacent 25 acre site.

Two university research parks' efforts support the advancement of a multitude of innovative initiatives including simulation, materials, spaceport, coastal and physical oceanography, as well as applied collaborative projects with the private sector. The

City hosts several institutions of higher education including Old Dominion University, Norfolk State University, Eastern Virginia Medical School (EVMS), Virginia Wesleyan College and Tidewater Community College. All are continuing their campus expansions, most recently with the opening in September 2011 of the new research and education building at EVMS, featuring a modeling and simulation center.

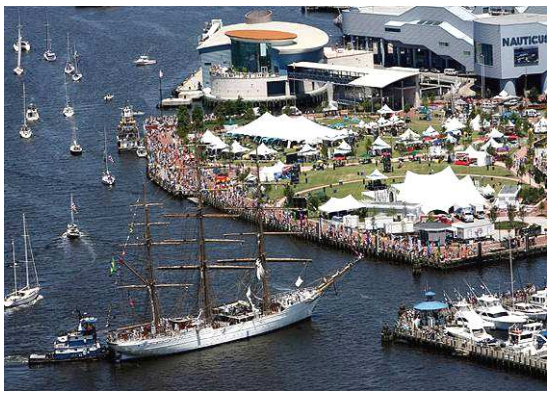
The City's major healthcare complexes provide premier services to all of southeastern Virginia and northeastern North Carolina. The region's first and only dedicated heart hospital, Sentara Heart Hospital, has been in operation since 2005 and is ranked nationally by U.S. News and World Report. Work has begun on a $126 million renovation to Sentara Leigh Hospital, which includes two five-story towers for inpatient rooms and a 48-bed orthopedic and rehabilitation center. The project, expected to be completed in 2016, is designed to increase the hospital's size by 40 percent. A new medical office building is planned for the Bon Secours DePaul medical campus. The $25 million, 105,000 square foot, four-story medical office building will be home to specialists and primary care physician practices. At the core of the facility will be a comprehensive cancer center, which will place state-of-the-art technology in the hands of cancer experts, enabling them to address the unique needs of those battling cancer. Occupancy is expected by fall of 2013.

Other industries located in Norfolk include financial and insurance institutions; professional and technical services; shipping companies (including the North American headquarters of two international firms); shipbuilders and repairers; and retail operations. Norfolk continues to expand the downtown to the west to meet the medical/research complex and has developed plans and is guiding continued private development of Fort Norfolk, a former waterfront warehouse district. Fort Norfolk Plaza, a 200,000 square foot medical building, opened in August 2010. In addition, the completion of the 22-story Wells Fargo Center in June 2010 introduced 249,000 square feet of Class A office space to downtown. With the recent move of AECOM to the Wells Fargo Center, downtown Class A vacancy rates are currently 13%, down from 15% a year ago. The Wells Fargo Center also includes Monticello Station, a new 121-unit apartment community, as well as new first-floor retail. A new Urban Outfitters store opened on Granby Street in September 2012, adding a major retail presence outside of MacArthur Center (shopping center located in the heart of downtown).

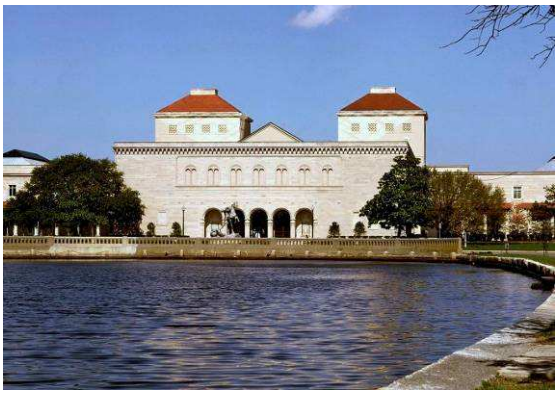
Economic activity is also occurring in other parts of the City. Several major retail projects are underway in the Wards Corner area, including an $18 million

redevelopment of Suburban Park Shopping Center with a new Harris Teeter flagship store to open in the spring/summer of 2014. Across the street at Midtown Shopping Center, a $1.2 million facelift includes all new storefronts and the demolition of the shopping center overhang. One of the most significant projects in 2012 was the announcement of the expansion of Amerigroup into the USAA Concourse Building at Lake Wright Executive Center. The $20 million investment will add approximately 1,900 employees to Norfolk by 2014. Also in 2012 Norfolk's East Beach community was the location of Homearama for the third time. In September 2012 Norfolk hosted the Urban Land Institute's Hampton Roads District Technical Advisory Panel, which studied the Military Highway corridor from I-264 to Virginia Beach Boulevard.

Norfolk's downtown harbor is accessible to pedestrians and features a mix of tourism, business and residential uses. The mix of downtown residential, cultural, recreational, and entertainment options has helped Norfolk attract and retain businesses. Town Point Park, located downtown on the harbor, has been a destination for the region and has hosted dozens of festivals, concerts and other events for over 25 years. The city is negotiating with the Cordish Company for the redevelopment of the Waterside Festival Marketplace.



Economic development initiatives are focused on the attraction, expansion and retention of businesses that play to the City's strengths: maritime, higher education, medical and research facilities, neighborhood and community revitalization and commercial corridor development. Under the City's plan to promote the highest and best use for scarce land, real property assessed values have doubled in the past decade. However, City-wide property valuations decreased 3.5 percent for the fiscal year ended June 30, 2012. The decline reflects the prolonged housing market slowdown, as experienced nationally and regionally.



Norfolk offers a mix of cultural attractions, entertainment, and recreational opportunities for residents, workers and tourists. Home to the Virginia Symphony, the Virginia Opera, the internationally acclaimed Virginia Arts Festival, and the Chrysler Museum, described by The New York Times as a collection "…any

museum in the world would kill for….” Norfolk is the cultural capital of Virginia and reinforces Norfolk’s stature as the regional hub. There have been many recent investments in cultural attractions and recreational opportunities.

The Chrysler Museum is currently undergoing a $24 million expansion, which will be completed in 2014. The Kroc Center, a $56 million state of the art community center located in the Broad Creek community, broke ground in October 2011. Norfolk is the newest city to have a Kroc Community Center, which is a program of the Ray and Joan Kroc Foundation and the Salvation Army. The Center is anticipated to open in spring 2013. Construction of the Colonel Samuel L. Slover Memorial Library, located downtown, began in early 2012. Designed to have the most technologically advanced programming available today, it will be supported by an endowment from the Batten Foundation when it opens in early 2014. The Governor’s School for the Arts, a regional secondary art school sponsored by the Virginia Department of Education and eight local public school districts, will consolidate its campus in downtown Norfolk into the historic 52,000 square foot Monroe Building. The consolidated campus will be home to over 360 students, faculty and staff. The MacArthur Memorial dedicated a new 16,000 square foot visitors center in 2012. Norfolk and the Port of Hampton Roads were chosen as one of only five ports to host the 2012 OpSail flotilla. Held in conjunction with the City’s annual Harborfest, the 2012 event was part of the commemoration of the bicentennial of the War of 1812 and the birth of “The Star Spangled Banner”. For the first time the U.S. Navy participated in their own parade of sails and events throughout the region depicting the history of the U.S. Navy.

Long-Term Financial Planning

The General Fund’s unassigned fund balance at June 30, 2012, was 6.83 percent of budgeted expenditures. Part of the City’s strategic planning process involves the development of a five-year operating budgetary forecast that projects growth of major tax and fee revenues, as well as major expenditures. That forecast serves as a planning tool when the City Manager presents the proposed annual budget to City Council. In conjunction with the five-year operating budget forecast, the City’s debt affordability practices guide the development of the five-year Capital Improvement Plan.

Major Initiatives

The City of Norfolk has many unique initiatives underway to support the City Council's vision to be "a national leader in the quality of life offered to all its residents." These initiatives help sustain Norfolk as a physically attractive, socially supportive and financially sound city.

Light Rail – Norfolk made history August 19, 2011, when it began operation of The Tide, Virginia's first light rail system. There are 11 stations along the 7.4 mile route, which links the City's employment centers, hospitals, colleges, entertainment and shopping centers. During opening weekend, The Tide serviced more than 75,000 riders. Twelve months and 1.7 million trips later, The Tide continues to exceed ridership and safety expectations. Initial projections for the first year of service put ridership at about 2,900 average weekday boardings. Today, The Tide records nearly double that, with about 5,040 average weekday boardings. The approximately $318.2 million system was funded through a combination of federal, state and local sources and is operated by the Hampton Roads Transit – which also operates the region's buses and ferries.

Public Amenities

- Upgraded Attractions – Using public funds to leverage private donations, the City continues with the development of the Slover Library Complex, which is being designed to be the most technologically advanced library in the country; and continues to make available to the public additional portions of the USS Wisconsin.

- Recreation Centers – The Southside Aquatic Center broke ground in October 2011 and is anticipated to open in spring 2013. This new facility will be approximately 20,000 square feet and will contain pools and water features for recreation, training and competitive swimming.

- Courts – Construction began in January 2012 on Norfolk's consolidated court complex. This project will be constructed in two phases, and the first phase will be completed in 2013. The new complex will house Juvenile and Domestic, Circuit and General District courts. It is designed to meet the City's courthouse needs for the next 50 years.

- Transportation – A train transfer station is being constructed at Harbor Park to compliment Amtrak services as part of the City's expanding transportation network.

Education – The City's capital improvement plan over the next five years includes the planning/construction/renovation of four schools. This will encompass the completion of Crossroads Elementary, two additional schools and the design and preliminary construction of a fourth school.

Ending Homelessness – Since launching a plan to end homelessness in 2005, the City has increased permanent supportive housing units for the homeless, including units dedicated to men and women with long-standing mental health problems; connected hundreds of homeless men and women to City, non-profit and business resources via the annual "Project Homeless Connect" event; and partnered with the faith community to mentor individuals trying to make the transition from homelessness to self-sufficiency. These deliberate actions have allowed the City to better protect our most vulnerable citizens.

Downtown – Recognizing that a thriving downtown requires not only buildings and businesses but residents, Norfolk uses a variety of tools to encourage private developers to expand residential offerings – ranging from townhomes to lofts and apartments in stand alone and mixed-use developments. The City's most recently completed development projects include the $170 million Wells Fargo Center, a high rise office tower complex with retail, luxury apartments and 1,850 parking spaces in two garages and the $70 million Fort Norfolk Plaza Medical Office building and garage, which includes 200,000 square feet of medical offices space, 19,000 square feet of retail space and 800 parking spaces.

Neighbors Building Neighborhoods (NBN) – This initiative promotes a new way of looking at neighborhoods – not as problems to be solved, but as assets to celebrate and grow. Founded on the importance of resident ownership and participation, NBN creates an environment where all members of the community work together to identify and mobilize the positive attributes of their neighborhood and promote it as a great place in which to live, work and invest.

Going Green – The City has continued its commitment to incorporate sustainable, "green," fiscally prudent practices in its municipal operations and in the design and construction of new buildings. The planned Consolidated Courts Complex and the Slover Memorial Library are being designed to be Leadership in Energy and Environmental Design (LEED) certified. The City also completed a $200,000 energy audit project that assessed the performance of 100 municipal buildings totaling 3.5 million square feet. To continue to monitor and evaluate energy conservation progress, the City purchased a new energy management software program. Other initiatives include a major energy efficiency upgrade of the City's central energy plant and lighting

and lighting control upgrades in City Hall. In addition, the City continues to expand and improve its tree canopy, adding two new Living Legacy tree groves through its Celebrate Trees program.

Recent Awards

The City of Norfolk has been recognized and has received awards from a variety of national and regional organizations. Some of these awards include:

- The Arbor Day Foundation named Norfolk "Tree City USA" for 2011. This is the 25th year that Norfolk has received this national recognition. The City's ongoing forestry efforts assist in providing our citizens with a high quality of life while furthering our environmental stewardship;
- Non-Profit KaBOOM named Norfolk a 2012 "Playful City USA" community. KaBOOM, dedicated to bringing play back into children's lives, selected Norfolk for creating and implementing programs that positively impact childhood wellness, public safety and quality of life;
- The City's Information Technology Department received the Governor's Commonwealth of Virginia Innovative Technology Symposium (COVITS) 2012 award in the category of 'Innovative Use of Technology in Local Government' for the STORM application;
- Liberty Mutual announced the City's Fire-Rescue Department as a winner in its 2011 Be Fire Smart Safety Pledge Program;
- The City's Department of Utilities received the Hampton Roads Sanitation District (HRSD) Gold Pretreatment Excellence Award for two of its water treatment plants for their exemplary permit compliance and outstanding pollution prevention measures in 2011; and
- The City received the Government Finance Officers Association of the United States and Canada's Distinguished Budget Presentation Award for its FY 2013 Budget.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada ("GFOA") awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Norfolk for its Comprehensive Annual Financial Report ("CAFR") for the fiscal year ended June 30, 2011. This was the 26th consecutive year that the City received this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe this CAFR continues to meet the program's requirements and are submitting it to the GFOA to determine its eligibility for another certificate.

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

City of Norfolk
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

Acknowledgements

The preparation of this report is a collaborative effort lead by the Department of Finance. Many employees especially the City Controller Bureau staff, and the enterprise controllers and fund accountants of various City activities, devoted significant hours to the effort and we express our appreciation to all members who assisted in and contributed to its preparation.

Credit also must be given to the City Council for their unfailing support for maintaining the highest standards of professionalism in the management of the City's finances.

Respectfully Submitted,

Marcus D. Jones
City Manager

Shenette C. Felton
Assistant Director of Finance & Controller

CITY OF NORFOLK, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2012

FINANCIAL SECTION

~ Independent Auditors' Report ~

~ Management's Discussion and Analysis ~
(Unaudited)

~ Basic Financial Statements ~

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Fund Financial Statements

Notes to the Basic Financial Statements

Required Supplementary Information

(Pension and OPEB Funding Progress and Budgetary Comparison Schedules)

INDEPENDENT AUDITORS' REPORT

KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

Independent Auditors' Report

The Honorable Members of City Council
City of Norfolk, Virginia:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Norfolk, Virginia (the City), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Specifications for Audits of Counties, Cities and Towns* (Specifications), issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Norfolk, Virginia, as of June 30, 2012, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2013 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 3 through 18, the schedules of revenue, and budgetary comparison schedules on pages 98 through 100, and the Schedule of Funding Progress on page 97, be presented to supplement the basic financial

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statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Nonmajor Governmental Funds Combining Statements and Schedules, Agency Fund Combining Statements and Schedules, Internal Service Funds Combining Statements and Schedules, and the Schedule of Expenditures of Federal Awards as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, listed in the Financial Section as Supplementary Information in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The Nonmajor Governmental Funds Combining Statements and Schedules, Agency Fund Combining Statements and Schedules, Internal Service Funds Combining Statements and Schedules, and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Nonmajor Governmental Funds Combining Statements and Schedules, Agency Fund Combining Statements and Schedules, Internal Service Funds Combining Statements and Schedules, and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole. The Introductory Section on pages i through xix and Statistical Section on pages 123 through 146 are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

KPMG LLP

January 15, 2013

MANAGEMENT'S DISCUSSION

AND ANALYSIS

(Unaudited)

The management of the City of Norfolk (the "City") provides this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2012. As readers, you are encouraged to read this discussion and analysis in conjunction with the transmittal letter and City's financial statement information included in this report. The intent of this discussion and analysis is to provide a summarized view of the City's financial performance as a whole; readers should also review the basic financial statements and supporting notes to enhance their understanding of the City's financial performance.

Financial Highlights

- The assets of the City, on a government-wide basis excluding component units, exceeded its liabilities at the close of fiscal year 2012 by $683,050,349 (net assets). Of this amount, $95,304,028 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors. Total net assets increased by $3,890,468 and unrestricted net assets increased by $27,499,609.

- As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of $243,593,795, an increase of $44,185,960 in comparison with the prior year. This increase was primarily attributable to the capital projects fund with the issuance of debt during the fiscal year which resulted in total proceeds of $122,734,890 (including premium) as well as reimbursement in the amount of $13,594,998 received from various sources for expenditures related to the light rail system. These increases were somewhat offset by capital outlays of $98,892,003. Approximately 22.3 percent or $54,338,476 is unassigned.

- The General Fund, on a current financial resources basis, reported a decrease in fund balance of $3,773,544. A decrease in fund balance was planned and approved in the adoption of the fiscal year 2012 budget. The City budgeted to use approximately $17.7 million in reserves, but due to the implementation of City-wide cost saving measures during the fiscal year only $3.8 million was needed. These cost saving measures will continue and positively impact fiscal year 2013.

- At the end of the current fiscal year, the total unassigned fund balance for the general fund was $54,338,476 or 6.83 percent of the general fund budget.

- The City's total outstanding bonded indebtedness increased by $11,989,269 during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The financial section of this report includes management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements are comprised of three components: 1) government-wide financials statements, 2) fund financial statements and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements – The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business. These statements include all of the government's assets and liabilities using the accrual basis of accounting. The *government-wide financial statements* are comprised of the Statement of Net Assets and the Statement of Activities.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are mainly supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their cost through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, highways and streets, sanitation, economic development, public health, and culture and recreation. The business-type activities of the City include Water Utility, Wastewater Utility and Parking Facilities enterprise activities.

The government-wide financial statements include not only the City itself (known as the primary government), but also the following legally separate component units for which the City is financially accountable: Norfolk Public Schools ("School Board"), Waterside Associates Limited Partnership ("Waterside Associates"), and the Norfolk Community Services Board ("CSB"). Financial information for these component units is reported

separately from the financial information presented for the primary government and can be found on pages 30 – 31 of this report.

Fund financial statements – A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. In the basic financial statements, the emphasis is on major funds. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of a fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers can better understand the long-term impact of the government's near-term financing decisions. A reconciliation between the government-wide financial statements and the fund financial statements is included as part of the basic financial statements.

The City maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and governmental fund statement of revenues, expenditures and changes in fund balance for the general, capital projects and debt service funds, all of which are considered major funds. All other governmental funds are combined in a single, aggregated presentation. Individual fund data for each of the non-major funds are presented separately in the form of combining statements elsewhere in this report.

The City adopts an annual budget for certain funds. To demonstrate compliance with this budget, budgetary comparison statements have been provided in this report.

The basic governmental fund financial statements can be found in pages 21 - 24 of this report.

Proprietary funds – The City maintains two types of proprietary funds: enterprise and internal service.

The enterprise funds are used to account for its Water Utility, Wastewater Utility and Parking Facilities operations. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements.

Internal service funds are an accounting mechanism to accumulate and allocate costs internally among the City's functions. The City has two internal service funds, Fleet Management and Storehouse operations. Because both of these services predominantly benefit governmental functions, they are included within the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements only in more detail. The proprietary fund financial statements provide separate information for the Water and Wastewater Utilities and the Parking Facilities operations, all of which are considered major funds. Conversely, the internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements in this report.

The basic proprietary fund financial statements can be found on pages 25 - 27 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. The fiduciary funds of the City include the City's pension trust fund, the Commonwealth of Virginia agency fund and other agency fund. Fiduciary funds are not included in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used in proprietary funds.

The fiduciary fund financial statements can be found in pages 28 - 29 of this report.

Notes to the financial statements – The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found beginning on page 32.

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension and other post-employment benefits to its employees. Required supplementary information can be found on pages 97 – 100 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented on pages 101 – 104 and 107 – 109, respectively, of this report.

Government-Wide Financial Analysis

Over time, net assets may serve as a useful indicator of the City's financial position. In the case of the City, assets exceeded liabilities by $683,050,349 at the close of fiscal year 2012.

By far, the largest portion of the City's net assets, $565,014,121 or 82.7 percent is its investment in capital assets (e.g., land, buildings, equipment, intangibles and infrastructure) less accumulated depreciation and amortization and less any related outstanding debt used to acquire those assets. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets, approximately 3.3 percent represent resources that are subject to external restrictions on how they may be used. The remaining balance of $95,304,028 of unrestricted net assets may be used to meet the City's ongoing obligations to citizens and creditors.

Summary of the City of Norfolk's Net Assets

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Current and Other Assets	$ 318,406,055	$ 282,652,755	$ 156,582,759	$ 180,250,695	$ 474,988,814	$ 462,903,450
Capital Assets	886,842,648	865,283,070	857,884,874	824,447,814	1,744,727,522	1,689,730,884
Total Assets	1,205,248,703	1,147,935,825	1,014,467,633	1,004,698,509	2,219,716,336	2,152,634,334
Long-Term Liabilities	827,080,879	758,614,075	641,426,072	643,368,366	1,468,506,951	1,401,982,441
Other Liabilities	51,021,259	52,654,476	17,137,777	18,837,536	68,159,036	71,492,012
Total Liabilities	878,102,138	811,268,551	658,563,849	662,205,902	1,536,665,987	1,473,474,453
Net Assets:						
Invested in Capital Assets Net of Related Debt	294,101,477	324,576,143	270,912,644	267,107,321	565,014,121	591,683,464
Restricted	9,804,279	6,744,226	12,927,921	12,927,772	22,732,200	19,671,998
Unrestricted	23,240,809	5,346,905	72,063,219	62,457,514	95,304,028	67,804,419
Total Net Assets	$ 327,146,565	$ 336,667,274	$ 355,903,784	$ 342,492,607	$ 683,050,349	$ 679,159,881

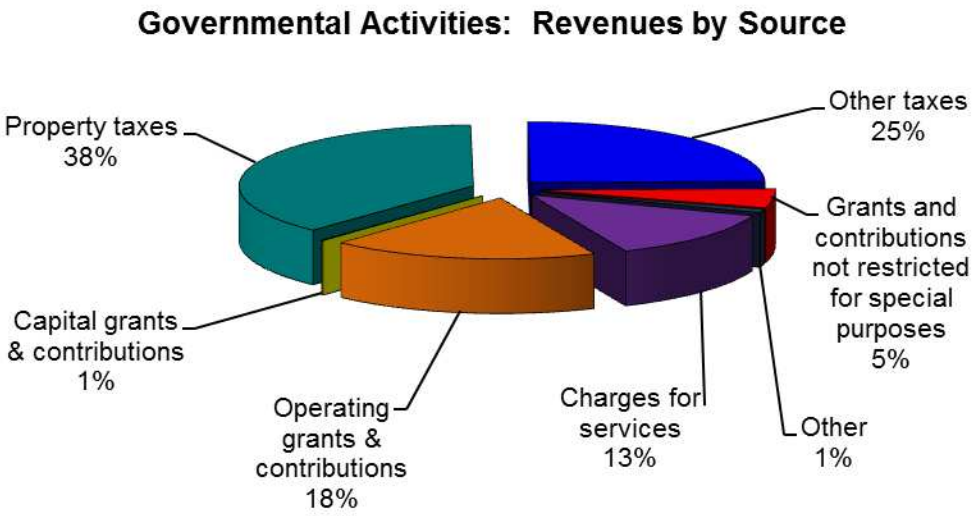
For governmental activities, total net assets decreased by $9,520,709 or 2.8 percent overall during the current fiscal year. Factors that contributed to a change in total governmental net assets include: a reduction in revenue as a result of current economic conditions and increases in expenses in certain functional areas (primarily public safety and health and public assistance).

For business-type activities, net assets increased by $13,411,177 or 3.9 percent during the fiscal year. Of this amount, $8,672,850, $5,604,323 and ($865,996) are changes attributed to the Water Utility, Wastewater Utility and Parking Facilities funds, respectively. Overall revenues remained fairly consistent with the prior year due to an increase in charges for services as a result of increases in rates offset by declines in other revenue.

Key programmatic and functional elements of these changes in government-wide net assets are demonstrated on the following page:

Changes in the City of Norfolk's Net Assets

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program Revenues:						
Charges for Services	$ 83,760,692	$ 78,753,208	$ 122,397,332	$ 124,617,316	$ 206,158,024	$ 203,370,524
Operating Grants & Contributions	119,353,078	116,647,782	-	-	119,353,078	116,647,782
Capital Grants & Contributions	765,000	-	187,376	129,652	952,376	129,652
General Revenues:						
Property Taxes	245,438,720	255,529,830	-	-	245,438,720	255,529,830
Other Taxes	161,233,887	153,885,777	-	-	161,233,887	153,885,777
Grants and Contributions not restricted for specific purposes	32,725,568	32,641,609	370,577	557,326	33,096,145	33,198,935
Capital Contributions from Norfolk Public Schools	-	11,084,963	-	-	-	11,084,963
Other	5,569,377	6,966,793	4,290,534	3,784,728	9,859,911	10,751,521
Total Revenues	648,846,322	655,509,962	127,245,819	129,089,022	776,092,141	784,598,984
Expenses:						
General Government	109,187,914	103,550,071	-	-	109,187,914	103,550,071
Judicial Administration	51,102,098	49,979,896	-	-	51,102,098	49,979,896
Public Safety	129,137,829	129,720,786	-	-	129,137,829	129,720,786
Public Works	91,542,273	101,136,816	-	-	91,542,273	101,136,816
Health and Public Assistance	75,428,450	82,368,494	-	-	75,428,450	82,368,494
Culture and Recreation	63,498,895	64,352,295	-	-	63,498,895	64,352,295
Community Development	17,222,565	18,637,893	-	-	17,222,565	18,637,893
Education	104,511,915	104,511,131	-	-	104,511,915	104,511,131
Interest on Long-Term Debt	26,822,070	27,930,691	-	-	26,822,070	27,930,691
Water Utility	-	-	64,473,088	67,852,343	64,473,088	67,852,343
Wastewater Utility	-	-	18,805,478	19,706,851	18,805,478	19,706,851
Parking Facilities	-	-	20,469,098	22,049,383	20,469,098	22,049,383
Total Expenses	668,454,009	682,188,073	103,747,664	109,608,577	772,201,673	791,796,650
Increase (decrease) in Net Assets before Transfers	(19,607,687)	(26,678,111)	23,498,155	19,480,445	3,890,468	(7,197,666)
Transfers	10,086,978	10,052,045	(10,086,978)	(10,052,045)	-	-
Increase (decrease) in Net Assets	(9,520,709)	(16,626,066)	13,411,177	9,428,400	3,890,468	(7,197,666)
Net Assets Beginning of Year	336,667,274	353,293,340	342,492,607	333,064,207	679,159,881	686,357,547
Net Assets End of Year	$ 327,146,565	$ 336,667,274	$ 355,903,784	$ 342,492,607	$ 683,050,349	$ 679,159,881



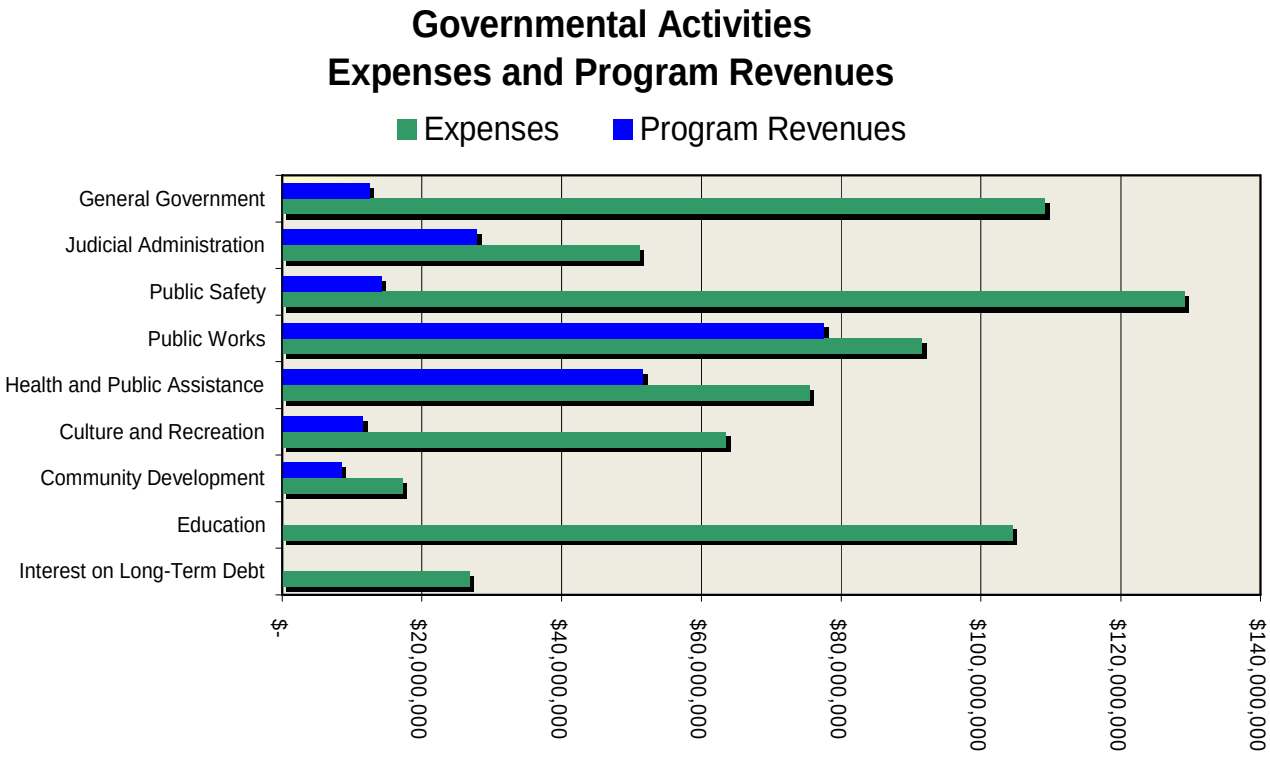
Governmental Activities – The City's total revenues from governmental activities were $648,846,322 for the fiscal year ended June 30, 2012. The largest sources of revenue for the City at 38 percent are property taxes (which are comprised of real estate and personal property taxes) and other taxes. Revenues from property taxes experienced a 4 percent decrease over the prior year. The real estate (general tax) tax rate for 2011-2012 was $1.11 per $100 of assessed value which has remained unchanged for the past few years. The real estate (downtown improvement district) tax rate for 2011-2012 was $1.27 per $100 of assessed value which has also remained unchanged from the prior year. Revenues from other taxes remained relatively flat in comparison to the prior year due to the slow economic recovery. Other taxes are comprised of sales & use, consumers' utility, restaurant food, business license and hotel/motel taxes, just to name a few. This group of taxes represented 25 percent of total revenues for the fiscal year ended June 30, 2012.

Operating grants and contributions for governmental activities ended the fiscal year at $119,353,078 which represents an increase of approximately 2.3 percent from the prior year. Grants and contributions not restricted for specific programs represent intergovernmental grants and contributions from State and Federal agencies. For the 2012 fiscal year, the City reported $32,725,568 in grants and contributions not restricted for specific programs which is relatively consistent with the prior year.

The City's expenses for governmental activities cover a wide array of services, with $129,137,829 or 19.3 percent for fiscal year 2012 related to public safety and $104,511,915 or 15.6 percent for fiscal year 2012 for education (including payments to the School Board, a component unit). Overall, expenses for governmental activities decreased by 2.0 percent which was primarily driven by a $9,594,543 or 9.5 percent decrease in expenses for public works as well as a $6,940,044 or 8.4 percent decrease

in expenses for health and public assistance. The decrease in public works expenses can be mainly attributed to a reduction in spending for capital projects for this area. The decrease in health and public assistance is partially attributable reduced funding from the Commonwealth under the Comprehensive Services Act.

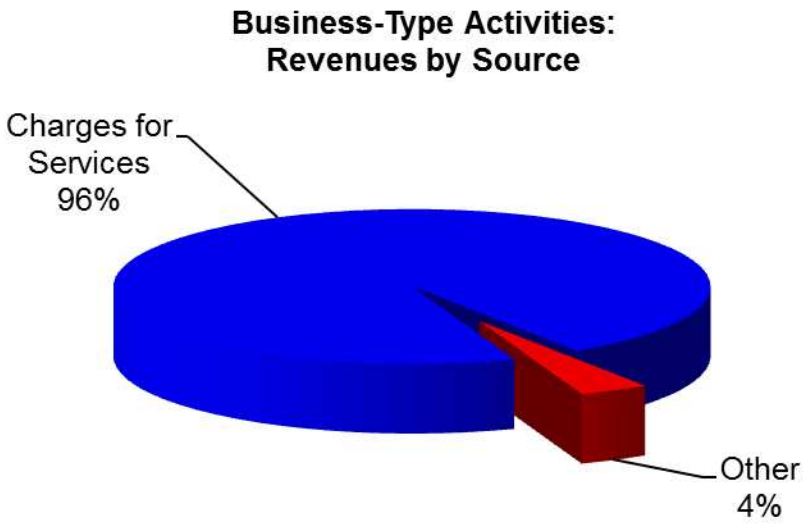
Depreciation expense for governmental activities of $35,408,463 was recorded.



Business-type Activities – Business-type activities increased the City's net assets by $13,411,177. Key elements of this change are as follows:

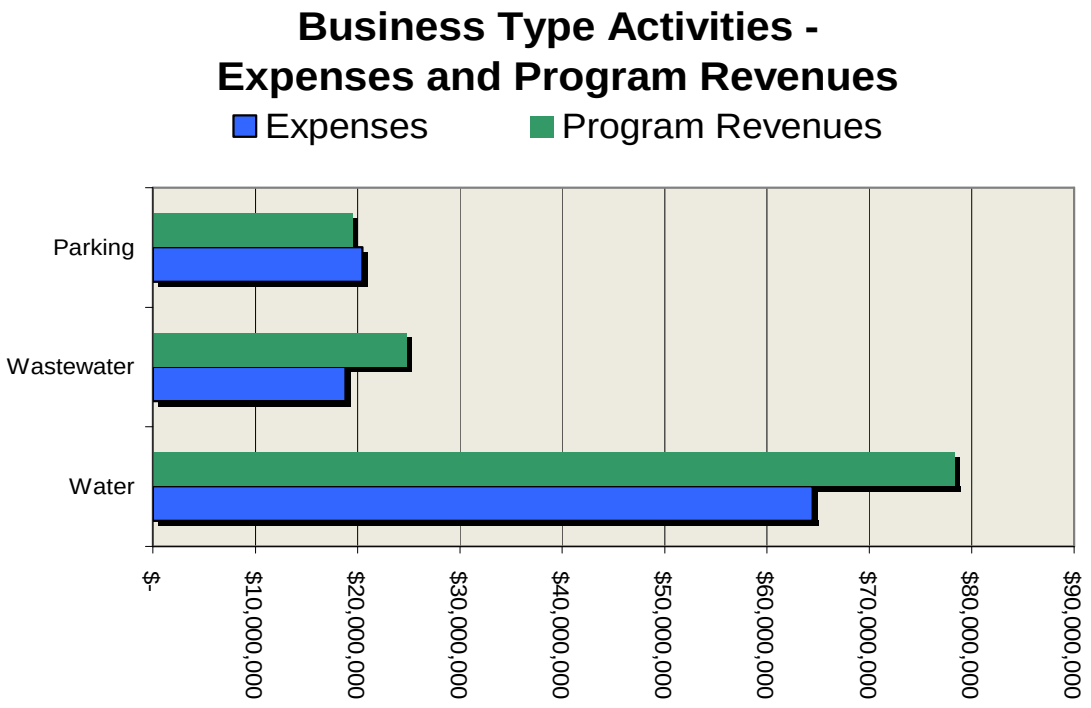
- Revenue from charges for services for business-type activities decreased by 1.78 percent. Water Utility charges for services decreased $2,425,560. Wastewater Utility charges for services increased $435,328 primarily as a result of rate increases. As part of the City's utility rate plan to improve utility infrastructure throughout the City, the Water and Wastewater Utility rates were increased by $0.14/100 cubic feet and $0.13/100 cubic feet, respectively.

- Parking facilities revenues remained relatively flat with a slight decrease of $229,752 or 1.17 percent from the prior year.



Operating expenses for Business-type activities decreased overall by $4,149,629 or 4.94 percent. The Water Utility fund's operating expenses decreased by $2,414,143 primarily due to decreases in chemicals and administrative expenses. The Parking Facilities fund's operating expenses decreased by $1,354,474 primarily due to decreases in personal services as a result of automation.

Operating expenses in the Wastewater Utility fund were fairly flat year over year.



Financial Analysis of the Government's Funds

As previously noted, the City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds – The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. This information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Effective July 1, 2010, the City adopted GASB Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions which more clearly defines the classifications of fund balance for more consistency and clarifies the definition of existing governmental fund types. These new classifications of fund balance comprise a hierarchy based on the extent to which the City is bound to observe constraints imposed upon the use of the financial resources of the funds. Fund balance is now reported in the following categories: nonspendable, restricted, committed, assigned and unassigned.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $243,593,795, an increase of $44,185,960 or 22.2 percent over the prior year. Of the total ending fund balance, $23,091 is nonspendable and $104,857,259 or 43.0 percent is restricted. The restricted fund balance is that portion of fund balance that can only be spent for the specific purposes as stipulated by a third party or legislation. Funds that typically fall in this category are federal and state awards/grants, as well as certain tax dollars levied for specific purposes. Committed fund balance is $20,622,262 or 8.5 percent of total ending fund balance and represents amounts within fund balance that have been designated for a specific purpose by City Council. Included in this classification are amount designated by City Council for the City's self-insured workers; compensation and general liability programs. Assigned fund balance is $63,752,707 or 26.2 percent of total ending fund balance and represent funds intended to be used by the City for specific purposes. Encumbrances that are not considered committed are included in this classification. The remaining $54,338,476 or 22.3 percent of ending fund balance in the City's governmental funds is available for spending at the government's discretion and is classified as unassigned.

The City's primary governmental fund is its general fund. As a matter of fiscal policy, the City unassigned fund balance is targeted to be no less than five percent of the general government's and School Board's annual operating budgets or $39,750,810.

For the general fund, on the budgetary basis of accounting, the City ended the fiscal year with revenues above projections by $550,223. Total expenditures were less than appropriations by $23,263,519.

The general fund experienced an overall decrease in revenue of $1,723,949 or 0.3 percent over the prior year. Overall expenditures increased by $8,742,937 or 1.75 percent from fiscal year 2011. General fund financial and budgetary highlights of the 2012 fiscal year include:

- During fiscal year 2012, the City continuously monitored revenue levels so that it could adjust spending accordingly, if necessary. Mid-way through the year, the City implemented a City-wide forced savings strategy to offset reductions in projected revenues and capture savings for future years. This is the primary reason for $23,263,519 in expenditure savings in fiscal year 2012.

There were no supplemental appropriations made to the general fund operating budgets during fiscal year 2012.

The City spent $98,892,003 in the Capital Projects fund to fund major capital projects, including construction of the light rail system, the new courthouse, critical repairs to City and School Board buildings, City infrastructure improvements and various improvements for neighborhood revitalization. The fund had a total fund balance of $124,774,444. In fiscal year 2012, the City used proceeds from bonds sold in fiscal year 2012, as well as cash on hand to fund these expenditures.

The Debt Service fund did not have any assets, liabilities or net assets at fiscal year end. During the year, $83,494,197 was transferred in from various funds to pay for an equal amount of debt service requirements.

Proprietary Funds – The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Generally, the City can only use the net assets of these funds to finance continuing operations of the enterprise operations. Factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

Capital Asset and Debt Administration

Capital Assets – The City's investment in capital assets, net of related debts, for its governmental and business-type activities as of June 30, 2012, amounted to $565,014,121 (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements, infrastructure (streets, roads, bridges, highways, water/sewer systems, etc.), machinery, equipment, intangibles and construction in progress. Infrastructure assets represent 22.3 percent of total general governmental assets.

Major capital projects spending during the fiscal year included the following:

- Continued construction on the City's 7.4 mile light rail project which was completed in August 2011 of which $8.3 million was spent during the fiscal year. This project is not capitalized by the City and as such is not included in the City's capital assets;
- $20.5 million overall in total school-related capital projects which includes repairs to school buildings with the bulk of the funds being spent on the construction of Crossroads Elementary;
- $9.8 million in various neighborhood conservation and revitalization efforts throughout in the City;
- Investment of $4.2 million in improvements to neighborhood streets throughout the City;

- Construction of the new courthouse complex with over $9.2 million spent in fiscal year 2012; and
- Continued construction on the new downtown main library, of which approximately $17.2 million has been invested to date with $3.3 million being spent in fiscal year 2012.

Construction in progress totaled $131.9 million for governmental activities at the end of the fiscal year. Construction in progress totaled $66.7 million for business-type activities, which includes Water Utility, Wastewater Utility and Parking Facilities projects.

Summary of the City of Norfolk's Capital Assets
(net of accumulated depreciation)

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Land	$ 86,163,226	$ 84,906,993	$ 48,003,017	$ 46,646,352	$ 134,166,243	$ 131,553,345
Buildings & equipment	424,133,880	435,827,900	722,285,444	713,195,494	1,146,419,324	1,149,023,394
Improvements other than buildings	45,978,000	43,831,541	16,154,887	16,543,057	62,132,887	60,374,598
Construction in progress	131,866,134	106,304,559	66,734,977	43,246,176	198,601,111	149,550,735
Intangible assets	966,319	1,291,324	4,706,549	4,816,735	5,672,868	6,108,059
Infrastructure	197,735,089	193,120,753	-	-	197,735,089	193,120,753
Total	$ 886,842,648	$ 865,283,070	$ 857,884,874	$ 824,447,814	$ 1,744,727,522	$ 1,689,730,884

Additional information on the City's capital assets can be found in Note VI on pages 52 - 54 of this report.

Long-term Debt – At June 30, 2012, the City (including the enterprise funds) had total bonded debt outstanding of $1,288,305,593. Of this amount, $875,785,431 comprises debt backed by the full faith and credit of the City. The remainder of the City's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

A summary of the City's outstanding bonded debt is as follows:

City of Norfolk's Bonded Debt

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
General obligation bonds	$ 687,875,882	$ 639,674,884	$ 187,909,549	$ 187,198,781	$ 875,785,431	$ 826,873,665
Revenue bonds		-	412,520,162	449,442,659	412,520,162	449,442,659
Total	$ 687,875,882	$ 639,674,884	$ 600,429,711	$ 636,641,440	$1,288,305,593	$ 1,276,316,324

The City's total debt outstanding increased by $11,989,269 or 0.9 percent during the fiscal year. The City issues debt based on its cash flow capital needs.

The development of the City's five-year Capital Improvement Program and its related debt are guided by various debt affordability practices. These practices limit total tax supported (not supported by specific fees or charges) debt as follows:

- Bonded debt service requirements will not exceed ten (10) percent of general governmental expenditures; and
- Bonded debt outstanding will not exceed 3.5 percent of the assessed value of taxable real property in the City.

Business-type activities debt practices are governed by revenue bond indentures in addition to various rate affordability measures.

Credit ratings for the City's general obligation and water revenue bond programs are as follows:

Bonding Program	Fitch Ratings	Standard and Poor's	Moody's Investors Service
General Obligation	AA+	AA	Aa2
Water Revenue	AA+	AA+	Aa2

The City's parking and wastewater systems do not maintain an underlying credit rating.

State statutes limit the amount of general obligation debt the City may issue up to ten percent of its total assessed valuation. The current debt limitation for the City is $1,867,673,053 which is significantly in excess of the City's general obligation debt outstanding.

Additional information on the City's long-term debt can be found in Note VIII on pages 57 - 68 of this report.

Economic Factors and Next Year's Budgets and Rates

- The slow economic recovery continues to have a negative impact. While the Commonwealth has experienced some positive impact as a result of the economic recovery, the City's locally generated revenues have not seen the same level of recovery. This is because, like other localities, the City is highly dependent on real property taxes which have declined as a result of the weak housing market and the economy. Considering the effects of the national, state and local economic conditions, the City focused on core service delivery in developing the fiscal year 2013 budget.

- Taxable real estate assessments are projected to decline overall in the 2012 fiscal year by 2.9 percent. Residential and commercial assessments are projected to decline by 4.2 percent and 2.5 percent, respectively.
- The following reflects major other tax change projections in comparison to the fiscal year 2012 budget:
    - Sales taxes – 2.7 percent increase;
    - Consumer's utility tax – 6.1 percent increase;
    - Business license taxes – 6.8 percent increase;
    - Restaurant food taxes – 6.1 percent increase; and
    - Hotel and motel tax – 5.7 percent increase.
- Rate increases for both the Water Utility and Wastewater Utility funds continue to provide necessary funding to finance capital improvements.
- The City anticipates continued increases in retirement contributions as a result of the economic downturn and its impact on investments. Additionally the City anticipates increases in required pension contributions in future years as it relates to participation in any Virginia Retirement System (VRS) sponsored retirement plans, mainly through participation by the School Board and the constitutional offices of the City.

All of these factors were considered in preparing the City's budget for fiscal year 2013. The fiscal year 2013 operating budget includes transfers in from nongeneral funds of approximately $10.6 million, as well as $19.3 million from carrying forward unspent appropriations from prior years and closeout of accounts and fiscal year 2012 savings realized from the mid-year budget reduction.

There were no changes in tax rates for the 2013 fiscal year. The following represents changes in fees implemented with the budget for the 2013 fiscal year:

Description	FY 2013 Approved	FY 2012 Approved
Wastewater Fees	$3.39/100 cubic feet	$3.26/100 cubic feet
Water Fees	$4.15/100 cubic feet	$4.01/100 cubic feet
Stormwater Fees – Residential	$9.96/month	$8.70/month
Stormwater Fees – Commercial	$7.18/month per 2,000 sq. ft.	$6.00/month per 2,000 sq. ft.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Director of Finance, 810 Union Street, Suite 600, Norfolk, Virginia, 23510.

BASIC FINANCIAL

STATEMENTS

CITY OF NORFOLK, VIRGINIA

Exhibit 1

Statement of Net Assets
June 30, 2012

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
Cash and short term investments	$ 234,886,913	$ 67,896,170	$ 302,783,083	$ 50,315,875
Restricted cash held with fiscal agent	-	14,385,331	14,385,331	-
Unrestricted short term investments	-	12,575,113	12,575,113	-
Receivables, net:				
Taxes	41,295,356	-	41,295,356	-
Accounts	6,832,149	16,482,487	23,314,636	1,359,151
Accrued investment income	8,376	69,651	78,027	-
Internal balances	1,488,852	(1,488,852)	-	-
Due from other governments	31,586,389	53,550	31,639,939	30,815,109
Due from primary government	-	-	-	5,341,103
Inventories	2,255,199	1,900,006	4,155,205	694,328
Prepaid items	23,091	-	23,091	272,799
Restricted cash and investments	29,722	44,709,303	44,739,025	787,639
Other assets	8	-	8	7,292
Non-depreciable capital assets	218,098,374	117,068,676	335,167,050	1,830,407
Depreciable capital assets, net	668,744,274	740,816,198	1,409,560,472	14,886,129
Total assets	$ 1,205,248,703	$ 1,014,467,633	$ 2,219,716,336	$ 106,309,832
LIABILITIES				
Vouchers payable	$ 19,540,302	$ 8,903,234	$ 28,443,536	$ 11,351,205
Employees withholdings	867,108	-	867,108	-
Contract retainage	1,097,229	1,621,445	2,718,674	1,217,792
Accrued interest	7,745,922	3,325,457	11,071,379	-
Accrued payroll	4,434,845	387,590	4,822,435	30,005,484
Accrued expenses	5,284	-	5,284	-
Due to other governments	7,170,301	-	7,170,301	8,203,519
Due to component unit	5,341,103	-	5,341,103	-
Other current liabilities	4,264,080	401,141	4,665,221	-
Deferred revenue	555,085	-	555,085	9,647,699
Other payables	-	-	-	258,574
Liabilities payable from restricted assets	-	2,498,910	2,498,910	-
Long-term liabilities:				
Due within one year	104,229,828	25,067,417	129,297,245	10,459,148
Due in more than one year	722,851,051	616,358,655	1,339,209,706	20,644,214
Total liabilities	$ 878,102,138	$ 658,563,849	$ 1,536,665,987	$ 91,787,635
NET ASSETS				
Invested in capital assets, net of related debt	$ 294,101,477	$ 270,912,644	$ 565,014,121	$ 12,803,349
Restricted for:				
Perpetual care - nonexpendable	6,194,163	-	6,194,163	-
Capital projects	-	2,387,826	2,387,826	687,919
Retirees' life insurance - future expenditures	330,000	-	330,000	-
Other purposes	3,280,116	10,540,095	13,820,211	1,005,092
Unrestricted	23,240,809	72,063,219	95,304,028	25,837
Total net assets	$ 327,146,565	$ 355,903,784	$ 683,050,349	$ 14,522,197

The accompanying notes are an integral part of the basic financial statements.

CITY OF NORFOLK, VIRGINIA

Statement of Activities
For the Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Governmental Activities	Primary Government: Business-Type Activities	Primary Government: Total	Component Units
Primary government:								
Governmental activities:								
General government	$ 109,187,914	$ 9,441,198	$ 1,025,051	$ -	$ (98,721,665)	$ -	$ (98,721,665)	$ -
Judicial administration	51,102,098	3,690,274	24,189,294	-	(23,222,530)	-	(23,222,530)	-
Public safety	129,137,829	8,424,306	5,792,352	-	(114,921,171)	-	(114,921,171)	-
Public works	91,542,273	50,596,571	26,839,085	-	(14,106,617)	-	(14,106,617)	-
Health and public assistance	75,428,450	50,014	51,604,273	-	(23,774,163)	-	(23,774,163)	-
Culture and recreation	63,498,895	9,751,321	1,056,489	765,000	(51,926,085)	-	(51,926,085)	-
Community development	17,222,565	1,807,008	6,731,309	-	(8,684,248)	-	(8,684,248)	-
Education	104,511,915	-	-	-	(104,511,915)	-	(104,511,915)	-
Interest on long-term debt	26,822,070	-	2,115,225	-	(24,706,845)	-	(24,706,845)	-
Total governmental activities	668,454,009	83,760,692	119,353,078	765,000	(464,575,239)	-	(464,575,239)	-
Business-type activities:								
Water	64,473,088	78,148,051	-	187,376	-	13,862,339	13,862,339	-
Wastewater	18,805,478	24,797,420	-	-	-	5,991,942	5,991,942	-
Parking facilities	20,469,098	19,451,861	-	-	-	(1,017,237)	(1,017,237)	-
Total business-type activities	103,747,664	122,397,332	-	187,376	-	18,837,044	18,837,044	-
Total primary government	$ 772,201,673	$ 206,158,024	$ 119,353,078	$ 952,376	$ (464,575,239)	$ 18,837,044	$ (445,738,195)	$ -
Component units:								
Norfolk Public Schools	$ 372,450,353	$ 4,597,508	$ 206,946,844	$ 20,652,200				$ (140,253,801)
Waterside Fund	1,846,733	184,312	-	-				(1,662,421)
Community Services Board	24,832,334	6,362,736	13,483,607	-				(4,985,991)
Total component units	$ 399,129,420	$ 11,144,556	$ 220,430,451	$ 20,652,200				(146,902,213)
General revenues:								
Taxes:								
General property taxes - real estate and personal property					245,438,720	-	245,438,720	-
Consumers' utility taxes					43,588,426	-	43,588,426	-
Sales and use taxes					27,598,972	-	27,598,972	-
Restaurant food taxes					30,299,937	-	30,299,937	-
Business license taxes					28,667,265	-	28,667,265	-
Hotel/Motel taxes					8,563,632	-	8,563,632	-
Cigarette taxes					8,096,678	-	8,096,678	-
Admissions taxes					4,186,986	-	4,186,986	-
Motor vehicle licenses					4,318,304	-	4,318,304	-
Franchise, recordation and other miscellaneous local taxes					5,913,687	-	5,913,687	-
Use of money and property					916,451	314,143	1,230,594	1,624,784
Grants and contributions not restricted to specific programs					32,725,568	370,577	33,096,145	-
Miscellaneous					4,652,926	3,950,603	8,603,529	61,418
Commonwealth of Virginia					-	-	-	30,310,617
Gain from sale of assets					-	25,788	25,788	-
Payment from Primary Government					-	-	-	108,877,131
Transfers					10,086,978	(10,086,978)	-	-
Total general revenues and transfers					455,054,530	(5,425,867)	449,628,663	140,873,950
Changes in net assets					(9,520,709)	13,411,177	3,890,468	(6,028,263)
Net assets - beginning					336,667,274	342,492,607	679,159,881	20,550,460
Net assets - ending					$ 327,146,565	$ 355,903,784	$ 683,050,349	$ 14,522,197

The accompanying notes are an integral part of the basic financial statements.

CITY OF NORFOLK, VIRGINIA

Exhibit A-1

Balance Sheet - Governmental Funds
June 30, 2012

	Major Funds			Nonmajor	Total
	General Fund	Capital Projects	Debt Service	Governmental Funds	Governmental Funds
ASSETS					
Cash and short term investments	$ 65,871,509	$ 147,774,054	$ -	$ 20,937,693	$ 234,583,256
Receivables, net:					
Taxes	41,295,356	-	-	-	41,295,356
Accounts	1,791,337	-	-	4,556,261	6,347,598
Accrued investment income	8,376	-	-	-	8,376
Due from other funds	9,638,381	1,535,296	-	3,549,959	14,723,636
Due from other governments	21,386,204	227,242	-	9,307,094	30,920,540
Restricted cash held with fiscal agent	-	29,722	-	-	29,722
Prepaids	-	-	-	23,091	23,091
Other assets	-	-	-	8	8
Total assets	$ 139,991,163	$ 149,566,314	$ -	$ 38,374,106	$ 327,931,583
LIABILITIES					
Vouchers payable	$ 9,227,612	$ 7,140,405	$ -	$ 2,107,363	$ 18,475,380
Employee withholdings	867,108	-	-	-	867,108
Contract retainage	130,133	893,235	-	73,860	1,097,228
Accrued payroll	4,165,872	-	-	215,423	4,381,295
Accrued expenses	-	-	-	5,284	5,284
Due to other funds	884,234	11,417,127	-	1,645,040	13,946,401
Due to other governments	395,060	-	-	6,775,241	7,170,301
Due to component unit	-	5,341,103	-	-	5,341,103
Deferred revenue	27,916,406	-	-	1,097,983	29,014,389
Other liabilities	3,897,547	-	-	141,752	4,039,299
Total liabilities	47,483,972	24,791,870	-	12,061,946	84,337,788
FUND BALANCES					
Nonspendable	-	-	-	23,091	23,091
Restricted	330,000	95,052,980	-	9,474,279	104,857,259
Committed	3,000,000	14,376,402	-	3,245,860	20,622,262
Assigned	34,838,715	15,345,062	-	13,568,930	63,752,707
Unassigned	54,338,476	-	-	-	54,338,476
Total fund balances	92,507,191	124,774,444	-	26,312,160	243,593,795
Total liabilities and fund balances	$ 139,991,163	$ 149,566,314	$ -	$ 38,374,106	$ 327,931,583

The accompanying notes are an integral part of the basic financial statements.

CITY OF NORFOLK, VIRGINIA

Exhibit A-2

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets
June 30, 2012

Fund balances - total governmental funds		$	243,593,795
Amounts reported for governmental activities in the Statement of Net Assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:			
Cost of capital assets	2,270,296,099		
Accumulated depreciation	(1,388,053,956)		
			882,242,143
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:			
Adjustment for deferred revenue			28,459,304
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:			
Bonds and notes payable	(687,875,882)		
Unamortized bond premium	(29,531,510)		
Retirement contribution	(36,942,395)		
Other post employment benefits	(22,870,641)		
Compensated absences	(15,625,140)		
Workers' compensation and claims liability	(31,400,391)		
Other	(1,988,438)		
Accrued interest payable	(7,745,922)		
			(833,980,319)
Internal service funds			6,386,489
Receivable for Build America Bonds - interest rate subsidy			665,849
GASB Statement 49 Pollution Remediation Obligation			(220,696)
Net assets of governmental activities		$	327,146,565

The accompanying notes are an integral part of the basic financial statements.

CITY OF NORFOLK, VIRGINIA

Exhibit A-3

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For Fiscal Year Ended June 30, 2012

	Major Funds			Nonmajor	Total
	General Fund	Capital Projects	Debt Service	Governmental Funds	Governmental Funds
REVENUES					
General property taxes	$ 250,117,894	$ -	$ -	$ 2,799,321	$ 252,917,215
Other local taxes	152,172,224	-	-	9,061,663	161,233,887
Permits and licenses	3,574,887	-	-	-	3,574,887
Fines and forfeitures	1,106,931	-	-	700	1,107,631
Use of money and property	6,367,808	185,295	-	141,458	6,694,561
Charges for services	32,030,115	-	-	15,828,508	47,858,623
Miscellaneous	8,572,621	56,388	-	3,013,896	11,642,905
Recovered costs	10,311,990	-	-	-	10,311,990
Intergovernmental	112,645,842	13,594,998	-	35,331,566	161,572,406
Total revenues	576,900,312	13,836,681	-	66,177,112	656,914,105
EXPENDITURES					
Current operating:					
General government	56,301,100	-	-	130,444	56,431,544
Judicial administration	45,112,553	-	-	3,120,316	48,232,869
Public safety	105,379,222	-	-	10,917,111	116,296,333
Public works	46,373,034	-	-	15,957,359	62,330,393
Health and public assistance	54,974,389	-	-	19,356,557	74,330,946
Culture and recreation	40,003,396	-	-	4,525,322	44,528,718
Community development	9,955,520	-	-	5,186,049	15,141,569
General services	44,072,525	-	-	-	44,072,525
Education	104,511,131	-	-	784	104,511,915
Debt service:					
Principal	565,000	-	56,968,292	150,000	57,683,292
Interest and other charges	107,619	-	26,525,905	726,438	27,359,962
Capital outlay	-	98,892,003	-	-	98,892,003
Total expenditures	507,355,489	98,892,003	83,494,197	60,070,380	749,812,069
Excess (deficiency) of revenues over expenditures	69,544,823	(85,055,322)	(83,494,197)	6,106,732	(92,897,964)
OTHER FINANCING SOURCES (USES)					
Proceeds of refunding bonds	-	-	74,859,420	-	74,859,420
Issuance of debt	2,411,915	107,423,545	-	-	109,835,460
Proceeds sale of land	-	2,700,000	-	-	2,700,000
Payment to bond refunding escrow agent	-	-	(74,859,420)	-	(74,859,420)
Premium on bonds	-	15,311,345	-	-	15,311,345
Transfers in	12,289,939	5,732,038	83,494,197	5,620,012	107,136,186
Transfers out	(88,020,221)	(684,705)	-	(9,194,141)	(97,899,067)
Total other financing sources and uses	(73,318,367)	130,482,223	83,494,197	(3,574,129)	137,083,924
Net changes in fund balances	(3,773,544)	45,426,901	-	2,532,603	44,185,960
Fund balances - beginning	96,280,735	79,347,543	-	23,779,557	199,407,835
Fund balances - ending	$ 92,507,191	$ 124,774,444	$ -	$ 26,312,160	$ 243,593,795

The accompanying notes are an integral part of the basic financial statements.

CITY OF NORFOLK, VIRGINIA

Exhibit A-4

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities For the Year Ended June 30, 2012

Net change in fund balances--total governmental funds		$ 44,185,960
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the asset.		
Add capital acquisitions net of disposals	56,968,040	
Subtract depreciation expense	(35,112,460)	21,855,580
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the fund.		(7,237,325)
Bond and note proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		
Add debt repayment	132,542,712	
Subtract general obligation bond proceeds including premium	(200,006,225)	(67,463,513)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Change in non-capital long-term liabilities (Note VIII)	(21,549,089)	
Principal pay down on refunded debt	5,159,432	
Accrued interest payable	(111,478)	
Premium on refunded debt	15,311,345	(1,189,790)
Internal service funds are used by management to charge the costs of of certain services to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activity.		343,153
Adjustment for Build America Bonds interest rate subsidy		(183,104)
GASB Statement 49 Pollution Remediation Obligation		168,330
Change in net assets of governmental activities		$ (9,520,709)

The accompanying notes are an integral part of the basic financial statements.

CITY OF NORFOLK, VIRGINIA

Exhibit B-1

Statement of Fund Net Assets - Proprietary Funds
June 30, 2012

	Business-Type Activities				Governmental Activities-
	Water Utility	Wastewater Utility	Parking Facilities	Totals	Internal Service Funds
ASSETS					
Current assets:					
Cash and short term investments	$ 33,477,706	$ 14,799,371	$ 19,619,093	$ 67,896,170	$ 303,657
Restricted cash held with fiscal agent	325,953	28,919	14,030,459	14,385,331	-
Unrestricted short term investments	11,785,201	789,912	-	12,575,113	-
Receivables, net					
Accounts	7,000,856	2,265,983	1,182,427	10,449,266	484,551
Unbilled accounts	4,717,107	1,095,674	220,440	6,033,221	-
Accrued investment income	24,433	-	45,218	69,651	-
Internal balances	-	-	-	-	895,883
Due from other governments	-	53,550	-	53,550	-
Inventories	1,479,257	31,699	389,050	1,900,006	2,255,199
Restricted cash and investments	25,259,001	14,724,493	4,725,809	44,709,303	-
Total current assets	84,069,514	33,789,601	40,212,496	158,071,611	3,939,290
Noncurrent assets:					
Capital assets:					
Land and improvements	53,478,329	27,469,156	36,121,191	117,068,676	415,000
Buildings and equipment	596,364,005	246,777,902	193,633,209	1,036,775,116	10,645,075
Accumulated depreciation	(178,746,840)	(59,233,687)	(57,978,391)	(295,958,918)	(6,459,570)
Capital assets, net	471,095,494	215,013,371	171,776,009	857,884,874	4,600,505
Total assets	$ 555,165,008	$ 248,802,972	$ 211,988,505	$ 1,015,956,485	$ 8,539,795
LIABILITIES					
Current liabilities:					
Vouchers payable	$ 4,719,919	$ 3,707,918	$ 475,397	$ 8,903,234	$ 1,064,922
Contract retainage	888,773	705,700	26,972	1,621,445	-
Accrued interest	50,784	1,150,379	2,124,294	3,325,457	-
Accrued payroll	243,886	82,162	61,542	387,590	53,550
Internal balances	1,488,031	821	-	1,488,852	184,266
Obligations for employees retirement system	2,629,548	754,958	583,304	3,967,810	556,251
Current portion of bonds payable	7,739,589	8,671,909	3,778,426	20,189,924	-
Liabilities payable from restricted assets	2,498,910	-	-	2,498,910	-
Compensated absences	597,785	187,114	124,784	909,683	207,810
Other current liabilities	211,312	27,500	162,329	401,141	4,085
Total current liabilities	21,068,537	15,288,461	7,337,048	43,694,046	2,070,884
Noncurrent liabilities:					
General obligation bonds payable	1,069,428	109,129,293	74,755,565	184,954,286	-
Revenue bonds payable	319,417,625	32,097,179	76,479,929	427,994,733	-
Compensated absences	446,904	187,217	187,175	821,296	82,422
Other long-term liabilities	1,527,018	542,079	519,243	2,588,340	-
Total noncurrent liabilities	322,460,975	141,955,768	151,941,912	616,358,655	82,422
Total liabilities	343,529,512	157,244,229	159,278,960	660,052,701	2,153,306
NET ASSETS					
Invested in capital assets, net of related debt	157,453,707	79,868,402	33,590,535	270,912,644	4,600,505
Restricted for:					
Capital projects	2,000,018	-	387,808	2,387,826	-
Other purposes:					
Water utility fund operations	9,000,081	-	-	9,000,081	-
Parking facilities fund operations	-	-	1,540,014	1,540,014	-
Unrestricted	43,181,690	11,690,341	17,191,188	72,063,219	1,785,984
Total net assets	211,635,496	91,558,743	52,709,545	355,903,784	6,386,489
Total liabilities and net assets	$ 555,165,008	$ 248,802,972	$ 211,988,505	$ 1,015,956,485	$ 8,539,795

The accompanying notes are an integral part of the basic financial statements.

CITY OF NORFOLK, VIRGINIA

Exhibit B-2

Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For Year Ended June 30, 2012

	Business-Type Activities				Governmental Activities - Internal Service Funds
	Water Utility	Wastewater Utility	Parking Facilities	Totals	
Operating revenues:					
Charges for services	$ 78,148,051	$ 24,797,420	$ 19,451,861	$ 122,397,332	$ 15,681,820
Miscellaneous	3,052,421	898,182	-	3,950,603	107,298
Total operating revenues	81,200,472	25,695,602	19,451,861	126,347,935	15,789,118
Operating expenses:					
Personal services	13,783,048	4,613,140	6,642,590	25,038,778	3,072,062
Cost of goods sold	-	-	-	-	10,810,182
Plant operations	6,589,857	2,214,306	1,092,320	9,896,483	243,529
Chemicals	2,967,518	62,628	-	3,030,146	-
Provision for bad debts	230,670	136,754	-	367,424	77,154
Depreciation	11,902,145	4,952,310	5,473,362	22,327,817	296,003
Retirement and OPEB contribution	2,957,001	871,260	583,304	4,411,565	556,251
Administrative expenses	1,852,927	1,410,517	343,878	3,607,322	-
Other	8,997,111	1,666,644	514,217	11,177,972	1,242,659
Total operating expenses	49,280,277	15,927,559	14,649,671	79,857,507	16,297,840
Operating income (loss), net	31,920,195	9,768,043	4,802,190	46,490,428	(508,722)
Nonoperating revenues (expenses):					
Interest income, net of interest capitalized	94,747	-	219,396	314,143	2,016
Intergovernmental revenue	137,555	214,199	-	351,754	-
Interest expense and fiscal charges	(15,171,047)	(2,857,312)	(5,813,170)	(23,841,529)	-
Gain (loss) on sale or disposal of capital assets	25,788	(20,607)	(6,257)	(1,076)	-
Contributions	-	-	18,823	18,823	-
Miscellaneous revenue (expense)	(21,764)	-	-	(21,764)	-
Total nonoperating revenues (expenses)	(14,934,721)	(2,663,720)	(5,581,208)	(23,179,649)	2,016
Net income (loss) before contributions and transfers	16,985,474	7,104,323	(779,018)	23,310,779	(506,706)
Capital contribution	187,376	-	-	187,376	-
Transfer in	-	-	-	-	849,859
Transfers out	(8,500,000)	(1,500,000)	(86,978)	(10,086,978)	-
Changes in net assets	8,672,850	5,604,323	(865,996)	13,411,177	343,153
Total net assets - beginning	202,962,646	85,954,420	53,575,541	342,492,607	6,043,336
Total net assets - ending	$ 211,635,496	$ 91,558,743	$ 52,709,545	$ 355,903,784	$ 6,386,489

The accompanying notes are an integral part of the basic financial statements.

CITY OF NORFOLK, VIRGINIA

Exhibit B-3

Statement of Cash Flows - Proprietary Funds
Year Ended June 30, 2012

	Business-Type Activities				Governmental Activities -
	Water Utility	Wastewater Utility	Parking Facilities	Totals	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers	$ 83,611,362	$ 25,188,832	$ 19,403,150	$ 128,203,344	$ 15,340,726
Payments to suppliers	(9,798,149)	(2,335,635)	(1,080,721)	(13,214,505)	(10,693,643)
Payments to employees	(16,871,675)	(5,366,281)	(7,262,984)	(29,500,940)	(3,816,823)
Other payments	(10,830,883)	(3,103,950)	(750,642)	(14,685,475)	(1,211,412)
Net cash and short term investments provided by (used in) operating activities	46,110,655	14,382,966	10,308,803	70,802,424	(381,152)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Internal activity	153,028	2,183	-	155,211	229,060
Intergovernmental revenues	137,555	214,199	-	351,754	-
Operating subsidies and transfers to other funds	(8,500,000)	(1,500,000)	(86,978)	(10,086,978)	-
Net cash used in noncapital financing activities	(8,209,417)	(1,283,618)	(86,978)	(9,580,013)	229,060
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Proceeds from capital/refunding debt	176,925,000	38,970,870	1,626,320	217,522,190	-
Capital contributions	187,376	-	-	187,376	-
Purchases of capital assets	(33,757,139)	(21,672,787)	(1,078,933)	(56,508,859)	-
Proceeds from sale of capital assets	42,284	21,932	-	64,216	-
Refunding/refinancing of debt principal	(210,160,000)	(6,241,599)	(11,569,440)	(227,971,039)	-
Principal paid on capital debt	(13,343,267)	(8,390,509)	(4,029,104)	(25,762,880)	-
Interest paid on capital debt	14,906,705	582,105	(5,875,462)	9,613,348	-
Net cash provided by (used in) capital and related financing activities	(65,199,041)	3,270,012	(20,926,619)	(82,855,648)	-
CASH FLOWS FROM INVESTING ACTIVITIES:					
Proceeds from sales and maturities of investments	70,378,732	29,496,853	3,055,958	102,931,543	-
Purchase of investments	(33,472,463)	(36,980,505)	(2,940,682)	(73,393,650)	-
Interest and dividends	74,434	-	174,434	248,868	2,016
Net cash provided by (used in) investing activities	36,980,703	(7,483,652)	289,710	29,786,761	2,016
Net increase in cash and short term investments	9,682,900	8,885,708	(10,415,084)	8,153,524	(150,076)
Cash and short term investments - beginning of the year	24,120,759	5,942,582	44,064,636	74,127,977	453,733
Cash and short term investments - end of the year	$ 33,803,659	$ 14,828,290	$ 33,649,552	$ 82,281,501	$ 303,657
Reconciliation of Operating Income (Loss) to Net Cash Provided by (used in) Operating Activities:					
Operating income (loss)	$ 31,920,195	$ 9,768,043	$ 4,802,190	$ 46,490,428	$ (508,722)
Adjustments to reconcile operating income (loss) to net cash and short term investments provided by (used in) operating activities:					
Depreciation expense	11,902,145	4,952,310	5,473,362	22,327,817	296,003
Provision for bad debt	230,670	136,754	-	367,424	77,154
Loss on disposal of assets	(16,496)	(42,539)		(59,035)	-
Change in assets and liabilities:					
Receivables, net	2,410,890	(506,770)	(48,711)	1,855,409	(448,392)
Inventories	(60,194)	718	8,510	(50,966)	51,590
Vouchers payable	(180,580)	(59,419)	3,089	(236,910)	349,806
Accrued payroll	(459,079)	1,817	(37,090)	(494,352)	(149,244)
Obligations for Employees' Retirement System	-	-	-	-	(13,880)
Other liabilities	363,104	132,052	107,453	602,609	(35,467)
Net cash and short term investments provided by (used in) operating activities	$ 46,110,655	$ 14,382,966	$ 10,308,803	$ 70,802,424	$ (381,152)
Reconciliation of Cash and Short Term Investments to the Statement of Net Assets:					
Cash and short term investments	$ 33,477,706	$ 14,799,371	$ 19,619,093	$ 67,896,170	$ 303,657
Restricted cash with fiscal agent	325,953	28,919	14,030,459	14,385,331	-
Total cash and short term investments per Statement of Net Assets	$ 33,803,659	$ 14,828,290	$ 33,649,552	$ 82,281,501	$ 303,657
Noncash investing, capital and financing activities:					
Unrealized gain / (loss) on investments	$ (21,764)	$ -	$ -	$ (21,764)	$ -
Loss on sale or disposal of capital assets	$ -	$ -	$ 6,257	$ 6,257	$ -
Acquisition of capital assets through change in in contract retainage	$ 452,888	$ 154,248	$ (23,995)	$ 583,141	$ -
Acquisition of capital assets through vouchers payable	$ 54,903	$ (1,394,592)	$ (159,927)	$ (1,499,616)	$ -
Capitalized interest, less interest earned on certain long-term construction contracts	$ 1,433,603	$ 558,787	$ -	$ 1,992,390	$ -

The accompanying notes are an integral part of the basic financial statements.

CITY OF NORFOLK, VIRGINIA

Exhibit C-1

Statement of Fiduciary Net Assets
June 30, 2012

	Pension Trust Employees' Retirement System	Agency Funds
ASSETS		
Cash and short term investments	$ 24,606,872	$ 3,974,893
Investments, fair value:		
United States Treasury securities	17,780,663	-
Fixed income securities	135,389,701	-
Equity securities	3,062	-
Other	69,085	-
Balanced commingled funds:		-
Equity	512,607,482	-
Fixed income	156,013,580	-
Real estate	42,060,258	-
Total investments	863,923,831	-
Receivables:		
Accounts, net of allowance for uncollectible accounts	198	-
Retirement contribution	41,466,456	-
Accrued investment income	839,626	-
Due from broker for securities sold	53,159,922	-
Other	-	10,524
Total assets	$ 983,996,905	$ 3,985,417
LIABILITIES		
Vouchers payable	$ 631,499	$ 29,625
Due to brokers for securities purchased	97,866,206	-
Other liabilities	-	3,955,792
Total liabilities	98,497,705	3,985,417
NET ASSETS		
Reserved for:		
Net assets held in trust for pension benefits	885,499,200	-
Total liabilities and net assets	$ 983,996,905	$ 3,985,417

The accompanying notes are an integral part of the basic financial statements.

CITY OF NORFOLK, VIRGINIA

Exhibit C-2

Statement of Changes in Fiduciary Net Assets
Pension Trust Fund - Employees' Retirement System
For the Year Ended June 30, 2012

		2012
Changes to net assets attributed to:		
Investment income:		
Net depreciation in fair value of investments	$	(4,850,684)
Interest		6,845,251
Dividends		2,165,807
Other		203,222
		4,363,596
Less investment expense		(1,110,803)
Net investment income		3,252,793
Employer contributions		41,466,456
Employee contributions		593,956
Total		45,313,205
Benefit payments and expenses:		
Refunds of contributions		24,879
Benefits paid to plan members and beneficiaries		71,021,815
Administrative costs		535,826
Total		71,582,520
Net decrease		(26,269,315)
Net assets held in trust for pension benefits:		
Beginning of year		911,768,515
End of year	$	885,499,200

The accompanying notes are an integral part of the basic financial statements.

CITY OF NORFOLK, VIRGINIA

Exhibit D-1

Statement of Net Assets - Component Units
June 30, 2012

	Norfolk Public Schools	Waterside Associates	Norfolk Community Services Board	Totals
ASSETS				
Cash and short term investments	$ 45,239,094	$ 33,841	$ 5,042,940	$ 50,315,875
Receivables:				
Accounts, net of allowance for uncollectible accounts	156,430	47,045	1,155,676	1,359,151
Due from primary government	5,341,103	-	-	5,341,103
Due from other governments	30,815,109	-	-	30,815,109
Inventories	694,328	-	-	694,328
Restricted cash and investments	-	-	787,639	787,639
Prepaids	-	11,697	261,102	272,799
Other assets	-	7,292	-	7,292
Capital assets, net	12,265,235	3,346,897	1,104,404	16,716,536
Total assets	$ 94,511,299	$ 3,446,772	$ 8,351,761	$ 106,309,832
LIABILITIES				
Vouchers payable	$ 10,502,993	$ 255,578	$ 592,634	$ 11,351,205
Contract retainage	1,217,792	-	-	1,217,792
Accrued payroll	29,570,196	540	434,748	30,005,484
Unearned revenues	9,647,699	-	-	9,647,699
Other payables	198,747	-	59,827	258,574
Due to other government agencies	8,203,519	-	-	8,203,519
Current vested compensated absences	6,725,988	-	617,649	7,343,637
Other current liabilities	1,328,022	372,342	1,415,147	3,115,511
Long-term mortgage payable - less current portion	-	3,913,187	-	3,913,187
Long-term vested compensated absences	2,241,996	-	259,522	2,501,518
Long-term post employment benefits	11,711,300	-	-	11,711,300
Long-term claims and judgments liability	2,518,209	-	-	2,518,209
Total liabilities	83,866,461	4,541,647	3,379,527	91,787,635
NET ASSETS (DEFICIT)				
Invested in capital assets, net of related debt	12,265,235	(566,290)	1,104,404	12,803,349
Restricted for:				
Capital projects	687,919	-	-	687,919
Other programs	(271,717)	-	1,276,809	1,005,092
Unrestricted	(2,036,599)	(528,585)	2,591,021	25,837
Total net assets (deficit)	10,644,838	(1,094,875)	4,972,234	14,522,197
Total liabilities and net assets	$ 94,511,299	$ 3,446,772	$ 8,351,761	$ 106,309,832

The accompanying notes are an integral part of the basic financial statements.

CITY OF NORFOLK, VIRGINIA

Exhibit D-2

Statement of Activities - Component Units
For the Year Ended June 30, 2012

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grant Contributions	Capital Grant Contributions	Norfolk Public Schools	Waterside Associates	Community Services Board	Totals
Norfolk Public Schools:								
Instructional	$ 265,178,134	$ 2,201,335	$ 193,423,324	$ -	$ (69,553,475)	$ -	$ -	$ (69,553,475)
Administration, attendance and health	12,436,083	-	-	-	(12,436,083)	-	-	(12,436,083)
Pupil transportation	10,869,445	-	-	-	(10,869,445)	-	-	(10,869,445)
Operation and maintenance	33,038,155	-	-	-	(33,038,155)	-	-	(33,038,155)
Information technology	10,546,701	-	-	-	(10,546,701)	-	-	(10,546,701)
School facilities	24,171,393	-	-	20,652,200	(3,519,193)	-	-	(3,519,193)
Food services	15,935,214	2,396,173	13,523,520	-	(15,521)	-	-	(15,521)
Other	275,228	-	-	-	(275,228)	-	-	(275,228)
Total Norfolk Public Schools	372,450,353	4,597,508	206,946,844	20,652,200	(140,253,801)	-	-	(140,253,801)
Waterside Associates:								
Cultural and recreational	1,846,733	184,312	-	-	-	(1,662,421)	-	(1,662,421)
Community Services Board:								
Health and public assistance	24,832,334	6,362,736	13,483,607	-	-	-	(4,985,991)	(4,985,991)
Total component units	$ 399,129,420	$ 11,144,556	$ 220,430,451	$ 20,652,200	(140,253,801)	(1,662,421)	(4,985,991)	(146,902,213)
General revenues:								
Use of money and property					1,283,971	220,836	119,977	1,624,784
Payment from Primary Government					104,511,131	1,515,000	2,851,000	108,877,131
Miscellaneous					316	-	61,102	61,418
Commonwealth of Virginia					30,310,617	-	-	30,310,617
Total general revenues					136,106,035	1,735,836	3,032,079	140,873,950
Changes in net assets					(4,147,766)	73,415	(1,953,912)	(6,028,263)
Net assets (deficit) - beginning					14,792,604	(1,168,290)	6,926,146	20,550,460
Net assets (deficit) - ending					$ 10,644,838	$ (1,094,875)	$ 4,972,234	$ 14,522,197

The accompanying notes are an integral part of the basic financial statements.

NOTES TO THE BASIC

FINANCIAL STATEMENTS

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

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I. Summary of Significant Accounting Policies

A. Financial Reporting Entity Information

The City of Norfolk (the "City") was incorporated February 13, 1845, and operates under a charter adopted February 7, 1918, which mandates a Council-Manager form of government. The City and its component units provide the following municipal services to approximately 243,000 residents, as authorized by its charter or code: public safety, highway and street maintenance, water production and quality, solid waste management, wastewater treatment, cultural and parking facilities, environmental storm water management, public health, social programs, parks and recreation, public education, public improvements, planning and zoning code enforcement, public libraries and general administration.

Blended Component Unit: *The Employees' Retirement System of the City of Norfolk (ERS)* has a nine-member Board of Trustees. Seven members are appointed by City Council. The City Manager and the Director of Finance are ex-officio members. The ERS is the administrator of a single-employer noncontributory defined benefit plan that covers substantially all employees of the City of Norfolk, excluding School Board employees and certain employees of the Constitutional Officers covered by the Virginia Retirement System, as authorized by Section 143(a) of the City Charter. The ERS was established and placed under the management of the Board of Trustees for the purpose of providing retirement and death benefits as authorized by the provisions of Chapter 37 of the Norfolk City Code. The City makes its contributions, in conjunction with investment earnings of the ERS, to provide the funding for pension benefits and administrative costs.

Discretely Presented Component Units: Although these legally separate entities are in substance part of the City's operations, each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government. The component units discussed below are included in the City's financial reporting entity due to their financial relationships with the City.

The School Board for the City of Norfolk (School Board), which has seven members, is the operating body that establishes the educational and financial programs and policies for the City's public school system. School Board members are appointed by the City Council. The City levies taxes for its operation, issues bonds or enters into capital leases for its capital requirements and approves its annual operating budget. The School Board is comprised of the School Operating fund, Capital Projects fund, Child Nutrition fund, Grants fund and agency funds.

Waterside Associates Limited Partnership (Waterside Associates) was originally formed on November 20, 1981, for the purpose of developing and operating a retail festival marketplace (Waterside) in Norfolk, Virginia which opened June 1, 1983. On December 31, 1998, the Norfolk Redevelopment and Housing Authority (NRHA) and the City Development Corporation (CDC), a component unit of NRHA, purchased the partnership from its owners, creating a new entity with the same name. NRHA owns 14.5% of the Partnership and CDC owns 85.5%. Beginning July 1, 2010, the City began providing internal, operational and

financial support to Waterside. Separate financial statements are not prepared for Waterside Associates.

The Norfolk Community Services Board (CSB) was created in 1969 by a resolution of the City Council. Its purpose is to provide mental health, mental retardation and substance abuse services to residents of the City of Norfolk. The CSB is composed of 15 members appointed by City Council. City Council approves the CSB's annual operating budget.

Complete financial statements of the individual component units can be obtained from their respective administrative offices:

The City of Norfolk Retirement Board
810 Union Street
City Hall Building, Suite 309
Norfolk, Virginia 23510

The School Board for the City of Norfolk
800 East City Hall Avenue
P.O. Box 1357
Norfolk, Virginia 23501-1357

The Norfolk Community Services Board
Board Administration
248 West Bute Street
Norfolk, Virginia 23510-1404

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the Primary Government and its component units. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the Primary Government is reported separately from certain legally separate *component units* for which the *Primary Government* is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items that do not meet the criteria for classification as program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Debt Service Fund* accounts for financial resources that are restricted, committed or assigned to expenditures for principal and interest payments on long-term debt obligations of governmental funds and proprietary funds.

The *Capital Projects Fund* accounts for financial resources that are restricted, committed or assigned to expenditures for capital outlays, which includes the acquisition and construction of major capital facilities of the City, some of which are also used by the School Board.

The City reports the following major proprietary funds:

- The *Water Utility Fund* accounts for the activities of the City's water system, treatment plant and distribution systems.

- The *Wastewater Utility Fund* accounts for the activities of the City's sewage pumping stations and collection systems.

- The *Parking Facilities Fund* accounts for the activities of City-owned parking facilities.

Additionally, the City reports the following other fund types:

- *Special Revenue Funds* account for proceeds of specific resources that are restricted, committed or assigned to expenditures for specific purposes other than debt service or capital projects. Examples including services provided as part of mental health and substance abuse programs, juvenile detention services, emergency call center services, tax increment financing districts and individual grant programs.

- *Internal Service Funds* account for the City's storehouse operations and fleet management services provided to other departments or agencies of the City on a cost reimbursement basis.

- The *Pension Trust Fund* accounts for the activities of the Employee's Retirement System, which accumulates resources for pension benefit payments to qualified employees.

- The *Permanent Fund* is used to report resources that are restricted to the extent that only the interest may be used to support the City's cemetery

operations.

- The *Agency Funds* are used to account for the assets held by a governmental unit as an agent for individuals, private organizations, other governmental units and/or other funds. Agency funds do not involve the measurement of results of operations as they are custodial in nature (assets = liabilities).

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Fiduciary agency funds' financial statements do not have a measurement focus. The City's discretely presented component units are also included in the government-wide financial statements utilizing the same basis of accounting.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenue and related assets are recorded when they become susceptible to accrual, that is, when they become both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City generally considers revenues, except for grant revenues, to be available if they are collected within 45 days of the end of the fiscal year. Real and personal property taxes are recorded as receivables when levied and billed, which corresponds with the fiscal year for which the taxes have been levied, net of allowances for uncollectible accounts. Sales and utility taxes, which are collected by the state or utilities and subsequently remitted to the City, are recognized as revenues and receivables when the underlying exchange occurs and are remitted to the City by the state within two months of the transaction. In accordance with generally accepted accounting principles (GAAP) property taxes due and collected within 45 days after June 30 are recognized as revenue; those not collected within 45 days after year–end are reported as deferred revenue. Items such as license fees, permit fees and fines are recorded as revenue when received. Intergovernmental revenue, consisting primarily of federal, state and other grants for the purpose of funding specific expenditures, is recognized at the time the specific expenditures expected to be funded by this revenue are made. Revenue from general purpose grants is recognized during the entitlement period.

Major sources of governmental funds susceptible to accrual include the following:

- Real property taxes
- Personal property taxes
- Sales and use taxes
- Revenue from the Commonwealth
  - Shared expenses
  - Categorical aid

- Consumer utility taxes
- Environmental storm water billings
- Revenue from the federal government

Amounts reported as *program revenues* include: 1) charges for services, 2) operating grants and contributions and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Therefore, all taxes are general revenue.

Expenditures, other than interest on general long-term obligations, are recorded as related fund liabilities when incurred. Interest on general long-term obligations is recognized when due.

Since the governmental funds' financial statements are presented on a different measurement focus and basis of accounting than the government-wide financial statements, a summary reconciliation of the difference between total fund balances as reflected on the governmental funds' Balance Sheet and total Governmental activities net assets as shown on the Government-wide Statement of Net Assets is presented in Exhibit A-2. In addition, a summary reconciliation of the difference between the total net change in fund balances as reflected on the governmental funds' Statement of Revenues, Expenditures and Changes in Fund Balances and the change in net assets of Governmental activities as shown on the Government-wide Statement of Activities is presented in Exhibit A-4.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board ("GASB"). Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* 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. The principal operating revenues and expenses of the City's Water Utility, Wastewater Utility and Parking Facilities enterprise funds, and of the City's internal service funds are charges to customers for sales and services and administrative expenses, and depreciation on capital assets. Revenues and expenses not meeting this definition, including interest income or expense are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, less restrictive resources next – committed, assigned, and finally unassigned resources.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's proprietary funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

D. Budgets and Budgetary Accounting

An operating budget is adopted each fiscal year for the General fund, Water Utility enterprise fund, Wastewater Utility enterprise fund, Parking Facilities enterprise fund, Storm Water special revenue fund, Public Amenities special revenue fund, Cemeteries special revenue fund, Emergency Operations Center/E-911 special revenue fund, Golf special revenue fund, Towing & Recovery Operations special revenue fund, Tax Increment Financing special revenue fund and internal service funds. Project length budgets are appropriated for the Capital Projects fund and Grants special revenue fund. All funds are under formal budgetary control.

No less than 60 days before the end of the fiscal year, the City Manager must submit to the City Council, a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of funding them. A public hearing is conducted. Then, on or before July 1, the budget is legally enacted through adoption of an ordinance. The property taxes included in the budget become a lien on real properties on July 1.

The ordinance for the annual operating budget appropriates funds by department. Additional budgetary controls are exercised administratively, both on an appropriation unit basis over parts, all, or any combination of object categories (budgetary account groups) such as: (1) personal services; (2) materials, supplies and repairs; (3) general operations and fixed charges; (4) equipment; (5) public assistance; and (6) all purpose appropriations, as well as on a line item basis over individual objects (budgetary accounts). The City Manager is authorized to transfer funds between departments and funds without further approvals by City Council.

The School Board manages and controls all funds made available for public school purposes by the City Council. In accordance with the Code of Virginia, the School Board has exclusive authority to expend funds within the total amounts appropriated by City Council.

Consistent with the enabling ordinance, the Schedules of Revenues and Expenditures – Budget and Actual of the General Fund presented in Exhibits E-1 and E-2 include the revenues and expenditures - budget and actual of the School Board.

A reconciliation of revenues and expenditures reported in accordance with accounting principles generally accepted in the United States (GAAP) and those presented in accordance with non-GAAP budgetary basis, for the General fund, can be found following Exhibit E-2. The budgets for the enterprise funds and internal service funds are prepared on a basis generally consistent with accounting principles generally accepted in the United States of America.

With the exception of capital projects and grants fund appropriations, unencumbered annual appropriations lapse at the end of the fiscal year. City Council may authorize supplemental appropriations to the operating budgets during the fiscal year. Budgeted amounts as reported in the financial statements represent the original appropriations, and all supplemental adjustments or appropriations.

City Council adopts a capital improvement budget on a project basis. As in the case of the General fund budget, these budgets are submitted by the City Manager, public hearings are held and the budgets are legally enacted through adoption of an ordinance. Appropriations for these budgets continue until the purpose of the appropriation has been fulfilled. Amendments to these budgets are affected by City Council.

E. Deposits and Investments

The City's cash and short-term investments include cash on hand, demand deposits, and short-term investments with original maturities of one year or less from the date of acquisition.

Investment statutes authorize the City and the School Board to invest in obligations of 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) and Asian Development Bank, commercial paper rated A-1 by Standard and Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP). The fair value of the LGIP is the same as the value of the pool shares. The LGIP is not registered with the Securities and Exchange Commission (SEC) as an investment company, but maintains a policy to operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The external investment pool is administered by the Treasury Board of Virginia. The Pension Trust fund is authorized to invest in common stocks and other investments as directed by State statute.

Investments of the City, as well as its component units, are stated at fair value. Short-term investments are recorded at amortized cost, which approximates fair value. Securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the fiscal year. Investments that do not have an established market are reported at estimated fair value, primarily net asset value determined based on the fair value of the underlying securities. Purchases and sales of securities traded but not yet settled at year-end are recorded as due to broker for securities purchased and due from broker for securities sold, respectively.

The City uses the pooled cash investment method, as a result individual fund overdrafts are reclassified as due to/due from other funds or internal balances for financial statement purposes. Income from the investment of pooled cash is allocated to the various funds based on the percentage of cash and temporary investments of each fund to the total pooled cash and temporary investments.

For purposes of the statements of cash flows, all highly liquid debt instruments, with a maturity of 90 days or less, and certificates of deposit are grouped into cash and short-term investments. The cash and investment pool discussed above is considered cash, since it has the same characteristics as a demand deposit account.

F. Restricted Assets

Restricted assets are those whose use is subject to externally imposed constraints such as creditors through debt covenants, grantors or laws or regulations of other governments.

G. Interfund Transactions

During the normal course of operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets and service debt. The accompanying fund financial statements generally reflect such transactions as transfers.

Internal Service funds record charges for services to all City departments and funds as operating revenue. All City funds record these payments to the Internal Service funds as operating expenditures or expenses. Since the City's Internal Service funds generally support governmental activities rather than business-type activities, they are consolidated with the governmental funds in the government-wide financial statements. A discrete presentation of the City's Internal Service funds can be found in the "Other Supplementary Information" section of this document.

The General fund provides administrative services to enterprise funds and internal service funds. Charges for these services are treated as operating expenses by the enterprise and internal service funds and as revenue by the General fund in the fund financial statements.

H. Inventories

Inventories are stated at cost, using either the first-in, first-out, or the moving average method. Inventories in the governmental funds consist of expendable supplies held for consumption for which the cost is recorded as an expenditure when acquired, (i.e., the purchase method). Proprietary funds expense inventories when consumed.

I. Capital Assets

Capital assets, which include property, plant, equipment, intangibles and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported at historical cost less accumulated depreciation in the applicable governmental or business-type activities column in the government-wide financial statements and in proprietary funds. Capital assets are defined by the City's capitalization policy as assets owned by the City with an initial, individual cost of more than $5,000 and an estimated useful life greater than one year. Capital outlays of governmental funds are recorded as expenditures at the time of purchase and are not capitalized in the governmental funds. However, they are capitalized in the government-wide Statement of Activities if they meet the criteria for capitalization in the City's financial statements. Where historical cost records are not available, assets are recorded at estimated historical cost. Gifts or donated fixed assets are recorded at their estimated fair value on the date received. In the enterprise and internal service

funds, interest costs incurred on funds borrowed for construction projects are capitalized, net of interest earned on the temporary investment of the unexpended portion of those funds. When an asset is retired or otherwise disposed of, the related cost and accumulated depreciation are eliminated and any resulting gain or loss is reflected as non-operating revenue or expense.

The City evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by the City are reported at the lower of the carrying value or fair value. Impairment losses on capital assets that will continue to be used by the City are measured using the method that best reflects the diminished service utility of the capital asset. Any insurance recoveries received as a result of impairment events or changes in circumstances that result in the impairment of a capital asset are netted against the impairment loss.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives is not capitalized.

Capital assets of the Primary Government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives (in years):

	Governmental Funds	Enterprise Funds	Internal Service Funds
Building and improvements	40	10-75	40-50
Improvements other than buildings	15-25	10-99	15
Warehouse equipment and fixtures	-	-	7-10
Transmission and distribution mains	-	50-99	-
Service meters and meter installation	-	35-50	-
Pumping and other water/wastewater equipment	-	10-30	-
Vehicles and garage equipment	4-10	4-10	4-25
Data processing equipment	5-10	5-10	5-10
Furniture, fixtures and equipment	3-25	3-25	3-20
Infrastructure	5-100	-	-
Intangibles	5-10	5-10	5-10

J. Compensated Absences

It is the City and the School Board's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation leave is fully vested when earned by City employees. Sick leave does not vest for City employees; however, upon retirement, City employees receive credit for each day of

accumulated sick leave toward their pension benefit. There is no liability for unpaid accrued sick leave service since the City does not pay it when the employee separates from service. The additional retirement benefit is reflected in the actuarial liability of the ERS. The entire unpaid liability for vacation leave is recorded in the respective funds in the government-wide financial statements.

Upon retirement, School Board employees are paid $20 for each day of accumulated sick leave at retirement. Accumulated vacation leave cannot exceed 50 days for School Board employees. School Board employees are paid for unused vacation leave, at their normal rate of pay, upon termination of employment. Most School Board employees have ten-month employment contracts and are not entitled to vacation.

K. Net Assets/Fund Balances

Net assets in government-wide and proprietary fund financial statements may be classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, laws and regulations of other governments or imposed by law through state statutes.

Fund balances in governmental fund financial statements are classified as nonspendable, restricted, committed, assigned and unassigned. Nonspendable fund balance includes amounts that are not in spendable form. Restricted fund balance includes amounts that can be spent only for specific purposes as stipulated by a third party or through enabling legislation. Committed fund balance includes amounts that can be used only for specific purposes as determined by City Council through formal action. Assigned fund balance includes amounts that are intended to be used by the City for specific purposes, but do not meet the criteria to be classified as restricted or committed. Assignment authority has been given to the City Manager by City Council. The unassigned fund balance classification is for all amounts not included in other classifications.

L. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

M. Bond Premiums, Discounts and Issuance Costs

In the government-wide and proprietary fund financial statements, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing used. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

II. Deposits and Investments

Custodial Credit Risk - Deposits

The City maintains a cash and investments pool for all funds except the Pension Trust and Permanent funds. Each fund's portion of the pool is disclosed in the Statement of Net Assets and balance sheet as cash and short term investments. The cash and investments of the Pension Trust and Permanent funds, as well as certain restricted assets of the enterprise funds, are held separately from the pooled City funds.

All deposits of the City and its component units are collateralized in accordance with the Virginia Security for Public Deposits Act ("the Act"), Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance. Under the Act, any public depository that receives or holds public deposits ("Qualified Public Depositories") shall elect to secure deposits by either the Pooled Method or the Dedicated Method (which became available by amendments made to the Act effective July 1, 2010). The Pooled Method requires any public depository that receives or holds public deposits to pledge collateral, ranging from 50 to 100 percent of the public deposits, to the State Treasury Board to cover public deposits in excess of Federal deposit insurance. The Pooled Method also provides that if any member financial institution fails, the entire collateral pool becomes available to satisfy the claims of participating governmental entities. If the value of the pool's collateral were inadequate to cover a loss, additional amounts would be assessed on a pro rata basis to members of the pool. Under the Dedicated Method, Qualified Public Depositories are responsible for securing their own public deposits, by the pledge and deposit of eligible collateral with a qualified escrow agent, equal to or in excess of required collateral amounts, priced at a minimum of 105% to 130% of all public deposits held by the bank, based on rating determined under the Act; and therefore will not be assessed for losses of another bank that is in default or has become insolvent. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks. Both methods of securing public deposits are similar to depository insurance. Funds deposited in accordance with the Act are considered to be fully insured. The City's primary banking institution has elected to be governed by the Dedicated Method.

Custodial Credit Risk - Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

The City's equity and fixed income investments (except for bank deposits) are not insured and are registered in the name of the City and held by State Street Bank as custodian. The remaining City investments are held by the City or in the City's name by the City's custodial banks. The policy for the Pension Trust fund is that all securities purchased by or for the System be properly and clearly labeled as an asset of the System and held in safekeeping by a third party custodial bank or institution in compliance with Section 2.2-4515 of the Code of Virginia. The City and its other component units have no formal policy regarding custodial credit risk for investments.

Interest Rate Risk

The City's Pension Trust fund uses a "Duration" policy to manage its interest rate risk. The duration policy is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price.

Other than for the assets of the City's Pension Trust fund, neither the City nor discretely presented component units have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Segmented Time Distribution (as of June 30, 2012)

Primary Government

		Investment Maturities				
Investment Type	Fair Value	Less than 1 year	1-3 years	3-6 years	6-10 years	10 years +
Corporate Debt	$ 29,038,289	$ 11,322,906	$ 4,569,123	$ 6,441,353	$ 1,505,907	$ 5,199,000
Futures/Options/Swaps	56,207	(25,121)	155,636	(71,619)	(2,689)	-
Asset Backed Securities	8,266,885	-	524,134	-	-	7,742,751
US Government Securities	26,875,398	1,838,386	7,256,349	14,248,696	3,531,967	-
Mortgage Backed Securities	78,686,080	-	1,003,920	2,323,347	2,725,030	72,633,783
Certificates of Deposit	4,680,000	4,680,000	-	-	-	-
Common Stock	3,062	-	-	-	-	3,062
Municipals	9,195,621	-	-	-	-	9,195,621
Foreign Government Securities	10,215,704	5,142,952	-	305,406	4,649,911	117,435
Fixed Income Funds	156,013,580	-	-	-	-	-
Domestic Equity Funds	325,721,196	-	-	-	-	-
International Equity Funds	186,886,286	-	-	-	-	-
Real Estate Funds	42,060,258	-	-	-	-	-
Money Market Investments in Cash & Cash Equivalents	214,188,864	214,188,864	-	-	-	-
Total	$ 1,091,887,430	$ 237,147,987	$ 13,509,162	$ 23,247,183	$ 12,410,126	$ 94,891,652

A reconciliation of the carrying value of deposit and investments as reported above to amounts reported in the Statement of Net Assets (Primary Government) and the Statement of Fiduciary Net Assets for the City is as follows:

Per Exhibit 1 (Primary Government):		
Cash and short-term investments	$	302,783,083
Restricted cash held with fiscal agents		14,385,331
Investments		12,575,113
Accrued Investment Income		78,027
Restricted cash and investments		44,739,025
Total	$	374,560,579
Per Exhibit C-1 (Fiduciary):		
Cash and short-term investments		28,581,765
Investments		863,923,831
Total	$	892,505,596
Total Primary Government and Fiduciary	$	1,267,066,175
Less: Actual cash		175,178,745
Deposits and investments reported above	$	1,091,887,430

Credit Risk Related to Issuer

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's Pension Trust fund's formal policy governing credit risk is that securities rated below investment grade by two of the three primary rating agencies, Moody's Investors Services ("Moody's"), Fitch Ratings ("Fitch"), and Standard and Poor's ("S&P"), are not permitted without the written permission of the board. PIMCO has been given the authority by the board to invest 20% of the portfolio in below investment grade securities. The City's Pension Trust fund invests in certain derivatives including futures, swaps and options. Those securities are included in reported investments in the Retirement System's financial statements. Investments in derivatives with a fair value of $56,207 were held at June 30, 2012. The City's rated debt investments as of June 30, 2012 were rated by S&P and/or an equivalent national rating organization and the ratings are presented below using the S&P credit quality rating scale.

The Primary Government's Rated Debt Investment

Ratings (S&P)	Corporate Debt	Futures/Options/Swaps	Asset Backed Securities	Foreign Government	US Government Securities	Mortgage Backed Securities	Certificates of Deposit	Common Stock	Municipals	Fixed Income/ Equity/ Real Estate Funds	Money Market Mutual Funds
AAA	$ -	$ -	$ 107,305	$ 222,307	$ -	$ 722,671	$ -	$ -	$ -	$ -	$ -
AAAm	-	-	-	-	-	-	-	-	-	-	213,531,939
AA+	459,200	-	1,551,343	-	7,256,349	47,065,218	-	-	-	-	-
AA	-	-	-	-	-	-	-	-	944,744	-	-
AA-	2,813,943	-	-	2,670,123	-	-	-	-	1,318,055	-	-
AAm-	-	-	-	-	-	-	-	-	-	-	656,925
A+	7,785,687	-	-	2,180,322	-	4,605,627	-	-	2,643,162	-	-
A	3,659,304	-	-	-	1,838,386	133,965	-	-	936,118	-	-
A-	9,675,908	-	-	-	-	335,759	-	2,346	3,353,542	-	-
BBB+	1,945,426	-	-	-	-	113,290	4,480,000	-	-	-	-
BBB	233,144	-	-	-	-	153,972	-	-	-	-	-
BBB-	1,766,133	-	-	-	-	-	-	-	-	-	-
BB+	102,250	-	-	-	-	-	-	-	-	-	-
BB	175,500										
BB-	-	-	-	-	-	-	-	707	-	-	-
B+ and Below	208,274	-	31,538	-	-	882,174	-	9	-	-	-
Not Rated	213,520	56,207	6,576,699	5,142,952	17,780,663	24,673,404	200,000	-	-	710,681,320	-
Total	$ 29,038,289	$ 56,207	$ 8,266,885	$ 10,215,704	$ 26,875,398	$ 78,686,080	$ 4,680,000	$ 3,062	$ 9,195,621	$ 710,681,320	$ 214,188,864

The City's Pension Trust fund held $325,721,196, $186,886,286, and $42,060,258 in Domestic equity, International equity, and Real Estate Funds respectively, an additional $156,013,580 in Fixed Income Funds which are unrated securities.

Concentration of Credit Risk

Concentration risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. Mutual funds are excluded from this disclosure requirement. For the City's Pension Trust fund investment, no more than 20% of each account's fixed income portfolio, including cash equivalents, shall be invested in bonds rated Baa (1, 2 and 3) or BBB (+ or -). Upon written request from an investment manager, the Retirement Board of Trustees will consider allowing more than 20% in these ratings and the purchase of bonds rated below Baa3 or BBB-.

Other than for the assets of the City's Pension Trust fund, neither the City nor its component units have a formal investment policy regarding the amount it may invest in any one issuer.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The City's Pension Trust fund's exposure to foreign currency risk is presented as follows:

Currency	Fixed-Income
Australian Dollar	$ (3,226,301)
Brazilian Real	1,613,151
Canadian Dollar	4,839,452
Japanese Yen	(50,007,667)
Mexican Peso	6,452,602
	$ (40,328,763)

Neither the City nor its component units have a formal policy to limit foreign currency risk. Risk of loss arises from changes in currency exchange rates. The City's component units did not have any exposure to foreign currency risk at year end.

Community Services Board (CSB)

At June 30, 2012, the CSB had $5,042,940 of cash and cash equivalents held in investments and $787,639 of restricted cash. The investments are primarily in the LGIP.

School Board

At June 30, 2012, the School Board has investments of $24,711,000 in a Aaa rated money market mutual fund and other cash and cash equivalents of $26,290,430 including $5,762,336 held in agency funds.

Waterside Associates

At June 30, 2012, Waterside had $33,841 of cash and cash equivalents.

III. Property Taxes

Local real property assessments are made under the direction of a City Assessor appointed by the City Council. The City has the power to levy taxes on property located within its boundaries for payment of its obligations without limitation as to rate or amount. Rates are established by the City Council. The rates in effect for the year ended June 30, 2012, on each $100 of assessed value, were $1.11 for real property, an additional $0.16 for the Downtown Improvement District, $4.33 for motor vehicles, $1.50 for recreational vehicles, $4.25 for machinery and tools, $1.11 for mobile homes, $2.40 for airplanes, $0.50 for recreational boats and $1.50 for business boats. Disabled veterans pay a discounted rate of $3.00 on each $100 of assessed for personal property.

The property tax calendar is as follows:

	Real Property	Other than Real Property
Lien date	July 1	January 1
Levy date for existing property	July 1	January 1
Levy date for real property improvement, new construction or newly acquired property	October 1, January 1 and April 1	Date of acquisition
Due dates	September 30, December 5, March 31 and June 5	June 5 or 30 days after acquisition
Collection dates	On or before due date	

In the event any installment of taxes on any of the above properties is not paid on or before the due date, penalties and interest are assessed in accordance with the City Code.

IV. Accounts Receivable

A. Unbilled Accounts Receivable

Following is a summary by fund of unbilled accounts receivable recognized at June 30, 2012:

Water Utility fund	$	4,717,107
Wastewater Utility fund		1,095,674
Parking Facilities fund		220,440
	$	6,033,221

The associated revenue is included in charges for services. All amounts were billed in July 2012.

B. Allowances for Uncollectible Accounts Receivable

Allowances for uncollectible accounts receivable are generally established using historical collection data, consideration of economic conditions, specific account analysis and subsequent cash receipts. The allowances at June 30, 2012 are as follows:

Primary Government:		
General Fund:		
Taxes	$	16,749,345
Accounts		19,183,000
Total - General Fund		35,932,345
Storm Water special revenue fund		374,700
Water Utility fund		2,959,418
Wastewater Utility fund		978,517
Total - Primary Government	$	40,244,980
Component Units:		
Community Services Board	$	398,818
Waterside Associates		31,409
Total - Component Units	$	430,227

V. Due From Other Governments

Amounts due from other governments, at June 30, 2012 are as follows:

	General Fund	Capital Projects Fund	Total Primary Government	Component Unit School Board
Commonwealth of Virginia:				
Shared expenses	$ 4,505,107	$ 227,242	$ 4,732,349	$ -
Categorical aid	-	-	-	-
Non-categorical aid	16,871,056	-	16,871,056	15,420,598
Non-major governmental funds grants	-	-	2,190,018	2,073,078
Enterprise funds	-	-	53,550	-
Total - Commonwealth of Virginia	21,376,163	227,242	23,846,973	17,493,676
Federal Government:				
Major governmental funds	10,041	-	10,041	12,902,770
Non-major governmental funds grants	-	-	7,117,076	418,663
Build America Bonds interest subsidy	-	-	665,849	-
Total - Federal Government	10,041	-	7,792,966	13,321,433
Total - Due from other governments	$ 21,386,204	$ 227,242	$ 31,639,939	$ 30,815,109

VI. Changes in Capital Assets

A summary of changes in capital assets, at June 30, 2012 follows:

	Primary Government			
	Beginning Balance, as restated	Additions	Retirements/ Transfers	Ending Balance
Governmental activities:				
Non-depreciable capital assets:				
Land	$ 84,906,993	$ 6,844,138	$ (5,587,905)	$ 86,163,226
Intangible Assets	69,014	-	-	69,014
Construction in progress	106,304,559	44,683,895	(19,122,320)	131,866,134
Total non-depreciable assets	191,280,566	51,528,033	(24,710,225)	218,098,374
Depreciable assets:				
Buildings	680,169,475	8,223,100	(711,570)	687,681,005
Improvements other than buildings	59,616,956	4,127,578	-	63,744,534
Equipment and vehicles	130,293,489	4,439,980	(3,703,912)	131,029,557
Intangible assets	3,978,857	114,212	-	4,093,069
Infrastructure	1,168,729,905	13,799,126	(5,819,397)	1,176,709,634
Total depreciable assets	2,042,788,682	30,703,996	(10,234,879)	2,063,257,799
Less accumulated depreciation/amortization:				
Buildings	(294,712,614)	(15,365,510)	384,419	(309,693,705)
Improvements other than buildings	(15,785,415)	(1,981,119)	-	(17,766,534)
Equipment and vehicles	(79,922,450)	(8,512,900)	3,552,373	(84,882,977)
Intangible assets	(2,756,547)	(439,217)	-	(3,195,764)
Infrastructure	(975,609,152)	(9,184,790)	5,819,397	(978,974,545)
Total accumulated depreciation/amoritization	(1,368,786,178)	(35,483,536)	9,756,189	(1,394,513,525)
Depreciable assets, net	674,002,504	(4,779,540)	(478,690)	668,744,274
Total governmental activities capital assets, net	$ 865,283,070	$ 46,748,493	$ (25,188,915)	$ 886,842,648
Business-Type activities:				
Non-depreciable capital assets:				
Land	$ 46,646,352	$ 1,356,665	$ -	$ 48,003,017
Intangible assets	2,304,237	26,445	-	2,330,682
Construction in progress	43,246,176	52,630,983	(29,142,182)	66,734,977
Total non-depreciable assets	92,196,765	54,014,093	(29,142,182)	117,068,676
Depreciable assets:				
Land improvements	19,876,613	-	-	19,876,613
Buildings	369,770,057	745,813	(26,854)	370,489,016
Equipment and vehicles	611,488,268	29,676,256	(658,909)	640,505,615
Intangible assets	5,367,681	536,191	-	5,903,872
Totals depreciable assets	1,006,502,619	30,958,260	(685,763)	1,036,775,116
Less accumulated depreciation/amortization:				
Land improvements	(3,333,556)	(388,170)	-	(3,721,726)
Buildings	(94,023,407)	(7,988,754)	11,816	(102,000,345)
Equipment and vehicles	(174,039,424)	(13,278,071)	608,653	(186,708,842)
Intangible assets	(2,855,183)	(672,822)	-	(3,528,005)
Total accumulated depreciation/amortization	(274,251,570)	(22,327,817)	620,469	(295,958,918)
Depreciable assets, net	732,251,049	8,630,443	(65,294)	740,816,198
Business-Type activities capital assets, net	$ 824,447,814	$ 62,644,536	$ (29,207,476)	$ 857,884,874
Component units activities:				
Non-depreciable capital assets:				
Land	$ 487,500	$ -	$ -	$ 487,500
Construction in progress	13,824	1,342,907	(13,824)	1,342,907
Total non-depreciable assets	501,324	1,342,907	(13,824)	1,830,407
Depreciable assets:				
Buildings and mobile classrooms	11,905,803	-	(68,759)	11,837,044
Improvements other than buildings	863,107	-	-	863,107
Building improvements	-	-	-	-
Equipment and vehicles	34,877,174	3,014,118	(2,907,134)	34,984,158
Intangible assets	-	16,900	-	16,900
Total depreciable assets	47,646,084	3,031,018	(2,975,893)	47,701,209
Less accumulated depreciation:				
Buildings and mobile classrooms	(5,745,661)	(394,008)	41,986	(6,097,683)
Improvements other than buildings	(477,053)	(88,875)	-	(565,928)
Equipment and vehicles	(25,985,502)	(2,801,734)	2,637,144	(26,150,092)
Intangible assets	-	(1,377)	-	(1,377)
Total accumulated depreciation	(32,208,216)	(3,285,994)	2,679,130	(32,815,080)
Depreciable assets, net	15,437,868	(254,976)	(296,763)	14,886,129
Component units activities capital assets, net	$ 15,939,192	$ 1,087,931	$ (310,587)	$ 16,716,536

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

Governmental activities:		
General government	$	9,147,901
Judicial administration		1,110,893
Public safety		4,013,988
Public works, which includes the depreciation of infrastructure assets		12,055,858
Health and sanitation		245,714
Culture and recreation		7,657,696
Community development		880,410
In addition, depreciation on capital assets held by the City's Internal Service funds is charged to the various functions based on their usage of the assets.		296,003
Total depreciation expense	$	35,408,463
Business-type activities:		
Water Utility fund	$	11,902,145
Wastewater Utility fund		4,952,310
Parking Facilities fund		5,473,362
Total depreciation expense	$	22,327,817
Component unit activities		
Community Services Board	$	198,275
School Board		2,810,515
Waterside Associates		277,616
Total depreciation expense	$	3,286,406

The following is a summary by fund of interest expense/revenue capitalized during the fiscal year ended June 30, 2012:

	Expense	Revenue	Capitalized
Water Utility fund	$ 1,569,114	$ (135,511)	$ 1,433,603
Wastewater Utility fund	563,980	(5,193)	558,787
	$ 2,133,094	$ (140,704)	$ 1,992,390

VII. Short-Term Obligations

A. Bond Anticipation Notes

On March 24, 2011, the City issued a $51,655,000 General Obligation Bond Anticipation Note (BAN), Series 2011A (Tax-Exempt). The 2011A BAN consisted of a $36,930,000 Note with an interest rate of 3.00% to yield 1.25% and a $14,725,000 Note with an interest rate of 2.000% to yield 1.280%. The proceeds of the Series 2011A BAN were used to current refund on April 1, 2011, the outstanding principal amount and accrued and unpaid interest on the City's General Obligation BAN, Series 2010C. City Council has authorized that the Series 2011A BAN may be extended or refinanced from time to time by or at the direction of the City Manager provided that no extension or refinancing matures later than five years from the date of the original issuance of such Note (May 21, 2009).

On March 24, 2011, the City issued a $23,650,000 General Obligation BAN, Series 2011B (Taxable) with an interest rate of 2.090% to yield 2.090%. The proceeds of the Series 2011B BAN were used to current refund on April 1, 2011, the outstanding principal amount and accrued and unpaid interest on the City's General Obligation BAN, Series 2010D (Taxable). City Council has authorized that the Series 2011B BAN may be extended or refinanced from time to time by or at the direction of the City Manager provided that no extension or refinancing matures later than five years from the date of the original issuance of such Note (January 21, 2010).

Interest on both the Series 2011A and the Series 2011B BANs will be payable semi-annually on January 1 and July 1, commencing January 1, 2012. Principal and interest accrued on the Series 2011A and the Series 2011B BANs shall be payable at maturity on January 1, 2014.

Moody's Investors Service, Inc. ("Moody's) and Standard & Poor's Rating Services reaffirmed the City's existing long-term rating "Aa2" and "AA", respectively on both the Series 2011A and the Series 2011B BANs. Moody's additionally assigned a short-term rating of "MIG-1" on both the Series 2011A and the Series 2011B BANs. Both the Series 2011A and the Series 2011B BANs are general obligations of the City and the City's full faith and credit are irrevocably pledged to the repayment of principal and interest. Either of the Series 2011A BANs or the Series 2011B BANs may be retired, at the discretion of the City Council, from the proceeds of future Capital Improvement Bonds, any revenue bonds of the City or by means of current revenues, special assessments or other funds.

Both the $51,655,000 General Obligation BAN, Series 2011A (Tax-Exempt) and the

$23,650,000 General Obligation BAN, Series 2011B (Taxable) are included in the City's Outstanding General Obligation Bonds, and are classified as long-term obligations in the current year.

B. Variable Rate Bonds

General Obligation Variable Rate Demand Bonds, Series 2007

The City issued $32,365,000 in General Obligation Variable Rate Demand Bonds, Series 2007 (AMT) on March 29, 2007, to finance the acquisition, construction and equipping of an approximately 80,000 square foot cruise ship center which includes docking areas and meeting space. This facility, which is owned and operated by the City, is known as the Half Moone Cruise & Celebration Center. As of June 30, 2012, $30,265,000 remains outstanding and included in the City's long-term debt. The Series 2007 Bonds are general obligations of the City and the City's full faith and credit are irrevocably pledged to the repayment of principal and interest.

Since the Series 2007 Bonds financed a project that is used by private cruise ship lines, interest paid to the bondholders initially was subject to the alternative minimum tax (AMT). Taking advantage of a provision in the American Recovery and Reinvestment Act of 2009 (ARRA) that provided a holiday from the AMT for bonds issued in 2009 and 2010, the City permanently converted the Series 2007 Bonds from AMT to non-AMT tax status on August 27, 2009. The Series 2007 Bonds were issued pursuant to the provisions of the Indenture of Trust dated as of March 1, 2007, (the "Original Indenture") between the City and Regions Bank, as bond trustee (the "Trustee"). To effect the conversion, an Amended and Restated Indenture of Trust dated as of August 1, 2009, between the City and the Trustee (the "Amended and Restated Indenture") was executed for purposes of amending and restating the Original Indenture.

The Amended and Restated Indenture provides that the Series 2007 Bonds shall bear interest from time to time in any one of seven Interest Rate Periods: (i) a Daily Rate Period, (ii) a Weekly Rate Period, (iii) a Monthly Rate Period, (iv) a Commercial Paper Period, (v) an Indexed Put Rate Period, (vi) a Medium Term Rate Period, and (vii) a Fixed Rate Period. All Series 2007 Bonds must be in the same Interest Rate Period at any one time.

Additionally, the Amended and Restated Indenture provides that a portion of the Series 2007 Bonds maturing on August 1, 2037, in the amount of $1,910,000 is subject to mandatory redemption. As a sinking fund, on August 1, 2036, the Trustee shall redeem $1,910,000 of the Series 2007 Bonds plus accrued interest thereon to the redemption date. The remainder of the Series 2007 Bonds are subject to redemption at the direction of the City, in whole at any time or in part on any Interest Payment Date, at a redemption price equal to the principal amount thereof plus accrued interest, if any, to the redemption date. The final maturity on the Series 2007 Bonds is August 1, 2037.

Since delivery, the interest rate period on the Series 2007 Bonds has been at the Weekly Rate. Liquidity for the payment of the purchase price of Bonds tendered for purchase by the owners is provided pursuant to a Standby Bond Purchase

Agreement (the "Liquidity Facility") between the City and Lloyds TSB Bank plc (the "Bank") at a liquidity fee of 12.5 basis points (0.125%). The interest rate on the Bonds is subject to Conversion to another interest rate mode, except from a Fixed Rate to another interest rate period, in whole and not in part, at the option of the City, by mailing a notice thereof to the Trustee, the Credit Provider, Liquidity Purchaser, the Paying Agent and the Remarketing Agent at least 30 days before the Conversion Date and, if the Conversion is from the Commercial Paper Period to another mode, subject to certain limitations, accompanied by a preliminary written opinion of Bond Counsel stating that such Conversion is authorized under the Indenture and will not adversely affect the exclusion of the interest on any of the Bonds from the gross income of the recipient thereof for federal income tax purposes.

The Liquidity Facility, which expires March 28, 2014, provides for the purchase of the Bonds which have been tendered, but not remarketed. The unremarketed Bonds held by the Bank (the "Bank Bonds"), if any, shall bear interest at the Bank Rate in accordance with the Liquidity Facility. The Bank Rate on the Bank Bonds will be computed for the first 30 days to be the Base Rate, which for any day is the higher of the Prime Rate or the Federal Funds Rate, plus fifty basis points (0.50%) per annum. The Bank Rate on the Bank Bonds for days 31 to day 90 will be computed as the Base Rate plus 1.50%. At 91 days and onward, any advances made under the Liquidity Facility, if any, will constitute a Term Loan and interest will be calculated as the Base Rate plus 2.00% (the "Term Loan Rate"). Repayment of the Term Loan shall be repaid by the City in sixty (60) equal monthly installments the first of which installments will be paid on the 90th day following the commencement date of the Term Loan; however the Term Loan may be prepaid by the City, without premium or penalty, upon one (1) business day notice in whole or in part, but if in part, in a minimum aggregate principal amount of $500,000 and integral multiples of $100,000 in excess thereof.

Through June 30, 2012**,** all the Series 2007 Bonds have been successfully remarketed by the remarketing agent.

Variable Rate Parking System Revenue Bonds, Series 2004A (Taxable)

The City issued $6,695,000 in Variable Rate Parking System Revenue Bonds, Series 2004A (Taxable) on October 28, 2004, to finance the costs of acquiring, constructing and equipping capital improvements to the Parking System. As of June 30, 2012, $5,940,000 remains outstanding and included in the City's long-term debt. The bonds mature February 1, 2035.

The Series 2004A Bonds are limited obligations of the City payable from the Net Revenues derived from the City's Parking System and other funds pledged for their payment under the terms of the Master Indenture of Trust dated as of February 1, 1997, as supplemented, between the City and U.S. Bank Trust National Association, as successor Trustee (the "Trustee").

The Indenture provides that the Series 2004A Bonds shall bear interest from time to time in any one of four Interest Mode: (i) a Daily Rate Mode, (ii) a Weekly Rate Mode, (iii) a Long-Term Mode, or (vii) a Fixed Mode. All Series 2004A Bonds must

be in the same Interest Mode at any one time. Since initial delivery, the interest rate mode on the Series 2004A Bonds has been at the Weekly Rate. The interest rate on the Bonds is subject to Conversion to another interest rate mode, except from a Fixed Rate to another interest rate mode, in whole and not in part, at the option of the City, by mailing a notice thereof to the Trustee at least 30 days before the Conversion Date. Upon change in an Interest Mode, the Series 2004A Bonds are subject to mandatory tender for purchase to U.S. Bank Trust National Association, as tender agent. Notice must be sent by mail to the Owners of the Series 2004A Bonds no less than 15 days prior to the change in the Interest Mode. The Maximum Bond Rate (other than with respect to Bank Bonds) at any time is 15% per annum.

In conjunction with these bonds, the City maintains a Credit Facility. The Credit Facility is an irrevocable direct-pay letter of credit (LOC) obligation of Bank of America, N.A. (the "Credit Facility Issuer"). The annual LOC fee is 48 basis points for the current three-year LOC that expires on October 26, 2013. The LOC provides (i) the principal of the 2004A Bonds or the portion of the Purchase Price corresponding to the principal of the 2004A Bonds, to the extent remarketing proceeds are insufficient and (ii) 45 days' accrued interest (at a maximum rate of 15% per annum) on such 2004A Bonds or that portion of the Purchase Price corresponding to the interest accrued thereon.

The LOC provides for the purchase of the Bonds, which have been tendered, but not remarketed. The unremarketed Bonds held by the Bank (the “Bank Bonds”) shall bear interest at the Bank Rate in accordance with the Credit Facility. Interest on the Bank Bonds will be computed as the per annum rate (rounded upwards, if necessary, to the next higher 1/100 of 1%) equal to one month LIBOR plus 200 basis points (2.0%). The Bank Rate shall not be subject to the Maximum Bond Rate.

At the option of the City, any 2004A Bonds are subject to redemption prior to maturity as further described in the Fifth Supplemental Indenture of Trust between the City and the Trustee.

Through June 30, 2012, all the Series 2004A Bonds have been successfully remarketed by the remarketing agent.

VIII. Long-Term Obligations

A. General Obligation and Revenue Bonds

The City has traditionally issued general obligation or revenue bonds to provide funds for the construction and acquisition of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. In 1993 and 1997 the City established Water revenue and Parking revenue bond programs, respectively. The Wastewater revenue bond program was established in fiscal year 2008.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. Revenue bonds are limited liability obligations where revenues derived

from the respective acquired or constructed assets are pledged to pay debt service.

A summary of general obligation bond and revenue bond transactions for the fiscal year ended June 30, 2012, follows:

		Enterprise Funds			
	Governmental Activities - General Obligation Bonds	Water Utility Bonds	Wastewater Utility Bonds	Parking Facilities Bonds	Total Enterprise Funds
General obligation bonds outstanding at July 1, 2011	$ 639,674,884	$ 3,896,689	$ 97,325,399	$ 85,976,693	$ 187,198,781
Bonds retired	(56,025,354)	(2,058,267)	(7,165,509)	(1,464,104)	(10,687,880)
Bonds refunded	(74,859,421)	-	(6,241,599)	(1,728,980)	(7,970,579)
Bonds transferred	9,840,460	-	-	(9,840,460)	(9,840,460)
Bonds reamortized	-	-	-	-	-
Bonds issued	169,245,313	-	27,583,367	1,626,320	29,209,687
Bonds outstanding at June 30, 2012	687,875,882	1,838,422	111,501,658	74,569,469	187,909,549
Unamortized (discount) premium	29,531,510	(29,405)	4,638,983	1,275,867	5,885,445
General obligation bonds outstanding at June 30, 2011, adjusted for unamortized (discount) premium	$ 717,407,392	$ 1,809,017	$ 116,140,641	$ 75,845,336	$ 193,794,994
Revenue bonds outstanding at July 1, 2011		$ 340,895,000	$ 23,727,659	$ 84,820,000	$ 449,442,659
Bonds retired		(11,285,000)	(1,225,000)	(2,565,000)	(15,075,000)
Bonds refunded		(210,160,000)	-	-	(210,160,000)
Bonds issued		176,925,000	11,387,503	-	188,312,503
Bonds outstanding at June 30, 2012		296,375,000	33,890,162	82,255,000	412,520,162
Unamortized (discount) premium		30,042,625	(67,983)	(3,085,071)	26,889,571
Revenue bonds outstanding at June 30, 2012, adjusted for unamortized (discount) premium		$ 326,417,625	$ 33,822,179	$ 79,169,929	$ 439,409,733

General obligation and revenue bonds outstanding at June 30, 2012, are composed of the following individual issues:

				Governmental Activities	Business-type Activities			
Bond Issue/Purpose	Dated	Issue Amount	Interest Rate	Public Improvement Allocation	Water Utility Allocation	Wastewater Utility Allocation	Parking Facilities Allocation	Balance Outstanding
Series 1989 Property Acquisition	7/11/1989	1,500,000	6.76%	$ 1,500,000	$ -	$ -	$ -	$ 1,500,000
Series 1997 QRB	4/15/1997	4,000,000	5.60 - 5.75%	-	-	-	-	-
Series 1998 QRB	9/15/1998	2,560,000	4.70 - 5.10%	130,000	-	-	-	130,000
Series 1999 QRB	7/1/1999	4,000,000	5.10 - 5.30%	200,000	-	-	-	200,000
Series 1999 QZAB	8/19/1999	7,000,000	none	-	-	-	-	-
Series 2000 QRB	7/15/2000	3,995,000	5.25 - 5.65%	200,000	-	-	-	200,000
Series 2000 QZAB	11/22/2000	3,637,170	none	559,565	-	-	-	559,565
Series 2001 QZAB	12/27/2001	1,062,830	none	245,388	-	-	-	245,388
Series 2002 Capital Improvement and	2/1/2002	74,200,000	5.00%	1,794,000	-	506,000	-	2,300,000
Series 2002 QRB	2/1/2002	7,955,000	4.50 - 5.50%	-	-	-	-	-
Series 2002 Property Acquisition	8/14/2002	3,400,000	5.38%	3,400,000	-	-	-	3,400,000
Series 2002B Capital Improvement and Refunding	11/1/2002	74,490,000	3.00 - 5.25%	6,492,016	739,589	754,590	263,803	8,249,998
Series 2003 VRA	4/8/2003	9,423,794	3.50%	-		6,711,997	-	6,711,997
Series 2003 Capital Improvement and Refunding	11/15/2003	69,375,000	3.50 - 4.75%	5,600,019	-	109,981	-	5,710,000
Series 2004 Refunding	3/1/2004	96,395,000	4.00 - 5.00%	18,646,300	-	3,083,700	-	21,730,000
Series 2004 HUD	3/3/2004	13,000,000	4.32 - 5.97%	-	-	-	-	-
Series 2004 Property Acquisition	7/29/2004	1,775,000	7.00%	1,080,295	-	-	-	1,080,295
Series 2004 VRA	9/17/2004	11,100,000	3.10%	-	-	8,610,238	-	8,610,238
Series 2005 Capital Improvement and Refunding	3/16/2005	94,355,000	4.125 - 5.00%	35,672,978	-	4,507,022	-	40,180,000
Series 2006 VRA	3/14/2006	11,187,809	3.00%	-	-	9,367,949	-	9,367,949
Series 2006B VRA	9/28/2006	14,250,000	none	-	-	11,400,000	-	11,400,000
Series 2006 Capital Improvement and Refunding	11/15/2006	115,055,000	4.00 - 5.00%	21,581,006	-	1,901,509	667,484	24,149,999
Series 2007 VRDB (AMT)	3/29/2007	32,365,000	variable - June 30, 2012 rate of 0.22%	30,265,000	-	-	-	30,265,000
Series 2008A&B Refunding	2/13/2008	17,160,000	3.00 - 4.625%	9,765,000	-	-	-	9,765,000
Series 2008C Capital Improvement	6/30/2008	153,605,000	4.70 - 5.00%	84,490,000	-	18,230,000	-	102,720,000
Series 2009A Capital Improvement	5/21/2009	55,280,000	2.00 - 4.375%	46,195,000	-	-	-	46,195,000
Series 2009B Refunding	5/21/2009	21,895,000	3.00 - 5.00%	7,794,181	1,098,833	674,057	282,930	9,850,001
Series 2010A Capital Improvement	1/21/2010	49,875,000	1.75 - 5.00%	33,668,065	-	2,385,785	4,136,151	40,190,001
Series 2010B Capital Improvement	1/21/2010	117,650,000	4.04 - 5.962%	108,841,905	-	8,808,095	-	117,650,000
Series 2010E Capital Improvement	2/25/2010	5,000,000	2.00 - 4.00%	-	-	-	4,750,000	4,750,000
Series 2010F Capital Improvement	2/25/2010	5,000,000	1.30 - 5.05%	4,750,000	-	-	-	4,750,000
Series 2010G Refunding	10/19/2010	90,165,000	2.50 - 5.00%	83,098,006	-	6,867,368	199,626	90,165,000
Series 2011A Bond Anticipation Note	3/24/2011	51,655,000	2.00 - 3.00%	10,561,863	-	-	41,093,137	51,655,000
Series 2011B Bond Anticipation Note	3/24/2011	23,650,000	2.09%	2,099,982	-	-	21,550,018	23,650,000
Series 2012A Refunding	5/30/2012	69,030,000	2.50 - 5.00%	61,445,313	-	5,958,367	1,626,320	69,030,000
Series 2012B Refunding	5/30/2012	7,805,000	2.50 - 4.00%	7,805,000	-	-	-	7,805,000
Series 2012C Capital Improvement	6/28/2012	114,270,000	2.50 - 5.00%	92,645,000	-	21,625,000	-	114,270,000
Series 2012D Capital Improvement	6/28/2012	7,350,000	4.35%	7,350,000	-	-	-	7,350,000
Total General Obligation Bonds				$ 687,875,882	$ 1,838,422	$ 111,501,658	$ 74,569,469	$ 875,785,431

Bond Issue/Purpose	Dated	Interest Rate	Business-type Activities: Water Utility	Business-type Activities: Parking Facilities	Business-type Activities: Wastewater Utility	Balance Outstanding
Series 1993 Water Revenue	11/1/1993	5.25 - 5.375%	$ -	$ -	$ -	$ -
Series 1995 Water Revenue	8/15/1995	5.75 - 5.90%	-	-	-	-
Series 1998 Water Revenue and Refunding	11/1/1998	4.75 - 5.125%	-	-	-	-
Series 1999 Parking System Revenue	2/15/1999	4.00 - 5.00%	-	12,840,000	-	12,840,000
Series 2001 Water Revenue and Refunding	10/15/2001	4.00 - 5.00%	-	-	-	-
Series 2000B Parking System Revenue and Refunding	10/1/2000	5.50 - 5.50%	-	15,155,000	-	15,155,000
Series 2004A Variable Rate Parking System Revenue	10/28/2004	variable - June 30, 2012 rate of 0.38%	-	5,940,000	-	5,940,000
Series 2004B Parking System Revenue and Refunding	10/28/2004	2.50 - 5.00%	-	23,960,000	-	23,960,000
Series 2005 Water Revenue and Refunding	3/23/2005	3.50 - 5.00%	17,505,000	-	-	17,505,000
Series 2005 Parking System Revenue Refunding	6/15/2005	4.00 - 5.00%	-	24,360,000	-	24,360,000
Series 2007 Wastewater Revenue	11/9/2007	0.00%	-	-	14,875,000	14,875,000
Series 2008 Water Revenue	4/23/2008	3.00 - 5.00%	55,440,000	-	-	55,440,000
Series 2009 Wastewater Revenue	11/17/2009	0.00%	-	-	7,125,000	7,125,000
Series 2010 Water Revenue	9/30/2010	2.00 - 4.50%	46,505,000	-	-	46,505,000
Series 2010 Wastewater Revenue	10/19/2010	0.00%	-	-	9,100,161	9,100,161
Series 2011 Wastewater Revenue	10/21/2011	0.00%	-	-	2,790,001	2,790,001
Series 2012 Water Revenue Refunding	4/4/2012	2.00 - 5.00%	176,925,000	-	-	176,925,000
Total Revenue Bonds			$ 296,375,000	$ 82,255,000	$ 33,890,162	$ 412,520,162

The Parking System's Series 2004 Variable Rate Demand Bonds are remarketed weekly and have averaged 0.38% over the one-month London Interbank Offered Rate (LIBOR) since inception.

The Series 2007 General Obligation Variable Rate Demand Bonds, utilized to finance the construction of the cruise terminal, are remarketed weekly and are generally anticipated to be 0.22% higher than the Securities Industry and Financial Market Association (SIFMA) Index.

B. General Obligation Bonds

A summary of the requirements to amortize general obligation bonds are as follows:

Year Ending June 30,	Governmental Activities Principal	Governmental Activities Interest	Business-type Activites Principal	Business-type Activites Interest
2013	$ 49,932,456	$ 27,694,020	$ 8,774,924	$ 6,035,149
2014	60,141,397	27,365,190	71,295,410	5,925,755
2015	47,165,754	25,231,401	8,817,818	4,012,388
2016	43,392,184	23,227,472	7,605,033	3,688,798
2017	43,046,491	21,302,358	7,540,569	3,400,295
2018-2022	193,630,251	79,384,837	35,406,527	13,520,246
2023-2027	148,795,921	40,623,239	34,958,716	6,930,827
2028-2032	70,261,428	12,758,115	12,430,552	1,563,252
2033-2037	23,925,000	2,227,975	1,080,000	27,000
2038-2042	6,655,000	814,487	-	-
2043	930,000	23,250	-	-
Total	$ 687,875,882	$ 260,652,344	$ 187,909,549	$ 45,103,710

The detailed requirements to amortize general obligation bonds for the major proprietary funds are as follows:

Year Ending	Water Utility Fund		Wastewater Utility Fund		Parking Facilities Fund	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2013	$ 739,589	$ 82,154	$ 6,946,909	$ 3,970,287	$ 1,088,426	$ 1,982,708
2014	551,047	41,165	7,125,085	3,897,661	63,619,279	1,986,929
2015	547,786	13,695	7,289,465	3,603,898	980,567	394,795
2016	-	-	6,846,958	3,358,707	758,075	330,092
2017	-	-	6,947,120	3,103,090	593,450	297,205
2018-2022	-	-	32,463,267	12,309,608	2,943,259	1,210,638
2023-2027	-	-	32,032,301	6,260,406	2,926,413	670,422
2028-2032	-	-	10,770,553	1,395,600	1,660,000	167,649
2033-2037	-	-	1,080,000	27,000	-	-
	$ 1,838,422	$ 137,014	$ 111,501,658	$ 37,926,257	$ 74,569,469	$ 7,040,438

C. Revenue Bonds

The water revenue bond covenants require that each year's Water Utility fund net revenue not be less than the greater of (i) the sum of 1.1 times senior debt service and 1.0 times subordinated debt service or (ii) 1.0 times the funding requirements for transfers from the revenue fund to the operating fund, the bond fund, the parity debt service fund, the debt service reserve fund, the subordinate debt service fund, the repair and replacement reserve fund and the rate stabilization fund. Pursuant to the terms of the revenue bond indenture, certain resources have been set aside for the repayment of the revenue bonds. These resources are classified as restricted cash and investments on the Statement of Net Assets because their use is limited by applicable bond covenants.

The wastewater revenue bond covenants require that each year's Wastewater Utility fund net revenue will equal at least 1.15 times the amount required during the fiscal year to pay the principal of the wastewater revenue bond, the additional payments and all other indebtedness of the borrower payable from revenues, including without limitation, indebtedness under leases which are treated as capital leases under GAAP, but excluding any general obligation bonds issued to finance wastewater system property. These resources are classified as restricted investments on the Statement of Net Assets because their use is limited by applicable bond covenants.

The parking revenue bond covenants require that each year's Parking Facilities fund net revenue not be less than the greater of (i) the sum of 1.25 times senior debt service and 1.0 times subordinated debt service and (ii) 1.0 times the funding requirements for transfers from the revenue fund to the operating fund, the bond fund, the parity debt service fund, the debt service reserve fund, the MacArthur Center garage reserve fund, the repair and replacement reserve fund, the surety bond interest fund and the subordinate debt service fund. Pursuant to the terms of the revenue bond indenture, certain resources have been set aside for the repayment of the revenue bonds. These resources are classified as restricted investments on the Statement of Net Assets because their use is limited by applicable bond covenants.

The detailed requirements to amortize water, wastewater, and parking revenue bonds are as follows:

Year Ending	Water Revenue		Parking Revenue		Wastewater Revenue	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2013	$ 7,000,000	$ 14,276,059	$ 2,690,000	$ 3,776,469	$ 1,725,000	$ -
2014	7,250,000	13,476,719	2,835,000	3,650,501	1,817,140	-
2015	7,805,000	13,244,769	2,970,000	3,517,134	1,817,140	-
2016	8,750,000	12,894,294	3,085,000	3,399,360	1,817,140	-
2017	10,655,000	12,438,019	3,240,000	3,264,211	1,817,140	-
2018-2022	78,845,000	51,726,070	18,775,000	14,059,244	9,085,701	-
2023-2027	84,255,000	30,331,388	23,985,000	9,251,360	9,085,701	-
2028-2032	44,495,000	15,155,840	21,560,000	3,226,787	6,585,700	-
2033-2037	30,305,000	7,108,874	3,115,000	178,809	139,500	-
2038-2042	17,015,000	1,134,831	-	-	-	-
Total	$ 296,375,000	$ 171,786,863	$ 82,255,000	$ 44,323,875	$ 33,890,162	$ -

D. Mortgage Payable

Waterside Associates has a mortgage payable that has been extended several times since inception. As of June 30, 2012, the most recent extension began on September 1, 2011 requiring 23 monthly installments of $45,000 ending with a final payment of outstanding principal and accrued interest on August 2, 2013. Interest is payable monthly at a rate of LIBOR plus 1.58% with a maximum rate of 6.25% and a minimum rate of 3.25%. The effective interest rate as of June 30, 2012 was 3.25%. The loan is secured by the building and land and is guaranteed by its partners. The loan balance as of June 30, 2012 is $4,285,529.

E. Other Notes and Loans

The City purchased property in December 2009 and, as a part of the purchase agreement, the City assumed the outstanding balance of the Seller's existing loan with Southern Bank in the amount of $1,208,262. The balance of this note was paid in full during the fiscal year ended June 30, 2012.

F. Current and Advanced Refundings

On April 4, 2012, the City sold $176,925,000 of water revenue refunding bonds. The Series 2012 Bonds were used to defease $40,055,000 of the City's Series 1993 Water Revenue Bonds, $77,650,000 of the City's Series 1995 Water Revenue Bonds, $61,700,000 of the Series 1998 Water Revenue Bonds, $28,035,000 of the City's Series 2001 Water Revenue Bonds and $2,720,000 of the City's Series 2005 Water Revenue Bonds. The refunding will reduce the City's total debt service payments for bonds and result in an economic gain (difference between the present values of the debt service payments on the old and new debt) of $39,272,782. Based on the City's long-standing wholesale contract with Virginia Beach, a portion of the refunding savings will be shared in accordance with the applicable contract terms.

On May 30, 2012, the City sold $76,835,000 of general obligation bonds. The two-prong sale was comprised of $69,030,000 of General Obligation Capital Improvement Refunding Bonds, Series 2012A and $7,805,000 of General Obligation Qualified Redevelopment Bonds, Series 2012B (AMT). The Series 2012A Bonds were used to defeased $5,580,000 of the City's Series 2005 General Obligation Bonds, $55,745,000 of the City's Series 2006 General Obligation Bonds and $12,735,000 of the City's Series 2004 HUD Loan. The Series 2012B Bonds were used to defease $1,000,000 of the City's Series 1997 Qualified Redevelopment Bonds, $775,000 of the City's Series 1998 Qualified Redevelopment Bonds, $1,400,000 of the Series 1999 Qualified Redevelopment Bonds, $1,595,000 of the City's Series 2000 Qualified Redevelopment Bonds and $4,000,000 of the City's Series 2002 Qualified Redevelopment Bonds. The refunding will reduce the City's total debt service payments for bonds and result in an economic gain (difference between the present values of the debt service payments on the old and new debt) of $7,434,987.

Previously, the City of Norfolk defeased certain general obligation and revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the fund's financial statements.

At June 30, 2012, the following defeased bonds from advance refunding are still outstanding:

General Obligation

Defeased In	Original Issue	Amount	Redemption
2006	2002B	$ 6,920,000	7/1/2012
2011	2002B	10,380,000	7/1/2012
2011	2003	28,550,000	12/1/2013
2011	2005	20,950,000	3/1/2015
2011	2006	7,650,000	10/1/2014
2011	2008C	23,135,000	4/1/2017
2012	2004	200,000	8/1/2012
2012	2004	505,000	8/1/2013
2012	2004	12,030,000	8/1/2014
2012	2005	5,580,000	3/1/2015
2012	2006	55,745,000	10/1/2014
		$ 171,645,000	

G. Lease Obligations

Operating Leases:

The City leases various facilities for operational and office space from various lessors under operating leases. Total rental expenditures under these leases were $3,808,764 for the fiscal year ended June 30, 2012.

Future year lease obligations are listed below:

Year Ending June 30,	Lease Obligations
2013	$ 5,111,123
2014	4,864,374
2015	4,448,595
2016	3,937,194
2017	1,734,399
Thereafter	3,033,415
Total minimum lease payments	$ 23,129,100

As described in Note XXV, effective July 1, 2012, the CSB became a department and special revenue fund in the City and as a result the City has assumed responsibility for its leases. CSB's leases are included in the preceding table and represent $8,483,348 of the total lease obligations presented.

H. Landfill Liability

The Campostella Landfill was issued a permit by the Virginia Department of Health on February 18, 1983 to operate a construction demolition debris (CDD) waste landfill. The landfill accepted primarily CDD and inert waste in addition to sanitary and debris waste. The landfill stopped receiving waste on June 30, 1992. The Virginia Department of Environmental Quality (DEQ) approved the closure certification and officially designated the facility closed on August 2, 2002. State and federal laws require the City to perform certain maintenance and monitoring activities at the site for 10 years after regulatory closure. During the fiscal year ended June 30, 2010, the DEQ notified the City that it must demonstrate corrective action and 10 years of post-close care costs beyond December 31, 2010. The $1,658,438 reported as an obligation for landfill closure and post-closure costs at June 30, 2012, reflects the estimated total cost to perform these activities. Actual costs may be higher due to inflation, changes in technology and/or changes in laws.

The Campostella landfill statistically exceeded groundwater protection standards in May 2002. Until a remedy for corrective action is chosen and approved, $1,000,000 is included in the liability above for groundwater corrective action as required by state law.

I. Compensated Absences

A liability for vested vacation and sick leave benefits is recorded as general long-term obligations. These benefits represent future obligations of the following funds and component units:

Primary Government:		
Governmental activities:		
General fund	$	14,781,412
Non-major governmental and internal service funds		1,133,959
Total governmental	$	15,915,371
Enterprise funds:		
Water Utility fund	$	1,044,689
Wastewater Utility fund		374,331
Parking Facilities fund		311,959
Total enterprise funds	$	1,730,979
Component Unit - School Board	$	8,967,984
Component Unit - CSB	$	877,171

J. Debt Limit

The Commonwealth of Virginia imposes a legal limit of 10 percent of the assessed valuation of taxed real property as a ceiling in the amount of general obligation borrowings, which may be issued by the City without referendum. At June 30, 2012, the City's debt limit is $1,867,673,053 of which $990,612,622 is available for the issuance of additional debt. There are no overlapping tax jurisdictions.

K. Bonds Authorized and Unissued

A summary of bonds authorized and unissued as of June 30, 2012 are as follows:

Projects		Total
General Obligation Bonds Authorized and Unissued:		
Capital Fund Projects		
General Capital Improvement Projects	$	139,316,011
Maritime Center Capital Improvement Projects		425,000
Towing and Recovery Capital Improvement Projects		3,091,084
Storm Water Capital Improvement		-
Capital Fund Projects Total	$	142,832,095
Parking Facilities Fund Projects		-
Wastewater Utility Fund Projects		7,485,748
G.O. Bonds Authorized and Unissued	$	150,317,843
Revenue Bonds Authorized and Unissued:		
Water Utility Fund Projects		75,520,626
Parking Facilities Fund Projects		72,422,529
Revenue Bonds Authorized and Unissued		147,943,155
Total Bonds Authorized and Unissued:	$	298,260,998

L. Changes in Long-Term Obligations

A summary of fiscal year 2012 changes in long-term obligations, net of unamortized discounts and premiums, are as follows:

	Primary Government				
	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES:					
Bonds and Notes Payable:					
General obligation debt	$ 651,755,342	$ 198,199,363	$ 132,547,313	$ 717,407,392	$ 52,498,750
Notes	1,208,262	-	1,208,262	-	-
Total Bonds and Notes Payable	652,963,604	198,199,363	133,755,575	717,407,392	52,498,750
Other Liabilities:					
Vested compensated absences	14,622,920	9,123,510	8,121,290	15,625,140	10,300,000
Retirement system contribution	38,140,246	36,942,395	38,140,246	36,942,395	36,942,395
Other post-employment benefits	18,118,060	7,238,013	2,485,432	22,870,641	-
Retiree's life insurance	395,000	-	65,000	330,000	75,000
Self-insurance	31,673,082	4,403,895	4,676,586	31,400,391	3,649,622
Landfill closure and post-closure costs	1,779,660	-	121,222	1,658,438	-
Total Other Liabilities	104,728,968	57,707,813	53,609,776	108,827,005	50,967,017
Governmental Activities					
Long-term liabilities	757,692,572	255,907,176	187,365,351	826,234,397	103,465,767
Internal Service Funds:					
Retirement system contribution	605,162	556,251	605,162	556,251	556,251
Vested compensated absences	316,341	145,271	171,381	290,231	207,810
Total Internal Service Funds	921,503	701,522	776,543	846,482	764,061
Total Governmental Activities	$ 758,614,075	$ 256,608,698	$ 188,141,894	$ 827,080,879	$ 104,229,828
BUSINESS-TYPE ACTIVITIES:					
Bonds and Notes Payable:					
Water	$ 344,346,931	$ 176,925,000	$ 193,045,289	$ 328,226,642	$ 7,739,589
Wastewater	122,117,066	38,970,870	11,189,555	149,898,381	8,671,909
Parking facilities	169,005,117	-	13,991,197	155,013,920	3,778,426
Total Bonds and Notes Payable	635,469,114	215,895,870	218,226,041	633,138,943	20,189,924
Other Liabilities:					
Vested compensated absences	1,739,257	1,051,908	1,060,186	1,730,979	909,683
Retirement system contribution	4,115,904	3,967,810	4,115,904	3,967,810	3,967,810
Other post employment benefits	2,044,091	828,872	284,623	2,588,340	-
Claims and judgements	-	-	-	-	-
Total Other Liabilities	7,899,252	5,848,590	5,460,713	8,287,129	4,877,493
Total Business-Type Activities	$ 643,368,366	$ 221,744,460	$ 223,686,754	$ 641,426,072	$ 25,067,417
COMPONENT UNITS:					
Bonds and Notes Payable:					
Waterside Associates	$ 4,705,427	$ -	$ 419,898	$ 4,285,529	$ 372,342
Other Liabilities:					
Vested Compensated Absences					
Community Services Board	1,013,946	470,206	606,981	877,171	617,649
Norfolk Public Schools	9,227,877	10,241,396	10,501,289	8,967,984	6,725,988
Other post employment benefits					
Norfolk Public Schools	8,065,445	8,318,213	4,672,358	11,711,300	-
Pension Liability:					
Community Services Board	1,705,765	666,046	956,664	1,415,147	1,415,147
Pollution Remediation:					
Norfolk Public Schools	130,000	1,078,555	130,000	1,078,555	1,078,555
Workers' Compensation Claims					
Norfolk Public Schools	2,553,901	1,127,365	953,140	2,728,126	219,597
Claims Liability					
Norfolk Public Schools	56,218	76,654	93,322	39,550	29,870
Component Units long-term obligations	$ 27,458,579	$ 21,978,435	$ 18,333,652	$ 31,103,362	$ 10,459,148

IX. Pension Plans

The City and its component units participate in three defined benefit pension retirement plans. These include the Employees' Retirement System (ERS) of the City of Norfolk (IX.A); a Virginia Retirement System (VRS) plan administered by the Commonwealth of Virginia for the benefit of Norfolk School Board employees (IX.B); and a VRS plan for the benefit of state employees in constitutional offices (IX.C). In addition, the School Board and Community Services Board have defined contribution plans.

A. Employees' Retirement System of the City of Norfolk (System):

Plan Description

The Employees' Retirement System of the City of Norfolk (System) is the administrator of a single-employer contributory, defined benefit plan (the Plan) that covers substantially all employees of the City, excluding School Board and Constitutional Officers' employees who are covered by the Virginia Retirement System. The System provides retirement benefits as well as death and disability benefits. All benefits vest after 5 years of creditable service. Cost-of-living adjustments ("COLAs") are provided at the discretion of the City Council. The System and its benefits are established by Section 37 of the Code of the City of Norfolk, Virginia as amended. All employees hired on or after October 5, 2010 contribute 5% of compensation to the benefit plan with the exception of Norfolk Community Services Board employees at June 30, 2012 who will become City employees on July 1, 2012. The ERS is included as a Pension Trust fund in the City's financial statements and also issues a separate publicly available financial report that includes financial statements and required supplementary information for the ERS. That report may be obtained by writing to Employees' Retirement System of the City of Norfolk, City Hall Building, 810 Union Street, Suite 309, Norfolk, VA 23510.

Funding Policy

Section 37 of the Code of the City of Norfolk, Virginia, established the authority under which the City's obligation to contribute to the Plan is determined. Contribution requirements are actuarially determined at the end of each fiscal year and paid by the City in the ensuing year. The contribution requirement of $41,466,456 for the fiscal year ended June 30, 2012 was based on 25.3% of covered payroll for general employees and for public safety employees. This contribution requirement is recorded in the City's *Statement of Net Assets* as a liability payable to the Pension Trust fund and will be made in fiscal year 2013.

Annual Pension Cost

For 2012, the System's annual pension cost was equal to the City's required and actual (to be made in fiscal year 2013) contribution. The required contribution was determined as part of the June 30, 2012 actuarial valuation using the entry age normal method. The amortization method used is level dollar open except for the public safety retirement enhancement program which is amortized over a closed 20-

year period commencing July 1, 2005 and the Voluntary Retirement Incentive Program which is amortized over a closed 20-year period commencing July 1, 2012. Significant actuarial assumptions included: (a) 7.0% investment rate of return (net of administrative expenses), (b) projected average salary increases of 5.64% for general employees and 6.68% for public safety employees and (c) an assumed inflation rate of 3.0%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period. The remaining amortization period at June 30, 2012 was 13 years.

Three-Year Trend Information

Fiscal Year Ended	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
June 30, 2012	$ 41,466,456	100%	$ -
June 30, 2011	$ 42,828,229	100%	$ -
June 30, 2010	$ 35,515,472	100%	$ -

Funding Status and Funding Progress

The schedule of funding progress which presents multi-year trend information about the actuarial value of the Plan assets and the actuarial accrued liability for pension benefits is as follows:

CITY - EMPLOYEES' RETIREMENT SYSTEM

Actuarial Valuation Date	Actuarial Value of Assets	Accrued Liability (AAL)	Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	% of Covered Payroll
30-Jun-12	$923,200,000	$1,144,400,000	$221,200,000	80.7%	$167,600,000	132.0%

The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations. Additional details on the Plan's funded status and funding progress are included as required supplementary information following these notes to the financial statements.

B. School Board – Retirement Plan

Plan Description – Virginia Retirement System (VRS)

The School Board contributes to the Virginia Retirement System (VRS), an agent, which administers both a multiple-employer (for non-professionals) and a cost-sharing multiple-employer (for professionals) defined benefit pension plan for the School Board. All full-time, salaried permanent employees of the School Board must participate in the VRS. Benefits vest after five years of service. Effective June 30, 2010, all new members on and after that date participate in Plan 2. Plan 1 employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service and at 50 with 30 years of service for participating employers payable monthly for life in an amount equal to 1.7% of their average final compensation (AFC) for each year of credited service. Plan 2 employees are eligible for an unreduced retirement benefit after reaching Social Security normal retirement age with 5 years of service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living adjustments (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. 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 provision to the General Assembly of Virginia.

VRS 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 downloaded from their website at http://www.varetire.org/ or obtained by writing VRS at P.O. Box 2500, Richmond, VA 23218-2500.

Funding Policy

Title 51.1 of the Code of Virginia (1950) requires plan members, as amended, to contribute 5% of their annual reported compensation to the VRS. The School Board has assumed the 5% member contribution. In addition, the School Board is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The School Board's professional and non-professional employees' contribution rates for the fiscal year ended June 30, 2012 were 6.33% and 7.62% of annual covered payroll (not including assumed 5%). The School Board's contributions to the VRS for the fiscal years ended June 30, 2012, 2011, and 2010 for professional employees were $22,597,524, $18,557,452, and $24,885,620, respectively, such amounts comprising 100% of the required statutory contributions for each of the three years.

Annual Pension Cost – Agent Multiple-Employer Plan

For 2012, the School Board's annual pension costs of $1,866,524 for nonprofessional employees were equal to the School Board's required and actual contributions. The required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) 7.0% investment rate of return (net of administrative expenses), (b) projected salary increases of 3.5% to 5.6% and (c) 2.5% per year cost-of-living adjustments for Plan 1 members and 2.25% cost-of-living adjustments for Plan 2 members. Both (a) and (b) included an inflation component of 2.5%. The actuarial value of the 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 amortization method is level percentage of projected payroll on an open basis and the remaining amortization period is 30 years.

Trend information for the School Board's agent multiple-employer plan for nonprofessional employees is as follows:

Fiscal Year Ended	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
June 30, 2012	$ 1,866,524	100%	$ -
June 30, 2011	$ 1,932,102	100%	$ -
June 30, 2010	$ 1,937,143	100%	$ -

Funding Status and Funding Progress

As of June 30, 2011, the most recent actuarial valuation date, the Plan was 77.53% funded. The actuarial accrued liability for benefits was $81,830,629, and the actuarial value of assets was $63,440,533 resulting in an unfunded actuarial accrued liability (UAAL) of $18,390,096. The covered payroll (annual payroll of active employees covered by the plan) was $15,357,257 and the ratio of the UAAL to the covered payroll was 119.75%. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations. Additional details on the Plan's funded status and funding progress are included as required supplementary information following these notes to the financial statements.

The schedule of funding progress which presents multi-year trend information about the actuarial value of the Pension plan assets and the actuarial accrued liability for Pension benefits is as follows:

SCHOOL BOARD COMPONENT UNIT - VRS NON-PROFESSIONAL EMPLOYEES

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
30-Jun-11	$63,440,533	$81,830,629	$18,390,096	77.5%	$15,357,257	119.8%

The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations. Additional details on the Plan's funded status and funding progress are included as required supplementary information following these notes to the financial statements.

C. State Employees – Virginia Retirement System (VRS)

Plan Description

The City of Norfolk contributes to the Virginia Retirement System (VRS), an agent, which administers a multiple-employer defined benefit pension plan for the City of Norfolk. All full-time, salaried permanent state employees in the City's five constitutional offices must participate in the VRS. These offices include: Commissioner of the Revenue, City Treasurer, Circuit Courts, Commonwealth's Attorney, and Sheriff and Jail. Benefits vest after 5 years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 with 5 years of service for participating law enforcement officers and firefighters) and age 50 with 30 years of service for participating employers (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% of their average final salary (AFS) for each year of credited service. In addition, retirees qualify for annual cost-of-living increases limited to 5% per year in their second year of retirement. AFS is defined as the highest consecutive 36 months of salary. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. Participating law enforcement officers 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 State legislature. The VRS 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 downloaded from their website at http://www.varetire.org/ or obtained by writing to VRS 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 salary to the VRS. The 5% member contribution has been assumed by the City. In addition, the City is required to contribute the remaining amounts necessary to fund its participation in the VRS using an actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The City's contribution rate (including the assumed 5%) for the fiscal year ended June 30, 2011 was 13.70% of annual covered payroll.

Annual Pension Cost

For 2012, the City's annual pension cost of $3,212,447 was equal to the City's required and actual contribution. The required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age normal actuarial cost method. The amortization method is level percent open. These rates are effective from July 1, 2010 through June 30, 2012. The actuarial assumptions included: (a) 7% investment rate of return; (b) projected salary increases that range between 3.75% to 5.6% per year, and (c) 2.5% per year cost-of-living adjustments. Both (a) and (b) include an inflation component of 2.5%. The actuarial value of the City'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 investments over a five-year period. The remaining amortization period is 30 years.

Trend information for the City VRS plan is as follows:

Fiscal Year Ended	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
June 30, 2012	$ 3,212,447	100%	$ -
June 30, 2011	$ 3,289,129	100%	$ -
June 30, 2010	$ 3,371,413	100%	$ -

Funding Status and Funding Progress

The schedule of funding progress which presents multi-year trend information about the actuarial value of the Pension plan assets and the actuarial accrued liability for Pension benefits is as follows:

CITY - VRS EMPLOYEES

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
30-Jun-11	$57,891,181	$71,530,754	$13,639,576	80.9%	$24,538,681	55.4%

The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations. Additional details on the plan's funded status and funding progress are included as required supplementary information following these notes to the financial statements.

X. 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 City employees, permits them to defer a portion of their salary until future years. The deferral may be up to 25% of gross income up to a maximum of $17,000 per year. The benefits from the deferred compensation plan are not available to employees until termination, retirement, death or unforeseeable emergency.

The laws governing the City's deferred compensation plan have been complied with pursuant to the provisions of IRC Section 457. Accordingly, all assets of the plan are held in trust for the exclusive benefit of the participants and their beneficiaries.

XI. Other Post-employment Benefits (OPEB)

Plan Description

The City of Norfolk and the Norfolk School Board provide post-retirement health care benefits, in accordance with adopted statutes, which require extending access to healthcare benefits to certain retirees. General City employees are eligible to participate at the earlier of age 55 and 15 years of creditable service or 25 years of creditable service. City firefighters and police officers, who have a mandatory retirement age of 62, are eligible to participate at the earlier of age 50 and 15 years of creditable service or 20 years of creditable service. Employees who retire on accidental disability are also eligible. Grandfathered school employees (hired prior to July 1, 2008) who are older than age 50 with at least 5 years of service are eligible as well as non-grandfathered school employees who are older than age 50 with 15 years of creditable service. Retirees that elect to participate may purchase health care coverage using the same health care plans and premium structures available to active employees. Retiree participation, plan/benefit elections and contributions, are administered by the City's Retirement Bureau and the City's and the Schools' benefits offices based on the

participation guidelines established by Norfolk City Council and Norfolk School Board. Benefits are currently managed on a pay-as-you-go basis rather than use of an irrevocable trust and a separate financial report of the OPEB Plan is not issued. The Plan is considered a single-employer plan.

Funding Policy

No employee contributions are required prior to retirement to participate in or fund the OPEB Plan. Currently, the City and Schools pay a set amount towards the monthly premium for participating retirees. This set contribution amount is an explicit subsidy of $25 per month for the City and $75 per month for the Schools per participating retiree. Retirees may not convert the benefit into an in-lieu payment to secure coverage under independent plans. The Plan sponsors also pay an implicit subsidy by allowing retirees to participate in the same benefit plans under the same premium structure as available to active employees, however, the Plan sponsors are not required to fund the plan other than the pay-as-you-go amount necessary to provide current benefits to employees.

The annual required contribution was determined as part of the July 1, 2011 actuarial valuation using the entry age normal actuarial cost method. The amortization method is level percent open. The actuarial assumptions included: (a) 4% investment rate of return and (b) projected salary increases of 3.5% per year. Both (a) and (b) include a medical inflation component of 9.35% (pre-Medicare grading to 4.5% over 14 years. The actuarial value of the City's assets is equal to the market value of assets. The remaining amortization period is a rolling 30 years.

Annual OPEB Cost and Net OPEB Obligation

The City's and School's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with GASB Statement No. 43 and 45. Under this Statement, governments report on an accrual basis, benefit costs related to the period in which benefits are earned rather than to the period of benefit distribution. The annual required contribution represents a level of funding that, if paid on an on-going basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

Trend information for the City's and School's annual OPEB cost is as follows (note that amounts may vary from prior years due to change in expected contributions and actual contributions):

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
City Employees and Retirees			
June 30, 2012	$ 8,066,866	40%	$ 25,458,971
June 30, 2011	$ 7,990,415	37%	$ 20,162,141
June 30, 2010	$ 9,703,141	22%	$ 14,160,022
School Employees and Retirees			
June 30, 2012	$ 5,806,648	80%	$ 11,711,301
June 30, 2011	$ 6,001,485	35%	$ 8,065,446
June 30, 2010	$ 5,806,648	51%	$ 3,946,940

The actuarial liabilities of the Plans as of July 1, 2011 are shown below:

	City	Schools	Total
Actuarial liability:			
Active employees	$36,380,981	$53,300,799	$89,681,780
Retirees	$22,114,202	24,255,393	$46,369,595
Total actuarial liability	$58,495,183	$77,556,192	$136,051,375
Less: plan assets	-	-	-
Unfunded actuarial accrued liability (UAAL)	$58,495,183	$77,556,192	$136,051,375

The following table shows the components of the City's and School's annual OPEB costs, the amounts contributed to the Plans and the changes in the net OPEB obligations:

	City	Schools	Total
Net OPEB obligation as of June 30, 2010	$14,160,022	$3,946,940	$18,106,962
Annual required contribution (ARC) for FY2011	$7,945,924	$5,982,413	$13,928,337
Interest on net OPEB obligation	623,000	267,064	$890,064
Adjustment to ARC	(578,519)	(247,992)	(826,511)
Annual OPEB cost	$7,990,405	$6,001,485	$13,991,890
Plus: adjustment to FY2010 contributions	1,415,222	2,729,659	4,144,881
Less: expected contributions made	(3,403,508)	(4,612,638)	(8,016,146)
Increase in net OPEB obligation	$6,002,119	$4,118,506	$10,120,625
Net OPEB obligation as of June 30, 2011	$20,162,141	$8,065,446	$28,227,587
Annual required contribution (ARC) for FY2011	$8,007,917	$5,776,435	$13,784,352
Interest on net OPEB obligation	825,737	423,080	1,248,817
Adjustment to ARC	(766,769)	(392,867)	(1,159,636)
Annual OPEB cost	$8,066,885	$5,806,648	$13,873,533
Plus: adjustment to FY2011 contributions	481,278	2,511,565	2,992,843
Less: expected contributions made	(3,251,333)	(4,672,358)	(7,923,691)
Increase in net OPEB obligation	$5,296,830	$3,645,855	$8,942,685
Net OPEB obligation as of June 30, 2012	$25,458,971	$11,711,301	$37,170,272

Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the combined OPEB Plans were unfunded. The combined actuarial accrued liability for benefits was $136 million and the actuarial value of assets was $0 resulting in an unfunded actuarial accrued liability (UAAL) of $136 million. The combined covered payroll of active City and School employees covered by the plan was $342 million, and the ratio of the UAAL to the covered payroll was 39.7%. Additional details on the plan's funded status and funding progress are included as required supplementary information following these notes to the financial statements. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.
The schedule of funding progress which presents multi-year trend information about the actuarial value of the OPEB plan assets and the actuarial accrued liability for OPEB benefits is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
CITY EMPLOYEES AND RETIREES						
July 1, 2011	$ -	$ 58,495,183	$ 58,495,183	0.0%	$ 170,921,920	34.2%
SCHOOL EMPLOYEES AND RETIREES						
July 1, 2011	$ -	$ 77,556,192	$ 77,556,192	0.0%	$ 171,691,191	45.2%

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial valuation was performed as of July 1, 2011 with results projected for the fiscal year ended June 30, 2012. The entry age normal actuarial cost method was used with a level percent open amortization method over 30 years. A discount rate of 4% was used. Annual rates of health care inflation used were 9.35% (pre-Medicare) grading to 4.5% over 14 years and the annual rate of salary increases used was 3.5%.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Actuarial valuations are subjected to continual revisions as actual results are compared to past expectations and new estimates are made about the future.

XII. Interfund Receivable and Payable Balances

The composition of interfund activity as of June 30, 2012 is as follows:

Receivable Fund	Payable Fund	Amount
General fund	Capital Projects fund	$ 7,948,191
	Community Development fund	52,368
	Internal Service funds	184,266
	Water Utility fund	1,453,556
	Total General fund	$ 9,638,381
Capital Projects fund	Wastewater Utility fund	$ 821
	Water Utility fund	34,475
	Stormwater fund	1,500,000
	Total Capital Projects fund	$ 1,535,296
Non-major governmental funds	General fund	$ 34,375
	Capital Projects fund	3,422,912
	Stormwater fund	92,672
	Total Non-major governmental funds	$ 3,549,959
	Total Governmental funds	$ 14,723,636

Payable Fund	Receivable Fund	
General fund	Grants fund	$ 34,375
	Internal Service funds	849,859
	Total General fund	$ 884,234
Capital Projects fund	General fund	$ 7,948,191
	Stormwater fund	434,372
	Grants fund	1,749,169
	EOC/911 fund	27,377
	Internal Service funds	46,024
	Public Amenities fund	1,070,980
	Cemeteries fund	58,417
	Golf fund	10,689
	Towing and Recovery fund	71,908
	Total Capital Projects fund	$ 11,417,127
Nonmajor governmental funds	General fund	$ 52,368
	Capital Projects fund	1,500,000
	Towing and Recovery fund	92,672
	Total Nonmajor governmental funds	$ 1,645,040
	Total Governmental funds	$ 13,946,401

Payable Fund	Receivable Fund	
Water Utility fund	General fund	$ 1,453,556
	Capital Projects fund	34,475
	Total Water Utility fund	$ 1,488,031
Wastewater Utility fund	Capital Projects fund	$ 821
	Total Wastewater Utility fund	$ 821
	Total Enterprise funds	$ 1,488,852

Receivable Fund	Payable Fund		
Internal Service funds	General fund	$	849,859
	Capital Projects fund		46,024
	Total Internal Service funds	$	895,883

Payable Fund	Receivable Fund		
Internal Service funds	General fund	$	184,266
	Total Internal Service funds	$	184,266

The outstanding balances between funds result mainly from the time lag between the dates (1) interfund goods and services are provided or reimbursement occurs, (2) transactions are recorded in the accounting system and (3) payment between funds are made.

XIII. Interfund Transfers

The following interfund transfers occurred during fiscal year 2012:

Fund	In	Out
General fund	$ 12,289,939	$ 88,020,221
Capital Projects fund	5,732,038	684,705
Debt Service fund	83,494,197	-
Nonmajor governmental funds	5,620,012	9,194,141
Internal service funds:		
Fleet Management fund	849,859	-
Enterprise:		
Water Utility fund	-	8,500,000
Wastewater Utility fund	-	1,500,000
Parking Facilities fund	-	86,978
	$ 107,986,045	$ 107,986,045

The purpose of the transfer balances are as follows:

General fund transfers in of $12,289,939 include $8,500,000 from the Water Utility fund and $1,500,000 from the Wastewater Utility fund which represent a return on investment back to the General fund, $2,202,961 from the Tax Increment special revenue fund which represents interest earned on investments and declaration of surplus real property taxes and $86,978 from the Parking Facilities fund to cover parking costs of cruise customers at the Maritime Facility.

The General fund transfers out of $88,020,221 represent a transfer of $79,872,097 to the Debt Service fund to fund general obligation debt; $2,034,666 to the Capital Projects fund as a contribution for the annual capital improvement plan budget; $849,859 to the

Fleet Management fund in support of the facility operations, $4,272,111 to the Grants special revenue fund in support of grant projects; $317,114 to the Cemeteries special revenue fund, $424,374 to the Emergency Operations Center/E-911 special revenue fund and $250,000 to the Golf special revenue fund for operational support of these funds.

Debt service transfers in of $83,494,197 include $2,758,289 from the Storm Water special revenue fund, $194,750 from the Public Amenities special revenue fund, $35,189 from the Towing and Recovery special revenue fund, $633,872 from the Capital Projects fund for the Southern Bank notes payable and $79,872,097 from the General fund to fund the current fiscal year's debt service payments.

The Storm Water special revenue fund transferred $2,758,289 to the Debt Service fund to cover its general obligation debt service cost, $1,500,000 to the Capital Project Fund to support the fund's capital related projects.

The Capital Projects fund transferred $50,833 to the Grants special revenue fund in support of grant projects and $633,872 to the Debt service fund to cover debt service cost for the Southern Bank notes payable.

The Public Amenities special revenue fund transferred $1,000,000 to the Capital Projects fund in support of the fund's capital related projects, and $194,750 to cover its general obligation debt service cost.

The CD fund transferred $1,197,372 to the Capital Project fund to support the fund's capital related projects supported by the Community development block grant.

The Towing Recovery Operation special revenue fund transferred $35,189 to the Debt Service fund to cover its general obligation debt service cost.

The Nonexpendable special revenue fund transferred $305,580 to the Cemeteries fund in support of the city's cemeteries.

The Tax Increment special revenue fund transferred $2,202,961 to the General fund which represents declaration of surplus real property taxes.

The Water Utility and Wastewater Utility funds transferred $8,500,000 and $1,500,000, respectively, to the General fund as a return on investment, respectively. The Parking Facilities fund transferred $86,978 to the General fund to cover parking costs of cruise customers at Maritime Facility.

XIV. Fund Balance by Functional Category (GASB 54)

In the fund financial statements, fund balances for governmental funds are reported in classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purpose for which amounts in the funds can be spent. Fund balances are reported in five components as follows:

	General fund	Projects fund	Governmental funds	Governmental funds
FUND BALANCES				
Nonspendable				
- Prepaids	$ -	$ -	$ 23,091	$ 23,091
Restricted				-
- General government	330,000	41,995,404	-	42,325,404
- Judicial administration	-	-	791,719	791,719
- Public safety	-	83,294	227,642	310,936
- Public works	-	21,700,723	78,451	21,779,174
- Health and public assistance	-	-	532,618	532,618
- Culture and recreation	-	10,672,735	6,320,665	16,993,400
- Community development	-	1,960,496	1,523,184	3,483,680
- Education	-	3,015,397	-	3,015,397
- Other purposes	-	15,624,931	-	15,624,931
Committed				
- General government	-	5,496	-	5,496
- Public works	-	-	3,184,988	3,184,988
- Health and public assistance	-	-	-	-
- Culture and recreation	-	521,617	60,872	582,489
- General services	3,000,000	-	-	3,000,000
- Other purposes capital	-	13,849,289	-	13,849,289
Assigned				
- General government	4,665,150	618,601	270,079	5,553,830
- Judicial administration	796,691	-	716,138	1,512,829
- Public safety	296,225	-	142,955	439,180
- Public works	2,606,066	2,084,450	752,846	5,443,362
- Health and public assistance	676,096	-	1,097,076	1,773,172
- Culture and recreation	1,154,227	40,739,623	10,483,525	52,377,375
- Community development	3,530,648	4,753,444	7,095	8,291,187
- General services	1,584,501	-	-	1,584,501
- Education	-	8,413,352	99,216	8,512,568
- Debt Service	257,638	-	-	257,638
- Other purposes (FY-12 Budget appropriation)	19,271,473	(41,264,408)	-	(21,992,935)
Unassigned	54,338,476	-	-	54,338,476
Total fund balances	$ 92,507,191	$ 124,774,444	$ 26,312,160	$ 243,593,795

XV. Recovered Costs

Recovered costs consist of revenues recovered from expenses associated with employee costs, debt service, administrative costs, outside agencies and the public.

Recovered cost in the General fund:	
Debt service recoveries	$ 2,194,171
Retirement System	411,971
Information Systems recoveries	1,717,531
Other	2,961,797
Administrative cost recoveries from Enterprise funds	3,026,520
Total recovered costs in the General fund	$ 10,311,990

XVI. Other Liabilities

Other liabilities, as presented in the Fund Financial Statements, consist of the following:

Governmental Funds:	
General fund - miscellaneous	$ 1,628,199
General fund - accrued expenditures	2,269,348
Nonmajor funds - miscellaneous	141,752
	$ 4,039,299
Internal Service Funds:	
Fleet Management fund - miscellaneous	$ 4,085
	$ 4,085
Enterprise Funds:	
Water Utility fund - miscellaneous	$ 211,312
Wastewater Utility fund - miscellaneous	27,500
Parking Facilities fund - miscellaneous	162,329
	$ 401,141
Fiduciary Funds:	
Other Agency fund	$ 3,938,083
Commonwealth of Virginia	17,709
	$ 3,955,792

XVII. Supplemental Appropriations

There were no supplemental appropriations made to the general fund operating budget during fiscal year 2012.

XVIII. Deferred Revenue

Deferred revenue, as represented in the fund financial statements at June 30, 2012, totals $29,014,389 and is comprised of the following:

A. Non-major Governmental Funds

In the special revenue funds, deferred revenue totaled $1,097,983. In the Community Development fund, the deferred revenue represents deferred payment rehabilitation loans of $555,085 as of June 30, 2012. Deferred revenue in the Storm Water special revenue fund of $542,898 represents deferred billings that have been earned but are not available for funding current expenditures at June 30, 2012.

B. Deferred Property Tax Revenue

Deferred revenue in the General Fund, representing uncollected tax billings not available for funding of current expenditures as of June 30, 2012 is $27,916,406.

XIX. Commitments and Contingencies

A. Capital Projects

Commitments for completion of capital projects in the Business-Type Activities, authorized at June 30, 2012, are as follows:

Water Utility development projects	$16,617,410
Wastewater Utility development projects	13,377,185
Parking Facilities development projects	1,623,290
Total	$31,617,885

See Exhibit J-3 Capital Projects Fund Schedule of Expenditures for listing of projects capital projects in the Governmental Activities, authorized at June 30, 2012.

The starter light rail system in Norfolk began operations on August 19, 2011. The approximately $318.3 million system was funded through a combination of federal, state and local sources and is operated by the Hampton Roads Transit. At June 30, 2012, approximately $4.5 million in anticipated expenditures remains of the $318.3 million. At June 30, 2012, the City had available authorization from City Council to cover these remaining expenditures.

B. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City was a guarantor for $5,552,460 of VRA debt for the Southeastern Public Service Authority (SPSA) as of June 30, 2012. See Note XXIII for more information on this guarantee and the SPSA joint venture.

C. Litigation

From time to time the City and its component units are defendants in a number of lawsuits. Although it is not possible to determine the final outcome on these matters, management and the City attorney are of the opinion that the liability will not be material and will not have a significant effect on the City's financial condition.

D. Pollution Remediation Obligation

GASB Statement 49, *Accounting and Financial Reporting or Pollution Remediation Obligations*, identifies the circumstances under which a governmental entity would be required to report a liability related to pollution remediation. According to the standard, a government would have to estimate its expected outlays for pollution remediation if it knows a site is polluted and any of the following recognition triggers occur:

- Pollution poses an imminent danger to the public or environment and the government has little or no discretion to avoid fixing the problem;
- A government has violated a pollution prevention related permit or license;
- A regulator has identified (or evidence indicates it will identify) a government as responsible (or potentially responsible) for cleaning up pollution, or for paying all or some of the cost of the clean up;
- A government is named (or evidence indicates that it will be named) in a lawsuit to compel it to address the pollution; and
- A government begins or legally obligates itself to begin cleanup or post-cleanup activities (limited to amounts the government is legally required to complete).

During the fiscal year the City recognized the following liabilities for pollution remediation obligations: $134,696 associated with the cleanup of the Battleship Wisconsin, in order to open it to the public for tours, $86,000 associated with extensive renovation on the Seaboard Building. The amount of the obligation is based on the contractor's experience in similar instances, taking into account sampling at the site, and applying usual and customary cost code rates. The potential for a change to the estimate is minimal.

During the fiscal year the School Board recognized a liability for $1,078,555 for pollution remediation obligations associated with asbestos, removal of paint, and clean-up of drainage of oil and aerosol can/drum removal from Transportation, Risk Management and School Facilities.

E. Encumbrances

Encumbrances as of June 30, 2012 in the General Fund and Capital Projects fund totaled $9,045,942 and $137,841,141 respectively. Encumbrances as of June 30, 2012 for nonmajor governmental funds in the aggregate totaled $21,616,300.

F. Lambert's Point Landfill

On October 19, 2011, the City determined that a portion of the shoreline adjacent to the former Lambert's Point landfill was eroding likely due to tidal forces associated with the August 2011 hurricane. The landfill ceased receiving materials in 1980 and was closed in accordance with environmental and health regulatory requirements in effect at that time. In 2005, a golf course was built on the landfill. The City implemented a short-term solution and worked with the Virginia Department of Environmental Quality (DEQ) and other federal and state regulatory agencies on the development of a long-term solution for stabilization of the shoreline. On October 29, 2012, the City issued a Notice to Proceed for stabilization of the Lamberts Point landfill shoreline. Design and construction cost is approximately $1,600,000. Completion of the project is anticipated in summer 2013.

XX. Surety Bonds and Insurance

Surety	Official	Amount
Commonwealth of Virginia	Sharon McDonald, Commissioner of the Revenue	$ 3,000
	Thomas W. Moss, Jr., City Treasurer	1,500,000
	Robert J. McCabe, Sheriff	30,000
	George E. Schaefer, III Clerk of the Circuit Court	2,235,000
	Total Commonwealth of Virginia	$ 3,768,000
Commonwealth of Virginia	All employees of the City Treasurer, Sheriff, Commissioner of the Revenue, Commonwealth's Attorney and Clerk of the Circuit Court Performance of Duty Bond	$ 500,000
City of Norfolk	Travelers Insurance Co. All City employees	$10,000,000

XXI. Self and Purchased Insurance Programs

The City is exposed to various risks of losses related to torts; theft and destruction of assets, errors and omissions, injuries to employees, and natural disasters. On July 11, 1978, the City established a protected self-insurance program fund, pursuant to an ordinance adopted by City Council, to cover these risks. The program provides for the payment of claims liabilities, property losses, and related expenses covered by a combination of purchased insurance policies and self- insurance plans. The total of insurance premiums, self-insurance claims, and related expense payments made during fiscal year 2012 was $6,660,414.

The City currently reports all these activities as part of the risk management function in the general government section of the General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. For actuarial purposes, estimated outstanding losses are the accrual cost of unpaid claims valued as of each accounting date. The estimated outstanding losses include case reserves, the development on known claims and incurred but not reported (IBNR) claims. Allocated loss adjustment expenses (ALAE) are the direct

expenses for settling specific claims. ALAE is included in the workers' compensation estimates, but excluded in the liability estimates. At June 30, 2012, these liabilities were estimated at $31,400,391 with $3,649,622 projected as the current portion anticipated to be paid within a year. Estimated liabilities at the end of fiscal year 2012 were determined by an independent actuary.

Changes in the City's claims liability amount in the fiscal years 2011 through 2012 are as follows:

	Estimated Outstanding Losses Beginning of Fiscal Year	Additional Incurred Claims and/or Changes in Estimate	Claims Paid	Estimated Outstanding Losses End of Fiscal Year
2011	$ 30,270,187	$ 5,628,197	$ 4,225,302	$ 31,673,082
2012	$ 31,673,082	$ 4,403,895	$ 4,676,586	$ 31,400,391

The City in its General Fund has designated $3,000,000 of fund balance to provide for risks of loss and claims payments that may not be fully covered by purchased insurance or annual budget appropriations. There have not been any significant reductions in insurance coverage, and settled claims have not exceeded coverage in any of the past three fiscal years.

The Norfolk Public Schools (NPS) also participate in the program and its future expected self-insured losses as of June 30, 2012 projected at $2,767,676 of which $253,214 is the current portion and a longer-term projection of $2,514,462. NPS provides payments for that entity's risks of loss through a combination of purchased insurance policies and self-insurance plans. These losses are funded through the Public Schools operating budgets and/or the City's fund balance designation.

Changes in the School Board's liability amount in the fiscal years 2011 through 2012 are as follows:

	Estimated Outstanding Losses Beginning of Fiscal Year	Additional Incurred Claims and/or Changes in Estimate	Claims Paid	Estimated Outstanding Losses End of Fiscal Year
2011	$ 2,434,397	$ 1,305,450	$ 1,129,728	$ 2,610,119
2012	$ 2,610,119	$ 1,204,019	$ 1,046,462	$ 2,767,676

XXII. Jointly Governed Organizations

A. Hampton Roads Regional Jail Authority (HRRJA)

HRRJA is a regional organization which includes the cities of Hampton, Newport News, Norfolk and Portsmouth, created for the purpose of providing, operating and maintaining a regional jail facility for the correctional overflow from each community. HRRJA is a primary government, with no component units, that is a body politic and corporate created pursuant to Article 3.1, Chapter 3, Title 53.1 of the Code of Virginia, as amended, and is governed by a twelve member Board of Directors, consisting of three representatives appointed by each of the member cities. The budgeting and financing of HRRJA are subject to the approval of the Board of Directors, with each individual having a single vote. HRRJA is responsible for its own financial matters, maintains its own books of account and is audited annually by independent accountants that it engages.

The participating governments do not have an equity interest in the HRRJA, and accordingly, no equity interest has been reflected in the City's financial statements at June 30, 2012. Complete financial statements of HRRJA can be obtained from HRRJA.

B. Hampton Roads Planning District Commission (the Commission)

A regional planning agency authorized by the Virginia Area Development Act of 1968, was created by the merger of the Southeastern Virginia Planning District Commission and the Peninsula Planning District Commission on July 1, 1990. The Commission performs various planning services for the cities of Chesapeake, Franklin, Hampton, Newport News, Norfolk, Portsmouth, Poquoson, Suffolk, Williamsburg and Virginia Beach, and the counties of Gloucester, Isle of Wight, James City, Southampton and York. Revenue of the Commission is received primarily from local governmental (member) contributions and various state and federal grant programs.

The participating governments do not have an equity interest in the Commission, and accordingly, no equity interest has been reflected in the City's financial statements at June 30, 2012. Complete financial statements of the Commission can be obtained from the Commission.

C. Transportation District Commission of Hampton Roads (TDC)

TDC was formed on June 29, 1999 to effect the merger of the Peninsula Transportation District Commission and the Tidewater Transportation District Commission effective October 1, 1999. TDC was established in accordance with Chapter 45 of Title 15.2 of the Code of Virginia. TDC provides public transportation facilities and services within the cities of Norfolk, Portsmouth, Virginia Beach, Chesapeake, Hampton and Suffolk, Virginia. Oversight responsibility is exercised by all of the participating localities through their designated representatives. Responsibility for the day-to-day operations of TDC

rests with professional management. TDC serves as the governing body for Hampton Roads Transit (HRT) which constructed the City's light rail system.

The participating governments do not have an equity interest in TDC, and accordingly, no equity interest has been reflected in the City's financial statements at June 30, 2012. Complete financial statements of TDC can be obtained from TDC.

XXIII. Joint Venture

Southeastern Public Service Authority (SPSA)

SPSA is a joint venture of the cities of Chesapeake, Franklin, Norfolk, Portsmouth, Suffolk and Virginia Beach and the counties of Isle of Wight and Southampton, created for the purpose of providing, operating and maintaining a regional system for the collection, transfer, processing and disposal of solid waste refuse. SPSA is a primary government, with no component units, that is a public body politic and corporate created pursuant to the Virginia Water and Sewer Authorities Act, and is governed by a sixteen-member Board of Directors consisting of eight members appointed by the Governor and eight members appointed by each of the member cities and counties. Budgeting and financing of SPSA is subject to the approval of the Board of Directors with each representative having a single vote. The Authority is responsible for its own financial matters, maintains its own books of account and is audited annually by independent accountants that it engages.

In May 2009, SPSA consolidated its lines of credit into a single line of credit in the amount of $17,200,000 guaranteed equally by the City of Norfolk and the City of Chesapeake. Outstanding amounts were paid in full in September 2009 and the line of credit was closed effective March 30, 2010, and the guarantee agreement was rescinded.

In June 2010, SPSA entered into a debt repayment plan with the Virginia Resource Authority (VRA) which required that the eight member communities guarantee repayment of the remaining VRA bonds outstanding through a general obligation pledge. The member community guarantee percentages were calculated based on a three year average of proportional municipal tonnages. The member jurisdiction guarantees as of June 30, 2012 were as follows:

Member community	Guarantee percentage	Principal guarantee
Chesapeake	22.49%	$ 7,354,230
Franklin	0.97%	317,190
Isle of Wight	3.98%	1,301,460
Norfolk	16.98%	5,552,460
Portsmouth	10.27%	3,358,290
Southampton	2.10%	686,700
Suffolk	12.87%	4,208,490
Virginia Beach	30.34%	9,921,180
	100.00%	$ 32,700,000

The participating governments do not have an equity interest in SPSA, and accordingly, no equity interest has been reflected in the City's financial statements at June 30, 2012. Complete financial statements of the SPSA can be obtained from SPSA.

XXIV. Related Organizations

A. Norfolk Redevelopment and Housing Authority (NRHA)

The Norfolk Redevelopment and Housing Authority (NRHA), a political subdivision of the Commonwealth, was created by the City on July 30, 1940, under the provisions of the United States Housing Act of 1937. NRHA provides subsidized public housing and administers redevelopment and conservation efforts within the City in accordance with State and federal legislation. The seven members of the Board of Commissioners are appointed by City Council. NRHA is responsible, through a contract with the City, for the administration of such activities as community development and urban renewal. NRHA develops its operating budget without approval from City Council and executes contracts on its own behalf. NRHA is responsible for its own fiscal matters as it maintains its own book of accounts, is audited annually by independent accountants it engages, and has authority over earnings, deficits and monies other than City contract funds. The City contracts with NRHA to complete specific projects, generally capital improvement projects.

In 1997, the City entered into a supplemental cooperation agreement with NRHA to assist in the financing and construction of the Nordstrom store, in the MacArthur Center regional shopping mall. The construction of the Nordstrom store was financed with a loan partially secured by ground rental and store rental payments. The loan was further secured by a pledge of the City, subject to an appropriation of City Council, to fund any deficits in meeting annual debt service requirements. At the conclusion of a ten-year restriction, this loan was refinanced by the City in January 2008. Prior to the refinancing, primarily due to the financial relationship created by the loan, NRHA was considered to be a component unit of the City.

B. Norfolk Airport Authority

Norfolk Airport Authority, a political subdivision of the Commonwealth, was created to operate an airport and to promote industrial growth and consists of both an Airport fund and an Investment fund. The Airport fund was established by the Authority to account for the operations of the Norfolk International Airport (the Airport). Revenue generated by airport operations is used to meet all operating expenses and to provide for payment of all principal and interest on debt of the Authority related to the Airport. The Investment fund was established by the Authority to provide for certain airport capital improvements. The Authority finances individual capital projects by issuing bonds or obtaining loans and intergovernmental grants in its own name and concurrently entering into leases which provide for payment of all principal and interest on the related obligations as they become due. Revenue includes rental income on non-airport property owned by the Authority and interest on investments. The Authority's Commissioners are appointed by City Council but the Commission designates its own management and has oversight responsibility for its own fiscal matters. The City does not provide funds for the operations of the Authority and, pursuant to Section 144(q) of the City Charter; the Authority is required to submit its annual budget to the City Council for the purposes of information only. The City has the option to reacquire, without consideration, title to all property and equipment after payment by the Authority of all obligations relating to the improvements at the Airport.

C. The Economic Development Authority of the City of Norfolk (EDA)

The Economic Development Authority, a political subdivision of the Commonwealth of Virginia, was created by ordinance of the City of Norfolk in 1972, pursuant to the provisions of the Economic Development and Revenue Bond Act of the Commonwealth of Virginia (Title 15.1, Chapter 33, Section 15.1-1373, et seq., of the Code of Virginia (1950), as amended. It is authorized to acquire, own, lease and dispose of properties to the end that such activities may promote industry and develop trade by inducing manufacturing, industrial and commercial enterprises to locate or remain in the City and further the use of the Commonwealth's agricultural and natural resources. The EDA is empowered by the Commonwealth to authorize industrial development bonds and confer tax-exempt status on interest paid to financial institutions. The EDA acts as an intermediary between financial institutions and borrowers; it has no responsibility for borrowers' debt. Although Commissioners are appointed by City Council, the EDA designates its own management, which is self-sustaining, maintains its own books of account, and receives its revenue from administrative fees charged to borrowers.

D. The Chrysler Museum, Inc. (the Museum)

The Chrysler Museum, a Virginia non-stock, not-for-profit organization, was formed on January 1, 1980 by incorporating the Chrysler Museum in Norfolk. The main purpose of the Museum is the advancement, encouragement and promotion of the study and appreciation of art. The Museum designates its own management, which is self-sustaining, maintains its own books of account, engages its own

independent accountant, and receives its revenue from administrative fees charged to visitors and from other independent grants.

E. The Hospital Authority of Norfolk (HAN)

The Hospital Authority of Norfolk, which has a nine-member Board of Commissioners appointed by City Council, is a tax-exempt, not-for-profit political subdivision of the Commonwealth created pursuant to an Agreement of Transfer dated July 1, 1998. HAN operates Lake Taylor Hospital as a long-term care facility licensed by the Virginia State Health Department to provide a continuum of patient care ranging from sub-acute hospital services to skilled nursing care.

F. The Slover Library Foundation (the Foundation)

The Slover Library Foundation, a not-for-profit organization, was formed on October 31, 2008 to participate in the funding of a new central library for the City. Construction began in early 2012. The new central library will be named the Samuel. L. Slover Library. Two historic downtown structures, the Seaboard Building and the Selden Arcade, will be joined by an architecturally significant structure to create the new technologically advanced library. Funding provided by the Foundation will be used for construction costs as well as purchase and maintenance of technology to be used in the library. The Foundation designates its own management, maintains its own books of account, engages its own independent accountant, and receives its revenue from donations made by third parties.

XXV. Subsequent Events

Parking System Revenue Refunding Bond, Series 2012

On August 15, 2012, the City issued a $5,845,000 Parking System Revenue Refunding Bond to the Bank of America, N.A. to refinance the previously issued Series 2004A Parking Revenue Bonds. The City converted the existing Series 2004A Bonds to a 7-year variable rate loan. Interest shall be equal to the sum of (i) One Month LIBOR, plus (ii) one and ten hundredths percent (1.10%), and shall be computed on the basis of a 30/360 day year. Interest is payable in arrears on each February 1, May 1, August 1 and November 1, commencing November 1, 2012. Key legal and payment provisions would remain unchanged.

Wastewater System Revenue Bond, Series 2012

On December 18, 2012, the City issued a $12,000,000 Wastewater System Revenue Bond, with the Virginia Resources Authority (VRA). In conjunction with the State Water Control Board, the VRA administers and manages the Virginia Water Facilities Revolving Fund. The Bond was sold at a true interest cost of 0.00%.

General Obligation Wastewater Bond Rate Reduction

The City has previously utilized the Virginia Water Facilities Revolving Fund, financially administered by the VRA, to issue several series of general obligation and revenue bonds to partially fund the cash-flow needs of the Wastewater Utility Fund Capital Improvement Program. The Program Administrator, the Virginia Department of Environmental Quality (DEQ), agreed to decrease the interest rate of the Series 2003 (Loan Number C-515296-01) and Series 2006 (Loan Number C-515335-02) Loans from the Virginia Water Facilities Revolving Fund. The rate on the Series 2003 Bond decreased from 3.50% per annum to 2.00% per annum beginning on December 18, 2012. The rate on the Series 2006 Bond decreased from 3.00% per annum to 2.25% per annum beginning on December 18, 2012.

Community Services Board

Effective July 1, 2012, the CSB became a department of the City. The operations and activity of this department will be accounted for within a special revenue fund.

XXVI. Accounting Pronouncements Issued But Not Yet Implemented

The GASB has issued several pronouncements that may impact future financial presentations. Management has not determined what, if any, impact implementation of the following statements will have on the City.

- GASB Statement 60: *Accounting and Reporting for Service Concession Arrangements.* GASB 60 addresses issues related to accounting for, financial reporting and disclosure requirements of certain service concession arrangements, which are a type of public-private partnership. The provisions of GASB 60 are effective for fiscal years beginning after December 15, 2011.

- GASB Statement 61: *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34.* The objectives of GASB 61 are to improve financial reporting for governmental entities. The statement modifies certain requirements for inclusion of component units, by clarifying the manner in which the determination should be made and the type of relationships that should be considered when making that determination. The statement also amends the criteria for reporting blended component units. The provisions of GASB 61 are effective for fiscal years beginning after June 15, 2012.

- GASB Statement 62: *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* GASB 62 incorporates into GASB's authoritative literature certain accounting and financial reporting guidance issued on or before November 30, 1989 from the following sources: FASB statements and interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA, so long as it does not contradict or conflict with GASB pronouncements. This statement also supersedes Statement No. 20: *Accounting and Financial Reporting for Proprietary Funds and*

Other Governmental Entities that Use Proprietary Fund Accounting. The provisions of GASB 62 are effective for fiscal years beginning after December 15, 2011.

- GASB Statement 63: *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position.* GASB 63 provides financial reporting guidance for deferred outflows and inflows of resources. These terms are defined as the consumption or acquisition of net assets by the government that is applicable to a future reporting period respectively. The provisions of GASB 62 are effective for fiscal years beginning after December 15, 2011.

- GASB Statement No. 65: *Items Previously Reported as Assets and Liabilities*. The objective of this Statement is to clarify GASB's conceptual definitions of deferred outflows of resources and deferred inflows of resources elements to a broader range of items to enhance consistency in state and local government financial statements. The statement reclassifies or recognizes certain items currently reported as assets and liabilities as one of four financial statement elements — deferred outflows of resources, outflows of resources, deferred inflows of resources or inflows of resources. Before this guidance, many items that appeared to meet the definition of deferred outflows of resources and deferred inflows of resources in Concepts Statement No. 4, *Elements of Financial Statements*, were not specifically identified as such in the GASB's authoritative literature, because the Concepts Statement limits recognition of deferred outflows and deferred inflows to those instances identified in authoritative GASB pronouncement. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

- GASB Statement 66: *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62.* The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* This Statement also amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,* by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement 54 and Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments.* The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

- GASB Statement 67: *Financial Reporting for Pension Plans—an amendment of GASB Statement No.25 and No.50.* This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* and Statement 50 for pension plans that are administered through trusts or similar arrangements meeting certain criteria. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. Statement 67 enhances note disclosures and required

supplementary information for both defined benefit and defined contribution pension plans. It also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year required supplementary information. The provisions of Statement 67 are effective for financial statements for fiscal years beginning after June 15, 2013. Earlier application is encouraged.

- GASB Statement 68**:** *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No.27.* This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* as well as the requirements of Statement No. 50, *Pension Disclosures,* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The objective of GASB 68 is to improve accounting and financial reporting by state and local governments for pensions. Governments providing defined benefit pensions will be required to recognize their long-term obligation for pension benefits as a liability and to recognize more pension expense immediately. The Statement also requires revised and new disclosures, and required supplementary information. It also requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014; however, earlier application is encouraged.

REQUIRED SUPPLEMENTARY INFORMATION

(*OTHER THAN MANAGEMENT'S DISCUSSION & ANALYSIS*)

(Unaudited)

CITY OF NORFOLK, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress for Pension and Other Post-Employment Benefit Plans (unaudited)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a percentage of covered payroll
Retirement Plans:						
CITY - EMPLOYEES' RETIREMENT SYSTEM						
June 30, 2007	$ 925,800,000	$ 972,200,000	$ 46,400,000	95.2%	$ 168,100,000	27.6%
June 30, 2008	$ 937,800,000	$ 1,009,100,000	$ 71,300,000	92.9%	$ 175,400,000	40.6%
June 30, 2009	$ 885,600,000	$ 1,029,600,000	$ 144,000,000	86.0%	$ 179,600,000	80.2%
June 30, 2010	$ 817,700,000	$ 1,046,800,000	$ 229,100,000	78.1%	$ 175,200,000	130.8%
June 30, 2011	$ 832,000,000	$ 1,064,000,000	$ 232,000,000	78.2%	$ 171,000,000	135.7%
June 30, 2012	$ 923,200,000	$ 1,144,400,000	$ 221,200,000	80.7%	$ 167,600,000	132.0%
CITY - VRS EMPLOYEES						
June 30, 2006	$ 35,756,786	$ 36,121,461	$ 364,675	99.0%	$ 23,344,075	1.6%
June 30, 2007	$ 41,467,595	$ 40,237,331	$ (1,230,264)	103.1%	$ 24,931,958	-4.9%
June 30, 2008	$ 47,154,626	$ 52,000,548	$ 4,845,922	90.7%	$ 25,854,549	18.7%
June 30, 2009	$ 51,470,652	$ 58,287,883	$ 6,817,231	88.3%	$ 25,997,389	26.2%
June 30, 2010	$ 54,256,199	$ 67,356,664	$ 13,100,465	80.6%	$ 24,538,680	53.4%
June 30, 2011	$ 57,891,181	$ 71,530,754	$ 13,639,573	80.9%	$ 24,538,681	55.6%
SCHOOL BOARD COMPONENT UNIT - VRS NON-PROFESSIONAL EMPLOYEES						
June 30, 2006	$ 55,282,776	$ 60,006,661	$ 4,723,885	92.1%	$ 14,246,198	33.2%
June 30, 2007	$ 61,180,012	$ 66,118,525	$ 4,938,513	92.5%	$ 15,236,207	32.4%
June 30, 2008	$ 66,558,849	$ 72,573,728	$ 6,014,879	91.7%	$ 17,520,165	34.3%
June 30, 2009	$ 65,474,071	$ 74,800,079	$ 9,326,008	87.5%	$ 16,948,926	55.0%
June 30, 2010	$ 64,120,661	$ 80,984,997	$ 16,864,336	79.2%	$ 16,243,835	103.8%
June 30, 2011	$ 63,440,533	$ 81,830,629	$ 18,390,096	77.5%	$ 15,357,257	119.7%
Other Post-employment Benefits (OPEB):						
CITY EMPLOYEES AND RETIREES						
July 1, 2009	$ -	$ 59,910,937	$ 59,910,937	0.0%	$ 171,944,051	34.8%
July 1, 2010	$ -	$ 60,204,591	$ 60,204,591	0.0%	$ 175,976,672	34.2%
July 1, 2011	$ -	$ 58,495,183	$ 58,495,183	0.0%	$ 170,921,920	34.2%
SCHOOL EMPLOYEES AND RETIREES						
July 1, 2009	$ -	$ 80,250,361	$ 80,250,361	0.0%	$ 198,943,586	40.3%
July 1, 2010	$ -	$ 82,776,654	$ 82,776,654	0.0%	$ 198,660,313	41.7%
July 1, 2011	$ -	$ 77,556,192	$ 77,556,192	0.0%	$ 171,691,191	45.2%
TOTAL						
July 1, 2009	$ -	$ 140,161,298	$ 140,161,298	0.0%	$ 370,887,637	37.8%
July 1, 2010	$ -	$ 142,981,245	$ 142,981,245	0.0%	$ 374,636,985	38.2%
July 1, 2011	$ -	$ 136,051,375	$ 136,051,375	0.0%	$ 342,613,111	39.7%

See accompanying independent auditors' report

CITY OF NORFOLK, VIRGINIA

Schedule of Revenue, Budget and Actual (Unaudited)
General Fund
For the Year Ended June 30, 2012

	Original Budget	Final Budget	Budget Basis Actual	Positive (negative) Variance with Final Budget
General property taxes	$ 246,979,300	$ 246,979,300	$ 250,117,894	$ 3,138,594
Other local taxes	150,730,000	150,730,000	152,172,224	1,442,224
Permits, privilege fees and licenses	4,516,300	4,516,300	4,020,697	(495,603)
Fines and forfeitures	1,250,000	1,250,000	1,106,931	(143,069)
Use of money and property	6,711,300	6,711,300	6,949,563	238,263
Charges for services	36,323,900	36,323,900	34,426,938	(1,896,962)
Miscellaneous revenue	10,128,300	10,128,300	8,744,975	(1,383,325)
Recovered costs	10,579,200	10,579,200	10,311,990	(267,210)
Non-categorical aid - Virginia	31,857,000	31,857,000	32,052,177	195,177
Shared expense - Virginia	19,153,000	19,153,000	19,286,827	133,827
Categorical aid - Virginia	236,303,700	236,303,700	233,560,052	(2,743,648)
Categorical aid - Federal	10,545,200	10,545,200	12,827,116	2,281,916
Other sources and transfers	29,939,000	29,939,000	29,989,039	50,039
Total revenue budget	$ 795,016,200	$ 795,016,200	$ 795,566,423	$ 550,223

Exhibit A-3 for GASB 54 includes the General Fund, the Nauticus Fund and the Maritime Facility Fund.

CITY OF NORFOLK, VIRGINIA

Exhibit E-2

Schedule of Expenditures, Budget and Actual (Unaudited)
General Fund
For the Year Ended June 30, 2012

	Original Budget	Final Budget	Budget Basis Actual	Positive (negative) Variance with Final Budget
Legislative	$ 4,438,800	$ 4,577,800	$ 4,484,890	$ 92,910
Executive	1,919,800	1,929,800	1,928,855	945
Department of Law	3,941,200	3,941,200	3,896,197	45,003
Finance	8,542,200	8,552,200	8,494,376	57,824
Department of Human Resources	2,740,500	2,850,524	2,870,042	(19,518)
Courts, Sheriff and Detention	45,634,100	45,874,100	45,710,066	164,034
Department of Public Health	5,537,900	5,520,502	5,493,133	27,369
Department of Human Services	57,461,100	56,213,555	50,689,154	5,524,401
Department of Public Works	43,096,900	41,347,162	41,169,664	177,498
Neighborhood & Leisure Services	24,939,300	24,793,919	22,846,389	1,947,530
Education	290,550,500	290,550,500	286,799,256	3,751,244
Norfolk Public Libraries	6,978,200	6,878,200	6,879,197	(997)
Elections	906,300	906,300	820,490	85,810
Department of Planning	8,748,300	8,258,611	8,250,752	7,859
Department of Civic Facilities	6,218,300	6,218,215	6,200,239	17,976
Departmental Support	17,755,200	23,013,369	13,621,692	9,391,677
Outside Agencies	38,423,300	38,018,000	37,802,810	215,190
Department of Police	66,494,800	65,663,800	64,783,206	880,594
Department of Fire and Rescue	40,287,900	40,087,900	39,933,647	154,253
Debt service	82,052,400	82,052,400	81,875,285	177,115
Budget and Management	803,629	792,629	838,030	(45,401)
General Services	18,949,800	17,968,564	17,993,092	(24,528)
Economic Development	1,867,400	1,827,400	1,753,652	73,748
Communications and Public Relations	1,757,800	2,516,764	2,289,875	226,889
Department of Information Technology	10,342,400	10,085,157	9,888,783	196,374
Office of Grants Management	264,071	264,071	198,901	65,170
Virginia Zoological Park	3,939,100	3,899,100	3,843,102	55,998
Office of Homelessness	425,000	414,458	397,906	16,552
Total expenditure budget	$ 795,016,200	$ 795,016,200	$ 771,752,681	$ 23,263,519

Exhibit A-3 for GASB 54 includes the General Fund, the Nauticus Fund and the Maritime Facility Fund.

Notes to Required Supplementary Information
Reconciliation of (non-GAAP) Budgetary Basis to GAAP (Unaudited)
June 30, 2012

Sources/inflows of resources:
Actual amounts (budgetary basis) "available for appropriation" from Exhibit E-1

Differences--budget to GAAP:
The effects of accounting for school revenue as a component unit

The effects of accounting for transfer from fund balance

General fund transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes

The effects of accounting for Nauticus fund, Maritime Facility fund and Grants fund

Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds

Uses/outflows of resources:
Actual amounts (budgetary basis) "Total charges to appropriations" from Exhibit E-2

Differences--budget to GAAP:
The effects of accounting for school expenditures as a component unit

Equipment purchased with bond proceeds

The effects of accounting for Nauticus fund, Maritime Facility fund and Grants fund

Encumbrances for supplies and equipment ordered but not received is reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes

General fund transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes

Total expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances--Governmental Funds

There were no material violations of the annual appropriated budget for the General fund for fiscal year 2012.

OTHER SUPPLEMENTARY INFORMATION

COMBINING FINANCIAL STATEMENTS

~ Nonmajor Governmental Funds ~
~Agency Funds ~
~ Internal Service Funds ~

OTHER SCHEDULES

~ Schedule of Expenditures of Federal Awards ~

~ Notes to Schedule of Expenditures of Federal Awards ~

~ Schedule of Revenues and Expenditures – Budget and Actual – Special Revenue Funds ~

Schedule of Revenues and Expenditures – Budget and Actual – Internal Service Funds ~

Schedule of Revenues and Expenditures – Budget and Actual – Capital Projects Fund ~

Nonmajor Governmental Funds

Special Revenue Funds

The Special Revenue funds are used to account for proceeds of specific resources that are restricted or committed to expenditures for specific purposes other than debt service or capital projects. The individual special revenue funds are:

Storm Water Fund: To account for the operation of the environmental storm water management system, including maintenance of storm water drainage facilities. The costs of providing services on a continuing basis are partially financed or recovered through user charges to Norfolk residents and commercial and industrial customers.

Towing & Recovery Operations Fund: To improve neighborhood livability by providing reliable dispatching of towing services, storage of vehicles and recovery or disposal of vehicles.

Grants Fund: To account for the receipt and disbursement of revenue from such sources as federal and state agencies, adjacent municipalities, and City matching funds and to finance special programs that may have reporting periods that do not correspond with the City's fiscal year.

Community Development Fund: To account for all entitlement funds received under Title I of the Housing and Community Development Act of 1974, commonly known as the Community Development Block Grant Program.

Cemeteries Fund: To account for the operation of the City's cemeteries.

Golf Fund: To account for the operation of the City's golf courses.

Public Amenities Fund: To promote cultural and entertainment activity in the downtown area.

Emergency Operations Center/911 Fund: To account for the operation of the City's emergency operations center/911.

Tax Increment Financing Fund: To account for debt service requirements for the general obligation bonds and property tax collections within the Broad Creek Renaissance Tax Increment Financing District.

Nonmajor Governmental Funds (Con't.)

Permanent Fund

The Permanent fund is used to report resources that are restricted by City Code to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs. The City's permanent fund (non-expendable trust) is used to account for the perpetual care and endowed care at certain City-owned cemeteries, however both the earning and principal is used for purposes that support City the maintenance of owned cemeteries.

CITY OF NORFOLK, VIRGINIA

Exhibit F-1

Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2012

	Special Revenue Funds				
	Storm Water	Towing	Grants	Community Development	Cemeteries
ASSETS					
Cash and short term investments	$ 2,849,660	$ 474,965	$ 3,404,859	$ 350,484	$ 383,313
Receivables, net	2,263,923	835	887,636	595,464	101,290
Due from other funds	434,372	164,580	1,783,544	-	58,417
Due from other governments	-	-	9,307,094	-	-
Prepaids	-	23,091	-	-	-
Other	-	-	-	-	-
Total assets	$ 5,547,955	$ 663,471	$ 15,383,133	$ 945,948	$ 543,020
LIABILITIES					
Vouchers payable	$ 163,779	$ 4,322	$ 1,526,043	$ 242,631	$ 42,955
Contract retainage	-	-	73,860	-	-
Accrued payroll	63,381	7,537	68,516	2,876	-
Accrued expenses	-	-	-	-	-
Due to other funds	1,592,672	-	-	52,368	-
Due to other governments	-	-	6,682,253	92,988	-
Deferred revenue	542,898	-	-	555,085	-
Other liabilities	237	4,437	-	-	137,078
Total liabilities	2,362,967	16,296	8,350,672	945,948	180,033
FUND BALANCES					
Nonspendable	-	23,091	-	-	-
Restricted	-	-	3,195,584	-	-
Committed	3,184,988	-	60,872	-	-
Assigned	-	624,084	3,776,005	-	362,987
Unassigned	-	-	-	-	-
Total fund balances	3,184,988	647,175	7,032,461	-	362,987
Total liabilities and fund balances	$ 5,547,955	$ 663,471	$ 15,383,133	$ 945,948	$ 543,020

CITY OF NORFOLK, VIRGINIA

Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2012

Special Revenue Funds					Permanent Funds	Nonmajor Governmental Funds
Golf	Public Amenities	EOC/ 911	Tax Increment	Total Special Revenue	Non-Expendable trust	
$ 88,140	$ 7,026,069	$ 179,607	$ 2,506	$ 14,759,603	$ 6,178,090	$ 20,937,693
21,194	559,100	110,754	-	4,540,196	16,065	4,556,261
10,689	1,070,980	27,377	-	3,549,959	-	3,549,959
-	-	-	-	9,307,094	-	9,307,094
-	-	-	-	23,091	-	23,091
-	-	-	-	-	8	8
$ 120,023	$ 8,656,149	$ 317,738	$ 2,506	$ 32,179,943	$ 6,194,163	$ 38,374,106
$ 29,883	$ 60,032	$ 37,718	$ -	$ 2,107,363	$ -	$ 2,107,363
-	-	-	-	73,860	-	73,860
-	-	73,113	-	215,423	-	215,423
-	-	5,284	-	5,284	-	5,284
-	-	-	-	1,645,040	-	1,645,040
-	-	-	-	6,775,241	-	6,775,241
-	-	-	-	1,097,983	-	1,097,983
-	-	-	-	141,752	-	141,752
29,883	60,032	116,115	-	12,061,946	-	12,061,946
-	-	-	-	23,091	-	23,091
84,532	-	-	-	3,280,116	6,194,163	9,474,279
-	-	-	-	3,245,860	-	3,245,860
5,608	8,596,117	201,623	2,506	13,568,930	-	13,568,930
-	-	-	-	-	-	-
90,140	8,596,117	201,623	2,506	20,117,997	6,194,163	26,312,160
$ 120,023	$ 8,656,149	$ 317,738	$ 2,506	$ 32,179,943	$ 6,194,163	$ 38,374,106

CITY OF NORFOLK, VIRGINIA

Exhibit F-2

Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2012

	Special Revenue Funds					
	Storm Water	Towing	Grants	Community Development	Cemeteries	Golf
REVENUES						
General property taxes	$ -	$ -	$ -	$ -	$ -	$ -
Other local taxes	-	-	-	-	-	-
Fines and forfeitures	-	-	700	-	-	-
Use of money and property	11,348	1,450	2,856	-	-	101,487
Charges for services	12,147,735	1,268,248	56,863	-	1,162,855	1,063,022
Miscellaneous	45,330	79,866	2,793,187	95,513	-	-
Intergovernmental:						
Commonwealth of Virginia	-	-	12,235,203	-	-	-
Federal government	94,933	4,804	15,599,306	5,694,666	-	-
Total revenue	12,299,346	1,354,368	30,688,115	5,790,179	1,162,855	1,164,509
EXPENDITURES						
General government	-	-	130,444	-	-	-
Judicial administration	-	-	3,120,316	-	-	-
Public safety	-	-	4,009,418	-	-	-
Public works	9,013,577	1,445,389	5,498,393	-	-	-
Health and public assistance	-	-	18,474,745	881,812	-	-
Cultural and recreation	-	-	585,092		1,885,415	1,419,103
Community development	-	-	1,475,054	3,710,995	-	-
General services	-	-	-	-	-	-
Education	-	-	784	-	-	-
Debt service:			-			
Principal	-	-	-	-	-	-
Interest and other charges	-	-	-	-	-	-
Total expenditures	9,013,577	1,445,389	33,294,246	4,592,807	1,885,415	1,419,103
Excess (deficiency) of revenue over (under) expenditures	3,285,769	(91,021)	(2,606,131)	1,197,372	(722,560)	(254,594)
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	4,322,944	-	622,694	250,000
Transfers out	(4,258,289)	(35,189)	-	(1,197,372)	-	-
Total other financing sources and uses	(4,258,289)	(35,189)	4,322,944	(1,197,372)	622,694	250,000
Net change in fund balances	(972,520)	(126,210)	1,716,813	-	(99,866)	(4,594)
Fund balances--beginning	4,157,508	773,385	5,315,648	-	462,853	94,734
Adjustment to beginning balance						
Fund balances--ending	$ 3,184,988	$ 647,175	$ 7,032,461	$ -	$ 362,987	$ 90,140

CITY OF NORFOLK, VIRGINIA

Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2012

Special Revenue Funds				Permanent Funds	Total
Public Amenities	EOC/ 911	Tax Increment	Total Special Revenue	Non-Expendable Trust	Nonmajor Governmental Funds
$ -	$ -	$ 2,799,321	$ 2,799,321	$ -	$ 2,799,321
5,490,067	3,571,596	-	9,061,663	-	9,061,663
-	-	-	700	-	700
-	-	4	117,145	24,313	141,458
-	3,534	-	15,702,257	126,251	15,828,508
-	-	-	3,013,896	-	3,013,896
-	1,702,654	-	13,937,857	-	13,937,857
-	-	-	21,393,709	-	21,393,709
5,490,067	5,277,784	2,799,325	66,026,548	150,564	66,177,112
-	-	-	130,444	-	130,444
-	-	-	3,120,316	-	3,120,316
-	6,907,693	-	10,917,111	-	10,917,111
-	-	-	15,957,359	-	15,957,359
-	-	-	19,356,557	-	19,356,557
635,665	-	-	4,525,275	47	4,525,322
-	-	-	5,186,049	-	5,186,049
-	-	-	-	-	-
-	-	-	784	-	784
-	-	150,000	150,000	-	150,000
-	-	726,438	726,438	-	726,438
635,665	6,907,693	876,438	60,070,333	47	60,070,380
4,854,402	(1,629,909)	1,922,887	5,956,215	150,517	6,106,732
-	424,374	-	5,620,012	-	5,620,012
(1,194,750)	-	(2,202,961)	(8,888,561)	(305,580)	(9,194,141)
(1,194,750)	424,374	(2,202,961)	(3,268,549)	(305,580)	(3,574,129)
3,659,652	(1,205,535)	(280,074)	2,687,666	(155,063)	2,532,603
4,936,465	1,407,158	282,580	17,430,331	6,349,226	23,779,557
			-	-	-
$ 8,596,117	$ 201,623	$ 2,506	$ 20,117,997	$ 6,194,163	$ 26,312,160

Agency Funds

Agency funds are used to account for assets held by the City as an agent for individuals, private organizations, other governments and/or other funds:

Agency Fund – Other; to account for other monies held for private organizations and other funds.

Agency Fund – Commonwealth of Virginia; to account for monies on deposit with the City Treasurer held for the Treasurer of the Commonwealth of Virginia.

Exhibit G-1

CITY OF NORFOLK, VIRGINIA

Combining Balance Sheet - Agency Funds
June 30, 2012

	Other	Commonwealth of Virginia	Total
ASSETS			
Cash and short term investments	$ 3,957,184	$ 17,709	$ 3,974,893
Receivables, net of allowance for uncollectible accounts	-	-	-
Other	10,524	-	10,524
Total assets	$ 3,967,708	$ 17,709	$ 3,985,417
LIABILITIES			
Vouchers payable	$ 29,625	$ -	$ 29,625
Due to other agencies	3,938,083	17,709	3,955,792
Total liabilities	$ 3,967,708	$ 17,709	$ 3,985,417

CITY OF NORFOLK, VIRGINIA

Exhibit G-2

Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2012

	Other			
	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
ASSETS				
Cash and short term investments	$ 4,219,857	$ 7,128,241	$ 7,390,914	$ 3,957,184
Accounts receivable	663	663	1,326	-
Other receivables	288,037	133,930	411,443	10,524
Total assets	$ 4,508,557	$ 7,262,834	$ 7,803,683	$ 3,967,708
LIABILITIES				
Vouchers payable	$ 23,892	$ 1,438,010	$ 1,432,277	$ 29,625
Due to other agencies	4,484,665	7,076,564	7,623,146	3,938,083
Total liabilities	$ 4,508,557	$ 8,514,574	$ 9,055,423	$ 3,967,708

	Commonwealth of Virginia			
	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
ASSETS				
Cash and short term investments	$ 7,410	$ 8,690,222	$ 8,679,923	$ 17,709
Total assets	$ 7,410	$ 8,690,222	$ 8,679,923	$ 17,709
LIABILITIES				
Due to the Commonwealth of Virginia	$ 7,410	$ 8,690,222	$ 8,679,923	$ 17,709
Total liabilities	$ 7,410	$ 8,690,222	$ 8,679,923	$ 17,709

	Total			
	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
ASSETS				
Cash and short term investments	$ 4,227,267	$ 15,818,463	$ 16,070,837	$ 3,974,893
Accounts receivable	663	663	1,326	-
Other receivables	288,037	133,930	411,443	10,524
Total assets	$ 4,515,967	$ 15,953,056	$ 16,483,606	$ 3,985,417
LIABILITIES				
Vouchers payable	$ 23,892	$ 1,438,010	$ 1,432,277	$ 29,625
Due to other agencies	4,492,075	15,766,786	16,303,069	3,955,792
Total liabilities	$ 4,515,967	$ 17,204,796	$ 17,735,346	$ 3,985,417

Internal Service Funds

Internal service funds are used to account for the financing of goods and services provided by one department or agency to other departments or agencies of the government and to other government units, on a cost reimbursement basis. The individual internal service funds are:

Storehouse Fund - to acquire and issue to the operating departments materials, parts and supplies which are used in the same form as purchased.

Fleet Management Fund - to provide the operating departments with maintenance, repair and service for the City fleet of vehicles, heavy equipment and miscellaneous machinery.

CITY OF NORFOLK, VIRGINIA

Exhibit H-1

Combining Statement of Net Assets - Internal Service Funds
June 30, 2012

	Storehouse	Fleet Management	Total
ASSETS			
Current assets:			
Cash and short term investments	$ 301,935	$ 1,722	$ 303,657
Receivables, net	-	484,551	484,551
Due from other funds	46,024	849,859	895,883
Inventories	1,895,099	360,100	2,255,199
Total current assets	2,243,058	1,696,232	3,939,290
Noncurrent assets:			
Capital assets:			
Land	-	-	-
Buildings and equipment, net	15,246	4,585,259	4,600,505
Total noncurrent assets	15,246	4,585,259	4,600,505
Total assets	$ 2,258,304	$ 6,281,491	$ 8,539,795
LIABILITIES			
Current liabilities:			
Vouchers payable	$ 25,928	$ 1,038,994	$ 1,064,922
Due to other funds	-	184,266	184,266
Compensated absences	29,672	178,138	207,810
Accrued payroll	6,324	47,226	53,550
Obligations for employees' retirement	67,811	488,440	556,251
Other liabilities	-	4,085	4,085
Total current liabilities	129,735	1,941,149	2,070,884
Noncurrent liabilities:			
Compensated absences	6,077	76,345	82,422
Total noncurrent liabilities	6,077	76,345	82,422
Total liabilities	135,812	2,017,494	2,153,306
NET ASSETS			
Invested in capital assets, net of related debt	15,246	4,585,259	4,600,505
Unrestricted	2,107,246	(321,262)	1,785,984
Total net assets	2,122,492	4,263,997	6,386,489
Total liabilities and net assets	$ 2,258,304	$ 6,281,491	$ 8,539,795

CITY OF NORFOLK, VIRGINIA

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets - Internal Service Funds For the Year Ended June 30, 2012

	Storehouse	Fleet Management	Total
OPERATING REVENUES			
Charges for services	$ 3,503,194	$ 12,178,626	$ 15,681,820
Miscellaneous	725	106,573	107,298
Total operating revenues	3,503,919	12,285,199	15,789,118
OPERATING EXPENSES			
Personal services	400,347	2,671,715	3,072,062
Cost of goods sold	2,810,576	7,999,606	10,810,182
Plant operations	9,088	234,441	243,529
Depreciation	4,539	291,464	296,003
Retirement and OPEB contributions	67,811	488,440	556,251
Provision for bad debts	-	77,154	77,154
Other	41,328	1,201,331	1,242,659
Total operating expenses	3,333,689	12,964,151	16,297,840
Operating income (loss)	170,230	(678,952)	(508,722)
NONOPERATING REVENUE			
Interest and investment income	-	2,016	2,016
Total nonoperating revenue	-	2,016	2,016
Net income (loss)	170,230	(676,936)	(506,706)
Change in net assets	170,230	(676,936)	(506,706)
Other Financing Sources			
Transfers in	-	849,859	849,859
Net Change in Fund Balance	170,230	172,923	343,153
Net assets--beginning	1,952,262	4,091,074	6,043,336
Net assets--ending	$ 2,122,492	$ 4,263,997	$ 6,386,489

CITY OF NORFOLK, VIRGINIA

Combining Statement of Cash Flows - Internal Service Funds
For the Year Ended June 30, 2012

	Storehouse	Fleet Management	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	$ 3,503,919	$ 11,836,807	$ 15,340,726
Payments to suppliers	(2,884,665)	(7,808,978)	(10,693,643)
Payments to employees	(527,324)	(3,289,499)	(3,816,823)
Other payments	-	(1,211,412)	(1,211,412)
Net cash used in operating activities	91,930	(473,082)	(381,152)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Interfund transfers in (out)	(3,213)	232,273	229,060
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Principal paid on capital debt	-	-	-
Net cash used in capital and	-	-	-
related financing activities	-	-	-
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest and dividends	-	2,016	2,016
Net cash provided by investing activities	-	2,016	2,016
Net increase (decrease) in cash and short term investments	88,717	(238,793)	(150,076)
Cash and short term investments - beginning of the year	213,218	240,515	453,733
Cash and short term investments - end of the year	$ 301,935	$ 1,722	$ 303,657
Reconciliation of Operating Income (Loss) to Net Cash Provided by (used in) Operating Activities			
Operating income (loss)	$ 170,230	$ (678,952)	$ (508,722)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation expense	4,539	291,464	296,003
Provision for bad debts	-	77,154	77,154
Change in assets and liabilities:			
Receivables, net	-	(448,392)	(448,392)
Inventories	39,849	11,741	51,590
Vouchers payable	(63,522)	413,328	349,806
Accrued payroll	(54,931)	(94,313)	(149,244)
Obligation for Employees' Retirement System	(13,880)	-	(13,880)
Other liabilities	9,645	(45,112)	(35,467)
Net cash provided by (used in) operating activities	$ 91,930	$ (473,082)	$ (381,152)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

CITY OF NORFOLK, VIRGINIA

Schedule of Expenditures of Federal Awards — Schedule I
For the Year Ended June 30, 2012

Federal Granting Agency/Recipient Recipient State Agency/Grant program		CFDA Number	Grant/Contract Number	Federal Expenditures	ARRA Expenditures
Department of Agriculture:					
Direct Payments:					
USDA Summer Food Service Program (SFSP)		10.559		8,324	
Food Stamp Program - Administration		10.561		4,408,215	
Pass-through Payments:					
Virginia Department of Agriculture:					
National School Breakfast Program		10.553		3,293,694	
National School Lunch Program		10.555		9,076,264	
Virginia Department of Agriculture:					
National School Lunch Program (Commodities)		10.556		895,422	
Virginia Department of Juvenile Justice:					
USDA School Nutrition Program		10.559		82,204	
Virginia Department of Health:					
USDA Summer Food Service Program (SFSP)		10.559	53437	261,331	
	Subtotal			343,535	
Department of Commerce:					
Direct Payments:					
Habitat Conservation		11.463		20,303	
Pass-Through Payments:					
National Fish & Wildlife Foundation:					
Habitat Conservation		11.463	2007-0081-019	75,000	
Chesapeake Bay Trust Living Shoreline:					
Habitat Conservation		11.463	11159	306	
	Subtotal			95,609	
Department of Housing and Urban Development:					
Direct Payments:					
Community Development Block Grant		14.218		5,694,666	
Emergency Shelter Grant Program:					
ESG Administration		14.231		22,551	
For Kids, Inc. Haven Family Services		14.231		50,014	
ESG Planning Council		14.231		21,425	
Salvation Army		14.231		25,494	
Ecumenical Family Shelter		14.231		49,747	
St. Columbia Ecumenical		14.231		23,832	
YWCA South Hampton Roads		14.231		38,190	
	Subtotal			231,253	
Supportive Housing Program		14.235		36,794	
Shelter Plus Care Program		14.238		478,617	
Home Grant Program:					
HOME CHDO Investment Plan		14.239		99,750	
HOME CHDO Operating		14.239		91,849	
HOME - Homeowner's Rehab Equity		14.239		191,491	
NRHA - Homebuyer Assistance		14.239		504,362	
HOME NRHA Administration		14.239		2,660	
HOME - Rapid Exit Program		14.239		68,352	
	Subtotal			958,464	
ARRA - Community Development Block Grant		14.253			693,035
ARRA - Homeless Prevention		14.257			501,898
Pass-Through Payments:					
Virginia Department of Housing & Community Development:					
Neighborhood Stabilization		14.228		(36,601)	
Department of Justice:					
Direct Payments:					
US Marshall Service		16.000		77,164	
State Criminal Alien Assistance Program		16.606		46,434	
Community Oriented Policing Services:					
Justice Assistance Grant		16.523		141,396	
Edward Byrne Memorial Grant		16.523		24,728	
	Subtotal			166,124	
Bulletproof Vests Grant		16.607		26,427	
Asset Forfeiture - Special Police Grant		16.922		1,768	
ARRA - COPS Hiring Program		16.710			387,614
COPS Technology		16.710		75,000	
COPS Hiring Program		16.710		187,185	
	Subtotal			262,185	
Justice and Mental Health Collaboration Program		16.745		14,134	
ARRA - Justice Assistance Grant		16.804			293,327
Pass-Through Payments:					
Virginia Department of Criminal Justice Services:					
Juvenile Accountability Block Grant		16.523	11-M3212JB09	57,141	
Juvenile Accountability Block Grant		16.523	12-N3213JB10	5,331	
Edward Byrne Memorial Grant		16.523	11-A2140AD07	36,139	
	Subtotal			98,611	
VSTOP Prosecutorial Project		16.540	12-Q9223VA11	22,819	
VSTOP Prosecutorial Project		16.540	11-P223VA10	19,792	
Victim Witness		16.540	11-Q8576VG10	(11,473)	
Evening Reporting		16.540	10-A5997JJ09	29,506	
	Subtotal			60,644	

CITY OF NORFOLK, VIRGINIA

Schedule of Expenditures of Federal Awards — Schedule I
For the Year Ended June 30, 2012

Federal Granting Agency/Recipient Recipient State Agency/Grant program		CFDA Number	Grant/Contract Number	Federal Expenditures	ARRA Expenditures
Department of Justice (continued):					
Virginia Department of Social Services:					
Second Chance Act Grant		16.579	CVS-11-037	72,606	
Department of Labor:					
Direct Payments:					
VETS - Homeless Veterans Program		17.805		594	
Department of Transportation:					
Pass-Through Payments:					
Virginia Department of Transportation:					
ARRA - Citywide Repaving		20.205	U000-122-219		3,432,447
Virginia Department of Motor Vehicles:					
State and Community Safety		20.600	PS-2012-52066-4444	12,000	
Selective Enforcement		20.600	SC-2011-51138-4080	32,509	
Selective Enforcement		20.600	SC-2012-52005-4343	28,321	
	Subtotal			72,830	
Environmental Protection Agency:					
Pass-Through Payments:					
Virginia Resources Authority:					
Virginia Resources Authority - Revolving Loan		66.458	C-515412-02	2,620,646	
Virginia Resources Authority - Revolving Loan		66.458	C-515433-02	6,791,882	
Virginia Resources Authority - Revolving Loan		66.458	C-515464-02	2,790,001	
	Subtotal			12,202,529	
Department of Homeland Security					
Direct Payments:					
Bomb Squad Initiative		97.004		221,649	
FEMA - Assistance to Firefighters		97.044		400,000	
Fire Prevention and Safety Grant		97.044		99	
	Subtotal			400,099	
Pass-Through Payments:					
Virginia Department of Emergency Management:					
Port Security Grant		97.056		641,679	
FEMA Hazard Mitigation		97.092	VA-RFC-710-021	1,501	
FEMA Hazard Mitigation		97.039	HMGP-1661-710-004	6,469	
Buffer Zone		97.078		15,165	
Virginia Department of Emergency Management:					
Citizen Preparedness Program		97.073		3,842	
Virginia Department of Homeland Security:					
Homeland Security Grant		97.073		10,425	
Virginia Department of Criminal Justice Services:					
Homeland Security Grant		97.073	12-B5820CR09	12,957	
Homeland Security Grant		97.073	11-A2303HS10	88,989	
	Subtotal			27,224	
Department of Education:					
Direct Payments:					
School Assistance in Federally Affected Areas		84.041		6,403,314	
Pass-Through Payments:					
Virginia Department of Education:					
Education Consolidation and Improvement Act of 1981:					
Adult Literacy		84.002	V002A100047	296,732	
Title I:					
Educationally Deprived Children- Programs Operated by LEA's		84.010	S010A030046	16,450,432	
Title 1 Distinguished School - Ocean View		84.010	S010A090046	4,033	
School Improvement - Title I		84.010	S010A100046	101,718	
School Improvement Grant - Title		84.010	S010A100046	181,213	
Negligent Delinquent Children		84.010	S010A030046	100,005	
	Subtotal			16,837,401	
Program for Neglected Children		84.013	S013A090046	105,419	
Evenstart Program		84.213	S213C080047	495,204	
ARRA - 1003g School Improvement Funds of ARRA		84.388	S388A090047		2,707,115
ARRA - Neglected, Delinquent or At-Risk		84.389	S389A090046		6,516
ARRA - Title 1 Part A Entitlements		84.389	S389A090046		3,884,577
	Subtotal				3,891,093
Virginia Department of Education:					
Title III:					
Limited English		84.365	S365A110046	42,955	
Immigrant and Youth State Grant		84.365	S365A110046	35,925	
	Subtotal			78,880	
Title VI-B:					
Assistance to States for Education of Handicapped Children:					
Special Education Flow Thru (Federal)		84.027	H027A100107	6,930,564	
Virginia Incentive Program for Speech - Language Pathologist		84.027	H027A110107	17,983	
	Subtotal			6,948,547	
Handicapped Preschool Incentive Grant		84.173	H173A120112	7,426	
ARRA - IDEA Part B, Flow Through		84.391	H391A090107		3,411,860
ARRA - IDEA Part B Preschool		84.392	H392A09012		118,898

CITY OF NORFOLK, VIRGINIA

Schedule of Expenditures of Federal Awards — Schedule I
For the Year Ended June 30, 2012

Federal Granting Agency/Recipient Recipient State Agency/Grant program		CFDA Number	Grant/Contract Number	Federal Expenditures	ARRA Expenditures
Department of Education (continued):					
Title IV-B:					
Vocational Education:					
Carl Perkins Vocational		84.048	VA048A110046	759,355	
Special Projects:					
Fruit and Vegetable Program		10.582	PAPER	169,862	
Math Solutions Study Project (National Science Foundation)		47.076	918313	66,512	
Drug Free Act		84.186	Q186A090048	74,339	
McKinney Homeless Assistance		84.196	G11810	25,506	
21st Century Community Learning Center		84.287	S287C100047	571,544	
Enhancing Education with Tech Phase II		84.318	S318X010046	29,191	
Enhancing Education with Tech (WHRO)		84.318	S318X060046	305,882	
Early Reading First		84.359	S359B090116	1,381,812	
State Council of Higher Education		84.367	12-150-513861	25,239	
Teacher & Principal Training		84.367	S367A100044	1,623,763	
	Subtotal			1,649,002	
Striving Readers Intervention		84.371	S371A090001	64,515	
1003g School Improvement Grant (Award 2009)		84.377	S377A090047	127,399	
1003g School Improvement Grant (Award 2010)		84.377	S377A100047	1,087,554	
1003g State Set Aside		84.377	S377A100047	650	
	Subtotal			1,215,603	
ARRA - Enhancing Education through Technology		84.386	S386A090046		939,655
ARRA - Educational Technology for ARRA		84.386	S386A090046		3,967
	Subtotal				943,622
Longitudinal Data Systems		84.384	R384A100037	372,289	
Education Jobs Fund		84.410	S410A100047	4,789,375	
Virginia Department of Behavioral Health and Development Services:					
Mental Retardation Early Intervention		84.181		188,544	
ARRA - Grants for Infants and Families		84.393			60,856
Department of Energy					
Direct Payments:					
ARRA - Energy Efficiency and Conservation Block Grant		81.128			151,874
Department of the Navy:					
Direct Payments:					
Navy Junior ROTC		12.000		382,245	
ERATE - Universal Service Funds		12.000		431,465	
Medicaid - Special Education		12.000		811,490	
	Subtotal			1,625,200	
Pass-Through Payments:					
Virginia Department of Emergency Management:					
Hampton Roads Full Scale Training		12.607		6,266	
Federal Emergency Management Agency					
Direct Payments:					
Noreaster Disaster Assistance		97.036		151,188	
Department of Health and Human Services:					
Direct Payments:					
Substance Abuse and Mental Health Services Administration		93.243		216,108	
HIV/AIDS Grant		93.914		5,672,555	
NIC Pool Funds		99.000		53,271	
Pass-Through Payments:					
Virginia Department of Behavioral Health and Development Services:					
Projects for Assistance in Transition to Homeless (PATH)		93.150		92,083	
Virginia Department of Social Services:					
Youth & Family Services Grant		93.556		154,358	
Temporary Assistance to Needy Families		93.558		4,029,868	
Refugee and Entrant Assistance State Administered Program		93.566		10,220	
Local-Income Home Energy Assistance		93.568		357,948	
Payments to States for Child Care Assistance		93.575		1,836,777	
Child Development Care		93.596		1,767,629	
Independent Living Program - Education and Training		93.599		17,522	
Family Preservation		93.645		12,306	
Foster Care - Title IV - E		93.658		2,468,888	
Adoptive Assistance		93.659		1,539,735	
Social Services Block Grant		93.667		2,537,897	
Independent Living Initiative Program		93.674		56,726	
ARRA - Child Care and Development Block Grant		93.713			-
FAMIS Outreach Grants		93.767		126,204	
Medical Assistance Program - Administrative		93.778		2,648,859	
Virginia Department of Behavioral Health and Developmental Services:					
Mental Health Federal Block Grant		93.958		124,184	
Substance Abuse Federal Black Grant		93.959		1,808,807	
Other Federal Assistance:					
Sheriff Social Security		N/A		9,200	
Total Schedule of Expenditures and Federal Awards				110,149,134	16,593,639

CITY OF NORFOLK, VIRGINIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012

1. General

The accompanying schedule of expenditures of federal awards presents the activity of all federal awards of the City. The City of Norfolk single audit reporting entity includes the primary government and the School Board and Community Services Board component units.

Federal awards not received through direct programs are passed through the departments and agencies of the Commonwealth of Virginia.

2. Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting. Expenditures are recorded when the liability is incurred or measurable. The related revenue is reported net of unexpended amounts returned to grantors.

3. Relationship to the Basic Financial Statements

Federal award revenue is reported in the City's basic financial statements as follows:

Major governmental funds		$ 22,048,281
Non-major governmental funds		21,393,709
Total revenues from federal government		43,441,990
Component Unit - School Board		
Total Federal Grants Awarded	66,414,134	
Direct Payments:		
Navy Junior ROTC	382,245	
Erate - Universal Service Funds	431,465	
Medicaid	811,490	
Total - Norfolk Public Schools		68,039,334
Component Unit - Community Services Board		3,020,127
Total federal financial assistance reported in basic financial statements		$ 114,501,451
Federal awards not reported as federal revenue in basic financial statements		
Enterprise - VRA Loan - Wastewater Fund		12,202,529
Noreaster Disaster Assistance reimbursement to be received in fiscal year 2013; reported on SEFA in fiscal year 2012		85,260
CSA Pool - Medicaid Adjustment		53,270
Build America Bond Interest Rate Subsidy		(99,737)
Total federal awards		$ 126,742,773

Reconciliation to Exhibit A-3

Revenues from federal government	$ 43,441,990
Revenues from Commonwealth of Virginia	118,130,416
Total intergovernmental revenue	$ 161,572,406

CITY OF NORFOLK, VIRGINIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012

4. Clusters

Clustered programs for the year ended June 30, 2012 were as follows:

Grant Program / Cluster	CFDA Number	Federal Expenditures
National School Breakfast Program	10.553	3,293,694
National School Lunch Program	10.555	9,076,264
National School Lunch Program (Commodities)	10.556	895,422
USDA School Nutrition Program	10.559	82,204
USDA Summer Food Service Program (SFSP)	10.559	8,324
USDA Summer Food Service Program (SFSP)	10.559	261,331
Total Child Nutrition Cluster		13,617,239
Food Stamp Program - Administration	10.561	4,408,215
Total Supplemental Nutrition Assistance Program (SNAP) Cluster		4,408,215
Community Development Block Grants/Entitlement Grants	14.218	5,694,666
ARRA - Community Development Block Grant	14.253	693,035
Total CDBG - Entitlement Grants Cluster		6,387,701
Neighborhood Stabilization	14.228	(36,601)
Total CDBG - State-Administered CDBG Cluster		(36,601)
ARRA - Justice Assistance Grant	16.804	293,327
Total JAG Program Cluster		293,327
ARRA - Citywide Repaving	20.205	3,432,447
Total Highway Planning and Construction Cluster		3,432,447
State and Community Safety	20.600	12,000
Selective Enforcement	20.600	32,509
Selective Enforcement	20.600	28,321
Total Highway Safety Cluster		72,830
Educationally Deprived Children- Programs Operated by LEA's	84.010	16,450,432
Title 1 Distinguished School - Ocean View	84.010	4,033
School Improvement - Title I	84.010	101,718
School Improvement Grant - Title	84.010	181,213
Negligent Delinquent Children	84.010	100,005
ARRA - Neglected, Delinquent or At-Risk	84.389	6,516
ARRA - Title 1 Part A Entitlements	84.389	3,884,577
Total Title I, Part A Cluster		20,728,494
Special Education Flow Thru (Federal)	84.027	6,930,564
Virginia Incentive Program for Speech - Language Pathologist	84.027	17,983
Handicapped Preschool Incentive Grant	84.173	7,426
ARRA - IDEA Part B, Flow Through	84.391	3,411,860
ARRA - IDEA Part B Preschool	84.392	118,898
Total Special Education Cluster (IDEA)		10,486,731
School Assistance in Federally Affected Areas	84.041	6,403,314
Total Impact Aid Cluster		6,403,314
Mental Retardation Early Intervention	84.181	188,544
ARRA - Grants for Infants and Families	84.393	60,856
Total Early Intervention Services (IDEA) Cluster		249,400
McKinney Homeless Assistance	84.196	25,506
Total Education of Homeless Children and Youth Cluster		25,506
Enhancing Education with Tech Phase II	84.318	29,191
Enhancing Education with Tech (WHRO)	84.318	305,882
ARRA - Enhancing Education through Technology	84.386	939,655
ARRA - Educational Technology for ARRA	84.386	3,967
Total Education Technology State Grants Cluster		1,278,695

CITY OF NORFOLK, VIRGINIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012

Clusters (continued):

Grant Program / Cluster	CFDA Number	Federal Expenditures
1003g School Improvement Grants (Award 2009)	84.377	127,399
1003g School Improvement Grants (Award 2010)	84.377	1,087,554
1003g State Set Aside	84.377	650
ARRA - 1003g School Improvement Funds of ARRA	84.388	2,707,115
Total School Improvement Grants Cluster		3,922,718
Longitudinal Data Systems	84.384	372,289
Total Statewide Data Systems Cluster		372,289
Temporary Assistance to Needy Families (TANF)	93.558	4,029,868
Total TANF Cluster		4,029,868
Payments to States for Child Care Assistance	93.575	1,836,777
Child Development Care	93.596	1,767,629
Total CCDF Cluster		3,604,406
Medical Assistance Program - Administrative	93.778	2,648,859
Total Medicaid Cluster		2,648,859

5. Sub-recipients

Federal funds passed through to subrecipients for the year ended June 30, 2012 were as follows:

Federal Granting Agency / Grant Program	Amount
Department of Housing and Urban Development	
Community Development Block Grant (14.218)	3,495,512
ARRA - Homeless Prevention (14.257)	132,128
HOME Grant Program (14.239)	771,048
Emergency Shelter Grant Program (14.231)	200,184
Total Department of Housing and Urban Development	**4,598,872**
Department of Justice	
ARRA - Justice Assistance Grant (16.804)	49,397
Total Department of Justice	**49,397**
Department of Health and Human Services	
Temporary Assistance for Needy Families (93.558)	270,494
Child Development Care (93.596)	212,001
HIV/AIDS Grant (93.914)	4,661,760
Total Department of Health and Human Services	**5,144,255**
Total Payment to Sub-Recipients	**9,792,524**

SCHEDULE OF REVENUES AND EXPENDITURES
– BUDGET AND ACTUAL –

~Special Revenue Funds~

~Internal Service Funds~

~Capital Projects Fund~

Schedule of Revenues and Expenditures - Budget and Actual
Towing and Recovery Operations Special Revenue Fund
For the Year Ended June 30, 2012

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Use of money and property	$ 1,200	$ 1,450	$ 250
Charges for services	1,617,750	1,268,248	(349,502)
Intergovernmental - federal	-	4,804	4,804
Miscellaneous	85,050	79,866	(5,184)
Total revenue	$ 1,704,000	$ 1,354,368	$ (349,632)
Expenditures:			
Towing and recovery	$ 1,704,000	$ 1,687,646	$ 16,354
Total expenditures	$ 1,704,000	$ 1,687,646	$ 16,354

Schedule of Revenues and Expenditures - Budget and Actual
Storm Water Utility Special Revenue Fund
For the Year Ended June 30, 2012

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Use of money and property	$ 2,400	$ 11,348	$ 8,948
Charges for services	12,497,600	12,147,735	(349,865)
Intergovernmental - federal	-	94,933	94,933
Miscellaneous	-	45,330	45,330
Total revenue	$ 12,500,000	$ 12,299,346	$ (200,654)
Expenditures:			
Storm water	$ 12,500,000	$ 12,552,334	$ (52,334)
Transfer out	-		-
Total expenditures	$ 12,500,000	$ 12,552,334	$ (52,334)

Schedule of Revenues and Expenditures - Budget and Actual
Golf Special Revenue Fund
For the Year Ended June 30, 2012

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Charges for services	$ 1,143,800	$ 1,063,023	$ (80,777)
Use of money and property	84,000	101,487	17,487
Transfer in	250,000	250,000	-
Total revenue	$ 1,477,800	$ 1,414,510	$ (63,290)
Expenditures:			
Operations	$ 1,477,800	$ 1,418,969	$ 58,831
Total expenditures	$ 1,477,800	$ 1,418,969	$ 58,831

Schedule of Revenues and Expenditures - Budget and Actual
Emergency Operations Special Revenue Fund (EOC 911)
For the Year Ended June 30, 2012

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Other local taxes	$ 3,571,596	$ 3,571,596	$ -
Charges for services	2,000	3,534	1,534
Recovered cost	1,366,173	1,702,654	336,481
Intergovernmental - federal	63,617	-	(63,617)
Rollover from last year	634,840	172,845	(461,995)
Transfer in	367,374	424,374	57,000
Total revenue	$ 6,005,600	$ 5,875,003	$ (130,597)
Expenditures:			
Operations	$ 6,005,600	$ 5,811,411	$ 194,189
Total expenditures	$ 6,005,600	$ 5,811,411	$ 194,189

Schedule of Revenues and Expenditures - Budget and Actual
Cemeteries Special Revenue Fund
For the Year Ended June 30, 2012

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Charges for services	$ 1,118,773	$ 842,685	$ (276,088)
Miscellaneous	363,587	320,170	(43,417)
Recovered Cost	300,000	300,000	-
Transfer in	200,000	322,694	122,694
Rollover from last year	264,540	264,540	-
Total revenue	$ 2,246,900	$ 2,050,089	$ (196,811)
Expenditures:			
Operations	$ 2,246,900	$ 1,790,313	$ 456,587

Schedule of Revenues and Expenditures - Budget and Actual
Public Amenities Special Revenue Fund
For the Year Ended June 30, 2012

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Taxes-Hotel & Restaurant	$ 5,210,700	$ 5,490,067	$ 279,367
Expenditures:			
Transfer out (CIP)	$ 1,000,000	$ 1,000,000	$ -
Transfer out (Debt Service)	194,750	194,750	-
Tourism Opportunity Grants	500,000	500,000	-
All purpose	3,515,950	500,000	3,015,950
Total expenditures	$ 5,210,700	$ 2,194,750	$ 3,015,950

Schedule of Revenues and Expenditures - Budget and Actual
Tax Increment Financing Special Revenue Fund
For the Year Ended June 30, 2012

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Taxes-real property	$ 2,799,321	$ 2,799,321	$ -
Use of money and property	-	4	4
Rollover from last year	282,579	282,580	1
	-	-	-
Total revenue	$ 3,081,900	$ 3,081,905	$ 5
Expenditures:			
Debt service	$ 878,939	$ 876,438	$ 2,501
All purpose	-	-	-
Transfer out	2,202,961	2,202,961	-
Total expenditures	$ 3,081,900	$ 3,079,399	$ 2,501

Schedule of Revenues and Expenditures - Budget and Actual
Fleet Internal Service Fund
For the Year Ended June 30, 2012

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Use of money and property	$ -	$ 2,016	$ 2,016
Charges for services	12,417,084	12,178,626	(238,458)
Miscellaneous & recovered costs	157,916	106,573	(51,343)
Other Sources and Transfer In	-	849,859	849,859
Total revenue	$ 12,575,000	$ 13,137,074	$ 562,074
Expenditures:			
Fleet	$ 12,575,000	$ 13,328,774	$ (753,774)

Schedule of Revenues and Expenditures - Budget and Actual
Storehouse Internal Service Fund
For the Year Ended June 30, 2012

	Budget	Actual Budgetary Basis*	Positive (Negative) Variance
Revenues:			
Charges for services	$ 622,000	$ 693,343	$ 71,343
	$ 622,000	$ 693,343	$ 71,343
Expenditures:			
Storehouse	$ 622,000	$ 517,896	$ 104,104

**The difference in revenue and expenditures per this schedule compared to Exhibit H-2 represents cost of goods sold which is not included in the operating budget.*

CITY OF NORFOLK, VA
Schedule of Expenditures - Budget and Actual - Capital Projects Fund
From Inception and for the Year Ended June 30, 2012

		Expenditures			
	Project Budget	Prior Years	Current	Total	Available
Community Development					
Neighborhood Project Development	$ 13,685,000	$ 12,466,253	$ 516,229	$ 12,982,482	$ 702,518
Neighborhood Conservation/Revitalization	81,456,314	61,916,745	9,780,943	71,697,688	9,758,626
Broad Creek Renaissance	15,338,000	12,126,489	72,716	12,199,205	3,138,795
Neighborhood Streets Improvements	2,300,000	1,066,597	900,671	1,967,268	332,732
Neighborhood commercial Improvements	9,302,000	7,033,369	227,432	7,260,801	2,041,199
Create Special Service Areas	1,250,000	140,397	106,508	246,905	1,003,095
Other	195,000	172,980	19,422	192,402	2,598
Community Development Total	123,526,314	94,922,830	11,623,921	106,546,751	16,979,563
Cultural Facilities					
Attucks Theatre Renovations	130,629	116,877	21,884	138,761	(8,132)
Scope and Chrysler Hall Improvements	14,065,000	12,549,066	418,173	12,967,239	1,097,761
Chrysler Museum Improvements	4,458,076	2,401,608	2,013,260	4,414,868	43,208
Civic Building Improvements	511,578	510,005	-	510,005	1,573
Conference Center	61,519,086	14,914,963	34,193	14,949,156	46,569,930
Harrison Opera House Improvements	405,000	404,091	765	404,856	144
MacArthur Memorial Improvements	2,125,000	47,442	2,068,564	2,116,006	8,994
Nauticus/Maritime Center Improvements	3,595,000	2,753,790	775,428	3,529,218	65,782
USS Wisconsin Improvements	6,253,992	2,453,711	364,741	2,818,452	3,435,540
Other	4,277,000	2,440,645	67,944	2,508,589	1,768,411
Cultural Facilities Total	97,340,361	38,592,198	5,764,952	44,357,150	52,983,211
Economic Development					
Acquire/Dispose/Upgrade City Property	36,162,916	29,114,716	3,936,607	33,051,323	3,111,593
Nauticus/Cruise Terminal Development	38,350,370	38,051,095	132,804	38,183,899	166,471
Huntersville Redevelopment	1,000,000	70,882	-	70,882	929,118
Wachovia Center Development	5,375,000	2,675,710	877,392	3,553,102	1,821,898
Kroc Center Development	4,040,000	3,994,778	-	3,994,778	45,222
Other	4,066,318	1,162,635	2,598,223	3,760,858	305,460
Economic Development Total	88,994,604	75,069,816	7,545,026	82,614,842	6,379,762
General/Other					
Campostella Landfill Closure	2,300,000	1,162,528	96,430	1,258,958	1,041,042
Beach Erosion Control	15,967,500	10,713,488	505,642	11,219,130	4,748,370
Transfer to Debt Service	-	2,639,363	954,660	3,594,023	(3,594,023)
IFMS Implementation	5,909,917	5,892,903	7,504	5,900,407	9,510
Waterway Dredging Projects	3,935,000	2,597,091	729,208	3,326,299	608,701
Conservation and Green Vision Implementation	6,600,000	3,775,023	250,119	4,025,142	2,574,858
Public Safety Radio Communication System Upgrade	5,900,000	236,761	4,220,653	4,457,414	1,442,586
Other	2,991,087	2,747,438	251,841	2,999,279	(8,192)
General/Other Total	43,603,504	29,764,595	7,016,057	36,780,652	6,822,852
Public Buildings and Facilities					
Fire Station Emergency Generation Program	575,000	560,258	4,912	565,170	9,830
Infrastructure Improvements	4,336,125	3,741,735	69,077	3,810,812	525,313
Annual Roof Maintenance	6,725,000	5,472,361	1,149,855	6,622,216	102,784
Library Facilities - Anchor Branch	10,476,238	10,292,559	5,096	10,297,655	178,583
Police Precinct Replacement	21,742,000	19,689,756	452,236	20,141,992	1,600,008
Courts Replacement and Renovations	93,316,181	12,469,330	9,201,657	21,670,987	71,645,194
Jail Renovations	1,756,328	733,087	52,170	785,257	971,071
Selden Arcade Renovations	8,414,126	8,400,542	-	8,400,542	13,584
City Hall Building Renovations	4,225,593	3,525,931	394,069	3,920,000	305,593
Tow Yard Acquisition	1,300,000	-	-	-	1,300,000
Fire Facilities Replacement/Improvements	1,920,500	1,482,796	284,464	1,767,260	153,240
Police Training Facilities	5,550,000	5,444,064	105,936	5,550,000	-
Main Library Construction	57,749,900	13,856,781	3,311,551	17,168,332	40,581,568
Design/Construct Government Center Plaza	656,500	510,391	79,911	590,302	66,198
Other	8,437,971	4,334,164	1,131,200	5,465,364	2,972,607
Public Buildings and Facilities Total	227,181,462	90,513,755	16,242,134	106,755,889	120,425,573

CITY OF NORFOLK, VA
Schedule of Expenditures - Budget and Actual - Capital Projects Fund
From Inception and for the Year Ended June 30, 2012

		Expenditures			
	Project Budget	Prior Years	Current	Total	Available
Parks/Recreational Facilities					
Zoo Master Plan	27,153,500	24,094,548	334,468	24,429,016	2,724,484
Titustown Recreation Center Improvements	550,000	208,961	-	208,961	341,039
Botanical Gardens	1,994,414	1,486,206	-	1,486,206	508,208
Existing Recreation Center Improvements	10,314,225	7,999,084	1,099,568	9,098,652	1,215,573
Norview Recreation Center	7,949,500	7,601,175	346,581	7,947,756	1,744
Lambert's Point Community & Recreational Center	6,909,026	6,640,710	55,680	6,696,390	212,636
Harbor Park Improvements	475,000	277,109	57,317	334,426	140,574
Athletic Field Renovations	2,734,000	1,778,160	730,998	2,509,158	224,842
Norfolk Fitness & Wellness Center Renovations	1,808,670	1,674,039	126,183	1,800,222	8,448
Broadcreek & Westside Neighborhood Parks	2,625,709	2,392,557	77,455	2,470,012	155,697
Town Point Park Improvements	11,525,000	11,470,237	8,512	11,478,749	46,251
Martin Luther King Park	123,000	116,020	-	116,020	6,980
Waterside Waterfront Renovations	608,600	346,116	262,125	608,241	359
Ingleside Gymnasium	1,936,000	109,850	799,299	909,149	1,026,851
Other	11,435,415	3,380,998	2,347,746	5,728,744	5,706,671
Parks/Recreational Facilities Total	88,142,059	69,575,770	6,245,932	75,821,702	12,320,357
Schools					
Blair Middle School Replacement	3,434,000	3,400,739	33,182	3,433,921	79
Norfolk Public School Initiative	5,265,000	5,263,456	-	5,263,456	1,544
Norview Construction	29,865,659	29,865,659	-	29,865,659	-
Southside Middle School	2,250,000	-	-	-	2,250,000
High School Athletic Field	1,500,000	1,495,091	-	1,495,091	4,909
Coleman Place Elementary Replacement	20,310,030	20,202,388	47,025	20,249,413	60,617
Crossroads Elementary Replacement	36,870,525	6,954,997	14,145,522	21,100,519	15,770,006
Other	14,346,824	7,265,871	6,307,882	13,573,753	773,071
Schools Total	113,842,038	74,448,201	20,533,611	94,981,812	18,860,226
Storm Water					
Storm Water Quality Improvements	10,270,000	5,405,211	2,851,565	8,256,776	2,013,224
Storm Water Facility Improvements	1,650,000	1,616,284	24,509	1,640,793	9,207
Old Dominion University Master Plan	414,000	403,765	10,235	414,000	-
Drain Line Clean & Slip Lining	697,267	695,843	-	695,843	1,424
Neighborhood Flood Reduction	11,466,000	8,660,621	1,568,392	10,229,013	1,236,987
Bulkheading Master Project	3,100,000	1,500,529	529,350	2,029,879	1,070,121
Other	500,000	4,000	-	4,000	496,000
Storm Water Total	28,097,267	18,286,253	4,984,051	23,270,304	4,826,963
Transportation					
Old Dominion University Master Plan	8,463,600	8,483,236	8,617	8,491,853	(28,253)
VDOT Urban Support Program	10,993,512	7,901,597	172,154	8,073,751	2,919,761
Bridge Maintenance & Repair Program	21,346,208	12,157,938	1,767,465	13,925,403	7,420,805
Signal & Intersection Enhancements	9,108,123	5,803,466	745,330	6,548,796	2,559,327
Citywide Soundwall Program	4,219,784	3,982,003	136,555	4,118,558	101,226
Neighborhood Streets Improvements	46,599,542	28,207,177	4,178,472	32,385,649	14,213,893
Atlantic City Development	12,575,000	8,632,779	1,140,909	9,773,688	2,801,312
Citywide Boat Ramp Improvements	1,943,857	1,927,357	291	1,927,648	16,209
Construct Light Rail	74,117,974	61,021,940	8,266,722	69,288,662	4,829,312
Develop Multi-Modal Transfer Station at Harbor Park	3,606,000	363	466,837	467,200	3,138,800
Other	14,966,191	9,669,037	2,052,967	11,722,004	3,244,187
Transportation Total	207,939,791	147,786,893	18,936,319	166,723,212	41,216,579
Grand Total	$ 1,018,667,400	$ 638,960,311	$ 98,892,003	$ 737,852,314	$ 280,815,086

* Note: Some prior year amounts were reclassed to reflect proper classification

STATISTICAL

SECTION

(Unaudited)

CITY OF NORFOLK, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2011

STATISTICAL SECTION

This section of the City of Norfolk's comprehensive annual financial report provides detailed historical and economic information for users of the financial statements, notes to the financial statements, and required supplementary information for the purpose of assessing and evaluating the City's economic condition.

Financial Trends Information – These schedules provide information on the City's net assets, changes to net assets and fund balance for assessing the changes in financial position over time.

Revenue Capacity Information – These schedules provide information on the City's ability to generate revenue, specifically property tax revenue (the major source of revenue for governmental activities).

Debt Capacity Information – These schedules provide information on the City's outstanding debt, debt limitations and the ability to leverage and pay future debt.

Demographic and Economic Information – These schedules provide information about the environment in which the City operates.

Operating Information – These schedules provide operating information related to the City's infrastructure, assets and services provided by function.

Sources: Unless otherwise noted, the information in these statistical schedules is from the comprehensive annual financial reports for the relevant years. The City implemented GASB 34 in 2002; schedules presenting government wide information includes information beginning in that year.

City of Norfolk, Virginia
Financial Trends Information
Schedule 1
Net Assets by Category
Last Ten Fiscal Years
(Amounts in thousands)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental activities:										
Invested in capital assets, net of related debt	$ 470,451	$ 411,993	$ 403,577	$ 391,392	$ 332,988	$ 325,173	$ 252,128	$ 155,954	$ 324,576	294,102
Restricted	35,753	55,786	6,788	6,605	6,731	6,890	64,397	120,974	6,744	9,804
Unrestricted	72,904	86,959	91,869	96,705	127,479	90,917	63,013	76,365	5,347	23,241
Subtotal governmental activities net assets	579,108	554,738	502,234	494,702	467,198	422,980	379,538	353,293	336,667	327,147
Business-type activities:										
Invested in capital assets, net of related debt	195,799	223,018	237,044	259,198	268,503	241,203	237,307	229,693	267,107	270,913
Restricted	37,216	36,041	-	-	2,526	2,506	39,306	40,056	12,928	12,928
Unrestricted	39,277	20,293	48,563	43,383	34,373	72,387	43,921	63,316	62,458	72,063
Subtotal business-type activities net assets	272,292	279,352	285,607	302,581	305,402	316,096	320,534	333,065	342,493	355,904
Primary government:										
Invested in capital assets, net of related debt	666,250	635,011	640,621	650,590	601,491	566,376	489,435	385,647	591,683	565,015
Restricted	72,969	91,827	6,788	6,605	9,257	9,396	103,703	161,030	19,672	22,732
Unrestricted	112,181	107,252	140,432	140,088	161,852	163,304	106,934	139,681	67,805	95,304
Total primary government net assets	$ 851,400	$ 834,090	$ 787,841	$ 797,283	$ 772,600	$ 739,076	$ 700,072	$ 686,358	$ 679,160	$ 683,051

City of Norfolk, Virginia
Financial Trends Information
Schedule 2
Changes in Net Assets
Last Ten Fiscal Years
(Amounts in thousands)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Program Revenues										
Governmental activities:										
Charges for services										
General government	$ 449	$ 551	$ 775	$ 1,230	$ 2,450	$ 2,169	$ 1,800	$ 13,156	$ 18,630	$ 9,441
Judicial administration	191	402	498	200	778	931	935	3,501	3,629	3,690
Public safety	6,282	6,727	11,608	13,041	2,708	2,307	2,797	5,627	7,942	8,424
Public works	16,394	16,829	9,081	10,121	24,181	27,156	26,999	35,451	36,890	50,597
Health and public assistance	159	154	130	134	101	166	134	83	82	50
Culture and recreation	5,907	6,668	7,034	6,198	6,126	6,710	6,232	9,224	10,101	9,751
Community development	7	11	5	1,063	907	760	1,539	2,259	1,479	1,807
Capital grant contributions	-	-	-	-	-	-	16,933	7,175	-	765
Operating grants and contributions	123,596	105,466	116,399	116,827	115,779	112,960	112,419	127,665	116,648	119,353
Total governmental activities program revenue	152,985	136,808	145,530	148,814	153,030	153,159	169,788	204,141	195,401	203,878
Business-type activities:										
Charges for Services										
Water utility	63,785	60,964	61,002	74,218	69,816	74,240	74,454	78,983	80,573	78,148
Wastewater utility	14,615	18,633	21,329	22,375	22,314	24,917	23,125	23,815	24,362	24,798
Parking facilities	18,574	21,354	21,059	20,911	21,599	20,425	20,048	18,785	19,682	19,452
Capital grants and contributions	254	205	-	78	731	219	504	366	130	187
Total business-type activities program revenues	97,228	101,156	103,390	117,582	114,460	119,801	118,131	121,949	124,747	122,585
Total primary government program revenues	250,213	237,964	248,920	266,396	267,490	272,960	287,919	326,090	320,148	326,463
Expenses										
Governmental activities:										
General government	83,311	86,081	74,344	94,763	113,279	113,142	111,629	112,874	103,550	109,188
Judicial administration	10,856	36,635	40,319	42,494	46,944	48,593	52,209	52,020	49,980	51,102
Public safety	117,488	99,975	107,531	106,705	111,803	126,609	120,703	130,263	129,721	129,138
Public works	103,319	124,833	144,438	109,907	119,176	118,888	134,274	132,176	101,137	91,542
Health and public assistance	70,665	77,668	84,173	91,443	93,775	95,234	93,495	91,923	82,368	75,428
Culture and recreation	44,758	42,495	46,267	44,933	52,965	56,890	63,438	73,342	64,352	63,499
Community development	19,806	10,471	16,974	14,930	14,772	15,345	10,867	15,429	18,638	17,223
Education	88,854	90,020	91,865	92,595	97,595	101,095	104,511	101,011	104,511	104,512
Interest on long-term debt	18,088	17,461	18,516	19,565	19,618	21,457	23,788	26,014	27,931	26,822
Intergovernmental	8,061	6,140	-	-	-	-	-	-	-	-
Total government activities expenses:	565,206	591,779	624,427	617,335	669,927	697,253	714,914	735,052	682,188	668,454
Business-type activities:										
Water utility	54,382	60,069	60,207	62,009	60,511	64,877	66,990	64,316	67,852	64,451
Wastewater utility	10,963	11,754	11,957	15,448	17,377	18,614	21,227	18,983	19,707	18,806
Parking facilities	15,834	16,869	18,640	18,356	18,861	21,539	19,036	20,008	22,050	20,469
Total business-type activities expenses	81,179	88,692	90,804	95,813	96,749	105,030	107,253	103,307	109,609	103,726
Total primary government expenses	646,385	680,471	715,231	713,148	766,676	802,283	822,167	838,359	791,797	772,180
Net (Expense) Revenue										
Governmental activities	(412,221)	(454,971)	(478,897)	(468,521)	(516,897)	(544,094)	(545,126)	(530,911)	(486,787)	(464,576)
Business-type activities	16,049	12,464	12,586	21,769	17,711	14,771	10,878	18,642	15,138	18,859
Total primary government net expense	$ (396,172)	$ (442,507)	$ (466,311)	$ (446,752)	$ (499,186)	$ (529,323)	$ (534,248)	$ (512,269)	$ (471,649)	$ (445,717)

City of Norfolk, Virginia
Financial Trends Information
Schedule 2-1
Changes in Net Assets
Last Ten Fiscal Years
(Amounts in thousands)

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
General Revenues and Other Changes in Net Assets									
Governmental Activities:									
Taxes:									
Real estate and personal property	$ 168,731	$ 181,446	$ 193,156	$ 217,787	$ 241,315	$ 240,488	$ 260,640	$ 256,339	$ 255,530
Consumption utility	-	-	43,387	43,337	42,586	46,582	44,142	44,053	48,360
Sales and use	-	-	29,497	30,652	32,402	31,791	29,484	28,249	28,411
Restaurant food	-	-	26,669	27,277	28,578	28,758	28,079	27,292	24,094
Business licenses	-	-	22,015	24,412	25,268	26,343	27,692	26,009	25,849
Cigarette	-	-	6,948	6,819	6,957	7,577	7,333	7,176	7,161
Motor vehicle licenses	-	-	2,605	3,576	3,529	3,498	4,005	4,308	4,313
Franchise, admission, recordation and other miscellaneous local	-	-	19,356	21,544	19,800	18,025	17,192	16,528	15,698
Other *	132,847	140,675	-	-	-	-	-	-	-
Interest and investment earnings	3,018	2,377	4,916	7,306	6,536	5,307	2,789	892	1,065
Grants and contributions not restricted to specific programs	60,472	77,601	68,219	68,133	66,524	69,352	60,513	32,892	32,642
Miscellaneous	7,986	18,504	8,496	15,851	4,845	11,881	9,600	5,637	5,901
Gain on disposal of assets	4,025	-	-	3,249	65	62	-	-	-
Capital contributions Norfolk Public Schools	-	-	-	-	-	-	-	40,387	11,085
Transfers between governmental and business-type activities	8,500	10,000	10,000	11,868	10,988	10,212	10,215	13,054	10,052
Total governmental activities	385,579	430,603	435,264	481,811	489,393	499,876	501,684	502,816	470,161
Business-type activities:									
Interest and investment earnings	816	609	864	3,161	2,739	3,046	925	618	511
Grants and contributions not restricted to specific programs	-	-	-	-	333	-	-	148	557
Unrealized gain (loss) on investments	25	(640)	-	-	-	-	-	-	-
Miscellaneous	2,780	4,624	3,657	3,911	3,554	3,088	2,850	3,432	3,431
Gain (Loss) on disposal of assets	121	-	(852)	-	(6)	-	-	2,744	(157)
Transfers between governmental and business-type activities	(8,500)	(10,000)	(10,000)	(11,868)	(10,988)	(10,212)	(10,215)	(13,054)	(10,052)
Total business-type activities	(4,758)	(5,407)	(6,331)	(4,796)	(4,368)	(4,078)	(6,440)	(6,112)	(5,710)
Total primary governmental activities	380,821	425,196	428,933	477,015	485,025	495,798	495,244	496,704	464,451
Change in Net Assets									
Governmental activities	(26,642)	(24,368)	(43,633)	13,290	(27,504)	(44,218)	(43,442)	(28,095)	(16,626)
Business-type activities	11,291	7,057	6,255	16,973	13,343	10,693	4,438	12,530	9,428
Total Primary Government changes in net assets	$ (15,351)	$ (17,311)	$ (37,378)	$ 30,263	$ (14,161)	$ (33,525)	$ (39,004)	$ (15,565)	$ (7,198)

Note:

1. *All taxes listed except real estate taxes were reported as "other" in the CAFR prior to fiscal year 2005.

City of Norfolk, Virginia
Financial Trends Information
Schedule 3
Fund Balances, Governmental Funds
Last Ten Fiscal Years
(Amounts in Thousands)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General fund:										
Nonspendable	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 5	$ -
Restricted	-	-	-	-	-	-	-	-	395	330
Committed	-	-	-	-	-	-	-	-	1,899	3,000
Assigned	-	-	-	-	-	-	-	-	38,014	34,839
Unassigned	-	-	-	-	-	-	-	-	55,968	54,338
Reserved*	8,317	8,152	14,172	16,057	17,223	11,669	7,842	8,296	-	-
Unreserved*	49,789	53,948	54,007	66,619	71,056	56,302	50,784	53,840	-	-
Total general fund	58,106	62,100	68,179	82,676	88,279	67,971	58,626	62,136	96,281	92,507
Capital projects fund:										
Nonspendable	-	-	-	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	-	-	-	41,063	95,053
Committed	-	-	-	-	-	-	-	-	11,978	14,376
Assigned	-	-	-	-	-	-	-	-	26,307	15,345
Unassigned	-	-	-	-	-	-	-	-	-	-
Reserved*	51,259	80,034	82,373	20,885	48,894	57,186	50,987	60,696	-	-
Unreserved*	7,200	14,132	3,394	-	15,424	64,504	25,939	86,260	-	-
Total capital projects fund	58,459	94,166	85,767	20,885	64,318	121,690	76,926	146,956	79,348	124,774
All Other governmental funds:										
Nonspendable	-	-	-	-	-	-	-	-	22	23
Restricted	-	-	-	-	-	-	-	-	2,621	9,474
Committed	-	-	-	-	-	-	-	-	11,259	3,246
Assigned	-	-	-	-	-	-	-	-	9,877	13,569
Unassigned	-	-	-	-	-	-	-	-	-	-
Reserved*	8,089	10,509	27,161	19,075	20,123	30,716	27,049	34,634	-	-
Unreserved*	14,833	14,058	3,992	17,131	24,211	13,987	12,535	14,008	-	-
Total Other governmental funds	22,922	24,567	31,153	36,206	44,334	44,703	39,584	48,642	23,779	26,312
Total fund balance, governmental funds	$ 139,487	$ 180,833	$ 185,099	$ 139,767	$ 196,931	$ 234,364	$ 175,136	$ 257,734	$ 199,408	$ 243,593

Note:

1. *The City implemented GASB Statement No. 54 during fiscal year 2011. The fund balance categories of "reserved" and "unreserved" are reflected for fiscal years prior to 2011.

City of Norfolk, Virginia
Financial Trends Information
Schedule 4
Changes in Fund Balances, Governmental Funds
Last Ten Fiscal Years
(Amounts in Thousands)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Revenues:										
General property taxes	$ 168,893	$ 178,361	$ 193,293	$ 211,788	$ 235,399	$ 241,290	$ 252,003	$ 257,055	$ 258,004	$ 252,917
Other local taxes	132,847	140,675	150,477	157,616	159,119	162,573	157,927	153,615	153,886	161,234
Licenses and permits	2,973	3,204	3,542	4,088	4,071	4,055	4,012	3,526	3,691	3,574
Fines and forfeitures	1,569	1,627	1,763	1,461	1,605	1,317	1,260	1,164	1,298	1,108
Use of money and property	8,791	8,333	10,232	10,498	11,105	10,560	8,332	6,746	7,169	6,695
Charges for services	29,390	31,342	29,129	32,772	37,071	40,159	40,345	50,540	47,955	47,859
Miscellaneous	24,785	17,339	18,951	33,494	11,691	17,923	12,911	18,080	14,850	11,643
Recovered costs	9,556	12,297	14,188	12,667	8,408	8,622	8,952	9,503	10,723	10,312
Intergovernmental	131,071	160,118	147,045	149,757	156,637	156,862	149,774	152,619	149,489	161,572
Total Revenues	509,875	553,296	568,620	614,141	625,106	643,361	635,516	652,848	647,065	656,914
Expenditures:										
Current										
General government	64,639	76,127	67,434	92,062	102,031	110,974	102,426	97,061	80,855	56,432
Judicial administration	9,280	35,603	38,110	41,795	45,173	47,331	50,347	48,726	47,535	48,233
Public safety	123,202	94,979	102,278	105,634	108,565	116,208	118,073	115,488	115,975	116,296
Public works	57,162	80,613	64,497	46,959	49,161	60,370	56,146	59,574	70,124	62,330
Health and public assistance	68,140	76,221	83,451	91,535	93,397	95,159	91,648	89,682	79,757	74,331
Culture and recreation	40,149	40,081	40,290	42,995	46,397	51,071	52,248	51,708	45,862	44,529
Community development	17,673	8,048	12,716	13,552	11,158	10,745	9,899	10,851	16,565	15,142
General Services									-	44,072
Education	88,854	90,020	91,865	92,595	97,595	101,095	104,511	101,011	104,511	104,512
Debt Service:										
Principal retirement	32,450	32,731	47,407	37,660	35,872	40,260	48,092	46,052	50,865	57,683
Interest and other charges	15,998	16,820	18,061	18,802	18,917	20,468	23,666	23,782	29,675	27,360
Intergovernmental	8,061	6,140	-	-	-	-	-	-	-	-
Capital outlay	37,770	45,026	85,144	91,632	94,595	114,007	104,892	99,210	76,534	98,892
Total Expenditures	563,378	602,409	651,253	675,221	702,861	767,688	761,948	743,145	718,258	749,812
(Deficiency) of revenues (under) expenditures	(53,503)	(49,113)	(82,633)	(61,080)	(77,755)	(124,327)	(126,432)	(90,297)	(71,193)	(92,898)
Other Financing Sources (Uses):										
Proceeds of refunding bonds	31,123	83,219	30,389	-	15,480	-	16,000	-	84,136	74,859
Proceeds of capital leases	7,503	4,430	4,702	4,828		-	-	-	-	-
Proceeds of debt (general obligation bonds and notes)	47,695	69,685	70,840	-	121,705	145,663	55,280	156,208	2,821	109,835
Payment to refunded bonds escrow agent	(31,123)	(83,219)	(30,389)	-	(15,480)	-	(16,000)	-	(84,136)	(74,859)
Premium on bonds issued	-	389	2,259	-	2,070	5,785	1,707	3,633	505	15,311
Miscellaneous	(2,989)	(7)	-	(122)	66	62	-	-	-	-
Proceeds from sale or disposal of fixed assets	4,025	1,062	-	-	-	-	-	-	-	2,700
Operating transfers in	78,637	75,587	82,354	97,185	89,254	109,901	105,641	104,007	104,873	107,136
Operating transfers (out)	(70,137)	(65,587)	(72,354)	(86,142)	(78,176)	(99,653)	(95,425)	(90,953)	(95,332)	(97,899)
Total other financing sources (uses)	64,734	85,559	87,801	15,749	134,919	161,758	67,203	172,895	12,867	137,083
Net change in fund balances	$ 11,231	$ 36,446	$ 5,168	$ (45,331)	$ 57,164	$ 37,431	$ (59,229)	$ 82,598	$ (58,326)	$ 44,185
Debt service as a percentage of noncapital expenditures	9.22%	8.89%	11.56%	9.67%	9.01%	9.13%	10.40%	9.69%	12.19%	12.29%

City of Norfolk, Virginia
Financial Trends Information
Schedule 5
Program Revenues by Function
Last Ten Fiscal Years
(Amounts in thousands)

Function/Program	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental Activities:										
General government	$ 43,823	$ 15,945	$ 25,544	$ 24,802	$ 16,614	$ 17,707	$ 16,042	$ 19,736	$ 21,795	$ 10,466
Judicial administration	4,482	17,960	19,423	19,605	27,904	28,707	23,173	26,461	27,069	27,880
Public safety	23,941	12,832	19,822	20,674	8,137	5,244	11,036	7,459	12,335	14,217
Public works	34,082	40,783	28,440	30,438	44,769	47,407	48,156	55,542	61,552	77,436
Health and public assistance	34,453	36,733	39,064	39,930	42,261	40,567	41,695	62,585	52,280	51,654
Culture and recreation	10,225	10,221	9,956	9,603	9,655	10,359	9,148	23,976	10,330	11,573
Community development	1,979	2,334	3,281	3,762	3,690	3,168	20,538	7,532	10,040	8,538
Interest on Long-term debt	-	-	-	-	-	-	-	849		2,115
Subtotal governmental activities program revenue	152,985	136,808	145,530	148,814	153,030	153,159	169,788	204,140	195,401	203,879
Business-type activities:										
Water utility	64,039	61,126	61,002	74,277	70,411	74,416	74,958	79,349	80,703	78,335
Wastewater utility	14,615	18,676	21,329	22,394	22,450	24,960	23,125	23,815	24,362	24,798
Parking facilities	18,574	21,354	21,059	20,911	21,599	20,425	20,048	18,785	19,682	19,452
Subtotal business-type activities program revenues	97,228	101,156	103,390	117,582	114,460	119,801	118,131	121,949	124,747	122,585
Total primary government program revenues	$ 250,213	$ 237,964	$ 248,920	$ 266,396	$ 267,490	$ 272,960	$ 287,919	$ 326,089	$ 320,148	$ 326,464

City of Norfolk, Virginia
Financial Trends Information
Schedule 6
Total Revenue by Source, Governmental Funds
Last Ten Fiscal Years
(Amounts in Thousands)

Fiscal Year	General Property Taxes	Other Local Taxes	Licenses and Permits	Fines and Forfeitures	Use of Money and Property	Charges for Services	Miscellaneous	Recovered Costs	Inter-Governmental Revenues	Totals
2003	168,893	132,847	2,973	1,569	8,791	29,390	24,785	9,556	131,071	509,875
2004	178,361	140,675	3,204	1,627	8,333	31,342	17,339	12,297	160,118	553,296
2005	193,293	150,477	3,542	1,763	10,232	29,129	18,951	14,188	147,045	568,620
2006	211,788	157,616	4,088	1,461	10,498	32,772	33,494	12,667	149,757	614,141
2007	235,399	159,119	4,071	1,605	11,105	37,071	11,691	8,408	156,637	625,106
2008	241,290	162,573	4,055	1,317	10,650	40,159	17,923	8,622	156,862	643,451
2009	252,004	157,926	4,012	1,260	8,332	40,345	12,911	8,952	149,774	635,516
2010	257,055	153,615	3,526	1,164	6,746	50,540	18,080	9,503	152,619	652,848
2011	258,004	153,886	3,691	1,298	7,169	47,955	14,850	10,723	149,489	647,065
2012	252,917	161,234	3,575	1,108	6,694	47,859	11,643	10,312	161,572	656,914
Change 2003-2012	49.7%	21.4%	20.2%	-29.4%	-23.9%	62.8%	-53.0%	7.9%	23.3%	28.8%

City of Norfolk, Virginia
Other Local Tax Revenues by Source, Governmental Funds
Last Ten Fiscal Years
(Amounts in Thousands)

Fiscal Year	Consumer's Utility Taxes	Sales and Use Taxes	Restaurant Food Taxes	Business License Taxes	Cigarette Taxes	Motor Vehicle Licenses	Other	Totals
2003	37,930	25,854	21,680	18,472	4,220	3,462	21,229	132,847
2004	39,231	27,867	21,808	20,279	7,639	3,456	20,395	140,675
2005	39,371	29,497	22,550	22,015	6,948	2,605	27,491	150,477
2006	43,337	30,652	27,277	24,412	6,819	3,576	21,543	157,616
2007	42,586	32,402	28,578	25,268	6,957	3,529	19,799	159,119
2008	46,582	31,791	28,758	26,343	7,577	3,498	18,024	162,573
2009	44,142	29,484	28,078	27,692	7,333	4,005	17,192	157,926
2010	44,053	28,249	27,292	26,009	7,176	4,308	16,528	153,615
2011	43,188	28,411	28,474	25,849	7,161	4,313	16,490	153,886
2012	43,588	27,599	30,300	28,667	8,097	4,318	18,665	161,234
Change 2003-2012	14.9%	6.7%	39.8%	55.2%	91.9%	24.7%	-12.1%	21.4%

Note:

1. This table presents additional details on other local taxes presented in the Table above.

City of Norfolk, Virginia
Revenue Capacity Information
Schedule 1
Assessed Valuations and Estimated Actual Values of Taxable Property
Last Ten Years

(in thousands)

Year	Real Property	Personal Property	Other Property	Total Taxable Assessed Value	Estimate Actual Taxable Value
2003	9,356,760	1,311,951	271,046	10,939,757	10,939,757
2004	10,029,639	1,503,713	281,578	11,814,930	11,814,930
2005	10,960,812	1,569,991	305,154	12,835,957	12,835,957
2006	12,691,527	1,655,021	316,863	14,663,411	14,663,411
2007	15,607,512	1,687,318	324,387	17,619,217	17,619,217
2008	18,401,851	1,983,503	193,287	20,578,641	20,578,641
2009	19,397,795	1,676,811	233,703	21,308,309	21,308,309
2010	19,940,273	1,610,680	226,801	21,777,754	21,777,754
2011	19,320,642	1,832,276	230,756	21,383,674	21,383,674
2012	18,676,729	1,613,797	238,497	20,529,023	20,529,023

Notes:

1. Real property and personal property includes both general and public service corporations.

2. Other property includes machinery and tools, mobile homes, airplanes and boats.

3. Estimated actual taxable property values are based on data supplied by the City's Commissioner of the Revenue and the City Assessor.

City of Norfolk, Virginia
Revenue Capacity Information
Schedule 2
Direct Property Rates
Last Ten Years

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Property tax rate per $100 of assessed value:										
Real property	$ 1.40	$ 1.40	$ 1.40	$ 1.35	$ 1.27	$ 1.11	$ 1.11	$ 1.11	$ 1.11	$ 1.11
Downtown improvement district	0.18	0.18	0.18	0.18	0.18	0.18	0.18	0.16	0.16	0.16
Personal property	4.00	4.00	4.00	4.00	4.00	4.25	4.25	4.25	4.33	4.33
Machinery and tools	4.00	4.00	4.00	4.00	4.00	4.25	4.25	4.25	4.25	4.25
Mobile homes	1.40	1.40	1.40	1.35	1.27	1.11	1.11	1.11	1.11	1.11
Airplanes	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
Boats (pleasure)	0.01	0.01	0.01	0.01	0.01	0.50	0.50	0.50	0.50	0.50
Boats (business)	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Recreational vehicles	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Disabled veterans	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Total direct tax rate	1.64	1.62	1.63	1.55	1.45	1.25	1.23	1.19	1.19	1.21
Assessed value of real property as a percent of fair market value:										
As determined by the City Assessor	100%	100%	100%	100%	100%	100%	100%	96%	100%	100%
As determined by the Commonwealth's Department of Taxation	88%	86%	65%	76%	76%	93%	96%	100%	100%	100%

Notes:

1. Cities in Virginia have jurisdiction over the entire area within their boundaries and operate independently of a county government since they are located outside of any county boundaries.

2. The real property and personal property assessments for public service corporations are based on information furnished to the Commissioner of the Revenue by the State Corporation Commission and the Commonwealth's Department of Taxation for calendar years 2002 through 2012.

3. The most recent Virginia Assessment/Sales ratio study is for 2012

4. The total direct tax rate is calculated using a weighted average formula that combines real, personal and other property using the original property tax levy and total taxable property assessed value.

N/A - Not available

(UNAUDITED)

City of Norfolk, Virginia
Revenue Capacity Information
Schedule 3
Principal Property Taxpayers
Current Year and Nine Years Ago

	2003			2012		
Taxpayer	Real Property Taxable Assessed Value	Rank	Percentage of Total Assessed Value	Real Property Taxable Assessed Value	Rank	Percentage of Total Assessed Value
Virginia Power Co.	$ 170,665,611	2	1.82%	$ 282,667,645	1	1.51%
MacArthur Shopping Center LLC (Taubman Co.)	149,780,100	3	1.60%	134,795,000	2	0.72%
Verizon Virginia, Inc.	195,616,847	1	2.09%	130,714,269	3	0.70%
Norfolk Western Railway Company	71,509,774	4	0.76%	123,191,166	4	0.66%
Old Dominion University Real Estate Foundation				95,337,600	5	0.51%
Norfolk Southern				84,438,400	6	0.45%
Dominion Tower Ltd. Partnership				63,636,100	7	0.34%
Virginia Natural Gas, Inc.	38,423,602	10	0.41%	63,141,478	8	0.34%
Dominion Enterprises				62,976,800	9	0.34%
Cox Virginia Telecom	53,326,937	9	0.57%	60,493,127	10	0.32%
Bank of America	65,916,500	5	0.70%			
Ford Motor Company	68,401,300	7	0.73%			
Military Circle Ltd. Partnership	66,796,800	6	0.71%			
New Life Tower	54,303,100	8	0.58%			
Total	$ 934,740,571		9.99%	$ 1,101,391,585		5.90%
Total Assessed Value	$ 9,356,759,552			$ 18,676,730,533		

Note:
1. Information obtained from the City's Real Estate Assessor's Office.

(UNAUDITED)

City of Norfolk, Virginia
Revenue Capacity Information
Schedule 4
Property Tax Levy and Collections by Tax Year
Last Ten Years
(in thousands)

Tax Year	Original Tax Levy	Adjusted Tax Levy (1)	Current Collections	Percentage of Current Collections to Tax Levy (2)	Delinquent Collections	Total Collections	Percentage of Total Collections to Tax Levy (2)
2003	179,220	164,908	155,276	94.16%	9,591	164,867	99.98%
2004	191,397	179,753	165,100	91.85%	14,590	179,690	99.96%
2005	209,202	200,742	180,348	89.84%	20,259	200,607	99.93%
2006	227,796	228,295	197,669	86.58%	29,034	226,703	99.30%
2007	254,703	241,300	219,993	91.17%	18,784	238,777	98.95%
2008	258,016	254,815	220,253	86.44%	30,757	251,010	98.51%
2009	261,535	257,767	233,725	90.67%	19,455	253,180	98.22%
2010	258,544	253,665	239,192	94.29%	4,651	243,843	96.13%
2011	254,756	254,756	235,518	92.45%	-	235,518	92.45%
2012	247,528	247,528	229,791	92.83%	15,122	244,913	98.94%

Notes:

1. Adjusted Tax Levy has been adjusted to reflect residual taxable amount after exonerations and reassessments. Information obtained from Office of the City Treasurer.

2. Percentage of Collections to Tax Levy are calculated using the adjusted Tax Levy amounts.

(UNAUDITED)

City of Norfolk, Virginia
Debt Capacity Information
Schedule 1
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

(Amount in Thousands)

Fiscal Year	General Obligation Bonds	General Obligation Notes	Revenue Bonds	Total Outstanding Debt	Outstanding Debt per Capita (Actual)	% of Personal Income	Debt to Net Asset Ratio
Governmental Activities							
2003	361,656	1,726	-	363,382	1,536	5.44%	1.59
2004	398,606	1,110	-	399,716	1,675	5.67%	1.39
2005	421,008	250	-	421,258	1,760	5.69%	1.19
2006	382,773	239	-	383,012	1,600	4.83%	1.29
2007	469,498	227	-	469,725	1,941	5.66%	0.99
2008	571,138	2,000	-	573,138	2,359	6.63%	0.74
2009	577,936	1,000	-	578,936	2,373	6.74%	0.66
2010	688,152	1,812	-	689,964	2,842	N/A	0.51
2011	639,675	1,208	-	640,883	N/A	N/A	0.53
2012	687,876	-	-	687,876	N/A	N/A	
Business Type Activities							
2003	99,220	-	370,855	470,075	1,987	7.04%	0.58
2004	87,636	-	365,464	453,100	1,899	6.42%	0.62
2005	91,520	-	382,689	474,209	1,981	6.41%	0.60
2006	93,099	-	374,159	467,258	1,952	5.89%	0.65
2007	107,311	-	364,834	472,145	1,951	5.69%	0.65
2008	124,092	-	420,819	544,911	2,243	6.30%	0.58
2009	158,227	-	416,746	574,973	2,357	6.69%	0.56
2010	199,620	-	409,158	608,778	2,507	N/A	0.55
2011	187,199	-	449,443	636,642	N/A	N/A	0.54
2012	187,910	-	412,520	600,430	N/A	N/A	
Total Primary Governmental Activities							
2003	460,876	1,726	370,855	833,457	3,523	12.49%	1.02
2004	486,242	1,110	365,464	852,816	3,574	12.09%	0.98
2005	512,528	250	382,689	895,467	3,741	12.10%	0.88
2006	475,872	239	374,159	850,270	3,552	10.71%	0.94
2007	576,809	227	364,834	941,870	3,893	11.36%	0.82
2008	695,230	2,000	420,819	1,118,049	4,601	12.94%	0.66
2009	736,163	1,000	416,746	1,153,909	4,730	13.42%	0.61
2010	887,772	1,812	409,158	1,298,742	5,349	N/A	0.53
2011	826,874	1,208	449,443	1,277,525	N/A	N/A	0.53
2012	875,786	-	412,520	1,288,306	N/A	N/A	

N/A - not available

1. Population is detailed in Debt Capacity Information Schedule 2.

City of Norfolk, Virginia
Debt Capacity Information
Schedule 2
Ratios of Net General Bonded Debt
Total Assessed Value and Net Bonded Debt Per Capita
Last Ten Years

Year	Gross Bonded Debt (in thousands)	Debt Payable from Enterprise Revenue (in thousands)	Net Bonded Debt (in thousands)	Assessed Value of Taxable Property (in thousands)	Population	Ratio of Net Bonded Debt To Assessed Value	Net Bonded Debt per Capita
2003	460,876	99,220	361,656	10,939,757	236,550	3.31%	1,529
2004	486,242	87,636	398,606	11,814,930	238,650	3.37%	1,670
2005	512,528	91,520	421,008	12,835,957	239,396	3.28%	1,759
2006	475,872	93,099	382,773	14,663,411	239,355	2.61%	1,599
2007	576,809	107,311	469,498	17,619,217	241,941	2.66%	1,941
2008	695,230	124,092	571,138	20,578,641	242,983	2.78%	2,351
2009	736,163	158,227	577,936	21,308,309	243,957	2.71%	2,369
2010	887,772	199,620	688,152	21,777,754	242,803	3.16%	2,834
2011	826,874	187,199	639,675	21,383,674	N/A	2.99%	N/A
2012	875,786	187,910	687,876	20,529,023	N/A	3.35%	N/A

Notes:

1. Assessed value of taxable property is detailed in Revenue Capacity Schedule 1.

2. The source of 2002 through 2009 population estimates is the Weldon Cooper Center for Public Service, University of Virginia & U.S. Census Bureau. The source for the 2010 population estimate is the U.S. Census Bureau. Data was not available for 2011.

N/A - not available

City of Norfolk, Virginia
Debt Capacity Information
Schedule 3
Computation of Direct Bonded Debt
June 30, 2012

Jurisdiction	Net Bonded Debt Outstanding (in thousands)	% Applicable to Government	$ Applicable to Government (in thousands)
Direct:			
City of Norfolk	$ 687,876	100%	$ 687,876

Notes:

1. Enterprise funds are excluded.

2. There is no overlapping debt because cities in Virginia have jurisdiction over the entire area within their boundaries and operate independently of a county since they are located outside of any county boundaries.

(UNAUDITED)

City of Norfolk, Virginia
Debt Capacity Information
Schedule 4
Legal Debt Margin
June 30

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total assessed value of real property	$ 9,356,759,552	$ 10,029,638,801	$ 10,960,812,421	$ 12,691,527,668	$ 15,496,207,804	$ 18,401,851,069	$ 19,395,789,387	$ 19,940,273,451	$ 19,320,643,495	$ 18,676,730,533
Overall debt limitation - 10% of assessed valuation	935,675,955	1,002,963,880	1,096,081,242	1,269,152,767	1,549,620,780	1,840,185,107	1,939,578,939	1,994,027,345	1,932,064,350	1,867,673,053
Net debt applicable to debt limitation	464,176,270	489,541,678	514,905,063	478,467,462	579,224,191	697,450,234	738,173,200	889,556,676	829,621,927	877,060,431
Legal Debt Margin Within 10% Limitation	$ 471,499,685	$ 513,422,202	$ 581,176,179	$ 790,685,305	$ 970,396,589	$ 1,142,734,873	$ 1,201,405,739	$ 1,104,470,669	$ 1,102,442,422	$ 990,612,622
Net debt percentage of 10% limitation	49.61%	48.81%	46.98%	37.70%	37.38%	37.90%	38.06%	44.61%	42.94%	46.96%

City of Norfolk, Virginia
Debt Capacity Information
Schedule 5
Revenue Bonds Debt Service Coverage
Water Utility Fund
Last Ten Fiscal Years

Fiscal Year	Revenue Available for Debt Service (1)	Operating Expenses Less Depreciation & Amortization (2)	Income Available for Debt Service	Debt Service Principal	Debt Service Interest	Debt Service Total	Coverage
2003	67,760,029	27,967,179	39,792,850	5,700,000	14,600,283	20,300,283	1.96
2004	64,366,942	33,740,297	30,626,645	5,955,000	14,336,043	20,291,043	1.51
2005	69,183,154	34,643,668	34,539,486	6,250,000	14,041,059	20,291,059	1.70
2006	78,788,158	34,144,763	44,643,395	6,580,000	14,827,960	21,407,960	2.09
2007	76,013,563	32,427,377	43,586,186	7,310,000	14,379,821	21,689,821	2.01
2008	78,730,024	37,026,528	41,703,496	7,665,000	14,022,200	21,687,200	1.92
2009	78,020,552	38,182,373	39,838,179	8,050,000	16,411,343	24,461,343	1.63
2010	82,470,020	34,567,741	47,902,279	9,420,000	15,929,680	25,349,680	1.89
2011	83,737,444	37,068,753	46,668,691	9,875,000	16,527,844	26,402,844	1.77
2012	81,295,219	34,667,524	46,627,695	11,285,000	11,184,363	22,469,363	2.08

Notes:

1. Includes operating revenue, plus interest income not capitalized.

2. Includes operating expenses, less depreciation and amortization.

City of Norfolk, Virginia
Debt Capacity Information
Schedule 6
Revenue Bonds Debt Service Coverage
Parking Facilities Fund
Last Ten Fiscal Years

Fiscal Year	Revenue Available for Debt Service (1)	Operating Expenses Less Depreciation & Amortization (2)	Income Available for Debt Service	Debt Service Principal (3)	Debt Service Interest (3)(4)	Debt Service Total	Coverage
2003	18,879,428	7,481,301	11,398,127	1,080,000	4,305,825	5,385,825	2.12
2004	21,614,695	8,503,800	13,110,895	1,155,000	4,232,717	5,387,717	2.43
2005	21,329,936	9,984,289	11,345,647	1,225,000	4,540,463	5,765,463	1.97
2006	21,823,360	9,493,391	12,329,969	1,760,000	4,147,035	5,907,035	2.09
2007	22,348,513	9,359,808	12,988,705	1,825,000	4,628,423	6,453,423	2.01
2008	21,338,661	10,554,971	10,783,690	1,935,000	4,456,598	6,391,598	1.69
2009	20,060,905	10,762,214	9,298,691	2,040,000	4,254,117	6,294,117	1.48
2010	19,039,563	10,741,343	8,298,220	2,370,000	4,084,135	6,454,135	1.29
2011	20,079,618	10,513,723	9,565,895	2,445,000	4,009,864	6,454,864	1.48
2012	19,683,823	9,157,207	10,526,616	2,565,000	3,894,835	6,459,835	1.63

Notes:

1. Includes operating revenue, plus interest income not capitalized.

2. Includes operating expenses, less depreciation and amortization.

3. Excludes subordinate debt service.

4. Reflects actual interest paid on the Variable Rate Parking System Revenue Bonds, Series 2000A and 2004A.

City of Norfolk, Virginia
Debt Capacity Information
Schedule 7
Revenue Bonds Debt Service Coverage
Wastewater Utility Fund
Last Ten Fiscal Years

Fiscal Year	Revenue Available for Debt Service (1)	Operating Expenses Less Depreciation & Amortization (2)	Income Available for Debt Service	Debt Service Principal	Debt Service Interest	Debt Service Total	Coverage
2010	$ 24,122,430	$ 11,282,865	$ 12,839,565	$ 425,000	$ -	$ 425,000	30.21
2011	24,856,689	11,489,891	13,366,798	850,000	-	850,000	15.73
2012	25,695,602	10,975,249	14,720,353	1,225,000	-	1,225,000	12.02

Notes:

1. Includes operating revenue, plus interest income not capitalized.

2. Includes operating expenses, less depreciation and amortization.

(UNAUDITED)

City of Norfolk, Virginia
Debt Capacity
Schedule 8
Ratio of Annual Debt Service Expenditures for General Bonded Debt and Other Debt
Last Ten Years
to Total General Expenditures

Fiscal Year	Principal on Serial Bonds	Redemption of Other Long-Term Debt	Interest on Serial Bonds	Interest on Other Debt	Total Debt Service	Total General Expenditures	Ratio of Debt Service to Total General Expenditures
2003	32,449,555	4,270,903	15,993,552	544,262	53,258,272	451,633,988	11.79%
2004	32,735,609	4,988,796	16,781,410	494,610	55,000,425	490,944,275	11.20%
2005	35,752,761	5,157,895	17,623,223	437,894	58,971,773	490,923,834	12.01%
2006	37,659,547	5,886,597	18,824,743	379,498	62,750,385	510,999,836	12.28%
2007	35,871,841	3,666,990	18,168,611	338,085	58,045,527	539,491,519	10.76%
2008	40,259,954	5,011,098	18,661,266	235,154	64,167,472	574,581,092	11.17%
2009	47,607,092	1,755,630	22,345,114	86,970	71,794,806	584,533,217	12.28%
2010	45,496,455	1,529,811	22,898,993	4,448	69,929,707	567,371,918	12.33%
2011	49,650,794	-	28,802,303	-	78,453,097	577,669,780	13.58%
2012	55,716,041	-	26,525,905	-	82,241,946	590,849,686	13.92%

Notes:

1. Total general expenditures include the expenditures of the general fund and debt service fund.

2. Total general expenditures are presented using the modified accrual basis of accounting.

(UNAUDITED)

City of Norfolk, Virginia
Demographic and Economic Information
Schedule 1
Population Statistics
Last Ten Calendar Years

Year	Population	Personal Income (000's)	Per Capita Personal Income	Civilian Labor Force Estimates	% Unemployed
2003	236,550	6,674,414	27,720	98,939	5.7
2004	238,650	7,054,054	29,152	99,029	5.5
2005	239,396	7,399,230	31,156	100,614	5.4
2006	239,355	7,937,282	33,234	97,533	4.1
2007	241,941	8,292,887	34,834	97,380	4.1
2008	242,983	8,643,180	36,834	101,457	5.3
2009	243,957	8,595,424	36,838	101,847	8.4
2010	242,803	8,700,125	35,816	N/A	9.2
2011	243,985	N/A	N/A	107,278.00	8.4
2012	N/A	N/A	N/A	110,542.00	8.6

Note:

1. Population from Weldon & Cooper Center for Public Services & U.S. Census Bureau. Population data was not available for 2012.

2. Unemployment rate and civilian labor force from the U.S. Bureau of Labor Statistics. Data not available for FY2010

3. Personal income and per capita personal income estimates from U.S. Bureau of Economic Analysis. Data not available for 2011 or 2012.

4. All data on an average annual calendar year.

N/A - Not available

(UNAUDITED)

City of Norfolk, Virginia
Demographic and Economic Information
Schedule 2
Ten Largest Employers
In Norfolk Primary Metropolitan Statistical Area
Current Year and Nine Years Ago

	Rank	
Employer	2012	2003
U.S. Department of Defense	1	1
Sentara Healthcare	2	3
Norfolk City School Board	3	2
City of Norfolk	4	4
Old Dominion University, Norfolk	5	6
Children's Hospital of the King's Daughters	6	8
Norshipco	7	
Norfolk State University	8	10
Eastern Virginia Medical School	9	
Portfolio Recovery Association	10	
United States Postal Service		9
Bank of America		7
Ford Motor Company		5
Total Employment	137,468	93,296

Note:

1. The source of the City's top ten employers is the Virginia Employment Commission.

2. The data for 2012 is the quarter ended March 2012, as that is the most current data available.

3. The source of the City's total employment is the Bureau of Labor Statistics. The 2012 total employment data was not available therefore 2011 data was used.

4. Each of the top 10 employers has 1000+ employees. The actual number of employees data for each employer was not available.

(UNAUDITED)

City of Norfolk, Virginia
Demographic and Economic Information
Schedule 3
New Construction and Property Values

	Residential Construction			Non-Residential Construction	
Year	Building Permits	Number of Units	Estimated Value (in thousands)	Building Permits	Estimated Value (in thousands)
2003	277	324	39,979	41	32,262
2004	506	601	75,801	71	14,658
2005	560	1,191	204,391	80	80,316
2006	531	1,058	133,053	60	165,989
2007	389	491	688,476	55	81,396
2008	277	815	101,212	35	102,714
2009	217	543	36,458	38	138,131
2010	193	554	58,800	35	104,922
2011	221	479	37,298	27	40,073
2012	268	371	39,360	26	116,401

Notes:

The source of residential and nonresidential construction is the City's planning department.

Nonresidential construction includes commercial buildings, public buildings, schools, public utility buildings and miscellaneous structures.

(UNAUDITED)

City of Norfolk, Virginia
Demographic and Economic Information
Schedule 4
Annual Employment Average by Industry
(in thousands)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Goods-Producing Industries:										
Agriculture, forestry, fishing & hunting	***	***	***	***	***	***	***	***	-	-
Mining	***	***	***	***	***	***	***	***	***	***
Construction	6.2	5.7	6.1	6.1	6.1	6.2	6.0	4.9	4.8	4.4
Manufacturing	9.8	9.8	9.8	9.6	8.7	7.9	7.3	7.3	6.7	3.2
Service-Providing Industries:										
Wholesale trade	5.3	5.2	5.0	5.0	5.0	5.1	4.6	4.2	4.0	3.3
Retail trade	14.3	14.0	14.2	14.0	14.3	14.6	13.8	13.0	12.9	12.9
Transportation and warehousing	11.0	10.1	9.7	9.9	9.3	9.4	9.5	8.6	8.8	8.8
Utilities	0.8	0.8	0.8	0.8	0.8	0.8	0.8	***	***	***
Information	4.2	4.0	4.2	4.0	3.5	3.7	3.4	2.8	2.6	2.1
Finance and insurance	6.9	6.9	7.1	6.7	6.0	6.6	6.6	5.7	5.5	3.9
Real estate and rental and leasing	2.7	2.8	2.7	2.8	2.9	2.9	2.7	2.7	2.6	2.3
Professional and technical services	8.2	8.1	10.2	10.1	10.2	10.7	11.3	11.6	11.5	10.2
Management of companies and enterprises	4.0	3.8	3.6	3.7	2.7	2.4	2.5	2.2	2.1	1.0
Administrative, support, and waste services	7.7	7.8	7.5	7.5	7.4	7.4	7.6	6.5	6.7	5.5
Educational services	14.4	14.5	14.7	15.2	15.5	15.6	16.4	16.6	16.4	1.0
Health care and social assistance	18.3	18.9	19.2	19.6	20.1	20.6	21.3	20.8	21.4	20.5
Arts, entertainment and recreation	2.1	2.2	2.2	2.3	2.4	2.4	2.4	2.2	2.2	2.7
Accommodation and food services	10.4	10.7	11.1	10.9	11.1	10.6	10.3	10.2	10.4	10.5
Public administration	15.7	15.1	12.3	12.1	12.2	12.1	13.7	14.1	14.0	4.0
Other services	4.1	4.1	4.2	4.3	4.1	4.0	3.9	3.7	3.8	14.5
Total (adjusted for rounding)	146.1	144.5	144.6	144.6	142.3	143.0	144.1	137.1	136.4	110.8

Note:

1. Labor Market Statistics, Virginia Employment Commission is the source of annual employment averages by industry.

2. All information on an average annual calendar year.

3. Asterisks indicate non-disclosable data.

4. This schedule includes data for the ten year period 2002 - 2011 as calendar year 2012 data was not available.

(UNAUDITED)

City of Norfolk, Virginia
Operating Information
Schedule 1
Full-Time Equivalent (FTE) Positions by Function/Program
Last Ten Fiscal Years

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Function/Program										
Governmental activities:										
General government	438	396	457	450	477	264	481	438	492	501
Judicial administration	27	25	20	16	17	18	16	14	12	10
Public safety										
Police	857	875	858	839	1,031	887	861	878	891	879
Fire	490	491	507	499	508	508	517	517	510	517
Other	85	84	84	84	-	-	84	83	90	90
Public works	393	389	389	392	379	346	414	440	431	427
Health and public assistance	557	604	513	562	469	598	487	485	532	534
Culture and recreational	479	484	483	406	478	569	558	509	512	501
Community development	64	72	74	70	59	95	75	113	137	142
Business-type activities:										
Water utility	245	251	279	264	261	290	268	269	289	289
Wastewater utility	79	84	91	95	96	103	99	95	103	104
Parking facilities	68	72	77	78	90	88	89	87	85	85
Total full-time equivalent positions	3,782	3,827	3,832	3,755	3,865	3,766	4,073	4,050	4,103	4,079

Notes:

1. Fiscal years 2003 through 2012's average FTE data obtained from City's human resources information system.

(UNAUDITED)

City of Norfolk, Virginia
Operating Information
Schedule 2
Operating Indicators by Function/Program
Last Ten Fiscal Years

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Function/Program										
Police:										
Service calls	274,245	206,644	206,378	191,037	237,451	258,254	242,139	245,336	241,282	251,099
Arrests	24,909	25,923	22,799	22,235	22,222	24,050	26,583	28,069	27,930	29,080
Reports filed	35,116	34,087	34,167	29,600	31,986	31,220	32,477	31,487	30,507	28,649
Fire:										
Incidences (fires, EMS)	41,484	38,509	39,605	40,337	31,266	41,212	39,714	40,234	40,641	45,350
Highways and Streets:										
Streets resurfacing (miles)	115	131	83	77	70	80	66	69	67	139
Sanitation:										
Total solid waste collected and disposed (tons)	101,604	105,079	104,247	99,131	97,143	93,799	92,333	100,480	84,162	89,106
Water Utilities:										
Water delivered to water mains (gallons in thousands)	24,818,000	24,822,000	24,723,000	21,721,000	24,326,000	24,150,000	22,974,000	22,666,500	22,810,560	22,039,690
Total water consumption (gallons in thousands)	23,128,234	23,217,169	22,991,359	23,012,112	22,474,000	24,455,000	21,293,000	21,280,000	21,155,000	20,360,972
Percent of unmetered water	8.81%	6.51%	7.95%	7.13%	7.30%	6.95%	7.31%	6.11%	7.25%	7.62%
Average daily delivery (gallons in thousands)	68,000	67,820	67,740	68,090	66,650	66,200	62,900	62,100	62,494	60,217
Maximum daily pumpage (gallons in thousands)	81,820	77,960	81,470	83,640	83,600	82,000	79,000	76,400	80,200	76,310
Minimum daily pumpage (gallons in thousands)	58,190	59,340	58,410	57,200	56,200	52,200	52,000	52,200	52,350	50,070

City of Norfolk, Virginia
Operating Information
Schedule 3
Capital Assets and Infrastructure Statistics by Function/Program
Last Ten Fiscal Years

	Fiscal Year									
Function/Program	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Public Safety:										
Police										
Stations	2	2	2	3	3	3	3	3	3	3
Fire										
Fire stations	15	15	15	14	14	14	14	14	14	14
Paramedic units	10	10	11	11	11	11	12	12	12	12
Transportation and Engineering:										
Streets (lane miles)	2,006	2,013	2,015	2,183	2,193	2,210	2,193	2,188	2,188	2,189
Sidewalks (miles)	968	968	968	968	968	968	968	968	968	968
Bridges	50	50	50	50	49	49	49	50	50	50
Public Recreation:										
Parks:										
Acreage	588	589	590	591	587	586	587	587	587	587
Regional parks	1	1	1	1	1	1	2	2	2	2
Neighborhood parks	121	121	121	121	85	85	71	71	71	71
Preserves and nature areas	1	1	1	1	1	1	1	1	1	1
Nature education centers	3	3	3	3	1	1	1	1	1	1
Playgrounds	45	45	45	45	79	123	100	101	101	101
Hiking trails (miles)	8	9	10	11	1	2	2	2	2	2
Recreation:										
Acreage	243	243	243	231	860	868	954	957	957	957
Recreational and senior centers	23	26	22	22	18	19	25	30	30	30
Swimming pools	4	4	6	6	6	8	6	6	6	6
Tennis Courts	143	146	152	152	101	134	148	148	148	142
Baseball/softball diamonds	36	36	36	36	63	99	86	86	86	86
Football/soccer fields	18	18	18	18	47	65	49	49	49	49
Field hockey	4	4	4	4	5	5	3	3	3	3
Basketball courts	42	42	42	42	229	179	204	203	203	201
Municipal beaches	3	3	3	3	3	3	3	3	3	3
Public Services:										
Traffic Engineering:										
Signalized intersections	291	294	299	299	283	287	284	301	304	305
Traffic signs	9,825	10,021	6,044	7,936	7,363	6,752	4,436	4,272	60,000	60,000
Street lights	31,502	31,694	31,721	29,888	30,200	30,583	30,653	30,717	31,277	31,132
Utilities:										
Water fund capital assets (in thousands)	$ 428,801	$ 429,714	$ 424,948	$ 425,289	$ 431,655	$ 436,488	$ 437,973	$ 442,304	$ 448,407	470,466
Wastewater fund capital assets (in thousands)	103,208	110,360	120,685	134,152	147,020	163,068	177,928	183,974	198,842	214,308
Total utilities assets (in thousands)	$ 532,009	$ 540,074	$ 545,633	$ 559,441	$ 578,675	$ 599,556	$ 615,901	$ 626,278	$ 647,842	684,774
Water customer accounts	63,885	63,343	64,905	65,548	65,000	65,549	64,433	66,140	64,289	64,440
Miles of water main in the system	817	817	817	825	827	829	832	835	838	824
Municipal Golf:										
Golf courses	1	1	1	2	3	3	3	3	3	3
Convention Center:										
Meeting rooms	4	4	7	7	8	8	8	8	8	8
Exhibit space (square feet)	58,430	58,430	58,430	58,430	58,430	58,430	58,430	58,430	58,430	58,430
Meeting/ballroom space (square feet)	5,230	5,230	9,700	9,700	9,700	9,700	9,700	9,700	9,700	9,700
Parking Facilities:										
Parking lots/garages	30	28	28	28	21	23	23	26	25	24
Parking meters	482	579	600	660	718	669	614	584	584	756
Stormwater Management:										
Miles of storm sewers	351	351	351	351	357	357	357	357	357	357
Education:										
High schools	5	5	5	5	5	5	5	5	5	5
Middle schools	8	8	9	9	9	9	9	8	8	8
Elementary schools	35	35	35	35	35	35	35	35	35	34
Other educational facilities	13	13	11	11	11	11	9	5	5	6

(UNAUDITED)

City of Norfolk, Virginia
Operating Information
Schedule 4
Water System Statistics
Last Six Fiscal Years

Average metered consumption (gallons per day)

Fiscal Year	Norfolk Retail	Virginia Beach	U.S. Navy	Chesapeake	Total
2007	18.1	36.0	4.7	2.4	61.2
2008	18.3	35.6	4.5	3.2	61.6
2009	17.3	33.4	4.2	3.5	58.4
2010	17.6	33.4	4.1	3.2	58.3
2011	17.4	33.7	4.3	2.2	57.6
2012	17.1	32.4	4.0	2.3	55.8

Retail Customers' Average Annual Costs
Norfolk Retail
2007 - 2011

Fiscal Year	Revenue	Volume (Mgal1)	Average Cost ($/Mgal1)
2007	$32,117,000	6,886,000	$4.66
2008	34,641,000	7,061,000	4.91
2009	32,847,000	6,627,000	4.96
2010	33,401,000	6,432,000	5.19
2011	34,472,000	6,362,000	5.42
2012	33,537,000	6,241,000	5.37

(1) "Mgal" means 1,000 gallons

Wholesale Customers' Average Annual Costs
Virginia Beach
2007 - 2011

Fiscal Year	Revenue	Volume (Mgal)	Average Cost ($/Mgal)
2007	$25,194,000	13,089,000	$1.92
2008	23,061,000	12,999,800	1.77
2009	25,257,000	12,344,100	2.05
2010	26,742,000	12,189,000	2.19
2011	28,703,000	12,307,800	2.33
2012	25,519,000	11,826,000	2.16

Wholesale Customers' Average Annual Costs
U.S. Navy, including Norfolk and Virginia Beach Facilities
2007 - 2011

Fiscal Year	Revenue	Volume (Mgal)	Average Cost ($/Mgal)
2007	$8,548,000	1,724,000	$4.96
2008	8,319,000	1,624,000	5.12
2009	8,112,000	1,536,000	5.28
2010	8,108,000	1,479,000	5.48
2011	8,837,000	1,562,000	5.66
2012	8,534,000	1,460,000	5.85

Wholesale Customers' Average Annual Costs
Chesapeake
2007 - 2011

Fiscal Year	Revenue	Volume (Mgal)	Average Cost ($/Mgal)
2007	$3,987,000	865,000	$4.61
2008	5,461,000	1,149,000	4.75
2009	5,860,000	1,182,000	4.96
2010	6,048,000	1,180,000	5.13
2011	4,299,000	803,000	5.35
2012	4,691,000	840,000	5.58

Additional Information:

1) Water Utility Fund Annual Budget is contained in the City of Norfolk Approved Operating Budget.
July 1, 2006 - June 30, 2007
July 1, 2007 - June 30, 2008
July 1, 2008 - June 30, 2009
July 1, 2009 - June 30, 2010
July 1, 2010 - June 30, 2011
July 1, 2011 - June 30, 2012
July 1, 2012 - June 30, 2013

2) Water Utility Fund Financial Statements are contained in the financial section "Enterprise Funds" of each respective year's Comprehensive Annual Financial Report.

3) Financial information on the Water Utility Fund is provided in the "Introductory Section" and the "Financial Section" each respective year's Comprehensive Annual Financial Report.

City of Norfolk, Virginia
Operating Information
Schedule 5
Parking System Statistics
As of 6/30/2012

Short-term Parking Rates at all City-Owned Facilities, Except the MacArthur Center Garages	
Time	**Hourly Rates***
0 to 1 Hour	$1.00
1 to 2 Hours	$2.00
2 to 3 Hours	$3.00
3 to 4 Hours	$5.00
4 to 5 Hours	$7.00
5 to 6 Hours	$9.00
6 to 7 Hours	$10.00
7 to 8 Hours	$11.00
Maximum Daily Rate (up to 24 Hours)	$12.00
Lost Ticket/Per Day	$12.00
6 p.m. to 9 p.m./Collect-On-Entry	$3.00
9 p.m. to 3 a.m./Collect-On-Entry	$5.00
Special Event Rate/Collect-On-Entry	$5.00

Short-term Parking Rates at the MacArthur Center Garages	
Monday - Friday	**Saturday & Sunday**
$1.00 for first hour - third hour	$1.00 for entry prior to 6 PM
$2.00 for each additional hour until 6 PM	$2.00 for entry after 6 PM
$2.00 for entry after 6 PM	
Maximum of $10.00 per 24-hour period	Maximum of $10.00 per 24-hour period

Special Event Rates
All facilities, except the MacArthur Center Garages, have a collect-on-entry, special event rate of $5.00 per vehicle. The MacArthur Center Garages special event fee is $2.00 per vehicle.

Metered Parking Rates		
Metered Area	**General Location**	**Hourly Rate**
Tier 1	All streets west of St. Paul's Boulevard, City Hall Avenue and south, Waterside Drive and north, and all streets east of Boush Street including Boush Street	$0.35 per 15 minutes
Tier 2	All streets west of St. Paul's Boulevard and east of Duke Street; north of City Hall Avenue and south of Charlotte Street	$0.25 per 15 minutes
Tier 3	All remaining downtown areas with meters; generally north of Charlotte to Princess Anne Road to east of Llewellyn to west of Monticello	$0.15 per 15 minutes
Education Lot	Corner of St. Paul's Boulevard and City Hall Avenue	$0.25 per 15 minutes
Spotswood Lot	Located off Colley Avenue, between Brandon and Spotswood Avenue.	$.50 per half hour; $2.00 maximum. Four hour limit.
ODU Village	164 meters located on 41st, 43rd, 45th,46th, 47th Street and Monarch Way	$0.25 per 30 minutes

Monthly Parking Rates at all City-Owned Facilities
Daily parking rates vary from $37.00 unreserved per month in outlying lots to $130.00 reserved per month at the Charlotte Street garage in downtown. Nightly monthly parking rates vary from $20.00 per month to $43.00 per month.

Parking Fines	
Parking Violation	**Fine Schedule**
Overtime Parking - Meter	$15.00
Overtime Parking - Time Zone	30.00
Overtime Parking - Meter Feeding	25.00
No Parking	30.00
No Parking - Fire Hydrant	50.00
No Parking - Cross Walk	35.00
No Parking - Loading Zone	30.00
No Parking - Here to Corner	30.00
No Parking - Facing Wrong Way	25.00
No Parking - Bus Stop	35.00
No Parking - Street Cleaning	35.00
No Parking - This Side	25.00
No Stopping Zone	35.00
Restricted City Lot	30.00
No/Expired City License	50.00
Handicapped Parking	250.00
Taxi Stand	35.00
Blocking Driveway	30.00
Overnight Parking	25.00
Parking off of Roadway	35.00
Blocking Fire Lane	100.00

Parking Fines			
Fiscal Year	**Parking Tickets Issued**	**Revenue Collected**	**Collection Rate**
2009	71,800	$1,979,005	77%
2010	62,670	2,072,073	81%
2011	62,731	1,527,387	72% *
2012	58,928	1,415,532	65% *

* includes current collections only

Additional Information:

1) Parking Facilities Fund Annual Budget is contained in the City of Norfolk Approved Operating Budget.
July 1, 2007 - June 30, 2008
July 1, 2008 - June 30, 2009
July 1, 2009 - June 30, 2010
July 1, 2010 - June 30, 2011
July 1, 2011 - June 30, 2012
July 1, 2012 - June 30, 2013

2) Parking Facilities Fund Financial Statements are contained in the financial section "Enterprise Funds" of each respective year's Comprehensive Annual Financial Report.

3) Financial information on the Parking Facilities Fund is provided in the "Introductory Section" and the "Financial Section" each respective year's Comprehensive Annual Financial Report.

OTHER REPORTS OF INDEPENDENT AUDITORS

COMPLIANCE SECTION

KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Audit Standards*

The Honorable Members of City Council
City of Norfolk, Virginia:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Norfolk (the City) as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Specifications for Audits of Counties, Cities and Towns* (the Specifications), issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control over Financing Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, the results of our tests disclosed certain instances of noncompliance that are required to be reported under the Specifications, and which are described in the accompanying schedule of findings and questioned costs as State Findings APA-1 through APA-4.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, City Council, others within the City, and federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

January 15, 2013

KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

The Honorable Members of City Council
City of Norfolk, Virginia:

Compliance

We have audited the compliance of the City of Norfolk, Virginia (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (*OMB*) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City of Norfolk, Virginia complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2012-5 and 2012-6.

Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on

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internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2012-1 through 2012-4 and 2012-6. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the City Council, others within the City, and the audit committee of the City Council, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

January 15, 2013

CITY OF NORFOLK

Year ended June 30, 2012

(1) Summary of Auditors' Results

(a) The type of report issued on the financial statements: **Unqualified opinion**

(b) Significant deficiencies in internal control were disclosed by the audit of the financial statements: **None**.

(c) Material weaknesses: **None**

(d) Noncompliance, which is material to the financial statements: **None**

(e) Significant deficiencies in internal control over major programs: **2012-1 through 2012-4 and 2012-6**.

(f) The type of report issued on compliance for major programs: **Unqualified opinion**

(g) Any audit findings, which are required to be reported under Section 510(a) of OMB Circular A-133: **2012-5 and 2012-6**.

(h) Major programs:

Special Education Cluster: CFDA Nos. 84.027, 84.173, 84.391(ARRA) and 84.392(ARRA)
Title I, Part A Cluster: CFDA Nos. 84.010 and 84.389(ARRA)
Child Nutrition Cluster: CFDA Nos. 10.553, 10.555, 10.556, and 10.559
School Improvement Grants Cluster: CFDA Nos. 84.377 and 84.388(ARRA)
Improving Teacher Quality: CFDA No. 84.367
HIV Emergency Relief Project Grants: CFDA No. 93.914
CCDF Cluster (Child Care): CFDA Nos. 93.575 and 93.596
Temporary Assistance for Needy Families: CFDA No. 93.558
Social Services Block Grant: CFDA No. 93.667
Foster Care – Title IV-E: CFDA No. 93.658
Medical Assistance Program (Medicaid; Title XIX): CFDA No. 93.778
Highway Planning and Construction: CFDA No. 20.205(ARRA)
Adoption Assistance (Title IV-E): CFDA No. 93.659

(i) Dollar threshold used to determine Type A programs: **$3,000,000**

(j) Auditee qualified as low-risk auditee under Section 530 of OMB Circular A-133: **No**

(2) Findings and Questioned Costs Related to Federal Awards

Finding# 2012-1: Special Tests and Provisions – Child Support Non-Cooperation

Program, CFDA No., Program Year, Federal Agency, Pass-Through Agency, Grant Number

Temporary Assistance for Needy Families: CFDA No. 93.558, Program Year 2012, U.S. Department of Health and Human Services – Commonwealth of Virginia Department of Social Services, award BEN-10-057-16.

(Continued)

Recipient

City of Norfolk.

Criteria

In accordance with 45 CFR Section 264.30, once notified by the Division of Child Support Enforcement (DCSE) that an individual is not cooperating, the City is required to reduce or terminate assistance to the individual.

Condition Found

In a sample of 80 families tested for child support noncooperation, one family received an additional monthly payment after benefits should have been terminated. In addition, a second family did not receive one monthly payment after benefits should have been reinstated.

Perspective and Questioned Costs

Out of the 80 families selected for testwork, one family received an additional payment of $173, and a second family should have received an additional payment of $254. The total amount sampled was $20,207. Because the City is the administrator of these local funds, and the State provides payments directly to the individuals, there are no questioned costs to the City in relation to this finding.

Cause and Effect

The requirement to stop benefits based on a DCSE referral was not administered in a timely manner, which led to inconsistencies in the process.

Recommendation

The City should implement a process to ensure that all cases referred by the DCSE are processed for benefits to be stopped or restarted in a timely manner.

Views of Responsible Officials

Management agrees with the findings. TANF/VIEW, intake and ongoing workers attended refresher TANF training in January 2012 and October 2012 conducted by the State TANF Benefits Specialist. DCSE notifications are received on the first of the month from the ADAPT notification system. On the 6th of the month, the Supervisor receives an alert on cases that have not been processed and alerts the worker to process immediately. Supervisors will review 100% of case actions. Program Supervisors, on the 9th of the month, will check the notification system to make sure the case actions have been taken in ADAPT and on the Work List. Standard operating procedures have been established to ensure timely and accurate processing of cases. All workers review the wrap-up menu screens in ADAPT to ensure accurate TANF payments. Workers establish a claim or create a benefit adjustment as soon as possible following the discovery of an error.

Finding# 2012-2: Special Tests and Provisions – Refusal to Work (VIEW)

Program, CFDA No., Program Year, Federal Agency, Pass-Through Agency, Grant Number

Temporary Assistance for Needy Families: CFDA No. 93.558, Program Year 2012, U.S. Department of Health and Human Services – Commonwealth of Virginia Department of Social Services, award BEN-10-057-16.

Recipient

City of Norfolk

Criteria

In accordance with 45 CFR section 261.14, the City is required to reduce or terminate assistance to the individual once it has been determined that a recipient receiving assistance refuses to work, subject to any good cause or other exemptions established by the State.

Condition Found

In our sample of 80 Refusal to Work (VIEW) sanctions tested, one individual received an additional 5 months of TANF benefit payment after assistance should have been terminated.

Perspective and Questioned Costs

One sanction out of 80 selected for testwork resulted in overpayment totaling $1524. Each sanction selected for testwork presented the last full monthly payment for assistance. The total amount sampled was $22,929. Because the City is the administrator of these local funds, and the State provides payments directly to the individuals, there were no questioned costs to the City in relation to this finding.

Cause and Effect

The requirement to stop benefit payments based on a sanction was not administered in a timely manner, which led to inconsistencies in the process.

Recommendation

The City should implement a process to ensure that all sanctions are stopped in a timely manner.

Views of Responsible Officials

Management agrees with the finding. TANF/VIEW workers attended refresher training on October 23, 2012, conducted by the State TANF Benefits Coordinator. The request to sanction is sent immediately by the VIEW unit to the TANF Benefits supervisor. The benefit worker sends the Advanced Notice of Proposed Action within 3 working days. On the 23rd of each month, the VIEW worker checks the profile to make sure the case is discontinued or suspended. If the action was not taken, the Benefit Supervisor follows up to ensure all actions are taken before the end of the month. The Benefits worker sends sanction notices for all cases, even those in suspense for other actions. The benefit workers double check the penalty screen before the approval of any renewal or interim report. In some cases, this double check is necessary because the system will allow granting a case even though the penalty has been imposed. If an underpayment/overpayment is discovered, a benefit adjustment to correct the case will be done as soon as possible following the date of discovery.

Finding# 2012-3: Allowable Activities and Allowable Costs

Program, CFDA No., Program Year, Federal Agency, Pass-Through Agency, Grant Number

HIV Emergency Relief Grant, CFDA No. 93.914, Program Year March 1, 2012 through February 28, 2013, U.S. Department of Health and Human Services (HHS), award H89HA00053

Recipient

City of Norfolk

Criteria

In accordance with 42 USC 300ff-14(a), the City is required to ensure that funds are used only for core medical services, support services, and administrative expenses.

Condition

Within our sample of 25 disbursements, 2 disbursements for reimbursements of subrecipient personnel activity did not agree to the supporting documentation or the subrecipient agreement.

Perspective and Questioned Costs

During our testwork over the HIV Emergency Relief Grant, we selected a sample of 25 disbursement expenditures totaling $281,555. Two out of 25 were determined to be overpaid by a total of $263. The total reimbursements paid by the City for subrecipient personnel activity during the fiscal year totaled $2,584,884.

Cause and Effect

The errors were caused by management oversight, which lead to inaccurate reimbursements to subrecipients and from the federal program.

Recommendation

The City should enhance their procedures to review all reimbursement requests against the subaward and supporting documentation to ensure that all reimbursements are accurately disbursed.

Views of Responsible Officials

Management agrees with the finding. Additional steps have been implemented to mitigate future occurrences. Subrecipients have been notified of their repayment requirement.

Finding# 2012-4: Cash Management

Program, CFDA No., Program Year, Federal Agency, Pass-Through Agency, Grant Number

HIV Emergency Relief Grant, CFDA No. 93.914, Program Year March 1, 2012 through February 28, 2013, U.S. Department of Health and Human Services (HHS), award H89HA00053

Recipient

City of Norfolk

Criteria

The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) requires that non-Federal entities receiving Federal awards (i.e., auditee management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Conditions Found

In our sample of three quarterly disbursements, all three were found to have been prepared, reviewed, and submitted by the same individual.

Perspective and Questioned Costs

No questioned costs have been identified as part of the procedures performed. All three reimbursement requests selected accurately reconciled to the general ledger.

Cause and Effect

Inadequate segregation of duties can result in inaccurate requests for reimbursement.

Recommendation

In order to ensure the accuracy of reimbursement requests, the City should ensure that reimbursement requests are reviewed by someone other than the preparer.

Views of Responsible Officials

Management agrees with the finding. We will ensure that reimbursement requests have a separate preparer and reviewer.

Finding# 2012-5: Subrecipient Monitoring

Program, CFDA No., Program Year, Federal Agency, Pass-Through Agency, Grant Number

- HIV Emergency Relief Grant, CFDA No. 93.914, Program Year March 1, 2012 through February 28, 2013, U.S. Department of Health and Human Services (HHS), award H89HA00053
- Temporary Assistance for Needy Families: CFDA No. 93.558, Program Year 2012, U.S. Department of Health and Human Services – Commonwealth of Virginia Department of Social Services, award BEN-10-057-16.

Recipient

City of Norfolk

Criteria

In accordance with 2 CFR section 25.110 and appendix A to 2 CFR part 25, the City is required to ensure that all Non-ARRA subrecipients have provided a Dun and Bradstreet Data Universal Number system (DUNS) number as part of their subaward applications or, if not, then before any award is made.

Condition

- HIV Emergency Relief Grant:

For each of the 5 subrecipients tested, management of the HIV Emergency Relief Grant did not obtain the DUNS number from the sub-recipient prior to the approval of subawards.

- Temporary Assistance for Needy Families:

  For one out of two subrecipients tested, management did not obtain the DUNS number from the sub-recipient prior to the approval of the subaward.

Perspective and Questioned Costs

There are no questioned costs associated with the failure to obtain DUNS numbers.

Cause and Effect

Management was not aware of the requirement.

Recommendation

We recommend that the City develop procedures and policies to ensure that all subrecipients provide DUNS numbers prior to approval of subawards.

Views of Responsible Officials

Management agrees with the finding. Since being made aware of this requirement, Department management has worked with the City's Purchasing Agent to enhance the existing procurement policy by requiring departments to submit a copy of the applicable federal grant when submitting requisitions and requests for proposals that will utilize federal grant funding. This requirement will alert the Office of Purchasing of all funding requirements including that of obtaining a DUNS numbers prior to approval of the procurement. Additionally, management will ensure that all subrecipients obtain a DUNS number.

Finding# 2012-6: Reporting

Program, CFDA No., Program Year, Federal Agency, Pass-Through Agency, Grant Number

Highway Planning and Construction, CFDA No. 20.205(ARRA), Program Year 2012, U.S. Department of Transportation, Virginia Department of Transportation (VDOT), project number U000-122-219 (UPC 94434)

Criteria

In accordance with the American Recovery and Reinvestment Act Information for Virginia Localities dated February 1, 2010, the City of Norfolk is required to complete and submit to the Virginia Department of Transportation (VDOT) the Monthly Status Report (1585), Employment Summary Report (1587), and Project Certifications through the VDOT reporting tool no later than the 5th, 13th, and 30th of each month, respectively.

Condition

Upon review of 4 months of VDOT report submissions, 2 monthly status reports and 2 project certifications were not submitted within the required timelines. Additionally, 2 employment status reports were not submitted to VDOT when activity did exist during this period.

In addition, the information in relation to the percentage of completion and amount disbursed contained in the monthly status report was not able to be agreed to source documentation in 4 out of 4 instances; although, the information is available from other sources such as the monthly reimbursement requests.

Perspective and Questioned Costs

There are no known questioned costs associated with this finding.

Cause and Effect

The requirement to accurately and timely report to the state was not administered consistently, which lead to instances of noncompliance in the process.

Recommendation

City management should develop and implement a policy to ensure that all reports are completed and submitted in a timely and accurate manner. We further recommend that a management review control be implemented to oversee this process.

Views of Responsible Officials

Management agrees with the finding in that reports are required to be submitted accurately and on time even in instances when there is no activity to report. The City has reviewed the reporting and certification requirements and due dates with VDOT in order to ensure timely submission of data. The City will improve procedures on oversight to ensure reports are submitted by the required due dates.

Information will never match on the monthly status reports because the grant flows through two entities, VDOT and the City. The amount dispersed is the amount VDOT reimbursed the City plus any administrative costs charged to the grant. VDOT is the recipient of the grant and would be the entity that reconciles the amount.

(3) Findings and Questioned Costs Relating to Commonwealth of Virginia

State Finding APA-1: Comprehensive Services Act Pool Fund Disbursements

In accordance with the Auditor of Public Accounts *Specifications for Counties, Cities and Towns, Chapter 3, Section 12* local government officials are required to determine the eligibility of expenditures for troubled youths and families. In our testwork of twenty five payments, one payment was made for household equipment in the amount of $188.85. This type of expenditure is not considered an allowable expenditure in accordance with the CSA manual dated October 2011. City management should develop and implement a process to ensure only allowable costs are processed for disbursement with CSA funds.

Views of Responsible Officials

Management agrees with the finding. The CSA Credit Order standard operation procedure was revised on October 2, 2012 to include internal controls which ensure that only allowable CSA expenditures can be processed by credit order in the Purchase of Services system.

State Finding APA-2: Terminated Users

In accordance with the Auditor of Public Accounts *Specifications for Counties, Cities and Towns, Chapter 3, Section 15* local government officials are required to terminate the access privileges to all VDSS system users within three working days of employment termination. In our testwork of twelve terminated employees, five employees were not terminated from the system immediately. We recommend that the City implement a management review control over the access termination process to ensure that access is terminated immediately.

Views of Responsible Officials

Management agrees with the finding. We will continue to look for ways to improve the timeliness of access termination.

State Finding APA-3: Local Security Officer

In accordance with the Auditor of Public Accounts *Specifications for Counties, Cities and Towns, Chapter 3, Section 15* the local government is responsible for appointing a primary local security officer and at least one alternate local security officer. The results of our testwork found that the alternate local security officer retired as of June 30, 2011 leaving only the primary local security officer during the first half of the fiscal year until the position could be filled. The City did begin the process of filling the open position as soon as they became aware that the former security officer announced his plans for retirement.

Views of Responsible Officials

Management agrees with the finding. The department did begin a search for a new alternate security officer upon the retirement of our previous alternate security officer. However, City policy does not allow departments to advertise for positions until the previous incumbent has officially terminated employment. The process of certifying a local security officer through the State office takes three to four months. The Department currently has a trained alternate security officer.

State Finding APA-4: Unclaimed Property

In accordance with the Virginia Uniform Disposition of Unclaimed Property Act in Chapter 11.1 of Title 55 of the Code of Virginia, local governments holding funds or other property presumed abandoned under the Act must file a report listing the unclaimed property as of June 30 of each year. Section 55-210.9 states that all intangible property (checks are defined as intangible property in accordance with 55.210.2) held for the owner by any public authority that has remained unclaimed by the owner for more than one year after it became payable is presumed abandoned. Management filed the reports timely, but in our testwork of 25 outstanding checks at June 30, 2012, eleven checks totaling $5,187.78 were improperly excluded from the reports filed with the state. In addition, one check was not accurately included in one of the reports. We recommend that management implement a process across the City to ensure that all unclaimed property is accurately and completely submitted to the state.

Views of Responsible Officials

Management agrees with the finding. We will revise our current process to ensure that all unclaimed property is accurately identified and submitted timely.