

Comprehensive Annual Financial Report

For Fiscal Year Ended 2003



NORFOLK, VIRGINIA





Comprehensive Annual Financial Report

of the

City of Norfolk, Virginia

For the Fiscal Year Ended June 30, 2003

Prepared by:
Department of Finance
Steven G. de Mik, Director

www.norfolk.gov

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COMPREHENSIVE ANNUAL FINANCIAL REPORT
June 30, 2003
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Certificate of Achievement for Excellence in Financial Reporting

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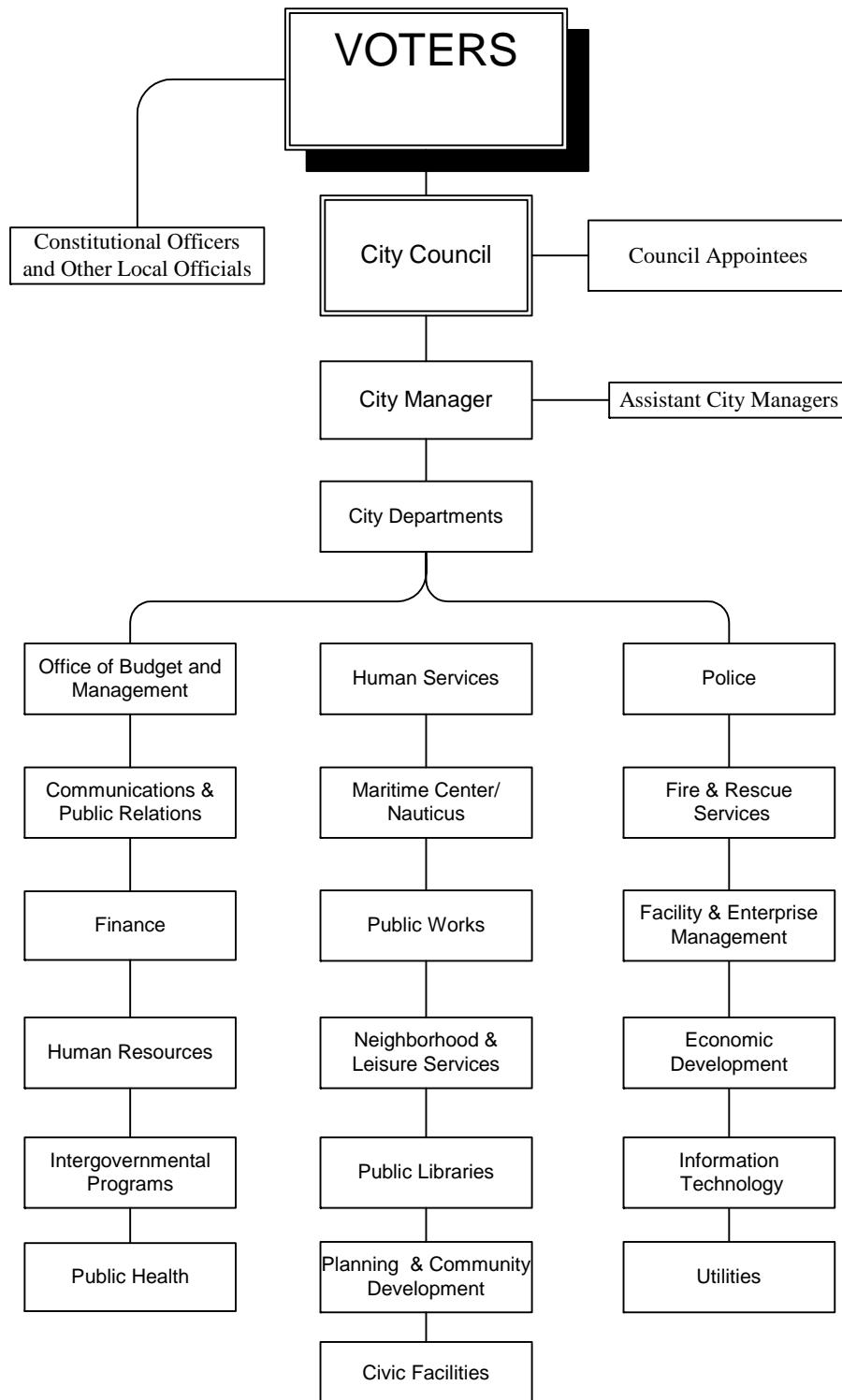
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ORGANIZATION CHART



CITY OF NORFOLK, VIRGINIA
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Municipal Officials

Honorable City Council

President and Mayor

Paul D. Fraim

Vice Mayor

Daun Sessoms Hester

Member

Anthony L. Burfoot

Member

Paul R. Riddick

Member

Donald L. Williams

Member

Barclay C. Winn

Member

W. Randy Wright

Member

City Manager

Regina V.K. Williams

Assistant City Manager

Iris B. Jesse

Assistant City Manager

Nancy Johnson

Assistant City Manager

Shurl R. Montgomery

Acting Assistant City Manager

John M. Keifer

Director of Finance

Steven G. de Mik, CPA

City Assessor

Wayne N. Trout

City Attorney

Bernard A. Pishko

City Auditor

John H. Sanderlin, Jr.

City Clerk

R. Breckenridge Daughtrey

City Treasurer

Thomas W. Moss, Jr.

Commissioner of the Revenue

Sharon M. McDonald

Director of Budget & Management

Johnna L. Rogers

Director of Civic Facilities

John S. Rhamstine

Director of Communications & Public Relations

Terry L. Bishirjian

Director of Economic Development

Roderick S. Woolard

Director of Facility & Enterprise Management

Stanley A. Stein

Acting Director of Fire & Paramedical Services

Chief Edward L. Senter, Jr.

Director of Human Resources

Nancy N. Olivo

Director of Human Services

N. Clark Earl

Director of Information Technology

Hap M. Cluff

Oversight of Intergovernmental Programs

Ronald H. Williams, Jr.

Acting Director of Libraries

Yvonne Hilliard-Bradley

Director of Neighborhood & Leisure Services

W. Curtis Randolph

Director of Maritime Center (Nauticus)

Richard C. Conti

Director of Planning & Community Development

Timothy Polk

Director of Public Health

Valerie A. Stallings, M.D.

Director of Public Works

John M. Keifer

Director of Utilities

Kristen M. Lentz, P.E.

Acting Police Chief

Shelton L. Darden

Registrar of Voters

Elisa J. Long

CITY OF NORFOLK, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
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Municipal Officials

Norfolk Municipal Bond Commission

Chairman	William K. Butler, II
Vice Chairman	Letetia R. Batey
Member	R. Braxton Hill, III
Member	Wendell K. Johnson
Member	Dickenson B. Phillips
Member	William J. Romig
Ex officio member – Mayor	Paul D. Fraim
Ex officio member – City Manager	Regina V. K. Williams
Ex officio member – Director of Finance	Steven G. de Mik
Ex officio member – City Treasurer	Thomas W. Moss, Jr.

JUDICIAL
Fourth Judicial Circuit Court

Chief Judge	Marc Jacobson
Judge	Junius P. Fulton, III
Judge	Charles D. Griffith, Jr.
Judge	Charles E. Poston
Judge	Jerome James
Judge	Joseph A. Leafe
Judge	Everett A. Martin, Jr.
Judge	John C. Morrison, Jr.
Clerk	Lydia Calvert Taylor
	Albert Teich, Jr.

Norfolk General District Courts

Chief Judge, General District Court	Gwendolyn J. Jackson
Judge, Civil Division	Louis A. Sherman
Judge, Criminal Division	Ray W. Dezern, Jr.
Judge, Criminal Division	Norman A. Thomas
Judge, Traffic Division	Alfred M. Tripp
Judge, Traffic Division	Bruce A. Wilcox
Clerk	Thomas E. Baldwin

Norfolk Juvenile and Domestic Relations District Court

Chief Judge	William O. Hawkins
Judge	M. Randolph Carlson, II
Judge	Joseph P. Massey
Judge	Joan C. Skeppstrom
Judge	William P. Williams
Clerk	Debra A. Hill

Other Judicial Officials

Sheriff	Robert J. McCabe
Commonwealth's Attorney	John R. Doyle



City of Norfolk

Office of the City Manager

October 9, 2003

To The Honorable Council
City of Norfolk, Virginia

The Comprehensive Annual Financial Report (CAFR) of the City of Norfolk (the City) for the fiscal year ended June 30, 2003 is hereby submitted. State law and the local charter require the City to publish, at the close of each fiscal year, a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States of America (GAAP), and audited in accordance with auditing standards generally accepted in the United States of America by a firm of licensed certified public accountants.

This report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the government'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 City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Cherry, Bekeart & Holland, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable

The City's financial statements have been audited by Cherry, Bekeart & Holland, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2003 are free of material misstatement. The independent audit involves 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; and, evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended June 30, 2003 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City was 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 audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the Other Reports of Independent Auditors' section of the CAFR.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.



PROFILE OF THE CITY



The City of Norfolk was established as a town in 1682, as a borough in 1736, and incorporated as a city in 1845. The City is the economic, business, educational and cultural center of Southeastern Virginia. It lies at the mouths of the James, Elizabeth and Nansemond Rivers and the Chesapeake Bay, and is adjacent to the cities of Chesapeake, Portsmouth, and Virginia Beach. There are 66 square miles included in the City's corporate boundary. The City's population is currently estimated to be 239,036.

The City is organized under a Charter, granted by the General Assembly of Virginia in 1918, which authorizes a council-manager form of government. The City Council exercises all of the governmental powers conferred upon the City and consists of seven members elected to office under a ward-based system, with two members elected from city-wide super wards.

The City Council elects a Mayor and Vice Mayor 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 procedures, and appoints, with the power to remove, the 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.

The City provides a full range of services including: police protection; fire and paramedical services; public health and social services; planning and zoning management; code enforcement; storm water management; street maintenance; traffic control; parks and cemeteries operation and maintenance; recreation and library services; solid waste disposal; general administrative services; water and wastewater utilities; and parking facilities.

The City is also financially accountable for a legally separate school district, the Norfolk Redevelopment and Housing Authority (NRHA), and the Community Services Board. Additional information on these legally separate entities can be found in Note I in the notes to the financial statements. The annual budget serves as the foundation for the City's financial planning and control.

FACTORS AFFECTING FINANCIAL CONDITIONS

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City operates.

The City continues to maintain its position of fiscal strength, partially attributable to effective management and the public administration policies of the City Council. Contributing factors also included self-imposed restraints on expenditures and revenue enhancement through a diligent economic development program.

The City's economic development initiatives and strategies develop and strengthen new or existing projects focused on the attraction, expansion and retention of businesses, neighborhood and community revitalization, and commercial corridor development. These initiatives provide a



structure for development and redevelopment in various parts of the City, and contribute to the tremendous growth experienced over the last 20 years in business and employment, new residential opportunities, and entertainment.

As guiding principles for its plans, the city council has established five broad basic priorities.

City Council Priorities

City Council priorities guide the decision making process towards the ultimate goal of improving the quality of life for all our residents. The FY-2004 Budget supports strategies aimed at achieving these priorities.

Community Building	Economic Development	Education	Public Accountability	Public Safety	Regional Partnerships
<p>Improve quality of life in neighborhoods</p> <p>Maximize resident participation and input</p> <p>Increasing resources to physically upgrade our neighborhoods</p> <p>Volunteerism</p> <p>Major Housing Initiatives</p>	<p>Target industries that provide good paying jobs for Norfolk residents</p> <p>Continue to diversify the work force</p> <p>Attract and sustain a diverse business environment</p> <p>Support maintaining the existing military installations</p> <p>Broad based revenue sources to support quality city services at a low cost to citizens</p>	<p>Delivery of quality education</p> <p>Retention of our youth, to work and live in Norfolk</p> <p>Upgrading of facilities</p> <p>Lifelong Learning Opportunities</p>	<p>Efficient Service Delivery</p> <p>Review of each core service</p> <p>Leverage use of equipment and technology</p> <p>Focus on Continuous Improvement</p> <p>Effective Public Communications</p> <p>Town Hall Meetings</p> <p>Quarterly Citizen Newsletter</p> <p>Budget in Brief</p> <p>Use of Cable Channel and E-mail</p> <p>Emerging E-gov</p>	<p>Norfolk is a healthy and safe place to live, work, visit and play</p> <p>Community outreach and crime prevention</p> <p>Fast response to emergencies</p> <p>Quality equipment and staff</p>	<p>Cooperative efforts to strengthen the region economically</p> <p>Leverage the use of public investments to facilitate private investment</p>

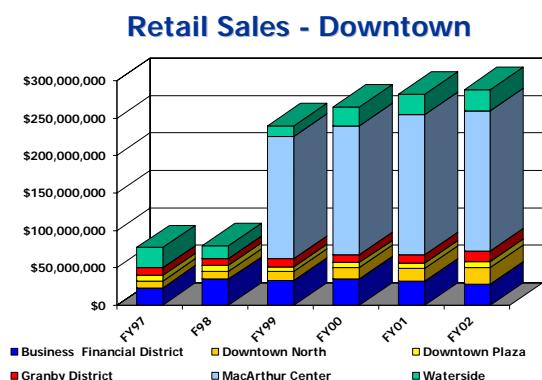


Downtown Development

Downtown Norfolk is the heart of the Hampton Roads region and offers a mix of cultural attractions and entertainment for its citizens and tourists. Resulting from the coordinated efforts of the



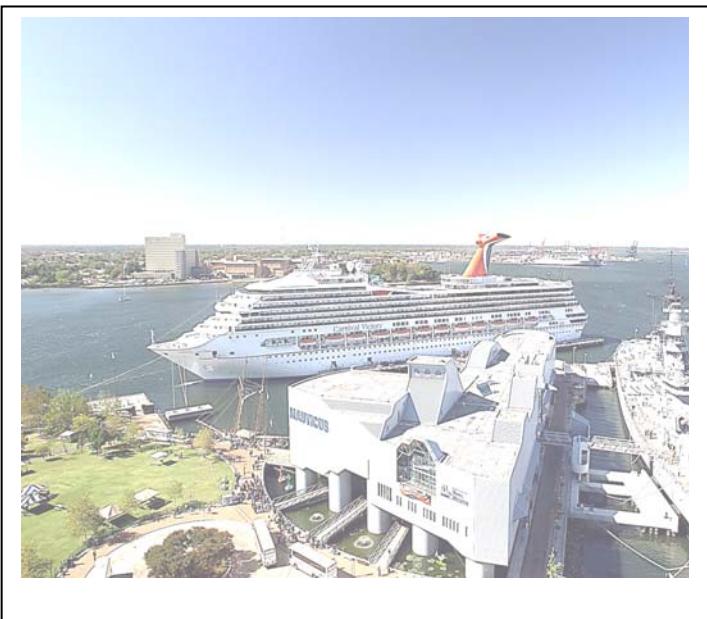
City, Downtown Property assessed value increased over 75% from 1997 to 2002. This renaissance is the result of many years of public-private partnerships and innovative planning.



The MacArthur Center, an upscale urban mall and the result of a \$300 million public/private partnership with the City and Taubman Properties continues to serve as a catalyst for entrepreneurial ventures in and around the Granby Street District. Since the mall's opening, over 60 area restaurants have opened. Some of the restaurants currently undergoing construction/expansion include Mo &

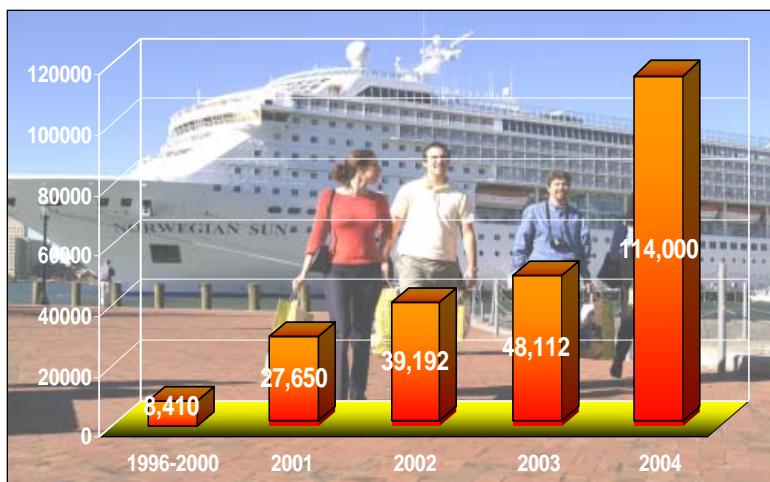
O'Malley's (expansion); 4, 5, 6 Fish; Cobia Grill; Scotty Quixx; Sterlings; Premier; Alice Mae's Soul Food (expansion); and St. Elmo's Steakhouse.

Nauticus, The National Maritime Center, a 120,000-square-foot, multi-level maritime showcase, features hands-on exhibits including computer and video interactives, commerce and military-related displays, and exotic aquaria. The USS Wisconsin, the last-built and biggest of the World War II-era battleships, is berthed adjacent to Nauticus as a permanent downtown exhibit. Recently, NOAA, a multi-governmental, interstate, cooperative partnership directing Bay restoration,



announced Nauticus will serve as the location of its Virginia Office for the Chesapeake Bay.

Norfolk Passenger Counts



The City's improvements to the pier at the National Maritime Center allow it to host some of the largest cruise ships in world. The City is in the design stage for the construction of a cruise terminal building scheduled for completion in spring 2006. Cruise ship visitation for 2004 includes the debut of two new cruise lines using

Norfolk as a homeport: Holland America's - Maasdam, and Celebrity's - Horizon. The Carnival Victory and the Radisson - Seven Seas Navigator will also continue to conduct limited homeport

cruises from the Nauticus International Pier. Norfolk is projected to host more than 114,000 passengers and 37,000 crew members in 2004.

In calendar year 2002, **Norfolk International Airport** handled 3,464,246 total passengers (arriving and departing) an increase of 16.9% over calendar year 2001, and the highest recorded growth in the airport's history. An \$800,000 renovation for Immigration and Naturalization Services and Customs services was added to the airport to handle charters or diverted flights of foreign origination.

Port related business was up at the **Virginia International Terminal**, driving new capital investment into the region. By 2010, a 300-acre expansion of Norfolk International Terminal will be completed making it the largest inter-modal center in the United States. In August 2003, Norfolk International Terminals (NIT) received four (4) of the largest, Suez-class cranes made to serve the world's largest ships (26 containers wide) – the trend of the future. These cranes are part of the \$80 million, first phase of the planned Port renovations and will work at the new, wider 4,200-foot wharf begun last September. The four remaining cranes of the 8-crane (\$45 million) contract will arrive by August 2004.

Hotel Development

In 2002, the Norfolk Metropolitan Statistical Area (MSA) ranked first in the nation, experiencing the highest gains in both hotel occupancy growth and average daily rate for any major market. Only five other major markets in the United States achieved occupancy growth in 2002 – those being the Norfolk MSA, Philadelphia, Oahu, Hawaii, and Nashville and Washington D.C., both of which experienced an increase of less than one percent. In terms of revenue per available room, the Norfolk MSA increased 10.6% to \$45.44 in 2002 over 2001.

Neighborhood and Community Revitalization

One of the City's core initiatives, and part of the economic development plan, is neighborhood revitalization. By increasing the diversity of housing opportunities, the City expects to increase the diversity of its citizenry and expand the tax base. The City's goal for neighborhood and commercial



development is to provide an environment that will increase private sector investment, retail sales generation and corresponding municipal revenue generation, create a framework for targeted and coordinated public and private investment, and build upon and coordinate with other ongoing community development initiatives.

This past year several city-owned properties were offered for development, resulting in three major projects totaling a \$100 million investment in Downtown alone. The Residential Development occurring on these city-owned sites include: Tazewell Place, 77 condos (some lofts), with a first floor retail gourmet grocery; up to 248 apartments in 2 seven-story buildings at Brambleton and Bute Streets; and St. Paul's Place Company's 90 condos (some lofts) alongside the MacArthur Center. Additionally, private ventures in the downtown area include: 411 Granby Street is a renovated office building housing 49 apartments; 49 rental units at The Lofts on Granby; and 44 condominiums at River Park, selling from \$220,000 to \$485,000.

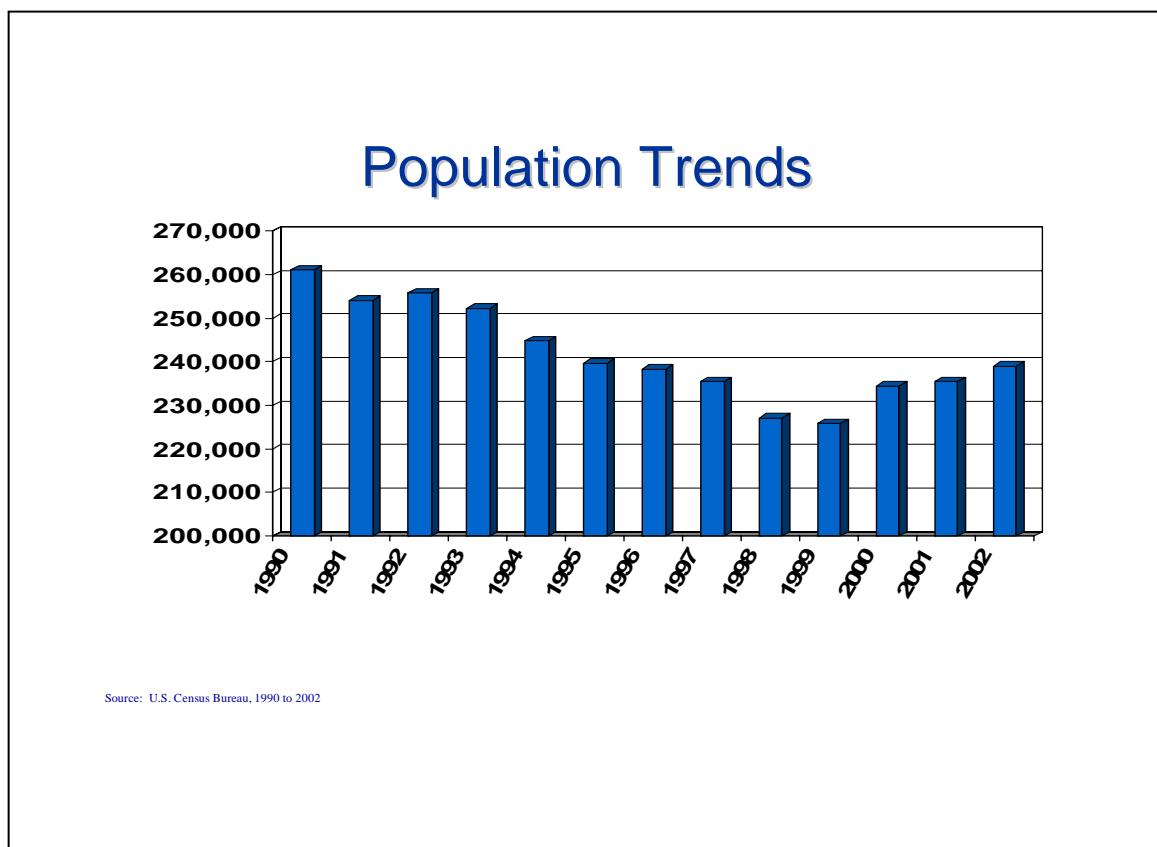
The City's Broad Creek Renaissance area encompasses a two-square mile area located east of downtown. Through a \$35 million Hope VI grant from HUD, NRHA will demolish two of the City's oldest public housing developments. They will be replaced with a mix of single and multi family housing, some publicly subsidized, and small commercial use. Other pieces of this redevelopment effort include street reconfiguration, home-ownership programs, and recreational facilities. The entire project area is estimated to access \$170 million in public and private funds to revitalize this 14-neighborhood area.



The East Ocean View residential redevelopment known as East Beach began construction of its first phase in early 2003. A master option agreement between the City and a developer is complete. The City is guaranteed a minimum of \$8.5 million from the developer plus a commission on future lot sales. Infrastructure installed by the developer is estimated to be \$18 million. Once complete, the project will have 700 housing units with prices ranging from \$200,000 to \$1 million. The completed construction is anticipated within 10 years adding approximately \$250 million to the tax base.

A portion of the Atlantic City Redevelopment (Fort Norfolk), a waterfront area adjacent to the medical complex, is under contract for the development of an upscale 230 unit, \$90 million continual care retirement center.

These and other initiatives are contributing to the stabilization and growth of the City's population base.



Old Dominion University, in partnership with the City, the Norfolk Redevelopment and Housing Authority, and private developers, initiated a large scale, mixed use redevelopment project adjacent to its campus. This redevelopment project, the University Village, directly impacts 75 acres (13 City blocks) and results in over \$260 million in private and public investments within the project boundaries. The University Village will contain Old Dominion facilities, as well as a research park, neighborhood shopping center, hotel, other pedestrian-scale retail development and 1,200 beds of privately developed housing for students.

The initial phase of the University Village was completed with the land assembly and construction of the 8,600-seat Ted Constant Convocation Center and associated structure and surface parking. This multi-purpose venue opened in October 2002, and accommodates approximately 120 major events per year, inclusive of the University's intercollegiate and cultural programs, concerts, family shows, and other entertainment for the larger region.

The University's Real Estate Foundation completed the initial phase of student residences consisting of 378 beds, and 20,000 square feet of retail in four buildings. These facilities were occupied in August 2003. A second phase of 582 beds and 30,000 square feet of retail is currently underway with occupancy scheduled for August 2004.

Norfolk State University is working with a private sector developer to receive City approval to construct a 400 bed residence hall on the University's main campus. The residence hall will serve upperclassmen and is anticipated to open in August 2004. The University is also pursuing completion of all pre-construction steps so that the construction of the \$18 million, 140,000 square feet, RISE 1 academic and technology research building can begin. This building will be the cornerstone of the RISE Campus, a 25 acre master planned technology park adjacent to the main campus with excellent Interstate accessibility. Construction and occupancy of the RISE 2 building as a private sector initiative is expected to follow the completion of RISE 1.



Business, Industry and Commerce

The Ford Norfolk Assembly Plant geared up this year with its new flexible body shop, the first American automobile manufacturing center of its type, which will add the capability to integrate up to five models for manufacture in one facility. An additional \$25 million and 250 additional jobs were announced this year, bringing the grand total of the expansion to \$400 million and 450 new jobs.

Construction is beginning in the Lake Wright Executive Center for a new \$10 million building housing Virginia Oncology, a regional cancer treatment and office center. Another project, which would complete the park, is the development of a \$10 million private office building, which is in its final phase of negotiations. This employer is projected to bring 350 new jobs to Norfolk with an average salary of \$50,000, excluding benefits. Furthermore, a \$17 million Marriott Residence Inn hotel is currently under construction by the same developer of the Holiday Inn Select Hotel, also located in the Lake Wright Executive Center.

The general area encompassing Newtown Road, I-64/Koger and Riverside Corporate Center is also the site of new growth and change in Norfolk. Springhill Suites on Newtown Road, a \$14.5 million, 120-suite hotel project, and a new Ruby Tuesday's are now under construction. Further, Portfolio Recovery Associates is building a \$2.5 million, 25,000 square feet building in the Riverside Corporate Center.

New investment in the Military Highway area, a principle commercial corridor with \$600 million in annual retail sales, continues to increase as retail sales increased by 31.5% in 2002. The JANAF Shopping Center recently created 109,000 square feet of individual shops from a retrofit of the Montgomery Ward store, a \$5 million renovation project located in the heart of this 94-acre retail center which includes TJ Maxx, Old Navy and other big box retailers. Also, there is under construction a \$20 million Super Wal-Mart expansion, adjoining the new JANAF property to the existing store.



Military

The presence and role of the military in Norfolk has a significant impact on the local economy and remains a positive force. The City has steadily grown to be the home of the world's largest naval complex, with headquarters for Commander in Chief of U.S. Atlantic Command, NATO's Supreme Allied Command Atlantic, U.S. Joint Forces Command and other major naval commands. Although the military remains a key part of Hampton Roads' economy, the region has successfully diversified its economy in recent years.



The Navy's direct economic impact on the region was \$9.94 billion in 2002, comprised of a total annual payroll of \$5.48 billion and the balance consumed on goods and services and procurement of contracts. The City expects to continue as a center of activity for the U.S. Navy with current total personnel (military and civilian) in excess of 70,000. Active-duty Navy military personnel in Hampton Roads increased to 85,030 in 2002, of which 70% are assigned to Norfolk.

Hampton Roads is the largest center of Coast Guard units in the world with the Atlantic Area Command and Maritime Defense Zone Atlantic in Portsmouth and its Maintenance & Logistic Command Atlantic headquarters in downtown Norfolk.

Education

Norfolk Public Schools' approach to education combines innovative programs with an emphasis on reading, mathematics and the sciences. A low pupil-teacher ratio with class sizes well below the national average has contributed to the system's learning foundation.

Norfolk offers innovative public school programs, which include Early Childhood Education, a unique, comprehensive program for three and four-year-olds and their parents located in the public housing community of Diggs Town, at the Park Place/Colonial Place Community Center and at Ocean Air Elementary. The school system and the City have successfully worked together to provide the school's Early Childhood Program in three recreation centers and to establish a partnership between the school system and libraries that will result in extended learning and homework programs for middle and high school students.

The City is home to the Governor's Magnet School for the Arts, Virginia's only magnet school for the arts, which offers classes in performing or visual arts to approximately 300 talented students from six cities and two counties. The school system also has a program for gifted science students that enable them to study at Eastern Virginia Medical School. Average daily membership statistics are presented below:

<u>School Year</u>	<u>Average Daily Membership</u>	<u>Percent Change</u>
1998-1999	35,709	(0.6)
1999-2000	35,326	(1.1)
2000-2001	34,910	(1.2)
2001-2002	34,408	(1.4)
2002-2003	36,724	6.3

Higher Education

Old Dominion University (ODU) was founded in 1930 as the Norfolk Division of the College of William and Mary and became an independent institution in 1962. Currently, ODU is one of only 100 public, research extensive universities with a full and part-time enrollment of nearly 21,000 students. The institution is a nationally recognized provider of quality distance learning programs, which are delivered at 60 sites within the Commonwealth, 6 other states, and at various military sites throughout the world. The University has a \$600 million annual economic impact on the Hampton Roads region and operates a number of basic and applied research centers that contemplate the scientific work of NASA Langley, Jefferson Labs, and other federal and private laboratories in the region.



Founded in 1935, **Norfolk State University** is Virginia's largest public historically black university (HBCU) and the seventh largest HBCU in the nation. The Fall 2003 enrollment total is 6,839. In addition to starting physical development of the RISE Campus, the University is in the advanced stage of updating its Main Campus Master Plan and securing for it the City's endorsement. The University has Commonwealth of Virginia approval for a program of campus reinvestment and facilities construction and upgrades consistent with the updated master plan.

Virginia Wesleyan College was founded in 1966 and is a private, coeducational, four-year liberal arts college on the Norfolk-Virginia Beach line. There were approximately 1,588 students enrolled full and part-time in the 2002-2003 academic year.

Tidewater Community College (TCC) is the second largest of the 23 community colleges in the Commonwealth of Virginia, enrolling more than 34,000 students annually. It is the 37th largest community college in the nation's 1,600-school network, and among the 50 fastest growing large community colleges.

Eastern Virginia Medical School (EVMS) is one of three medical schools in Virginia and is Hampton Roads first medical school. Students use over 30 area hospitals and clinics for practical training. The school relies on private funding, support from area cities and limited state support to fulfill its mission. 'Centers of Excellence' at EVMS include the Jones Institute for Reproductive Medicine, the Leonard R. Strelitz Diabetes Institutue, the Center for Pediatric Research, and the Virginia prostate Center. Not only has EVMS made it possible for area residents to obtain specialized treatment locally, it has achieved a reputation which brings patients from other areas of the country for services in endocrinology, geriatrics pediatrics, oncology, otolaryngology, and reproductive medicine and infertility. EVMS recently successfully completed a \$62 million capital campaign that enabled it to create centers for biomedical research; general medical education and information technology; and aging and human development. The Medical School's full-time enrollment is 903 for the 2003 – 2004 academic year.



Medical Facilities

There are, within the City of Norfolk, a total of four general, acute care and specialized hospitals. Sentara Norfolk General Hospital, a 569-bed tertiary care facility, is the area's only Level I Trauma Center. In 2002, Sentara Norfolk General's cardiac program ranked 23rd out of the 50 United States hospitals named for cardiac excellence. Sentara plans to start construction of a 480 space parking garage this winter followed by the initiation of construction in late Spring or early summer of a new hospital services building incorporating the latest in medical technology. The building will be some 244,000 square feet, with an additional 30,000 square feet of medical office space incorporated in it. The budget for the overall project has been placed at approximately \$95 million.

Children's Hospital of The King's Daughters (CHKD) is the only facility of its kind in Virginia and includes a dedicated pediatric emergency center and is both a health care facility and teaching hospital, through its affiliation with the Eastern Virginia Medical School, which is licensed for 186 beds. It serves the medical and surgical needs of children throughout greater Hampton Roads, the Eastern Shore of Virginia and northeastern North Carolina. The not-for-profit hospital was founded in 1961 and provides care to nearly 130,000 children each year as inpatients and outpatients, addressing routine and complex illnesses, injuries and chronic conditions. The CHKD Health System operates primary care pediatric practices, surgical practices, multi-service Health Centers and satellite offices throughout its service region. Also, CHKD is affiliated with The Barry Robinson Center in Norfolk, a residential treatment center for children and adolescents with emotional problems or learning disabilities.



Honorable City Council

October 9, 2003

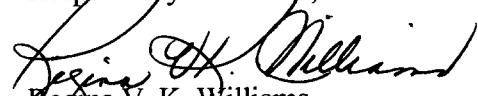
Awards and Acknowledgements

The Government Finance Officers Association (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, 2002. This was the 17th consecutive year that the government has received this prestigious award and the first year the City's financial statements were prepared in accordance with the Governmental Accounting Standards Board Statement Number 34. In order to be awarded a Certificate of Achievement, the government 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 that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of the Department of Finance, especially the City Controller Bureau staff, and the enterprise controllers and fund accountants of various City activities. We would like to 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 of Norfolk's finances.

Respectfully submitted,


Regina V. K. Williams

City Manager

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Norfolk,
Virginia

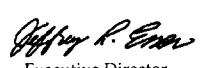
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2002

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.

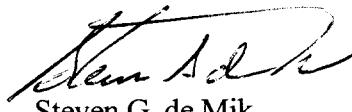



William P. Doherty

President


Jeffrey R. Evans

Executive Director


Steven G. de Mik

Director of Finance

FINANCIAL SECTION

~ Independent Auditor's Report ~

~ Management's Discussion and Analysis ~

~ Basic Financial Statements ~

Government-wide Financial Statements

Fund Financial Statements

Notes to the Financial Statements

**Required Supplementary Information
(Budgetary Comparison Schedules)**



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INDEPENDENT AUDITORS' REPORT



Independent Auditors' Report on Financial Statements And Supplementary Schedules

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund and the aggregate remaining fund information of the City of Norfolk, Virginia as of and for the year ended June 30, 2003, 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 an opinion on these financial statements based on our audit. We did not audit the financial statements of the Norfolk Redevelopment and Housing Authority (NRHA), which represent 10.5% and 7.2%, respectively, of the assets and revenues of the City of Norfolk, Virginia. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinions, insofar as it relates to the amounts included for NRHA in the component unit columns, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Norfolk, Virginia, as of June 30, 2003, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 4-18, the schedule of funding progress on page 91, and the general fund budgetary comparison on pages 92-100 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion thereon.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the City of Norfolk, Virginia. The introductory section, statistical section, combining and individual non-major fund financial statements and the accompanying 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* are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements and the accompanying schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, such information is fairly presented in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2003 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Virginia Beach, Virginia
October 9, 2003

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2003

The management of the City (the City) provides this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2003. 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.

Overview of the Financial Statements

This discussion and analysis is 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 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.

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, and culture and recreation. The business-type activities of the City include Water Utility, Wastewater Utility and Parking System 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), Norfolk Redevelopment and Housing Authority (NRHA), 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.

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2003

Fund financial statements - The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. In the basic financial statements, the emphasis of the fund financial statements 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. This 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. In order to provide the reader with information to 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 27 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 presented in aggregate. Individual fund data for each of the non-major funds are presented separately in the "Other Supplementary Information" section of this report.

The City adopts an annual budget for its general fund. To demonstrate compliance with this budget, a budgetary comparison statement has been provided for the general fund and is included in the required supplementary information section of this document.

Proprietary funds provide services for which the City charges internal and external customers a fee. The City has two types of proprietary funds, enterprise and internal service. The enterprise funds of the City are used to report the same functions as the business-type activities in the government-wide financial statements. The Water Utility, Wastewater Utility, and Parking enterprise funds are presented separately in both the government-wide financial statements and the fund financial statements and are considered major funds. Enterprise funds are used to account for operations very similar to business enterprises, where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City or to other governments on a

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2003

cost reimbursement basis. The City has two internal service funds, Fleet Maintenance and Storehouse operations. Because internal service funds are mostly governmental in nature, they are included within the governmental activities in the government-wide financial statements. Both internal services are combined into a single, aggregate presentation in the proprietary fund financial statements. Individual fund data for the internal service funds are included in the "Other Supplementary Information" section of this document.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The fiduciary funds for City include the City's pension trust fund, the Commonwealth of Virginia agency fund and another miscellaneous 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. These funds are presented separately in the fund financial statements section of the basic financial statements.

Notes to the Financial Statements are included in the basic financial statements and provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements.

Other Supplementary Information section presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to employees and is in addition to the basic financial statements and accompanying notes.

Separate combining financial statements for non-major governmental funds and internal service funds are also included in the "Other Supplementary Section" of this document.

Government-wide Financial Analysis

In time, net assets of a governmental entity may serve as a useful indicator of the government's financial position. In the case of the City, assets exceeded liabilities by \$851,400,684 at June 30.

By far, the largest portion of the City's net assets is its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any outstanding debt related to acquiring the asset. 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. At June 30, 2003, the City reported \$666,250,033 in net assets invested in capital assets net of related debt.

External restrictions of the City's net assets represent resources subject to existing external obligations or programmatic control on future use. The remaining balance of unrestricted net assets of \$112,181,079 may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2003

Total net assets in excess of liabilities at June 30 for the governmental activities and business-type activities were \$579,107,689 and \$272,292,995.

	Governmental Activities		Business-Type Activities		Total	
	Restated					
	2003	2002	2003	2002	2003	2002
Current and Other Assets						
Capital Assets	\$ 183,310,024	\$ 173,146,810	\$ 98,409,290	\$ 90,452,237	\$ 281,719,314	\$ 263,599,047
Total Assets	853,984,363	860,973,740	656,081,189	651,407,222	1,510,065,552	1,512,380,962
	<u>1,037,294,387</u>	<u>1,034,120,550</u>	<u>754,490,479</u>	<u>741,859,459</u>	<u>1,791,784,866</u>	<u>1,775,980,009</u>
Long-Term Liabilities	428,029,267	398,572,058	442,653,551	467,608,024	870,682,818	866,180,082
Other Liabilities	30,157,431	29,800,026	39,543,933	13,250,612	69,701,364	43,050,638
Total Liabilities	<u>458,186,698</u>	<u>428,372,084</u>	<u>482,197,484</u>	<u>480,858,636</u>	<u>940,384,182</u>	<u>909,230,720</u>
Net Assets:						
Invested in Capital Assets						
Net of Related Debt	470,450,835	497,842,483	195,799,198	190,585,819	666,250,033	688,428,302
Restricted	35,753,261	72,937,699	37,216,311	43,417,971	72,969,572	116,355,670
Unrestricted	72,903,593	34,968,284	39,277,486	26,997,033	112,181,079	61,965,317
Total Net Assets	<u>\$ 579,107,689</u>	<u>\$ 605,748,466</u>	<u>\$ 272,292,995</u>	<u>\$ 261,000,823</u>	<u>\$ 851,400,684</u>	<u>\$ 866,749,289</u>

For governmental activities, net assets decreased by \$26,640,777 during the current fiscal year. This reduction is partially attributed to the increase in depreciation expense for capital assets. Governmental funds report capital outlay as expenditures while governmental activities report depreciation expense thus allocating those expenditures over the life of the assets. The reduction is also attributable to the accrual of \$15,346,330 for the annually required pension contributions. This liability is reported only in the government-wide financial statements and not in the governmental fund statements since it is not expected to be liquidated with available financial resources. As in the normal course of business the contributions were appropriated and expected to be paid in the 2004 fiscal year budget.

For business-type activities, net assets increased by \$11,292,172 during the fiscal year. Of this amount, \$4,614,271, \$3,607,510 and \$3,070,391 are attributed to Water Utility, Wastewater Utility and Parking, respectively. The net assets of the business-type activities for fiscal year 2002 have been restated to reflect the statement of net assets reported in the separate financial statements of the individual enterprise funds. Those statements were issued subsequent to the issuance of the City Comprehensive Annual Financial Report.

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2003

The following represents the changes in net assets for both governmental and business type activities for the fiscal year ended June 30, 2003:

	Governmental Activities		Business-Type Activities		Total	
	2002					
	2003	Restated	2003	2002	2003	2002
REVENUES:						
Program Revenues:						
Charges for services	\$ 29,390,298	\$ 18,312,076	\$ 96,290,957	\$ 91,061,917	\$ 125,681,255	\$ 109,373,993
Operating Grants & Contributions	123,596,092	93,269,674	-	-	123,596,092	93,269,674
Capital Grants & Contributions	-	-	253,560	354,587	253,560	354,587
General Revenues:						
Property Taxes	168,731,222	158,871,015	-	-	168,731,222	158,871,015
Other Taxes	132,846,626	127,262,071	-	-	132,846,626	127,262,071
Grants and Contributions not restricted for specific programs	60,472,034	60,367,196	-	-	60,472,034	60,367,196
Other	15,029,262	18,195,030	4,413,237	5,015,107	19,442,499	23,210,137
Total Revenues	<u>530,065,534</u>	<u>476,277,062</u>	<u>100,957,754</u>	<u>96,431,611</u>	<u>631,023,288</u>	<u>572,708,673</u>
EXPENSES:						
General Government	83,310,803	48,062,345	-	-	83,310,803	48,062,345
Judicial Administration	10,855,692	8,987,144	-	-	10,855,692	8,987,144
Public Safety	117,487,840	122,252,304	-	-	117,487,840	122,252,304
Public Works	103,319,414	96,894,090	-	-	103,319,414	96,894,090
Health and Public Assistance	70,665,389	62,061,683	-	-	70,665,389	62,061,683
Culture and Recreation	44,758,235	46,945,417	-	-	44,758,235	46,945,417
Community Development	19,806,016	17,218,412	-	-	19,806,016	17,218,412
Education	88,853,663	83,882,544	-	-	88,853,663	83,882,544
Interest on Long-Term Debt	18,088,088	18,536,433	-	-	18,088,088	18,536,433
Intergovernmental	8,061,171	7,932,114	-	-	8,061,171	7,932,114
Water Utility	-	-	54,378,597	53,711,573	54,378,597	53,711,573
Wastewater Utility	-	-	10,952,557	11,379,135	10,952,557	11,379,135
Parking	-	-	15,834,428	14,298,309	15,834,428	14,298,309
Total Expenses	<u>565,206,311</u>	<u>512,772,486</u>	<u>81,165,582</u>	<u>79,389,017</u>	<u>646,371,893</u>	<u>592,161,503</u>
Increase (decrease) in net assets before transfers	(35,140,777)	(36,495,424)	19,792,172	17,042,594	(15,348,605)	(19,452,830)
Transfers	8,500,000	8,000,000	(8,500,000)	(8,000,000)	-	-
Increase (decrease) in net assets	(26,640,777)	(28,495,424)	11,292,172	9,042,594	(15,348,605)	(19,452,830)
Net Assets Beginning of Year	605,748,466	634,243,890	261,000,823	251,958,229	866,749,289	886,202,119
Net Assets End of Year	<u>\$ 579,107,689</u>	<u>\$ 605,748,466</u>	<u>\$ 272,292,995</u>	<u>\$ 261,000,823</u>	<u>\$ 851,400,684</u>	<u>\$ 866,749,289</u>

Governmental Activities

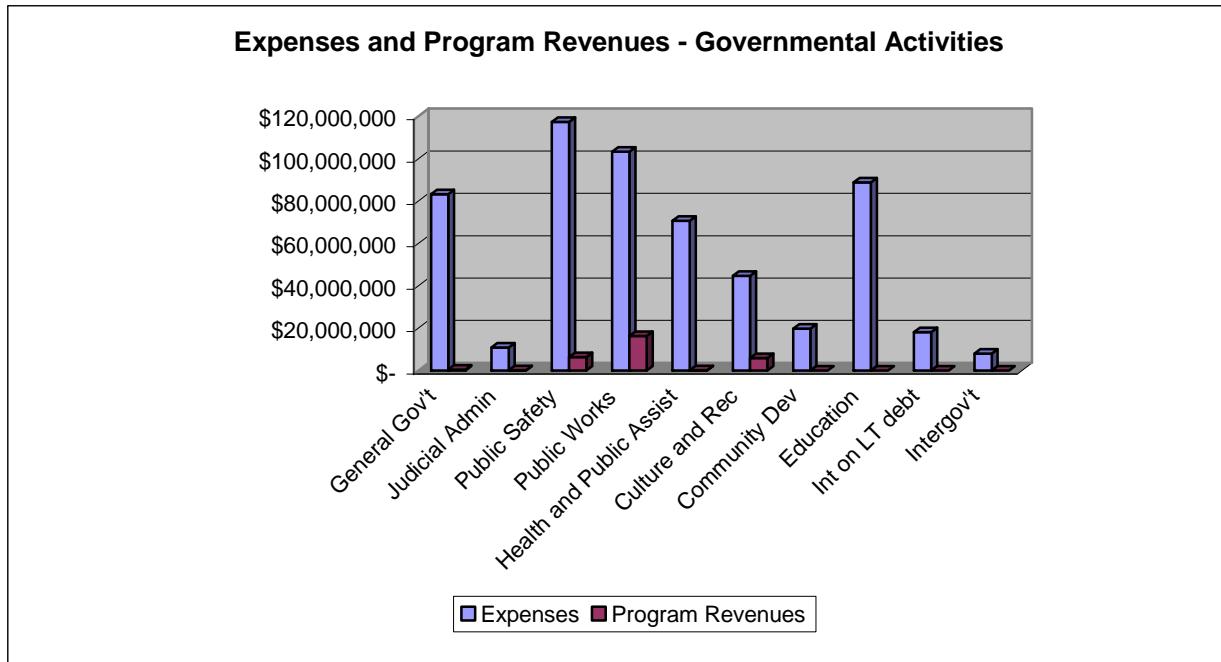
Property taxes and other tax revenues comprise \$301,577,848 or 57 percent of total governmental revenues.

Operating grants and contributions for governmental activities ended the fiscal year at \$123,596,092; mostly as a result of grant application strategies undertaken by the City during the current fiscal year supporting various governmental functions. Grants and contributions not restricted for specific programs represent intergovernmental grants and contributions from State and federal agencies. At fiscal year end, the City reported \$60,472,034 in grants and contributions not restricted for specific programs.

On a government-wide basis, the City expensed \$565,206,311 on governmental programs and services. Public safety expenses were \$117,487,840 or 21 percent of total expenses, largely

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2003

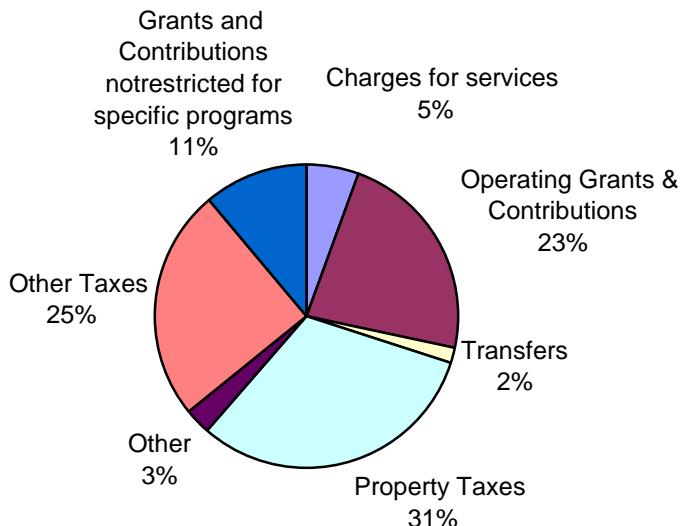
attributed to management's continuing commitment to preserve the lives and property of the City's residents. The local contribution to the City's public education program was \$88,853,663 or 16 percent of governmental expenses.



The component units of the City reported total net assets of \$187,915,380 of which (\$7,939,486) represents the deficit of unrestricted net assets. The change in net assets for the City's component units at June 30 was \$4,287,636. Additional detailed information on the City's component units can be found in the *Component Units* section of this document.

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2003

Revenues by Source - Governmental Activities



Business-type Activities

Business type activities increased the City's net assets by \$11,292,172.

Charges for services for the Water Utility, Wastewater Utility, and Parking activities for the year ended were \$63,785,185, \$14,615,336 and \$18,574,273, respectively.

Total expenses (exclusive of transfers) for the Water Utility, Wastewater Utility, and Parking activities for the year ended were \$54,381,947, \$10,962,826 and \$15,834,428, respectively.

Water Utility:

- The City of Norfolk settled the Fiscal Year 2000 and 2001 true up receivable with the U.S. Navy for \$3.2 million in November 2002. The Navy originally owed the City \$4.5 million for the two year period. Fiscal Year 2003 will be the final year for cost of service based rates for the Navy; a new contract was negotiated effective July 1, 2003 which calls for a 10% premium over the established Norfolk retail water rate.
- Issued \$17 million of Water Revenue Bond Anticipation Notes in April 2003.

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2003

Wastewater Utility:

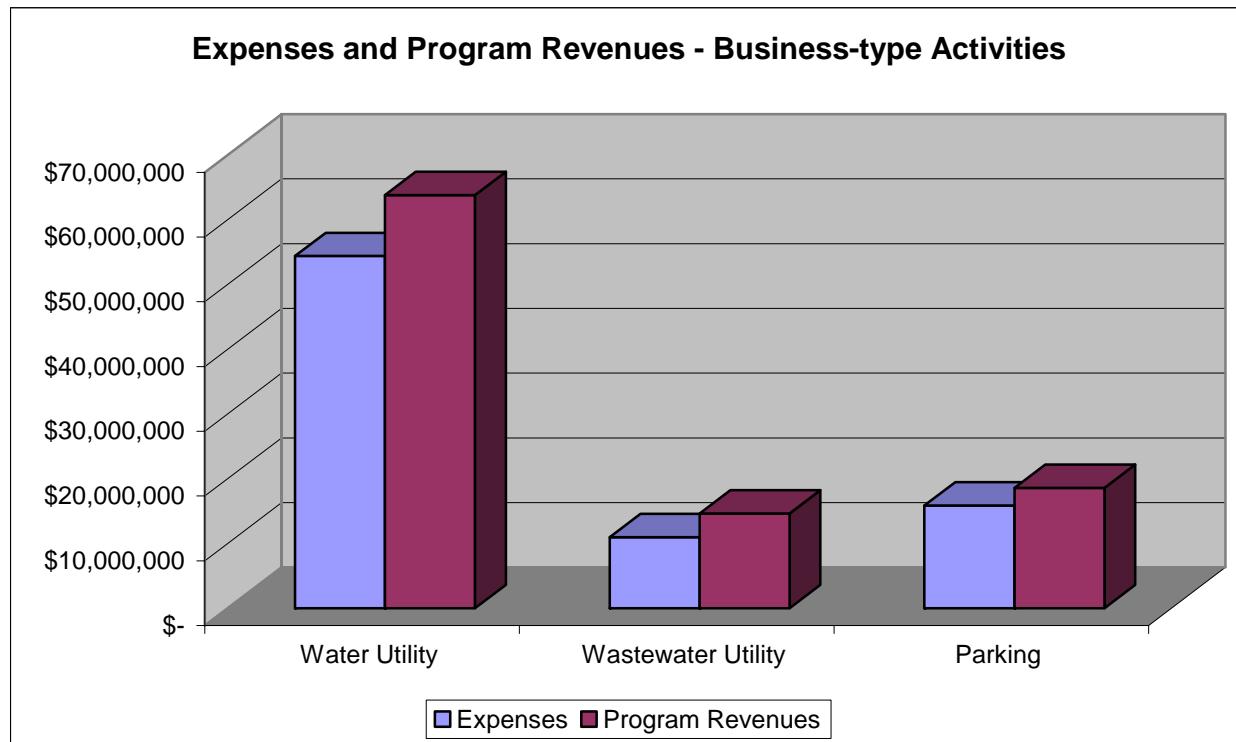
- Despite the fact that the Wastewater Fund had a 14-cent per 100 cubic foot rate increase during the year, expenditures exceeded revenues for the fiscal year ended June 30. To correct this condition the City Council adopted a 50-cent per 100 cubic foot rate increase effective July 1, 2003.
- In April 2004, the City issued \$10 million of low-interest rate financing loans from the Virginia Wastewater Revolving Loan Fund. The loan carries an interest rate of 3.5%. This financing is secured by a \$10 million taxable General Obligation Bond. Proceeds from this loan will be used to construct projects mandated by the Special Order of Consent between the City of Norfolk, Hampton Roads Sanitation District and the Virginia Department of Environmental Quality.

Parking

- Total parking fund revenues increased by approximately \$760,000 or 4% primarily due to an increase in metered and monthly parking receipts. Additional parking meters on the street increased revenues in this area by approximately 50%. The West Plume Street garage was also a factor as fiscal year 2003 was its first full year of operation.
- Parking meter revenue increased roughly \$208,000 or 50% due to increased number of parking meters placed on street, and enforcement.
- Revenues from the City's garages were favorable overall for the fiscal year. The Main Street garage increased by approximately \$179,000 or 11% due to increased utilization of monthly parking. The MacArthur South garage ended the year with an increase of roughly \$324,000 or 10% due to increased transient activity and usage. Hotel and recreational type activities attributed to the overall increase in the parking garage revenues.
- Interest revenue increased, despite a low interest rate environment, nearly \$232,000 or 10%. This increase was mainly a result of restricted cash adjustments and no reduction for capitalized interest as all bond-funded projects were completed.
- Collections from parking tickets were unfavorable at approximately \$161,000, a 10% decrease over the previous fiscal year.
- Refunding and annual restructuring of existing debt resulted in an increase of approximately \$203,000 for general obligation interest.
- The parking fund's net assets ended the fiscal year with an increase of \$4.2 million or 10%. This increase is primarily a result of additional parking revenues generated from special events and other recreational type activities in the downtown area.

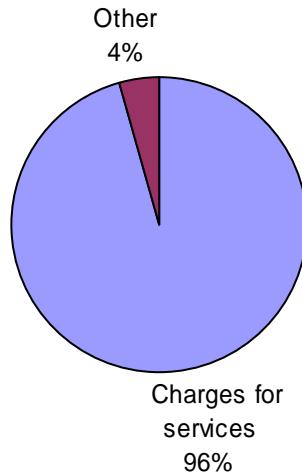
CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2003

The parking fund's expense budget ended the fiscal year at \$2.4 million under budget. Operational savings in personnel and contractual services were major factors.



CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2003

Revenues by Source - Business-type Activities



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, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The City's governmental funds reported combined ending fund balances of \$139,486,760, of which \$67,664,067 is reserved and the remaining \$71,822,693 is available for spending at the government's discretion.

The City's primary governmental fund is its general fund. As a matter of policy, the City in its general fund designates or earmarks a portion of its unreserved fund balance (\$31,365,957 at June 30) equal to approximately 5 % of the general government's and School Board's annual operating budgets as a minimum amount each year that will remain in fund balance. In addition, the City designated almost 6 million of its fund balance for future expenditures related to a potential general economic downturn and for its self-insured worker's compensation and general liability programs. Amounts in excess of these policy designations were designated and subsequently appropriated as part of the City's 2004 general fund operating budget.

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2003

The \$9,859,955 reduction in the City's general fund's fund balance represents a planned drawdown of its fund balance primarily for one-time capital expenditures.

For the general fund, on the budgetary basis of accounting, the City ended the fiscal year with revenues slightly below projection by \$3,812,031 (less than one tenth of one percent of the total.) Included in budgetary revenues was \$15,283,730 appropriated from the general fund balance. Total expenditures were less than appropriations by \$12,085,034 mostly attributed to prudent proactive measures taken by the City in lieu of the uncertainty of State revenues and unstable economic conditions.

General fund financial and budgetary highlights of the 2003 fiscal year include:

- As a result of a strong housing and commercial property markets, real property tax revenues and exceeded budgetary projections by \$1,345,821
- Total general property taxes, including the State's share of personal property, came in under budget projections \$1,153,850; however, actual collections out performed prior year collections by \$10,172,487
- Other local tax collections exceeded budgetary projections by \$1,748,771
- Although sales tax revenues were below budgetary projections, sales tax collections exceeded prior years by 1% or \$309,186
- Hotel/motel and restaurant and prepared meals taxes exceeded budgetary projections by \$3,034,011
- Revenues from interest earnings under performed budgetary expectations by \$101,870 primarily a result of the low interest rate environment in the 2002 fiscal year
- Reduced revenues from the State for public assistance grants and education, resulting from budgetary reductions at the state, were offset by local spending reductions
- The uncertainty of State revenues and concern over general economic conditions, forced the City to take prudent proactive measures to control spending and as a result expenditures were \$12,085,034 less than appropriations

Supplemental appropriations or amendments of the total 2003 general fund budget were:

Approved FY 2002-2003 budget	\$ 631,989,100
Supplemental appropriations from additional revenue:	
Reimbursement from the Commonwealth of Virginia for street maintenance projects	588,458
Supplemental appropriations from general fund fund balance:	
Additional funds allocated to Public Works for maintenance projects reimbursable by Commonwealth of Virginia	300,000
Appropriation from Special Revenue Fund for the salaries and benefits of twelve Sheriff employees in the booking Division of the jail.	138,060
Total supplemental appropriations	<u>1,026,518</u>
Final budget	<u><u>\$ 633,015,618</u></u>

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2003

Enterprise funds - the City's enterprise funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water, Wastewater, and Parking funds at year-end amounted to \$40,099,017, (\$2,639,086) and \$1,817,555 respectively. The growth or change in net assets for Water, Wastewater, and Parking funds was \$4,614,271, \$3,607,510, and \$3,070,391 respectively. Other factors concerning the finances of these three 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 accumulated depreciation, for its governmental and business-type activities as of June 30, amounts to \$1,510,065,552. The investment in capital assets includes land, buildings, improvements, infrastructure (streets, roads, bridges, highways, etc) machinery, and equipment.

Infrastructure assets represent \$424,219,453 or approximately 50 % of total general capital assets, net of accumulated depreciation.

Major capital asset events during the current fiscal year included the following:

- Significant construction activity continues on the Boush street and Military Highway corridors
- Construction of a temporary cruise terminal building was completed in anticipation of a new full service cruise terminal
- Completion of a two year Sanitary Sewer Evaluation Study (SSES) which prioritizes and will guide sewer construction projects
- Near completion of land acquisition efforts in the east beach redevelopment neighborhood. This represents an approximate \$55 million acquisition investment over a period of 12 years. An option agreement with a master developer was completed contemplating the construction of a traditional mixed-use neighborhood with approximately 700 new homes representing the largest new development in many years with an estimated \$300 million value upon completion
- The acquisition of the Seldon Arcade, a major strategic asset in downtown Norfolk

A more detailed analysis of capital assets and the changes in capital assets can be found in the *Notes to Financial Statements* section of this document.

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2003

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

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Land	\$ 26,902,564	\$ 26,941,614	\$ 42,445,055	\$ 41,032,221	\$ 69,347,619	\$ 67,973,835
Buildings & Equipment	345,693,459	335,478,497	613,636,134	610,375,001	959,329,593	945,853,498
Improvements other than Buildings	10,746,414	11,222,324	-	-	10,746,414	11,222,324
Construction in Progress	46,422,473	21,231,550	-	-	46,422,473	21,231,550
Infrastructure	424,219,453	466,099,755			424,219,453	466,099,755
	<u>\$ 853,984,363</u>	<u>\$ 860,973,740</u>	<u>\$ 656,081,189</u>	<u>\$ 651,407,222</u>	<u>\$ 1,510,065,552</u>	<u>\$ 1,512,380,962</u>

Long-term debt - at June 30, the City (including the enterprise funds) had total bonded debt outstanding of \$827,896,266. Of this amount, \$466,022,252 comprises debt backed by the full faith and credit of the government. 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 General Obligation and Revenue Bonds

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
General Obligation Bonds	\$ 367,408,368	\$ 349,605,724	\$ 98,613,884	\$ 110,459,365	\$ 466,022,252	\$ 460,065,089
Revenue Bonds	-	-	361,874,014	351,181,830	361,874,014	351,181,830
	<u>\$ 367,408,368</u>	<u>\$ 349,605,724</u>	<u>\$ 460,487,898</u>	<u>\$ 461,641,195</u>	<u>\$ 827,896,266</u>	<u>\$ 811,246,919</u>

The City's total outstanding debt increased \$16,649,347 from the prior fiscal year. During the year, approximately \$37.8 million in new money general obligations bonds, and \$17 million in new water revenue anticipation notes were issued.

During the fiscal year the City refinanced some of its existing general obligation debt to take advantage of favorable interest rates. The financing is expected to decrease future debt service payments by \$4,254,997.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation of \$888,206,378 is significantly higher than the City's outstanding general obligation debt.

The City maintains the following ratings on its bonding programs:

Bonding Program	Fitch	Standard and Poor's	Moody's
General Obligation	AA	AA	A1
Water Revenue Bonds	AA	AA-	A1

Currently, the Parking Revenue Bond program does not maintain underlying bond ratings.

Please refer to the *Notes to Financial Statements* section of this document for a more detailed analysis of the City's long term debt activity.

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2003

Other Economic Factors and Next Year's Budget

Economic Factors – Currently the Commonwealth of Virginia continues to experience a budgetary crisis. As such, it is anticipated that future state budget cuts will likely translate into strategic reductions of City services to maintain a fiscally sound budget. Approximately 40 percent of the City's revenues come from the State.

Despite the poor outlook of the State's budget over the next couple of years, the City's guiding principles for the upcoming fiscal year is to continue building and maintaining strong neighborhoods, protect and develop the young through education, provide good social and cultural conditions that support healthy families, remain a safe and clean city, and invest in opportunities that promote economic growth and financial capacity.

The City's fiscal year 2004 general fund budget is \$656,335,400 representing a growth of 3.68 percent over the previous fiscal year. In keeping with the theme of the 2004 budget message, *Staying the Course – Charting the Future*, the following areas highlight City Council's priorities and accomplishments:

- Local City contributions to public education increased 2.5 percent to a total \$90,020,000;
- On average, employees were provided 4 percent salary increases;
- The City fully funded the actuarially required pension contribution which is an increase of approximately \$13 million for all funds;
- Water and Wastewater fees were increased in preparation of anticipated large capital needs;
- The 2004 Capital Improvement Plan was increased \$29,382,624 in recognition of the large capital needs for general governmental purposes and water and sewer projects;
- Real estate tax rates remained unchanged but assessments are expected to grow 5.8% over the prior fiscal year;
- Reductions of \$2.2 million in state revenues are anticipated for the 2004 year for detention related expenses, law enforcement revenues and formula allocations from ABC Wine Sales; and
- Changes in tax and fees for the fiscal year include:

DESCRIPTION	Adopted FY03	Adopted FY04
Cigarette Taxes	1.5 mils/cigarette (30 cents/pack)	2.75 mils/cigarette (55 cents/pack)
Emergency 911 Fees	\$2.40/Line/Month	\$2.85/Line/Month
Wastewater	\$1.67/100 cubic feet	\$2.17/100 cubic feet
Water Charges	\$2.51 / 100 cubic feet	\$2.76/100 cubic feet

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2003

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of 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, 2003

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents	\$ 121,036,048	\$ 59,227,803	\$ 180,263,851	\$ 41,668,999
Cash held in escrow with fiscal agent	-	205,905	205,905	2,269,673
Restricted cash held with fiscal agent	-	8,763,120	8,763,120	-
Investments	-	10,337,659	10,337,659	36,786,022
Receivables (net)	34,484,098	10,334,973	44,819,071	42,792,749
Unbilled accounts	-	1,655,040	1,655,040	-
Accrued investment income	-	166,571	166,571	-
Internal balances	2,269,507	(2,269,507)	-	-
Due from other governments	22,778,766	-	22,778,766	12,833,253
Due from other primary governments	-	-	-	1,279,302
Due from other agencies	305,988	1,140	307,128	-
Inventories	2,035,575	1,612,686	3,648,261	1,462,839
Restricted Cash and investments	-	-	-	23,015,032
Other assets	400,042	4,063,699	4,463,741	27,503,567
Capital assets, net (See Note 1)	853,984,363	656,081,189	1,510,065,552	160,673,848
Total assets	1,037,294,387	750,180,278	1,787,474,665	350,285,284
LIABILITIES				
Vouchers/Accounts payable	12,782,854	2,215,672	14,998,526	5,014,752
Employees withholdings	17,791	-	17,791	1,258,474
Contract retainage	265,231	350,146	615,377	560,649
Accrued interest	5,888,167	1,300,100	7,188,267	533,136
Accrued payroll	3,982,724	383,785	4,366,509	22,459,611
Internal balances	-	-	-	-
Due to other agencies	104,434	11,555	115,989	-
Due to other governments	-	-	-	24,903
Due to other primary gov/component units	10,045	-	10,045	-
Other liabilities	5,850,226	567,834	6,418,060	10,185,055
Deferred revenue	1,255,959	-	1,255,959	19,977,164
Liabilities payable from restricted assets	-	4,453,690	4,453,690	-
Long-term liabilities (See Note XV) :				
Due within one year	68,530,886	25,950,950	94,481,836	11,519,208
Due in more than one year	359,498,381	442,653,551	802,151,932	90,836,952
Total liabilities	458,186,698	477,887,283	936,073,981	162,369,904
NET ASSETS				
Invested in capital assets, net of related debt	470,450,835	195,799,198	666,250,033	132,897,899
Restricted for:				
Perpetual care	5,693,278	-	5,693,278	-
Capital projects	-	-	-	9,646,791
Special revenue	11,774,256	-	11,774,256	-
Other purposes	18,285,727	37,216,311	55,502,038	53,310,176
Unrestricted	72,903,593	39,277,486	112,181,079	(7,939,486)
Total net assets	\$ 579,107,689	\$ 272,292,995	\$ 851,400,684	\$ 187,915,380

CITY OF NORFOLK, VIRGINIA

Exhibit 2

Statement of Activities
For the Year Ended June 30, 2003

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units	
		Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	Primary Government				
					Governmental Activities	Business-Type Activities	Total		
Primary government:									
General government	\$ 83,310,803	\$ 449,247	\$ 43,374,153	-	\$ (39,487,403)		\$ (39,487,403)		
Judicial administration	10,855,692	191,210	4,291,045	-	(6,373,437)		(6,373,437)		
Public safety	117,487,840	6,282,421	17,659,130	-	(93,546,289)		(93,546,289)		
Public works	103,319,414	16,394,356	17,688,062	-	(69,236,996)		(69,236,996)		
Health and public assistance	70,665,389	158,800	34,293,631	-	(36,212,958)		(36,212,958)		
Culture and recreation	44,758,235	5,907,164	4,318,325	-	(34,532,746)		(34,532,746)		
Community development	19,806,016	7,100	1,971,746	-	(17,827,170)		(17,827,170)		
Education	88,853,663	-	-	-	(88,853,663)		(88,853,663)		
Interest on long-term debt	18,088,088	-	-	-	(18,088,088)		(18,088,088)		
Intergovernmental	8,061,171	-	-	-	(8,061,171)		(8,061,171)		
Total governmental activities	<u>565,206,311</u>	<u>29,390,298</u>	<u>123,596,092</u>	<u>-</u>	<u>(412,219,921)</u>		<u>(412,219,921)</u>		
Business-type activities:									
Water	54,381,947	63,785,185	-	253,560	-	\$ 9,656,798	9,656,798		
Wastewater	10,962,826	14,615,336	-	-	-	3,652,510	3,652,510		
Parking facilities	15,834,428	18,574,273	-	-	-	2,739,845	2,739,845		
Total business-type activities	<u>81,179,201</u>	<u>96,974,794</u>	<u>-</u>	<u>253,560</u>	<u>-</u>	<u>16,049,153</u>	<u>16,049,153</u>		
Total primary government	<u>646,385,512</u>	<u>126,365,092</u>	<u>123,596,092</u>	<u>253,560</u>	<u>(412,219,921)</u>	<u>16,049,153</u>	<u>(396,170,768)</u>		
Component units:									
Norfolk Public Schools	\$ 308,455,364	\$ 4,873,407	\$ 201,923,097	\$ 10,839,101			\$ (90,819,759)		
NRHA	79,697,685	15,834,102	62,342,490	7,717,603			6,196,510		
Community Services Board	16,622,584	4,547,403	12,097,613	-			22,432		
Total component units	<u>404,775,633</u>	<u>25,254,912</u>	<u>276,363,200</u>	<u>18,556,704</u>			<u>(84,600,817)</u>		
General revenues:									
Taxes									
Real estate				168,731,222	-	168,731,222	-		
Other				132,846,626	-	132,846,626	-		
Interest and investment earnings				3,018,118	816,170	3,834,288	1,846,644		
Grants and contributions not restricted to specific programs				60,472,034	-	60,472,034	-		
Miscellaneous				10,975,444	2,779,992	13,755,436	877,208		
Capital contributions				410,715	-	410,715	-		
Proceeds from sale of assets				4,024,985	121,466	4,146,451	(4,339,117)		
Unrealized gain on investments				-	25,391	25,391	-		
Purchase of land				(3,400,000)	-	(3,400,000)	-		
Local government							88,853,663		
Special item - issuance of long-term note receivable							1,650,052		
Transfers				8,500,000	(8,500,000)	-	-		
Total general revenues, special items, and transfers				<u>385,579,144</u>	<u>(4,756,981)</u>	<u>380,822,163</u>	<u>88,888,450</u>		
Change in net assets				<u>(26,640,777)</u>	<u>11,292,172</u>	<u>(15,348,605)</u>	<u>4,287,633</u>		
Net assets - beginning				645,262,372	261,000,823	906,263,195	183,627,747		
Adjustment to beginning net assets (Note XXVI)				<u>(39,513,906)</u>	<u>-</u>	<u>(39,513,906)</u>	<u>-</u>		
Net assets - ending				<u>\$ 579,107,689</u>	<u>\$ 272,292,995</u>	<u>\$ 851,400,684</u>	<u>\$ 187,915,380</u>		

CITY OF NORFOLK, VIRGINIA
Balance Sheet - Governmental Funds
June 30, 2003

Exhibit A-1

	Major Funds			Non major Governmental Funds		Total Governmental Funds	
	General Fund	Capital Projects	Debt Service				
ASSETS							
Cash and cash equivalents	\$ 39,942,883	\$ 61,535,667	\$ -	\$ 17,523,809		\$ 119,002,359	
Receivables, net							
Taxes	25,182,290	-	-	-		25,182,290	
Accounts	4,130,947	12,337	-	4,389,271		8,532,555	
Notes	457,466	-	-	-		457,466	
Accrued investment income	85,628	-	-	-		85,628	
Due from other funds	3,536,885	-	-	272,935		3,809,820	
Due from agency fund	87,054	217,720		1,214		305,988	
Receivable from other governments	16,789,754	-	-	5,989,012		22,778,766	
Advance to parking fund	400,000	-	-	-		400,000	
Inventories	370,845					370,845	
Total assets	<u>\$ 90,983,752</u>	<u>\$ 61,765,724</u>	<u>\$ -</u>	<u>\$ 28,176,241</u>		<u>\$ 180,925,717</u>	
LIABILITIES							
Vouchers/Accounts payable	6,788,255	3,149,698	-	2,667,477		12,605,430	
Employee withholdings	17,791	-	-	-		17,791	
Contract retainage	-	155,114	-	110,117		265,231	
Accrued payroll	3,755,225	-	-	157,026		3,912,251	
Due to other funds	486,629	2,350	-	1,037,285		1,526,264	
Due to agency fund	92,832	-	-	11,132		103,964	
Deferred revenue	15,886,240	-	-	1,255,959		17,142,199	
Other liabilities	5,850,229	-	-	15,598		5,865,827	
Total liabilities	<u>32,877,201</u>	<u>3,307,162</u>	<u>-</u>	<u>5,254,594</u>		<u>41,438,957</u>	
FUND BALANCES							
Reserved for:							
Encumbrances	7,158,262	33,731,606	-	1,954,583		42,844,451	
Perpetual care	-	-	-	5,693,278		5,693,278	
Capital projects	-	17,526,621	-	440,611		17,967,232	
Parking fund advance	400,000	-	-	-		400,000	
Retirees reserve	759,106	-	-	-		759,106	
Unreserved:							
Designated for:							
Risk Management	1,940,000	-	-	-		1,940,000	
Fiscal year appropriations	12,483,226	-	-	-		12,483,226	
Future expenditures	4,000,000	-	-	-		4,000,000	
Special revenue projects	-	-	-	11,774,256		11,774,256	
Undesignated	<u>31,365,957</u>	<u>7,200,335</u>	<u>-</u>	<u>3,058,919</u>		<u>41,625,211</u>	
Total fund balances	<u>\$ 58,106,551</u>	<u>\$ 58,458,562</u>	<u>\$ -</u>	<u>\$ 22,921,647</u>		<u>\$ 139,486,760</u>	
Total liabilities and fund balances	<u>\$ 90,983,752</u>	<u>\$ 61,765,724</u>	<u>\$ -</u>	<u>\$ 28,176,241</u>		<u>\$ 180,925,717</u>	

CITY OF NORFOLK, VIRGINIA
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2003

Exhibit A-2

Fund balances--total governmental funds	\$ 139,486,760
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	1,714,273,839
Depreciation expense to date	<u>(867,248,674)</u>
	847,025,165
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds :	
Adjustment for deferred revenue	15,886,240
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	(363,382,072)
Bond premium	(5,752,417)
Capital leases	(14,276,708)
Retirement obligation	(15,346,330)
Compensated absences	(12,664,967)
Workers' compensation and claims liability	(13,288,375)
Other	(2,637,389)
Accrued interest payable	<u>(5,888,167)</u>
	(433,236,425)
Internal service funds	9,945,949
Net Assets of Governmental Activities	<u><u>\$ 579,107,689</u></u>

CITY OF NORFOLK, VIRGINIA

Exhibit A-3

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds**
For Fiscal Year Ended June 30, 2003

	Major Funds			Non-major Governmental Funds	Total Governmental Funds
	General Fund	Capital Projects	Debt Service		
REVENUES					
General property taxes	\$ 168,892,719	\$ -	\$ -	\$ -	\$ 168,892,719
Other local taxes	128,453,471	-	-	4,393,155	132,846,626
Permits and licenses	2,972,611	-	-	-	2,972,611
Fines and forfeitures	1,569,454	-	-	-	1,569,454
Use of money and property	6,785,960	764,209	-	1,240,978	8,791,147
Charges for services	11,642,327	-	-	17,747,972	29,390,299
Miscellaneous	5,032,482	75,783	-	19,676,810	24,785,075
Recovered costs	9,556,223	-	-	-	9,556,223
Intergovernmental	102,846,522	-	-	28,224,312	131,070,834
Total revenues	<u>437,751,769</u>	<u>839,992</u>	<u>-</u>	<u>71,283,227</u>	<u>509,874,988</u>
EXPENDITURES					
Current operating:					
General government	46,919,852	-	-	17,719,166	64,639,018
Judicial administration	7,345,727	-	-	1,934,692	9,280,419
Public safety	116,996,697	-	-	6,204,903	123,201,600
Public works	43,680,181	-	-	13,481,432	57,161,613
Health and public assistance	49,758,505	-	-	18,381,039	68,139,544
Culture and recreation	31,959,153	-	-	8,189,971	40,149,124
Education	88,853,663	-	-	-	88,853,663
Community development	17,672,800	-	-	-	17,672,800
Debt service:					
Principal	-	-	32,449,555	-	32,449,555
Interest and other charges	-	-	15,997,855	-	15,997,855
Intergovernmental	-	-	-	8,061,171	8,061,171
Capital outlay	-	35,602,775	-	2,167,639	37,770,414
Total expenditures	<u>403,186,578</u>	<u>35,602,775</u>	<u>48,447,410</u>	<u>76,140,013</u>	<u>563,376,776</u>
Excess (deficiency) of revenues over expenditures	<u>34,565,191</u>	<u>(34,762,783)</u>	<u>(48,447,410)</u>	<u>(4,856,786)</u>	<u>(53,501,788)</u>
OTHER FINANCING SOURCES (USES)					
Proceeds of refunding bonds	-	-	31,122,924	-	31,122,924
Proceeds of capital leases	7,503,072	-	-	-	7,503,072
Bond proceeds	-	44,294,761	-	3,400,000	47,694,761
Purchase of land	-	-	-	(3,400,000)	(3,400,000)
Payment to bond refunding escrow agent	-	-	(31,122,924)	-	(31,122,924)
Capital contributions	410,715	-	-	-	410,715
Proceeds from sale of land	29,046	363,089	-	3,632,850	4,024,985
Transfers in	10,044,504	8,757,200	48,447,410	11,387,558	78,636,672
Transfers out	(62,412,483)	(2,051,436)	-	(5,672,753)	(70,136,672)
Total other financing sources and uses	<u>(44,425,146)</u>	<u>51,363,614</u>	<u>48,447,410</u>	<u>9,347,655</u>	<u>64,733,533</u>
Net change in fund balance	<u>(9,859,955)</u>	<u>16,600,831</u>	<u>-</u>	<u>4,490,869</u>	<u>11,231,745</u>
Fund balances--beginning	<u>67,966,507</u>	<u>41,857,731</u>	<u>-</u>	<u>18,430,778</u>	<u>128,255,016</u>
Fund balances--ending	<u>\$ 58,106,552</u>	<u>\$ 58,458,562</u>	<u>\$ -</u>	<u>\$ 22,921,647</u>	<u>\$ 139,486,760</u>

CITY OF NORFOLK, VIRGINIA

Exhibit A-4

***Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balance to the Statement of Activities
For the Year Ended June 30, 2003***

Net change in fund balances--total governmental funds \$ 11,231,745

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 assets.

Add Capital acquisitions	59,773,933
Subtract Depreciation	<u>(66,449,173)</u>
	(6,675,240)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. (161,497)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Add Debt repayment	32,449,555
GO Bond proceeds	(47,694,761)
Subtract debt proceeds	<u>(7,503,072)</u>
	(22,748,278)

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 long-term liabilities (Note VIII)	(13,210,993)
Principal paydown on capital leases	4,270,903
Principal paydown on note payables	583,372
Bond premium	1,873,104
Accrued interest payable	<u>(1,244,771)</u>
	(7,728,385)

Internal service funds are used by management to charge the costs of certain services to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities. (559,122)

Change in Net Assets of Governmental Activities	<u>\$ (26,640,777)</u>
---	------------------------

CITY OF NORFOLK, VIRGINIA
Statement of Net Assets - Proprietary Funds
June 30, 2003

Exhibit B-1

	Business-Type Activities					Governmental Activities- Internal Service Funds
	Water	Waste- Water	Parking Facilities	Totals		
	Water	Waste- Water	Parking Facilities	Totals		
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 23,932,077	\$ 13,297	\$ 2,375,547	\$ 26,320,921	\$ 2,033,688	
Investments	9,027,659	-	1,310,000	10,337,659	-	
Receivables:						
Accounts (net)	8,458,081	1,202,645	674,247	10,334,973	226,159	
Unbilled accounts	1,026,637	628,403	-	1,655,040	-	
Accrued investment income	114,239	-	52,332	166,571	-	
Other receivables	2,251,894	4,750	-	2,256,644	-	
Internal balances	1,853,580	186,286	828	2,040,694	-	
Due from agency fund	-	1,140	-	1,140	-	
Inventories	1,420,642	27,774	164,270	1,612,686	1,664,730	
Other assets	339,247	-	439,481	778,728	-	
Restricted cash held in escrow	74,975	130,930	-	205,905	-	
Restricted cash held with fiscal agent	6,658,952	-	2,104,168	8,763,120	-	
Total current assets	<u>55,157,983</u>	<u>2,195,225</u>	<u>7,120,873</u>	<u>64,474,081</u>	<u>3,924,577</u>	
Restricted investments	21,009,451	5,819,548	6,077,883	32,906,882	-	
Other assets	1,028,327	-	-	1,028,327	-	
Capital assets:						
Land and improvements	18,616,987	85,262	23,742,806	42,445,055	415,000	
Buildings and equipment	497,469,718	130,762,120	126,761,749	754,993,587	10,375,896	
Accumulated depreciation	(87,286,078)	(27,639,181)	(26,432,194)	(141,357,453)	(3,831,698)	
Capital assets, net	428,800,627	103,208,201	124,072,361	656,081,189	6,959,198	
Total noncurrent assets	<u>450,838,405</u>	<u>109,027,749</u>	<u>130,150,244</u>	<u>690,016,398</u>	<u>6,959,198</u>	
Total assets	<u><u>\$ 505,996,388</u></u>	<u><u>\$ 111,222,974</u></u>	<u><u>\$ 137,271,117</u></u>	<u><u>\$ 754,490,479</u></u>	<u><u>\$ 10,883,775</u></u>	
LIABILITIES						
Current liabilities:						
Vouchers payable	\$ 1,242,060	\$ 581,501	\$ 392,111	\$ 2,215,672	\$ 177,421	
Contract retainage	121,257	228,889	-	350,146	-	
Accrued interest	582,400	717,700	-	1,300,100	-	
Accrued payroll	222,404	76,767	84,614	383,785	64,920	
Internal balances	153,381	2,230,193	1,926,627	4,310,201	14,049	
Due to agency fund	8,324	2,433	798	11,555	470	
Obligations for Employees Retirement System	954,769	258,655	206,187	1,419,611	281,035	
Current portion of bonds payable	11,441,252	3,439,671	3,288,060	18,168,983	-	
Liabilities payable from restricted assets	2,412,200	-	2,041,490	4,453,690	-	
Compensated absences	552,900	148,700	83,078	784,678	185,815	
Other current liabilities	5,362,570	382,942	400,000	6,145,512	-	
Total current liabilities	<u>23,053,517</u>	<u>8,067,451</u>	<u>8,422,965</u>	<u>39,543,933</u>	<u>723,710</u>	
Noncurrent liabilities:						
General obligations payable	31,725,062	45,781,340	10,048,498	87,554,900	-	
Revenue bonds payable	279,219,342	-	75,544,673	354,764,015	-	
Compensated absences	153,300	75,600	105,736	334,636	91,828	
Other long-term liabilities	-	-	-	-	122,331	
Total noncurrent liabilities	<u>311,097,704</u>	<u>45,856,940</u>	<u>85,698,907</u>	<u>442,653,551</u>	<u>214,159</u>	
Total liabilities	<u><u>334,151,221</u></u>	<u><u>53,924,391</u></u>	<u><u>94,121,872</u></u>	<u><u>482,197,484</u></u>	<u><u>937,869</u></u>	
NET ASSETS						
Invested in capital assets, net of related debt	106,489,947	54,118,121	35,191,130	195,799,198	6,836,867	
Restricted	25,256,203	5,819,548	6,140,560	37,216,311	-	
Unrestricted	40,099,017	(2,639,086)	1,817,555	39,277,486	3,109,039	
Total net assets	<u><u>\$ 171,845,167</u></u>	<u><u>\$ 57,298,583</u></u>	<u><u>\$ 43,149,245</u></u>	<u><u>\$ 272,292,995</u></u>	<u><u>\$ 9,945,906</u></u>	

CITY OF NORFOLK, VIRGINIA

Exhibit B-2

**Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds**
For Year Ended June 30, 2003

	Business-Type Activities				Governmental Activities-- Internal Service Funds
	Water	Waste-Water	Parking Facilities	Totals	
Operating revenues:					
Charges for services	\$ 63,785,185	\$ 14,615,336	\$ 18,574,273	\$ 96,974,794	\$ 9,399,832
Miscellaneous	2,779,992	-	-	2,779,992	1,468
Total operating revenues	<u>66,565,177</u>	<u>14,615,336</u>	<u>18,574,273</u>	<u>99,754,786</u>	<u>9,401,300</u>
Operating expenses:					
Personal services	11,101,788	3,700,899	5,506,694	20,309,381	3,053,249
Cost of goods sold	-	-	-	-	6,029,870
Plant operations	5,275,780	1,532,836	746,446	7,555,062	134,116
Chemicals	1,592,238	52,408	-	1,644,646	-
Provision of bad debts	252,813	121,155	-	373,968	-
Depreciation	9,321,367	1,616,234	3,376,392	14,313,993	362,558
Retirement contribution	954,769	258,655	206,185	1,419,609	281,035
Administrative expenses	1,464,304	1,368,217	365,246	3,197,767	-
Other	<u>10,230,396</u>	<u>1,133,419</u>	<u>656,730</u>	<u>12,020,545</u>	<u>122,557</u>
Total operating expenses	<u>40,193,455</u>	<u>9,783,823</u>	<u>10,857,693</u>	<u>60,834,971</u>	<u>9,983,385</u>
Operating income (loss)	<u>26,371,722</u>	<u>4,831,513</u>	<u>7,716,580</u>	<u>38,919,815</u>	<u>(582,085)</u>
Nonoperating revenue (expenses):					
Interest income, net of interest capitalized	511,015	-	305,155	816,170	22,921
Interest expense and fiscal charges	(14,185,142)	(1,176,805)	(4,964,544)	(20,326,491)	-
Gain (loss) on sale or disposal of fixed assets	121,466	(2,198)	(12,191)	107,077	-
Unrealized gain/(loss) on investments	(3,350)	-	25,391	22,041	-
Total nonoperating revenue (expenses)	<u>(13,556,011)</u>	<u>(1,179,003)</u>	<u>(4,646,189)</u>	<u>(19,381,203)</u>	<u>22,921</u>
Net income (loss) before contributions and transfers	<u>12,815,711</u>	<u>3,652,510</u>	<u>3,070,391</u>	<u>19,538,612</u>	<u>(559,164)</u>
Capital contributions	253,560	-	-	253,560	-
Transfers in (out)	<u>(8,455,000)</u>	<u>(45,000)</u>	<u>-</u>	<u>(8,500,000)</u>	<u>-</u>
Change in net assets	<u>4,614,271</u>	<u>3,607,510</u>	<u>3,070,391</u>	<u>11,292,172</u>	<u>(559,164)</u>
Total net assets - beginning	<u>167,230,896</u>	<u>53,691,073</u>	<u>40,078,854</u>	<u>261,000,823</u>	<u>10,505,070</u>
Total net assets - ending	<u>\$ 171,845,167</u>	<u>\$ 57,298,583</u>	<u>\$ 43,149,245</u>	<u>\$ 272,292,995</u>	<u>\$ 9,945,906</u>

CITY OF NORFOLK, VIRGINIA

Exhibit B-3

Statement of Cash Flows - Proprietary Funds
Year Ended June 30, 2003

	Business-Type Activities				Governmental Activities-- Internal Service Funds
	Water	Waste- Water	Parking Facilities	Total	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 67,669,417	\$ 14,487,791	\$ 18,475,467	\$ 100,632,675	\$ 9,285,487
Payments to suppliers	(19,951,541)	(3,893,826)	(1,943,748)	(25,789,115)	(6,357,764)
Payments to employees	(11,076,684)	(3,691,432)	(5,464,347)	(20,232,463)	(3,060,764)
Internal activity--payments (to) from other funds	(553,989)	(184,641)	1,298,331	559,701	-
Amortization of bond discount	2,247,313	57,993	194,958	2,500,264	-
Net cash provided (used) by operating activities	<u>38,334,516</u>	<u>6,775,885</u>	<u>12,560,661</u>	<u>57,671,062</u>	<u>(133,041)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Operating subsidies and transfers to other funds	(8,455,000)	(45,000)	-	(8,500,000)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from capital debt	17,000,000	2,190,950	1,791,349	20,982,299	-
Proceeds from sale of fixed assets	-	-	-	-	(61,358)
Capital contributions	253,560	-	-	253,560	-
Purchases of capital assets	(9,471,539)	(8,474,631)	(2,007,669)	(19,953,839)	-
Refunding of debt principal	397,171	-	(1,905,863)	(1,508,692)	-
Principal paid on capital debt	(12,676,411)	(4,096,619)	(4,164,548)	(20,937,578)	-
Interest paid on capital debt	(14,212,642)	(1,215,775)	(4,186,587)	(19,615,004)	-
Advance from general fund	-	-	(1,900,000)	(1,900,000)	-
Net cash provided (used) by capital and related financing activities	<u>(18,709,861)</u>	<u>(11,596,075)</u>	<u>(12,373,318)</u>	<u>(42,679,254)</u>	<u>(61,358)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sales and maturities of investments	(7,006,342)	4,959,012	(13,252)	(2,060,582)	-
Interest and dividends	509,818	10,770	473,379	993,967	22,919
Net cash provided (used) by investing activities	<u>(6,496,524)</u>	<u>4,969,782</u>	<u>460,127</u>	<u>(1,066,615)</u>	<u>22,919</u>
Net increase (decrease) in cash and cash equivalents	4,673,131	104,592	647,470	5,425,193	(171,480)
Cash and cash equivalents - beginning of the year	25,992,873	39,635	3,832,245	29,864,753	2,205,168
Cash and cash equivalents - end of the year	<u>\$ 30,666,004</u>	<u>\$ 144,227</u>	<u>\$ 4,479,715</u>	<u>\$ 35,289,946</u>	<u>\$ 2,033,688</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Operating income (loss)	\$ 26,371,722	\$ 4,831,513	\$ 7,716,580	\$ 38,919,815	\$ (582,085)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Cash flows reported in other categories:					
Depreciation expense	9,321,367	1,616,234	3,376,392	14,313,993	362,558
Amortization	(439,839)	-	194,958	(244,881)	-
Provision for bad debt	252,813	-	-	252,813	-
Gain (loss) on disposal of assets	121,466	(2,198)	12,191	131,459	-
Change in assets and liabilities:					
Receivables, net	4,689,513	10,629	(98,806)	4,601,336	(115,813)
Internal balances	(508,899)	(184,641)	1,298,331	604,701	14,469
Other receivables	(1,499,625)	-	-	(1,499,625)	-
Inventories	(167,600)	26,436	(44,394)	(185,558)	(82,764)
Other assets	-	-	(284,401)	(284,401)	(1,000)
Accounts/vouchers payables	168,584	479,344	141,279	789,207	26,784
Accrued payroll	25,104	9,467	31,467	66,038	56,361
Other liabilities	-	(10,899)	217,064	206,165	188,449
Net cash provided by operating activities	<u>\$ 38,334,516</u>	<u>\$ 6,775,885</u>	<u>\$ 12,560,661</u>	<u>\$ 57,671,062</u>	<u>\$ (133,041)</u>
Reconciliation of cash and cash equivalents to the statement of net assets:					
Cash and cash equivalents	\$ 30,666,004	\$ 144,227	\$ 4,479,715	\$ 35,289,946	\$ 2,033,688
Restricted cash held in escrow	(74,975)	(130,930)	-	(205,905)	-
Restricted cash with fiscal agent	(6,658,952)	-	(2,104,168)	(8,763,120)	-
Total cash and cash equivalents per statement of net asset	<u>\$ 23,932,077</u>	<u>\$ 13,297</u>	<u>\$ 2,375,547</u>	<u>\$ 26,320,921</u>	<u>\$ 2,033,688</u>
Noncash investing, capital, and financing activities:					
Unrealized gain / (loss) on investments	\$ (3,350)	\$ -	\$ 25,391	\$ 22,041	\$ -
Gain (loss) on sale or disposal of fixed assets	121,466	(2,198)	-	119,268	-
Write-off of impaired fixed assets	-	-	-	-	(280)
Acquisition of fixed assets through change in in contract retainage	114,338	174,448	-	288,786	-
Capitalized interest, less interest earned on certain long-term construction contracts	2,134,286	1,105,979	-	3,240,265	-

CITY OF NORFOLK, VIRGINIA
Statement of Fiduciary Net Assets
June 30, 2003

Exhibit C-1

	Pension	Trust	Employees'	Agency	Totals
	System	Funds	Retirement	Funds	
ASSETS					
Cash and cash equivalents	\$ 33,554,910	\$ 2,797,263		\$ 36,352,173	
Investments	725,930,605			725,930,605	
Receivables:					
Accounts, net of allowance for uncollectible accounts	-	7,302		7,302	
Retirement contribution	17,046,924			17,046,924	
Accrued investment income	1,920,955			1,920,955	
Due from broker for securities sold	9,714,732			9,714,732	
Due from other funds	-	115,989		115,989	
Total assets	<u>\$ 788,168,126</u>	<u>\$ 2,920,554</u>		<u>\$ 791,088,680</u>	
LIABILITIES					
Vouchers payable	\$ 483,732	\$ 1,299,481		\$ 1,783,213	
Due to brokers for securities purchased	37,475,471			37,475,471	
Due to other funds	-	307,128		307,128	
Other liabilities	-	1,313,945		1,313,945	
Total liabilities	<u>37,959,203</u>	<u>2,920,554</u>		<u>40,879,757</u>	
NET ASSETS					
Reserved for:					
Assets held in trust for pension benefits	750,208,923			750,208,923	
Total net assets	<u>\$ 750,208,923</u>	<u>\$ -</u>		<u>\$ 750,208,923</u>	

CITY OF NORFOLK, VIRGINIA
Statement of Changes in Fiduciary Net Assets
Pension Trust Fund - Employees' Retirement System
For the Year Ended June 30, 2003

Exhibit C-2

	2003
Additions:	
Investment income:	
Net (depreciation) appreciation in fair value of investments	\$ 24,190,844
Interest	12,203,662
Dividends	4,533,564
Other	412,608
	<hr/>
Contributions	41,340,678
Less investment expense	21,390,048
Net investment income	<hr/> <hr/> 60,773,012
	<hr/>
Total additions	60,773,012
 Deductions:	
Benefits paid directly to participants	35,081,656
Refunds of contributions	87,063
Beneficiary payments	2,247,037
Administrative fees	524,513
Total deductions	<hr/> 37,940,269
	<hr/>
Net increase	22,832,743
 Net assets held in trust for pension benefits:	
Beginning of year	727,376,180
End of year	<hr/> <hr/> \$ 750,208,923

CITY OF NORFOLK, VIRGINIA
Statement of Net Assets - Component Units
June 30, 2003

Exhibit D-1

	Norfolk Public Schools	Norfolk Redevelopment and Housing	Norfolk Community Services Board	Total
ASSETS				
Cash and cash equivalents	\$ 22,151,425	\$ 17,329,681	\$ 2,187,893	\$ 41,668,999
Cash held in escrow with fiscal agent	-	2,268,022	1,651	2,269,673
Investments	21,679,619	12,756,961	2,349,442	36,786,022
Receivables:				
Accounts, net of allowance for uncollectible accounts	377,050	168,903	406,594	952,547
Tenants	-	128,931	-	128,931
Interest	-	542,145	-	542,145
Notes	-	40,677,112	-	40,677,112
Other	-	227,817	264,197	492,014
Due from primary government	1,279,302	-	-	1,279,302
Due from other governments	11,406,067	1,427,186	-	12,833,253
Inventories	963,590	499,249	-	1,462,839
Property held for sale	-	23,316,222	-	23,316,222
Restricted cash and investments	-	22,446,182	568,850	23,015,032
Prepaid expenses	-	121,392	39,204	160,596
Other assets	37,789	3,988,960	-	4,026,749
Capital assets, net	<u>36,312,785</u>	<u>123,990,021</u>	<u>371,042</u>	<u>160,673,848</u>
Total assets	<u>94,207,627</u>	<u>249,888,784</u>	<u>6,188,873</u>	<u>350,285,284</u>
LIABILITIES				
Vouchers/Accounts payable	3,655,815	886,097	472,840	5,014,752
Employee withholdings	1,258,474	-	-	1,258,474
Contract retainage	-	560,649	-	560,649
Accrued expenses	-	107,061	-	107,061
Accrued interest	-	533,136	-	533,136
Accrued payroll	22,168,625	-	290,986	22,459,611
Due to other governments	-	24,903	-	24,903
Tenants deposits	-	2,014,998	-	2,014,998
Other deposits/liabilities	-	7,892,407	20,575	7,912,982
Deferred revenue	-	19,976,279	885	19,977,164
Escrow deposits	-	148,363	1,651	150,014
Current vested compensated absences	-	199,624	50,910	250,534
Other current liabilities	2,424,450	8,041,355	802,869	11,268,674
Long-term vested compensated absences	-	1,857,430	556,878	2,414,308
Other long-term liabilities	<u>5,483,611</u>	<u>82,939,033</u>	-	<u>88,422,644</u>
Total liabilities	<u>34,990,975</u>	<u>125,181,335</u>	<u>2,197,594</u>	<u>162,369,904</u>
NET ASSETS				
Invested in capital assets, net of related debt	36,312,785	96,214,072	371,042	132,897,899
Restricted for:				
Capital projects	-	9,646,791	-	9,646,791
Debt service	-	5,528,250	-	5,528,250
Other programs	7,314,447	39,511,827	955,652	47,781,926
Unrestricted	<u>15,589,420</u>	<u>(26,193,491)</u>	<u>2,664,585</u>	<u>(7,939,486)</u>
Total net assets	<u><u>\$ 59,216,652</u></u>	<u><u>\$ 124,707,449</u></u>	<u><u>\$ 3,991,279</u></u>	<u><u>\$ 187,915,380</u></u>

CITY OF NORFOLK, VIRGINIA
Statement of Activities - Component Units
Year Ended June 30, 2003

Exhibit D-2

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Totals	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Norfolk Public Schools	Redevelopment and Housing	Community Services Board		
Norfolk Public Schools:									
Instructional	228,396,587	1,936,212	191,262,740	-	(35,197,635)			(35,197,635)	
Administration, Attendance, and Health	10,425,172	-	-	-	(10,425,172)			(10,425,172)	
Pupil Transportation	9,826,227	-	-	-	(9,826,227)			(9,826,227)	
Operation and Maintenance	28,504,957	-	-	-	(28,504,957)			(28,504,957)	
Information Technology	6,004,211	-	1,161,386	-	(4,842,825)			(4,842,825)	
School Facilities	19,416,064	-	-	10,839,101	(8,576,963)			(8,576,963)	
Food Services	5,882,146	2,937,195	9,498,971	-	6,554,020			6,554,020	
Total Norfolk Public Schools	308,455,364	4,873,407	201,923,097	10,839,101	(90,819,759)			(90,819,759)	
Norfolk Redevelopment and Housing Authority:									
Governmental activities:									
General Government	991,394	506,216	-	-		(485,178)			
Community Development	69,665,703	7,718,479	60,877,660	7,717,603		6,648,039			
Total governmental activities	70,657,097	8,224,695	60,877,660	7,717,603		6,162,861			
Business-type activities	5,351,517	5,857,707	384,584	-		890,774			
Component units	3,689,071	1,751,700	1,080,246	-		(857,125)			
Total NRHA	79,697,685	15,834,102	62,342,490	7,717,603		6,196,510		6,196,510	
Community Services Board:									
Health and public assistance	16,622,584	4,547,403	12,097,613	-		22,432		22,432	
Total component units	\$ 404,775,633	\$ 25,254,912	\$ 276,363,200	\$ 18,556,704				(84,600,817)	
General revenues:									
Proceeds (loss) from sale of fixed assets				-	(4,327,046)	(12,071)	(4,339,117)		
Interest and investment earnings				1,624,376	104,370	117,898	1,846,644		
Local government				88,853,663	-	-	88,853,663		
Miscellaneous				-	-	877,208	877,208		
Special item - issuance of long-term note receivable				-	1,650,052	-	1,650,052		
Total general revenues				90,478,039	(2,572,624)	983,035	88,888,450		
Change in net assets				(341,720)	3,623,886	1,005,467	4,287,633		
Net assets--beginning				59,558,372	121,083,563	2,985,812	183,627,747		
Net assets--ending				\$ 59,216,652	\$ 124,707,449	\$ 3,991,279	\$ 187,915,380		

CITY OF NORFOLK, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2003

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CITY OF NORFOLK, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2003

I. Summary of Significant Accounting Policies:

A. Financial Reporting Entity Information:

The City of Norfolk (the “City”) was incorporated February 13, 1845, and covers an area of approximately 66 square miles. The City 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 234,100 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 units, although 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.

Blended Component Unit: *The Employees' Retirement System of the City of Norfolk (ERS)*, which has a nine-member Board of Trustees appointed by the City Council, including the City Manager and Director of Finance as ex-officio members, 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 covered by the Virginia Supplemental Retirement System, as authorized by Section 143(a) of the City Charter and was established and placed under the management of the Board of Trustees for the purpose of providing retirement allowances and death benefits as authorized by the provisions of Chapter 37 of the Norfolk City Code. The City makes contributions, which are combined with investment earnings of the ERS, to provide the funding for pension benefits and administrative costs.

CITY OF NORFOLK, VIRGINIA
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Discretely Presented Component Units: *The School Board of the City of Norfolk (School Board)*, which has seven elected members, is the operating body that establishes the educational and financial programs and policies for the City public school system. 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 of the City of Norfolk is comprised of the School Operating Fund, the School Special Revenue Funds and the School Board Agency Fund.

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 projects 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. The City does not have the right to impose its will on NRHA, as NRHA is responsible for designating its own management and developing its own operating budget for funding from sources other than City-contracted projects. NRHA contracts and executes major 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. The City pledged its moral obligation to deliver to NRHA sufficient funds to service a \$33 million taxable revenue note.

The Norfolk Community Services Board (CSB) was created in 1969 by a resolution of the City of Norfolk. It is empowered by Chapters 10 and 11 of the *Code of Virginia* to provide mental health, mental retardation, and substance abuse services to residents of the City of Norfolk. The CSB is established under mandate of the State and follows the City rules and regulations for its financial, personnel management, and purchasing activities. The CSB carries out its roles and responsibilities under the Operating Board type of structure as outlined in the *Code of Virginia*. The CSB uses the City as its fiscal agent to provide administrative support in these areas. The CSB is composed of 15 members appointed by City Council. The City also 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 Bldg. Rm. 300
Norfolk, Virginia 23510

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The School Board of the City of Norfolk
800 East City Hall Avenue
P O Box 1357
Norfolk, Virginia 23501-1357
The Norfolk Redevelopment & Housing Authority
201 Granby Street
Norfolk, Virginia 23501

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. For the most part, the effect of interfund activity has been removed from these statements. *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 segment 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 not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter 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.

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 fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses

CITY OF NORFOLK, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
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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. 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 to be available if they are collected within 60 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. In compliance with Section 2.9, Uniform Financial Reporting Manual for Virginia Counties and Municipalities, 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 financed 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
- Consumer utility taxes
- Environmental storm water billings
- Revenue from the Commonwealth
 - Shared expenses
 - Categorical aid
- Revenue from the federal government

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

The individual governmental funds are as follows:

- a. **General Fund:** The general operating fund of the City accounts for all financial transactions not required to be accounted for in other funds. The General Fund accounts for the normal recurring activities of the City, such as police, public

CITY OF NORFOLK, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
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works, general government, etc. These activities are funded by such revenue sources as general property taxes, other local taxes, permits, privilege fees and regulatory licenses, fines and forfeitures, use of money and property, charges for services, recovered costs and non-categorical aid, shared expenses and categorical aid from the Commonwealth and Federal Government. The City's payroll agency fund (previously presented as a fiduciary fund), and the City's internal service funds are included in governmental activities in the government-wide financial statements.

b. Special Revenue Funds: To account for the proceeds of specific revenue resources (other than expendable trusts or major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action. The City's special revenue funds are included in the governmental activities for both government-wide and fund financial statements. The individual special revenue funds are as follows:

- i. 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.
- ii. 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.
- iii. 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.
- iv. National Maritime Center (Nauticus) Fund:** To account for the operation of the National Maritime Center and Battleship Wisconsin tours.
- v. Expendable Trust and Agency Fund:** To account for monies held by the City of Norfolk as a trustee. The resources of this fund are received and subsequently expended in such functions as public works, parks and recreation and libraries.
- vi. Cemeteries Fund:** To account for the operation of the City of Norfolk cemeteries.
- vii. Emergency Operations Center/911 Fund:** To account for the operation of the City of Norfolk emergency operations center/911.

CITY OF NORFOLK, VIRGINIA
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- viii. Golf Fund: To account for the operation of the City of Norfolk's golf courses.
- ix. Land Acquisition Fund: To provide resources to assemble land that is in the public interest.
- x. Public Amenities Fund: To promote cultural and entertainment activity in the downtown area.
- xi. Towing & Recovery Operations Fund: To improve neighborhood livability by providing reliable dispatching of towing services, storage of vehicles and recovery or disposal of vehicles.
- c. **Debt Service Fund**: Accounts for the accumulation of resources required for and the payment of principal and interest on the current portion of general long-term obligations of the City. Revenue of this fund is provided by transfers from other funds.
- d. **Capital Projects Fund**: Accounts for the financial resources used for the acquisition, construction or renovation of major capital facilities of the City or the School Board (other than those financed by proprietary funds and trust funds).
- e. **Permanent Funds**: Accounts for perpetual care and endowed care of certain City-owned cemeteries. Permanent fund balances are included in governmental activities for both the government-wide and fund financial statements.
- f. **Internal Service Funds**: Accounts for the financing of goods and services supplied to other funds of the City and other governmental units on a cost-reimbursement basis. Internal service funds are currently used for the Storehouse and Fleet Management funds. A discrete presentation of the City's internal service funds are included in the "Other Supplementary Information" section of this document.

For its **enterprise funds** and its government wide financial statements, private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with standards issued by 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.

Enterprise funds distinguish operating revenues from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

CITY OF NORFOLK, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
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The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for the same funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises (a) where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The individual enterprise funds are as follows:

- a. **Water Utility Fund:** To account for the operations of the City-owned water system. The costs for providing services on a continuing basis are financed or recovered through user charges to customers. These customers include Norfolk residential and commercial customers, the U.S. Navy, municipal customers, and others outside the City.
- b. **Wastewater Utility Fund:** To account for the operations of the City-owned wastewater (sewer) system. The costs of providing services on a continuing basis are financed or recovered through user charges to Norfolk residential and commercial customers.
- c. **Parking Facilities Fund:** To account for the operations of City-owned parking facilities (garages, lots and on-street meters). The costs of providing services on a continuing basis are financed or recovered through both user charges for long-term and short-term parking facility customer use and fines for parking violations.

Fiduciary funds are used to account for assets held by the City in a trustee capacity as an agent for individuals, private organizations, other governments and/or other funds. These include the Pension Trust and Agency funds. The Pension Trust Fund is accounted for in essentially the same manner as proprietary funds. Because of the nature of fiduciary funds, any amounts reported in the fund balance section of the balance sheets do not represent monies appropriable by City Council. Since the fiduciary funds are custodial in nature and are not available to fund the City's programs, they are not included in the government-wide financial statements. A discrete presentation can be found in the "Fund Financial Statements" section of this document.

For the City's fiduciary funds employer contributions are recognized when due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Agency funds are custodial in nature (assets equal liabilities).

CITY OF NORFOLK, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2003

The individual fiduciary funds are as follows:

- a. **Pension Trust Fund**: To account for the operations of the Employees' Retirement System of the City of Norfolk ("System").
- b. **Agency Fund - Other**: To account for other monies held in a fiduciary capacity. Monies deposited include such items as sales, admission and food taxes to be remitted to third parties, proceeds from the sale of abandoned motor vehicles, monies held in escrow deposits for offers to purchase City property and monies held by constitutional officers in a fiduciary capacity.
- c. **Agency Fund - Commonwealth of Virginia**: To account for monies deposited by the City Treasurer into an account from which withdrawals may be made only by the Treasurer of the Commonwealth of Virginia. It is custodial in nature. Collections include such items as state income taxes and other state revenue collected by the City.

D. Budgets and Budgetary Accounting:

An operating budget is adopted each fiscal year for the General Fund, Water Utility Fund, Wastewater Utility Fund, Parking Facilities Fund, Storm Water Special Revenue Fund, Nauticus Special Revenue Fund, Cemeteries Special Revenue Fund, Emergency Operations Center Special Revenue Fund, Golf Special Revenue Fund, Land Acquisition Special Revenue Fund, Towing Special Revenue Fund, Capital Projects Fund and Internal Service Funds. All funds are under formal budgetary control. In establishing the budgetary data reported in the financial statements, the City uses the following procedures:

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 financing them. A public hearing is conducted to obtain taxpayer comments. 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, subject to certain conditions, for the use of the departments included in the General Fund and in all proprietary funds. 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 by the ordinance adopting the budget to amend certain object categories and individual objects through transfers.

CITY OF NORFOLK, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
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However, any revisions that alter the total appropriations must be approved in advance by City Council.

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

The schedules of revenues and expenditures – Budget and Actual of the General Fund presented in Exhibit E include the revenues and expenditures – Budget and Actual of the School Board.

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 can be found on Exhibit E. 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.

The legal level of budgetary control is at the departmental account group level. 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, as amended by authorized transfers, and all supplemental appropriations.

City Council also 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 do not lapse at year-end but are multi-year and continue until the purpose of the appropriation has been fulfilled. Amendments to these budgets are affected by City Council action. The level of budgetary control is on a project basis with additional controls being exercised administratively, as reasonable and necessary.

E. Cash Equivalents and Investments:

Investments of the Employees' Retirement System are stated at fair value. Short-term investments are recorded at 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 System's fiscal year. 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. Other investments are stated at their fair value; these investments are reported in the accompanying financial statements as cash and cash equivalents, unless the original investment period exceeded three months, in which case

CITY OF NORFOLK, VIRGINIA
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they are reported as investments. The City does not report any investments at amortized cost. Interest income is accrued as earned.

F. Notes Receivable:

Notes receivable reported in the governmental funds represent assets which are measurable but not available to fund current expenditures and, therefore, are offset by a reservation of fund balance in the fund financial statements. In the government-wide financial statements, notes receivable are presented as outstanding receivables in the government-wide financial statements. Payments on these balances will be recognized as revenue as they are received.

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 internal service funds generally support governmental activities rather than business-type activities, they are consolidated in 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 component unit and 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." Reported inventories for these funds are offset by a fund balance reserve, in the fund financial statements, which indicates that they do not constitute currently "available expendable resources." Proprietary funds expense inventory when used.

CITY OF NORFOLK, VIRGINIA
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I. Capital Assets:

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported at historical cost in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City's Capitalization Policy as assets with an initial, individual cost of more than \$2,000 and an estimated useful life of two years. Capital outlays of governmental funds are recorded as expenditures at the time of purchase and are subsequently capitalized upon completion at historical cost. 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 nonoperating revenue or expense.

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

Capital assets purchased by enterprise and internal service funds are stated at cost, less accumulated depreciation.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

	Governmental Funds	Enterprise Funds	Internal Service Funds
	(in years)		
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

J. Accrued Payroll:

Payroll costs for City employees who receive their semi-monthly pay one week after month-end and certain School Board employees who work under a 9, 10 or 11-month contract paid over a 12-month period are recognized in the period in which services are

CITY OF NORFOLK, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
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rendered. The long-term portion of compensated absences is not included in the fund financial statements, as the fund financial statements represent near-term financing needs.

K. Deferred Revenue:

Deferred revenue represents amounts under the modified accrual basis of accounting for which asset recognition criteria have been met but for which revenue recognition criteria have not been met, whereby such amounts are measurable but are not considered currently available resources.

L. Long-Term Obligations:

Long-term obligations payable from future expendable available resources, such as accrued leave, Employees' Retirement System contributions, capital leases, retirees' life insurance, workers' compensation claims, landfill liabilities and general obligation bonds that will be financed from governmental funds, are accounted for in the respective governmental and proprietary funds in the government-wide financial statements and only the current portion of long-term obligations are presented in the governmental fund financial statements.

M. Accrued Leave Benefits:

In the Primary Government, vacation and sick leave accumulate monthly. 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. Accumulated vacation leave cannot exceed 44 days at June 30 of each year for City employees. City employees are paid for unused vacation leave, at their normal rate of pay, upon termination of employment. The amount of unpaid vacation leave, including salary-related payments, accumulated by employees is accrued as an expense when incurred in the proprietary funds, which use the accrual basis of accounting. The entire unpaid liability for vacation is recorded in their respective funds in the government-wide financial statements and only the current portion is included in the governmental fund financial statements.

In the Norfolk Public Schools vacation and sick leave accumulate monthly. Vacation leave is fully vested when earned by School Board employees. Upon retirement, School Board employees are paid \$20 for each day of accumulated sick leave in excess of 100 days. 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 food service employees have ten-month employment contracts and are not entitled to vacation.

CITY OF NORFOLK, VIRGINIA
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N. Net Assets/Fund Equity:

Net assets in government-wide and proprietary financial statements are classified as invested in capital asset, 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.

Reservation of fund balances are used to indicate that portion that is not appropriable for expenditures or to identify a portion of a fund's equity as legally segregated for a specific future use. Designations of unreserved fund balances in governmental funds are established to indicate City management's tentative plans for use of financial resources in a future period.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

O. 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 during the reporting period. Actual results could differ from those estimates.

II. Cash, Deposits and Investments:

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 cash equivalents. The cash and investments of the other funds enumerated above are held separately from the pooled City funds.

All deposits of the City are made in Council designated official depositories and are collateralized as required by the Commonwealth of Virginia. The City may also establish time deposit accounts, money market accounts, repurchase agreements, and certificates of deposit.

Deposits: All bank balances were covered by federal depository insurance, commercial insurance or collateralized in accordance with the Virginia Security for Deposits Act. Under the Act, banks holding public deposits in excess of the amounts insured by the FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. If any member financial institution whose public deposits are collateralized in accordance with the requirements of the Act fails, the entire market value of

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the collateral pool becomes available to satisfy the claims of governmental entities. If the value of the pool's collateral is inadequate to cover a loss, additional amounts would be assessed on a pro rata basis to the members of the pool. 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.

Investments: 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.

Investments are categorized in the following tables to give an indication of the level of credit risk assumed by the entity at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the entity or its safekeeping agent in the entity's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or safekeeping agent in the entity's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or safekeeping agent, but not in the entity's name.

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Pension Trust Fund:	Category			Fair Value
	1	2	3	
U.S. government and government agency securities	\$ 36,226,765	\$ -	\$ -	\$ 36,226,765
Corporate bonds and debentures				
including commercial paper, classified as				
cash and short term investments	185,111,690	-	-	185,111,690
Common stocks	220,509,210	-	-	220,509,210
	\$ 441,847,665	\$ -	\$ -	\$ 441,847,665
State Street Conservative Fund				239,162,238
State Street Global Advisors Bond Market				
Index Fund				44,920,702
Money market investments included				
in cash and short-term investments				33,554,910
				759,485,515
Less: funds classified as cash equivalents				33,554,910
				\$ 725,930,605
Total Investments				

Primary Government:

Money market investments included				
in cash and short-term investments				
Commonwealth of Virginia Local Government				\$ 13,001,129
Investment Pool (MMMF)				101,308,000
Virginia Aim Program				41,018,998
Virginia State Non-Arbitrage Program				4,580,034
				\$ 159,908,161
Total Investments				

Component Units	Category			Fair Value
	1	2	3	
U.S. government and government				
agency securities	\$ 28,616,450	\$ 920,073	\$ -	\$ 29,536,523
Mutual funds		21,312		21,312
Certificate of deposit		158,057		158,057
Repurchase agreements	-		5,680,693	5,680,693
Commercial paper	-	5,555,537	1,250,000	6,805,537
	\$ 28,616,450	\$ 6,654,979	\$ 6,930,693	\$ 42,202,122
Suntrust Capitalline Mutual Fund				21,679,619
				\$ 63,881,741

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NOTES TO BASIC FINANCIAL STATEMENTS
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A reconciliation of the fair value of deposits and investments reported above to amounts reported in the statement of net assets and the balance sheet is as follows:

	Primary Government	Component Units		
		School Board	NRHA	CSB
Deposits	\$ 39,605,006	\$ 22,150,570	\$ 14,910,641	\$ 2,758,394
Investments (including restricted investments)	159,908,161	21,679,619	39,852,680	2,349,442
Undeposited securities	-	-	35,700	-
Cash on hand	57,368	855	1,825	-
Total	\$ 199,570,535	\$ 43,831,044	\$ 54,800,846	\$ 5,107,836

Per Statement of Net Assets:

Cash and cash equivalents	\$ 180,263,851	\$ 22,151,425	\$ 17,329,681	\$ 2,187,893
Cash with fiscal agent	205,905	-	2,268,022	1,651
Investments	10,337,659	21,679,619	12,756,961	2,349,442
Restricted cash and investments	8,763,120	-	22,446,182	568,850
Total	\$ 199,570,535	\$ 43,831,044	\$ 54,800,846	\$ 5,107,836

Limited use was made of short-term repurchase agreement investment instruments during the year. The Employees' Retirement System invests in certain derivatives, including real estate mortgage investment conduits and collateralized mortgage obligations. Investments in derivatives with a cost of \$40,673,432 and \$62,935,882 and a market value of \$41,387,540 and \$64,841,773 were held at June 30, 2003 and 2002, respectively.

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, 2003, on each \$100 of assessed value, were \$1.40 for real property, \$.18 for the Downtown Service District, \$4.00 for personal property, \$1.50 for recreational vehicles, \$4.00 for machinery and tools, \$1.40 for mobile homes, \$2.40 for airplanes, \$.01 for pleasure boats and \$1.50 for business boats. Disabled veterans pay a discount rate of \$3.00 for personal property.

CITY OF NORFOLK, VIRGINIA
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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, 2003:

Water Utility Fund	\$ 1,026,637
Wastewater Utility Fund	628,403
	<u>\$ 1,655,040</u>

The associated revenue is included in net charges for services.

CITY OF NORFOLK, VIRGINIA
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B. Allowances for Uncollectible Accounts Receivable:

Allowances for uncollectible accounts receivable are generally established using historical collection data, specific account analysis and subsequent cash receipts. The allowances at June 30, 2003 are as follows:

Primary Government:

General Fund:

Taxes	\$ 14,162,000
Accounts	<u>12,513,700</u>
	<u>26,675,700</u>
Special Revenue - Storm Water Fund	177,032
Water Utility Fund	2,176,455
Wastewater Utility Fund	<u>642,992</u>
Total - Primary Government	<u>\$ 29,672,179</u>

Component Units:

Norfolk Public Schools	\$ 55,000
Norfolk Redevelopment and Housing Authority	64,192
Community Services Board	<u>53,760</u>
Total - Component Units	<u>\$ 172,952</u>

V. Notes Receivable:

Notes receivable, at June 30, are as follows:

Primary Government: General Fund

Lake Taylor Transitional Care Hospital

Outstanding portion of promissory notes related to general obligation bonds issued for hospital improvement purposes which were assumed by the City General Fund, due in accordance with the amortization schedules for the bonds (see Note IX). All of the hospital's land, improvements, buildings and fixtures and substantially all other assets are pledged as collateral for the bonds.

WHRO (Hampton Roads Educational Telecommunications Association, Inc.)

Total - Primary Government

\$ 307,900
149,566
\$ 457,466

Component Unit: Norfolk Redevelopment and Housing Authority

\$40,677,112

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VI. Due From Other Governments:

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

	General Fund	Nonmajor	Total	Component Units	
		Governmental Funds	Governmental Activities	Norfolk	Public Schools
				NRHA	
Other:					
Various grants/reimbursements	\$ -	\$ -	\$ -	\$ -	\$ 1,427,186
Commonwealth of Virginia:					
Shared expenses	4,353,636	-	4,353,636	-	-
Categorical aid	4,962,182	-	4,962,182	-	-
Noncategorical aid	7,473,936	-	7,473,936	-	-
Various grants	-	4,927,314	4,927,314	5,919,202	-
Total - Commonwealth	16,789,754	4,927,314	21,717,068	5,919,202	-
Federal Government:					
Various grants	-	860,780	860,780	5,486,865	-
Housing and Urban Development	-	164,926	164,926	-	-
Total - Federal	-	1,025,706	1,025,706	5,486,865	-
Total - Due from other governments	per Exhibit A-1	\$ 16,789,754	\$ 5,989,012	\$ 22,778,766	\$ 11,406,067
					\$ 1,427,186

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VII. Changes in Capital Assets:

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

Primary Government				
	Restated Balance	Additions	Retirements	Ending Balance
Governmental activities:				
Land	\$ 26,941,614	\$ 578,899	\$ (617,949)	\$ 26,902,564
Construction in progress	21,231,550	36,651,901	(11,460,978)	46,422,473
Buildings	470,903,582	23,395,797	(258,316)	494,041,063
Improvements other than buildings	20,836,408	775,104	(527,673)	21,083,839
Equipment	85,922,704	8,224,461	(4,719,620)	89,427,545
Infrastructure	1,043,712,545	4,401,556	(926,850)	1,047,187,251
Totals at historical cost	<u>1,669,548,403</u>	<u>74,027,718</u>	<u>(18,511,386)</u>	<u>1,725,064,735</u>
Less accumulated depreciation				
Buildings	(179,320,546)	(12,143,236)	7,525	(191,456,257)
Improvements other than buildings	(9,614,084)	(914,434)	191,093.00	(10,337,425)
Equipment	(42,027,243)	(8,399,052)	4,107,403.00	(46,318,892)
Infrastructure	(577,612,790)	(45,355,008)	-	(622,967,798)
Total accumulated depreciation	<u>(808,574,663)</u>	<u>(66,811,730)</u> *	<u>4,306,021</u>	<u>(871,080,372)</u>
Governmental activities capital assets, net	<u>\$ 860,973,740</u>	<u>\$ 7,215,988</u>	<u>\$ (14,205,365)</u>	<u>\$ 853,984,363</u>
Business-type activities:				
Land	\$ 41,032,221	\$ 1,412,934	\$ (100)	\$ 42,445,055
Buildings and equipment	737,995,640	18,504,018	(1,506,071)	754,993,587
Totals at historical cost	<u>779,027,861</u>	<u>19,916,952</u>	<u>(1,506,171)</u>	<u>797,438,642</u>
Less accumulated depreciation for buildings and equipment	(127,620,639)	(14,313,993)	577,179	(141,357,453)
Business-type activities capital assets, net	<u>\$ 651,407,222</u>	<u>\$ 5,602,959</u>	<u>\$ (928,992)</u>	<u>\$ 656,081,189</u>
Component Units activities:				
Land and Construction in progress	\$ 22,812,873	\$ 12,773,502	\$ (196,732.00)	\$ 35,389,643
Buildings	129,120,213	474,787	(6,413,247)	123,181,753
Improvements other than buildings	60,862,604	110,106	(3,977,889)	56,994,821
Building improvements	23,803,483	3,583,467	-	27,386,950
Equipment	37,503,823	8,991,011	(1,785,289)	44,709,545
Totals at historical cost	<u>274,102,996</u>	<u>25,932,873</u>	<u>(12,373,157)</u>	<u>287,662,712</u>
Less accumulated depreciation for buildings and equipment	(120,645,123)	(12,807,904)	6,464,163	(126,988,864)
Component Units-type activities capital assets, net	<u>\$ 153,457,873</u>	<u>\$ 13,124,969</u>	<u>\$ (5,908,994)</u>	<u>\$ 160,673,848</u>
* Depreciation expense was charged to governmental activities as follows:				
General government	\$ 5,723,474			
Judicial administration	1,429,407			
Public safety	3,705,182			
Public works, which includes the depreciation of infrastructure assets	47,233,214			
Health and sanitation	480,930			
Culture and recreation	6,081,671			
Community development	1,795,295			
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.	362,557			
Total depreciation expense	<u>\$ 66,811,730</u>			
Business-type activities:				
Water Utility Fund	\$ 9,321,367			
Wastewater Fund	1,616,234			
Parking Funds	3,376,392			
Total depreciation expense	<u>\$ 14,313,993</u>			
Component unit activities				
Community Serves Board	\$ 190,043			
NRHA	6,765,899			
Schools	5,851,962			
Total depreciation expense	<u>\$ 12,807,904</u>			

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The following is a summary by fund of interest expense/revenue capitalized during the fiscal year ended June 30, 2003:

	Interest Expense	Interest Revenue	Net Capitalized
Water Utility Fund	\$ 3,801,820	\$ (1,667,534)	\$ 2,134,286
Wastewater Utility Fund	1,226,065	(120,086)	1,105,979
	\$ 5,027,885	\$ (1,787,620)	\$ 3,240,265

VIII. Long-Term Obligations:

A. General Obligation and Revenue Bonds:

A summary of general obligation bond and revenue bond transactions for the fiscal year ended June 30, 2003 follows:

	Enterprise Funds			
	General Obligation Bonds	Water Utility Bonds	Wastewater Utility Bonds	Parking Facilities Bonds
General obligation bonds outstanding at July 1, 2002	\$ 348,296,037	\$ 45,012,129	\$ 51,146,569	\$ 15,891,129
Bonds retired	(32,461,743)	(7,193,139)	(3,960,161)	(3,084,548)
Bonds refunded	(31,122,924)	(3,281,136)	(4,425,356)	(1,830,584)
Bonds transferred	8,020,280	-	(8,020,280)	-
Bonds issued	68,924,301	2,905,660	14,268,691	1,791,348
Bonds outstanding at June 30, 2003	361,655,951	37,443,514	49,009,463	12,767,342
Unamortized (discount)/premium	5,752,417	(232,200)	211,547	(585,782)
General obligation bonds outstanding June 30, 2003 adjusted for unamortized (discount)/premium	\$ 367,408,368	\$ 37,211,314	\$ 49,221,010	\$ 12,181,560
Revenue bonds outstanding at July 1, 2002	\$ 279,060,000	\$ -	\$ 81,575,000	
Bonds retired	(5,700,000)	-	(1,080,000)	
Bond anticipation note	17,000,000	-	-	
Bonds outstanding at June 30, 2003	290,360,000	\$ -	80,495,000	
Less unamortized discount	(5,185,658)	-	(3,795,328)	
Revenue bonds outstanding at June 30, 2003, adjusted for unamortized discount/premium	\$ 285,174,342	\$ -	\$ 76,699,672	

Revenue and Bond Anticipation Notes

The City issued a \$15,893,423 revenue anticipation note to fund and execute an intergovernmental transfer agreement between the City, the Commonwealth of Virginia and the

CITY OF NORFOLK, VIRGINIA
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Hospital Authority of Norfolk. The agreement was established so that the note proceeds were repaid on the same day the borrowing occurred.

The City also issued \$17,000,000 in Water Revenue Anticipation Notes to finance costs associated with capital improvements to the City's water system. The notes carry an annual interest rate of 1.65 percent and mature on October 1, 2004 but are subject to redemption without penalty on or after April 1, 2004.

The activity is summarized as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
	<u>Special Revenue</u>	<u>Water</u>
Anticipation Notes Outstanding, July 1, 2002	\$ -	\$ -
Additions	15,893,423	17,000,000
Retirements	<u>(15,893,423)</u>	<u>-</u>
Anticipation Notes Outstanding, June 30, 2003	<u>\$ -</u>	<u>\$ 17,000,000</u>

In accordance with ordinances adopted by City Council, on July 1, 1988, the City established a separate operating unit, the Lake Taylor Transitional Care Hospital, formally the Hospital Authority of Norfolk (HAN), which operates Lake Taylor Hospital. Under the terms of the related Agreement of Transfer, the City retained the liability for Hospital Improvement General Obligation bonds. Simultaneously, HAN delivered promissory notes to the City that is accounted for as notes payable to the General Fund. The outstanding principal balance, at June 30, 2003, is \$307,900.

The City entered into an agreement on April 13, 2000 to sell 2.1070 acres of land to Hampton Roads Educational Telecommunications Association, Inc. (WHRO). WHRO delivered a deed of trust note to the City that is accounted for as a payable to the General Fund. The outstanding principal balance, at June 30, 2003 is \$149,566.

CITY OF NORFOLK, VIRGINIA
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General obligation bonds outstanding at June 30, 2003 are composed of the following individual issues:

General Long-Term Obligation:

Public Improvement Bonds:

\$1,500,000 public improvement bond issued July 11, 1989, due July 1, 2019, with interest payable annually on July 1 at 6.76 percent.	\$ 1,500,000
\$45,955,198 public improvement serial bonds included as part of the \$101,295,000 bonds issued March 2, 1993, due in annual installments varying from \$1,771,000 to \$1,755,433 through February 1, 2004, with interest payable semiannually at a rate of 5.00 percent. The amount is net of \$8,465,596 due from February 1, 2005 through February 1, 2013, which was advance refunded on November 14, 2002.	2,135,183
\$20,835,766 public improvement serial bonds included as part of the \$29,065,000 bonds issued July 1, 1993, due in annual installments varying from \$268,826 to \$2,193,616 through June 1, 2006, with interest payable semiannually at rates varying from 4.00 to 5.00 percent.	5,580,817
\$112,179,266 public improvement serial bonds included as part of the \$182,685,000 bonds issued March 17, 1994, due in annual installments varying from \$2,961,856 to \$10,513,840 through June 1, 2006, with interest payable semiannually at rates varying from 5.00 to 5.40 percent. The amount is net of \$20,707,328 which was advance refunded on November 14, 2002.	50,914,923
\$36,550,000 public improvement serial bonds included as part of the \$50,000,000 bonds issued May 1, 1995, due in annual installments of \$1,900,000 through June 1, 2007, with interest payable semiannually at rates varying from 5.25 to 6.00 percent. The amount due is net of \$1,950,000 due June 1, 2008 which was advance refunded on November 14, 2002.	7,800,000
\$55,000,000 public improvement serial bonds included as part of the \$60,000,000 bonds issued March 1, 1996, due in annual installments of \$2,750,000 through June 1, 2016, with interest payable semiannually at rates varying from 5.125 to 5.250 percent.	35,750,000
\$34,975,000 public improvement serial bonds included as part of the \$43,975,000 bonds issued April 15, 1997, due in annual installments of \$1,750,000 through June 1, 2017, with interest payable semiannually at rates varying from 5.250 to 5.375 percent.	24,475,000

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Public Improvement Bonds (con't):

\$4,000,000 public improvement serial qualified redevelopment bonds issued April 15, 1997, due in annual installments of \$200,000 through June 1, 2017, with interest payable semiannually at rates varying from 5.25 to 5.75 percent.	\$ 2,800,000
\$67,111,792 public improvement serial bonds included as part of the \$93,520,000 bonds issued June 15, 1998 due in annual installments varying from \$1,765,305 to \$5,932,667 through June 1, 2019 with interest rates varying from 4.25 to 5.00 percent.	60,050,574
\$2,560,000 public improvement serial qualified redevelopment bonds issued September 15, 1998 due in annual installments of \$125,000 to \$130,000 through July 1, 2018, with interest payable semiannually at rates varying from 4.70 to 5.10 percent.	2,075,000
\$11,700,000 public improvement serial bonds issued July 1, 1999 due in annual installments of \$585,000 through July 1, 2019 with interest rates varying from 4.50 to 5.00 percent.	9,945,000
\$4,000,000 public improvement serial qualified redevelopment bonds issued July 1, 1999, due in annual installments of \$200,000 through July 1, 2019 with interest rates varying from 4.55 to 5.30 percent.	3,400,000
\$7,000,000 public improvement serial qualified zone academy bonds issued August 19, 1999, due in annual installments of \$538,462 through August 18, 2012 with no stated interest.	4,846,152
\$18,025,000 public improvement serial bonds issued July 15, 2000 due in annual installments varying from \$804,583.90 to \$800,138.70 through July 1, 2020 with interest rates varying from 5.00 to 5.25 percent.	16,215,000
\$3,995,000 public improvement serial qualified redevelopment bonds issued July 15, 2000 due in annual installments varying from \$200,000 to \$195,000 through July 1, 2021 with interest rates varying from 5.125 to 5.65 percent.	3,595,000
\$3,637,170 public improvement serial qualified zone academy bonds issued November 22, 2000, due in annual installments of \$279,782.30 through November 22, 2013 with no stated interest.	3,077,606
\$1,062,830 public improvement serial qualified zone academy bonds issued December 27, 2001, due in net annual installments of \$61,347.10 through December 27, 2015 with no stated interest.	797,512
\$7,955,000 public improvement serial qualified redevelopment bonds issued February 13, 2002, due in annual installments of \$400,000 to \$355,000 through June 30, 2022, with interest payable semiannually at rates varying from 3.00 to 5.00 percent.	7,555,000

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Public Improvement Bonds (con't):

\$24,467,280 public improvement serial bonds included as part of the \$27,000,000 issued February 13, 2002, due in annual installments of \$1,350,000 through June 30, 2022, with interest rates varying from 2.00 to 5.00 percent. Transferred \$8,020,280 from the wastewater on April 8, 2003.	\$ 23,644,930
\$30,796,042 public improvement serial bonds included as part of the \$47,200,000 issued February 13, 2002, due in annual installments of \$4,222,089 to \$1,794,000 through June 30, 2013 with interest rates varying from 2.00 to 5.00 percent.	26,573,953
\$3,400,000 public improvement bond issued on August 14, 2002, due August 14, 2032 with interest payable monthly at an interest rate of 5.38 percent.	3,400,000
\$34,600,000 public improvement serial bonds issued November 14, 2002 due in annual installments of \$1,730,000 through July 1, 2022, with interest rates varying from 3.00 to 5.00 percent.	34,600,000
\$30,924,301 public improvement serial bonds included as part of the \$39,890,000 refunding bonds issued on November 14, 2002, due in annual installments of \$2,242,143 to \$5,123,389 through July 1, 2012 with interest rates varying from 5.00 to 5.25 percent.	30,924,301
General long-term obligation bonds outstanding	361,655,951
Plus unamortized bond premium	<u>5,752,417</u>
Net general long-term obligation bonds outstanding	<u>367,408,368</u>

Enterprise Funds:

Water utility development bonds:

\$28,431,728 public improvement serial bonds included as part of the \$101,295,000 bonds issued March 2, 1993 due in annual installments varying from \$750,000 to \$2,509,695 through February 1, 2013, with interest payable semiannually at rates varying from 4.50 to 5.50 percent. The amount due is net of \$3,753,499 due from February 1, 2008 through February 1, 2012, which was refunded on February 13, 2002. The amount due is net of \$3,258,432 due from February 1, 2005 through February 1, 2013, which was refunded on November 14, 2002.	819,582
\$5,347,960 public improvement serial bonds included as part of the \$29,065,000 bonds issued July 1, 1993, due in annual installments varying from \$470,120 to \$529,920, through June 1, 2006, with interest payable semiannually at rates varying from 4.00 to 5.00 percent.	1,432,440

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Water utility development bonds (con't):

\$27,461,667 public improvement serial bonds included as part of the \$182,685,000 bonds issued March 17, 1994, due in annual installments varying from \$867,707 to \$2,718,730 through June 1, 2011, with interest payable semiannually at rates varying from 4.30 to 5.40 percent. The amount due is net of \$22,703.71, due from June 1, 2007 through June 1, 2013, which was refunded on November 14, 2002. \$ 14,870,373

\$10,692,696 public improvement serial bonds included as part of the \$93,520,000 bonds issued June 15, 1998 due in annual installments varying from \$6,521 to \$1,402,071 beginning June 1, 2006 through June 1, 2012 with interest rates varying from 4.25 to 5.00 percent. 10,692,696

\$8,352,561 public improvement serial bonds included as part of the \$47,200,000 refunding bonds issued February 13, 2002 due in annual installments varying from \$ 1,629,798 to \$730,014 beginning January 01, 2003 through January 1, 2013 with interest rates varying from 2.00 to 5.00 percent. 6,722,763

\$2,905,660 public improvement serial bonds included as part of the \$39,890,000 refunding bonds issued November 14, 2002, due in annual installments varying from \$739,589 to \$32,786 beginning July 1, 2004 through July 1, 2012 with interest rates varying from 5.20 to 5.40 percent. 2,905,660

Water utility development bonds outstanding 37,443,514
 Less unamortized bond discount 232,200

Net water utility development bonds outstanding 37,211,314

Wastewater utility development bonds:

\$10,775,133 public improvement serial bonds included as part of the \$101,295,000 bonds issued March 2, 1993, due in annual installments varying from \$500,000 to \$569,210 through February 1, 2013, with interest payable semiannually at rates varying from 4.50 to 5.50 percent. The amount due is net of \$2,502,333 due from February 1, 2008 through February 1, 2012, which was advance refunded on February 13, 2002. The amount due is net of \$2,019,776 due from February 1, 2005 through February 1, 2013, which was advance refunded on November 14, 2002. 505,406

\$965,177 public improvement serial bonds included as part of the \$29,065,000 bonds issued July 1, 1993, due in annual installments varying from \$84,845 to \$95,638 through June 1, 2006, with interest payable semiannually at rates varying from 4.00 to 5.00 percent. 258,521

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Wastewater utility development bonds (con't):

\$11,111,446 public improvement serial bonds included as part of the \$182,685,000 bonds issued March 17, 1994, due in annual installments varying from \$265,464 to \$786,497 through June 1, 2013, with interest payable semiannually at rates varying from 4.30 to 5.40 percent. The amount due is net of \$1,855,580 due from June 1, 2007 through June 1, 2013, which was advance refunded on November 14, 2002.	\$ 4,113,405
\$11,000,000 public improvement serial bonds included as part of the \$50,000,000 bonds issued May 1, 1995, due in annual installments of \$550,000 through June 1, 2015, with interest payable semiannually at rates varying from 5.25 to 6.00 percent. The amount due is net of \$1,100,000, due from May 1, 2014 through May 1, 2015, which was advance refunded with proceeds from the June 15, 1998, bond issue and, \$2,750,000 due from June 1, 2009 through June 1, 2013 which was advance refunded on February 13, 2002. The amount due is net of \$550,000, due June 1, 2008, which was advance refunded on November 14, 2002.	2,200,000
\$5,000,000 public improvement serial bonds included as part of the \$60,000,000 bonds issued March 1, 1996, due in annual installments of \$250,000 through June 1, 2015, with interest payable semiannually at rates varying from 5.125 to 5.250 percent.	3,250,000
\$9,000,000 public improvement serial bonds included as part of the \$43,975,000 bonds issued April 15, 1997, due in annual installments of \$450,000 through June 1, 2017, with interest payable semiannually at rates varying from 5.250 to 5.375 percent.	6,300,000
\$12,166,844 public improvement serial bonds included as part of the \$93,520,000 bonds issued June 15, 1998 due in annual installments varying from \$449,695 to \$864,945 beginning June 1, 2000 through June 1, 2015 with interest rates varying from 4.25 to 5.00 percent.	10,368,062
\$10,553,000 public improvement serial bonds included as part of the \$27,000,000 bonds issued February 13, 2002 due in annual installments of \$527,650 beginning in January 01, 2003 through January 1, 2022 with interest rates varying from 2.00 to 5.00 percent. Transferred \$8,020,280 to the general fund on April 8, 2003.	2,005,070
\$6,047,528 public improvement refunding bonds included as part of the \$47,200,000 refunding bonds issued February 13, 2002 due in annual installments of \$1,051,685 to \$7,348 beginning in January 01, 2003 through January 1, 2013 with interest rates varying from 2.00 to 5.00 percent.	5,740,309

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Wastewater utility development bonds (con't):

\$4,268,690 public improvement serial bonds included as part of the \$39,890,000 refunding bonds issued on November 14, 2002, due in annual installments of \$783,403 to \$260,019 from July 1, 2004 through July 1, 2012 with interest rates varying from 5.00 to 5.25 percent.

\$ 4,268,690

\$10,000,000 taxable Virginia Resources Authority wastewater system bond, issued April 8, 2003, \$4,414,696 drawn down through June 30, 2003. Payment schedule to be determined when financing is complete.

Wastewater utility development bonds outstanding	<u>10,000,000</u>
Plus unamortized bond premium	49,009,463
	<u>211,547</u>

49,221,010

Parking facilities development bonds:

\$7,667,345 public improvement serial bonds included as part of the \$101,295,000 bonds issued March 2, 1993, due in annual installments varying from \$95,000 to \$1,170,078 through February 1, 2013, with interest payable semiannually at rates varying from 4.50 to 5.50 percent. The amount is net of \$475,443 due from February 1, 2008 through February 1, 2012, which was refunded on February 13, 2002. The amount due is net of \$621,195 due from February 1, 2005 through February 1, 2013, which was refunded on November 14, 2002.

159,829

\$1,916,096 public improvement serial bonds included as part of the \$29,065,000 bonds issued July 1, 1993, due in annual installments varying from \$168,347 to \$189,863 through June 1, 2006, with interest payable semiannually at rates varying from 4.00 to 5.00 percent.

513,222

\$11,202,590 public improvement serial bonds included as part of the \$182,685,000 bonds issued March 17, 1994, due in annual installments varying from \$172,680 to \$1,321,182 through June 1, 2013, with interest payable semiannually at rates varying from 4.30 to 5.40 percent. The amount due is net of \$1,209,388 due from June 1, 2007 through June 1, 2013, which was advance refunded on November 14, 2002.

5,291,299

\$3,548,668 public improvement serial bonds included as part of the \$93,520,000 bonds issued June 15, 1998 due in annual installments varying from \$2,164 to \$465,316 beginning June 1, 2006 through June 1, 2012 with interest rates varying from 4.25 to 5.00 percent.

3,548,668

CITY OF NORFOLK, VIRGINIA
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Parking facilities development bonds (con't):

\$2,003,869 public improvement bonds included as part of the \$47,200,000 refunding bonds issued February 13, 2002 due in annual installments of \$540,894 to \$92,308 beginning on January 01, 2003 through January 1, 2013 with interest rates varying from 2.00 to 5.00 percent. \$ 1,462,975

\$1,791,348 public improvement serial bonds included as part of the \$39,890,000 refunding bonds issued November 14, 2002, due in annual installments of \$328,935 to \$155,973 from July 1, 2004 through July 1, 2012 with interest rates varying from 5.00 to 5.25 percent. 1,791,349

Parking facilities development bonds outstanding	12,767,342
Less unamortized bond discount	<u>585,782</u>
Net parking facilities development bonds outstanding	<u>12,181,560</u>
Net general obligation bonds outstanding	<u>\$ 466,022,252</u>

Revenue bonds outstanding at June 30, 2003 are composed of the following individual issues:

Enterprise Funds:

Water utility revenue bonds:

\$68,430,000 water revenue serial bonds issued November 1, 1993, due in annual installments varying from \$1,290,000 to \$4,410,000 through November 1, 2023, with interest payable semiannually at rates varying from 2.80 to 5.375 percent. \$ 57,175,000

\$115,680,000 water revenue serial bonds issued August 15, 1995, due in annual installments varying from \$1,820,000 to \$7,910,000 through November 1, 2025 with interest payable semiannually at rates varying from 5.00 to 7.00 percent. 102,960,000

\$84,605,000 water revenue serial bonds issued November 1, 1998, due in annual installments varying from \$1,365,000 to \$5,285,000 through June 30, 2029, with interest payable semiannually at rates varying from 4.00 to 5.125 percent. 78,805,000

\$35,000,000 water revenue serial bond issued October 15, 2001, due in annual installments of \$580,000 to \$2,150,000 beginning November 1, 2002 through November 1, 2031, with interest payable semiannually at rates varying from 4.00 to 5.00 percent. 34,420,000

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Water utility revenue bonds (con't):

\$17,000,000 water revenue bond anticipation note issued April 1, 2003 and due October 1, 2004, with interest payable at maturity at the rate of 1.65 percent. \$ 17,000,000

Water revenue bonds outstanding	290,360,000
Less unamortized discount	<u>5,185,658</u>

Net water utility revenue bonds outstanding 285,174,342

Parking facilities revenue bonds:

\$54,450,000 parking revenue serial bonds issued February 1, 1997, due in annual installments beginning in fiscal year 2000, varying from \$935,000 to \$3,625,000 through February 1, 2027 with interest payable semiannually at rates varying from 4.125 to 5.550 percent. 44,350,000

\$17,475,000 parking revenue serial bonds issued February 15, 1999, due in annual installments beginning in fiscal year 2001, varying from \$305,000 to \$1,085,000 through February 1, 2029 with interest payable semiannually at rates varying from 4.00 to 5.00 percent.	14,220,000
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\$28,040,000 parking revenue serial bonds issued October 1, 2000 due in annual installments beginning in fiscal year 2001, varying from \$185,000 to \$5,115,000 through October 1, 2031 with interest payable semiannually at rates varying from 5.50 to 5.67 percent. The bond's variable-rate coupons are remarketed weekly and are generally anticipated to be 0.05% to 0.10% higher than one-month London Interbank Offered Rate (LIBOR). A portion of the proceeds was used to advance refund \$9,165,000 from the Parking System Revenue Bonds, Series 1997 and \$3,255,000 from Parking System Revenue Bonds, Series 1999. The bonds refunded had maturity dates ranging from February 1, 2001 to February 15, 2009. On March 7, 2002, \$2,705,000, with maturing dates ranging from February 1, 2028 through February 1, 2031, was retired by a cash funded defeasance. 21,925,000

Parking facilities revenue bonds outstanding	80,495,000
Less unamortized discount	<u>3,795,328</u>
Net parking facilities revenue bonds outstanding	<u>76,699,672</u>
Net revenue bonds outstanding	<u>\$ 361,874,014</u>

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June 30, 2003

A summary of the requirements to amortize general obligation bonds at June 30, is as follows:

Year Ending June 30,	Public Improvement Bonds	
	Principal	Interest
2004	\$ 32,735,609	\$ 17,570,251
2005	32,691,765	15,770,483
2006	31,323,582	14,079,158
2007	29,621,270	12,610,636
2008-2012	133,995,819	42,882,259
2013-2017	67,226,038	16,735,859
2018-2022	28,931,867	4,791,273
2023-2027	1,730,000	957,000
2028-2032	-	913,750
2033	3,400,000	37,565
Total	\$ 361,655,951	\$ 126,348,233

General Fund revenue is used to satisfy general capital, general obligation bonds payable. Both revenue and general obligation bonds recorded in the enterprise funds are payable first from the revenue of the specific funds in which they are recorded; however, the full faith and credit of the City are pledged to the payment of the principal and interest on all general obligation bonds.

The General Fund assumed a note payable on behalf of the former National Maritime Center Authority and Holding Corporation of ILA Local 1248. The note will be paid according to the following schedule:

I.L.A.			National Maritime Center Authority		
Year Ending June 30,	Principal	Interest	Year Ending June 30,	Principal	Interest
2004	\$ 10,130	\$ 14,634	2004	\$ 605,563	\$ 94,437
2005	10,702	14,062	2005	653,411	46,589
2006	11,305	13,459	2006	196,482	4,231
2007	11,943	12,821	2007	-	-
2008-2012	70,610	53,210	2008-2012	-	-
2013-2017	92,908	30,911	2013-2017	-	-
2018-2020	63,068	5,034	2018-2020	-	-
Total	\$ 270,666	\$ 144,131	Total	\$ 1,455,456	\$ 145,257

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Water revenue bonds are payable solely from the revenue of the Water Utility Fund. The most restrictive covenant of the water revenue bonds requires the 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 for the fiscal year 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 balance sheet because their use is limited by applicable bond covenants.

Parking revenue bonds are payable solely from the revenue of the Parking Facilities Fund. The most restrictive covenant of the parking revenue bonds requires the 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 for the fiscal year 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 balance sheet because their use is limited by applicable bond covenants.

Derivatives – Interest Rate Swap

Objective of the interest rate swap. As a means to hedge the City's parking enterprise operations exposure to taxable variable interest rates, the City entered into an interest rate swap in connection with its taxable \$10,180,000 Variable Rate Parking System Revenue Bonds, Series 2000A. The intention of the swap was to effectively change the City's interest rates on the bonds to a fixed rate of 4.7 percent.

Terms. The bonds mature on February 1, 2009. The swap agreement matures on February 1, 2007 and the swap's notional amount was \$6,770,000 on June 30, 2003. The notional amount on the swap declines in conjunction with the associated debt. Under the swap, the City pays the counterparty a fixed payment of 4.7 percent and receives a variable payment based on the London Interbank Offered Rate (LIBOR). The bond's variable-rate coupons are remarketed weekly and are generally anticipated to be 0.05% to 0.10% higher than one-month LIBOR. At June 30, 2003 the bonds were remarketed at 1.00%.

Fair Value. Because interest rates have declined since the execution of the swap, the swap on a mark to market valuation has a negative fair value to the City of \$474,822 as of June 30, 2003.

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Credit Risk. As of June 30, 2003, the City was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the city would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated AA by Fitch, AA- by Standard and Poor's and Aa1 by Moody's Investors Service as of June 30, 2003.

Basis Risk. The swap exposes the city to basis risk should the relationship between LIBOR and the remarketed rate diverge, changing the synthetic rate on the bonds. If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized.

Termination Risk. The contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an additional termination event if at any time the counterparty ceases to be obligated to extend credit in the credit agreement for the underlying bonds.

Swap Payments and Associated Debt: As of June 30, 2003, debt service requirements of the variable-rate debt and net swap payments, *assuming current interest rates remain the same*, for their term were as follows.

Fiscal Years Ending June 30	Variable Rate Bond		Interest Rate		Total
	Principal	Interest	Swap	Net	
2004	\$ 1,155,000	\$ 62,888	\$ 232,684	\$ 1,450,571	
2005	1,225,000	51,046	188,870	1,464,915	
2006	1,310,000	38,442	142,234	1,490,676	
2007	1,400,000	24,967	66,477	1,491,443	
2008	1,495,000	10,571	-	1,505,571	
2009	185,000	1,079	-	186,079	
Total	\$ 6,770,000	\$ 188,992	\$ 630,264	\$ 7,589,256	

As rates vary, variable bond interest payments and net swap payments will vary.

Advanced Refunding

The City issued \$39,890,000 of general obligation refunding bonds. The bonds proceeds and the associated \$3,971,524 premium were placed in an irrevocable trust to provide resources to purchase U.S. Government State and Local Series securities that for the purpose of generating resources for all future debt service payments of \$44,564,549 of general obligation bonds. The advance refunding was undertaken to reduce total debt service payments by \$4,254,997 and resulted in an economic gain of \$2,665,929.

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

Defeased In	Original Issue	Amount
1998	1995	\$ 5,000,000
2002	1995	12,500,000
2003	1995	2,500,000
2003	1994	23,795,000
		<u>\$ 43,795,000</u>

The detailed requirements to amortize general obligation bonds outstanding for the Water Utility Fund, Wastewater Utility Fund, and Parking Facilities Fund, at June 30, are presented in the tabulation that follows:

Year Ending	Water Utility Fund		Wastewater Utility Fund		Parking Facilities Fund		Total	
	June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Principal
2004	\$ 5,486,252	\$ 1,869,680	\$ 3,439,671	\$ 1,975,801	\$ 2,133,060	\$ 637,297	\$ 11,058,982	\$ 4,482,778
2005	5,200,090	1,783,628	3,375,441	2,356,846	2,097,296	531,762	10,672,827	4,672,237
2006	4,362,037	1,488,421	3,836,838	1,995,353	1,377,181	416,087	9,576,055	3,899,861
2007	4,098,668	1,150,552	3,832,763	1,762,842	1,234,826	345,425	9,166,257	3,258,819
2008-2012	16,424,352	2,334,467	18,311,964	6,000,782	5,285,317	839,840	40,021,632	9,175,091
2013-2017	1,872,115	132,123	10,119,376	2,345,682	639,664	44,330	12,631,155	2,522,137
2018-2022	-	-	4,403,459	713,118	-	-	4,403,459	713,119
2023	-	-	1,689,951	89,748	-	-	1,689,951	89,749
	<u>\$ 37,443,514</u>	<u>\$ 8,758,873</u>	<u>\$ 49,009,463</u>	<u>\$ 17,240,174</u>	<u>\$ 12,767,342</u>	<u>\$ 2,814,743</u>	<u>\$ 99,220,320</u>	<u>\$ 28,813,791</u>

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The detailed requirements to amortize water revenue bonds outstanding at June 30, are presented in the tabulation that follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 5,955,000	\$ 14,616,543
2005	23,250,000	14,181,309
2006	6,580,000	13,713,374
2007	6,915,000	13,378,564
2008-2012	40,220,000	61,246,024
2013-2017	52,205,000	49,260,435
2018-2022	68,355,000	33,101,344
2023-2027	66,825,000	12,933,845
2028-2032	20,055,000	1,802,422
Total	\$ 290,360,000	\$ 214,233,860

The detailed requirements to amortize parking revenue bonds outstanding at June 30, are presented in the tabulation that follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 1,155,000	\$ 4,274,056
2005	1,225,000	4,219,771
2006	1,310,000	4,162,196
2007	1,400,000	4,100,626
2008-2012	9,100,000	19,391,430
2013-2017	12,305,000	16,693,168
2018-2022	15,955,000	13,026,188
2023-2027	20,775,000	8,200,948
2028-2031	17,270,000	2,402,625
Total	\$ 80,495,000	\$ 76,471,008

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B. Changes in Long-Term Obligations:

A summary of changes in general long-term obligations, net of unamortized discounts and premiums, at June 30, are as follows:

	Primary Government				Amounts Due Within One Year
	Beginning Balance	Additions	Reductions	Ending Balance	
<u>GOVERNMENTAL ACTIVITIES:</u>					
Bonds and notes payable:					
General obligation debt	\$ 349,605,724	\$ 81,496,053	\$ 63,693,409	\$ 367,408,368	\$ 33,215,774
Notes	2,297,305	-	571,184	1,726,121	615,693
Capital leases	11,044,539	7,503,072	4,270,903	14,276,708	4,548,514
Total bonds and notes payable	<u>362,947,568</u>	<u>88,999,125</u>	<u>68,535,496</u>	<u>383,411,197</u>	<u>38,379,981</u>
Other liabilities:					
Vested Compensated absences	11,928,319	9,831,513	9,094,865	12,664,967	9,095,000
Retirement Obligation	3,821,000	15,346,330	3,821,000	15,346,330	15,346,330
Retiree's life insurance	990,000	-	105,000	885,000	105,000
Workers' compensation claims	14,812,659	0	2,567,308	12,245,351	4,108,830
Automobile and general liability claims	1,768,995	0	725,971	1,043,024	792,731
Landfill closure and post-closure costs	1,847,825	-	95,436	1,752,389	171,112
Total other liabilities	<u>35,168,798</u>	<u>25,177,843</u>	<u>16,409,580</u>	<u>43,937,061</u>	<u>29,619,003</u>
Governmental activities long-term liabilities	<u>\$ 398,116,366</u>	<u>\$ 114,176,968</u>	<u>\$ 84,945,076</u>	<u>\$ 427,348,258</u>	<u>\$ 67,998,984</u>
Internal Service Funds					
Capital leases	183,689	-	61,358	122,331	65,052
Retirement Obligation	-	281,035	-	281,035	281,035
Vested Compensated absences	272,003	5,640	-	277,643	185,815
	<u>455,692</u>	<u>286,675</u>	<u>61,358</u>	<u>681,009</u>	<u>531,902</u>
Total Governmental	<u><u>\$ 398,572,058</u></u>	<u><u>\$ 114,463,643</u></u>	<u><u>\$ 85,006,434</u></u>	<u><u>\$ 428,029,267</u></u>	<u><u>\$ 68,530,886</u></u>
<u>BUSINESS-TYPE ACTIVITIES:</u>					
Bonds and notes payable:					
Water	\$ 317,664,897	\$ 19,905,660	\$ 15,184,901	\$ 322,385,656	\$ 11,441,252
Wastewater	51,126,680	14,268,691	16,174,361	49,221,010	3,439,671
Parking facilities	92,849,618	1,791,348	5,759,734	88,881,232	3,288,060
Total bonds and notes payable	<u>461,641,195</u>	<u>35,965,699</u>	<u>37,118,996</u>	<u>460,487,898</u>	<u>18,168,983</u>
Vested Compensated absences	1,057,537	867,307	805,530	1,119,314	784,678
Retirement Obligation	-	1,419,611	-	1,419,611	1,419,611
Claims and judgements	5,309,292	268,386	-	5,577,678	5,577,678
Advance from General Fund	<u>6,366,829</u>	<u>2,555,304</u>	<u>805,530</u>	<u>8,116,603</u>	<u>7,781,967</u>
Business-type activities long-term liabilities	<u><u>\$ 468,008,024</u></u>	<u><u>\$ 38,521,003</u></u>	<u><u>\$ 37,924,526</u></u>	<u><u>\$ 468,604,501</u></u>	<u><u>\$ 25,950,950</u></u>

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	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
COMPONENT UNIT ACTIVITIES:					
Bonds and notes payable					
Norfolk Public Schools	\$ 46,013	\$ -	\$ 46,013	\$ -	\$ -
NRHA (1)	64,539,272	5,642,923	5,901,766	64,280,429	4,998,639
Total bonds and notes payable	<u>64,585,285</u>	<u>5,642,923.00</u>	<u>5,947,779</u>	<u>64,280,429</u>	<u>4,998,639</u>
Other liabilities:					
Vested Compensated absences					
Norfolk Public Schools	6,180,771	901,928	309,968	6,772,731	2,016,556
NRHA	2,283,392	1,670,035	1,896,373	2,057,054	199,624
Community Services Board	592,269	15,519	-	607,788	50,910
Pension liability:					
Community Services Board	733,174	69,695	-	802,869	802,869
Workers' Compensation claims					
Norfolk Public Schools	841,857	1,561,736	1,457,481	946,112	341,741
Claims liability					
Norfolk Public Schools	253,400	301,413	365,595	189,218	66,153
Component Unit-type activities					
long-term liabilities	<u>\$ 75,470,148</u>	<u>\$ 10,163,249</u>	<u>\$ 9,977,196</u>	<u>\$ 75,656,201</u>	<u>\$ 8,476,492</u>

(1) \$26,699,959 in bonds and notes payable for NRHA's component units is not included, as detailed information was not available.

The City leases a building and certain computer, automotive maintenance, solid waste automation and other heavy equipment, which are recorded at a cost of \$31,859,008. Additions to Capital Leases, in the fiscal year ended June 30, 2003 of \$7,503,072 consist of additional borrowing by the General Fund.

The remaining debt service requirements, including interest at rates varying from 4.37% to 7.26%, will be retired by funds from the General Fund on the aforementioned contracts, as follows:

Year Ending June 30,	General Long-Term Obligations	Internal Service Funds	Totals
2004	5,192,616	70,199	5,262,815
2005	4,238,153	46,636	4,284,789
2006	2,750,970	12,445	2,763,415
2007	1,904,699	-	1,904,699
2008	1,061,281	-	1,061,281
Thereafter	<u>68,465</u>	<u>-</u>	<u>68,465</u>
Total minimum lease payments	<u>15,216,184</u>	<u>129,280</u>	<u>15,345,464</u>
Less interest	<u>(939,476)</u>	<u>(6,949)</u>	<u>(946,425)</u>
	<u>14,276,708</u>	<u>122,331</u>	<u>14,399,039</u>
Less current portion	<u>(4,732,384)</u>	<u>(65,052)</u>	<u>(4,797,436)</u>
	<u>\$ 9,544,324</u>	<u>\$ 57,279</u>	<u>\$ 9,601,603</u>

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The City closed its Campostella landfill site on June 30, 1992. State and federal laws require the City to perform certain maintenance and monitoring activities at the site for 30 years after closure. The \$1,752,389 reported as an obligation for landfill closure and post/closure costs, at June 30, 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 for groundwater corrective action.

C. 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. At June 30, the City's debt limit is \$935,675,955, of which \$471,499,686 is available for creation of additional debt. There are no overlapping tax jurisdictions.

D. Bonds Authorized and Unissued:

A summary of bonds authorized and unissued as of June 30, 2003 follows:

Projects	Total
General obligation bonds authorized and unissued:	
General capital improvement	\$ 18,182,273
Storm Water capital improvement	3,668,840
Wastewater utility development	<u>16,903,687</u>
	<u>38,754,800</u>
Revenue bonds authorized and unissued:	
Water utility development	65,468,596
Parking development	<u>17,132,429</u>
	<u>82,601,025</u>
Total	<u><u>\$ 121,355,825</u></u>

E. Water Fund Liability:

A long-term liability of \$5,177,678 has been recorded in the Water Utility Fund to reflect over-recovery of revenue from a wholesale customer during fiscal years 2002 and 2003 under water service contracts. A receivable of \$1,398,819 has also been recorded within the Water Utility Fund to reflect the under-recovery of revenue from wholesale customers during the fiscal years 2002 and 2003 under water sales contracts. Pursuant to the terms

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of the water contracts, billings to these customers were based on budgeted Water Utility Fund capital and operating expenditures during the fiscal years. The liability and receivable reflect the adjustments to billings based on the difference between budgeted and actual expenditures (capital and operating).

In accordance with the water services contract, the fiscal year 2002 and 2003 portion of the liability will be reduced in fiscal year 2005 through credits to the customer billings. The receivables for the fiscal year 2002 and 2003 rate period are recoverable upon delivery of rate adjustment receivables report to wholesale customers. The fiscal year 2002 and 2003 receivable will not be recoverable until fiscal year 2005, after presentment of the fiscal year 2002 and 2003 rate adjustment receivables report.

IX. 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:	
General Fund	\$ 12,433,869
Nonmajor governmental funds	231,098
Total primary government	<u><u>\$ 12,664,967</u></u>
Enterprise funds:	
Water utility fund	\$ 706,200
Wastewater utility fund	224,300
Parking fund	188,814
Total enterprise funds	<u><u>\$ 1,119,314</u></u>
Component Unit - School Board	<u><u>\$ 6,772,731</u></u>
Component Unit - NRHA	<u><u>\$ 2,057,054</u></u>
Component Unit - CSB	<u><u>\$ 607,788</u></u>

X. Pension Plans:

The City and its component units participate in three defined benefit pension retirement plans. These include the Employees' Retirement System of the City of Norfolk (XI.A); a Virginia Retirement System (VRS) plan administered for the benefit of Norfolk School Board employees (XI.B); and one VRS plan administered for the benefit of state employees in constitutional offices. In addition, the School Board Component Unit has a defined contribution plan.

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

1. Plan Description

The Employees' Retirement System of the City of Norfolk (System) is the administrator of a single-employer noncontributory, defined benefit plan that covers substantially all employees of the City, excluding School Board 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 effective after January 1, 1997. Ad hoc cost-of-living adjustments ("COLAs") are provided at the discretion of the City Council. The System is established by Section 37 of the Code of the City of Norfolk, Virginia 1979, as amended, 1997. The benefit provisions of the plan are also determined by this Code section and may also be amended at the discretion of City Council. The System 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 System. That report may be obtained by writing to Employees' Retirement System of the City of Norfolk, City Hall Building, 810 Union Street, Norfolk, VA 23510.

2. Funding Policy

Section 37 of the Code of the City of Norfolk, Virginia, 1979, as amended 1997 established the authority under which the City's obligation to contribute to the plan is established or may be amended. 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 \$17,046,924 for the year ended June 30, 2003 was based on 5.83 percent of covered payroll for general employees and 19.20 percent of covered payroll for public safety employees. The fiscal year 2003 contribution is recorded in the City's *Statement of Net Assets* as a liability to the pension fund and will be paid out in fiscal year 2004. The contribution requirement of \$4,343,124 was based on (1.89) percent of covered payroll for general employees and 10.6 percent of covered payroll for public safety employees. The fiscal year 2002 contribution was paid to the pension fund in fiscal year 2003.

3. Annual Pension Cost

For 2003, the System's annual pension cost was equal to the City's required and actual contribution. The required contribution was determined as part of the June 30, 2003 actuarial valuation using the projected unit credit cost method. The amortization method used is level dollar closed. The actuarial assumptions included: (a) 7.5% investment rate of return, compounded annually; (b) projected average salary increases of 5.35%, compounded annually (reflects an assumption of a range of salary increases from 7.6% at age 20 to 4.6% at age 69), and (c) no cost-of-living

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adjustments. Both (a) and (b) include an inflation component of 3.5%. 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, 2003 was a weighted average of 4.5 years.

Three-Year Trend Information

Fiscal Year Ended	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
June 30, 2003	\$ 17,046,924	100%	\$ -
June 30, 2002	4,343,124	100%	-
June 30, 2001	-	100%	-

B. School Board – Retirement Plans:

1. Plan Description – Virginia Retirement System (VRS)

The School Board contributes to the Virginia Retirement System (VRS), an agent and cost sharing multi-employer defined benefit pension plan administered by the VRS. All full-time, salaried permanent employees of the School Board must participate in the VRS. Benefits vest after five years of service. Employees who retire with a reduced benefit at age 55, with at least five years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 1.7% of their average final salary (AFS) for each year of credited service. Employees at age 50 with 30 years of credited service or age 65 with 5 years of credited service are entitled to an annual benefit equal to 1.7% of AFS for each year of credited service. In addition, retirees qualify for annual cost-of-living increases beginning 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. 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 obtained by writing to VRS at P.O. Box 2500, Richmond, VA, 23218-2500.

2. 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 School Board. In addition, the School Board 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

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of Trustees. The School Board's professional and non-professional employees' contribution rates for the year ended June 30, 2003 were 9.44% and 8.00%, respectively, of annual covered payroll. The School Board public school division's contribution rates for the fiscal years ended June 30, 2003, 2002 and 2001 were 17.44%, 15.68% and 12.54%, respectively, of annual covered payroll. Contributions to the VRS for the years ended June 30, 2003, 2002 and 2001 were \$16,475,939, \$15,963,616 and \$21,056,847, respectively - equal to the required contributions for each year.

3. Annual Pension Cost

For 2003, the School Board's annual pension cost of \$15,313,506 for professional employees and \$1,162,433 for non-professional employees was equal to the School Board's required and actual contribution. The required contribution was determined as part of the June 30, 2002 actuarial valuation using the entry age normal actuarial cost method. The amortization method used was level dollar closed. The actuarial assumptions included: (a) 8% investment rate of return; (b) projected salary increases that range between 4.25% and 6.1% per year, and Non-LEO and 4.5% to 5.75% for LEO employees per year, and (c) 3% per year cost-of-living adjustments. Both (a) and (b) include an inflation component of 3%. 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 investments over a five-year period. The remaining amortization period is a weighted average of 17.5 years.

Trend information for the School Board is as follows:

Fiscal Year Ended	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
June 30, 2003	\$ 16,475,939	100%	\$ -
June 30, 2002	\$ 15,963,616	100%	-
June 30, 2001	\$ 21,056,847	100%	-

4. School Board – Superintendent Defined Contribution Plan

The School Board adopted a separate retirement plan for the Norfolk Superintendent of Schools in which the Superintendent could elect out of the VRS coverage under Virginia Code Section 51.1-126.6. The School Board will make a contribution under the Urban Consumer Price Index of 177.1 for the fiscal year ending June 30, 2003. For any plan year commencing after June 30, 2001 in which the participant remains an eligible employee, the School Board set an amount for the plan contribution on behalf of the participant using the annual Urban Consumer Price Index (CPI). The percentage of change in the CPI from the last full year would be used to compute the

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contribution for the following year. For the plan year, the School Board, at its discretion, may contribute to the plan on behalf of the participant such additional amounts, if any, as the School Board elects to contribute as a discretionary plan contribution. The total annual additions made for the participant for any plan year will not exceed the lesser of \$41,000 or 25% of the participants compensation for the plan year. All contributions will be fully vested and nonforfeitable when such plan contributions are made.

The School Board is the administrator of the plan and Teachers Insurance and Annuity Association is the trustee. Contributions for the year ended June 30, 2003 were fixed contributions of \$20,095 and a discretionary contribution of \$20,000.

C. State Employees – Virginia Retirement System (VRS):

1. Plan Description

The City of Norfolk contributes to the Virginia Retirement System (VRS), an agent and cost sharing multi-employer defined benefit pension plan administered by the VRS. 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 five 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 percent of their average final salary (AFS) for each year of credited service. In addition, retirees qualify for annual cost-of-living increases beginning 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 obtained by writing to VRS at P.O. Box 2500, Richmond, VA, 23218-2500.

2. 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

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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 for the year ended June 30, 2003 was 1.50 % of annual covered payroll. Contributions to the VRS for the year ended June 30, 2003 were \$ 1,290,526 equal to the required contribution.

3. Annual Pension Cost

For 2003, the City's annual pension cost of \$ 1,290,526 was equal to the City's required and actual contribution. The required contribution was determined as part of the June 30, 2003 actuarial valuation using the entry age normal actuarial cost method. The amortization method is level percent open. The actuarial assumptions included: (a) 8% investment rate of return; (b) projected salary increases of 4.25% to 6.10% per year, and (c) 3.0% per year cost-of-living adjustments. Both (a) and (b) include an inflation component of 3%. 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 9 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, 2003	\$ 1,290,526	100%	
June 30, 2002	1,376,803	100%	-
June 30, 2001	1,466,823	100%	-

XI. 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 percent of gross income up to a maximum of \$13,000 per year. The deferred compensation plan is 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.

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XII. Other Postemployment Benefits:

The City provides postretirement health care benefits, in accordance with state statutes which require the City to extend access to healthcare benefits to certain retirees. To qualify, retiree's must have 15 years of continuous service or retire on accidental disability. The City pays \$25 per month per participating retiree who agrees to pay the remaining premium. The City's regular health care provider underwrites the retiree's policies. Retirees may not convert the benefit into an in-lieu payment to secure coverage under independent plans.

As of year end, there were 576 employees who had retired and participating in the plan. The City finances the plan on a pay as you go basis. For the year ended June 30, 2003, the City paid \$315,750 for these benefits, which was net \$2,138,119 of retiree contributions.

XIII. Interfund Receivable and Payable Balances:

The interfund receivable and payable balances at June 30, are as follows:

<u>Due To:</u>	<u>Due From</u>						
	General Fund*	Capital Projects	Debt Service	Nonmajor governmental	Enterprise	Internal Service	Totals
General fund *	\$ 227,920	\$ -	\$ -	\$ 258,709	\$ -	\$ -	\$ 486,629
Capital projects fund	2,350	-	-	-	-	-	2,350
Nonmajor governmental funds	1,002,792	-	-	180	34,313	-	1,037,285
Internal service funds	3	-	-	14,046	-	-	14,049
Total governmental activities	<u>1,233,065</u>	<u>-</u>	<u>-</u>	<u>272,935</u>	<u>34,313</u>	<u>-</u>	<u>1,540,313</u>
Enterprise:							
Water Utility	580	-	-	-	152,801	-	153,381
Wastewater Utility	376,613	-	-	-	1,853,580	-	2,230,193
Parking Facilities	1,926,627	-	-	-	-	-	1,926,627
Total business-type activities	<u>2,303,820</u>	<u>-</u>	<u>-</u>	<u>2,006,381</u>	<u>-</u>	<u>-</u>	<u>4,310,201</u>
	<u><u>\$ 3,536,885</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 272,935</u></u>	<u><u>\$ 2,040,694</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,850,514</u></u>

*General fund receivable and payable balances include funds that are merged into the general fund such as payroll agency, and traffic operations fund that are general fund operations accounted for in separate funds for internal purposes and are included in the general fund for financial reporting purposes.

The purpose of the interfund balances is as follows:

Included in the general fund receivable amount of \$3,536,885 is \$592,398 due from the Nauticus special revenue fund, and \$229,000 due from the cemeteries special revenue fund to cover negative cash balances; \$1,900,000 due from the parking fund represents the current portion of the note between parking and the general fund; the remaining balance of \$815,487 represents funding in support of operations.

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Nonmajor governmental fund receivable of \$272,709 is due from the general fund and is in support of existing special revenue type programs; the remaining \$226 due from other nonmajor governmental funds and the fleet internal service fund are in support of those funds' operations.

The receivable from the enterprise funds represent \$130,633 due from wastewater utility to the water utility fund to cover negative cash balances; \$1,875,748 includes funding between the water and wastewater utility funds in support of operations; the remaining receivable amount of \$34,313 represents balances at June 30th in support of the day-to-day operations between other City funds.

At June 30, the General Fund had a remaining advance receivable of \$400,000 to the Parking Facilities Fund, which will be repaid over the next two years.

XIV. Interfund Transfers:

The following interfund transfers occurred during fiscal year 2003:

Fund	In	Out
General	\$ 10,044,504	\$ 62,412,483
Debt Service	48,447,410	-
Capital projects fund	8,757,200	2,051,436
Nonmajor governmental funds	11,387,558	5,672,753
Enterprise:		
Water Utility	45,000	8,500,000
Wastewater Utility	-	45,000
	<u>\$ 78,681,672</u>	<u>\$ 78,681,672</u>

CITY OF NORFOLK, VIRGINIA
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The purpose of the transfer balances are as follows:

General fund transfers in of \$10,044,504 include \$451,436 from the capital projects fund, \$201,564 from the grants fund, and \$1,504 from the trust and agency funds for interest earned on cash balances; \$890,000 from the storm water fund and \$8,500,000 from the water utility fund represents a return on investment back to the general fund.

The general fund transfers out of \$62,412,483 represents a transfer of \$45,476,725 to the debt service fund to fund general obligation debt and capital lease payments; \$5,657,200 to the capital projects fund as a contribution for annual capital improvement plan budget; \$7,732,890 to the grants fund in support of grant projects; \$500,000 to the nauticus special revenue fund as a contribution from the general fund; \$485,568 to the emergency operations special revenue fund, \$2,500,000 to the land acquisition fund and \$60,100 to the cemeteries fund as contributions in support of operations.

Debt service transfers in also include \$1,400,685 from the storm water fund and \$1,600,000 from the capital projects fund to fund the current year's debt service payments.

The storm water fund transferred \$900,000 to capital projects fund to cover expenditures related to cash funded storm water projects.

The golf and public amenities special revenue type funds transferred \$500,000 and \$1,700,000, respectively, to the capital projects fund in support of those fund's capital related projects.

The General Fund also transferred \$88,853,663 to the School Board component unit, \$1,552,138 to the Norfolk Redevelopment and Housing Authority component unit and \$2,002,500 the Community Services Board component unit during the fiscal year. These amounts are reported as expenditures in the City's financial statements.

XV. Recovered Costs:

Recovered costs in the General Fund consist of the following:

Employee hospitalization contributions	\$ 49,383
Information systems recoveries	1,189,280
Debt service recoveries	910,314
Administrative cost recoveries from Enterprise Funds	1,618,404
Other	<u>5,788,842</u>
	<u><u>\$ 9,556,223</u></u>

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XVI. Other Liabilities:

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

Governmental Funds:

General Fund - Miscellaneous	\$ 938,493
General Fund - Risk financing liability	<u>4,927,334</u>
	<u><u>\$ 5,865,827</u></u>

Enterprise Funds:

Water Utility Fund - Due to other governments	\$ 5,177,678
Water Utility Fund - Miscellaneous	184,892
Wastewater Utility Fund - Miscellaneous	382,942
Parking Fund - Advance to General Fund	<u>400,000</u>
	<u><u>\$ 6,145,512</u></u>

Internal Service Funds

Fleet Management Fund - Capital lease payable	<u><u>\$ 122,331</u></u>
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Fiduciary Funds:

Pension Trust Fund - Due to broker	\$ 37,475,471
Other Agency Funds	1,299,281
Commonwealth of Virginia	14,664
	<u><u>\$ 38,789,416</u></u>

XVII. Supplemental Appropriations:

The following supplemental appropriations were made to the general fund operating budgets during the fiscal year:

General Fund:

Approved FY 2002-2003 budget	\$ 631,989,100
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Supplemental appropriations from additional revenue:

Reimbursement from the Commonwealth of Virginia for street maintenance projects	588,458
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Supplemental appropriations from general fund fund balance:

Additional funds allocated to Public Works for maintenance projects reimbursable by Commonwealth of Virginia	300,000
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Appropriation from Special Revenue Fund for the salaries and benefits of twelve Sheriff employees in the booking Division of the jail.	138,060
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Total supplemental appropriations	<u>1,026,518</u>
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Final budget	<u><u>\$ 633,015,618</u></u>
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CITY OF NORFOLK, VIRGINIA
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XVIII. Deferred Revenue:

Deferred revenue, as represented in the Fund Financial Statements at June 30, totals \$17,142,199 and is comprised of the following:

A. Deferred grant funding: In the Grants Fund, deferred revenue represents monies accepted from a grantor using an advancement method for payments. The amount is reduced and revenue is recorded when expenditures are incurred in accordance with the grantors' requirements. If expenditures are not incurred, the funds will revert back to the grantors. In the Community Development Fund, the deferred revenue represents deferred payment rehabilitation loans of \$1,018,731. Deferred grant funding reported in the combining financial statements for nonmajor governmental funds at June 30, comprise the following:

Community development	\$ 1,018,731
Special revenue – grants	
Storm Water - deferred billings	<u>237,228</u>
Total primary government - Special Revenue Funds	<u>\$ 1,255,959</u>

B. Deferred property tax revenue: Deferred revenue in the General Fund, representing uncollected tax billings not available for funding of current expenditures at June 30, 2003 is \$14,844,123.

C. Notes Receivable: Deferred revenue in the General Fund, representing noncurrent notes receivable not available for funding current expenditures at June 30, 2003, totals \$457,466.

D. Other: Certain items in the General Fund, representing prepaid and/or contributed revenue that is not available for funding current expenditures at June 30, 2003, total \$584,651.

XIX. Commitments and Contingencies:

A. Capital Projects:

Commitments for completion of capital projects, authorized at June 30, are as follows:

Water utility development projects	\$ 11,904,231
Wastewater utility development projects	5,547,460
Parking facilities development projects	<u>180,300</u>
	<u>\$ 14,427,130</u>

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B. Federal Grant Programs:

Federal programs in which the City participates were audited in accordance with the provisions of the Single Audit Act Amendment of 1996 (the Act). Pursuant to the provisions of the Act, all major programs and certain other programs were tested for compliance with applicable grant requirements. Additionally, the federal government may subject grant programs to additional compliance tests, which may result in disallowed expenditures. In the opinion of management, future disallowances of certain grant program expenditures, if any, would be immaterial.

XX. Litigation:

The City is a defendant in a number of lawsuits. Although it is not possible to determine the final outcome of these matters, management is of the opinion that the ultimate liability will not be material.

XXI. Surety Bonds and Insurance:

<u>Surety</u>	<u>Official</u>	<u>Amount</u>
Commonwealth of Virginia	Sharon McDonald, Commissioner of the Revenue	\$ 10,000
	Thomas W. Moss, Jr., City Treasurer	3,000,000
	Robert J. McCabe, Sheriff	30,000
	Albert Teich, Jr., Clerk of the Circuit Court	2,235,000
Commonwealth of Virginia	All employees of the City Treasurer, Sheriff , Commissioner of the Revenue, Commonwealth Attorney and Clerk of Court	
	Performance of Duty Bond	500,000
City of Norfolk		
Fidelity and Deposit Company	All City employees	100,000

XXII. Self-insurance and Purchased Programs:

The City is exposed to various risks of losses related to torts; theft of, damage to, 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 itself from these risks of losses. 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 2003 was \$4,774,287.

CITY OF NORFOLK, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2003

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. At June 30, the amount of these liabilities, calculated under GASB 10, was \$18,189,936, of which \$4,901,561 is reported as a current liability in the General Fund and \$13,288,375, is reported as a long-term liability. Estimated liabilities, as determined by an actuary, are reported at their present value, using the expected future investment yield assumption of five (5) percent.

Changes in the City's claims liability amount in the fiscal years 2001 through 2003 is as follows:

	Unpaid Claims Beginning Fiscal-year	Incurred Claims and Changes in Estimates	Claims Payments	Unpaid Claims End of Fiscal-year
2001	\$13,962,000	\$ 3,886,110	\$(3,889,475)	\$14,958,635
2002	\$14,958,635	\$ 7,295,386	\$(5,672,367)	\$16,581,654
2003	\$16,581,654	\$ 6,269,630	\$(4,774,287)	\$18,189,936

The City has designated \$1,940,000 of fund equity 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 School Board also participates in the Program and its projected present value (5%) liability at June 30, 2003 was \$1,135,330. It also provides payments for its 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 fund balance designation.

XXIII. 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

CITY OF NORFOLK, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2003

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 Authority, and accordingly, no equity interest has been reflected in the City's financial statements at June 30, 2003. 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, 2003. Complete financial statements of the Commission can be obtained from the Commission.

C. Tidewater Transportation District Commission (TTDC), a political subdivision of the Commonwealth of Virginia, was formed on May 9, 1973, as a joint exercise of governmental power in accordance with provisions of Chapter 32 of Title 15.1 of the Code of Virginia. TTDC provides public transportation facilities and services within the Cities of Norfolk, Portsmouth, Virginia Beach, Chesapeake 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 TTDC rests with professional management.

The participating governments do not have an equity interest in TTDC, and accordingly, no equity interest has been reflected in the City's financial statements at June 30, 2003. Complete financial statements of TTDC can be obtained from TTDC.

XXIV. 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

CITY OF NORFOLK, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2003

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 an eight-member Board of Directors consisting of a representative 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 fiscal years 1990 and 1994, the City guaranteed \$12,514,500 (54 percent of \$23,175,000) in refunding bonds, and interest thereon, issued by the SPSA. Under the guaranty agreements, the City has agreed to make payments to the trustees for deposit in reserve accounts, if necessary, to maintain in such accounts the sums of the amounts of interest due on the next succeeding interest payment dates for the bonds and the amounts required to pay principal of all the bonds maturing on the next July 1. The Guaranteed Subordinated Revenue Refunding Bonds, Series 1993 (refunding bonds) in the amount of \$10,485,000 refunded SPSA's \$23,175,000 Guaranteed Subordinated Revenue Refunding Bonds, Series 1989. At June 30, 2003, the outstanding principal balance of the guaranteed subordinate bonds was \$4,620,000. The City's allocable portion remains at 54 percent or \$2,494,800, with the remaining balance being due from neighboring localities as follows: Chesapeake - 23 percent; Franklin - 2 percent; and Portsmouth - 21 percent. On July 1, 2003, SPSA made a principal payment of \$2,235,000 on the aforementioned debt leaving a remaining balance of \$2,385,000. Norfolk's share of this obligation as of July 1, 2003 is \$1,287,900. Should SPSA perform any act that constitutes default under the bond indenture, the entire bond principal could be considered due, and the City would be liable for its allocable portion of the outstanding balances of the bonds at June 30. The participating governments do not have an equity interest in the joint venture and, accordingly, no equity interest has been reflected in the City's financial statements at June 30, 2003. Complete financial statements of SPSA can be obtained from SPSA.

XXV. Related Organizations:

A. 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

CITY OF NORFOLK, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2003

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 of Norfolk 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.

B. The Economic Development Authority of the City of Norfolk (The 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 Authority is empowered by the Commonwealth to authorize industrial development bonds and confer tax-exempt status on interest paid to financial institutions. The Authority acts as an intermediary between financial institutions and borrowers; it has no responsibility for borrowers' debt. Although Commissioners are appointed by City Council, the Commission 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 borrowers.

C. The Chrysler Museum, Inc. (the Museum), a Virginia non-stock, not-for-profit organization, was formed on January 1, 1980 by incorporating the Chrysler Museum at 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.

XXVI. Adjustment to Beginning Capital Assets and Net Assets:

The beginning capital assets and net assets in the government-wide statements have been restated to adjust historical cost and accumulated depreciation for infrastructure assets as a result of implementing Governmental Accounting Standards Board (GASB) Statement

CITY OF NORFOLK, VIRGINIA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2003

No. 34, "Basic Financial Statements - and Management Discussion and Analysis - For State and Local Governments."

Adjustments to beginning capital assets and net assets are as follows:

Balance, June 30, 2002	\$645,262,372
Adjustment to historical cost	
and accumulated depreciation	<u>(39,513,906)</u>
Adjusted balance, June 30, 2002	<u><u>\$605,748,466</u></u>

XXVII. Fund Deficits:

The Nauticus and Cemeteries funds have deficit fund balances for the fiscal year ending June 30, 2003 of \$415,369 and \$45,950 respectively.

XXVIII. Subsequent Events:

On November 14, 2003, the City issued \$69,375,000 in General Obligation Capital Improvement and Refunding Bonds, Series 2003. Taking advantage of low interest rates, the City refunded \$12,265,000 in Capital Improvement Bonds issued in 1994, 1995, and 1996. Approximately \$529,284 in present value savings will be realized as a result of this refunding. The remaining proceeds will be used to fund cashflow needs for the City's capital improvement projects.

REQUIRED SUPPLEMENTARY INFORMATION

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

CITY OF NORFOLK, VA
REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress for Retirement Plans - (unaudited)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded)		Funded Ratio	Covered Payroll	UAAL as a percentage of covered payroll
			Actuarial Accrued Liability (UAAL)	Funded Ratio			
CITY - EMPLOYEES RETIREMENT SYSTEM							
June 30, 2001	838,100,000	742,600,000	(95,500,000)	112.9%	144,200,000		-66.2%
June 30, 2002	798,100,000	784,700,000	(13,400,000)	101.7%	150,700,000		-8.9%
June 30, 2003	760,500,000	813,200,000	52,700,000	93.5%	152,100,000		34.6%
CITY - VRS EMPLOYEES							
June 30, 2000	21,754,238	15,347,849	(6,406,389)	141.7%	17,288,619		-37.1%
June 30, 2001	25,266,967	18,096,180	(7,170,787)	139.6%	18,449,050		-38.9%
June 30, 2002	21,754,238	15,347,849	(6,406,389)	141.7%	17,288,619		-37.1%
SCHOOL BOARD COMPONENT UNIT - VRS NON-PROFESSIONAL EMPLOYEES							
June 30, 2000	49,502,443	42,050,777	(7,451,666)	117.7%	11,993,455		-62.1%
June 30, 2001	53,531,426	45,658,667	(7,872,759)	117.2%	12,481,590		-63.1%
June 30, 2002	54,155,701	49,029,563	(5,126,138)	110.5%	12,591,462		-40.7%

CITY OF NORFOLK, VIRGINIA
Schedule of Revenue, Budget and Actual
General Fund
For the Year Ended June 30, 2003

Exhibit E-1

	Original Budget	Final Budget	Budget Basis Actual	Positive (negative) Variance
Revenue from local sources:				
General property taxes:				
Real property taxes	\$118,812,300	\$118,812,300	\$120,158,121	\$ 1,345,821
Real and personal public service corporation property taxes	9,820,000	9,820,000	9,971,563	151,563
Personal property taxes	32,230,600	32,230,600	27,754,369	(4,476,231)
Mobile home taxes	31,000	31,000	16,585	(14,415)
Machinery and tools taxes	8,330,000	8,330,000	8,288,569	(41,431)
Penalties and interest	2,685,400	2,685,400	2,703,512	18,112
Total general property taxes	<u>171,909,300</u>	<u>171,909,300</u>	<u>168,892,719</u>	<u>(3,016,581)</u>
Other local taxes:				
Local sales and use taxes	26,214,300	26,214,300	25,854,211	(360,089)
Consumers' utility taxes	39,592,000	39,592,000	37,929,780	(1,662,220)
Business license taxes	18,634,200	18,634,200	18,471,519	(162,681)
Franchise license taxes	1,750,000	1,750,000	1,936,389	186,389
Cable television franchise taxes	1,600,000	1,600,000	1,799,704	199,704
Motor vehicle license taxes	3,541,700	3,541,700	3,542,806	1,106
Bank stock taxes	1,300,000	1,300,000	1,014,572	(285,428)
Recordation and wills taxes	824,900	824,900	1,146,018	321,118
Tobacco taxes	4,200,000	4,200,000	4,219,586	19,586
Admission and amusement taxes	4,150,000	4,150,000	4,546,081	396,081
Hotel and motel room taxes	5,000,000	5,000,000	6,053,523	1,053,523
Restaurant food taxes	19,700,000	19,700,000	21,680,488	1,980,488
Estate probate taxes	27,600	27,600	27,896	296
Emergency 911 taxes	-	-	-	-
Short term rental tax	170,000	170,000	230,898	60,898
Total other local taxes	<u>126,704,700</u>	<u>126,704,700</u>	<u>128,453,471</u>	<u>1,748,771</u>
Permits, privilege fees and regulatory licenses:				
Animal licenses	42,900	42,900	54,484	11,584
Permits and other licenses	2,685,300	2,685,300	2,918,127	232,827
Total permits, privilege fees and regulatory licenses	<u>2,728,200</u>	<u>2,728,200</u>	<u>2,972,611</u>	<u>244,411</u>
Fines and forfeitures	1,593,200	1,593,200	1,569,454	(23,746)
Use of money and property				
Use of money	2,078,300	2,078,300	1,793,781	(284,519)
Use of property	5,613,300	5,613,300	5,795,949	182,649
Total use of money and property	<u>\$ 7,691,600</u>	<u>\$ 7,691,600</u>	<u>\$ 7,589,730</u>	<u>\$ (101,870)</u>

CITY OF NORFOLK, VIRGINIA
Schedule of Revenue, Budget and Actual
General Fund
For the Year Ended June 30, 2003

Exhibit E-1
Continued

	Original Budget	Final Budget	Budget Basis Actual	Positive (negative) Variance
Revenue from local sources (continued):				
Charges for services:				
Information system charges	\$ 7,200	\$ 7,200	\$ 7,363	\$ 163
Court costs	834,800	834,800	638,637	(196,163)
High constable fees	540,000	540,000	452,926	(87,074)
Charges for:				
Law enforcement and traffic control	427,100	427,100	300,635	(126,465)
Fire and rescue services	1,837,088	1,837,088	1,123,758	(713,330)
Correction and detention	77,600	77,600	158,800	81,200
Other protection	59,100	59,100	107,261	48,161
Maintenance of highways, streets, bridges and sidewalks	450,500	750,500	480,629	(269,871)
Sanitation and waste removal	7,302,200	7,302,200	7,414,147	111,947
Parks and recreation	413,500	413,500	617,261	203,761
Library	80,200	80,200	120,962	40,762
Planning and community development	23,700	23,700	36,036	12,336
Education	2,553,412	2,553,412	2,315,728	(237,684)
Insurance	125,000	125,000	100,000	(25,000)
Total charges for services	<u>14,731,400</u>	<u>15,031,400</u>	<u>13,874,143</u>	<u>(1,157,257)</u>
Miscellaneous:				
Payment in lieu of taxes from other localities/authorities	3,680,000	3,680,000	3,506,471	(173,529)
Miscellaneous	99,000	99,000	1,132,011	1,033,011
Total miscellaneous	<u>3,779,000</u>	<u>3,779,000</u>	<u>4,638,482</u>	<u>859,482</u>
Recovered costs:				
Courts	221,200	221,200	166,593	(54,607)
Maintenance of general buildings and grounds	1,600,000	1,600,000	1,294,492	(305,508)
Parks and recreation	3,000	3,000	5,226	2,226
General services	8,658,200	8,658,200	8,082,574	(575,626)
General administration	305,000	305,000	289,035	(15,965)
Total recovered costs	<u>10,787,400</u>	<u>10,787,400</u>	<u>9,837,920</u>	<u>(949,480)</u>
Total revenue from local sources	<u>\$339,924,800</u>	<u>\$340,224,800</u>	<u>\$337,828,530</u>	<u>\$ (2,396,270)</u>

CITY OF NORFOLK, VIRGINIA
Schedule of Revenue, Budget and Actual
General Fund
For the Year Ended June 30, 2003

Exhibit E-1
Continued

	Original Budget	Final Budget	Budget Basis Actual	Positive (negative) Variance
Revenue from the Commonwealth:				
Noncategorical aid:				
ABC profits	\$ 283,950	\$ 283,950	\$ 283,631	\$ (319)
Wine taxes	321,210	321,210	262,624	(58,586)
Rolling stock taxes	150,970	150,970	153,509	2,539
Mobile home titling taxes	25,000	25,000	7,614	(17,386)
Rental of passenger car taxes	2,653,000	2,653,000	2,863,875	210,875
Local law enforcement	12,470,120	12,470,120	12,076,575	(393,545)
Grantors' tax on deeds	300,050	300,050	384,670	84,620
State share - personal property taxes	13,739,600	13,739,600	15,602,331	1,862,731
Total noncategorical aid	<u>29,943,900</u>	<u>29,943,900</u>	<u>31,634,829</u>	<u>1,690,929</u>
Shared expenses:				
Commonwealth's Attorney	2,095,786	2,095,786	1,947,474	(148,312)
City Sheriff	13,147,906	13,147,906	12,868,759	(279,147)
Commissioner of the Revenue	600,143	600,143	543,185	(56,958)
City Treasurer	610,110	610,110	550,045	(60,065)
Medical Examiner	5,487	5,487	4,740	(747)
Registrar/Electoral Board	74,868	74,868	75,953	1,085
Total shared expenses	<u>16,534,300</u>	<u>16,534,300</u>	<u>15,990,156</u>	<u>(544,144)</u>
Public assistance:				
Public assistance grants	16,211,000	16,211,000	13,894,951	(2,316,049)
Social services administration	18,001,900	18,001,900	18,507,890	505,990
Total public assistance	<u>34,212,900</u>	<u>34,212,900</u>	<u>32,402,841</u>	<u>(1,810,059)</u>
Education:				
State sales tax	27,195,200	27,195,200	25,531,397	(1,663,803)
State school funds	129,740,300	129,740,300	130,169,739	429,439
Total education	<u>156,935,500</u>	<u>156,935,500</u>	<u>155,701,136</u>	<u>(1,234,364)</u>
Other categorical aid:				
Street construction and maintenance	15,486,659	15,681,117	15,680,727	(390)
Group life insurance	28,600	28,600	13,252	(15,348)
Retirement - other state employees	35,800	35,800	34,332	(1,468)
Social security - other state employees	274,900	274,900	233,677	(41,223)
State library grant	1,881,100	1,881,100	1,825,135	(55,965)
Juvenile facilities	891,298	891,298	894,261	2,963
Local adult correctional facilities	4,150,038	4,150,038	3,468,040	(681,998)
Recordation tax	659,205	659,205	599,693	(59,512)
Total other categorical aid	<u>23,407,600</u>	<u>23,602,058</u>	<u>22,749,117</u>	<u>(852,941)</u>
Total revenue from the Commonwealth	<u>\$261,034,200</u>	<u>\$261,228,658</u>	<u>\$258,478,079</u>	<u>\$ (2,750,579)</u>

CITY OF NORFOLK, VIRGINIA
Schedule of Revenue, Budget and Actual
General Fund
For the Year Ended June 30, 2003

Exhibit E-1
Concluded

	Original Budget	Final Budget	Budget Basis Actual	Positive (negative) Variance
Revenue from the federal government:				
Categorical aid for education	\$ 5,920,640	\$ 5,920,640	\$ 7,592,520	\$ 1,671,880
Categorical aid - other	79,730	79,730	69,579	(10,151)
Total revenue from the federal government	<u>6,000,370</u>	<u>6,000,370</u>	<u>7,662,099</u>	<u>1,661,729</u>
Total revenue	<u>606,959,370</u>	<u>607,453,828</u>	<u>603,968,708</u>	<u>(3,485,120)</u>
Other financing sources:				
Proceeds from sale of land	750,000	750,000	29,046	(720,954)
Rollover from last year	14,889,730	15,283,730	15,283,730	-
Transfer from utility funds	9,390,000	9,528,060	9,528,060	-
Total other financing sources	<u>25,029,730</u>	<u>25,561,790</u>	<u>24,840,836</u>	<u>(720,954)</u>
Total revenue and other financing sources	<u><u>\$631,989,100</u></u>	<u><u>\$633,015,618</u></u>	<u><u>\$628,809,544</u></u>	<u><u>\$ (4,206,074)</u></u>

CITY OF NORFOLK, VIRGINIA
Schedule of Expenditures, Budget and Actual
General Fund
For the Year Ended June 30, 2003

Exhibit E-2

Function, Activity and Element	Original Budget	Final Budget	Budget Basis Actual	Positive (negative) Variance
General government administration:				
Legislative:				
City Council	\$ 299,300	\$ 299,300	\$ 312,179	\$ (12,879)
City Clerk	697,900	798,513	828,059	(29,546)
Total legislative	<u>997,200</u>	<u>1,097,813</u>	<u>1,140,238</u>	<u>(42,425)</u>
General and financial administration:				
City Manager	1,210,800	1,174,800	1,139,822	34,978
Office of Budget and Management	769,500	724,659	749,007	(24,348)
Human Resources	2,884,552	2,970,552	2,869,254	101,298
City Attorney	2,630,100	2,630,100	2,693,403	(63,303)
External auditor	187,600	154,239	154,239	-
City Auditor	371,900	371,900	390,900	(19,000)
Commissioner of the Revenue	2,598,400	2,605,400	2,564,899	40,501
City Real Estate Assessor	1,182,100	1,182,100	1,232,113	(50,013)
City Treasurer	1,761,900	1,768,200	1,777,863	(9,663)
Director of Finance	477,060	602,969	609,831	(6,862)
City Controller	937,159	845,611	957,864	(112,253)
Retirement administration	386,675	386,675	319,656	67,019
Purchasing Agent	429,806	428,806	422,105	6,701
Membership and dues	412,000	201,417	193,662	7,755
Records management	158,700	158,700	157,606	1,094
System development support	900,000	900,000	874,876	25,124
Information Systems	6,153,500	6,288,324	6,378,394	(90,070)
Indirect costs - storehouse	125,000	125,000	124,974	26
Operational savings	(1,700,000)	(1,521,688)	-	(1,521,688)
Gainsharing	718,000	743,426	390,580	352,846
Municipal Parking	1,414,800	1,414,800	1,414,846	(46)
Total general and financial administration	<u>24,009,552</u>	<u>24,155,990</u>	<u>25,415,894</u>	<u>(1,259,904)</u>
Board of Elections:				
Electoral Board and officials	79,724	79,724	81,901	(2,177)
Registrar	339,876	339,876	349,159	(9,283)
Total board of elections	<u>419,600</u>	<u>419,600</u>	<u>431,060</u>	<u>(11,460)</u>
Total general government administration	<u>\$ 25,426,352</u>	<u>\$ 25,673,403</u>	<u>\$ 26,987,192</u>	<u>\$ (1,313,789)</u>
Judicial administration:				
Courts:				
Circuit Court	\$ 889,600	\$ 889,600	\$ 826,392	\$ 63,208
Juvenile and Domestic Relations Court	95,700	95,700	60,970	34,730
District Court	692,800	804,924	778,802	26,122
City Sheriff	1,858,055	1,875,968	1,889,884	(13,916)
Total courts	<u>3,536,155</u>	<u>3,666,192</u>	<u>3,556,048</u>	<u>110,144</u>
Commonwealth's Attorney	3,921,300	3,797,988	3,830,306	(32,318)
Total judicial administration	<u>7,457,455</u>	<u>7,464,180</u>	<u>7,386,354</u>	<u>77,826</u>
Public safety:				
Law enforcement and traffic control:				
Department of Police	53,564,548	52,334,872	51,089,884	1,244,988
City Sheriff	24,822,245	25,182,392	25,411,746	(229,354)
Total law enforcement and traffic control	<u>78,386,793</u>	<u>77,517,264</u>	<u>76,501,630</u>	<u>1,015,634</u>

CITY OF NORFOLK, VIRGINIA
Schedule of Expenditures, Budget and Actual
General Fund
For the Year Ended June 30, 2003

Exhibit E-2
Continued

	Original Budget	Final Budget	Budget Basis Actual	Positive (negative) Variance
Fire and paramedical services:				
Department of Fire and Paramedical Services	27,399,200	27,402,100	27,787,870	(385,770)
Correction and detention - probation office	6,510,191	6,904,585	6,470,794	433,791
Neighborhood preservation - inspections	3,345,063	3,345,063	3,587,719	(242,656)
Other protection:				
Civil Emergency Services	279,000	323,841	304,029	19,812
Radio and electronics	387,200	387,200	382,615	4,585
Total other protection	666,200	711,041	686,644	24,397
Total public safety	<u>\$ 116,307,447</u>	<u>\$ 115,880,053</u>	<u>\$ 115,034,657</u>	<u>\$ 845,396</u>
Public Works:				
Maintenance of highways, streets, bridges and sidewalks:				
Administration	\$ 730,935	\$ 738,895	\$ 671,481	\$ 67,414
Highways, streets, bridges and sidewalks	5,723,969	10,602,548	10,419,696	182,852
Street lights	8,190,121	4,146,000	3,845,957	300,043
Bureau of Design	1,751,081	1,830,081	1,798,622	31,459
Traffic engineering	2,718,388	2,728,188	2,833,241	(105,053)
Surveys	732,175	732,175	717,750	14,425
Total maintenance of highways, streets, bridges and sidewalks	19,846,669	20,777,887	20,286,747	491,140
Sanitation and waste removal - refuse collection	11,706,531	11,681,531	12,094,620	(413,089)
Maintenance of general buildings and grounds	12,271,027	13,020,273	13,657,309	(637,036)
Total public works	<u>43,824,227</u>	<u>45,479,691</u>	<u>46,038,676</u>	<u>(558,985)</u>
Public health and assistance:				
Public health:				
Local Health Department	3,023,450	3,023,450	3,023,450	-
Supplement of local health department	1,355,149	1,364,306	1,313,630	50,676
Vector control	579,201	580,201	564,079	16,122
Medical Center Planning Board	1,700	1,700	1,357	343
Total public health	<u>4,959,500</u>	<u>4,969,657</u>	<u>4,902,516</u>	<u>67,141</u>
Mental Health and Mental Retardation	<u>2,057,600</u>	<u>2,057,600</u>	<u>2,057,600</u>	<u>-</u>
Public assistance:				
Public assistance - social services	46,076,709	45,561,880	44,166,107	1,395,773
State and local hospitalization	141,300	131,143	131,142	1
Total public assistance	<u>46,218,009</u>	<u>45,693,023</u>	<u>44,297,249</u>	<u>1,395,774</u>
Total public health and assistance	<u><u>\$ 53,235,109</u></u>	<u><u>\$ 52,720,280</u></u>	<u><u>\$ 51,257,365</u></u>	<u><u>\$ 1,462,915</u></u>

CITY OF NORFOLK, VIRGINIA
Schedule of Expenditures, Budget and Actual
General Fund
For the Year Ended June 30, 2003

Exhibit E-2
Continued

	Original Budget	Final Budget	Budget Basis Actual	Positive (negative) Variance
Education	\$ 254,269,200	\$ 254,269,200	\$ 252,421,205	\$ 1,847,995
Parks, recreation and cultural enrichment:				
Parks and recreation:				
Administration	393,101	525,536	381,959	143,577
Recreation centers and playgrounds	4,719,647	4,727,147	4,845,375	(118,228)
Parks and Forestry	5,916,636	5,916,636	5,906,374	10,262
Neighborhood service centers	1,349,734	1,649,734	965,738	683,996
Cemeteries	60,100	60,100	60,100	-
Total parks and recreation	<u>12,439,218</u>	<u>12,879,153</u>	<u>12,159,546</u>	<u>719,607</u>
Cultural enrichment:				
Museums	2,746,294	2,753,987	2,753,898	89
Convention Center	3,586,503	3,789,377	3,903,400	(114,023)
Zoo	2,867,100	3,057,100	3,033,387	23,713
Metropolitan Park	248,903	248,903	223,974	24,929
Festevents	1,286,300	1,330,115	1,330,114	1
Friends of Fred Heutte	15,000	15,000	15,000	-
Norfolk Botanical Garden Society	1,044,700	1,044,700	1,044,700	-
Maritime Center	500,000	753,529	703,493	50,036
Total cultural enrichment	<u>12,294,800</u>	<u>12,992,711</u>	<u>13,007,966</u>	<u>(15,255)</u>
Library administration				
Total parks, recreation and cultural enrichment	<u>5,487,600</u>	<u>5,525,428</u>	<u>5,545,412</u>	<u>(19,984)</u>
Total parks, recreation and cultural enrichment	<u>30,221,618</u>	<u>31,397,292</u>	<u>30,712,924</u>	<u>684,368</u>
Community development:				
Director of City Planning	625,588	625,588	577,578	48,010
Community development	11,250,004	11,824,821	11,158,256	666,565
Communications and marketing	5,688,400	5,658,400	4,623,240	1,035,160
Chamber of Commerce	8,000	8,000	8,000	-
Innovative Group	5,300	5,300	5,288	12
Total community development	<u>\$ 17,577,292</u>	<u>\$ 18,122,109</u>	<u>\$ 16,372,362</u>	<u>\$ 1,749,747</u>

CITY OF NORFOLK, VIRGINIA
Schedule of Expenditures, Budget and Actual
General Fund
For the Year Ended June 30, 2003

Exhibit E-2
Concluded

	Original Budget	Final Budget	Budget Basis Actual	Positive (negative) Variance
General services:				
Contingent fund	\$ 4,600,000	\$ 3,441,341	\$ -	\$ 3,441,341
Workers' compensation and medical expenses	2,367,000	2,257,000	2,197,342	59,658
Industrial Commission of Virginia	4,198,000	4,508,000	4,381,526	126,474
Medical College of Hampton Roads	591,600	591,600	591,600	-
Refunds chargeable to appropriations	650,000	650,000	649,935	65
Tidewater Transportation District Commission	3,662,800	3,337,583	3,276,830	60,753
Hospital insurance	2,500,000	4,100,000	4,100,000	-
Special purpose appropriation	943,100	1,048,730	1,038,848	9,882
Retirement benefit reserve	147,000	147,000	110,000	37,000
Unemployment compensation	62,000	140,005	140,005	-
NRHA administrative support	1,682,300	1,682,300	1,549,336	132,964
Total general services	<u>21,403,800</u>	<u>21,903,559</u>	<u>18,035,422</u>	<u>3,868,137</u>
Debt service:				
Principal retirement of capital leases and				
General obligation bonds	\$ 49,126,571	\$ 47,033,042	\$ 45,482,422	\$ 1,550,620
Interest	6,615,300	6,548,080	4,815,165	1,732,915
Fiscal charges	428,750	428,750	290,862	137,888
Bond issuance costs	838,779	838,779	838,778	1
Transfer to CIP	5,257,200	5,257,200	5,257,200	-
Total debt service	<u>62,266,600</u>	<u>60,105,851</u>	<u>56,684,427</u>	<u>3,421,424</u>
Total expenditures and other financing uses	<u>\$ 631,989,100</u>	<u>\$ 633,015,618</u>	<u>\$ 620,930,584</u>	<u>\$ 12,085,034</u>

CITY OF NORFOLK, VIRGINIA

Notes to Required Supplementary Information
Reconciliation of (non-GAAP) Budgetary Basis to GAAP
June 30, 2003

	General Fund
<u>Sources/inflows of resources:</u>	
Actual amounts (budgetary basis) "available for appropriation" from the Budget to Actual Comparison Statement	\$ 628,809,544
Differences--budget to GAAP: The effects of accounting for School Revenue as a Component Unit	(165,896,710)
The effects of accounting for revenue on a modified accrual basis Proceeds from capital leases	(14,889,730) -
General fund transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(10,044,504)
Other governmental fund transfers to/from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(281,697)
The Traffic Operations and Tax Incentive funds are governmental in nature of operations and thus are merged into the governmental fund balances on a GAAP basis, on a budgetary basis these funds are separate from the general fund	83,912
The proceeds from the sale of the land are budgetary resources but are regarded as a special item, rather than revenue, for financial reporting purposes Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	(29,046) <u>\$ 437,751,769</u>
<u>Uses/outflows of resources:</u>	
Actual amounts (budgetary basis) "Total charges to appropriations" from the Budget to Actual Comparison Statement	\$ 620,930,584
Differences--budget to GAAP: The effects of accounting for School Revenue as a Component Unit	(163,561,542)
The effects of accounting for expenditures on a modified accrual basis 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	7,503,072 38,761
The Traffic Operations and Tax Incentive funds are governmental in nature of operations and thus are merged into the governmental fund balances on a GAAP basis, on a budgetary basis these funds are separate from the general fund	84,315
General fund transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(62,412,483)
Other governmental fund transfers to/from other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	603,871
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances--Governmental Funds	<u>\$ 403,186,578</u>

There were no material violations of the annual appropriated budget for the General Fund for the fiscal year ended June 30, 2003. In addition, there were no excesses of budgetary for the period for the General Fund.

The Storehouse Internal Service Fund exceeded its expenditure budget by \$117,121 with the understanding that sufficient fund balances were present within the fund to cover the deficit. (see Exhibit J-2)

OTHER SUPPLEMENTARY INFORMATION

COMBINING FINANCIAL STATEMENTS

~ Nonmajor Governmental Funds ~

~ Internal Service Funds ~

OTHER SCHEDULES

**~ 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 ~**

~ Schedule of Expenditures of Federal Awards ~

~ Note to Schedule of Expenditures of Federal Awards ~

Nonmajor Governmental Funds

Special Revenue Funds

The Special Revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes. 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.

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.

National Maritime Center (Nauticus) Fund: To account for the operation of the National Maritime Center and Battleship Wisconsin tours.

Expendable Trust and Agency Fund: To account for monies held by the City of Norfolk as a trustee. The resources of this fund are received and subsequently expended in such functions as public works, parks and recreation and libraries.

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

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

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

Land Acquisition Fund: To provide resources to assemble land that is in the public interest.

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

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

Nonmajor Governmental Funds (Con't)

Permanent Fund

The Permanent funds are used to report resources that are legally restricted to the extent that only earning, 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.

CITY OF NORFOLK, VIRGINIA
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2003

Special Revenue Funds						
	Storm Water	Towing	Grants	Community Development	Nauticus	Cemetery
ASSETS						
Cash and cash equivalents	\$ 423,507	\$ 75,564	\$ 8,329,948	\$ 153,805	\$ 16,695	\$ 2,588
Receivables, net	960,189	65,715	250,072	1,018,731	275,151	231,430
Due from other funds	-	-	272,550	-	-	-
Due from agency fund	-	-	-	-	1,214	-
Receivable from other governments	-	-	5,788,094	200,918	-	-
Total assets	\$ 1,383,696	\$ 141,279	\$ 14,640,664	\$ 1,373,454	\$ 293,060	\$ 234,018
LIABILITIES						
Vouchers/Accounts payable	\$ 113,763	\$ 13,458	\$ 1,781,460	\$ 354,723	\$ 110,348	\$ 25,333
Contract retainage	-	-	110,117	-	-	-
Accrued payroll	57,813	6,539	-	-	-	25,545
Due to other funds	11,872	28,007	828	-	592,488	229,090
Due to agency fund	-	-	2,606	-	40	-
Deferred revenue	237,228	-	-	1,018,731	-	-
Other liabilities	-	10,045	-	-	5,553	-
Total liabilities	420,676	58,049	1,895,011	1,373,454	708,429	279,968
FUND BALANCES						
Reserved for:						
Encumbrances	286,630	35,957	971,397	462,958	22,691	43,562
Perpetual care	-	-	-	-	-	-
Capital projects	440,611	-	-	-	-	-
Unreserved:						
Designated	-	-	11,774,256	-	-	-
Undesignated	235,779	47,273	-	(462,958)	(438,060)	(89,512)
Total fund balances	963,020	83,230	12,745,653	-	(415,369)	(45,950)
Total liabilities and fund balances	\$ 1,383,696	\$ 141,279	\$ 14,640,664	\$ 1,373,454	\$ 293,060	\$ 234,018

CITY OF NORFOLK, VIRGINIA

Exhibit F-1

Golf Fund	Special Revenue Funds					Permanent Funds		Nonmajor Governmental Funds
	Public Amenities	Land Acquisition	EOC/ 911	Expendable Trust	Total Special Revenue	Non- Expendable trust		
\$ 246,781	\$ 1,939,349	\$ 332,361	\$ 982,254	\$ 211,512	\$ 12,714,364	\$ 4,809,445	\$ 17,523,809	
-	448,806	-	105,344	-	3,355,438	1,033,833	4,389,271	
-	-	-	-	385	272,935	-	272,935	
-	-	-	-	-	1,214	-	1,214	
-	-	-	-	-	5,989,012	-	5,989,012	
\$ 246,781	\$ 2,388,155	\$ 332,361	\$ 1,087,598	\$ 211,897	\$ 22,332,963	\$ 5,843,278	\$ 28,176,241	
 \$ 355	 \$ 72,612	 \$ -	 \$ 37,747	 \$ 7,678	 \$ 2,517,477	 \$ 150,000	 \$ 2,667,477	
-	-	-	-	-	110,117	-	110,117	
-	-	-	67,129	-	157,026	-	157,026	
175,000	-	-	-	-	1,037,285	-	1,037,285	
-	-	-	-	8,486	11,132	-	11,132	
-	-	-	-	-	1,255,959	-	1,255,959	
-	-	-	-	-	15,598	-	15,598	
175,355	72,612	-	104,876	16,164	5,104,594	150,000	5,254,594	
 9,000	 122,388	 -	 -	 -	 1,954,583	 -	 1,954,583	
-	-	-	-	-	-	5,693,278	5,693,278	
-	-	-	-	-	440,611	-	440,611	
-	-	-	-	-	11,774,256	-	11,774,256	
62,426	2,193,155	332,361	982,722	195,733	3,058,919	-	3,058,919	
71,426	2,315,543	332,361	982,722	195,733	17,228,369	5,693,278	22,921,647	
\$ 246,781	\$ 2,388,155	\$ 332,361	\$ 1,087,598	\$ 211,897	\$ 22,332,963	\$ 5,843,278	\$ 28,176,241	

CITY OF NORFOLK, VIRGINIA

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2003

Special Revenue Funds						
	Storm Water	Towing	Grants	Community Development	Nauticus	Cemetery
REVENUES						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Use of money and property	27,006	923	63,504	876,312	-	-
Charges for services	7,195,877	1,080,188	-	-	2,796,121	1,528,027
Miscellaneous	192,858	29,680	18,566,096	95,529	-	-
Intergovernmental:						
Commonwealth of Virginia	-	-	10,726,562	-	-	-
Federal government	-	-	10,712,940	6,561,677	223,133	-
Total revenue	<u>\$ 7,415,741</u>	<u>\$ 1,110,791</u>	<u>\$ 40,069,102</u>	<u>\$ 7,533,518</u>	<u>\$ 3,019,254</u>	<u>\$ 1,528,027</u>
EXPENDITURES						
General government administration	\$ -	\$ -	\$ 17,337,815	\$ 175,664	\$ -	\$ -
Judicial administration	-	-	1,934,692	-	-	-
Public safety	-	-	2,160,831	235,321	-	-
Public works	5,447,551	1,027,561	7,006,320	-	-	-
Health and public assistance	-	-	17,101,091	1,279,948	-	-
Cultural and recreational	-	-	1,348,968	-	3,798,153	1,634,077
Intergovernmental	-	-	1,985,736	6,075,435	-	-
Capital outlay	-	-	-	-	-	-
Total liabilities	<u>5,447,551</u>	<u>1,027,561</u>	<u>48,875,453</u>	<u>7,766,368</u>	<u>3,798,153</u>	<u>1,634,077</u>
Excess (deficiency) of revenue over expenditures	<u>1,968,190</u>	<u>83,230</u>	<u>(8,806,351)</u>	<u>(232,850)</u>	<u>(778,899)</u>	<u>(106,050)</u>
OTHER FINANCING SOURCES (USES)						
Proceeds of sale of land	-	-	3,400,000	232,850	-	-
Bond proceeds	-	-	3,400,000	-	-	-
Purchase of land	-	-	(3,400,000)	-	-	-
Transfers in	-	-	7,841,890	-	500,000	60,100
Transfers out	(3,160,685)	-	(201,564)	-	(109,000)	-
Total other financing sources and uses	<u>(3,160,685)</u>	<u>-</u>	<u>11,040,326</u>	<u>232,850</u>	<u>391,000</u>	<u>60,100</u>
Net change in fund balances	<u>(1,192,495)</u>	<u>83,230</u>	<u>2,233,975</u>	<u>-</u>	<u>(387,899)</u>	<u>(45,950)</u>
Fund balances--beginning	<u>2,155,515</u>	<u>-</u>	<u>10,511,678</u>	<u>-</u>	<u>(27,470)</u>	<u>-</u>
Fund balances--ending	<u>\$ 963,020</u>	<u>\$ 83,230</u>	<u>\$ 12,745,653</u>	<u>\$ -</u>	<u>\$ (415,369)</u>	<u>\$ (45,950)</u>

CITY OF NORFOLK, VIRGINIA

Exhibit F-2

Special Revenue Funds							Permanent Funds	Total Nonmajor Governmental Funds	
Golf Fund	Public Amenities	Land Acquisition	EOC/ 911	Expendable Trust	Total Special Revenue	Non-Expendable trust			
\$ -	\$ 4,393,155	\$ -	\$ -	\$ -	\$ 4,393,155	\$ -	\$ 4,393,155		
-	-	-	2,939	1,504	972,188	268,790	1,240,978		
682,718	-	-	4,302,966	-	17,585,897	162,075	17,747,972		
601,081	-	-	-	191,566	19,676,810	-	19,676,810		
-	-	-	-	-	10,726,562	-	10,726,562		
-	-	-	-	-	17,497,750	-	17,497,750		
\$ 1,283,799	\$ 4,393,155	\$ -	\$ 4,305,905	\$ 193,070	\$ 70,852,362	\$ 430,865	\$ 71,283,227		
\$ -	\$ -	\$ -	\$ -	\$ 205,687	17,719,166	\$ -	\$ 17,719,166		
-	-	-	-	-	1,934,692	-	1,934,692		
-	-	-	3,808,751	-	6,204,903	-	6,204,903		
-	-	-	-	-	13,481,432	-	13,481,432		
-	-	-	-	-	18,381,039	-	18,381,039		
712,373	377,612	-	-	-	7,871,183	318,788	8,189,971		
-	-	-	-	-	8,061,171	-	8,061,171		
-	-	2,167,639	-	-	2,167,639	-	2,167,639		
712,373	377,612	2,167,639	3,808,751	205,687	75,821,225	318,788	76,140,013		
571,426	4,015,543	(2,167,639)	497,154	(12,617)	(4,968,863)	112,077	(4,856,786)		
-	-	-	-	-	3,632,850	-	3,632,850		
-	-	-	-	-	3,400,000	-	3,400,000		
-	-	2,500,000	485,568	-	(3,400,000)	-	(3,400,000)		
(500,000)	(1,700,000)	-	-	(1,504)	11,387,558	-	11,387,558		
(500,000)	(1,700,000)	2,500,000	485,568	(1,504)	(5,672,753)	-	(5,672,753)		
71,426	2,315,543	332,361	982,722	(14,121)	4,378,792	112,077	4,490,869		
\$ 71,426	\$ 2,315,543	\$ 332,361	\$ 982,722	\$ 195,733	\$ 12,849,577	\$ 5,581,201	\$ 18,430,778		
					\$ 17,228,369	\$ 5,693,278	\$ 22,921,647		



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CITY OF NORFOLK, VIRGINIA**Exhibit G-1****Combining Balance Sheet - Agency Funds**
June 30, 2003

	Commonwealth of Virginia			
	Other	Virginia		Totals
ASSETS				
Cash and cash equivalents	\$ 2,782,599	\$ 14,664	\$	2,797,263
Receivables:				
Accounts, net of allowance for uncollectible accounts	7,302	-		7,302
Due from other funds	115,989	-		115,989
Total assets	<u>\$ 2,905,890</u>	<u>\$ 14,664</u>		<u>\$ 2,920,554</u>
LIABILITIES				
Vouchers payable	\$ 1,299,481	\$ -	\$	1,299,481
Due to other funds	307,128	-		307,128
Other liabilities	1,299,281	14,664		1,313,945
Total liabilities	<u>\$ 2,905,890</u>	<u>\$ 14,664</u>		<u>\$ 2,920,554</u>

CITY OF NORFOLK, VIRGINIA**Exhibit G-2****Combining Statement of Changes in Assets and Liabilities**
Agency Funds
June 30, 2003

	Balance July, 1,2002	Additions	Deductions	Balance June, 30,2003
ASSETS				
Cash and cash equivalents	\$ 2,501,312	\$ 13,448,840	\$ 13,153,164	\$ 2,796,988
Accounts receivable	2,546	10,726	5,970	7,302
Due from other funds	642	166,927	51,305	116,264
Total assets	<u>\$ 2,504,500</u>	<u>\$ 13,626,493</u>	<u>\$ 13,210,439</u>	<u>\$ 2,920,554</u>
LIABILITIES				
Vouchers payable	\$ 1,111,895	\$ 3,439,248	\$ 3,254,634	\$ 1,296,509
Due to other funds	137,431	525,991	356,294	307,128
Other liabilities	1,255,174	11,239,630	11,177,887	1,316,917
Total liabilities	<u>\$ 2,504,500</u>	<u>\$ 15,204,869</u>	<u>\$ 14,788,815</u>	<u>\$ 2,920,554</u>

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



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CITY OF NORFOLK, VIRGINIA
Combining Statement of Net Assets - Internal Service Funds
June 30, 2003

Exhibit H-1

	Storehouse	Fleet Management	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 32,856	\$ 2,000,832	\$ 2,033,688
Receivables, net	582	225,577	226,159
Inventories	<u>1,270,131</u>	<u>394,599</u>	<u>1,664,730</u>
Total current assets	<u>1,303,569</u>	<u>2,621,008</u>	<u>3,924,577</u>
Noncurrent assets:			
Capital assets:			
Buildings and equipment, net	<u>14,680</u>	<u>6,944,518</u>	<u>6,959,198</u>
Total noncurrent assets	<u>14,680</u>	<u>6,944,518</u>	<u>6,959,198</u>
Total assets	<u>\$ 1,318,249</u>	<u>\$ 9,565,526</u>	<u>\$ 10,883,775</u>
LIABILITIES			
Current liabilities:			
Vouchers/accounts payable	\$ 21,370	\$ 156,051	\$ 177,421
Due to other funds	-	14,049	14,049
Due to agency fund	-	470	470
Compensated absences	<u>27,073</u>	<u>158,742</u>	<u>185,815</u>
Accrued payroll	<u>8,559</u>	<u>56,361</u>	<u>64,920</u>
Obligations for Employees Retirement System	<u>37,638</u>	<u>243,397</u>	<u>281,035</u>
Total current liabilities	<u>94,640</u>	<u>629,070</u>	<u>723,710</u>
Noncurrent liabilities:			
Compensated absences	<u>6,351</u>	<u>85,477</u>	<u>91,828</u>
Other long-term liabilities	<u>-</u>	<u>122,331</u>	<u>122,331</u>
Total noncurrent liabilities	<u>6,351</u>	<u>207,808</u>	<u>214,159</u>
Total liabilities	<u>\$ 100,991</u>	<u>\$ 836,878</u>	<u>\$ 937,869</u>
NET ASSETS			
Invested in capital assets, net			
of related debt	14,680	6,822,187	6,836,867
Unrestricted	<u>1,202,578</u>	<u>1,906,461</u>	<u>3,109,039</u>
Total net assets	<u>1,217,258</u>	<u>8,728,648</u>	<u>9,945,906</u>

CITY OF NORFOLK, VIRGINIA
Combining Statement of Revenues, Expenses, and
Changes in Fund Net Assets - Internal Service Funds
For the Year Ended June 30, 2003

Exhibit H-2

	Storehouse	Fleet Management	Total
Operating revenue:			
Charges for services	\$ 2,615,780	\$ 6,784,052	\$ 9,399,832
Miscellaneous	1,468	-	1,468
Total operating revenue	<u>2,617,248</u>	<u>6,784,052</u>	<u>9,401,300</u>
Operating expenses:			
Personal services	400,368	2,652,881	3,053,249
Cost of goods sold	2,109,629	3,920,241	6,029,870
Plant operations	5,626	128,490	134,116
Depreciation	13,209	349,349	362,558
Retirement contribution	37,638	243,397	281,035
Other	37,748	84,809	122,557
Total operating expenses	<u>2,604,218</u>	<u>7,379,167</u>	<u>9,983,385</u>
Operating income (loss)	<u>13,030</u>	<u>(595,115)</u>	<u>(582,085)</u>
Nonoperating revenue (expenses):			
Interest and investment revenue	1,504	21,417	22,921
Total nonoperating revenue (expenses)	<u>1,504</u>	<u>21,417</u>	<u>22,921</u>
Net income (loss) before Change in net assets	<u>14,534</u>	<u>(573,698)</u>	<u>(559,164)</u>
Net assets--beginning	1,202,724	9,302,346	10,505,070
Net assets--ending	<u>\$ 1,217,258</u>	<u>\$ 8,728,648</u>	<u>\$ 9,945,906</u>

CITY OF NORFOLK, VIRGINIA
Combining Statement of Cash Flows - Internal Service Funds
For the Year Ended June 30, 2003

Exhibit H-3

	Storehouse	Fleet	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 2,616,745	\$ 6,668,742	\$ 9,285,487
Payments to suppliers	(2,249,513)	(4,108,251)	(6,357,764)
Payments to employees	(402,027)	(2,658,737)	(3,060,764)
Net cash provided (used) by operating activities	<u>(34,795)</u>	<u>(98,246)</u>	<u>(133,041)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal paid on capital debt	-	(61,358)	(61,358)
Net cash provided (used) by capital and related financing activities	<u>-</u>	<u>(61,358)</u>	<u>(61,358)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	1,502	21,417	22,919
Net cash provided by investing activities	<u>1,502</u>	<u>21,417</u>	<u>22,919</u>
Net increase (decrease) in cash and cash equivalents	(33,293)	(138,187)	(171,480)
Cash and cash equivalents - beginning of the year	66,149	2,139,019	2,205,168
Cash and cash equivalents - end of the year	<u>\$ 32,856</u>	<u>\$ 2,000,832</u>	<u>\$ 2,033,688</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating income (loss)	\$ 13,030	\$ (595,115)	\$ (582,085)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	13,209	349,349	362,558
Change in assets and liabilities:			
Receivables, net	(503)	(115,310)	(115,813)
Internal balances	-	14,469	14,469
Inventories	(84,415)	1,651	(82,764)
Other assets/prepaid expenses	(1,000)	-	(1,000)
Accounts/vouchers payables	(16,204)	42,988	26,784
Accrued payroll	-	56,361	56,361
Obligation for Employees' Retirement System	37,638	243,397	281,035
Other liabilities	3,450	(96,036)	(92,586)
Net cash provided by operating activities	<u>\$ (34,795)</u>	<u>\$ (98,246)</u>	<u>\$ (133,041)</u>
Noncash investing, capital, and financing activities:			
Write-off of impaired fixed assets	\$ -	\$ -	\$ -



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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2003

Federal Granting Agency/Recipient Recipient State Agency/Grant program	CFDA Number	Federal Expenditures
<u>Department of Agriculture:</u>		
Direct Payments:		
Food Stamp Program - Administration	10.561	\$ 3,623,545
Pass-through Payments:		
State Department of Agriculture:		
National School Lunch Program (Commodities)	10.550	4,083
National School Lunch Program (Commodities)	10.555	1,394,992
National School Breakfast Program	10.553	1,784,567
National School Lunch Program	10.555	6,921,415
USDA Summer Food Service Program (SFSP)	10.559	205,631
<u>Department of Housing and Urban Development:</u>		
Direct Payments:		
Community Development Block Grant	14.218	6,561,677
Emergency Shelter Grant - Administration	14.231	12,100
Planning Council	14.231	25,999
Ecumenical Family Services	14.231	94,502
For Kids, Inc. Haven Family Services	14.231	83,179
The Homeless Prevention Program	14.231	12,629
YWCA Shelter Program	14.231	18,702
The Shelter Plus Care Program	14.239	164,515
Home Loan Program	14.239	791,114
Home Investment Partnership	14.239	1,288,513
<u>US Department of the Interior</u>		
Pass-Through Payments:		
Elizabeth River Trail	15.921	15,430
<u>Department of Justice:</u>		
Direct Payments:		
Community Oriented Policing Services:		
COPS Grant	16.710	143,246
Bureau of Justice Grant	16.710	(35,300)
Department of Justice	16.710	986,797
Bulletproof Vests Grant	16.607	4,805
Crime Prevention - Human Services	16.711	2,686
Federal Forfeiture - Special Police Grant	16.700	75,929
Juvenile Offender	16.542	48,029

CITY OF NORFOLK, VIRGINIA

Exhibit I
Continued

Schedule of Expenditures of Federal Awards **For the Year Ended June 30, 2003**

Federal Granting Agency/Recipient	CFDA Number	Federal Expenditures
Recipient State Agency/Grant program		
Pass-Through Payments:		
Department of Criminal Justice Services:		
Juvenile Accountability Incentive	16.523	66,537
Edward Byrne Memorial Grant	16.580	64
Victim Witness Assistance Program	16.540	290,772
Criminal History Improvement Program	16.540	(11,287)
Family Probation Services	16.540	36,662
Weekend Incentive and Sanction	16.540	9,030
VSTOP Prosecutorial Project	16.540	38,761
School Resource Officer Program	16.540	31,094
Post Traumatic Stress	16.540	(1,253)
Safe Neighborhood Grant	16.609	(23,404)
Universal Hiring Program	16.711	(15,059)
Juvenile Sex Offender	16.203	20,804
Local Law Enforcement	16.592	5,167
Department of Labor:		
Pass-Through Payments:		
Job Training Partnership Act	17.250	624,297
Local Partnership Grant	17.261	386,941
Department of Transportation:		
Pass-Through Payments:		
Virginia Port Authority	20.801	458,300
DMV DUI	20.600	5,074
Federal Transit Authority		
Pass-Through Payments:		
IV E. Human Resources Programs	20.511	316,606
Federal Emergency Management Agency:		
Federal Emergency Management Assistance (FEMA)	83.554	39,206
Civil Emergency	N/A	56,379
Department of Education:		
Direct Payments:		
School Assistance in Federally Affected Areas	84.041	6,680,410
Department of Defense	84.010	635,676
Pass-Through Payments:		
Department of Education:		
Education Consolidation and Improvement Act of 1981:		
Adult Education	84.002	376,762
Advanced placement	84.330	3,225
Title I:		
Educationally Deprived Children-		
Programs Operated by LEA's	84.010	9,550,311
Comprehensive School Reform Demonstration Progra	84.332	63,746
Chapter I:		
Evenstart Program	84.213	328,442
Title II:		
Eisenhower Mathematics and Science Education	84.281	248,210
Safe Schools Act of 1994:		

CITY OF NORFOLK, VIRGINIA

Exhibit I
Continued

Schedule of Expenditures of Federal Awards **For the Year Ended June 30, 2003**

Federal Granting Agency/Recipient	CFDA Number	Federal Expenditures
Recipient State Agency/Grant program		
Safe Schools Grant	84.277	1,972,505
Title VI:		
Negligent Delinquent Children	84.010	125,958
Elementary and Secondary Education Act (ESEA):		
Title VI-B:		
Assistance to States for Education of Handicapped Children:		
Handicapped State Grants	84.027	5,476,006
Alternate Assessment	84.027	195
Silver Grant	84.027	52,386
Handicapped Preschool Incentive Grant	84.173	283,688
Assistive Technology Grant	84.027	1,470
Title IV-B:		
Vocational Education:		
Consumer and Homemaking	84.048	979,288
313 Grant Part-H	84.027	7,748
Special Projects:		
Drug Free Act	84.186	391,703
Tidewater Regional Conference	84.186	406
ESEA, Chapter II	84.298	327,891
Collaborative Personnel Training	84.323	10,225
Class Size Reduction Incentive	84.340	470,065
McKinney Homeless Assistance	84.196	29,367
Teacher & Principal Training	84.367	1,470,737
Educate America Act - Goals 2000	84.276	176,476
Inservice Training - Goals 2000	84.276A	14,000
Smaller Learning Community	84.215L	128,897
School Emergency Response to Violence	84.184	3,395
Learn & Serve	94.004	19,244
Technology Literacy Challenge Fund	84.318	260,950
Reading Excellence	84.338	93,864
VA Parent Information & Resources	84.310	1,067
Refugee School Impact Grant	84.310	2,842

Department of the Navy:

Pass-Through Payments:		
NJROTC	N/A	276,434
Direct Payments:		
USS Wisconsin Grant	12.700	223,133

Department of Commerce:

Economic Development Administration:		
EDA - Economic Adjustment Implementation (01-49-03642)	11.307	20,561
Economic Development Support	11.302	

Environmental Protection Agency

Pass-Through Payments:		
Capitalization grant for clean water State revolving funds	66.458	4,038,300
Haynes Track Water Distribution	66.458	60,500

CITY OF NORFOLK, VIRGINIA

Exhibit I
Concluded

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2003

Federal Granting Agency/Recipient Recipient State Agency/Grant program	CFDA Number	Federal Expenditures
<u>Department of Health and Human Services:</u>		
Pass-Through Payments:		
Department of Mental Health and Mental Retardation:		
Family Support and Preservation - IV - B2	93.556	302,220
Temporary Assistance to Needy Families	93.558	3,888,499
Refugee and Entrant Assistance State Administered Prog	93.566	3,526
Local-Income Home Energy Assistance	93.568	70,554
Payments to States for Child Care Assistance	93.575	3,960,387
Child Care Development	93.596	2,229,244
Child Day Care	93.596	7,237
Foster Care - Title IV - E	93.658	2,794,590
Adoptive Assistance	93.659	389,085
Social Services Block Grant	93.667	3,120,642
Independent Living Initiative Program	93.674	79,494
Medical Assistance Program - Administrative	93.778	2,186,951
HIV/AIDS Grant	93.914	4,701,320
Ryan White HIV Grant	93.918B	77,693
Bon Secours Hospital	93.243	(120,170)
Sentara Health Systems	93.243	21,695
CHKD - Hospital-Based Eligibility	93.243	14,216
Depaul Eligibility Workers	93.243	84,259
Medicaid Eligibility Worker	93.243	24,293
State EOC WMD Equip	97.052	137,745
State EOC Study	97.052	48,695
Assistance to firefighters	97.056	70,839
Port Security	97.056	213,940
Vulnerability Assessment Grant	N/A	95,363
Federal Financial Participation Program	N/A	29,715
NICER	N/A	14,976
Detention Home Study	N/A	(12,001)
Other local grants (not specified)	N/A	159,094
Federal revenues for payment of Sheriff work force	N/A	13,200
CSA Administration	N/A	(19,832)
Totals		<u>85,957,027</u>

CITY OF NORFOLK, VIRGINIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2003

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, the School Board component unit and Community Services Board component unit, and excludes the component unit of the Norfolk Redevelopment and Housing Authority.

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:

General Fund	\$ 22,877,409
Special Revenue Funds	17,497,750
Component Unit - School Board	40,709,225
Total federal financial assistance reported in basic financial statements	<hr/> 81,084,384
Federal awards not reported as revenue in basic financial statements	
Donated food	834,343
Virginia Resource Authority loan (federal pass-through)	4,038,300
Total federal awards	<hr/> \$ 85,957,027
Reconciliation to Exhibit A-3	
Revenues from federal government	\$ 40,375,159
Revenues from Commonwealth of Virginia	90,695,675
Total intergovernmental revenue	<hr/> \$ 131,070,834

4. Relationship to Federal Financial Reports:

Amounts reported in the accompanying schedule agree substantially with the amounts reported in the federal financial reports except that certain federal financial reports are prepared on the cash basis of accounting and the schedule of expenditures of federal awards is prepared on the basis of accounting described in Note 2 above.

SCHEDULE OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL –

~Special Revenue Funds~

~Internal Service Funds~

~Capital Projects Fund~



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CITY OF NORFOLK, VA

Exhibit J-1

***Schedule of Revenues and Expenditures - Budget and Actual
Towing Recovery Operation
For the Year Ended June 30, 2003***

	<u>Budget</u>	<u>Actual</u>	Positive (negative) Variance
Revenues:			
Use of money and property	\$ -	\$ 923	\$ 923
Charges for services	1,045,400	1,080,188	34,788
Other	51,500	29,680	(21,820)
Total revenue	\$ 1,096,900	\$ 1,110,791	\$ 13,891
Expenditures:			
Towing recovery	\$ 1,096,900	\$ 1,027,561	\$ 69,339

CITY OF NORFOLK, VA
Schedule of Revenues and Expenditures - Budget and Actual
Storm Water Utility Fund
For the Year Ended June 30, 2003

Exhibit J-1
Continued

	<u>Budget</u>	<u>Actual</u>	Positive (negative) Variance
Revenues:			
Use of money and property	\$ 40,000	\$ 27,006	\$ (12,994)
Charges for services	7,373,000	7,195,877	(177,123)
Other	-	192,858	192,858
Total revenue	<u>\$ 7,413,000</u>	<u>\$ 7,415,741</u>	<u>\$ 2,741</u>
Expenditures:			
Storm water	<u>\$ 8,413,000</u>	<u>\$ 5,447,551</u>	<u>\$ 2,965,449</u>

CITY OF NORFOLK, VA
Schedule of Revenues and Expenditures - Budget and Actual
Nauticus
For the Year Ended June 30, 2003

Exhibit J-1
Continued

	Budget	Actual	Positive (negative) Variance
Revenues:			
Charges for services	<u>\$ 4,041,500</u>	<u>\$ 3,519,254</u>	<u>\$ (522,246)</u>
Expenditures:			
Operations	<u>\$ 4,041,500</u>	<u>\$ 3,907,153</u>	<u>\$ 134,347</u>

CITY OF NORFOLK, VA
Schedule of Revenues and Expenditures - Budget and Actual
Land Acquisition Fund
For the Year Ended June 30, 2003

Exhibit J-1
Continued

	Budget	Actual	Positive (negative) Variance
Revenues:			
Operating transfers in	\$ 2,500,000	\$ 2,500,000	\$ -
Total revenue	<u><u>\$ 2,500,000</u></u>	<u><u>\$ 2,500,000</u></u>	<u><u>\$ -</u></u>
Expenditures:			
Sale of land	<u><u>\$ 2,500,000</u></u>	<u><u>\$ 2,167,639</u></u>	<u><u>\$ 332,361</u></u>

CITY OF NORFOLK, VA
Schedule of Revenues and Expenditures - Budget and Actual
Golf Fund
For the Year Ended June 30, 2003

Exhibit J-1
Continued

	Budget	Actual	Positive (negative) Variance
Revenues:			
Charges for services	\$ 1,010,600	\$ 682,718	\$ (327,882)
Other	500,000	601,081	101,081
Total revenue	<u>\$ 1,510,600</u>	<u>\$ 1,283,799</u>	<u>\$ (226,801)</u>
Expenditures:			
Operations	<u>\$ 1,252,440</u>	<u>\$ 1,212,373</u>	<u>\$ 40,067</u>

CITY OF NORFOLK, VA
Schedule of Revenues and Expenditures - Budget and Actual
Emergency Operations Fund
For the Year Ended June 30, 2003

Exhibit J-1
Continued

	<u>Budget</u>	<u>Actual</u>	Positive (negative) Variance
Revenues:			
Taxes	\$ 3,419,000	\$ 3,372,603	\$ (46,397)
Use of money and property	-	2,939	2,939
Recovered cost	450,000	930,363	480,363
Total revenue	<u>\$ 3,869,000</u>	<u>\$ 4,305,905</u>	<u>\$ 436,905</u>
Expenditures:			
Operations	<u>\$ 3,869,000</u>	<u>\$ 3,808,751</u>	<u>\$ 60,249</u>

CITY OF NORFOLK, VA
Schedule of Revenues and Expenditures - Budget and Actual
Cemeteries Fund
For the Year Ended June 30, 2003

Exhibit J-1
Concluded

	Budget	Actual	Positive (negative) Variance
Revenues:			
Charges for services	<u>\$ 1,675,000</u>	<u>\$ 1,528,027</u>	<u>\$ (146,973)</u>
Expenditures:			
Operations	<u>\$ 1,675,000</u>	<u>\$ 1,634,077</u>	<u>\$ 40,923</u>

Schedule of Revenues and Expenditures - Budget and Actual
Fleet Internal Service Fund
For the Year Ended June 30, 2003

	<u>Budget</u>	<u>Actual</u>	<u>Positive (negative) Variance</u>
Revenues:			
Use of money and property	\$ 24,500	\$ -	\$ (24,500)
Charges for services	6,512,000	6,784,052	272,052
Other	175,500	7,400,584	7,225,084
Total revenue	\$ 6,712,000	\$ 14,184,636	\$ 7,472,636
Expenditures:			
Towing recovery	<u>\$ 1,096,900</u>	<u>\$ 1,056,797</u>	<u>\$ 40,103</u>

CITY OF NORFOLK, VA**Exhibit J-2**
Concluded***Schedule of Revenues and Expenditures - Budget and Actual***
Storehouse Internal Service Fund
For the Year Ended June 30, 2003

	<u>Budget</u>	<u>Actual</u>	<u>Positive (negative) Variance</u>
Revenues:			
Use of money and property	\$ 40,000	\$ 27,006	\$ (12,994)
Charges for services	7,373,000	7,238,300	(134,700)
Other	-	192,858	192,858
Total revenue	<u>\$ 7,413,000</u>	<u>\$ 7,458,164</u>	<u>\$ 45,164</u>
Expenditures:			
Storm water	<u>\$ 8,413,000</u>	<u>\$ 8,530,121</u>	<u>\$ (117,121)</u>

The Storehouse Internal Service Fund exceeded its expenditure budget by \$117,121 with the understanding that sufficient fund balances were present within the fund.

CITY OF NORFOLK, VIRGINIA

Exhibit J-3

Capital Improvement Program

Schedule of Expenditures-Budget and Actual

From Inception and for the Year Ended June 30, 2003

Capital Projects Description	Expenditures				
	Project Budget	Prior Years	Current	Total	Available
Community Development:					
Neighborhood Development	\$ 40,450,000	\$ 37,442,163	\$ 86,554	\$ 37,528,717	\$ 2,921,284
Neighborhood Conservation/Revitalization	32,825,876	22,274,894	7,321,113	29,596,007	3,229,869
Neighborhoods Commercial Improvements	8,546,000	7,230,352	351,925	7,582,277	963,723
Neighborhood Streets Improvements	2,700,000	1,069,062	541,162	1,610,224	1,089,776
Church Street Improvements	930,000	672,650	34,565	707,215	222,785
Broad Creek Renaissance	750,000	132,331	176,929	309,260	440,740
Disposition/Upgrade Properties	475,000	-	123,629	123,629	351,371
Acquisition of Lafayette Motor Hotel	450,000	-	-	-	450,000
Neighborhood Incentive Fund	250,000	-	-	-	250,000
Ghent Commercial Area Improvements	205,000	198,187	1,355	199,542	5,458
Atlantic City Infrastructure	100,000	-	-	-	100,000
Freemason Harbor Park Phase III	95,000	89,631	-	89,631	5,369
Park Place	63,000	14,879	-	14,879	48,121
Total Community Development	87,839,876	69,124,149	8,637,232	77,761,381	10,078,495
Cultural Facilities					
Scope Improvements	4,978,000	2,680,082	667,886	3,347,968	1,630,032
Attucks Theater Renovations	2,895,000	979,433	1,521,647	2,501,080	393,920
Civic Facilities Site Development	700,000	-	-	-	700,000
MacArthur Memorial Improvements	527,000	258,876	238,755	497,631	29,369
Harbor Park Concrete Repairs	500,000	97,593	232,361	329,954	170,046
Harrison Opera House Lighting	330,000	-	199,707	199,707	130,293
Chrysler Museum Improvements	325,000	58,425	154,283	212,708	112,292
Nauticus Improvements	200,000	199,960	-	199,960	40
Wells Theater HVAC Upgrades	100,000	-	89,493	89,493	10,507
Wells Theater Seat Refurbish	65,000	-	60,775	60,775	4,225

Capital Improvement Program
Schedule of Expenditures-Budget and Actual
From Inception and for the Year Ended June 30, 2003

Exhibit J-3
Continued

Capital Projects Description	Expenditures				
	Project Budget	Prior Years	Current	Total	Available
Chrysler Hall Improvements	50,000	-	50,000	50,000	0
Total Cultural Facilities	10,670,000	4,274,369	3,214,907	7,489,276	3,180,724
Economic Development					
Tidewater Community College	6,557,494	6,493,590	-	6,493,590	63,904
South Brambleton Redevelopment	270,000	-	10,425	10,425	259,575
Preliminary Project Design	271,188	239,130	-	239,130	32,058
Old Dominion Master Plan	2,586,200	2,375,372	167,037	2,542,409	43,791
Norfolk Attraction Directional	55,000	52,687	-	52,687	2,313
Midtown Property Acquisition	931,000	75,381	3,188	78,569	852,431
MacArthur Square Lighting	60,000	-	48,626	48,626	11,374
MacArthur Center Development	11,847,050	10,458,943	666,711	11,125,654	721,396
Lambert's Point Golf Course	500,000	-	95,857	95,857	404,143
Lake Wright Redevelopment	212,566	200,952	-	200,952	11,614
Huntersville Redevelopment Brewery	204,400	-	7,818	7,818	196,582
Hotels Infrastructure Improvements	484,955	473,455	-	473,455	11,500
Freemason Harbor Development	2,603,684	2,488,475	-	2,488,475	115,209
East Ocean View Redevelopment	8,000,000	7,861,973	-	7,861,973	138,027
Downtown Improvements	2,214,038	2,117,302	-	2,117,302	96,736
Disposition/Upgrade City Prop	775,000	710,624	56,304	766,928	8,072
Berkley Shopping Center	1,100,000	-	-	-	1,100,000
Atlantic City Development	3,375,000	-	90,000	90,000	3,285,000
Acquisition of Church Street Triangle Property	200,000	-	-	-	200,000
Total Economic Development	42,247,575	33,547,884	1,145,966	34,693,850	7,553,725
General/Other					
Police/Fire Radio Communication	4,725,000	4,724,628	-	4,724,628	372
Transfer to Debt Services	1,600,000	-	1,600,000	1,600,000	-

Capital Improvement Program
Schedule of Expenditures-Budget and Actual
From Inception and for the Year Ended June 30, 2003

Exhibit J-3
Continued

Capital Projects Description	Expenditures				
	Project Budget	Prior Years	Current	Total	Available
Campostella Landfill Closure	1,500,000	1,063,934	82,464	1,146,398	353,602
Beach Erosion Control	1,234,000	497,711	111,562	609,273	624,727
Citywide Soundwall Program	700,000	616,092	83,908	700,000	(0)
Underground Storage Tanks	545,000	508,007	11,856	519,863	25,137
Pretty Lake Dredging	400,000	162,232	27,724	189,956	210,044
Lambert's Point Landfill Erosion	400,000	349,201	6,890	356,091	43,909
Broad Creek Dredging	250,000	44,513	37	44,550	205,450
Lambert's Point Pond	138,300	128,887	8,007	136,894	1,406
Live Fire Shooting House	106,000	-	-	-	106,000
Hague Southwest Promenade	100,000	-	-	-	100,000
City Audit Network	85,000	-	61,446	61,446	23,554
Erosion Advisory Commission	75,000	70,724	-	70,724	4,276
Mitigation of Erosion	61,342	50,785	-	50,785	10,557
Lambert's Point Drainage Study	61,000	-	19,182	19,182	41,818
Norfolk Heritage Graphics	50,000	-	1,000	1,000	49,000
Total General/Other	12,030,642	8,216,714	2,014,076	10,230,790	1,799,852

Public Buildings

Detention Home Project	7,928,000	7,236,077	136,973	7,373,050	554,950
Library Facilities Anchor Branch Plan	7,150,238	55,404	34,029	89,433	7,060,805
Fire Headquarters & Training	6,188,057	6,179,297	-	6,179,297	8,760
Public Health Center - Biomed Facility	2,233,537	2,196,147	12,696	2,208,843	24,694
Public Building Maintenance & Renovations	2,012,500	2,005,560	-	2,005,560	6,940
Civic Building/Facility Improvements	1,813,500	993,940	525,870	1,519,810	293,690
Annual Roof Maintenance	1,750,000	1,395,693	252,094	1,647,787	102,213
Courts Renovations	650,000	-	81,956	81,956	568,044
Roof Repairs & Moisture Protect	600,000	-	196,402	196,402	403,598
ADA Citywide Master Plan	510,000	172,925	116,675	289,600	220,400
Jail Deputy/Entrance/Booking/Holding	500,000	58,319	76,186	134,505	365,495
Infrastructure Improvements	500,000	333,280	103,607	436,887	63,113

Capital Improvement Program
Schedule of Expenditures-Budget and Actual
From Inception and for the Year Ended June 30, 2003

Exhibit J-3
Continued

Capital Projects Description	Expenditures				
	Project Budget	Prior Years	Current	Total	Available
General Office Renovations City Hall	500,000	-	360,074	360,074	139,926
Fire Station 16 Renovation	477,922	42,182	418,859	461,041	16,881
Magistrate of File Renovations	263,000	262,211	-	262,211	789
Jail Elevator Renovations	250,000	-	862	862	249,138
Disposition/Upgrade City Property	250,000	229,411	-	229,411	20,589
City Hall Building Exterior Renovations	150,000	-	150,000	150,000	-
Asbestos Operations & Maintenance Program	150,000	68,665	55,831	124,496	25,504
Jail Complex - Kitchen Modification	126,000	-	53,649	53,649	72,351
Ventilation of Holding Cells	123,700	-	93,404	93,404	30,296
Granby Municipal Building Elevator	95,000	-	63,232	63,232	31,768
Fire Station Emergency General Program	91,700	-	20,050	20,050	71,650
City Hall 2nd Floor Security	62,000	61,421	-	61,421	579
Total Public Buildings	34,375,154	21,290,532	2,752,449	24,042,981	10,332,173
Parks/Recreation Facilities					
Zoo Master Plan	9,148,000	7,944,102	930,946	8,875,048	272,952
Titustown Recreation Center Improvements	3,000,000	1,640,802	1,357,358	2,998,160	1,840
New Replacement Recreation Centers	1,600,000	145	15,950	16,095	1,583,905
Norview Recreation Center	1,000,000	-	-	-	1,000,000
Botanical Gardens Master Plan	1,000,000	499,632	84,314	583,946	416,054
Martin Luther King Park	123,000	74,997	-	74,997	48,003
Existing Recreation Centers Improvement	750,000	182,296	299,463	481,759	268,241
Waterway Trails Canoe Launches	117,000	18,724	70,760	89,484	27,516
Barraud Park Improvements	250,000	16,782	65,901	82,683	167,317
Parks & Forestry New Restrooms	200,000	-	22,669	22,669	177,331
Forrest Lawn Cemetery New Lawn	200,000	-	103,018	103,018	96,982
Soccer Field Renovations	124,000	-	1,401	1,401	122,599
Total Parks & Recreation	17,512,000	10,377,480	2,951,780	13,329,260	4,182,740

Schools

Capital Improvement Program
Schedule of Expenditures-Budget and Actual
From Inception and for the Year Ended June 30, 2003

Exhibit J-3
Continued

Capital Projects Description	Expenditures				
	Project Budget	Prior Years	Current	Total	Available
Norview Construction	12,212,400	-	4,722,951	4,722,951	7,489,449
Norfolk Public Middle School Initiative	4,000,000	432,447	1,936,462	2,368,909	1,631,091
Blair Middle Replacement	3,637,710	-	-	-	3,637,710
Norfolk Public Schools Construction	3,009,631	-	3,009,431	3,009,431	200
Norfolk Public Schools Facility Upgrades	2,562,830	-	-	-	2,562,830
Southside Middle School	2,250,000	-	-	-	2,250,000
Project Design Phase	1,822,500	631,869	-	631,869	1,190,631
Norfolk Public School Allocation	1,596,813	1,594,049	1,388	1,595,437	1,376
Taylor Elementary Replacement	1,150,000	1,144,149	-	1,144,149	5,851
Public Schools Asbestos Removal	324,324	319,703	-	319,703	4,621
Public School A/C Design	200,000	196,115	-	196,115	3,885
Total Schools	32,766,208	4,318,332	9,670,232	13,988,564	18,777,644
Storm Water					
Storm Water Facility Improvements	2,255,000	704,497	721,036	1,425,533	829,467
Neighborhood Flood Reduction	1,600,267	401,699	893,611	1,295,310	304,957
Bulkheading Master Project	1,500,000	166,256	501,514	667,770	832,230
Old Dominion University Master Plan	1,374,255	1,221,598	50,246	1,271,844	102,411
Storm Water Quality Improvements	1,266,000	536,090	465,521	1,001,611	264,389
Drain Line Clean & Sliplining	300,000	300,000	(401)	299,599	401
Storm Drain Improvements	250,000	240,063	9,937	250,000	-
West Ghent Drainage Improvements	200,000	185,793	-	185,793	14,207
Lochaven Drainage Improvements	200,000	157,964	-	157,964	42,036
Little Bay Drain Improvements	200,000	103,267	-	103,267	96,733
Chesapeake Blvd Sliplining	200,000	170,179	645	170,824	29,176
Pump Station Improvements	149,478	102,735	43,069	145,804	3,674
Total Storm Water	9,495,000	4,290,141	2,685,178	6,975,319	2,519,681
Transportation					

Capital Improvement Program
Schedule of Expenditures-Budget and Actual
From Inception and for the Year Ended June 30, 2003

Exhibit J-3
Concluded

Capital Projects Description	Expenditures				
	Project Budget	Prior Years	Current	Total	Available
Waterside Drive Pedestrian	160,000	-	160,000	160,000	-
VDOT Urban Support Program	9,100,702	6,426,219	96,431	6,522,650	2,578,052
Underpass Improvements	250,000	-	2,130	2,130	247,870
Undergrounding of Utilities	600,000	413,990	-	413,990	186,010
Signal & Intersection Enhancements	1,145,000	107,223	293,709	400,932	744,068
Residential Gateway Project	400,000	28,408	307,890	336,298	63,702
Pretty Lake Dredging	200,000	24,051	-	24,051	175,949
Overhead Sign Structure Maintenance	110,000	59,152	4,231	63,383	46,617
Old Dominion University Master Plan	3,190,000	1,488,427	1,620,778	3,109,205	80,795
Neighborhood Streets Improvements	1,025,000	285,668	618,433	904,101	120,899
Haynes Tract Street Improvements	42,000	37,279	-	37,279	4,721
Gregory - Tidewater Drive Traffic Sign	150,000	121,572	27,173	148,745	1,255
Downtown Transportation Plans	200,000	-	71,906	71,906	128,094
Citywide Soundwall Program	4,500,000	-	253,114	253,114	4,246,886
Chesapeake Blvd Widening	300,000	297,097	-	297,097	2,903
Broad Creek Dredging	300,000	94	13	107	299,893
Bridge Maintenance and Repair Program	3,448,143	1,333,059	1,318,795	2,651,854	796,289
Ballentine Place Street Repairs	96,296	95,274	-	95,274	1,022
Atlantic City Development	1,739,200	-	-	-	1,739,200
Armistead Ave/22 Street Reconfiguration	232,000	-	-	-	232,000
100 Main Street Improvements	45,000	42,220	-	42,220	2,780
Total Transportation	27,233,341	10,759,733	4,774,603	15,534,336	11,699,005
Total Capital Projects	274,169,796	166,199,334	37,846,423	204,045,757	70,124,039



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STATISTICAL SECTION

CITY OF NORFOLK, VIRGINIA
General Governmental Expenditures by Function (Unaudited)
Last Ten Fiscal Years

TABLE I

Fiscal Year	General Government Administration	Judicial Administration	Public Safety	Public Works	Health and Public Assistance	Education	Parks, Recreation and Cultural Enrichment	Community Development	Debt Service	Total
1994	35,215,747	5,150,580	71,312,702	31,017,108	32,986,775	211,834,263	26,188,291	10,082,169	29,632,550	453,420,185
1995	36,917,111	6,126,662	76,472,235	32,650,627	35,014,726	214,978,211	26,339,849	13,984,263	38,203,355	480,687,039
1996	35,870,322	6,165,476	77,926,122	31,077,170	35,241,620	227,904,487	25,795,551	10,883,099	40,891,856	491,755,703
1997	36,720,966	6,752,504	85,920,183	26,352,551	35,429,802	229,932,404	33,077,355	13,732,616	45,740,591	513,658,972
1998	36,188,247	7,722,881	86,705,932	26,327,258	36,618,924	207,023,513	35,069,244	14,502,482	49,587,664	499,746,145
1999	35,434,071	7,391,037	89,995,173	28,876,783	40,489,774	215,462,984	39,324,139	16,539,497	45,684,622	519,198,080
2000	39,086,673	7,973,128	91,929,625	30,611,202	44,310,724	235,275,491	40,505,916	20,348,088	48,398,339	558,439,186
2001	40,735,804	6,512,446	107,955,580	44,737,728	37,181,572	244,598,970	29,567,789	16,365,845	51,121,038	578,776,772
2002	42,328,092	7,230,870	112,625,249	43,963,829	43,601,993	243,990,697	30,241,641	16,944,778	48,637,132	589,564,281
2003	46,919,852	7,345,727	116,996,697	43,680,181	49,758,505	252,555,450	31,959,153	17,672,800	48,447,410	615,335,775

Notes:

1. This table includes General Fund, Debt Service Fund and School General Fund, which are the only funds financed by the City's General Fund Operating Budget.
2. Debt services expenditures in this table include fiscal agent's charges in addition to the amounts itemized in Table X1.
3. This table excludes subsidies to the Lake Taylor Transitional Care Hospital for fiscal years 1994 of \$500,000.

CITY OF NORFOLK, VIRGINIA

TABLE II, IIA

General Governmental Revenue by Source (Unaudited) - TABLE II
Last Ten Fiscal Years

Fiscal Year	General Property Taxes	Other Local Taxes	Permits, Privilege	Fees and Regulatory Licenses	Fines and Forfeitures	Use of Money and Property	Charges for Services	Miscellaneous	Recovered Costs	Inter-Governmental	Total
1994	132,861,311	96,577,238		2,002,224	1,361,968	4,343,099	9,326,722	2,693,680	34,323,156	165,388,053	448,877,451
1995	135,788,774	103,122,156		2,230,416	1,493,113	5,363,377	9,640,634	2,551,876	31,790,427	180,219,136	472,199,909
1996	139,635,344	103,292,568		2,018,502	1,373,753	7,399,907	10,976,586	2,947,168	34,587,209	184,672,967	486,904,004
1997	142,920,221	101,130,721		2,030,715	1,304,211	9,078,810	11,515,318	4,526,540	48,835,502	182,672,501	504,014,539
1998	147,227,814	106,499,321		2,079,831	1,772,497	7,622,862	13,079,828	6,168,450	14,467,686	198,223,686	497,141,975
1999	147,831,366	111,212,019		2,505,284	1,919,987	8,991,816	13,865,238	7,291,274	11,139,044	219,871,543	524,627,571
2000	152,061,598	119,106,596		2,942,853	1,660,692	9,581,176	13,163,379	4,490,174	12,337,518	245,158,349	560,502,335
2001	153,366,476	126,536,522		2,600,873	1,683,980	10,273,560	13,217,753	4,111,221	14,135,337	258,036,874	583,962,596
2002	159,512,496	127,262,071		2,699,765	1,541,388	7,034,215	10,765,690	4,580,265	10,008,260	105,577,097	428,981,247
2003	168,892,719	128,453,471		2,972,611	1,569,454	6,785,960	11,642,327	5,032,482	9,556,223	102,846,522	437,751,769

Note: This table includes General Fund and School General Fund which have the only revenue included in the City's General Fund Operating Budget.

General Governmental Tax Revenue by Source (Unaudited) - TABLE IIA
Last Ten Fiscal Years

Fiscal Year	Sales and Use Taxes	Consumers' Utility Taxes	Business License Taxes	Motor Vehicle Licenses	Cigarette Taxes	Restaurant Food Taxes	Other	Total
1994	21,174,171	31,109,211	13,466,752	3,053,144	4,222,714	13,253,060	10,298,186	96,577,238
1995	20,800,455	34,051,267	14,884,297	3,084,258	4,279,126	14,479,249	11,543,504	103,122,156
1996	21,447,926	33,129,275	14,119,038	3,073,676	4,523,422	14,720,250	12,278,981	103,292,568
1997	21,349,623	30,998,963	15,071,175	3,095,033	3,777,077	15,019,435	11,819,415	101,130,721
1998	21,023,273	33,853,298	14,818,350	3,112,344	4,506,931	15,003,269	14,181,856	106,499,321
1999	22,601,880	33,189,179	15,931,734	3,307,551	4,918,212	15,676,558	15,586,905	111,212,019
2000	24,320,896	34,224,010	18,095,451	3,391,309	3,940,155	17,065,896	18,068,879	119,106,596
2001	25,495,634	38,988,006	18,352,142	3,479,472	4,121,958	18,759,238	17,340,072	126,536,522
2002	25,267,193	37,921,850	18,644,013	3,553,824	4,279,719	19,287,924	18,307,548	127,262,071
2003	25,854,211	37,929,780	18,471,519	3,462,399	4,219,586	21,680,488	16,835,488	128,453,471

Note: This table presents additional details on other local taxes presented in Table II above.

CITY OF NORFOLK, VIRGINIA
Real and Personal Property Tax Levies and Collections (Unaudited)
Last Ten Fiscal Years

TABLE III

Fiscal Year	Total Tax Levy	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes	Percent of Delinquent Taxes to Tax Levy
1994	\$ 130,450,078	\$ 122,691,911	94.05 %	\$ 8,536,890	\$ 131,228,801	100.60 %	\$ 15,746,289	12.07 %
1995	133,352,273	124,827,522	93.61	9,157,930	133,985,452	100.47	16,262,308	12.19
1996	137,593,231	127,974,549	93.01	9,857,483	137,832,032	100.17	16,803,874	12.21
1997	140,636,759	130,464,402	92.77	10,637,425	141,101,827	100.33	18,093,733	12.87
1998	144,793,808	134,888,759	93.16	10,726,945	145,615,704	100.57	18,549,874	12.81
1999	150,746,760	136,667,622	90.66	11,067,727	147,735,349	98.00	24,088,295	15.98
2000	158,268,196	145,772,017	92.10	14,864,889	160,636,906	101.50	22,966,676	14.51
2001	164,289,477	151,920,934	92.47	13,500,607	165,421,541	100.69	23,849,503	14.52
2002	171,755,456	158,914,465	92.53	12,882,988	171,797,453	100.03	25,353,069	14.76
2003	169,202,684	158,040,849	92.53	9,746,088	167,786,936	100.03	26,768,662	14.76

Note:

1. Delinquent tax collections are reported in the year collected.
2. The State's share of personal property tax collections is included in the Total Tax Collections Column for fiscal years 1999, 2000, 2001, 2002 and 2003.

CITY OF NORFOLK, VIRGINIA
Assessed Value of Taxable Property (Unaudited)
Last Ten Fiscal Years

TABLE IV

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
(in thousands)										
Assessed value of real property - general	\$ 6,754,362	\$ 6,761,945	\$ 6,798,233	\$ 6,872,499	\$ 7,046,440	\$ 7,327,401	\$ 7,476,357	\$ 7,802,681	\$ 8,189,358	\$ 8,648,252
Assessed value of real property - public service corporations	508,067	530,063	529,553	515,485	572,939	606,996	621,756	655,600	692,706	708,508
Total real property	<u>7,262,429</u>	<u>7,292,008</u>	<u>7,327,786</u>	<u>\$ 7,387,984</u>	<u>\$ 7,619,379</u>	<u>\$ 7,934,397</u>	<u>\$ 8,098,113</u>	<u>\$ 8,458,281</u>	<u>\$ 8,882,064</u>	<u>\$ 9,356,760</u>
Assessed value of personal property - general	679,926	741,092	812,624	830,554	845,023	897,065	1,021,308	1,038,672	1,100,703	1,082,578
Assessed value of personal property - public service corporations	3,716	3,206	3,043	3,558	3,080	3,011	2,318	2,257	2,280	2,449
Total personal property	<u>683,642</u>	<u>744,298</u>	<u>815,667</u>	<u>834,112</u>	<u>848,103</u>	<u>900,076</u>	<u>1,023,626</u>	<u>1,040,929</u>	<u>1,102,983</u>	<u>1,085,027</u>
Assessed value of machinery and tools	118,476	131,207	144,698	157,197	166,625	171,425	162,147	160,075	166,016	200,567
Assessed value of mobile homes	2,917	3,168	2,932	2,854	1,807	2,022	1,912	1,713	1,479	1,195
Assessed value of airplanes	8,236	8,489	8,741	5,593	5,690	7,764	6,894	13,065	13,759	14,347
Assessed value of boats	28,159	28,909	26,578	26,298	26,757	38,752	32,347	54,021	38,591	84,372
Total other	<u>157,788</u>	<u>171,773</u>	<u>182,949</u>	<u>191,942</u>	<u>200,879</u>	<u>219,963</u>	<u>203,300</u>	<u>228,874</u>	<u>219,845</u>	<u>300,481</u>
Total taxable property	<u>\$ 8,103,859</u>	<u>\$ 8,208,079</u>	<u>\$ 8,326,402</u>	<u>\$ 8,414,038</u>	<u>\$ 8,668,361</u>	<u>\$ 9,054,436</u>	<u>\$ 9,325,039</u>	<u>\$ 9,728,084</u>	<u>\$ 10,204,892</u>	<u>\$ 10,742,268</u>

CITY OF NORFOLK, VIRGINIA
Direct Property Tax Rates (Unaudited)

TABLE V

	Last Ten Fiscal Years									
	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Property tax rate per \$100 of assessed value:										
Real property	\$ 1.38	\$ 1.38	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.40
Business Improvement District	-	-	-	-	-	0.24	0.20	0.18	0.18	0.18
Personal property	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Machinery and tools	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Mobile homes	1.38	1.38	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40
Airplanes	3.20	3.20	3.20	3.20	3.20	2.40	2.40	2.40	2.40	2.40
Boats (pleasure)	1.50	1.50	1.50	1.50	1.60	1.50	0.01	0.01	0.01	0.01
Boats (business)	1.50	1.50	1.50	1.50	1.60	1.50	1.50	1.50	1.50	1.50
Recreational vehicles	-	-	-	-	-	2.00	2.00	2.00	2.00	1.50
Disabled Veterans							3.00	3.00	3.00	3.00
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%	100%	100%	100%
As determined by the Commonwealth's Department of Taxation	94%	94%	94%	96%	94%	93%	90%	90%	-	-

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 1994 through 2003.
3. The most recent Virginia Assessment/Sales ratio study is for 2001.

CITY OF NORFOLK, VIRGINIA
Top 10 Principal Real Property Taxpayers (Unaudited)

TABLE VI

Standard Industrial Classification (SIC) Code	North American Industry Classification System (NAICS) Code	Taxpayer	Type of Business	2003 Real Property Assessed Value	Percentage of Total Real Property Assessed Value
4812	5133	Verizon Virginia, Inc.	Public service utility	\$ 195,616,847	2.09%
4911	2211	Dominion Virginia Power	Public service utility	170,665,611	1.82%
6519	5311	Mac Arthur Shopping Center, L.L.C.	Retail	149,780,100	1.60%
4011	4821	Norfolk Southern Corporation	Public service railroad	71,509,774	0.76%
6021	5221	Bank of America	Bank	65,916,500	0.70%
6519	5311	Military Circle Ltd. Partnership	Shopping center	66,796,800	0.71%
3711	3361	Ford Motor Company	Truck manufacturer	68,401,300	0.73%
6519	5311	New Life Tower	Office building	54,303,100	0.58%
4812	5133	Cox Virginia Telecom, Inc.	Public service utility	53,326,937	0.57%
4911	2211	Virginia Natural Gas	Public service utility	<u>38,423,602</u>	<u>0.41%</u>
Total principal taxpayers				<u>\$ 934,740,571</u>	<u>9.99%</u>

Note: Total assessed value of taxable real property including public service corporations , at June 30, 2003 is \$9,356,759,552.

CITY OF NORFOLK, VIRGINIA
Computation of Legal Debt Margin (Unaudited)
June 30, 2003

TABLE VII

Total assessed value of taxed real property	\$ <u>9,356,759,552</u>
Debt limit - 10 percent of total assessed value	\$ 935,675,955
Amount of debt applicable to debt limit:	
Gross debt (Notes 1 and 4)	\$ 432,730,000
General obligation (guaranty)	3,300,000
General obligation (QRBs)	19,425,000
General obligation (QZABs)	<u>8,721,270</u> <u>464,176,270</u>
Legal debt margin	<u>\$ 471,499,685</u>
Amount of debt as a percent of debt limit	<u>49.61%</u>

Notes:

1. Defeased bonds totaling \$43,795,000 are not included in gross debt. Funds to redeem these bonds have been irrevocably deposited with an escrow agent. The 1994 refunded bonds will be called for optional redemption before maturity in the amount of \$23,795,000 on June 1, 2004, at a price of 101%. The 1995 refunded bonds will be called for optional redemption before maturity in the amount of \$20,000,000 on June 1, 2005, at a price of 101%.
2. The outstanding obligations under capital leases totaling \$11,044,539 for the purchase of equipment are not included in the legal debt margin calculation. Other outstanding obligations are properly excluded. These obligations include: obligations for vested compensated absences of \$12,664,967, obligation for Employees' Retirement System of \$15,346,330, obligations for retirees' life insurance benefits of \$885,000, obligations for workers' compensation claims of \$16,345,181, obligations for automobile and general liability claims of \$1,835,755 and obligations for landfill closure and post-closure costs of \$1,752,389.
3. Water and Parking revenue bonds are excluded from gross debt. The revenue bonds are collateralized solely from the revenue of the Water Utility and Parking Facilities Funds.

CITY OF NORFOLK, VIRGINIA
Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt per Capita (Unaudited)
Last Ten Fiscal Years

TABLE VIII

Fiscal Year	Population	Assessed Value of Taxable Property (In Thousands)	Debt Payable from Enterprise Revenue			Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita	
			Gross Bonded Debt						
1994	239,900	8,103,859	492,280,003	182,577,454	(3)	309,702,549	(3)	3.82	1,291
1995	234,400	8,208,079	508,820,006	172,742,695		336,077,311		4.09	1,434
1996	231,700	8,326,402	531,590,006	163,872,079		367,717,927		4.42	1,587
1997	229,600	8,414,038	539,425,001	158,819,126		380,605,875		4.52	1,658
1998	226,900	8,668,361	546,935,001	155,077,914		391,857,087		4.52	1,727
1999	225,700	9,054,436	508,805,001	141,668,034		367,136,967		4.05	1,658
2000	234,403	9,325,039	488,351,540	128,007,237		360,344,303		3.86	1,537
2001	234,000	9,728,084	468,445,247	114,528,097		353,917,150		3.64	1,512
2002	234,100	10,204,892	460,345,861	112,049,824		348,296,037		3.41	1,488
2003	234,100	10,742,268	460,876,270	99,220,319		361,655,951		3.37	1,545

Notes:

1. The source of calendar year population estimates for 1994 through 1999 and 2001 through 2003 is the Center for Public Service, University of Virginia. The population for 2000 is the 2000 Census.
2. Assessed value of taxable property is detailed in Table IV.
3. Debt payable from enterprise revenue excludes the Hospital Authority of Norfolk for 1994.

CITY OF NORFOLK, VIRGINIA
Revenue Bond Coverage (Unaudited) - Table IX
Water Utility Fund
June 30, 2003

TABLE IX, X

Year	Revenue Available for Debt Service (1)	Operating Expenses Less Depreciation & Amortization (2)	Income Available for Debt Service	Annual Revenue Bond Debt Service	Revenue Bond Debt Service Coverage Ratio
1994	\$ 49,509,971	\$ 24,027,183	\$ 25,482,788	\$ 2,494,592	10.22 %
1995	53,540,390	25,443,393	28,096,997	4,564,418	6.16
1996	57,628,743	26,104,506	31,524,237	11,078,622	2.85
1997	68,487,095	26,925,589	41,561,506	11,598,518	3.58
1998	59,477,607	28,105,154	31,372,453	12,672,113	2.48
1999	73,326,682	26,067,025	47,259,657	14,438,930	3.27
2000	64,456,322	28,198,244	36,258,078	18,091,718	2.00
2001	64,459,300	28,732,203	35,727,097	18,091,636	1.97
2002	63,681,665	29,021,459	34,660,206	18,980,180	1.83
2003	67,760,029	30,867,286	36,892,743	20,300,283	1.82

Notes:

1. Includes operating revenue plus interest income not capitalized.
2. Includes operating expenses less depreciation and amortization.

Revenue Bond Coverage (Unaudited) - Table X
Parking Facilities Fund
June 30, 2003

Year	Revenue Available for Debt Service (1)	Operating Expenses Less Depreciation & Amortization (2)	Income Available for Debt Service	Annual Revenue Bond Debt Service	Revenue Bond Debt Service Coverage Ratio
1997	\$ 9,693,900	\$ 2,933,182	\$ 6,760,718	\$ 1,203,659	5.62 %
1998	11,193,681	3,666,490	7,527,191	2,888,783	2.61
1999	12,632,071	4,190,415	8,441,656	2,888,783	2.92
2000	15,820,975	5,495,665	10,325,310	4,621,053	2.23
2001	17,246,291	5,706,458	11,539,833	4,964,744	2.32
2002	18,427,725	7,309,883	11,117,842	5,683,455	1.96
2003	18,879,428	7,481,301	11,398,127	5,404,816	2.11

Notes:

1. Includes operating revenue plus interest income not capitalized.
2. Includes operating expenses less depreciation and amortization.
3. Data prior to fiscal year 1997 is not available.

CITY OF NORFOLK, VIRGINIA

TABLE XI

**Ratio of Annual Debt Service Expenditures for General Bonded Debt and Other Debt
to Total General Expenditures (Unaudited)
For the Last Ten Fiscal Years**

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
1994	16,762,640	2,644,755	12,861,391	604,992	32,873,778	453,420,185	7.25
1995	20,241,259	3,426,549	17,956,679	602,647	42,227,134	480,687,039	8.78
1996	23,359,384	3,939,224	17,526,386	620,589	45,445,583	491,755,703	9.24
1997	26,087,051	3,473,985	19,651,778	556,073	49,768,887	513,658,972	9.69
1998	29,493,752	4,015,175	20,093,062	561,239	54,163,228	499,746,145	10.84
1999	27,280,120	3,603,355	18,403,652	457,573	49,744,700	519,198,080	9.58
2000	29,492,664	3,772,213	18,905,175	457,573	52,627,625	558,439,186	9.42
2001	32,064,594	4,138,633	19,055,944	667,364	55,926,535	578,776,772	9.67
2002	31,177,249	4,221,984	17,459,383	625,397	53,484,013	589,564,281	9.07
2003	32,449,555	4,270,903	15,993,552	544,262	53,258,272	615,335,775	8.71

Notes:

1. Total general expenditures include the expenditures of the General Fund, Debt Service Fund and School General Fund.
2. Total general expenditures are presented using the modified accrual basis of accounting. Under the modified accrual basis, expenditures are recognized when they become measurable and the related liability is incurred.

CITY OF NORFOLK, VIRGINIA
Computation of Direct Bonded Debt (Unaudited)
June 30, 2003

TABLE XII

<u>Jurisdiction</u>	<u>Net Bonded Debt Outstanding</u>	<u>% Applicable to Government</u>	<u>\$ Applicable to Government</u>
Direct:			
City of Norfolk	\$ 361,655,951	100%	\$ 361,655,951

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.

CITY OF NORFOLK, VIRGINIA
Demographic Statistics (Unaudited)
For the Last Ten Fiscal Years

TABLE XIII

Fiscal Year	Population	Per Capita Income	School Membership	Average Annual Rate of Unemployment
1994	239,900	18,790	35,395	7.1
1995	234,400	19,016	35,481	6.4
1996	231,700	19,625	35,059	6.8
1997	229,600	20,353	35,677	6.9
1998	226,900	21,313	35,978	5.3
1999	225,700	21,848	37,800	5.2
2000	234,403	22,693	35,141	4.0
2001	234,000	23,271	37,347	5.4
2002	234,100	-	37,006	6.3
2003	234,100	-	36,745	-

Notes:

1. Data is not available for years for which no item is listed.
2. The source of calendar year population estimates for 1994 through 1999 and 2001 through 2003 is the Center for Public Service, University of Virginia. The population figure for 2000 is the 2000 Census.
3. The source of calendar year per capita income data is the Bureau of Economic Analysis.
4. School membership is for September 30 of each year; Norfolk Public Schools, Bureau of Testing and Statistics.
5. Unemployment rate is from the Virginia Employment Commission and is the average annual rate on a calendar year basis.

CITY OF NORFOLK, VIRGINIA
Property Value, New Construction and Bank Deposits (Unaudited)
For the Last Ten Fiscal Years

TABLE XIV

Fiscal Year	Nonresidential Construction		Residential Construction			Commercial Personal Property	Commercial Real Property	Individual Personal Property	Residential Real Property	Nontaxable Property
	Building Permits	Value (in Thousands)	Building Permits	Number of Units	Value (in Thousands)	(in Thousands)	(in Thousands)	(in Thousands)	(in Thousands)	(in Thousands)
1994	57	35,353	206	283	20,532	476,909	1,727,230	360,805	4,877,054	5,881,014
1995	50	22,509	208	453	24,856	501,292	1,716,079	411,573	4,954,040	6,063,250
1996	46	26,147	192	214	17,024	519,199	1,739,273	449,795	4,994,277	6,118,817
1997	53	87,688	177	177	12,880	557,026	1,758,509	465,471	5,108,673	6,342,513
1998	54	79,500	192	282	24,263	574,623	1,884,971	471,279	5,365,410	6,377,080
1999	46	52,932	175	242	22,032	583,808	2,024,750	533,220	5,459,381	6,543,895
2000	45	138,472	187	307	32,609	625,137	2,159,299	599,471	5,477,479	6,807,306
2001	35	62,046	186	400	35,069	643,383	2,259,787	624,162	5,730,471	6,861,737
2002	53	51,451	290	462	44,498	678,095	2,337,440	642,454	6,121,946	7,014,866
2003	41	32,262	277	324	39,979	721,087	2,447,330	661,972	6,648,174	7,385,564

Notes:

1. The source of nonresidential and residential construction is the Planning Department. Nonresidential construction includes commercial buildings, public buildings, schools, public utility buildings and miscellaneous structures.
2. Property values are based on data supplied by the Commissioner of the Revenue and the City Assessor. Real property is assessed at fair market value.
3. Property value information does not include property of public service corporations. Real property assessments shown do not include assessments for vacant land.

CITY OF NORFOLK, VIRGINIA

Water System Statistics (Unaudited)

June 30, 2003

TABLE XV

Number of Accounts	67,530
Average population served	700,000
Average daily pumpage (gallons per day)	74,440,000
Plant capacity (gallons per day)	134,000,000
Miles of water mains:	
Treated water mains	811
Raw water force mains	61
Number of fire hydrants	3,997
Average metered consumption (gallons per day):	
Norfolk *	GBD
Virginia Beach	20,207,000
Navy	33,224,000
Chesapeake	5,666,000
	3,300,000
	<hr/> 62,397,000
	100.0%

* Note: No single retail customer exceeds 5% of metered consumption

Retail customer rates (per 1000 gals):

Fiscal Year 1996	\$ 2.74
Fiscal Year 1997	2.84
Fiscal Year 1998	2.94
Fiscal Year 1999	3.15
Fiscal Year 2000	3.36
Fiscal Year 2001	3.36
Fiscal Year 2002	3.69

Wholesale customer rates (per 1000 gals):	Virginia	Navy -	Navy -	
	Beach (1)	Norfolk (2)	Virginia Beach (3)	
Fiscal Year 1996	\$ 2.09	\$ 2.21	\$ 2.29	\$ 2.74
Fiscal Year 1997	2.43	2.65	2.74	2.84
Fiscal Year 1998	2.48	2.49	3.07	2.94
Fiscal Year 1999	2.75	2.77	3.43	3.25
Fiscal Year 2000	1.87	3.03	3.62	3.46
Fiscal Year 2001	1.88	3.12	3.62	3.46
Fiscal Year 2002	1.85	4.06	4.06	3.80

Note:

1. Estimated average cost per thousand based on 30 million gallons per day (MGD) utilization. Fiscal Year 1998 based on 31.86 MGD utilization. Rates are determined pursuant to the Water Sales Contract.
2. Estimated average cost per thousand based on 6.75 million gallons per day (MGD) utilization.
3. Estimated average cost per thousand based on 2.00 million gallons per day (MGD) utilization.
4. Chesapeake was served with no written contract through fiscal year 1998 and thus paid retail rates. Since fiscal year 1999, Chesapeake is served with a written contract and thus pays retail rates plus a \$.10/1000 gallons surcharge.
5. For fiscal year 2000, the Virginia Beach water rate is determined based on the formula driven rate from the Virginia Beach Water Services Contract.

Additional Information:

Water Utility Annual Budget is contained in the City of Norfolk Approved Operating Budget, July 1, 1999 - June 30, 2000.

Water Utility Fund financial statements are contained in the financial section "Proprietary Funds" section of this document.

Financial information on the Water Utility Fund is provided in the "Introductory Section" and "Financial Section" of this document.

CITY OF NORFOLK, VIRGINIA

TABLE XVI

Parking System Statistics (Unaudited)

June 30, 2003

Parking Rates

Off-street Daytime Parking	Tier 1	Tier 2	Tier 3
First hour or any part thereof	\$ 0.75	\$ 0.50	\$ 0.50
Two hours or any part thereof	\$ 1.50	\$ 1.25	\$ 1.00
Three hours or any part thereof	\$ 2.50	\$ 2.25	\$ 1.50
Four hours or any part thereof	\$ 4.50	\$ 3.25	\$ 2.00
Five hours or any part thereof	\$ 6.50	\$ 4.25	\$ 2.50
Six hours or any part thereof	\$ 8.50	\$ 5.25	\$ 3.00
Seven hours or any part thereof	\$ 10.50	\$ 6.25	\$ 3.50
Eight hours or any part thereof	\$ 12.50	\$ 7.25	\$ 4.00
Maximum up to 24 hours	\$ 14.00	\$ 8.00	\$ 4.50
Special event/Collect on entry	\$ 5.00	\$ 4.00	\$ 4.00

Short term rate structure for parking is based on "value parking" in a tiered structure, where rates are established based on demand. Tiered facilities are:

Tier 1	Tier 2	Tier 3
City Hall Avenue	Boush Street	Bute Street Garage
Main St. Garage	Freemason Street	Scope Garage
Plume Lane Garage	Union Street	Harbor Park
Town Point Garage	Monticello Lot	
Waterside Garage		
West Plume Street		
Federal Lot		

Short-term Parking at 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 Events

Parking rates range from \$3.00 to \$5.00 per entry depending on a facility's location to the event

Metered Parking

On-street meter parking has three tiered rates like the short term rates. Tiers are priced in fifteen minute intervals of: Tier 1=\$0.35, Tier 2=\$0.25, Tier 3=\$0.15.. Downtown Norfolk 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 are tier 1. Tier 2 includes all streets west of St. Paul's Boulevard and east of Duke Street; north of City Hall Avenue and south of Charlotte Street. All remaining downtown areas with meters are tier 3 structure.

Monthly Parking

Parking rates vary from \$43.00 unreserved per month in outlying lots to \$128.80 reserved per month at the new West Plume Street multi-level garage.

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
Towing Administration Fee	\$20.00

Fiscal Year 2003 Contractor's Collection Rate

Parking tickets were issued	65,150
Collection rate	84%
Revenue	\$1,507,957

CITY OF NORFOLK, VIRGINIA
Miscellaneous Statistics (Unaudited)
June 30, 2003

TABLE XVII

Historical:

Established as a town	August 16, 1682
Established as a borough	September 25, 1736
Incorporated as a city	February 13, 1845
Date of first charter	Granted by King George II
Date present charter adopted	September 15, 1736
Extended Boundary	February 7, 1918 1887, 1890, 1902, 1906, 1910, 1911, 1923, 1955, 1959, 1976, 1988

Form of government: Council-Manager

Area - Square Miles:

1930	37.19
1940	37.19
1950	37.19
1960	61.85
1970	61.85
1980	65.75
1990	65.98
1999	65.98

The area of the City was enlarged effective July 1, 1976, by virtue of an Act of the General Assembly of Virginia, which established the boundary between the cities of Norfolk and Portsmouth along the centerline of the Elizabeth River and along the centerline of the Southern Branch therof. The legislature also established that certain portions of the Eastern Branch of the Elizabeth River lie within the boundaries of the City of Norfolk, that previously did not lie within the boundaries of any city or county. In 1988, Norfolk acquired jurisdiction over approximately 57 acres of land in East Ocean View

Miles of Streets (estimated):

Primary Roads	715
Secondary Roads	1,524
	<u>2,239</u>

Number of street lights - estimated 28,951

CITY OF NORFOLK, VIRGINIA
Miscellaneous Statistics (Unaudited)
June 30, 2003

TABLE XVII
Continued

Fire and Paramedical Rescue Services:		
	Number of stations	<u>15</u>
Number of employees:		
	Uniformed	478
	Civilian	7
	<u>Total employees</u>	<u>485</u>
Police Protection:		
	Number of patrol divisions	<u>2</u>
Number of employees:		
	Police (sworn officers)	746
	Civilian	128
	<u>Total full-time employees</u>	<u>874</u>
Education:		
Number of school buildings:		
	High Schools	5
	Middle Schools	8
	Elementary Schools	35
Other educational facilities:		
	Early Childhood Center	3
	Madison Career Center	1
	Norfolk Prepatory High School	1
	Skills Center	1
	Special Education	3
	Coronado School (for expectant mothers)	1
	Norfolk Technical Vocational Center	1
	Meadowbrook Center	1
	Stuart Gifted Center	1
	<u>Total buildings</u>	<u>61</u>
School employees (full-time staff)		<u>5,258</u>
Number of teachers/administrators		<u>3,318</u>
Average daily membership:		
	Secondary schools (middle and high)	10,693
	Elementary schools (including f-t kindergarten)	23,566
	<u>Total average daily membership</u>	<u>34,259</u>
Recreation and Culture:		
Amphitheaters		-
Harrison Opera House		1
Baseball parks		1
Basketball courts		300
Boat ramps		8
Dance/music center (Lakewood & Vivian C. Mason Arts & Technology Center)		2

CITY OF NORFOLK, VIRGINIA
Miscellaneous Statistics (Unaudited)
June 30, 2003

TABLE XVII
Continued

Football fields:			
Regulation football	3		
Midget football	3		
Practice fields	9		
Libraries:			
Main Library	1		
Branches	11		
Bookmobile	1		
Treasure Truck	1		
Approx. Number of volumes	1,098,656		
Multiple use areas (greenways)	97		
Municipal beaches (guarded)	3		
Municipal golf courses	2		
Parks (estimated acreage):			
Botanical Gardens	167		
Other parks	588		
School ground recreation areas	868		
Picnic facilities (sites)	38		
Playgrounds	136		
Recreation centers:			
Community centers	8		
Boxing center (Barraud)	1		
Neighborhood centers	10		
Therapeutic Center (Mary Calcott)	1		
Titustown Art Center	1		
Senior citizen centers	2		
After school program centers	6		
Ball fields:			
Tournament class	19		
League class	34		
Neighborhood class (practice)	9		
Casual class (practice)	27		
Swimming pools	4		
Tennis courts	141		
Rugby/soccer fields:			
Youth	5		
Youth/Adult	13		
Rugby/football	2		
Tournament class	2		
Zoo	1		
Elections:			
General:	<u>5/2/00</u>	<u>5/7/02</u>	
Registered voters	104,839	105,092	
Ballots cast	25,461	19,145	
Percentage voting	24.29%	18.22%	

CITY OF NORFOLK, VIRGINIA
Miscellaneous Statistics (Unaudited)
June 30, 2003

TABLE XVII
Concluded

Number of City positions (excluding School Board) 5,612
 Population:

Census population count:			
1940			144,332
1950			213,513
1960			305,872
1980			266,979
1990			261,250
1999			225,700
2000			234,403

Age Distribution of population:	<u>% under 20</u>	<u>% 20 - 64</u>	<u>% 65 and over</u>
1960	39.8	54.5	5.7
1970	35.4	57.8	6.8
1980	30.7	60.1	9.2
1990	28.1	61.4	10.5
**2000	28.6	61.5	10.9

** Population estimated for the year 2000 are per Census 2000.

1. Information contained in this schedule is provided by various City departments unless indicated otherwise.

INDEPENDENT AUDITORS' REPORT



**Independent Auditors' Report on Compliance and on Internal Control
over Financial Reporting in Accordance with
*Government Auditing Standards***

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

We have audited the basic financial statements of the City of Norfolk, Virginia as of and for the year ended June 30, 2003, and have issued our report thereon dated October 9, 2003. 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 for the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management, 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.

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

Virginia Beach, Virginia
October 9, 2003



**Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control
over Compliance in Accordance with OMB Circular A-133**

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

Compliance

We have audited the compliance of the City of Norfolk, Virginia with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003.

The City's major federal programs are identified in the summary of auditors' 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 on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with 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 requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management, 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.

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

Virginia Beach, Virginia
October 9, 2003

CITY OF NORFOLK, VIRGINIA

Schedule of Findings and Questioned Costs Year Ended June 30, 2003

A. Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the basic financial statements of the City.
2. No reportable conditions in relation to the audit of the financial statements are reported in the Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of the City were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for the City expresses an unqualified opinion.
6. The programs tested as major programs were:

Name of Program	CFDA#
Social Services Block Grant	93.667
Child Nutrition Cluster	10.553, 10.555; 10.559
School Assistance in Federal Effected Areas	84.041
Environmental Protection Agency Capitalization Grant	66.458

7. The threshold for distinguishing Types A and B programs was \$2,578,711.
8. The City was determined to be a low risk auditee.

B. Findings – Financial Statement Audit

None.

C. Findings and questioned Costs – Major Federal Award Programs Audit

None.