



City of Norfolk, Virginia

2011



**COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT**

FOR THE FISCAL YEAR ENDED JUNE 30, 2011



**City of Norfolk, Virginia
Comprehensive Annual
Financial Report
For the Fiscal Year Ended
June 30, 2011**

**Prepared by:
The Department of Finance
Shenette Felton, CPA, Acting Director of Finance & Controller
Tina N. Weston, CPA, Accounting Manager
Larry T. Baker, Accountant V**



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**CITY OF NORFOLK, VIRGINIA
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 Municipal Officials**

Honorable City Council

President and Mayor
 Vice Mayor
 Member
 Member
 Member
 Member
 Member
 Member

Paul D. Fraim
 Anthony L. Burfoot
 Andrew A. Protogyrou
 Paul R. Riddick
 Thomas R. Smigiel
 Theresa W. Whibley
 Angelia M. Williams
 Barclay C. Winn

**City Manager
 Marcus D. Jones**

Assistant City Manager
 Assistant City Manager
 Assistant City Manager
 Assistant City Manager

Darrell V. Hill
 Anne Odell
 Melanie Purcell
 Stanley A. Stein

**Acting Director of Finance
 Shenette C. Felton**

City Assessor
 City Attorney
 City Auditor
 City Clerk
 City Treasurer
 Commissioner of the Revenue
 Director of Budget & Grant Management
 Director of Civic Facilities
 Director of Communications
 Director of Economic Development
 Director of Fire & Paramedical Services
 Acting Director of Human Resources
 Director of Human Services
 Director of Information Technology
 Office of Intergovernmental Relations
 Director of Libraries
 Director of Maritime Center (Nauticus)
 Director of Planning & Community Development
 Director of Public Health
 Director of Public Works
 Director of Utilities
 Acting Police Chief
 Registrar of Voters

Deborah K. Bunn, CAE
 Bernard A. Pishko, Esquire
 John H. Sanderlin, Jr., CPA
 Breckenridge R. Daughtrey
 Thomas W. Moss, Jr.
 Sharon M. McDonald
 Sabrina Joy-Hogg
 John S. Rhamstine
 Bob Batcher
 Roderick S. Woolard
 Jeffrey Wise
 Melanie Purcell
 Stephen Hawks
 Hap M. Cluff
 William Bryan Pennington, Jr.
 Norman L. Maas
 Hank Lynch
 Frank Duke, AICP
 Demetria Lindsay, M.D.
 John M. Keifer, P.E.
 Kristen M. Lentz, P.E.
 Sharon Chamberlin
 Elisa J. Long



**CITY OF NORFOLK, VIRGINIA
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 Municipal Officials**

JUDICIAL

Fourth Judicial Circuit Court

Chief Judge
 Judge
 Judge
 Judge
 Judge
 Judge
 Judge
 Judge
 Judge
 Clerk

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

Norfolk General District Courts

Chief Judge, Civil Division
 Judge, Civil Division
 Judge, Criminal Division
 Judge, Traffic Division
 Judge, Traffic Division
 Judge
 Clerk

Bruce A. Wilcox
 Gwendolyn J. Jackson
 Ray W. Dezern, Jr.
 James S. Mathews
 S. Clark Daugherty
 Joseph A. Miglioizzi
 Thomas E. Baldwin

Norfolk Juvenile and Domestic Relations District Court

Chief Judge
 Judge
 Judge
 Judge
 Judge
 Clerk

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

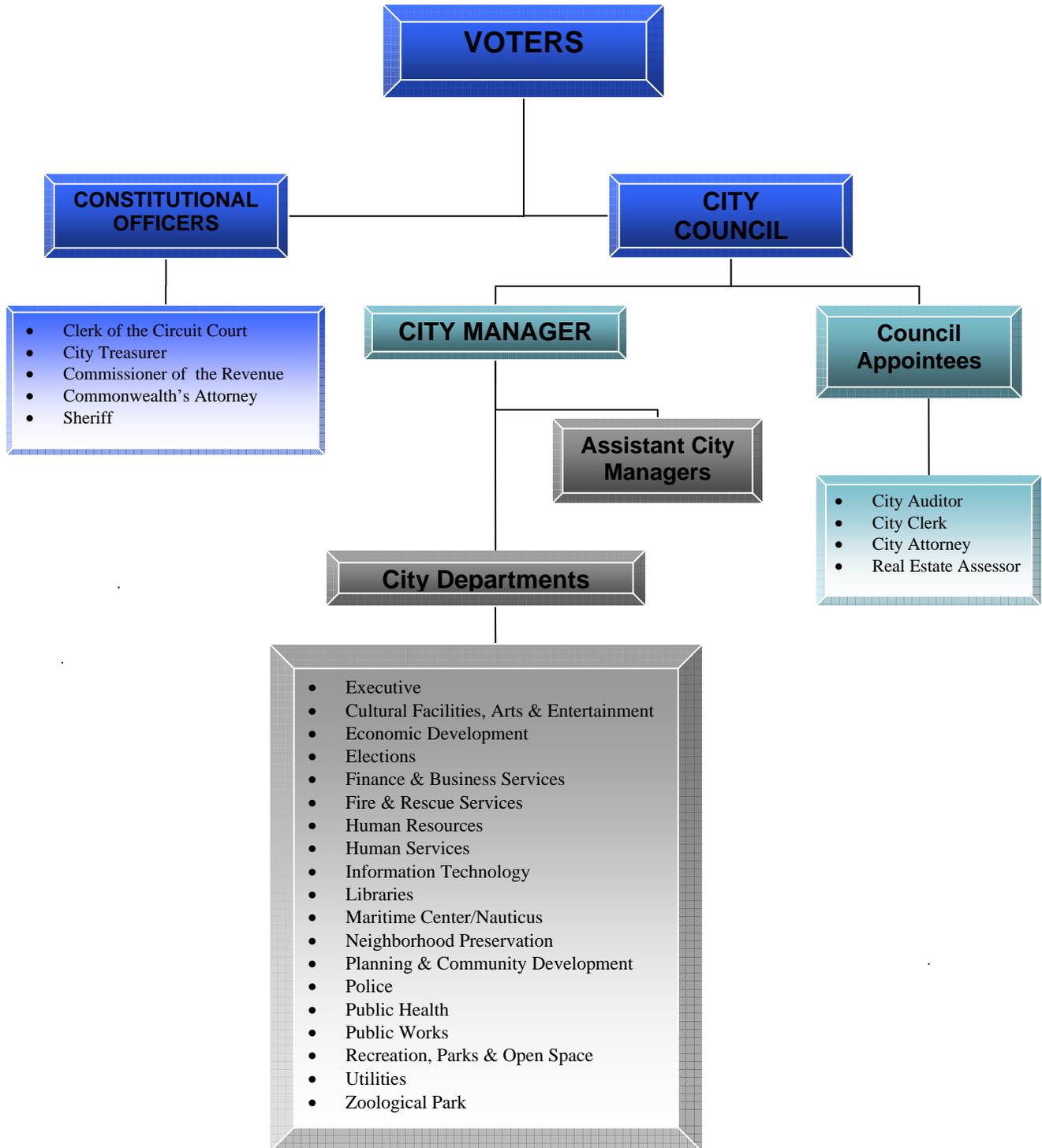
Other Judicial Officials

Sheriff
 Commonwealth's Attorney

Robert J. McCabe
 Gregory D. Underwood

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

**ORGANIZATIONAL
 CHART**





City of **Norfolk**

Office of the City Manager

December 13, 2011

To the Honorable Council and
Citizens of Norfolk, Virginia:

The Comprehensive Annual Financial Report (“CAFR”) of the City of Norfolk (the “City”) for the fiscal year ended June 30, 2011, is hereby submitted. At the close of each fiscal year, State law and the City’s charter require the City to publish a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States of America (“GAAP”). This report fulfills that requirement.

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

KPMG, a firm of licensed certified public accountants, has issued an unqualified opinion on the City’s financial statements for the fiscal year ended June 30, 2011. The independent auditor’s report is located in the financial section of the CAFR.

Management’s Discussion and Analysis (“MD&A”) immediately follows the independent auditor’s report and provides a narrative introduction, overview and analysis of the basic financial statements. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The independent audit of the financial statements of the City was also part of a broader, federally mandated “Single Audit” designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the 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 this report.

Profile of the City

Norfolk is the business, financial, medical, educational and cultural center of southeast Virginia and home to an estimated 243,000 residents. Its 66 square miles lie at the mouth of the James, Elizabeth and Nansemond Rivers and the southern shores of the Chesapeake Bay, and are adjacent to the Atlantic Ocean and the cities of Chesapeake,



Portsmouth and Virginia Beach. The waterways have been central to Norfolk's identity and an ongoing source of its financial stability, thanks to a major international port, significant military facilities and related businesses. Miles of bay, riverfront and lake shore provide ample recreational opportunities and are the centerpiece of dozens of historic neighborhoods. Norfolk has tapped into the nationwide demand for waterfront property by revitalizing older neighborhoods and creating new ones.

Profile of the Government

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

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

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



Transmittal Letter

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

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

Budget Process

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

Local Economy

While all economies continue to feel the effects of the global recession, many areas of the local economy remained healthy, supported in part by a strong and consistent military presence. However, the slow economic recovery presents financial challenges to provide funding for the wide variety of functions and services the City provides its citizens, business community and visitors. The region is experiencing job growth in some sectors. Unemployment for the region rose slightly to 7.3 percent in September 2011, while the local unemployment rate fell slightly to 8.9 percent.



Transmittal Letter

The presence and role of the military in Norfolk remains a positive force and continues to have a significant and stabilizing impact on the local economy. The City is home to the world's largest naval complex, with headquarters for U.S. Fleet Forces Command, Allied Command Transformation (ACT) – NATO and other major naval commands.



According to information released by the U.S. Navy in September 2011, the Navy's direct economic impact on the region decreased by approximately \$1.4 billion, from approximately \$14.9 billion in fiscal year 2009 to \$13.5 billion in fiscal year 2010. More than 82,000 active-duty Navy military personnel were in Hampton Roads in 2010, of which approximately 63 percent

were assigned to Norfolk. In addition, there were approximately 38,000 Navy civilian employees in Hampton Roads, of which approximately half were located in Norfolk in fiscal year 2010.

The City hosts the region's international airport, Norfolk International, which was designated as Virginia's first green airport. Served by American, Continental, Delta, Southwest, United Express and US Airways airlines, it has an average of 80 daily departures. The airport generates nearly 10,300 jobs and \$1.1 billion in economic activity annually and in calendar year 2010, served over 3.3 million passengers and over 5.7 million pounds of cargo.

The City also serves as a gateway between world commerce centers and the industrial heartland of the United States. With one of the world's largest natural deep-water harbors and a temperate climate, the Port of Virginia is an integral part of Norfolk's economy. On 648 acres, Norfolk International Terminals (NIT) is the Port of Virginia's largest terminal and one of the largest general cargo ports on the east coast. Over 15.3 million tons of cargo were shipped from the region's three main marine cargo terminals in 2010, an increase of 2.8 percent. The port continues to be attractive to shippers as Norfolk Southern, a major Fortune 500 company headquartered in Norfolk, has completed its



\$313 million Heartland Corridor project which reduced more than 225 miles off (approximately one day) existing routes to the Midwest. A 2008 study by the College of William and Mary's Mason School of Business estimated the port's economic impact in



Transmittal Letter

Hampton Roads to be \$12.3 billion in business revenue, plus \$4.1 billion in compensation paid to approximately 100,000 workers. With containerized cargo expected to triple in the next 20 years, the 300-acre expansion of NIT's north berth doubled its cargo capacity, making it the largest inter-modal center in the country.

The City's new light rail system, the Tide, began operation in August 2011, exceeding passenger count expectations. The Tide runs from the Eastern Virginia Medical Complex near Fort Norfolk to Newtown Road at the Virginia Beach city line. Construction on the Amtrak passenger rail line connecting Norfolk to Washington, D.C. via Petersburg and Richmond is underway. Anticipated to be completed in 2013, the estimated annual ridership is 67,000. This intercity passenger rail will be supported by a multi-modal transportation center located at Harbor Park, which includes a light rail station and will feature ferry service to Portsmouth. Construction will begin on The Downtown Tunnel/Midtown Tunnel/Martin Luther King Freeway (MLK) Extension in 2012. This \$1.9 billion project is planned to take place over the next five years and involves State-backed outreach for Small, Women and Minority (SWAM) and disadvantaged businesses, as well as an on-the-job training program.



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

Two university research parks' efforts support the advancement of a multitude of innovative initiatives including simulation, materials, spaceport, coastal and physical oceanography, as well as applied collaborative projects with the private sector. The City hosts several institutions of higher education including Old Dominion University, Norfolk State University, Eastern Virginia Medical School (EVMS), Virginia Wesleyan College and Tidewater Community College. All are continuing their campus



Transmittal Letter

expansions, most recently with the opening in September 2011 of the new research and education building at EVMS, featuring a modeling and simulation center. The City's major healthcare complexes provide premier services to all of southeastern Virginia and northeastern North Carolina. The region's first and only dedicated heart hospital, Sentara Heart Hospital, has been in operation for five years and is ranked nationally by U.S. News and World Report. Work has begun on a \$126 million renovation to Sentara Leigh Hospital, which includes two five-story towers for inpatient rooms and a 48-bed orthopedic and rehabilitation center. The project, expected to be completed in 2016, is designed to increase the hospital's size by 40 percent.

Other industries located in Norfolk include financial and insurance institutions; professional and technical services; shipping companies (including the North American headquarters of two international firms); shipbuilders and repairers; and retail operations. Norfolk continues to expand the downtown to the west to meet the medical/research complex and has developed plans and is guiding continued private development of Fort Norfolk, a former waterfront warehouse district. Fort Norfolk Plaza, a 200,000 square foot medical building, opened in August 2010. In addition, the completion of the 22-story Wells Fargo Center in June 2010 introduced 249,000 square feet of Class A office space to downtown, which has increased our Class A vacancy rate slightly to 14.5 percent.

Norfolk's downtown harbor is accessible to pedestrians and features a mix of tourism, business and residential uses. Town Point Park, located downtown on the harbor, has been a destination for the region and has hosted dozens of festivals, concerts and other events for more than 25 years. The mix of downtown residential, cultural, recreational, and entertainment options has also helped Norfolk attract and retain businesses. Economic development initiatives are focused on the attraction, expansion and retention of businesses that play to the City's strengths: maritime, higher education, medical and research facilities, neighborhood and community revitalization and commercial corridor development. Under the City's plan to promote the highest and best use for scarce land, property assessed values have more than doubled, increasing by 129 percent in the past decade. However, City-wide property valuations decreased 3.45 percent to \$17.8 billion for the fiscal year ended June 30, 2011. The decline reflects the prolonged housing market slowdown, as experienced nationally and regionally.



Transmittal Letter

Norfolk offers a mix of cultural attractions, entertainment, and recreational opportunities for residents, workers and tourists. Home to the Virginia Symphony, the Virginia Opera, the internationally acclaimed Virginia Arts Festival, and the Chrysler Museum, described by The New York Times as a collection “...any museum in the world would kill for...” Norfolk is the cultural capital of Virginia and reinforces Norfolk’s stature as the regional hub. Recent investments to the City’s cultural attractions



include the new Virginia Arts Festival headquarters, the recently opened Chrysler Museum Glass Art Studio, and the addition of the Trail of the Tiger exhibit to the Virginia Zoological Park. Norfolk and the Port of Hampton Roads have been chosen as one of only five ports to host the 2012 OpSail flotilla. Held in conjunction with the City’s annual Harborfest, the 2012 event is part of the commemoration of the bicentennial of the War of 1812 and the birth of “The Star Spangled Banner”. For the first time the U.S. Navy will participate in their own parade of sails and events throughout the region depicting the history of the U.S. Navy. The Kroc Center, a \$56 million state of the art community center located in the Broad Creek community, broke ground in October 2011. Norfolk is



the newest city to have a Kroc Community Center, which is a program of the Ray and Joan Kroc Foundation and the Salvation Army, . The Center is anticipated to open in Spring 2013. Construction of the Colonel Samuel L. Slover Memorial Library, to be located downtown, is slated to begin in early 2012. Designed to have the most technologically advanced programming available today, it will be supported by an endowment from the Batten Foundation when it opens in early 2014.

Long-Term Financial Planning

The General Fund’s unassigned fund balance at June 30, 2011, was 7.0 percent of budgeted expenditures. Part of the City’s strategic planning process involves the development of a five-year operating budgetary forecast that projects growth of major tax and fee revenues, as well as major expenditures. That forecast serves as a planning tool when the City Manager presents the proposed annual budget to City



Transmittal Letter

Council. In conjunction with the five-year operating budget forecast, the City's debt affordability practices guide the development of the five-year Capital Improvement Plan.

Major Initiatives

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

Light Rail – Norfolk made history August 19, 2011, when it began operation of The Tide, Virginia's first light rail system. There are 11 stations along the 7.4 mile route, which links the City's employment centers, hospitals, colleges, entertainment and shopping centers. During opening weekend, The Tide serviced more than 75,000 riders. HRT forecasts an average of 2,900 travelers per weekday on the system in its first year, although currently ridership is exceeding that level approximating 5,000 travelers as of November 2011. The approximate \$318.2 million system is funded through a combination of federal, state and local sources and is operated by the Hampton Roads Transit – which also operates the region's buses and ferries.

Public Amenities

- Upgraded Attractions – Using public funds to leverage private donations, the City continues with the development of the Slover Library Complex, which is being designed to be the most technologically advanced library in the country; and continues to make available to the public additional portions of the USS Wisconsin.
- Recreation Centers – The Southside Aquatic Center broke ground in October 2011 and is anticipated to open in spring 2013. This new facility will be approximately 20,000 square feet and will contain pools and water features for recreation, training and competitive swimming.
- Courts – Construction is anticipated to begin in January 2012 on Norfolk's consolidated court complex. This project will be constructed in two phases, and the first phase will be completed in 2013. The new complex will house Juvenile and Domestic, Circuit and General District courts. It is designed to meet the City's courthouse needs for the next 50 years.
- Transportation – Development of a multi-modal transfer station at Harbor Park which will become part of the City's expanding transportation network.



Transmittal Letter

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

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

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

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

Going Green – The City has continued its commitment to incorporate sustainable, "green," fiscally prudent practices in its municipal operations and in the design and construction of new buildings. The recently completed Police Precinct will be a Leadership in Energy and Environmental Design (LEED) certified green building and the planned Consolidated Courts Complex and the Slover Memorial Library are being designed to be LEED certified. The City also completed a \$200,000 energy audit project that assessed the performance of 100 municipal buildings totaling 3.5 million square feet. To continue to monitor and evaluate energy conservation progress, the



Transmittal Letter

City purchased a new energy management software program. Other initiatives include a major energy efficiency upgrade of the City's central energy plant and lighting and lighting control upgrades in City Hall. In addition, the City continues to expand and improve its tree canopy, adding two new Living Legacy tree groves through its Celebrate Trees program.

Recent Awards

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

- The Arbor Day Foundation named Norfolk "Tree City USA" for 2010. This is the 24th year that Norfolk has received this national recognition. The City's ongoing forestry efforts assist in providing our citizens with a high quality of life while furthering our environmental stewardship;
- Non-Profit KaBOOM named Norfolk a 2011 "Playful City USA" community. KaBOOM, dedicated to bringing play back into children's lives, selected Norfolk for creating and implementing programs that positively impact childhood wellness, public safety and quality of life;
- The International Festivals & Events Association chose Norfolk as one of the 2010 recipients of the inaugural "IFEA World Festival & Event City" award acknowledging the City's celebrations, special events and festivals provide strong economic impact and stimulate community growth; and
- The City received the Government Finance Officers Association of the United States and Canada's Distinguished Budget Presentation Award for its FY 2012 Budget.



Transmittal Letter

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (“GFOA”) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Norfolk for its Comprehensive Annual Financial Report (“CAFR”) for the fiscal year ended June 30, 2010. This was the 25th consecutive year that the City received this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

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

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Norfolk
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

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.



Linda C. Davison

President

Jeffrey R. Egan

Executive Director



Transmittal Letter

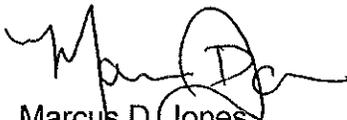
Honorable City Council

Acknowledgements

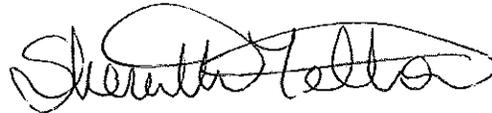
The preparation of this report is a collaborative effort lead by the Department of Finance. Many employees especially the City Controller Bureau staff, and the enterprise controllers and fund accountants of various City activities, devoted significant hours to the effort and we express our appreciation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

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

Respectfully Submitted,



Marcus D. Jones
City Manager



Shenette C. Felton
Acting Director of Finance



Transmittal Letter



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

FINANCIAL SECTION

~ Independent Auditors' Report ~

~ Management's Discussion and Analysis ~

~ Basic Financial Statements ~

Government-Wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

**Required Supplementary Information
(Pension and OPEB Funding Progress and
Budgetary Comparison Schedules)**



Financial Section

INDEPENDENT AUDITORS' REPORT





KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Norfolk, Virginia (the City) as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Norfolk, Virginia as of June 30, 2011, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in note XXV to the basic financial statements, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2011 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



The accompanying Management's Discussion and Analysis on pages 3 to 18, schedule of funding progress on page 93, and schedules of revenue, and budgetary comparison schedule on pages 94 through 96 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. 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 the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying information listed as Introductory Section, Other Supplementary Information and Statistical Section in the accompanying table of contents, including the schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Other Supplementary Information and 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, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Introductory Section and Statistical Section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

KPMG LLP

December 13, 2011

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

(Unaudited)



CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2011

The management of the City of Norfolk (the "City") provides this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2011. As readers, you are encouraged to read this discussion and analysis in conjunction with the transmittal letter and City's financial statement information included in this report. The intent of this discussion and analysis is to provide a summarized view of the City's financial performance as a whole; readers should also review the basic financial statements and supporting notes to enhance their understanding of the City's financial performance.

Financial Highlights

- The assets of the City, on a government-wide basis excluding component units, exceeded its liabilities at the close of fiscal year 2011 by \$679,159,881 (net assets). Of this amount, \$67,804,419 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors. Total net assets decreased by \$7,197,666 and unrestricted net assets decreased by \$71,876,918.
- As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$199,407,835, a decrease of \$58,325,967 in comparison with the prior year. This decrease was primarily attributable to capital outlays of \$75,531,169. Approximately 28.1 percent or \$55,967,308 is unassigned.
- The General Fund, on a current financial resources basis, reported an excess of revenues and other financing sources over expenditures and other financing uses of \$10,357,214, primarily due to continued efforts to control costs through limitation of hiring and travel due to the expected decrease in revenue as a result of current economic conditions.
- At the end of the current fiscal year, the total unassigned fund balance for the general fund was \$55,967,308 or 7.0 percent of the general fund budget.
- The City's total outstanding bonded indebtedness decreased by \$20,613,520 during the current fiscal year.

Overview of the Financial Statements

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

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2011

basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

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

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

The government-wide financial statements include not only the City itself (known as the primary government), but also the following legally separate component units for which the City is financially accountable: Norfolk Public Schools ("School Board"), Waterside Associates Limited Partnership ("Waterside Associates"), and the Norfolk Community Services Board ("CSB"). Financial information for these component units is reported separately from the financial information presented for the primary government and can be found on pages 30 - 31 of this report.

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

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2011

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

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

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

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

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

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

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

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

Proprietary funds provide the same type of information as the government-wide financial statements only in more detail. The proprietary fund financial statements provide

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2011

separate information for the Water and Wastewater Utilities and the Parking Facilities operations, all of which are considered major funds. Conversely, the internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements in this report.

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

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

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

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

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension and other post-employment benefits to its employees. Required supplementary information can be found on pages 93 - 96 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented on pages 97 - 100 of this report.

Government-Wide Financial Analysis

Over time, net assets may serve as a useful indicator of the City's financial position. In the case of the City, assets exceeded liabilities by \$679,159,881 at the close of fiscal year 2011.

By far, the largest portion of the City's net assets, \$591,683,464 or 87.1 percent is its investment in capital assets (e.g., land, buildings, equipment, intangibles and infrastructure) less accumulated depreciation and amortization and less any related outstanding debt used to acquire those assets. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted

**CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2011**

that the resources needed to repay this debt must be provided from other resources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets, approximately 2.9 percent represent resources that are subject to external restrictions on how they may be used. The remaining balance of \$67,804,419 of unrestricted net assets may be used to meet the City's ongoing obligations to citizens and creditors.

Summary of the City of Norfolk's Net Assets

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Current and Other Assets	\$ 282,652,755	\$ 344,519,287	\$ 180,250,695	\$ 152,186,058	\$ 462,903,450	\$ 496,705,345
Capital Assets	865,283,070	857,514,502	824,447,814	807,722,067	1,689,730,884	1,665,236,569
Total Assets	<u>1,147,935,825</u>	<u>1,202,033,789</u>	<u>1,004,698,509</u>	<u>959,908,125</u>	<u>2,152,634,334</u>	<u>2,161,941,914</u>
Long-Term Liabilities	758,614,075	795,682,918	643,368,366	612,299,892	1,401,982,441	1,407,982,810
Other Liabilities	52,654,476	53,057,531	18,837,536	14,544,026	71,492,012	67,601,557
Total Liabilities	<u>811,268,551</u>	<u>848,740,449</u>	<u>662,205,902</u>	<u>626,843,918</u>	<u>1,473,474,453</u>	<u>1,475,584,367</u>
Net Assets:						
Invested in Capital Assets						
Net of Related Debt	324,576,143	155,953,608	267,107,321	229,692,711	591,683,464	385,646,319
Restricted	6,744,226	120,974,389	12,927,772	40,055,502	19,671,998	161,029,891
Unrestricted	5,346,905	76,365,343	62,457,514	63,315,994	67,804,419	139,681,337
Total Net Assets	<u>\$ 336,667,274</u>	<u>\$ 353,293,340</u>	<u>\$ 342,492,607</u>	<u>\$ 333,064,207</u>	<u>\$ 679,159,881</u>	<u>\$ 686,357,547</u>

For governmental activities, total net assets decreased by \$16,626,066 or 4.7 percent overall during the current fiscal year. Factors that contributed to a change in total governmental net assets include: a reduction in revenue as a result of current economic conditions and increases in expenses in certain functional areas (primarily education and community development) as well as increase in interest on long-term debt as a result of bonds issued in the prior year.

For business-type activities, net assets increased by \$9,428,400 or 2.8 percent during the fiscal year. Of this amount, \$7,442,790, \$4,007,420 and \$(2,021,810) are changes attributed to the Water Utility, Wastewater Utility and Parking Facilities funds, respectively. Overall revenues remained fairly consistent with the prior year due to an increase in charges for services as a result of increases in rates offset by declines in other revenue.

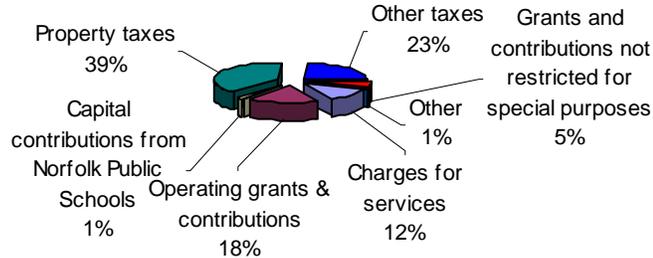
CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2011

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

Changes in the City of Norfolk's Net Assets						
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program Revenues:						
Charges for Services	\$ 78,753,208	\$ 69,300,499	\$ 124,617,316	\$ 121,582,120	\$ 203,370,524	\$ 190,882,619
Operating Grants & Contributions	116,647,782	127,665,377	-	-	116,647,782	127,665,377
Capital Grants & Contributions	-	7,175,380	129,652	366,363	129,652	7,541,743
General Revenues:						
Property Taxes	255,529,830	256,339,199	-	-	255,529,830	256,339,199
Other Taxes	153,885,777	153,615,005	-	-	153,885,777	153,615,005
Grants and Contributions not restricted for specific purposes	32,641,609	32,892,521	557,326	147,752	33,198,935	33,040,273
Capital Contributions from Norfolk Public Schools	11,084,963	40,387,140	-	-	11,084,963	40,387,140
Other	6,966,793	6,528,503	3,784,728	6,794,339	10,751,521	13,322,842
Total Revenues	655,509,962	693,903,624	129,089,022	128,890,574	784,598,984	822,794,198
Expenses:						
General Government	103,550,071	112,874,315	-	-	103,550,071	112,874,315
Judicial Administration	49,979,896	52,019,797	-	-	49,979,896	52,019,797
Public Safety	129,720,786	130,262,485	-	-	129,720,786	130,262,485
Public Works	101,136,816	132,176,401	-	-	101,136,816	132,176,401
Health and Public Assistance	82,368,494	91,923,045	-	-	82,368,494	91,923,045
Culture and Recreation	64,352,295	73,342,471	-	-	64,352,295	73,342,471
Community Development	18,637,893	15,428,530	-	-	18,637,893	15,428,530
Education	104,511,131	101,011,131	-	-	104,511,131	101,011,131
Interest on Long-Term Debt	27,930,691	26,013,627	-	-	27,930,691	26,013,627
Water Utility	-	-	67,852,343	64,316,142	67,852,343	64,316,142
Wastewater Utility	-	-	19,706,851	18,982,468	19,706,851	18,982,468
Parking Facilities	-	-	22,049,383	20,007,897	22,049,383	20,007,897
Total Expenses	682,188,073	735,051,802	109,608,577	103,306,507	791,796,650	838,358,309
Increase (decrease) in Net Assets before Transfers	(26,678,111)	(41,148,178)	19,480,445	25,584,067	(7,197,666)	(15,564,111)
Transfers	10,052,045	13,054,009	(10,052,045)	(13,054,009)	-	-
Increase (decrease) in Net Assets Adj to beginning net assets (GASB 51)	(16,626,066)	(28,094,169)	9,428,400	12,530,058	(7,197,666)	(15,564,111)
Net Assets Beginning of Year	353,293,340	379,538,235	333,064,207	320,534,149	686,357,547	700,072,384
Net Assets End of Year	\$ 336,667,274	\$ 353,293,340	\$ 342,492,607	\$ 333,064,207	\$ 679,159,881	\$ 686,357,547

**CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2011**

Governmental Activities: Revenues by Source



Governmental Activities – The City’s total revenues from governmental activities were \$655,509,962 for the fiscal year ended June 30, 2011. The largest sources of revenue for the City at 39 percent are property taxes (which are comprised of real estate and personal property taxes) and other taxes. Revenues from property taxes experienced a 0.3 percent decrease over the prior year. The real estate (general tax) tax rate for 2010-2011 was \$1.11 per \$100 of assessed value which has remained unchanged for the past few years. The real estate (downtown improvement district) tax rate for 2010-2011 was \$1.27 per \$100 of assessed value which has also remained unchanged from the prior year. Revenues from other taxes remained relatively flat in comparison to the prior year due to the slow economic recovery. Other taxes are comprised of sales & use, consumers’ utility, restaurant food, business license and hotel/motel taxes, just to name a few. This group of taxes represented 23 percent of total revenues for the fiscal year ended June 30, 2011.

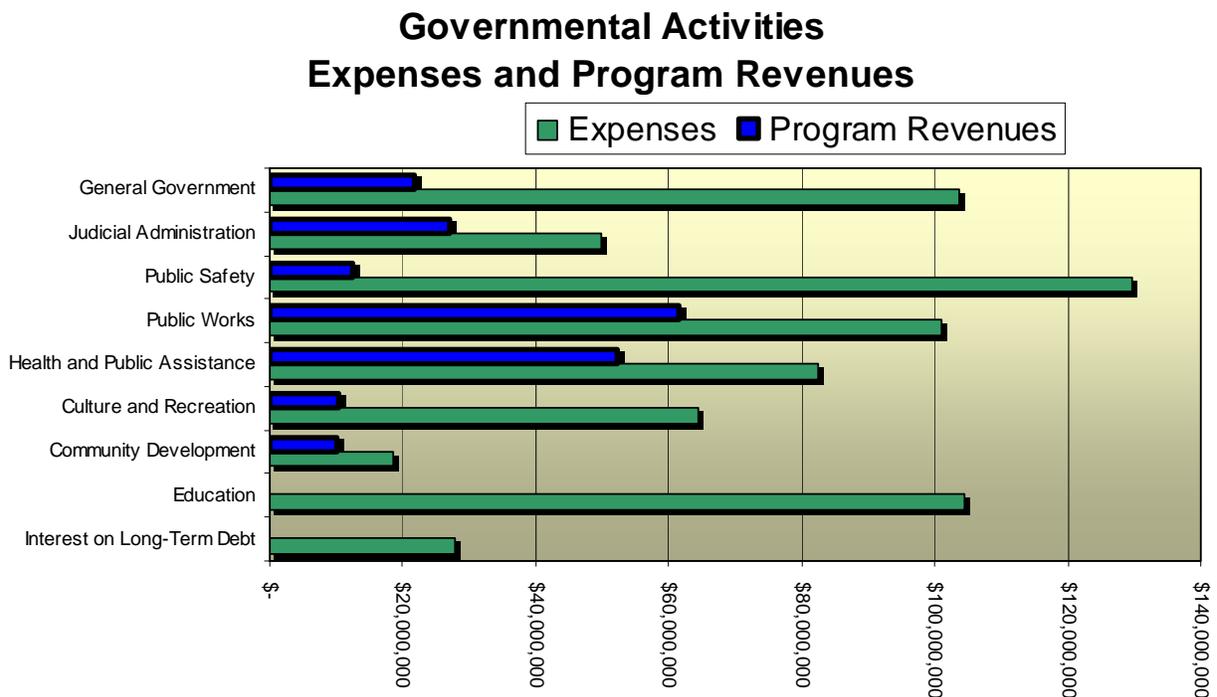
Operating grants and contributions for governmental activities ended the fiscal year at \$116,647,782, a decrease of \$11,017,595 over the prior year. Grants and contributions not restricted for specific programs represent intergovernmental grants and contributions from State and Federal agencies. For the 2011 fiscal year, the City reported \$32,641,609 in grants and contributions not restricted for specific programs which is relatively consistent with the prior year.

The City’s expenses for governmental activities cover a wide array of services, with \$129,720,786 or 19.0 percent for fiscal year 2011 related to public safety and \$104,511,131 or 15.3 percent for fiscal year 2011 for education (including payments to the School Board, a component unit). Overall, expenses for governmental activities decreased by 7.2 percent which was primarily driven by a \$31,039,585 or 22.5 percent decrease in expenses for public works as well as a \$8,990,176 or 12.3 percent

**CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2011**

decrease in expenses for culture and recreation. The decrease in public works expenses can be mainly attributed to a reduction in spending for capital projects for this area. The decrease in culture and recreation expenses is partially attributable to the opening of a new community center in fiscal year 2010. As the center was completed and opened in 2010, the same level of expenses were not experienced in fiscal year 2011.

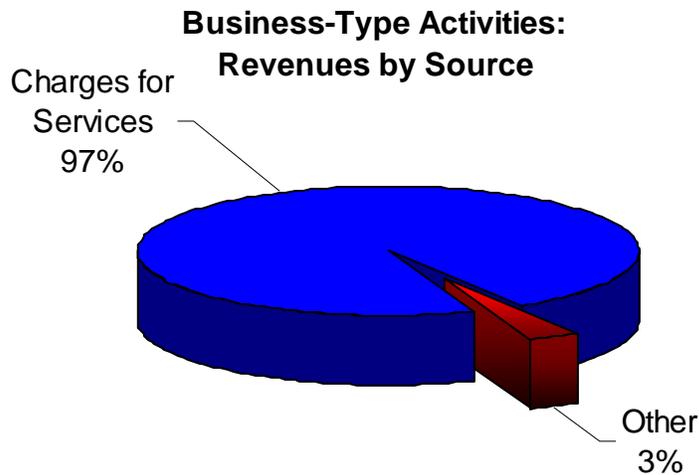
Depreciation expense for governmental activities of \$38,190,537 was recorded.



CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2011

Business-type Activities – Business-type activities increased the City's net assets by \$9,428,400. Key elements of this change are as follows:

- Revenue from charges for services for business-type activities increased by 2.50 percent. Water utility charges for services increased \$1,590,621 and Wastewater utility charges for services increased \$547,583 primarily as a result of rate increases. As part of the City's utility rate plan to improve utility infrastructure throughout the City, the Water and Wastewater utility rates were increased by \$0.13/100 cubic feet and \$0.12/100 cubic feet, respectively.
- Parking facilities revenues increased \$896,992 or 4.78 percent from the prior year. The increase is mainly attributed to the increase in parking ticket revenue as a result of enhanced collections efforts including usage of the DMV stop program as well as the State Debt Set Off program.

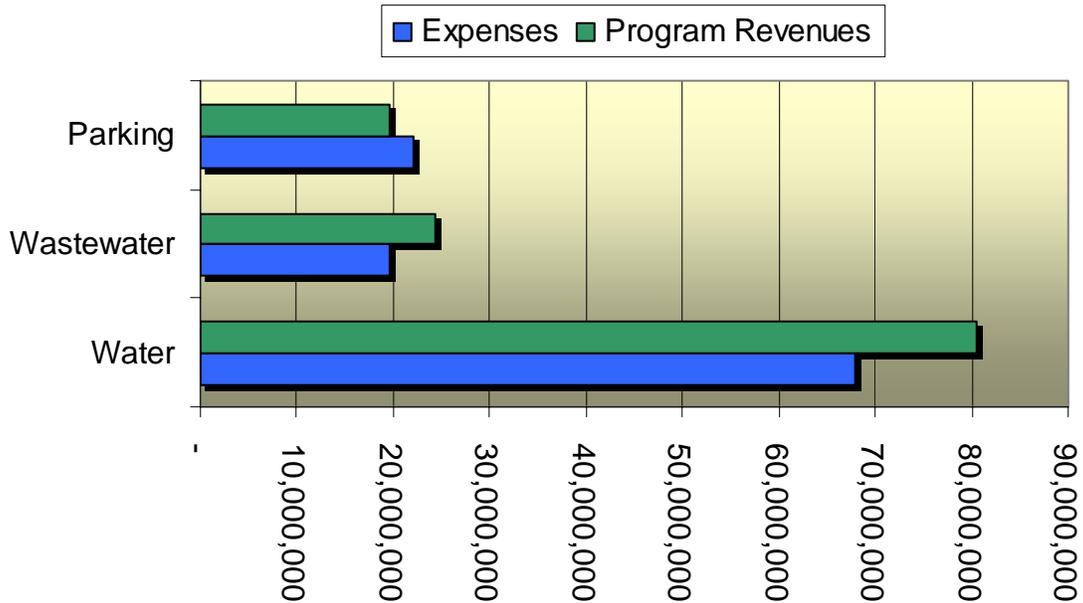


Operating expenses for Business-type activities increased overall by \$4,285,178 or 5.38 percent. The Water Utility fund's operating expenses increased by \$2,921,290 primarily due to increases in electricity costs as well as an increase in the required retirement contribution.

Also operating expenses in the Wastewater Utility and Parking Facilities funds increased due to an increase in the required retirement contribution as well as increase in depreciation year over year.

**CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2011**

**Business Type Activities -
Expenses and Program Revenues**



Financial Analysis of the Government's Funds

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

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

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

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2011

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$199,407,835, a decrease of \$58,325,967 or 22.9 percent over the prior year. Of the total ending fund balance, \$27,901 is nonspendable and \$44,079,478 or 22.1 percent is restricted. The restricted fund balance is that portion of fund balance that can only be spent for the specific purposes as stipulated by a third party or legislation. Funds that typically fall in this category are federal and state awards/grants as well as certain tax dollars levied for specific purposes. Committed fund balance is \$25,135,547 or 12.6 percent of total ending fund balance and represents amounts within fund balance that have been designated for a specific purpose by City Council. Included in this classification are amount designated by City Council for the City's self-insured workers; compensation and general liability programs. Assigned fund balance is \$74,197,601 or 37.2 percent of total ending fund balance and represent funds intended to be used by the City for specific purposes. Encumbrances that are not considered committed are included in this classification. The remaining \$55,967,308 or 28.1 percent of ending fund balance in the City's governmental funds is available for spending at the government's discretion and is classified as unassigned.

The City's primary governmental fund is its general fund. As a matter of fiscal policy, the City unassigned fund balance is targeted to be no less than five percent of the general government's and School Board's annual operating budgets, or \$39,767,381.

For the general fund, on the budgetary basis of accounting, the City ended the fiscal year with revenues below projections by \$7,630,320. Total expenditures were less than appropriations by \$23,698,178.

The general fund experienced an overall increase in revenue of \$10,362,287 or 1.8 percent over the prior year. This is primarily attributable to the adoption of GASB Statement 54 which resulted in some funds previously classified as special revenue being merged into the general fund effective July 1, 2010. As such, their associated revenues and expenditures are included in the general fund. Overall expenditures decreased by \$363,918 or 0.1 percent from fiscal year 2010. General fund financial and budgetary highlights of the 2011 fiscal year include:

- Other local tax collections were less than budgetary projections by \$2,606,036;
- Aid from the Commonwealth was less than budgetary projections by \$2,851,548. This was mainly attributable to a reduction in the Aid from the Commonwealth for public assistance which declined by \$2,632,356 due to lower utilization of day care and adult services. Additionally, \$561,199 of public assistance was funded via federal stimulus funds and as such, that has been reported as aid from the Federal Government although it was budgeted as aid from the Commonwealth. This is also the reason that aid from the Federal government exceeded budgetary projections; and

**CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2011**

- During fiscal year 2011, the City continuously monitored revenue levels so that it could adjust spending accordingly, if necessary. During the latter half of the year, it was determined that revenue would be less than anticipated. The City implemented a city-wide cost savings strategy whereby it placed projects on hold, reduced travel where possible as well as took other measures to reduce spending. This is the primary reason for \$23,698,178 in expenditure savings experienced in fiscal year 2011. Of this amount, \$1,083,077 is specifically attributable to debt service due to timing of bond payments as well as bonds that were authorized but not issued.

Supplemental appropriations or amendments to the total 2011 general fund budget were:

General Fund:

Approved FY 2010-2011 budget	\$ 785,638,700
Adoption of GASB 54:	
Add: Nauticus	5,797,100
Maritime Facility	3,154,400
Budget adjustment	<u>8,951,500</u>
Total adjusted fiscal year 2010-2011 budget	794,590,200

Supplemental appropriations:

Additional revenue from the Commonwealth of Virginia for the maintenance of eligible City streets	<u>757,420</u>
Total supplemental appropriations	<u>757,420</u>
Final FY 2010-2011 budget	<u><u>\$ 795,347,620</u></u>

The City spent \$75,531,169 in the Capital Projects fund to fund major capital projects, including construction of the light rail system, critical repairs to City and School Board buildings, City infrastructure improvements and various improvements for neighborhood revitalization. The fund had a total fund balance of \$79,347,543. In fiscal year 2011, the City used proceeds from bond sold in fiscal year 2010 as well as cash on hand to fund these expenditures.

The Debt Service fund does not have any assets, liabilities or net assets at fiscal year end. During the year, \$79,057,228 were transferred in from various funds to pay for an equal amount of debt service requirements.

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

**CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2011**

Capital Asset and Debt Administration

Capital Assets – The City's investment in capital assets, net of related debts, for its governmental and business-type activities as of June 30, 2011, amounted to \$591,683,464 (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements, infrastructure (streets, roads, bridges, highways, water/sewer systems, etc...), machinery, equipment, intangibles and construction in progress. Infrastructure assets represent 22.32 percent of total general governmental assets.

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

- Continued construction on the City's 7.4 mile light rail project which was completed in August 2011 of which \$16.9 million was spent during the fiscal year. This project is not capitalized by the City and as such is not included in the City's capital assets;
- \$7.1 million overall in total school-related capital projects which includes repairs to school buildings with the bulk of the funds being spent on the construction of Crossroads Elementary;
- \$3.2 million in various neighborhood conservation and revitalization efforts throughout in the City;
- Investment of \$3.9 million in improvements to neighborhood streets throughout the City;
- Construction of the Third Police Precinct with over \$7 million spend in fiscal year 2011;
- Continued construction on the new downtown main library, of which approximately \$14 million has been invested to date with \$2.5 million being spent in fiscal year 2011; and
- Acquisition of and upgrade to property to support strategic development projects in the amount of \$5.2 million.

Construction in progress totaled \$106.3 million for governmental activities at the end of the fiscal year. Construction in progress totaled \$43.2 million for business-type activities, which includes Water Utility, Wastewater Utility and Parking Facilities projects.

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

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Land	\$ 84,906,993	\$ 71,715,935	\$ 46,646,352	\$ 46,276,852	\$ 131,553,345	\$ 117,992,787
Buildings & equipment	435,827,900	450,150,100	713,195,494	715,228,925	1,149,023,394	1,165,379,025
Improvements other than buildings	43,831,541	47,878,205	16,543,057	3,943,044	60,374,598	51,821,249
Construction in progress	106,304,559	91,960,126	43,246,176	36,512,238	149,550,735	128,472,364
Intangible assets	1,291,324	1,364,909	4,816,735	5,761,008	6,108,059	7,125,917
Infrastructure	193,120,753	194,445,227	-	-	193,120,753	194,445,227
Total	\$ 865,283,070	\$ 857,514,502	\$ 824,447,814	\$ 807,722,067	\$ 1,689,730,884	\$ 1,665,236,569

**CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2011**

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

Long-term Debt – At June 30, 2011 the City (including the enterprise funds) had total bonded debt outstanding of \$1,276,316,324. Of this amount, \$826,873,665 comprises debt backed by the full faith and credit of the City. The remainder of the City's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

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

City of Norfolk's Bonded Debt

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
General obligation bonds	\$ 639,674,884	\$ 688,151,830	\$ 187,198,781	\$ 199,619,847	\$ 826,873,665	\$ 887,771,677
Revenue bonds	-	-	449,442,659	409,158,167	449,442,659	409,158,167
Total	<u>\$ 639,674,884</u>	<u>\$ 688,151,830</u>	<u>\$ 636,641,440</u>	<u>\$ 608,778,014</u>	<u>\$ 1,276,316,324</u>	<u>\$ 1,296,929,844</u>

The City's total debt outstanding decreased by \$20,613,520 (1.6 percent) during the fiscal year. The City issues debt based on its cash flow capital needs.

During the year, the City issued \$90,165,000 of general obligation refunding bonds which were used to defeased previously issued general obligation bonds. The advance refunding will reduce the City's total debt service payments for bonds and result in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$3,320,406. Additionally, the City issued a total of \$75,305,000 of general obligation bond anticipation notes of which a portion of the proceeds were used to repay the outstanding principal amount on a previously issued general obligation bond anticipation notes.

The development of the City's 5-year Capital Improvement Program and its related debt are guided by various debt affordability practices. These practices limit total tax supported (not supported by specific fees or charges) debt as follows:

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

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

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

**CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2011**

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

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

State statutes limit the amount of general obligation debt the City may issue to ten percent of its total assessed valuation. The current debt limitation for the City is \$1,932,064,350 which is significantly in excess of the City's general obligation debt outstanding.

Additional information on the City's long-term debt can be found in Note VIII on pages 57- 66 of this report.

Economic Factors and Next Year's Budgets and Rates

- The slow economic recovery continues to have a negative impact on the City as well as the State. The State's fiscal condition is of consequence to the City, since nearly 40 percent of general fund resources come from the State. Considering the effects of the national, state and local economic conditions, the City focused on core service delivery in developing the fiscal year 2012 budget.
- Taxable real estate assessments are projected to decline overall in the 2012 fiscal year by 4.95 percent. Residential and commercial assessments are projected to decline by 4.3 percent and 9.3 percent, respectively.
- Other local taxes have experienced a downturn in comparison to fiscal year 2011 initial budget projections; however, many are expected to slightly increase in comparison to the fiscal year 2011 end of year estimates due to a modest recovery of the economy. The following reflects major other tax change projections in comparison to the fiscal year 2011 end of year estimates:
 - Sales taxes – 3.9 percent increase;
 - Consumer's utility tax – 2.5 percent increase;
 - Business license taxes – 3.3 percent increase;
 - Restaurant food taxes – 2.1 percent increase; and
 - Hotel and motel tax – 3.6 percent increase.
- Rate increases for both the Water Utility and Wastewater Utility funds continue to provide necessary funding to finance capital improvements.
- The City anticipates continued increases in retirement contributions as a result of the economic downturn and its impact on investments. Additionally the City anticipates increases in required pension contributions in future years as it

**CITY OF NORFOLK, VIRGINIA
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2011**

relates to participation in any Virginia Retirement System (VRS) sponsored retirement plans, mainly through participation by the School Board and the constitutional offices of the City, as a result of actions taken by the Commonwealth of Virginia to defer increases in pension contributions for fiscal years 2010 and 2011.

All of these factors were considered in preparing the City’s budget for fiscal year 2012. The fiscal year 2012 operating budget includes transfers in from non-General funds of approximately \$12.2 million, which includes: carrying forward unspent appropriations from prior years and closeout of accounts and fiscal year 2011 savings realized from the mid-year budget reduction.

There were no changes in tax rates for the 2011 fiscal year with the exception of an \$0.08 increase in personal property taxes on motor vehicles and business furniture, fixtures and equipment. The following represents changes in fees implemented with the budget for the 2011 fiscal year:

Description	FY 2012 Approved	FY 2011 Approved
Wastewater Fees	\$3.26/100 cubic feet	\$3.13/100 cubic feet
Water Fees	\$4.01/100 cubic feet	\$3.87/100 cubic feet
Stormwater Fees – Residential	\$8.70/month	\$8.46/month
Stormwater Fees – Commercial	\$6.00/month per 2,000 sq. ft.	\$5.79/month per 2,000 sq. ft.

Requests for Information

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

BASIC FINANCIAL STATEMENTS



Statement of Net Assets
June 30, 2011

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and short term investments	\$ 190,157,683	\$ 49,245,798	\$ 239,403,481	\$ 34,596,253
Restricted cash held with fiscal agent	-	24,882,179	24,882,179	-
Unrestricted short term investments	-	20,600,831	20,600,831	-
Receivables, net:				
Taxes	49,321,490	-	49,321,490	-
Accounts	9,725,886	18,705,576	28,431,462	1,335,907
Accrued investment income	6,595	4,120	10,715	-
Internal balances	1,333,641	(1,333,641)	-	-
Due from other governments	29,598,150	53,550	29,651,700	30,104,284
Due from Primary Government	-	-	-	1,751,300
Inventories	2,306,789	1,849,040	4,155,829	722,744
Prepaid items	27,901	-	27,901	-
Restricted cash and investments	129,930	66,243,242	66,373,172	760,994
Other assets	44,690	-	44,690	238,988
Non-depreciable capital assets	191,280,566	92,196,765	283,477,331	501,324
Depreciable capital assets, net	674,002,504	732,251,049	1,406,253,553	15,437,868
Total assets	<u>\$ 1,147,935,825</u>	<u>\$ 1,004,698,509</u>	<u>\$ 2,152,634,334</u>	<u>\$ 85,449,662</u>
LIABILITIES				
Vouchers payable	\$ 21,703,354	\$ 10,479,833	\$ 32,183,187	\$ 9,913,247
Employees withholdings	838,376	-	838,376	-
Contract retainage	1,068,614	1,038,304	2,106,918	-
Accrued interest	7,434,860	3,411,794	10,846,654	-
Accrued payroll	7,168,747	725,570	7,894,317	24,526,070
Accrued expenses	7,396	-	7,396	-
Due to other governments	5,971,116	-	5,971,116	1,568,410
Due to component unit	1,751,300	-	1,751,300	-
Other current liabilities	6,171,283	342,781	6,514,064	-
Deferred revenue	539,430	-	539,430	183,141
Other payables	-	-	-	1,249,755
Liabilities payable from restricted assets	-	2,839,254	2,839,254	-
Long-term liabilities:				
Due within one year	112,028,713	30,880,092	142,908,805	10,131,806
Due in more than one year	646,585,362	612,488,274	1,259,073,636	17,326,773
Total liabilities	<u>811,268,551</u>	<u>662,205,902</u>	<u>1,473,474,453</u>	<u>64,899,202</u>
NET ASSETS				
Invested in capital assets, net of related debt	324,576,143	267,107,321	591,683,464	12,314,679
Restricted for:				
Perpetual care - nonexpendable	6,349,226	-	6,349,226	-
Capital projects	-	12,927,772	12,927,772	1,105,132
Retirees' life insurance-future expenditures	395,000	-	395,000	-
Other programs	-	-	-	814,818
Unrestricted	5,346,905	62,457,514	67,804,419	6,315,831
Total net assets	<u>336,667,274</u>	<u>342,492,607</u>	<u>679,159,881</u>	<u>20,550,460</u>
Total liabilities and net assets	<u>\$ 1,147,935,825</u>	<u>\$ 1,004,698,509</u>	<u>\$ 2,152,634,334</u>	<u>\$ 85,449,662</u>

CITY OF NORFOLK, VIRGINIA

Exhibit 2

Statement of Activities
For the Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 103,550,071	\$ 18,629,782	\$ 3,165,045	\$ -	(81,755,244)	\$ -	\$ (81,755,244)	\$ -
Judicial administration	49,979,896	3,629,295	23,439,401	-	(22,911,200)	-	(22,911,200)	-
Public safety	129,720,786	7,942,486	4,392,897	-	(117,385,403)	-	(117,385,403)	-
Public works	101,136,816	36,889,862	24,661,997	-	(39,584,957)	-	(39,584,957)	-
Health and public assistance	82,368,494	81,412	52,198,615	-	(30,088,467)	-	(30,088,467)	-
Culture and recreation	64,352,295	10,100,930	228,874	-	(54,022,491)	-	(54,022,491)	-
Community development	18,637,893	1,479,441	8,560,953	-	(8,597,499)	-	(8,597,499)	-
Education	104,511,131	-	-	-	(104,511,131)	-	(104,511,131)	-
Interest on long-term debt	27,930,691	-	-	-	(27,930,691)	-	(27,930,691)	-
Total governmental activities	682,188,073	78,753,208	116,647,782	-	(486,787,083)	-	(486,787,083)	-
Business-type activities:								
Water	67,852,343	80,573,611	-	129,652	0	12,850,920	12,850,920	-
Wastewater	19,706,851	24,362,092	-	-	0	4,655,241	4,655,241	-
Parking facilities	22,049,383	19,681,613	-	-	0	(2,367,770)	(2,367,770)	-
Total business-type activities	109,608,577	124,617,316	-	129,652	0	15,138,391	15,138,391	-
Total primary government	791,796,650	\$ 203,370,524	\$ 116,647,782	\$ 129,652	(486,787,083)	\$ 15,138,391	\$ (471,648,692)	\$ -
Component units:								
Norfolk Public Schools	370,542,917	\$ 4,847,324	\$ 209,643,854	\$ 6,877,496	-	-	-	\$ (149,174,243)
Waterside Fund	1,778,954	169,511	-	-	-	-	-	(1,609,443)
Community Services Board	26,046,621	6,929,297	13,659,432	-	-	-	-	(5,457,892)
Total component units	398,368,492	\$ 11,946,132	\$ 223,303,286	\$ 6,877,496	-	-	-	(156,241,578)
General revenues:								
Taxes:								
General property taxes - real estate and personal property					255,529,830	-	255,529,830	-
Consumers' utility taxes					48,360,323	-	48,360,323	-
Sales and use taxes					28,410,605	-	28,410,605	-
Restaurant food taxes					24,094,023	-	24,094,023	-
Business license taxes					25,849,255	-	25,849,255	-
Hotel/Motel taxes					6,512,106	-	6,512,106	-
Cigarette taxes					7,160,873	-	7,160,873	-
Admissions taxes					3,859,803	-	3,859,803	-
Motor vehicle licenses					4,313,329	-	4,313,329	-
Franchise, recordation and other miscellaneous local taxes					5,325,460	-	5,325,460	-
Use of money and property					1,065,315	511,289	1,576,604	1,035,187
Grants and contributions not restricted to specific programs					32,641,609	557,326	33,198,935	-
Miscellaneous					5,901,478	3,430,663	9,332,141	6,409
Commonwealth of Virginia					-	-	-	28,911,984
Loss from sale of assets					-	(157,224)	(157,224)	(235)
Payment from Primary Government					-	-	-	109,848,631
Capital contributions - Norfolk Public Schools					11,084,963	-	11,084,963	-
Transfers					10,052,045	(10,052,045)	-	-
Total general revenues and transfers					470,161,017	(5,709,991)	464,451,026	139,801,976
Changes in net assets					(16,626,066)	9,428,400	(7,197,666)	(16,439,602)
Net assets - beginning					353,293,340	333,064,207	686,357,547	38,331,173
Adjustment to beginning net assets - component unit					-	-	-	(1,341,111)
Net assets - ending					\$ 336,667,274	\$ 342,492,607	\$ 679,159,881	\$ 20,550,460

CITY OF NORFOLK, VIRGINIA
Balance Sheet - Governmental Funds
June 30, 2011

Exhibit A-1

	Major Funds			Non-major Governmental Funds	Total Governmental Funds
	General Fund	Capital Projects	Debt Service		
ASSETS					
Cash and short term investments	\$ 60,426,113	\$ 113,306,930	\$ -	\$ 15,970,907	\$ 189,703,950
Receivables, net:					
Taxes	49,321,490	-	-	-	49,321,490
Accounts	1,833,896	-	-	7,778,677	9,612,573
Accrued investment income	6,595	-	-	-	6,595
Due from other funds	19,890,925	218,357	-	4,449,771	24,559,053
Due from other governments	22,067,200	-	-	6,881,580	28,948,780
Restricted cash held with fiscal agent	-	129,930	-	-	129,930
Prepays	5,483	-	-	22,418	27,901
Other assets	-	-	-	44,690	44,690
Total assets	<u>\$ 153,551,702</u>	<u>\$ 113,655,217</u>	<u>\$ -</u>	<u>\$ 35,148,043</u>	<u>\$ 302,354,962</u>
LIABILITIES					
Vouchers payable	\$ 8,672,549	\$ 9,165,014	\$ -	\$ 3,150,675	\$ 20,988,238
Employee withholdings	838,376	-	-	-	838,376
Contract retainage	131,427	901,264	-	35,923	1,068,614
Accrued payroll	6,700,996	-	-	300,711	7,001,707
Accrued expenses	-	-	-	7,396	7,396
Due to other funds	217,911	22,188,591	-	909,728	23,316,230
Due to other governments	-	-	-	5,971,116	5,971,116
Due to component unit	-	1,751,300	-	-	1,751,300
Deferred revenue	35,394,901	-	-	841,158	36,236,059
Other liabilities	5,314,807	301,505	-	151,779	5,768,091
Total liabilities	<u>57,270,967</u>	<u>34,307,674</u>	<u>-</u>	<u>11,368,486</u>	<u>102,947,127</u>
FUND BALANCES					
Nonspendable	5,483	-	-	22,418	27,901
Restricted	395,000	41,063,089	-	2,621,389	44,079,478
Committed	1,898,571	11,977,925	-	11,259,051	25,135,547
Assigned	38,014,373	26,306,529	-	9,876,699	74,197,601
Unassigned	55,967,308	-	-	-	55,967,308
Total fund balances	<u>96,280,735</u>	<u>79,347,543</u>	<u>-</u>	<u>23,779,557</u>	<u>199,407,835</u>
Total liabilities and fund balances	<u>\$ 153,551,702</u>	<u>\$ 113,655,217</u>	<u>\$ -</u>	<u>\$ 35,148,043</u>	<u>\$ 302,354,962</u>

CITY OF NORFOLK, VIRGINIA
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2011

Exhibit A-2

Fund balances--total governmental funds	\$	199,407,835
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:

	Cost of capital assets	2,223,074,482	
	Accumulated depreciation	<u>(1,362,687,920)</u>	
			860,386,562

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:

	Adjustment for deferred revenue	35,696,629	
	Build America Bonds (BABs)	649,370	

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	(640,883,146)	
	Unamortized Bond premium	(12,080,458)	
	Retirement contribution	(38,140,246)	
	Other post employment benefits	(18,118,060)	
	Compensated absences	(14,622,920)	
	Workers' compensation and claims liability	(31,673,082)	
	Other	(2,174,660)	
	Accrued interest payable	<u>(7,434,860)</u>	
			(765,127,432)

Internal service funds		6,043,336
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GASB Statement 49 Pollution Remediation Obligation		(389,026)
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Net assets of governmental activities	<u>\$</u>	<u>336,667,274</u>
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CITY OF NORFOLK, VIRGINIA

Exhibit A-3

Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds
 For Fiscal Year Ended June 30, 2011

	Major Funds			Non-major Governmental Funds	Total Governmental Funds
	General Fund	Capital Projects	Debt Service		
REVENUES					
General property taxes	\$ 254,342,239	\$ -	\$ -	\$ 3,661,800	\$ 258,004,039
Other local taxes	145,141,964	-	-	8,743,813	153,885,777
Permits and licenses	3,690,959	-	-	-	3,690,959
Fines and forfeitures	1,287,993	-	-	9,815	1,297,808
Use of money and property	6,634,420	335,107	-	199,992	7,169,519
Charges for services	31,629,625	-	-	16,325,290	47,954,915
Miscellaneous	8,584,798	252,229	-	6,013,076	14,850,103
Recovered costs	10,722,712	-	-	-	10,722,712
Intergovernmental	116,589,551	-	-	32,899,423	149,488,974
Total revenues	<u>578,624,261</u>	<u>587,336</u>	<u>-</u>	<u>67,853,209</u>	<u>647,064,806</u>
EXPENDITURES					
Current operating:					
General government	78,643,175	-	-	2,212,097	80,855,272
Judicial administration	44,519,302	-	-	2,167,347	46,686,649
Public safety	103,863,085	-	-	12,959,885	116,822,970
Public works	55,910,310	-	-	14,214,020	70,124,330
Health and public assistance	59,272,655	-	-	20,483,935	79,756,590
Culture and recreation	39,502,709	-	-	6,359,175	45,861,884
Community development	10,713,656	-	-	5,851,124	16,564,780
Education	104,511,131	-	-	-	104,511,131
Debt service:					
Principal	535,000	-	50,254,925	75,000	50,864,925
Interest and other charges	138,279	-	28,802,303	734,244	29,674,826
Capital outlay	1,003,250	75,531,169	-	-	76,534,419
Total expenditures	<u>498,612,552</u>	<u>75,531,169</u>	<u>79,057,228</u>	<u>65,056,827</u>	<u>718,257,776</u>
Excess (deficiency) of revenues over expenditures	<u>80,011,709</u>	<u>(74,943,833)</u>	<u>(79,057,228)</u>	<u>2,796,382</u>	<u>(71,192,970)</u>
OTHER FINANCING SOURCES (USES)					
Proceeds of refunding bonds	-	-	84,135,543	-	84,135,543
Issuance of debt	-	2,821,385	-	-	2,821,385
Payment to bond refunding escrow agent	-	-	(84,135,543)	-	(84,135,543)
Premium on bonds	-	504,569	-	-	504,569
Transfers in	12,940,571	5,009,666	79,057,228	7,865,339	104,872,804
Transfers out	(82,595,066)	(1,000,000)	-	(11,736,689)	(95,331,755)
Total other financing sources and uses	<u>(69,654,495)</u>	<u>7,335,620</u>	<u>79,057,228</u>	<u>(3,871,350)</u>	<u>12,867,003</u>
Net changes in fund balances	10,357,214	(67,608,213)	-	(1,074,968)	(58,325,967)
Fund balances--beginning	62,136,499	146,955,756	-	48,641,547	257,733,802
Adjustment to beginning balance - GASB 54	23,787,022	-	-	(23,787,022)	-
Fund balances--ending	<u>\$ 96,280,735</u>	<u>\$ 79,347,543</u>	<u>\$ -</u>	<u>\$ 23,779,557</u>	<u>\$ 199,407,835</u>

**Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2011**

Net change in fund balances--total governmental funds		\$ (58,325,967)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the asset.		
Add capital acquisitions net of disposals	57,804,928	
Subtract depreciation expense	<u>(49,738,551)</u>	8,066,377
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the fund.		(2,440,426)
Bond and note proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		
Add debt repayment	135,000,468	
General obligation bond proceeds including premium	<u>(87,461,497)</u>	47,538,971
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Change in non-capital long-term liabilities (Note VIII)	(11,963,906)	
Principal pay down on refunded debt	1,037,537	
Accrued interest payable	1,544,552	
Premium on refunded debt	<u>504,569</u>	(8,877,248)
Internal service funds are used by management to charge the costs of of certain services to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activity.		(2,198,747)
GASB Statement 49 Pollution Remediation Obligation		(389,026)
Change in net assets of governmental activities		<u>\$ (16,626,066)</u>

CITY OF NORFOLK, VIRGINIA

Exhibit B-1

Statement of Fund Net Assets - Proprietary Funds
June 30, 2011

	Business-Type Activities				Governmental Activities- Internal Service Funds
	Water Utility	Wastewater Utility	Parking Facilities	Totals	
ASSETS					
Current assets:					
Cash and short term investments	\$ 23,874,446	\$ 5,873,554	\$ 19,497,798	\$ 49,245,798	\$ 453,733
Restricted cash held with fiscal agent	246,313	69,028	24,566,838	24,882,179	-
Unrestricted short term investments	13,263,144	7,337,687	-	20,600,831	-
Receivables, net					
Accounts	6,652,303	1,886,043	1,130,411	9,668,757	113,313
Unbilled accounts	7,707,220	1,105,598	224,001	9,036,819	-
Accrued investment income	4,120	-	-	4,120	-
Internal balances	-	1,362	-	1,362	90,818
Due from other governments	-	53,550	-	53,550	-
Inventories	1,419,063	32,417	397,560	1,849,040	2,306,789
Restricted cash and investments	60,709,091	693,066	4,841,085	66,243,242	-
Total current assets	113,875,700	17,052,305	50,657,693	181,585,698	2,964,653
Noncurrent assets:					
Capital assets:					
Land and improvements	35,070,601	20,980,977	36,145,187	92,196,765	415,000
Buildings and equipment	580,884,524	233,043,851	192,574,244	1,006,502,619	10,579,767
Accumulated depreciation	(167,222,416)	(54,491,590)	(52,537,564)	(274,251,570)	(6,098,259)
Capital assets, net	448,732,709	199,533,238	176,181,867	824,447,814	4,896,508
Total assets	\$ 562,608,409	\$ 216,585,543	\$ 226,839,560	\$ 1,006,033,512	\$ 7,861,161
LIABILITIES					
Current liabilities:					
Vouchers payable	\$ 4,845,596	\$ 5,161,929	\$ 472,308	\$ 10,479,833	\$ 715,116
Contract retainage	435,885	551,452	50,967	1,038,304	-
Accrued interest	90,666	1,153,515	2,167,613	3,411,794	-
Accrued payroll	510,836	112,586	102,148	725,570	167,040
Internal balances	1,335,003	-	-	1,335,003	-
Obligations for employees retirement system	2,770,254	739,000	606,650	4,115,904	605,162
Current portion of bonds payable	13,343,267	8,390,509	4,029,104	25,762,880	-
Liabilities payable from restricted assets	2,839,254	-	-	2,839,254	-
Compensated absences	729,300	157,969	114,039	1,001,308	224,832
Other current liabilities	175,661	11,750	155,370	342,781	14,166
Total current liabilities	27,075,722	16,278,710	7,698,199	51,052,631	1,726,316
Noncurrent liabilities:					
General obligation bonds payable	1,759,117	91,282,973	86,052,428	179,094,518	-
Revenue bonds payable	329,244,547	22,443,584	78,923,585	430,611,716	-
Compensated absences	366,812	200,079	171,058	737,949	91,509
Other long-term liabilities	1,199,565	425,777	418,749	2,044,091	-
Total noncurrent liabilities	332,570,041	114,352,413	165,565,820	612,488,274	91,509
Total liabilities	359,645,763	130,631,123	173,264,019	663,540,905	1,817,825
NET ASSETS					
Invested in capital assets, net of related debt	154,341,182	78,109,238	34,656,901	267,107,321	4,896,508
Restricted	11,000,000	-	1,927,772	12,927,772	-
Unrestricted	37,621,464	7,845,182	16,990,868	62,457,514	1,146,828
Total net assets	202,962,646	85,954,420	53,575,541	342,492,607	6,043,336
Total liabilities and net assets	\$ 562,608,409	\$ 216,585,543	\$ 226,839,560	\$ 1,006,033,512	\$ 7,861,161

CITY OF NORFOLK, VIRGINIA

Exhibit B-2

Statement of Revenues, Expenses, and Changes in Net Assets
 Proprietary Funds
 For Year Ended June 30, 2011

	Business-Type Activities			Totals	Governmental
	Water Utility	Wastewater Utility	Parking Facilities		Activities- Internal Service Funds
Operating revenues:					
Charges for services	\$ 80,573,611	\$ 24,362,092	\$ 19,681,613	\$ 124,617,316	\$ 15,254,046
Miscellaneous	2,936,138	494,525	-	3,430,663	84,791
Total operating revenues	<u>83,509,749</u>	<u>24,856,617</u>	<u>19,681,613</u>	<u>128,047,979</u>	<u>15,338,837</u>
Operating expenses:					
Personal services	14,703,327	4,604,225	7,942,997	27,250,549	3,446,566
Cost of goods sold	-	-	-	-	10,866,979
Plant operations	6,493,701	2,509,326	977,143	9,980,170	1,358,034
Chemicals	3,524,658	59,868	-	3,584,526	-
Provision for bad debts	429,970	223,640	-	653,610	29,341
Depreciation	11,915,059	4,818,680	5,490,422	22,224,161	297,810
Retirement and OPEB contribution	3,139,382	867,942	606,650	4,613,974	605,162
Administrative expenses	2,263,435	1,459,162	379,639	4,102,236	-
Other	9,224,888	1,765,728	607,294	11,597,910	1,444,890
Total operating expenses	<u>51,694,420</u>	<u>16,308,571</u>	<u>16,004,145</u>	<u>84,007,136</u>	<u>18,048,782</u>
Operating income (loss), net	<u>31,815,329</u>	<u>8,548,046</u>	<u>3,677,468</u>	<u>44,040,843</u>	<u>(2,709,945)</u>
Nonoperating revenues (expenses):					
Interest income, net of interest capitalized	227,695	72	283,522	511,289	202
Intergovernmental revenue	85,261	357,582	-	442,843	-
Interest expense and fiscal charges	(16,157,923)	(3,398,280)	(6,045,238)	(25,601,441)	-
Gain (loss) on sale or disposal of capital assets	(157,224)	-	-	(157,224)	-
Contributions	-	-	114,483	114,483	-
Total nonoperating revenues (expenses)	<u>(16,002,191)</u>	<u>(3,040,626)</u>	<u>(5,647,233)</u>	<u>(24,690,050)</u>	<u>202</u>
Net income (loss) before contributions and transfers	15,813,138	5,507,420	(1,969,765)	19,350,793	(2,709,743)
Capital contribution	129,652	-	-	129,652	-
Transfer in	-	-	-	-	510,996
Transfers out	(8,500,000)	(1,500,000)	(52,045)	(10,052,045)	-
Changes in net assets	7,442,790	4,007,420	(2,021,810)	9,428,400	(2,198,747)
Total net assets - beginning	195,519,856	81,947,000	55,597,351	333,064,207	8,242,083
Total net assets - ending	<u>\$ 202,962,646</u>	<u>\$ 85,954,420</u>	<u>\$ 53,575,541</u>	<u>\$ 342,492,607</u>	<u>\$ 6,043,336</u>

Statement of Cash Flows - Proprietary Funds
Year Ended June 30, 2011

	Business-Type Activities			Totals	Governmental
	Water Utility	Wastewater Utility	Parking Facilities		Activities-- Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers	\$ 83,300,652	\$ 24,821,765	\$ 19,621,129	\$ 127,743,546	\$ 15,471,165
Payments to suppliers	(9,676,067)	(2,466,877)	(920,898)	(13,063,842)	(11,882,578)
Payments to employees	(16,645,780)	(5,193,491)	(8,441,784)	(30,281,055)	(3,904,242)
Other payments	(12,174,767)	(3,214,640)	(1,184,984)	(16,574,391)	(1,389,001)
Net cash and short term investments provided by (used in) operating activities	<u>44,804,038</u>	<u>13,946,757</u>	<u>9,073,463</u>	<u>67,824,258</u>	<u>(1,704,656)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Internal activity	800,429	1,976,804	(396,701)	2,380,532	721,612
Intergovernmental revenues	-	357,582	-	357,582	-
Operating subsidies and transfers to other funds	(8,500,000)	(1,500,000)	(52,045)	(10,052,045)	-
Other nonoperating revenue	85,261	-	-	85,261	-
Net cash used in noncapital financing activities	<u>(7,614,310)</u>	<u>834,386</u>	<u>(448,746)</u>	<u>(7,228,670)</u>	<u>721,612</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Proceeds from capital/refunding debt	47,415,000	13,485,860	72,683,241	133,584,101	-
Capital contributions	129,652	-	-	129,652	-
Purchases of capital assets	(16,883,327)	(16,859,847)	(1,174,249)	(34,917,423)	-
Refunding/refinancing of debt principal	-	(6,358,281)	(74,961,176)	(81,319,457)	-
Principal paid on capital debt	(12,697,993)	(7,502,669)	(4,200,555)	(24,401,217)	(1,747)
Interest paid on capital debt	(14,251,042)	(3,974,322)	(5,062,106)	(23,287,470)	-
Net cash provided by (used in) capital and related financing activities	<u>3,712,290</u>	<u>(21,209,259)</u>	<u>(12,714,845)</u>	<u>(30,211,814)</u>	<u>(1,747)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Proceeds from sales and maturities of investments	54,286,514	6,860,945	3,209,927	64,357,386	-
Purchase of investments	(104,277,055)	(6,609,667)	(3,104,081)	(113,990,803)	-
Interest and dividends	226,817	72	283,522	510,411	202
Net cash provided by (used in) investing activities	<u>(49,763,724)</u>	<u>251,350</u>	<u>389,368</u>	<u>(49,123,006)</u>	<u>202</u>
Net increase in cash and short term investments	(8,861,706)	(6,176,766)	(3,700,760)	(18,739,232)	(984,589)
Cash and short term investments - beginning of the year	32,982,465	12,119,348	47,765,396	92,867,209	1,438,322
Cash and short term investments - end of the year	<u>\$ 24,120,759</u>	<u>\$ 5,942,582</u>	<u>\$ 44,064,636</u>	<u>\$ 74,127,977</u>	<u>\$ 453,733</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (used in) Operating Activities:					
Operating income (loss)	\$ 31,815,329	\$ 8,548,046	\$ 3,677,468	\$ 44,040,843	\$ (2,709,945)
Adjustments to reconcile operating income (loss) to net cash and short term investments provided by (used in) operating activities:					
Depreciation expense	11,915,059	4,818,680	5,490,422	22,224,161	297,808
Provision for bad debt	429,970	223,640	-	653,610	-
Change in assets and liabilities:					
Receivables, net	(209,097)	(34,852)	(60,484)	(304,433)	161,669
Inventories	119,967	19,945	(39,195)	100,717	11,781
Vouchers payable	222,325	82,372	95,440	400,137	372,379
Accrued payroll	827,801	149,734	107,863	1,085,398	82,118
Obligations for Employees' Retirement System	-	-	-	-	3,577
Other liabilities	(317,316)	139,192	(198,051)	(376,175)	75,957
Net cash and short term investments provided by (used in) operating activities	<u>\$ 44,804,038</u>	<u>\$ 13,946,757</u>	<u>\$ 9,073,463</u>	<u>\$ 67,824,258</u>	<u>\$ (1,704,656)</u>
Reconciliation of Cash and Short Term Investments to the Statement of Net Assets:					
Cash and short term investments	\$ 23,874,446	\$ 5,873,554	\$ 19,497,798	\$ 49,245,798	\$ 453,733
Restricted cash with fiscal agent	246,313	69,028	24,566,838	24,882,179	-
Total cash and short term investments per statement of net assets	<u>\$ 24,120,759</u>	<u>\$ 5,942,582</u>	<u>\$ 44,064,636</u>	<u>\$ 74,127,977</u>	<u>\$ 453,733</u>
Noncash investing, capital, and financing activities:					
Unrealized gain / (loss) on investments	\$ -	\$ -	\$ (6,883)	\$ (6,883)	\$ -
(Gain) loss on sale or disposal of capital assets	<u>\$ (157,224)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (157,224)</u>	<u>\$ -</u>
Acquisition of capital assets through change in contract retainage	<u>\$ (40,005)</u>	<u>\$ 187,014</u>	<u>\$ (937,737)</u>	<u>\$ (790,728)</u>	<u>\$ -</u>
Acquisition of capital assets through vouchers payable	<u>\$ 1,413,374</u>	<u>\$ 3,331,499</u>	<u>\$ (151,055)</u>	<u>\$ 4,593,818</u>	<u>\$ -</u>
Capitalized interest, less interest earned on certain long-term construction contracts	<u>\$ 1,160,204</u>	<u>\$ 440,524</u>	<u>\$ -</u>	<u>\$ 1,600,728</u>	<u>\$ -</u>

CITY OF NORFOLK, VIRGINIA
Statement of Fiduciary Net Assets
June 30, 2011

Exhibit C-1

	Pension Trust Employees' Retirement System	Agency Funds
ASSETS		
Cash and short term investments	\$ 7,222,094	\$ 4,227,267
Investments, fair value:		
United States Treasury securities	4,794,384	-
Fixed income securities	103,412,599	-
Equity securities	2,866,084	-
Other	630,665	-
Balanced commingled funds:		
Equity	565,716,494	-
Fixed income	186,962,641	-
Total investments	864,382,867	-
Receivables:		
Accounts, net of allowance for uncollectible accounts	4,378	663
Retirement contribution	42,828,229	-
Accrued investment income	1,313,684	-
Due from broker for securities sold	1,529,938	-
Other	-	288,037
Total assets	\$ 917,281,190	\$ 4,515,967
LIABILITIES		
Vouchers payable	\$ 369,131	\$ 23,892
Due to brokers for securities purchased	5,143,544	-
Other liabilities	-	4,492,075
Total liabilities	5,512,675	4,515,967
NET ASSETS		
Reserved for:		
Net assets held in trust for pension benefits	911,768,515	-
Total liabilities and net assets	\$ 917,281,190	\$ 4,515,967

CITY OF NORFOLK, VIRGINIA
Statement of Changes in Fiduciary Net Assets
Pension Trust Fund - Employees' Retirement System
For the Year Ended June 30, 2011

Exhibit C-2

	2011
Changes to net assets attributed to:	
Investment income:	
Net appreciation in fair value of investments	\$ 145,750,412
Interest	6,614,337
Dividends	4,568,353
Other	247,216
	157,180,318
Less investment expense	(1,361,453)
Net investment income	155,818,865
Employer contributions	42,828,229
Employee contributions	140,524
Total	198,787,618
Benefit payments and expenses:	
Refunds of contributions	62,207,210
Benefits paid to plan members and beneficiaries	3,649,085
Administrative costs	566,459
Total	66,422,754
Net increase	132,364,864
Net assets held in trust for pension benefits:	
Beginning of year	779,403,651
End of year	\$ 911,768,515

CITY OF NORFOLK, VIRGINIA
Statement of Net Assets - Component Units
June 30, 2011

Exhibit D-1

	Norfolk Public Schools	Waterside Associates	Norfolk Community Services Board	Totals
ASSETS				
Cash and short term investments	\$ 26,354,167	\$ 67,368	\$ 8,174,718	\$ 34,596,253
Receivables:				
Accounts, net of allowance for uncollectible accounts	165,714	18,057	1,152,136	1,335,907
Due from Primary Government	1,751,300	-	-	1,751,300
Due from other governments	30,104,284	-	-	30,104,284
Inventories	722,744	-	-	722,744
Restricted cash and investments	-	-	760,994	760,994
Other assets	-	15,184	223,804	238,988
Capital assets, net	11,567,810	3,624,513	746,869	15,939,192
Total assets	<u>\$ 70,666,019</u>	<u>\$ 3,725,122</u>	<u>\$ 11,058,521</u>	<u>\$ 85,449,662</u>
LIABILITIES				
Vouchers payable	\$ 9,034,358	\$ 174,253	\$ 704,636	\$ 9,913,247
Contract retainage	-	-	-	-
Accrued payroll	24,116,648	-	409,422	24,526,070
Unearned revenues	169,409	13,732	-	183,141
Other payables	1,141,490	-	108,265	1,249,755
Due to other government agencies	1,378,069	-	190,341	1,568,410
Current vested compensated absences	6,920,907	-	727,618	7,648,525
Other current liabilities	386,635	390,881	1,705,765	2,483,281
Long-term mortgage payable - less current portion	-	4,314,546	-	4,314,546
Long-term vested compensated absences	2,306,970	-	286,328	2,593,298
Long-term post employment benefits	8,065,445	-	-	8,065,445
Long-term claims and judgments liability	2,353,484	-	-	2,353,484
Total liabilities	<u>55,873,415</u>	<u>4,893,412</u>	<u>4,132,375</u>	<u>64,899,202</u>
NET ASSETS				
Invested in capital assets, net of related debt	11,567,810	-	746,869	12,314,679
Restricted for:				
Capital projects	1,105,132	-	-	1,105,132
Other programs	(105,523)	-	920,341	814,818
Unrestricted	2,225,185	(1,168,290)	5,258,936	6,315,831
Total net assets	<u>14,792,604</u>	<u>(1,168,290)</u>	<u>6,926,146</u>	<u>20,550,460</u>
Total liabilities and net assets	<u>\$ 70,666,019</u>	<u>\$ 3,725,122</u>	<u>\$ 11,058,521</u>	<u>\$ 85,449,662</u>

CITY OF NORFOLK, VIRGINIA

Exhibit D-2

Statement of Activities - Component Units
For the Year Ended June 30, 2011

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
		Charges for Services	Operating Grant Contributions	Capital Grant Contributions	Norfolk Public Schools	Waterside Associates	Community Services Board	Totals
Norfolk Public Schools:								
Instructional	\$ 267,477,276	\$ 2,245,732	\$ 196,997,388	\$ -	\$ (68,234,156)	\$ -	\$ -	\$ (68,234,156)
Administration, attendance and health	12,412,261	-	-	-	(12,412,261)	-	-	(12,412,261)
Pupil transportation	11,028,062	-	-	-	(11,028,062)	-	-	(11,028,062)
Operation and maintenance	35,283,073	-	-	-	(35,283,073)	-	-	(35,283,073)
Information technology	8,273,981	-	-	-	(8,273,981)	-	-	(8,273,981)
School facilities	20,265,542	-	-	6,877,496	(13,388,046)	-	-	(13,388,046)
Food services	15,564,577	2,601,592	12,646,466	-	(316,519)	-	-	(316,519)
Other	238,145	-	-	-	(238,145)	-	-	(238,145)
Total Norfolk Public Schools	370,542,917	4,847,324	209,643,854	6,877,496	(149,174,243)	-	-	(149,174,243)
Waterside Associates:								
Cultural and recreational	1,778,954	169,511	-	-	-	(1,609,443)	-	(1,609,443)
Community Services Board:								
Health and public assistance	26,046,621	6,929,297	13,659,432	-	-	-	(5,457,892)	(5,457,892)
Total component units	\$ 398,368,492	11,946,132	223,303,286	6,877,496	(149,174,243)	(1,609,443)	(5,457,892)	(156,241,578)
General revenues:								
Loss on sale of assets					-	-	(235)	(235)
Use of money and property					716,337	293,027	25,823	1,035,187
Payment from Primary Government					104,511,131	1,486,500	3,851,000	109,848,631
Miscellaneous					2,082	2,737	1,590	6,409
Commonwealth of Virginia					28,911,984	-	-	28,911,984
Total general revenues					134,141,534	1,782,264	3,878,178	139,801,976
Changes in net assets					(15,032,709)	172,821	(1,579,714)	(16,439,602)
Net assets--beginning					29,825,313	-	8,505,860	38,331,173
Adjustment to beginning net assets					-	(1,341,111)	-	(1,341,111)
Net assets--ending					\$ 14,792,604	\$ (1,168,290)	\$ 6,926,146	\$ 20,550,460

**NOTES TO THE BASIC
FINANCIAL STATEMENTS**



CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

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I. Summary of Significant Accounting Policies

A. Financial Reporting Entity Information

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

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

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

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

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

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financial support to Waterside. The Waterside operating and capital improvement budget was approved as part of the City's fiscal year 2011 operating and capital improvement budgets. As a result, a net deficit of \$1,341,111 was brought forward from prior years. Separate financial statements are not prepared for Waterside Associates.

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

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

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

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

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

B. Government-wide and Fund Financial Statements

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

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

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

The City reports the following major governmental funds:

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

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

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

The City reports the following major proprietary funds:

- The *Water Utility Fund* accounts for the activities of the City's water system, treatment plant and distribution systems.
- The *Wastewater Utility Fund* accounts for the activities of the City's sewage pumping stations and collection systems.
- The *Parking Facilities Fund* accounts for the activities of City-owned parking facilities.

Additionally, the City reports the following other fund types:

- *Special Revenue Funds* account for proceeds of specific resources that are restricted, committed or assigned to expenditures for specific purposes other than debt service or capital projects. Examples including services provided as part of mental health and substance abuse programs, juvenile detention services, emergency call center services, tax increment financing districts and individual grant programs.
- *Internal Service Funds* account for the City's storehouse operations and fleet management services provided to other departments or agencies of the City on a cost reimbursement basis.
- The *Pension Trust Fund* accounts for the activities of the Employee's Retirement System, which accumulates resources for pension benefit payments to qualified employees.
- The *Permanent Fund* is used to report resources that are restricted to the extent that only the interest may be used to support the City's cemetery

CITY OF NORFOLK, VIRGINIA
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operations.

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

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

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

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

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

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

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

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

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

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

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

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

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues and expenses of the City's Water Utility, Wastewater Utility and Parking Facilities enterprise funds, and of the City's internal service funds are charges to customers for sales and services and administrative expenses, and depreciation on capital assets. Revenues and expenses not meeting this definition, including interest income or expense are reported as non-operating revenues and expenses.

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

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

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

D. Budgets and Budgetary Accounting

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

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

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

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

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

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

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

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

E. Deposits and Investments

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

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

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

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

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

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

F. Restricted Assets

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

G. Interfund Transactions

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

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

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

H. Inventories

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

I. Capital Assets

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

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

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

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

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

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

J. Compensated Absences

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

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

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

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

K. Net Assets/Fund Balances

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

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

L. Estimates

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

M. Bond Premiums, Discounts and Issuance Costs

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

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

II. Deposits and Investments

Custodial Credit Risk - Deposits

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

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

Custodial Credit Risk - Investments

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

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

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

Interest Rate Risk

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

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

Segmented Time Distribution (as of June 30, 2011)

Primary Government

Investment Type	Fair Value	Investment Maturities				
		Less than 1 year	1-3 years	3-6 years	6-10 years	10 years +
Corporate Debt	\$ 53,179,999	\$ 8,670,238	\$ 19,989,203	\$ 10,867,359	\$ 5,404,812	\$ 8,248,387
Futures and Swaps	655,613	414,248	43,306	(17,962)	(56,740)	272,761
ABS	8,476,767	-	-	-	-	8,476,767
US Agency	29,901,472	6,183,611	11,814,562	443,388	4,010,448	7,449,463
Mortgages	17,497,709	-	362,105	100,529	985,259	16,049,816
Certificates of Deposit	4,680,000	4,680,000	-	-	-	-
Common Stock	4,084	-	-	-	-	4,084
Municipal Bonds	8,175,074	-	206,696	-	-	7,968,378
Preferred Stock	2,862,000	-	-	-	-	2,862,000
Fixed Income Funds	186,962,641	-	-	-	-	-
Domestic Equity Funds	327,117,125	-	-	-	-	-
International Equity Funds	218,353,249	-	-	-	-	-
Real Estate Funds	20,246,120	-	-	-	-	-
Money Market Investments in Cash & Cash Equivalents	220,923,211	220,923,211	-	-	-	-
Total	\$ 1,099,035,064	\$ 240,871,308	\$ 32,415,872	\$ 11,393,314	\$ 10,343,779	\$ 51,331,656

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

Per Exhibit 1 (Primary Government):	
Cash and short-term investments	\$ 239,403,481
Restricted cash held with fiscal agents	24,882,179
Investments	20,600,831
Restricted cash and investments	<u>66,373,172</u>
Total	<u>\$ 351,259,663</u>
Per Exhibit C-1 (Fiduciary):	
Cash and short-term investments	11,449,361
Investments	<u>864,382,867</u>
Total	<u>\$ 875,832,228</u>
Total Primary Government and Fiduciary	<u>\$ 1,227,091,891</u>
Less: Actual cash	128,056,827
Deposits and investments reported above	<u><u>\$ 1,099,035,064</u></u>

Credit Risk Related to Issuer

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's Pension Trust Fund's formal policy governing credit risk is that securities rated below investment grade by two of the three primary rating agencies, Moody's, Fitch Ratings, and Standard and Poor's (S&P), are not permitted without the written permission of the board. PIMCO has been given the authority by the board to invest 20% of the portfolio in below investment grade securities. The City's Pension Trust Fund invests in certain derivatives including real estate mortgage investment conduits, collateralized mortgage obligations, futures and swaps. Those securities are included in reported investments in the Retirement System's financial statements. Investments in derivatives with a fair value of \$653,013 were held at June 30, 2011. The City's rated debt investments as of June 30, 2011 were rated by S&P and/or an equivalent national rating organization and the ratings are presented below using the S&P credit quality rating scale.

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The Primary Government's Rated Debt Investment

Ratings (S&P)	Corporate Debt	Futures and Swaps	ABS	US Agency	Mortgages	Certificates of Deposit	Municipal Bonds	Money Market Mutual Funds
AAA	\$ 250,166	\$ -	\$ 1,833,875	\$ 6,461,634	\$ 8,633,795	\$ -	\$ -	\$ -
AAAm	-	-	-	9,048,986	-	-	-	219,966,716
AA+	404,628	-	-	-	884,959	-	619,698	-
AA	435,912	-	-	1,959,580	173,375	-	851,724	-
AA-	5,150,441	-	-	943,365	42,290	-	561,703	-
AAm-	-	-	-	-	-	-	-	956,495
A+	8,013,772	-	-	-	2,459,379	-	2,572,984	-
A	12,257,544	-	-	101,197	132,462	-	743,078	-
A-	10,728,399	-	-	-	320,938	-	973,669	-
BBB+	3,610,373	-	-	-	109,333	480,000	-	-
BBB	230,875	-	-	106,400	-	-	-	-
BBB-	1,462,976	-	-	240,278	-	-	-	-
BB+	1,339,250	-	-	-	263,498	-	-	-
BB-	2,131,521	-	-	-	-	-	-	-
B and Below	5,334,764	-	46,203	-	286,676	-	-	-
Not Rated	1,829,378	655,613	6,596,689	11,040,032	4,191,004	4,200,000	1,852,218	-
Total	\$ 53,179,999	\$ 655,613	\$ 8,476,767	\$ 29,901,472	\$ 17,497,709	\$ 4,680,000	\$ 8,175,074	\$ 220,923,211

The City's Pension Trust fund held \$327,117,125, \$218,353,249, and \$20,246,120 in Domestic equity, International equity, and Real Estate Funds respectively, an additional \$2,862,000 and \$186,962,641 in Preferred Stock and Fixed Income Funds and \$4,084 in common stock which are unrated securities.

Concentration of Credit Risk

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

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

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Foreign Currency Risk

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

<u>Currency</u>	<u>Fixed-Income</u>
South African Rand	\$ 294,982
Brazilian Real	1,419,599
Canadian Dollar	1,087,745
China Yuan Renminbi	774,327
Euro	(2,046,435)
Indonesian Rupiah	516,218
Singapor Dollar	35,029
Korean Won	626,836
Malaysian Ringgit	368,727
Mexican Peso	645,272
Great Britain Pound	(202,800)
	<u>\$ 3,519,500</u>

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

Community Services Board (CSB)

At June 30, 2011, the CSB had \$8,174,718 of cash and cash equivalents held in investments and \$760,994 of restricted cash. The investments are primarily in the LGIP.

School Board

At June 30, 2011, the School Board has investments of \$5,479,519 in a Aaa rated money market mutual fund and other cash and cash equivalents of \$31,479,049 including \$6,211,865 held in agency funds.

Waterside Associates

At June 30, 2011, Waterside had \$67,368 of cash and cash equivalents.

III. Property Taxes

Local real property assessments are made under the direction of a City Assessor appointed by the City Council. The City has the power to levy taxes on property located within its boundaries for payment of its obligations without limitation as to rate or amount. Rates are established by the City Council. The rates in effect for the year ended June 30, 2011, on each \$100 of assessed value, were \$1.11 for real property, an additional \$.16 for the Downtown Improvement District, \$4.33 for motor vehicles, \$1.50 for recreational vehicles, \$4.25 for machinery and tools, \$1.11 for mobile homes, \$2.40 for

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airplanes, \$.50 for recreational boats and \$1.50 for business boats. Disabled veterans pay a discounted rate of \$3.00 on each \$100 of assessed for personal property.

The property tax calendar is as follows:

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

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

IV. Accounts Receivable

A. Unbilled Accounts Receivable

Following is a summary by fund of unbilled accounts receivable recognized at June 30, 2011:

Water Utility fund	\$ 7,707,220
Wastewater Utility fund	1,105,598
Parking Facilities fund	224,001
	\$ 9,036,819

The associated revenue is included in charges for services. All amounts were billed in July 2011.

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B. Allowances for Uncollectible Accounts Receivable

Allowances for uncollectible accounts receivable are generally established using historical collection data, consideration of economic conditions, specific account analysis and subsequent cash receipts. The allowances at June 30, 2011 are as follows:

<u>Primary Government:</u>	
General Fund:	
Taxes	\$ 13,557,342
Accounts	15,846,000
	29,403,342
Storm Water special revenue fund	433,000
Water Utility fund	3,219,603
Wastewater Utility fund	1,114,241
Total - Primary Government	\$ 34,170,186
<u>Component Units:</u>	
Community Services Board	\$ 413,504
Waterside Associates	15,061
Total - Component Units	\$ 428,565

V. Due From Other Governments

Amounts due from other governments, at June 30, 2011 are as follows:

	General Fund	Total Primary Government	Component Unit School Board
Commonwealth of Virginia:			
Shared expenses	\$ 5,000,194	\$ 5,000,194	\$ -
Non-categorical aid	17,057,215	17,057,215	14,067,130
Non-major governmental funds grants	-	485,551	2,221,550
Total - Commonwealth of Virginia	22,057,409	22,542,960	16,288,680
Federal Government:			
Non-major governmental funds grants	9,791	6,372,574	13,815,604
Build America Bonds interest subsidy	-	736,166	-
Total - Federal Government	9,791	7,108,740	13,815,604
Total - Due from other governments	\$ 22,067,200	\$ 29,651,700	\$ 30,104,284

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VI. Changes in Capital Assets

A summary of changes in capital assets, at June 30, 2011 follows:

	Primary Government			
	Beginning Balance, as resated	Additions	Retirements	Ending Balance
Governmental activities:				
Non-depreciable capital assets:				
Land	\$ 71,715,935	\$ 13,191,058	\$ -	\$ 84,906,993
Intangible Assets	-	69,014	-	69,014
Construction in progress	91,960,126	22,332,566	(7,988,133)	106,304,559
Total non-depreciable assets	<u>163,676,061</u>	<u>35,592,638</u>	<u>(7,988,133)</u>	<u>191,280,566</u>
Depreciable assets:				
Buildings	667,185,051	22,981,358	(9,996,934)	680,169,475
Improvements other than buildings	61,656,466	371,138	(2,410,648)	59,616,956
Equipment and vehicles	132,007,889	6,203,269	(7,917,669)	130,293,489
Intangible assets	3,409,115	569,742	-	3,978,857
Infrastructure	1,159,868,766	9,746,760	(885,621)	1,168,729,905
Total depreciable assets	<u>2,024,127,287</u>	<u>39,872,267</u>	<u>(21,210,872)</u>	<u>2,042,788,682</u>
Less accumulated depreciation/amortization:				
Buildings	(270,180,701)	(27,733,627)	3,201,714	(294,712,614)
Improvements other than buildings	(13,778,261)	(2,017,389)	10,235	(15,785,415)
Equipment and vehicles	(78,862,139)	(8,501,770)	7,441,459	(79,922,450)
Intangible assets	(2,044,206)	(712,341)	-	(2,756,547)
Infrastructure	(965,423,539)	(11,071,234)	885,621	(975,609,152)
Total accumulated depreciation/amortization	<u>(1,330,288,846)</u>	<u>(50,036,361)</u>	<u>11,539,029</u>	<u>(1,368,786,178)</u>
Depreciable assets, net	<u>693,838,441</u>	<u>(10,164,094)</u>	<u>(9,671,843)</u>	<u>674,002,504</u>
Total governmental activities capital assets, net	<u>\$ 857,514,502</u>	<u>\$ 25,428,544</u>	<u>\$ (17,659,976)</u>	<u>\$ 865,283,070</u>
Business-Type activities:				
Non-depreciable capital assets:				
Land	\$ 46,276,852	\$ 369,500	\$ -	\$ 46,646,352
Intangible assets	2,304,237	-	-	2,304,237
Construction in progress	36,512,238	36,804,513	(30,070,575)	43,246,176
Total non-depreciable assets	<u>85,093,327</u>	<u>37,174,013</u>	<u>(30,070,575)</u>	<u>92,196,765</u>
Depreciable assets:				
Land improvements	7,040,090	12,836,523.00	-	19,876,613
Buildings	369,660,750	414,708	(305,401)	369,770,057
Equipment	593,059,896	18,769,140	(340,768)	611,488,268
Intangible assets	5,362,647	5,034	-	5,367,681
Totals depreciable assets	<u>975,123,383</u>	<u>32,025,405</u>	<u>(646,169)</u>	<u>1,006,502,619</u>
Less accumulated depreciation/amortization:				
Land improvements	(3,097,046)	(236,510)	-	(3,333,556)
Buildings	(86,216,218)	(7,954,170)	146,981	(94,023,407)
Equipment	(161,275,503)	(13,084,174)	320,253	(174,039,424)
Intangible assets	(1,905,876)	(949,307)	-	(2,855,183)
Total accumulated depreciation/amortization	<u>(252,494,643)</u>	<u>(22,224,161)</u>	<u>467,234</u>	<u>(274,251,570)</u>
Depreciable assets, net	<u>722,628,740</u>	<u>9,801,244</u>	<u>(178,935)</u>	<u>732,251,049</u>
Business-Type activities capital assets, net	<u>\$ 807,722,067</u>	<u>\$ 46,975,257</u>	<u>\$ (30,249,510)</u>	<u>\$ 824,447,814</u>
Component units activities:				
Non-depreciable capital assets:				
Land	\$ 487,500	\$ -	\$ -	\$ 487,500
Construction in progress	-	13,824	-	13,824
Total non-depreciable assets	<u>487,500</u>	<u>13,824</u>	<u>-</u>	<u>501,324</u>
Depreciable assets:				
Buildings and mobile classrooms	11,882,324	23,479	-	11,905,803
Improvements other than buildings	863,107	-	-	863,107
Building improvements	22,935,202	-	(22,935,202)	-
Equipment and vehicles	33,825,187	1,648,404	(596,417)	34,877,174
Total depreciable assets	<u>69,505,820</u>	<u>1,671,883</u>	<u>(23,531,619)</u>	<u>47,646,084</u>
Less accumulated depreciation:				
Buildings and mobile classrooms	(5,215,524)	(530,137)	-	(5,745,661)
Building improvements	(11,850,238)	-	11,850,238	-
Equipment, vehicles and other improvements	(24,452,867)	(2,547,804)	538,116	(26,462,555)
Total accumulated depreciation	<u>(41,518,629)</u>	<u>(3,077,941)</u>	<u>12,388,354</u>	<u>(32,208,216)</u>
Depreciable assets, net	<u>27,987,191</u>	<u>(1,406,058)</u>	<u>(11,143,265)</u>	<u>15,437,868</u>
Component units activities capital assets, net	<u>\$ 28,474,691</u>	<u>\$ (1,392,234)</u>	<u>\$ (11,143,265)</u>	<u>\$ 15,939,192</u>

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

General government	\$	9,759,575
Judicial administration		1,123,167
Public safety		3,974,147
Public works, which includes the depreciation of infrastructure assets		13,912,835
Health and sanitation		255,823
Culture and recreation		7,959,527
Community development		907,653
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.		297,810
Total depreciation expense	\$	38,190,537
 Business-type activities:		
Water Utility fund	\$	11,915,059
Wastewater Utility fund		4,818,680
Parking Facilities fund		5,490,422
Total depreciation expense	\$	22,224,161
 Component unit activities		
Community Services Board	\$	244,866
School Board		2,550,114
Waterside Associates		282,961
Total depreciation expense	\$	3,077,941

Included in the capital asset additions for the governmental activities are school buildings and improvements transferred to the City from one of its component units, the School Board. The net book value of these assets at June 30, 2011 was \$9,397,204, which includes a historical cost of \$22,935,202 and accumulated depreciation of \$13,537,998. The transfer of these assets is also shown as capital asset retirements for the component unit's activities. The City retired approximately \$6,652,144 of similar assets in conjunction with the contribution.

Included in the component units beginning capital asset balances are \$3,907,475 for assets of Waterside Associates which was added as a component unit of the City in fiscal year 2011. The beginning balance is made up of \$6,459,062 in buildings, \$90,911 in permanent fixtures and \$234,829 in equipment with accumulated depreciation totaling \$2,877,327. There were no capital asset additions during fiscal year 2011.

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The following is a summary by fund of interest expense/revenue capitalized during the fiscal year ended June 30, 2011:

	Expense	Revenue	Capitalized
Water Utility fund	\$ 1,290,620	\$ (130,416)	\$ 1,160,204
Wastewater Utility fund	470,676	(30,152)	440,524
	\$ 1,761,296	\$ (160,568)	\$ 1,600,728

VII. Short-Term Obligations

A. Bond Anticipation Notes

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

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

Interest on both the Series 2011A and the Series 2011B BANs will be payable semi-annually on January 1 and July 1, commencing January 1, 2012. Principal and interest accrued on the Series 2011A and the Series 2010B BANs shall be payable at maturity on January 1, 2014.

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

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

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

B. Variable Rate Bonds

General Obligation Variable Rate Demand Bonds, Series 2007

The City issued \$32,365,000 in General Obligation Variable Rate Demand Bonds, Series 2007 (AMT) on March 29, 2007, to finance the acquisition, construction and equipping of an approximately 80,000 square foot cruise ship center which includes docking areas and meeting space. This facility, which is owned and operated by the City, is known as the Half Moone Cruise & Celebration Center. As of June 30, 2011, \$30,830,000 remains outstanding and included in the City's long-term debt. The Series 2007 Bonds are general obligations of the City and the City's full faith and credit are irrevocably pledged to the repayment of principal and interest.

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

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

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

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

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

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

Through June 30, 2011, all the Series 2007 Bonds have been successfully remarketed by the remarketing agent.

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

The City issued \$6,695,000 in Variable Rate Parking System Revenue Bonds, Series 2004A (Taxable) on October 28, 2004, to finance the costs of acquiring, constructing and equipping capital improvements to the Parking System. As of June 30, 2011, \$6,065,000 remains outstanding and included in the City's long-term debt. The bonds mature February 1, 2035.

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

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

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

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

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

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

Through June 30, 2011, all the Series 2004A Bonds have been successfully remarketed by the remarketing agent.

VIII. Long-Term Obligations

A. General Obligation and Revenue Bonds

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

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

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

A summary of general obligation bond and revenue bond transactions for the fiscal year ended June 30, 2011, follows:

	Governmental Activities - General Obligation Bonds*	Enterprise Funds			Total Enterprise Funds
		Water Utility Bonds	Wastewater Utility Bonds	Parking Facilities Bonds	
General obligation bonds outstanding at July 1, 2010	\$ 688,151,830	\$ 6,719,682	\$ 103,468,983	\$ 89,431,183	\$ 199,619,848
Bonds retired	(50,260,794)	(2,822,993)	(6,652,669)	(1,176,555)	(10,652,217)
Bonds refunded	(84,135,543)	-	(6,358,281)	(74,961,176)	(81,319,457)
Bonds issued	85,919,391	-	6,867,366	72,683,241	79,550,607
Bonds outstanding at June 30, 2011	639,674,884	3,896,689	97,325,399	85,976,693	187,198,781
Unamortized (discount) premium	12,080,458	(79,305)	1,123,083	1,539,839	2,583,617
General obligation bonds outstanding at June 30, 2011, adjusted for unamortized (discount) premium	<u>\$ 651,755,342</u>	<u>\$ 3,817,384</u>	<u>\$ 98,448,482</u>	<u>\$ 87,516,532</u>	<u>\$ 189,782,398</u>
Revenue bonds outstanding at July 1, 2010		\$ 303,355,000	\$ 17,959,167	\$ 87,844,000	\$ 409,158,167
Bonds retired		(9,875,000)	(850,000)	(3,024,000)	(13,749,000)
Bonds refunded		-	-	-	-
Bonds issued		47,415,000	6,618,492	-	54,033,492
Bonds outstanding at June 30, 2011		340,895,000	23,727,659	84,820,000	449,442,659
Unamortized (discount) premium		(365,453)	(59,075)	(3,331,415)	(3,755,943)
Revenue bonds outstanding at June 30, 2011, adjusted for unamortized (discount) premium		<u>\$ 340,529,547</u>	<u>\$ 23,668,584</u>	<u>\$ 81,488,585</u>	<u>\$ 445,686,716</u>

* Includes the remaining balance of \$12,885,000 on a 20-year \$13,000,000 Section 108 Loan with the Department of Housing and Urban Development (HUD). Revenues from the Broad Creek Tax Increment Financing (TIF) District are the primary revenue pledge to support the bonds' debt service. In Virginia, this TIF pledge constitutes a general obligation when determining the City's legal debt margin.

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General obligation and revenue bonds outstanding at June 30, 2011, are composed of the following individual issues:

Bond Issue/Purpose	Dated	Issue Amount	Interest Rate	Governmental Activities		Business-type Activities			Balance Outstanding
				Public Improvement Allocation	Water Utility Allocation	Wastewater Utility Allocation	Parking Facilities Allocation		
Series 1989 Property Acquisition	7/11/1989	\$ 1,500,000	6.76%	\$ 1,500,000	\$ -	\$ -	\$ -	\$ 1,500,000	
Series 1997 QRB	4/15/1997	4,000,000	5.60 - 5.75%	1,200,000	-	-	-	1,200,000	
Series 1998 QRB	9/15/1998	2,560,000	4.70 - 5.10%	1,035,000	-	-	-	1,035,000	
Series 1999 QRB	7/1/1999	4,000,000	5.10 - 5.30%	1,800,000	-	-	-	1,800,000	
Series 1999 QZAB	8/19/1999	7,000,000	none	538,456	-	-	-	538,456	
Series 2000 QRB	7/15/2000	3,995,000	5.25 - 5.65%	1,995,000	-	-	-	1,995,000	
Series 2000 QZAB	11/22/2000	3,637,170	none	839,347	-	-	-	839,347	
Series 2001 QZAB	12/27/2001	1,062,830	none	306,736	-	-	-	306,736	
Series 2002 Capital Improvement and Refunding	2/13/2002	74,200,000	5.00%	6,754,773	730,014	1,632,904	92,308	9,209,999	
Series 2002 QRB	2/13/2002	7,955,000	4.50 - 5.00%	4,400,000	-	-	-	4,400,000	
Series 2002 Property Acquisition	8/14/2002	3,400,000	5.38%	3,400,000	-	-	-	3,400,000	
Series 2002B Capital Improvement and Refunding	11/1/2002	74,490,000	3.00 - 5.25%	10,993,859	773,371	1,017,996	424,774	13,210,000	
Series 2003 VRA	4/8/2003	9,423,794	3.50%	-	-	7,133,548	-	7,133,548	
Series 2003 Capital Improvement and Refunding	11/15/2003	69,375,000	3.50 - 4.75%	8,400,029	-	164,971	-	8,565,000	
Series 2004 Refunding	3/16/2004	96,395,000	4.00 - 5.00%	23,005,282	-	3,769,718	-	26,775,000	
Series 2004 HUD	3/3/2004	13,000,000	4.32 - 5.97%	12,885,000	-	-	-	12,885,000	
Series 2004 Property Acquisition	7/29/2004	1,775,000	7.00%	1,191,738	-	-	-	1,191,738	
Series 2004 VRA	9/17/2004	11,100,000	3.10%	-	-	9,094,805	-	9,094,805	
Series 2005 Capital Improvement and Refunding	3/16/2005	94,355,000	4.125 - 5.00%	47,141,645	-	5,463,355	-	52,605,000	
Series 2006 VRA	3/14/2006	11,187,809	3.00%	-	-	9,836,537	-	9,836,537	
Series 2006B VRA	9/28/2006	14,250,000	none	-	-	12,112,500	-	12,112,500	
Series 2006 Capital Improvement and Refunding	11/15/2006	115,055,000	4.00 - 5.00%	74,598,833	-	8,268,527	2,567,640	85,435,000	
			variable - June 30, 2011 rate of						
Series 2007 VRDB (AMT)	3/29/2007	32,365,000	0.08%	30,830,000	-	-	-	30,830,000	
Series 2008A&B Refunding	2/13/2008	17,160,000	3.00 - 4.625%	11,540,000	-	-	-	11,540,000	
Series 2008C Capital Improvement	6/30/2008	153,605,000	4.70 - 5.00%	90,755,000	-	19,125,000	-	109,880,000	
Series 2009A Capital Improvement	5/21/2009	55,280,000	2.00 - 4.375%	50,760,000	-	-	-	50,760,000	
Series 2009B Refunding	5/21/2009	21,895,000	3.00 - 5.00%	11,676,487	2,393,303	1,047,489	682,721	15,800,000	
Series 2010A Capital Improvement	1/21/2010	49,875,000	1.75 - 5.00%	42,366,404	-	2,982,586	4,526,009	49,874,999	
Series 2010B Capital Improvement	1/21/2010	117,650,000	4.04 - 5.962%	108,841,905	-	8,808,095	-	117,650,000	
Series 2010E Capital Improvement	2/25/2010	5,000,000	2.00 - 4.00%	-	-	-	5,000,000	5,000,000	
Series 2010F Capital Improvement	2/25/2010	5,000,000	1.30 - 5.05%	5,000,000	-	-	-	5,000,000	
Series 2010G Refunding	5/21/2009	90,165,000	2.50 - 5.00%	83,098,006	-	6,867,368	199,626	90,165,000	
Series 2011A Bond Anticipation Note	3/24/2011	51,655,000	2.00 - 3.00%	721,403	-	-	50,933,597	51,655,000	
Series 2011B Bond Anticipation Note	3/24/2011	23,650,000	2.09%	2,099,982	-	-	21,550,018	23,650,000	
Total General Obligation Bonds				\$ 639,674,884	\$ 3,896,689	\$ 97,325,399	\$ 85,976,693	\$ 826,873,664	

Bond Issue/Purpose	Dated	Interest Rate	Business-type Activities			Balance Outstanding
			Water Utility	Wastewater Utility	Parking Facilities	
Series 1993 Water Revenue	11/1/1993	5.25 - 5.375%	\$ 42,375,000	\$ -	\$ -	\$ 42,375,000
Series 1995 Water Revenue	8/15/1995	5.75 - 5.90%	81,135,000	-	-	81,135,000
Series 1998 Water Revenue and Refunding	11/1/1998	4.75 - 5.125%	63,950,000	-	-	63,950,000
Series 1999 Parking System Revenue	2/15/1999	4.00 - 5.00%	-	-	13,320,000	13,320,000
Series 2001 Water Revenue and Refunding	10/15/2001	4.00 - 5.00%	28,865,000	-	-	28,865,000
Series 2000B Parking System Revenue and Refunding	10/1/2000	5.50 - 5.50%	-	-	15,155,000	15,155,000
		variable - June 30, 2011 rate of				
Series 2004A Variable Rate Parking System Revenue	10/28/2004	0.16%	-	-	6,065,000	6,065,000
Series 2004B Parking System Revenue and Refunding	10/28/2004	2.50 - 5.00%	-	-	25,890,000	25,890,000
Series 2005 Water Revenue and Refunding	3/23/2005	3.50 - 5.00%	20,695,000	-	-	20,695,000
Series 2005 Parking System Revenue Refunding	6/15/2005	4.00 - 5.00%	-	-	24,390,000	24,390,000
Series 2007 Wastewater Revenue	11/9/2007	0.00%	-	15,725,000	-	15,725,000
Series 2008 Water Revenue	4/23/2008	3.00 - 5.00%	56,460,000	-	-	56,460,000
Series 2009 Wastewater Revenue	11/17/2009	0.00%	-	4,879,354	-	4,879,354
Series 2010 Water Revenue	9/30/2010	2.00 - 4.50%	47,415,000	-	-	47,415,000
Series 2010 Wastewater Revenue	10/19/2010	0.00%	-	3,123,305	-	3,123,305
Total Revenue Bonds			\$ 340,895,000	\$ 23,727,659	\$ 84,820,000	\$ 449,442,659

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The Parking System's Series 2004 Variable Rate Demand Bonds are remarketed weekly and have averaged 0.08% over the one-month London Interbank Offered Rate (LIBOR) since inception.

The Series 2007 General Obligation Variable Rate Demand Bonds, utilized to finance the construction of the cruise terminal, are remarketed weekly and are generally anticipated to be 0.16% higher than the Securities Industry and Financial Market Association (SIFMA) Index.

B. General Obligation Bonds

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

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 56,025,353	\$ 27,298,850	\$ 10,687,881	\$ 5,673,094
2013	50,732,457	24,901,676	8,774,924	5,631,389
2014	47,290,937	23,000,370	80,050,870	5,249,922
2015	43,395,754	21,172,443	7,732,818	3,093,726
2016	41,656,069	19,215,308	6,890,148	2,797,856
2017-2021	176,821,755	70,115,052	30,357,958	10,844,583
2022-2026	136,449,449	34,817,882	30,485,371	5,718,143
2027-2031	71,723,110	9,941,588	12,218,811	1,105,398
2032-2036	11,665,000	243,852	-	-
2037-2039	3,915,000	2,124	-	-
Total	\$ 639,674,884	\$ 230,709,145	\$ 187,198,781	\$ 40,114,111

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

<u>Year Ending</u> <u>June 30,</u>	<u>Water Utility Fund</u>		<u>Wastewater Utility Fund</u>		<u>Parking Facilities Fund</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 2,058,267	\$ 163,900	\$ 7,165,509	\$ 3,586,557	\$ 1,464,104	\$ 1,922,638
2013	739,589	82,154	6,946,909	3,281,567	1,088,426	2,267,668
2014	551,047	41,165	6,040,085	2,947,892	73,459,739	2,260,864
2015	547,786	13,695	6,204,465	2,679,329	980,566	400,703
2016	-	-	6,031,697	2,464,174	858,451	333,681
2017-2021	-	-	27,409,607	9,538,137	2,948,351	1,306,446
2022-2026	-	-	27,554,491	4,936,318	2,930,880	781,825
2027-2031	-	-	9,972,636	851,111	2,246,176	254,287
	\$ 3,896,689	\$ 300,914	\$ 97,325,399	\$ 30,285,085	\$ 85,976,693	\$ 9,528,112

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C. Revenue Bonds

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

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

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

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

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Year Ending June 30,	Water Revenue		Wastewater Revenue		Parking Revenue	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 11,285,000	\$ 16,773,159	\$ 1,225,000	\$ -	\$ 2,565,000	\$ 3,882,979
2013	11,825,000	16,227,660	1,243,237	-	2,690,000	3,763,475
2014	12,400,000	15,652,373	1,243,237	-	2,835,000	3,637,807
2015	13,025,000	15,034,060	1,243,237	-	2,970,000	3,504,754
2016	13,690,000	14,365,657	1,243,237	-	3,085,000	3,387,312
2017-2021	80,180,000	60,079,259	6,216,185	-	17,870,000	14,795,935
2022-2026	94,890,000	36,341,084	6,216,185	-	22,855,000	10,281,619
2027-2031	48,605,000	17,483,284	4,941,171	-	25,890,000	4,483,098
2032-2036	32,465,000	8,552,447	156,170	-	4,060,000	285,922
2037-2041	22,530,000	1,986,488	-	-	-	-
Total	\$ 340,895,000	\$ 202,495,471	\$ 23,727,659	\$ -	\$ 84,820,000	\$ 48,022,901

D. Mortgage Payable

Waterside Associates has a mortgage payable that has been extended several times since inception. As of June 30, 2011, the most recent extension began on October 1, 2009 requiring 23 monthly installments of \$45,000 ending with a final payment of outstanding principal and accrued interest on September 1, 2011. Interest is payable monthly at a rate of LIBOR plus 1.58% with a maximum rate of 7.5% and a minimum rate of 3.5%. The effective interest rate as of June 30, 2011 was 3.5%. The loan is secured by the building and equipment and is guaranteed by its partners. The loan balance as of June 30, 2011 is \$4,705,427. Subsequent to the end of the fiscal year, an additional extension was granted which began on October 1, 2011 requiring 23 monthly installments of \$45,000 ending with a final payment due on September 30, 2013.

E. Other Notes and Loans

The City purchased property in December 2009 and, as a part of the purchase agreement, the City assumed the outstanding balance of the Seller's existing loan with Southern Bank in the amount of \$1,208,262. The balance of the note will be paid according to the following schedule:

Year Ending June 30,	Principal	Interest
2012	\$ 604,131	\$ 51,351
2013	604,131	25,676
Total	\$ 1,208,262	\$ 77,027

F. Advanced Refundings

On October 19, 2010, the City sold \$90,165,000 of general obligation bonds which were used to defease \$10,380,000 of the City's Series 2002B General Obligation Bonds, \$28,550,000 of the City's Series 2003 General Obligation Bonds, \$20,950,000 of the City's Series 2005 General Obligation Bonds, \$7,650,000 of the City's Series 2006 General Obligation Bonds and \$23,135,000 of the City's Series 2008C General Obligation Bonds. The advance refunding will reduce the City's total

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debt service payments for bonds and result in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$3,320,406.

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

At June 30, 2011 the following defeased bonds from advance refunding are still outstanding:

General Obligation			
Defeased In	Original Issue	Amount	Redemption
2005	2002	\$ 4,050,000	1/1/2012
2006	2002	4,050,000	1/1/2012
2006	2002B	6,920,000	7/1/2012
2009	2002	5,400,000	1/1/2012
2011	2002B	10,380,000	7/1/2012
2011	2003	28,550,000	12/1/2013
2011	2005	20,950,000	3/1/2015
2011	2006	7,650,000	10/1/2014
2011	2008C	23,135,000	4/1/2017
		\$ 111,085,000	

G. Lease Obligations

Operating Leases:

The City leases various facilities for operational and office space from various lessors under operating leases. Total rental expenditures under these leases were \$3,715,888 for the year ended June 30, 2011.

Future year lease obligations are listed below:

Year Ending June 30,	Operating Lease Obligations
2012	\$ 3,713,148
2013	3,512,519
2014	3,261,596
2015	2,938,799
2016	2,816,114
Thereafter	915,153
Total minimum lease payments	\$ 17,157,329

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H. Landfill Liability

The Campostella Landfill was issued a permit by the Virginia Department of Health on February 18, 1983 to operate a construction demolition debris (CDD) waste landfill. The landfill accepted primarily CDD and inert waste in addition to sanitary and debris waste. The landfill stopped receiving waste on June 30, 1992. The Virginia Department of Environmental Quality (DEQ) approved the closure certification and officially designated the facility closed on August 2, 2002. State and federal laws require the City to perform certain maintenance and monitoring activities at the site for 10 years after regulatory closure. During the fiscal year ended June 30, 2010, the DEQ notified the City that it must demonstrate corrective action and 10 years of post-close care costs beyond December 31, 2010. The \$1,779,660 reported as an obligation for landfill closure and post-closure costs at June 30, 2011, reflects the estimated total cost to perform these activities. Actual costs may be higher due to inflation, changes in technology and/or changes in laws.

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

I. Compensated Absences

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

Primary Government:	
Governmental activities:	
General fund	\$ 13,804,882
Non-major governmental and internal service funds	<u>1,134,379</u>
Total governmental	<u>\$ 14,939,261</u>
Enterprise funds:	
Water Utility fund	\$ 1,096,112
Wastewater Utility fund	358,048
Parking Facilities fund	<u>285,097</u>
Total enterprise funds	<u>\$ 1,739,257</u>
Component Unit - School Board	<u>\$ 9,227,877</u>
Component Unit - CSB	<u>\$ 1,013,946</u>

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J. Debt Limit

The Commonwealth of Virginia imposes a legal limit of 10 percent of the assessed valuation of taxed real property as a ceiling in the amount of general obligation borrowings, which may be issued by the City without referendum. At June 30, 2011, the City's debt limit is \$1,932,064,350 of which \$1,102,442,422 is available for the issuance of additional debt. There are no overlapping tax jurisdictions.

K. Bonds Authorized and Unissued

A summary of bonds authorized and unissued as of June 30, 2011 are as follows:

Projects	Total
General Obligation Bonds Authorized and Unissued:	
Capital Fund Projects	
General Capital Improvement Projects	\$ 205,633,466
Maritime Center Capital Improvement Projects	425,000
Towing and Recovery Capital Improvement Projects	3,091,084
Storm Water Capital Improvement	6,959,576
Capital Fund Projects Total	216,109,126
Wastewater Utility Fund Projects	24,785,748
G.O. Bonds Authorized and Unissued	240,894,874
 Revenue Bonds Authorized and Unissued:	
Water Utility Fund Projects	51,720,626
Parking Facilities Fund Projects	76,643,933
Revenue Bonds Authorized and Unissued	128,364,559
 Total Bonds Authorized and Unissued	 \$ 369,259,433

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L. Changes in Long-Term Obligations

A summary of fiscal year 2011 changes in long-term obligations, net of unamortized discounts and premiums, are as follows:

	Primary Government			Ending Balance	Amounts Due Within One Year
	Beginning Balance	Additions	Reductions		
GOVERNMENTAL ACTIVITIES:					
Bonds and Notes Payable:					
General obligation debt	\$ 699,748,501	\$ 90,330,076	\$ 138,323,235	\$ 651,755,342	\$ 58,057,350
Notes	1,812,393	-	604,131	1,208,262	604,131
Total Bonds and Notes Payable	<u>701,560,894</u>	<u>90,330,076</u>	<u>138,927,366</u>	<u>652,963,604</u>	<u>58,661,481</u>
Other Liabilities:					
Vested compensated absences	16,333,336	9,979,004	11,689,420	14,622,920	10,600,000
Retirement system contribution	31,703,987	38,140,246	31,703,987	38,140,246	38,140,246
Other post-employment benefits	12,741,679	7,157,379	1,780,998	18,118,060	-
Retiree's life insurance	420,000	-	25,000	395,000	75,000
Self-insurance	30,270,187	5,628,197	4,225,302	31,673,082	3,721,992
Landfill closure and post-closure costs	1,779,660	-	-	1,779,660	-
Total Other Liabilities	<u>93,248,849</u>	<u>60,904,826</u>	<u>49,424,707</u>	<u>104,728,968</u>	<u>52,537,238</u>
Governmental Activities					
Long-term liabilities	794,809,743	151,234,902	188,352,073	757,692,572	111,198,719
Internal Service Funds:					
Retirement system contribution	527,952	605,162	527,952	605,162	605,162
Vested compensated absences	345,223	191,041	219,923	316,341	224,832
Total Internal Service Funds	<u>873,175</u>	<u>796,203</u>	<u>747,875</u>	<u>921,503</u>	<u>829,994</u>
Total Governmental Activities	<u>\$ 795,682,918</u>	<u>\$ 152,031,105</u>	<u>\$ 189,099,948</u>	<u>\$ 758,614,075</u>	<u>\$ 112,028,713</u>
BUSINESS-TYPE ACTIVITIES:					
Bonds and Notes Payable:					
Water	\$ 307,893,016	\$ 47,415,000	\$ 10,961,085	\$ 344,346,931	\$ 13,343,267
Wastewater	122,944,568	13,485,860	14,313,362	122,117,066	8,390,509
Parking facilities	174,349,295	72,683,241	78,027,419	169,005,117	4,029,104
Total Bonds and Notes Payable	<u>605,186,879</u>	<u>133,584,101</u>	<u>103,301,866</u>	<u>635,469,114</u>	<u>25,762,880</u>
Other Liabilities:					
Vested compensated absences	1,771,137	1,148,577	1,180,457	1,739,257	1,001,308
Retirement system contribution	3,283,533	4,115,904	3,283,533	4,115,904	4,115,904
Other post-employment benefits	1,418,343	833,036	207,288	2,044,091	-
Claims and judgements	640,000	-	640,000	-	-
Total Other Liabilities	<u>7,113,013</u>	<u>6,097,517</u>	<u>5,311,278</u>	<u>7,899,252</u>	<u>5,117,212</u>
Total Business-Type Activities	<u>\$ 612,299,892</u>	<u>\$ 139,681,618</u>	<u>\$ 108,613,144</u>	<u>\$ 643,368,366</u>	<u>\$ 30,880,092</u>
COMPONENT UNITS:					
Bonds and Notes Payable:					
Waterside Associates	\$ 5,073,718	\$ -	\$ 368,291	\$ 4,705,427	\$ 390,881
Other Liabilities:					
Vested Compensated Absences					
Community Services Board	1,115,687	572,008	673,749	1,013,946	727,618
Norfolk Public Schools	9,269,981	8,908,450	8,950,554	9,227,877	6,920,907
Other post-employment benefits					
Norfolk Public Schools	3,946,940	8,731,143	4,612,638	8,065,445	-
Pension Liability:					
Community Services Board	1,766,910	1,032,852	1,093,997	1,705,765	1,705,765
Pollution Remediation:					
Norfolk Public Schools	115,000	147,444	132,444	130,000	130,000
Workers' Compensation Claims					
Norfolk Public Schools	2,402,161	1,046,217	894,477	2,553,901	208,850
Claims Liability					
Norfolk Public Schools	32,236	259,233	235,251	56,218	47,785
Component Units long-term obligations	<u>\$ 23,722,633</u>	<u>\$ 20,697,347</u>	<u>\$ 16,961,401</u>	<u>\$ 27,458,579</u>	<u>\$ 10,131,806</u>

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IX. Pension Plans

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

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

Plan Description

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

Funding Policy

Section 37 of the Code of the City of Norfolk, Virginia, established the authority under which the City's obligation to contribute to the plan is determined. Contribution requirements are actuarially determined at the end of each fiscal year and paid by the City in the ensuing year. The contribution requirement of \$42,828,229 for the year ended June 30, 2011 was based on 24.8% of covered payroll for general employees and for public safety employees. This contribution requirement is recorded in the City's *Statement of Net Assets* as a liability payable to the pension fund and will be made in fiscal year 2012.

Annual Pension Cost

For 2011, the System's annual pension cost was equal to the City's required and actual (to be made in 2012) contribution. The required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age normal method. The amortization method used is level dollar open except for the public safety retirement enhancement program which is amortized over a 20-year period commencing July 1, 2005. Significant actuarial assumptions included: (a) 7.5% investment rate of return (net of administrative expenses), (b) projected average salary increases of 5.24% for general employees and 5.67% for public safety

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employees and (c) an assumed inflation rate 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, 2011 was 14 years.

Three-Year Trend Information

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2011	\$ 42,828,229	100%	\$ -
June 30, 2010	\$ 35,515,472	100%	\$ -
June 30, 2009	\$ 28,278,984	100%	\$ -

Funding Status and Funding Progress

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

CITY - EMPLOYEES' RETIREMENT SYSTEM

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
June 30, 2007	\$925,800,000	\$972,200,000	\$46,400,000	95.2%	\$168,100,000	27.6%
June 30, 2008	\$937,800,000	\$1,009,100,000	\$71,300,000	92.9%	\$175,400,000	40.6%
June 30, 2009	\$885,600,000	\$1,029,600,000	\$144,000,000	86.0%	\$179,600,000	80.2%
June 30, 2010	\$817,700,000	\$1,046,800,000	\$229,100,000	78.1%	\$175,200,000	130.8%
June 30, 2011	\$832,000,000	\$1,064,000,000	\$232,000,000	78.2%	\$171,000,000	135.7%

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

CITY OF NORFOLK, VIRGINIA
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B. School Board – Retirement Plan

Plan Description – Virginia Retirement System (VRS)

The School Board contributes to the Virginia Retirement System (VRS), an agent, which administers both a multiple-employer (for non-professionals) and a cost-sharing multiple-employer (for professionals) defined benefit pension plan for the School Board. All full-time, salaried permanent employees of the School Board must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service and at 50 with 30 years of service for participating employers payable monthly for life in an amount equal to 1.7% of their average final compensation (AFC) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living adjustments (COLA) beginning in their second year of retirement. The COLA is limited to 5% per year. AFC is defined as the highest consecutive 36 months of reported compensation. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provision to the General Assembly of Virginia.

VRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be downloaded from their website at <http://www.varetire.org/> or obtained by writing VRS at P.O. Box 2500, Richmond, VA 23218-2500.

Funding Policy

Title 51.1 of the Code of Virginia (1950) requires plan members, as amended, to contribute 5% of their annual reported compensation to the VRS. The School Board has assumed the 5% member contribution. In addition, the School Board is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The School Board's professional and non-professional employees' contribution rates for the fiscal year ended June 30, 2011 were 3.93% and 7.62% of annual covered payroll (not including assumed 5%). The School Board's contributions to the VRS for the fiscal years ended June 30, 2011, 2010, and 2009 for professional employees were \$18,557,452, \$24,885,620, and \$30,638,660, respectively, such amounts comprising 100% of the required statutory contributions for each of the three years.

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Annual Pension Cost – Agent Multiple-Employer Plan

For 2011, the School Board's annual pension costs of \$1,932,102 for nonprofessional employees were equal to the School Board's required and actual contributions. The required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at June 30, 2009 included (a) 7.0% investment rate of return (net of administrative expenses), (b) projected salary increases of 3.75% to 5.6% and (c) 2.5% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.5%. The actuarial value of the School Board's assets is equal to the modified market value of assets. This method was determined using techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The amortization method is level percentage of projected payroll on an open basis and the remaining amortization period is 20 years.

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

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2011	\$ 1,932,102	100%	\$ -
June 30, 2010	\$ 1,937,143	100%	\$ -
June 30, 2009	\$ 2,025,771	100%	\$ -

Funding Status and Funding Progress

As of June 30, 2010, the most recent actuarial valuation date, the plan was 79.18% funded. The actuarial accrued liability for benefits was \$80,984,997, and the actuarial value of assets was \$64,120,661 resulting in an unfunded actuarial accrued liability (UAAL) of \$16,864,336. The covered payroll (annual payroll of active employees covered by the plan) was \$16,243,835 and the ratio of the UAAL to the covered payroll was 103.82%. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations. Additional details on the plan's funded status and funding progress are included as required supplementary information following these notes to the financial statements.

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

SCHOOL BOARD COMPONENT UNIT - VRS NON-PROFESSIONAL EMPLOYEES

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
June 30, 2006	\$ 55,282,776	\$ 60,006,661	\$ 4,723,885	92.1%	\$ 14,246,198	33.2%
June 30, 2007	\$ 61,180,012	\$ 66,118,525	\$ 4,938,513	92.5%	\$ 15,236,207	32.4%
June 30, 2008	\$ 66,558,849	\$ 72,573,728	\$ 6,014,879	91.7%	\$ 17,520,165	34.3%
June 30, 2009	\$ 65,474,071	\$ 74,800,079	\$ 9,326,008	87.5%	\$ 16,948,926	55.0%
June 30, 2010	\$64,120,661	\$ 80,984,997	\$ 16,864,336	79.2%	\$ 16,243,835	103.8%

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

C. State Employees – Virginia Retirement System (VRS)

Plan Description

The City of Norfolk contributes to the Virginia Retirement System (VRS), an agent, which administers a multiple-employer defined benefit pension plan for the City of Norfolk. All full-time, salaried permanent state employees in the City's five constitutional offices must participate in the VRS. These offices include: Commissioner of the Revenue, City Treasurer, Circuit Courts, Commonwealth's Attorney, and Sheriff and Jail. Benefits vest after 5 years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 with 5 years of service for participating law enforcement officers and firefighters) and age 50 with 30 years of service for participating employers (age 50 with 25 years of service for participating law enforcement officers and firefighters) payable monthly for life in an amount equal to 1.7% of their average final salary (AFS) for each year of credited service. In addition, retirees qualify for annual cost-of-living increases limited to 5% per year in their second year of retirement. AFS is defined as the highest consecutive 36 months of salary. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. Participating law enforcement officers may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the State legislature. The VRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be

CITY OF NORFOLK, VIRGINIA
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downloaded from their website at <http://www.varetire.org/> or obtained by writing to VRS at P.O. Box 2500, Richmond, VA, 23218-2500.

Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual salary to the VRS. The 5% member contribution has been assumed by the City. In addition, the City is required to contribute the remaining amounts necessary to fund its participation in the VRS using an actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The City's contribution rate (including the assumed 5%) for the fiscal year ended June 30, 2011 was 13.4% of annual covered payroll.

Annual Pension Cost

For 2011, the City's annual pension cost of \$3,289,129 was equal to the City's required and actual contribution. The required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age normal actuarial cost method. The amortization method is level percent open. The actuarial assumptions included: (a) 7% investment rate of return; (b) projected salary increases that range between 3.75% to 5.6% per year, and (c) 2.5% per year cost-of-living adjustments. Both (a) and (b) include an inflation component of 2.5%. The actuarial value of the City's assets is equal to the modified market value of assets. This method was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The remaining amortization period is 20 years.

Trend information for the City VRS plan is as follows:

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2011	\$ 3,289,129	100%	\$ -
June 30, 2010	\$ 3,371,413	100%	\$ -
June 30, 2009	\$ 3,490,287	100%	\$ -

Funding Status and Funding Progress

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

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CITY - VRS EMPLOYEES

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
June 30, 2006	\$ 35,756,786	\$ 36,121,461	\$ 364,675	99.0%	\$ 23,344,075	1.6%
June 30, 2007	\$ 41,467,595	\$ 40,237,331	\$ (1,230,264)	103.1%	\$ 24,931,958	-4.9%
June 30, 2008	\$ 47,154,626	\$ 52,000,548	\$ 4,845,922	90.7%	\$ 25,854,549	18.7%
June 30, 2009	\$ 51,470,652	\$ 58,287,883	\$ 6,817,231	88.3%	\$ 25,997,389	26.2%
June 30, 2010	\$ 54,256,199	\$ 67,356,664	\$ 13,100,465	80.6%	\$ 24,538,680	53.4%

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

X. Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferral may be up to 25% of gross income up to a maximum of \$16,500 per year. The benefits from the deferred compensation plan are not available to employees until termination, retirement, death or unforeseeable emergency.

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

XI. Other Post-employment Benefits (OPEB)

Plan Description

The City of Norfolk and the Norfolk School Board provide post-retirement health care benefits, in accordance with adopted statutes, which require extending access to healthcare benefits to certain retirees. General City employees are eligible to participate at the earlier of age 55 and 15 years of creditable service or 25 years of creditable service. City firefighters and police officers, who have a mandatory retirement age of 62, are eligible to participate at the earlier of age 50 and 15 years of creditable service or 20 years of creditable service. Employees who retire on accidental disability are also eligible. Grandfathered school employees who are older than age 50 with at least 5 years of service are eligible as well as non-grandfathered school employees who are older than age 50 with 15 years of creditable service. Retirees that elect to participate

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may purchase health care coverage using the same health care plans and premium structures available to active employees. Retiree participation, plan/benefit elections and contributions, are administered by the City's Retirement Bureau and the City's and the Schools' benefits offices based on the participation guidelines established by the Norfolk City Council and Norfolk School Board. Benefits are currently managed on a pay-as-you-go basis rather than use of an irrevocable trust and a separate financial report of the OPEB Plan is not issued. The plan is considered a single-employer plan.

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

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

Trend information for the City's and School's annual OPEB cost is as follows (amount in millions):

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
City Employees and Retirees			
June 30, 2011	\$ 8.0	25%	\$ 20.1
June 30, 2010	\$ 9.7	36%	\$ 14.2
June 30, 2009	\$ 6.8	38%	\$ 8.0
School Employees and Retirees			
June 30, 2011	\$ 6.0	32%	\$ 8.1
June 30, 2010	\$ 5.8	98%	\$ 3.9
June 30, 2009	\$ 4.0	63%	\$ 3.8

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The actuarial liabilities of the Plans as of July 1, 2010 are shown below (amounts in millions):

	City	Schools	Total
Actuarial liability:			
Active employees	\$35.6	\$59.2	\$94.8
Retirees	24.6	23.6	48.2
Total actuarial liability	60.2	82.8	143.0
Less: plan assets	0.0	0.0	0.0
Unfunded actuarial accrued liability (UAAL)	<u>\$60.2</u>	<u>\$82.8</u>	<u>\$143.0</u>

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

	City	Schools	Total
Net OPEB obligation as of June 30, 2009	\$ 8.00	\$ 3.82	\$11.82
Annual required contribution (ARC) for FY2010	9.62	5.77	15.39
Interest on net OPEB obligation	0.36	0.17	0.53
Adjustment to ARC	(0.28)	(0.13)	(0.41)
Annual OPEB cost	<u>\$ 9.70</u>	<u>\$ 5.81</u>	<u>\$15.51</u>
Less: contributions made	(3.54)	(5.68)	(9.22)
Increase in net OPEB obligation	<u>\$ 6.16</u>	<u>\$ 0.13</u>	<u>\$ 6.29</u>
Net OPEB obligation as of June 30, 2010	\$14.16	\$ 3.95	\$18.11
Annual required contribution (ARC) for FY2011	\$ 7.95	\$ 5.98	\$13.93
Interest on net OPEB obligation	0.62	0.27	0.89
Adjustment to ARC	(0.58)	(0.25)	(0.83)
Annual OPEB cost	7.99	6.00	13.99
Plus: adjustment to FY2010 contributions	1.41	2.73	4.14
Less: expected contributions made	(3.40)	(4.61)	(8.01)
Increase in net OPEB obligation	<u>\$ 6.00</u>	<u>\$ 4.12</u>	<u>\$10.12</u>
Net OPEB obligation as of June 30, 2011	<u>\$20.16</u>	<u>\$ 8.07</u>	<u>\$28.23</u>

Funded Status and Funding Progress

As of July 1, 2010, the most recent actuarial valuation date, the combined OPEB Plans were unfunded. The combined actuarial accrued liability for benefits was \$143 million and the actuarial value of assets was \$0 resulting in an unfunded actuarial accrued liability (UAAL) of \$143 million. The combined covered payroll of active City and School employees covered by the plan was \$374.6 million, and the ratio of the UAAL to the covered payroll was 38.2%. Additional details on the plan's funded status and funding progress are included as required supplementary information following these notes to

CITY OF NORFOLK, VIRGINIA
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the financial statements. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations. The schedule of funding progress which presents multi-year trend information about the actuarial value of the OPEB plan assets and the actuarial accrued liability for OPEB benefits is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
CITY EMPLOYEES AND RETIREES						
July 1, 2010	\$ 0	\$ 60,204,591	\$ 60,204,591	0.0%	\$ 175,976,672	34.2%
SCHOOL EMPLOYEES AND RETIREES						
July 1, 2010	\$ 0	\$ 82,776,654	\$ 82,776,654	0.0%	\$ 198,660,313	41.7%
TOTAL						
July 1, 2010	\$ 0	\$ 142,981,245	\$ 142,981,245	0.0%	\$ 374,636,985	38.2%

Actuarial Methods and Assumptions

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

The actuarial valuation was performed as of July 1, 2010 with results projected for the fiscal year ended June 30, 2011. The entry age normal actuarial cost method was used with a level percent open amortization method over 30 years. A discount rate of 4% was used. Annual rates of health care inflation used was 9.7% (pre-Medicare) grading to 4.5% over 15 years and the annual rate of salary increases used was 3.5%.

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

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XII. Interfund Receivable and Payable Balances

The composition of interfund activity as of June 30, 2011 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Payroll Agency	\$ 141,532
	Capital Projects fund	16,682,566
	Community Development fund	169,903
	Grants fund	567,839
	Land Acquisition fund	620,276
	Tax Increment fund	1,127
	Public Amenities fund	20,859
	Nauticus fund	181,444
	Maritime Facility fund	275,782
	Water Utility fund	1,229,597
	Total General fund	<u>\$ 19,890,925</u>
Capital Projects fund	Wastewater Utility fund	\$ 28,213
	Water Utility fund	190,144
	Total Capital Projects fund	<u>\$ 218,357</u>
Non-major governmental funds	General fund	\$ 24,965
	Capital Projects fund	4,274,806
	Cemeteries fund	150,000
	Total Non-major governmental funds	<u>\$ 4,449,771</u>
	Total Governmental funds	<u>\$ 24,559,053</u>
<u>Payable Fund</u>	<u>Receivable Fund</u>	
General fund	Golf fund	\$ 24,965
	Nauticus fund	181,444
	Land Acquisition fund	11,502
	Total General fund	<u>\$ 217,911</u>
Capital Projects fund	General fund	\$ 16,682,566
	Payroll Agency	141,532
	Stormwater fund	480,592
	Grants fund	2,427,759
	EOC/911 fund	273,860
	Land Acquisition fund	608,774
	Tax Increment fund	47,438
	Public Amenities fund	829,685
	Cemeteries fund	65,450
	Maritime Facility fund	275,782
	Golf fund	16,383
	Towing and Recovery fund	133,639
	Fleet Management fund	48,007
	Storehouse	42,811
	Water Utility fund	84,738
	Wastewater Utility fund	29,575
	Total Capital Projects fund	<u>\$ 22,188,591</u>
Non-major governmental funds	General fund	\$ 759,728
	Cemetery fund	150,000
	Total Non-major governmental funds	<u>\$ 909,728</u>
	Total Governmental funds	<u>\$ 23,316,230</u>

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<p><u>Receivable Fund</u> Wastewater Utility fund</p>	<p><u>Receivable Fund</u> Capital Projects fund Total Wastewater Utility fund Total Enterprise funds</p>	<p>\$ 1,362 \$ 1,362 <u>\$ 1,362</u></p>
<p><u>Payable Fund</u> Water Utility fund</p>	<p><u>Receivable Fund</u> General fund Capital Projects fund Total Water Utility fund Total Enterprise funds</p>	<p>\$ 1,229,597 105,406 <u>\$ 1,335,003</u> <u>\$ 1,335,003</u></p>
<p><u>Receivable Fund</u> Internal Service funds</p>	<p><u>Payable Fund</u> General fund Total Internal Service funds</p>	<p>\$ 90,818 <u>\$ 90,818</u></p>

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

XIII. Interfund Transfers

The following interfund transfers occurred during fiscal year 2011:

<u>Fund</u>	<u>In</u>	<u>Out</u>
General fund	\$ 12,940,571	\$ 82,595,066
Debt Service fund	79,057,228	-
Capital Projects fund	5,009,666	1,000,000
Nonmajor governmental funds	7,865,339	11,736,689
Internal service funds:		
Fleet Management fund	510,996	-
Enterprise:		
Water Utility fund	-	8,500,000
Wastewater Utility fund	-	1,500,000
Parking Facilities fund	-	52,045
	<u>\$ 105,383,800</u>	<u>\$ 105,383,800</u>

The purpose of the transfer balances are as follows:

General fund transfers in of \$12,940,571 include \$8,500,000 from the Water Utility fund and \$1,500,000 from the Wastewater Utility fund which represent a return on investment back to the General fund, \$20,859 from the Public Amenities special revenue fund,

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\$52,045 from the Maritime Facility special revenue fund, \$2,571,105 from the Tax Increment special revenue fund which represents interest earned on investments and declaration of surplus real property taxes and \$296,562 from the Grants special revenue fund.

The General fund transfers out of \$82,595,066 represent a transfer of \$74,340,726 to the Debt Service fund to fund general obligation debt; \$609,666 to the Capital Projects fund as a contribution for the annual capital improvement plan budget; \$510,996 to the Fleet Management fund in support of the facility, \$4,612,287 to the Grants special revenue fund in support of grant projects; \$429,403 to the Cemeteries special revenue fund, \$2,062,023 to the Emergency Operations Center/E-911 special revenue fund and \$29,965 to the Golf special revenue fund.

Debt service transfers of \$79,057,228 in include \$2,627,135 from the Storm Water special revenue fund, \$1,470,095 from the Public Amenities special revenue fund, \$19,272 from the Towing and Recovery special revenue fund, \$600,000 from the Capital Projects fund for the Southern Bank notes payable and \$74,340,726 from the General fund to fund the current fiscal year's debt service payments.

The Storm Water special revenue fund transferred \$2,627,135 to the Debt Service fund to cover its general obligation debt service cost.

The Grants special revenue fund transferred \$296,562 to the General fund in support of Special projects.

The Public Amenities special revenue fund transferred \$4,400,000 to the Capital Projects fund in support of the fund's capital related projects, and \$20,859 to the General fund for interest earned on investments and \$1,470,095 to cover its general obligation debt service cost.

The EOC/911 fund transferred \$26,081 to the Grants special revenue fund in support of grant projects.

The Towing Recovery Operation special revenue fund transferred \$19,272 to the Debt Service fund to cover its general obligation debt service cost.

The Capital Projects fund transferred \$400,000 to the Golf fund for unused funds for capital projects.

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

The Tax Increment special revenue fund transferred \$2,571,105 to the General fund which represents declaration of surplus real property taxes.

The Water Utility and Wastewater Utility funds transferred \$8,500,000 and \$1,500,000, respectively, to the General fund as a return on investment, respectively. The Parking Facilities fund transferred \$52,045 to the Maritime Facility special revenue fund to cover parking costs of cruise customers.

CITY OF NORFOLK, VIRGINIA
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For the Year Ended June 30, 2011

XIV. Fund Balance by Functional Category (GASB 54)

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

FUND BALANCES	General fund	Capital Projects fund	Non-major Governmental funds	Total Governmental funds
Nonspendable				
- Prepays	\$ 5,483	\$ -	\$ 22,418	\$ 27,901
Restricted				-
- General government	395,000	8,353,040	-	8,748,040
- Judicial administration	-	-	138,826	138,826
- Public safety	-	301,357	608,625	909,982
- Public works	-	6,842,553	7,768	6,850,321
- Health and public assistance	-	-	467,888	467,888
- Culture and recreation	-	1,428,310	122,957	1,551,267
- Community development	-	6,847,759	1,275,325	8,123,084
- Education	-	17,290,070	-	17,290,070
Committed				
- General government	-	5,496	-	5,496
- Public works	-	-	4,607,381	4,607,381
- Health and public assistance	-	-	117,721	117,721
- Culture and recreation	-	531,836	6,533,949	7,065,785
- General services	1,898,571	-	-	1,898,571
- Other purposes capital	-	11,440,593	-	11,440,593
Assigned				
- General government	5,206,416	756,327	24,909	5,987,652
- Judicial administration	1,098,780	-	1,336,718	2,435,498
- Public safety	419,967	-	1,579,466	1,999,433
- Public works	7,033,175	6,800	808,626	7,848,601
- Health and public assistance	1,200,880	-	13,541	1,214,421
- Culture and recreation	930,333	175,891	5,826,271	6,932,495
- Community development	3,541,652	1,796,369	287,168	5,625,189
- General services	884,070	-	-	884,070
- Education	-	91,581	-	91,581
- Other purposes (FY-12 Budget appropriation)	17,699,100	23,479,561	-	41,178,661
Unassigned	55,967,308	-	-	55,967,308
Total fund balances	<u>\$ 96,280,735</u>	<u>\$ 79,347,543</u>	<u>\$ 23,779,557</u>	<u>\$ 199,407,835</u>

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XV. Recovered Costs

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

Recovered cost in the General fund:	
Debt service recoveries	\$ 2,409,821
Retirement System	472,697
Information Systems recoveries	1,704,675
Other	2,600,599
Administrative cost recoveries from Enterprise funds	3,534,920
Total recovered costs in the General fund	<u>\$ 10,722,712</u>

XVI. Other Liabilities

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

Governmental Funds:

General fund - miscellaneous	\$ 2,282,905
General fund - accrued expenditures	3,031,902
Capital Projects fund - miscellaneous	301,505
Grants fund - miscellaneous	151,779
	<u>\$ 5,768,091</u>

Internal Service Funds:

Fleet Management fund - miscellaneous	\$ 14,166
	<u>\$ 14,166</u>

Enterprise Funds:

Water Utility fund - miscellaneous	\$ 175,661
Wastewater Utility fund - miscellaneous	11,750
Parking Facilities fund - miscellaneous	155,370
	<u>\$ 342,781</u>

Fiduciary Funds:

Other Agency fund	\$ 4,484,665
Commonwealth of Virginia	7,410
	<u>\$ 4,492,075</u>

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XVII. Supplemental Appropriations

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

General Fund:

Approved fiscal year 2010-2011 budget	\$ 785,638,700
Adoption of GASB 54:	
Add: Nauticus	5,797,100
Martime Facility	<u>3,154,400</u>
Budget adjustment	<u>8,951,500</u>
Total adjusted fiscal year 2010-2011 budget	794,590,200

Supplemental appropriations from additional revenue:

Additional revenue from the Commonwealth of Virginia for the maintenance of eligible City streets for FY-2010-2011	<u>757,420</u>
Total supplemental appropriations	<u>757,420</u>
Final budget	<u><u>\$ 795,347,620</u></u>

XVIII. Deferred Revenue

Deferred revenue, as represented in the fund financial statements at June 30, 2011, totals \$36,236,059 and is comprised of the following:

A. Non-major governmental funds

In the special revenue funds, deferred revenue totaled \$841,158. In the Community Development fund, the deferred revenue represents deferred payment rehabilitation loans of \$539,430 as of June 30, 2011. Deferred revenue in the Storm Water special revenue fund of \$301,728 represents deferred billings that have been earned but are not available for funding current expenditures at June 30, 2011.

B. Deferred property tax revenue

Deferred revenue in the General Fund, representing uncollected tax billings not available for funding of current expenditures as of June 30, 2011 is \$35,394,901.

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XIX. Commitments and Contingencies

A. Capital projects

Commitments for completion of capital projects in the Business-Type Activities, authorized at June 30, 2011, are as follows:

Water Utility development projects	\$ 23,275,000
Wastewater Utility development projects	16,689,872
Parking Facilities development projects	<u>1,433,984</u>
Total	<u>\$ 41,398,856</u>

See Exhibit J-3 Capital Improvement Program Schedule of Expenditures for listing of projects capital projects in the Governmental Activities, authorized at June 30, 2011.

At June 30, 2011, the regional mass transit operator, Hampton Roads Transit (HRT), had substantially completed the construction of a starter light rail system in Norfolk. The light rail system is funded by the Federal and State governments and the City of Norfolk under the terms of grant agreements. Under the terms of the Full Funding Grant Agreement with the Federal Transit Administration, the City is required to provide sufficient funding to complete the project to the extent the project requires funding not provided by the Federal and State governments or other funding sources. At June 30, 2011, the estimated cost projected to complete the project was \$338,284,250 of which \$247,364,371 is funded by Federal and State grants. Of the remaining \$90,919,879; the City had authorized funding up to \$50,707,086 through June 30, 2011. On August 15, 2011, construction savings were identified that decreased the estimated cost to complete by \$19,800,000 to \$318,484,250. It is anticipated that the City and the State will split the savings, though discussions on final determination are pending. In addition, the Commonwealth Transportation Board has programmed \$10,000,000 of funding to be provided in fiscal year 2012; and the City has allocated \$13,410,888 of its Federal Congestion Mitigation & Air Quality funding. In anticipation of splitting the \$19,800,000 savings, the City authorized the final anticipated funding amount of \$8,000,000. Subsequent to that \$8,000,000 authorization, the City allocated an additional \$800,000 of its Federal Congestion Mitigation & Air Quality funding to further reduce the estimated funding by the City. The City is seeking additional funding from the Federal and State governments and other sources, as well as further savings in the projected costs to complete the project.

B. Contingent liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the

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applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City was a guarantor for \$7,362,528 of VRA debt for the Southeastern Public Service Authority (SPSA) as of June 30, 2011. See Note XXIII for more information on this guarantee and the SPSA joint venture.

C. Litigation

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

D. Pollution remediation obligation

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

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

During the fiscal year the City recognized the following liabilities for pollution remediation obligations: \$273,026 associated with the cleanup of the Battleship Wisconsin, in order to open it to the public for tours, and \$116,000 associated with asbestos cleanup in current construction projects. The amount of the obligation is based on the contractor's experience in similar instances, taking into account sampling at the site, and applying usual and customary cost code rates. The potential for a change to the estimate is minimal.

During the fiscal year the School Board recognized a liability for \$130,000 for pollution remediation obligations associated with asbestos, removal of paint, and clean-up of drainage of oil and aerosol can/drum removal from Transportation, Risk Management, and School Facilities.

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E. Encumbrances

Encumbrances as of June 30, 2011 in the General Fund and Capital Projects fund totaled \$14,383,826 and \$68,392,326 respectively. Encumbrances as of June 30, 2011 for non-major governmental funds in the aggregate totaled \$19,899,814.

XX. Surety Bonds and Insurance

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

XXI. Self and Purchased Insurance Programs

The City is exposed to various risks of losses related to torts; theft and destruction of assets; errors and omissions; injuries to employees; and, natural disasters. On July 11, 1978, the City established a protected self-insurance program fund, pursuant to an ordinance adopted by City Council, to cover 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 2011 was \$5,874,648.

The City currently reports all these activities as part of the risk management function in the general government section of the General fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. For actuarial purposes, estimated outstanding losses are the accrual cost of unpaid claims valued as of each accounting date. The estimated outstanding losses include case reserves, the development on known claims and incurred but not reported (IBNR) claims. Allocated loss adjustment expenses (ALAE) are the direct expenses for settling specific claims. ALAE is included in the workers' compensation estimates, but excluded in the liability estimates. At June 30, 2011 these liabilities were \$31,673,082 of which \$3,721,292 represents the current portion anticipated to be paid within a year. Estimated liabilities for fiscal year 2011 were determined by an independent actuary.

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Changes in the City's claims liability amount in the fiscal years 2010 through 2011 are as follows:

	Estimated Outstanding Losses Beginning of Fiscal Year	Additional Incurred Claims and/or Changes in Estimate	Claims Paid	Estimated Outstanding Losses End of Fiscal Year
2010	\$ 34,507,189	\$ 174,757	\$ 4,411,759	\$ 30,270,187
2011	\$ 30,270,187	\$ 5,628,197	\$ 4,225,302	\$ 31,673,082

The City's General Fund has committed \$1,898,571 of fund balance to provide for risks of loss and claims payments that may not be fully covered by purchased insurance or annual budget appropriations. There have not been any significant reductions in insurance coverage, and settled claims have not exceeded coverage in any of the past three fiscal years.

The School Board also participates in a self-insurance program and its future expected self-insured losses as of June 30, 2011 were recorded at \$2,610,119 of which \$256,635 is the current portion and \$2,353,484 is the long-term portion. The School Board 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's fund balance designation.

Changes in the School Board's liability amount in the fiscal years 2010 through 2011 are as follows:

	Estimated Outstanding Losses Beginning of Fiscal Year	Additional Incurred Claims and/or Changes in Estimate	Claims Paid	Estimated Outstanding Losses End of Fiscal Year
2010	\$ 1,989,232	\$ 1,541,435	\$ 1,096,270	\$ 2,434,397
2011	\$ 2,434,397	\$ 1,305,450	\$ 1,129,728	\$ 2,610,119

XXII. Jointly Governed Organizations

A. Hampton Roads Regional Jail Authority (HRRJA)

HRRJA is a regional organization which includes the cities of Hampton, Newport News, Norfolk and Portsmouth, created for the purpose of providing, operating and maintaining a regional jail facility for the correctional overflow from each community. HRRJA is a primary government, with no component units, that is a body politic and corporate created pursuant to Article 3.1, Chapter 3, Title 53.1 of the Code of Virginia, as amended, and is governed by a twelve member Board of Directors, consisting of three representatives appointed by each of the member

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cities. The budgeting and financing of HRRJA are subject to the approval of the Board of Directors, with each individual having a single vote. HRRJA is responsible for its own financial matters, maintains its own books of account and is audited annually by independent accountants that it engages.

The participating governments do not have an equity interest in the HRRJA, and accordingly, no equity interest has been reflected in the City's financial statements at June 30, 2011. 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, 2011. Complete financial statements of the Commission can be obtained from the Commission.

C. Transportation District Commission of Hampton Roads (TDC)

TDC was formed on June 29, 1999 to effect the merger of the Peninsula Transportation District Commission and the Tidewater Transportation District Commission effective October 1, 1999. TDC was established in accordance with Chapter 45 of Title 15.2 of the Code of Virginia. TDC provides public transportation facilities and services within the cities of Norfolk, Portsmouth, Virginia Beach, Chesapeake, Hampton and Suffolk, Virginia. Oversight responsibility is exercised by all of the participating localities through their designated representatives. Responsibility for the day-to-day operations of TDC rests with professional management. TDC serves as the governing body for Hampton Roads Transit (HRT) which is constructing the City's light rail system.

The participating governments do not have an equity interest in TDC, and accordingly, no equity interest has been reflected in the City's financial statements at June 30, 2011. Complete financial statements of TDC can be obtained from TDC.

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XXIII. Joint Venture

Southeastern Public Service Authority (SPSA)

SPSA is a joint venture of the cities of Chesapeake, Franklin, Norfolk, Portsmouth, Suffolk and Virginia Beach and the counties of Isle of Wight and Southampton, created for the purpose of providing, operating and maintaining a regional system for the collection, transfer, processing and disposal of solid waste refuse. SPSA is a primary government, with no component units, that is a public body politic and corporate created pursuant to the Virginia Water and Sewer Authorities Act, and is governed by 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 May 2009, SPSA consolidated its lines of credit into a single line of credit in the amount of \$17,200,000 guaranteed equally by the City of Norfolk and the City of Chesapeake. Outstanding amounts were paid in full in September 2009 and the line of credit was closed effective March 30, 2010, and the guarantee agreement was rescinded.

In June 2010, SPSA entered into a debt repayment plan with the Virginia Resource Authority (VRA) which required that the eight member communities guarantee repayment of the remaining VRA bonds outstanding through a general obligation pledge. The member community guarantee percentages were calculated based on a three year average of proportional municipal tonnages. The member jurisdiction guarantees as of June 30, 2011 were as follows:

<u>Member community</u>	<u>Guarantee percentage</u>	<u>Principal guarantee</u>
Chesapeake	22.49%	\$ 9,751,664
Franklin	0.97	420,592
Isle of Wight	3.98	1,725,728
Norfolk	16.98	7,362,528
Portsmouth	10.27	4,453,072
Southampton	2.10	910,560
Suffolk	12.87	5,580,432
Virginia Beach	<u>30.34</u>	<u>13,155,424</u>
	100.00%	\$ 43,360,000

The participating governments do not have an equity interest in SPSA, and accordingly, no equity interest has been reflected in the City's financial statements at June 30, 2011. Complete financial statements of the SPSA can be obtained from SPSA.

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XXIV. Related Organizations

A. Norfolk Redevelopment and Housing Authority (NRHA)

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

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

B. Norfolk Airport Authority

Norfolk Airport Authority, a political subdivision of the Commonwealth, was created to operate an airport and to promote industrial growth and consists of both an Airport fund and an Investment fund. The Airport fund was established by the Authority to account for the operations of the Norfolk International Airport (the Airport). Revenue generated by airport operations is used to meet all operating expenses and to provide for payment of all principal and interest on debt of the Authority related to the Airport. The Investment fund was established by the Authority to provide for certain airport capital improvements. The Authority finances individual capital projects by issuing bonds or obtaining loans and intergovernmental grants in its own name and concurrently entering into leases which provide for payment of all principal and interest on the related obligations as they become due. Revenue includes rental income on non-airport property owned by the Authority and interest on investments. The Authority's Commissioners are appointed by City Council but the Commission designates its own management and has oversight responsibility for its own fiscal matters. The City does not provide funds for the operations of the Authority and, pursuant to Section 144(q) of the City Charter; the Authority is required to submit its annual budget to the City

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Council for the purposes of information only. The City has the option to reacquire, without consideration, title to all property and equipment after payment by the Authority of all obligations relating to the improvements at the Airport.

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

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

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

The Chrysler Museum, a Virginia non-stock, not-for-profit organization, was formed on January 1, 1980 by incorporating the Chrysler Museum in Norfolk. The main purpose of the Museum is the advancement, encouragement and promotion of the study and appreciation of art. The Museum designates its own management, which is self-sustaining, maintains its own books of account, engages its own independent accountant, and receives its revenue from administrative fees charged to visitors and from other independent grants.

E. The Hospital Authority of Norfolk (HAN)

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

F. The Slover Library Foundation (the Foundation)

The Slover Library Foundation, a not-for-profit organization, was formed on October 31, 2008 to participate in the funding of a new central library for the City.

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

The City Council has authorized the project and is completing architecture and engineering with construction scheduled to begin by the end of calendar year 2011. The new central library will be named the Samuel. L. Slover Library. Two historic downtown structures, the Seaboard Building and the Selden Arcade, will be joined by an architecturally significant structure to create the new technologically advanced library. Funding provided by the Foundation will be used for construction costs as well as purchase and maintenance of technology to be used in the library. The Foundation designates its own management, maintains its own books of account, engages its own independent accountant, and receives its revenue from donations made by third parties.

XXV. Adjustments to Beginning Fund Balances

The City implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, during fiscal year 2011. The effect of this change in reporting is as follows:

	Primary Government Governmental Activities	
	General fund	Non-major funds
Fund Balance, June 30, 2010, As Previously Reported	\$ 62,136,499	\$ 48,641,547
Adjustments	23,787,022	(23,787,022)
Fund Balance, June 30, 2010, As Restated	\$ 85,923,521	\$ 24,854,525

XXVI. Subsequent Events

Wastewater System Revenue Bond, Series 2011

On October 21, 2011, the City issued a \$9,300,000 Wastewater System Revenue Bond, with the Virginia Resources Authority (VRA). In conjunction with the State Water Control Board, the VRA administers and manages the Virginia Water Facilities Revolving Fund. The Bond was sold at a true interest cost of 0.00%.

Lambert's Point Landfill

On October 19, 2011, the City determined that a portion of the shoreline adjacent to the former Lambert's Point landfill was eroding likely due to tidal forces associated with the August 2011 hurricane. The landfill ceased receiving materials in 1980 and was closed in accordance with environmental and health regulatory requirements in effect at that time. In 2005, a golf course was built on the landfill. The City has implemented a short-term solution and is working with the Virginia Department of Environmental Quality (DEQ) and other federal and state regulatory agencies on the development of a long-term solution. The City anticipates that the cost to repair will not exceed \$1,000,000. The Federal Emergency Management Agency (FEMA) and the Virginia Department of Emergency Management (VDEM) are evaluating this incident and repairs plans for potential inclusion of repair costs to be reimbursed to the City under the current FEMA Public Assistance recovery process for the August 2011 hurricane.

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

XXVII. Accounting Pronouncements Issued But Not Yet Implemented

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

- GASB Statement 60: *Accounting and Reporting for Service Concession Arrangements*. GASB 60 addresses issues related to accounting for, financial reporting and disclosure requirements of certain service concession arrangements, which are a type of public-private partnership. The provisions of GASB 60 are effective for fiscal years beginning after December 15, 2011.
- GASB Statement 61: *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*. The objectives of GASB 61 are to improve financial reporting for governmental entities. The statement modifies certain requirements for inclusion of component units, by clarifying the manner in which the determination should be made and the type of relationships that should be considered when making that determination. The statement also amends the criteria for reporting blended component units. The provisions of GASB 61 are effective for fiscal years beginning after June 15, 2012.
- GASB Statement 62: *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 62 incorporates into GASB's authoritative literature certain accounting and financial reporting guidance issued on or before November 30, 1989 from the following sources: FASB statements and interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA, so long as it does not contradict or conflict with GASB pronouncements. This statement also supersedes Statement No. 20: *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. The provisions of GASB 62 are effective for fiscal years beginning after December 15, 2011.
- GASB Statement 63: *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. GASB 63 provides financial reporting guidance for deferred outflows and inflows of resources. These terms are defined as the consumption or acquisition of net assets by the government that is applicable to a future reporting period respectively. The provisions of GASB 62 are effective for fiscal years beginning after December 15, 2011.
- GASB Statement 64: *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*, GASB 64 will clarify whether an effective hedging relationship will continue after the replacement of a swap counterparty or swap counterparty's credit support provider. The statement will also set forth criteria that establishes when the effective hedging relationship continues and hedge accounting should continue to be applied. The provisions of GASB 64 are effective for fiscal years beginning after June 15, 2011.

**REQUIRED SUPPLEMENTARY
INFORMATION**
*(OTHER THAN MANAGEMENT'S
DISCUSSION & ANALYSIS)*

(Unaudited)



CITY OF NORFOLK, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress (unaudited)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a percentage of covered payroll</u>
Retirement Plans:						
CITY - EMPLOYEES' RETIREMENT SYSTEM						
June 30, 2007	\$ 925,800,000	\$ 972,200,000	\$ 46,400,000	95.2%	\$ 168,100,000	27.6%
June 30, 2008	\$ 937,800,000	\$ 1,009,100,000	\$ 71,300,000	92.9%	\$ 175,400,000	40.6%
June 30, 2009	\$ 885,600,000	\$ 1,029,600,000	\$ 144,000,000	86.0%	\$ 179,600,000	80.2%
June 30, 2010	\$ 817,700,000	\$ 1,046,800,000	\$ 229,100,000	78.1%	\$ 175,200,000	130.8%
June 30, 2011	\$ 832,000,000	\$ 1,064,000,000	\$ 232,000,000	78.2%	\$ 171,000,000	135.7%
CITY - VRS EMPLOYEES						
June 30, 2008	\$ 47,154,626	\$ 52,000,548	\$ 4,845,922	90.7%	\$ 25,854,549	18.7%
June 30, 2009	\$ 51,470,652	\$ 58,287,883	\$ 6,817,231	88.3%	\$ 25,997,389	26.2%
June 30, 2010	\$ 54,256,199	\$ 67,356,664	\$ 13,100,465	80.6%	\$ 24,538,680	53.4%
SCHOOL BOARD COMPONENT UNIT - VRS NON-PROFESSIONAL EMPLOYEES						
June 30, 2008	\$ 66,558,849	\$ 72,573,728	\$ 6,014,879	91.7%	\$ 17,520,165	34.3%
June 30, 2009	\$ 65,474,071	\$ 74,800,079	\$ 9,326,008	87.5%	\$ 16,948,926	55.0%
June 30, 2010	\$ 64,120,661	\$ 80,984,997	\$ 16,864,336	79.2%	\$ 16,243,835	103.8%
Other Post-employment Benefits (OPEB):						
CITY EMPLOYEES AND RETIREES						
July 1, 2008	\$ -	\$ 44,572,743	\$ 44,572,743	0.0%	\$ 168,196,094	26.5%
July 1, 2009	\$ -	\$ 59,910,937	\$ 59,910,937	0.0%	\$ 171,944,051	34.8%
July 1, 2010	\$ -	\$ 60,204,591	\$ 60,204,591	0.0%	\$ 175,976,672	34.2%
SCHOOL EMPLOYEES AND RETIREES						
July 1, 2008	\$ -	\$ 51,451,816	\$ 51,451,816	0.0%	\$ 194,139,309	26.5%
July 1, 2009	\$ -	\$ 80,250,361	\$ 80,250,361	0.0%	\$ 198,943,586	40.3%
July 1, 2010	\$ -	\$ 82,776,654	\$ 82,776,654	0.0%	\$ 198,660,313	41.7%
TOTAL						
July 1, 2008	\$ -	\$ 96,024,559	\$ 96,024,559	0.0%	\$ 362,335,403	26.5%
July 1, 2009	\$ -	\$ 140,161,298	\$ 140,161,298	0.0%	\$ 370,887,637	37.8%
July 1, 2010	\$ -	\$ 142,981,245	\$ 142,981,245	0.0%	\$ 374,636,985	38.2%

CITY OF NORFOLK, VIRGINIA

Exhibit E-1

**Schedule of Revenue, Budget and Actual (Unaudited)
General Fund
For the Year Ended June 30, 2011**

	Original Budget	Final Budget	Budget Basis Actual	Positive (negative) Variance with Final Budget
General property taxes	\$ 251,403,800	\$ 251,403,800	\$ 251,492,239	\$ 88,439
Other local taxes	147,748,000	147,748,000	145,141,964	(2,606,036)
Permits, privilege fees, licenses	5,133,000	5,133,000	4,106,796	(1,026,204)
Fines and forfeitures	1,349,000	1,349,000	1,287,993	(61,007)
Use of money and property	7,600,700	7,600,700	7,154,132	(446,568)
Charges for services	34,794,895	34,794,895	33,442,916	(1,351,979)
Miscellaneous revenue	7,700,333	7,700,333	10,102,231	2,401,898
Recovered costs	10,507,000	10,507,000	10,722,712	215,712
Non-categorical aid - Virginia	32,262,700	32,262,700	32,115,680	(147,020)
Shared expense - Virginia	20,254,700	20,254,700	19,330,202	(924,498)
Categorical aid - Virginia	244,922,500	245,679,920	242,828,372	(2,851,548)
Categorical aid - Federal	5,589,600	5,589,600	6,019,937	430,337
Other sources and transfers	25,323,972	25,323,972	23,972,126	(1,351,846)
Total revenue budget	\$ 794,590,200	\$ 795,347,620	\$ 787,717,300	\$ (7,630,320)

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

CITY OF NORFOLK, VIRGINIA

Exhibit E-2

**Schedule of Expenditures, Budget and Actual (Unaudited)
General Fund
For the Year Ended June 30, 2011**

	Original Budget	Final Budget	Budget Basis Actual	Positive (negative) Variance with Final Budget
Legislative	\$ 4,416,700	\$ 4,416,700	\$ 4,352,069	\$ 64,631
Executive	2,380,600	2,547,905	2,530,803	17,102
Department of Law	3,912,500	3,912,500	3,790,942	121,558
Finance	8,943,500	9,321,047	9,207,100	113,947
Department of Human Resources	2,749,200	2,816,542	2,777,646	38,896
Courts, Sheriff and Detention	45,630,600	45,703,900	45,277,768	426,132
Department of Public Health	5,573,600	5,517,105	5,218,762	298,343
Department of Human Services	58,119,200	56,956,924	54,128,958	2,827,966
Department of Public Works	62,055,300	59,711,138	57,686,080	2,025,058
Neighborhood & Leisure Services	27,317,191	23,787,742	21,430,714	2,357,028
Education	295,657,800	295,657,800	292,010,228	3,647,572
Norfolk Public Libraries	7,331,500	7,320,265	7,173,740	146,525
Elections	618,100	618,100	601,703	16,397
Department of Planning	5,259,698	9,446,132	8,952,480	493,652
Department of Civic Facilities	6,029,000	5,995,373	5,565,024	430,349
Departmental support	22,139,800	25,393,552	19,106,412	6,287,140
Outside agencies	35,829,300	35,484,000	34,239,742	1,244,258
Department of Police	66,081,800	65,891,879	65,200,372	691,507
Department of Fire and Rescue	38,947,600	38,894,877	38,663,081	231,796
Debt service	76,121,611	76,874,227	75,791,150	1,083,077
Budget and Management	814,400	811,165	662,292	148,873
Economic Development	1,912,700	1,915,590	1,912,850	2,740
Communications and Public Relations	1,690,600	1,712,862	1,531,471	181,391
Department of Information Technology	10,742,800	10,330,101	9,664,794	665,307
Office of Grants Management	226,500	226,500	197,970	28,530
Virginia Zoological Park	3,833,300	3,833,300	3,742,131	91,169
Office of Homelessness	255,300	250,394	233,160	17,234
Total expenditure budge	\$ 794,590,200	\$ 795,347,620	\$ 771,649,442	\$ 23,698,178

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

CITY OF NORFOLK, VIRGINIA
Notes to Required Supplementary Information
Reconciliation of (non-GAAP) Budgetary Basis to GAAP (Unaudited)
June 30, 2011

	General Fund
<u>Sources/inflows of resources:</u>	
Actual amounts (budgetary basis) "available for appropriation" from Exhibit E-1	\$ 787,717,300
<u>Differences--budget to GAAP:</u>	
The effects of accounting for school revenue as a component unit	(187,990,312)
The effects of accounting for transfer from fund balance	(5,790,000)
Other governmental fund transfers to/from of budgetary resources but are not revenues for financial reporting purposes	(1,801,512)
General fund transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(12,940,571)
Contingency liability settlement that is deducted from general tax revenues for financial reporting in FY-10 but not deducted from inflows of budgetary resources until FY-11	2,850,000
The effects of accounting for Nauticus fund, Maritime Facility fund and Grants fund	(3,420,644)
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	\$ 578,624,261
<u>Uses/outflows of resources:</u>	
Actual amounts (budgetary basis) "Total charges to appropriations" from Exhibit E-2	\$ 771,649,442
<u>Differences--budget to GAAP:</u>	
The effects of accounting for school expenditures as a component unit	(187,499,097)
The effects of accounting for Nauticus fund, Maritime Facility fund and Grants fund	845,175
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	(3,787,902)
General fund transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(82,595,066)
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances--Governmental Funds	\$ 498,612,552

There were no material violations of the annual appropriated budget for the General fund for fiscal year 2011.

OTHER SUPPLEMENTARY INFORMATION

COMBINING FINANCIAL STATEMENTS

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

OTHER SCHEDULES

~ Schedule of Expenditures of Federal Awards ~

~ Notes to Schedule of Expenditures of Federal Awards ~

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

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

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



Nonmajor Governmental Funds

Special Revenue Funds

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

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

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

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

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

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

National Maritime Facilities Fund: To account for the operation of the National Maritime Facilities and Cruise Terminal. **

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

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

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

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

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



Nonmajor Governmental Funds (Con't.)

Tax Increment Financing Fund: To account for debt service requirements for the Section 108 Loan and property tax collections within the Broad Creek Renaissance Tax Increment Financing District.

Permanent Fund

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

****This Fund or portions thereof were consolidated with General Fund at the beginning of fiscal year 2011 to comply with GASB 54.**



CITY OF NORFOLK, VIRGINIA

Exhibit F-1

Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2011

Special Revenue Funds							
	Storm Water	Towing	Grants	Community Development	Nauticus	Maritime Facility	Cemeteries
ASSETS							
Cash and short term investments	\$ 2,393,578	\$ 667,586	\$ -	\$ 300,743	\$ -	\$ -	\$ 326,885
Receivables, net	1,782,389	1,135	4,758,517	579,809	-	-	144,800
Due from other funds	480,592	133,639	2,427,759	-	-	-	215,450
Due from other governments	17,850	15,396	6,580,871	267,463	-	-	-
Prepays	-	22,418	-	-	-	-	-
Other	-	-	-	-	-	-	-
Total assets	<u>\$ 4,674,409</u>	<u>\$ 840,174</u>	<u>\$ 13,767,147</u>	<u>\$ 1,148,015</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 687,135</u>
LIABILITIES							
Vouchers payable	\$ 114,952	\$ 21,330	\$ 1,896,650	\$ 341,764	\$ -	\$ -	\$ 111,260
Contract retainage	-	-	35,923	-	-	-	-
Accrued payroll	100,040	13,409	72,920	3,969	-	-	-
Accrued expenses	-	-	-	-	-	-	-
Due to other funds	-	-	567,839	169,903	-	-	-
Due to other governments	-	-	5,878,167	92,949	-	-	-
Deferred revenue	301,728	-	-	539,430	-	-	-
Other liabilities	181	32,050	-	-	-	-	113,022
Total liabilities	<u>516,901</u>	<u>66,789</u>	<u>8,451,499</u>	<u>1,148,015</u>	<u>-</u>	<u>-</u>	<u>224,282</u>
FUND BALANCES							
Nonspendable	-	22,418	-	-	-	-	-
Restricted	-	-	2,520,769	-	-	-	-
Committed	4,157,508	-	752,317	-	-	-	-
Assigned	-	750,967	2,042,562	-	-	-	462,853
Unassigned	-	-	-	-	-	-	-
Total fund balances	<u>4,157,508</u>	<u>773,385</u>	<u>5,315,648</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>462,853</u>
Total liabilities and fund balances	<u>\$ 4,674,409</u>	<u>\$ 840,174</u>	<u>\$ 13,767,147</u>	<u>\$ 1,148,015</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 687,135</u>

CITY OF NORFOLK, VIRGINIA

Exhibit F-1

Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2011

Special Revenue Funds						Permanent Funds	Nonmajor Governmental Funds
Golf	Public Amenities	Land Acquisition	EOC/ 911	Tax Increment	Total Special Revenue	Non- Expendable trust	
\$ 111,744	\$ 4,132,232	\$ -	\$ 1,363,954	\$ 236,269	\$ 9,532,991	\$ 6,437,916	\$ 15,970,907
-	495,407	-	-	-	7,762,057	16,620	7,778,677
41,348	829,685	-	273,860	47,438	4,449,771	-	4,449,771
-	-	-	-	-	6,881,580	-	6,881,580
-	-	-	-	-	22,418	-	22,418
-	-	-	-	-	-	44,690	44,690
<u>\$ 153,092</u>	<u>\$ 5,457,324</u>	<u>\$ -</u>	<u>\$ 1,637,814</u>	<u>\$ 283,707</u>	<u>\$ 28,648,817</u>	<u>\$ 6,499,226</u>	<u>\$ 35,148,043</u>
\$ 58,358	\$ 500,000	\$ -	\$ 106,361	\$ -	\$ 3,150,675	\$ -	\$ 3,150,675
-	-	-	-	-	35,923	-	35,923
-	-	-	110,373	-	300,711	-	300,711
-	-	-	7,396	-	7,396	-	7,396
-	20,859	-	-	1,127	759,728	150,000	909,728
-	-	-	-	-	5,971,116	-	5,971,116
-	-	-	-	-	841,158	-	841,158
-	-	-	6,526	-	151,779	-	151,779
<u>58,358</u>	<u>520,859</u>	<u>-</u>	<u>230,656</u>	<u>1,127</u>	<u>11,218,486</u>	<u>150,000</u>	<u>11,368,486</u>
-	-	-	-	-	22,418	-	22,418
100,620	-	-	-	-	2,621,389	-	2,621,389
-	-	-	-	-	4,909,825	6,349,226	11,259,051
(5,886)	4,936,465	-	1,407,158	282,580	9,876,699	-	9,876,699
-	-	-	-	-	-	-	-
<u>94,734</u>	<u>4,936,465</u>	<u>-</u>	<u>1,407,158</u>	<u>282,580</u>	<u>17,430,331</u>	<u>6,349,226</u>	<u>23,779,557</u>
<u>\$ 153,092</u>	<u>\$ 5,457,324</u>	<u>\$ -</u>	<u>\$ 1,637,814</u>	<u>\$ 283,707</u>	<u>\$ 28,648,817</u>	<u>\$ 6,499,226</u>	<u>\$ 35,148,043</u>

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2011**

	Special Revenue Funds					
	Storm Water	Towing	Grants	Community Development	Nauticus	Maritime Facility
REVENUES						
General property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other local taxes	-	-	-	-	-	-
Fines and forfeitures	-	-	9,815	-	-	-
Use of money and property	6,824	1,673	3,842	-	-	-
Charges for services	11,741,567	1,470,490	778,367	-	-	-
Miscellaneous	29,678	86,777	5,789,917	106,704	-	-
Intergovernmental:						
Commonwealth of Virginia	62,609	-	8,372,827	-	-	-
Federal government	316,840	15,396	17,410,781	5,541,671	-	-
Total revenue	12,157,518	1,574,336	32,365,549	5,648,375	-	-
EXPENDITURES						
General government	-	-	2,212,097	-	-	-
Judicial administration	-	-	2,167,347	-	-	-
Public safety	-	-	6,014,734	-	-	-
Public works	8,576,700	1,536,478	4,100,842	-	-	-
Health and public assistance	-	-	18,995,626	1,488,309	-	-
Cultural and recreation	-	-	687,434	-	-	-
Community development	-	-	1,691,058	4,160,066	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest and other charges	-	-	-	-	-	-
Total expenditures	8,576,700	1,536,478	35,869,138	5,648,375	-	-
Excess (deficiency) of revenue over (under) expenditures	3,580,818	37,858	(3,503,589)	-	-	-
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	4,638,368	-	-	-
Transfers out	(2,627,135)	(19,272)	(296,562)	-	-	-
Total other financing sources and uses	(2,627,135)	(19,272)	4,341,806	-	-	-
Net change in fund balances	953,683	18,586	838,217	-	-	-
Fund balances--beginning	3,203,825	754,799	21,660,400	-	(62,485)	1,837,327
Adjustment to beginning balance	-	-	(17,182,969)	-	62,485	(1,837,327)
Fund balances--ending	\$ 4,157,508	\$ 773,385	\$ 5,315,648	\$ -	\$ -	\$ -

CITY OF NORFOLK, VIRGINIA

Exhibit F-2

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
 Nonmajor Governmental Funds
 For the Year Ended June 30, 2011

Special Revenue Funds							Permanent Funds
Cemeteries	Golf	Public Amenities	Land Acquisition	EOC/ 911	Tax Increment	Total Special Revenue	Non- Expendable Trust
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,661,800	\$ 3,661,800	\$ -
-	-	5,172,217	-	3,571,596	-	8,743,813	-
-	-	-	-	-	-	9,815	-
-	100,506	20,859	-	-	1,127	134,831	65,161
1,185,010	1,012,498	-	-	2,941	-	16,190,873	134,417
-	-	-	-	-	-	6,013,076	-
-	-	-	-	1,115,682	-	9,551,118	-
-	-	-	-	63,617	-	23,348,305	-
<u>1,185,010</u>	<u>1,113,004</u>	<u>5,193,076</u>	<u>-</u>	<u>4,753,836</u>	<u>3,662,927</u>	<u>67,653,631</u>	<u>199,578</u>
-	-	-	-	-	-	2,212,097	-
-	-	-	-	-	-	2,167,347	-
-	-	-	-	6,945,151	-	12,959,885	-
-	-	-	-	-	-	14,214,020	-
-	-	-	-	-	-	20,483,935	-
2,085,729	1,461,160	2,124,808	-	-	-	6,359,131	44
-	-	-	-	-	-	5,851,124	-
-	-	-	-	-	75,000	75,000	-
-	-	-	-	-	734,244	734,244	-
<u>2,085,729</u>	<u>1,461,160</u>	<u>2,124,808</u>	<u>-</u>	<u>6,945,151</u>	<u>809,244</u>	<u>65,056,783</u>	<u>44</u>
<u>(900,719)</u>	<u>(348,156)</u>	<u>3,068,268</u>	<u>-</u>	<u>(2,191,315)</u>	<u>2,853,683</u>	<u>2,596,848</u>	<u>199,534</u>
734,983	429,965	-	-	2,062,023	-	7,865,339	-
-	-	(5,890,954)	-	(26,081)	(2,571,105)	(11,431,109)	(305,580)
<u>734,983</u>	<u>429,965</u>	<u>(5,890,954)</u>	<u>-</u>	<u>2,035,942</u>	<u>(2,571,105)</u>	<u>(3,565,770)</u>	<u>(305,580)</u>
(165,736)	81,809	(2,822,686)	-	(155,373)	282,578	(968,922)	(106,046)
628,589	12,925	7,759,151	4,829,211	1,562,531	2	42,186,275	6,455,272
-	-	-	(4,829,211)	-	-	(23,787,022)	-
<u>\$ 462,853</u>	<u>\$ 94,734</u>	<u>\$ 4,936,465</u>	<u>\$ -</u>	<u>\$ 1,407,158</u>	<u>\$ 282,580</u>	<u>\$ 17,430,331</u>	<u>\$ 6,349,226</u>

Agency Funds

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

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

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



CITY OF NORFOLK, VIRGINIA
Combining Balance Sheet - Agency Funds
June 30, 2011

Exhibit G-1

	<u>Other</u>	<u>Commonwealth of Virginia</u>	<u>Total</u>
ASSETS			
Cash and short term investments	\$ 4,219,857	\$ 7,410	\$ 4,227,267
Receivables, net of allowance for uncollectible accounts	663	-	663
Other	288,037	-	288,037
Total assets	<u>\$ 4,508,557</u>	<u>\$ 7,410</u>	<u>\$ 4,515,967</u>
LIABILITIES			
Vouchers payable	\$ 23,892	\$ -	\$ 23,892
Due to other agencies	4,484,665	7,410	4,492,075
Total liabilities	<u>\$ 4,508,557</u>	<u>\$ 7,410</u>	<u>\$ 4,515,967</u>

CITY OF NORFOLK, VIRGINIA

Exhibit G-2

**Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2011**

	Other			Balance June 30, 2011
	Balance July 1, 2010	Additions	Deductions	
ASSETS				
Cash and short term investments	\$ 3,351,684	\$ 4,345,389	\$ 3,477,216	\$ 4,219,857
Accounts receivable	663	-	-	663
Other receivables	279,124	101,054	92,141	288,037
Total assets	<u>\$ 3,631,471</u>	<u>\$ 4,446,443</u>	<u>\$ 3,569,357</u>	<u>\$ 4,508,557</u>
LIABILITIES				
Vouchers payable	\$ 13,634	\$ 955,746	\$ 945,488	\$ 23,892
Due to other agencies	3,617,837	5,261,557	4,394,729	4,484,665
Total liabilities	<u>\$ 3,631,471</u>	<u>\$ 6,217,303</u>	<u>\$ 5,340,217</u>	<u>\$ 4,508,557</u>
Commonwealth of Virginia				
	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
	ASSETS			
Cash and short term investments	\$ 8,555	\$ 8,172,564	\$ 8,173,709	\$ 7,410
Total assets	<u>\$ 8,555</u>	<u>\$ 8,172,564</u>	<u>\$ 8,173,709</u>	<u>\$ 7,410</u>
LIABILITIES				
Due to the Commonwealth of Virginia	\$ 8,555	\$ 8,172,564	\$ 8,173,709	\$ 7,410
Total liabilities	<u>\$ 8,555</u>	<u>\$ 8,172,564</u>	<u>\$ 8,173,709</u>	<u>\$ 7,410</u>
Total				
	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
	ASSETS			
Cash and short term investments	\$ 3,360,239	\$ 12,517,953	\$ 11,650,925	\$ 4,227,267
Accounts receivable	663	-	-	663
Other receivables	279,124	101,054	92,141	288,037
Total assets	<u>\$ 3,640,026</u>	<u>\$ 12,619,007</u>	<u>\$ 11,743,066</u>	<u>\$ 4,515,967</u>
LIABILITIES				
Vouchers payable	\$ 13,634	\$ 955,746	\$ 945,488	\$ 23,892
Due to other agencies	3,626,392	13,434,121	12,568,438	4,492,075
Total liabilities	<u>\$ 3,640,026</u>	<u>\$ 14,389,867</u>	<u>\$ 13,513,926</u>	<u>\$ 4,515,967</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.



CITY OF NORFOLK, VIRGINIA

Exhibit H-1

**Combining Statement of Net Assets - Internal Service Funds
June 30, 2011**

	Storehouse	Fleet Management	Total
ASSETS			
Current assets:			
Cash and short term investments	\$ 213,218	\$ 240,515	\$ 453,733
Receivables, net	-	113,313	113,313
Due from other funds	42,811	48,007	90,818
Inventories	1,934,948	371,841	2,306,789
Total current assets	<u>2,190,977</u>	<u>773,676</u>	<u>2,964,653</u>
Noncurrent assets:			
Capital assets:			
Land	-	415,000	415,000
Buildings and equipment, net	19,785	4,461,723	4,481,508
Total noncurrent assets	<u>19,785</u>	<u>4,876,723</u>	<u>4,896,508</u>
Total assets	<u>\$ 2,210,762</u>	<u>\$ 5,650,399</u>	<u>\$ 7,861,161</u>
LIABILITIES			
Current liabilities:			
Vouchers payable	\$ 89,450	\$ 625,666	\$ 715,116
Compensated absences	21,666	203,166	224,832
Accrued payroll	61,255	105,785	167,040
Obligations for employees' retirement	81,691	523,471	605,162
Other liabilities	-	14,166	14,166
Total current liabilities	<u>254,062</u>	<u>1,472,254</u>	<u>1,726,316</u>
Noncurrent liabilities:			
Compensated absences	4,438	87,071	91,509
Total noncurrent liabilities	<u>4,438</u>	<u>87,071</u>	<u>91,509</u>
Total liabilities	<u>258,500</u>	<u>1,559,325</u>	<u>1,817,825</u>
NET ASSETS			
Invested in capital assets, net of related debt	19,785	4,876,723	4,896,508
Unrestricted	1,932,477	(785,649)	1,146,828
Total net assets	<u>1,952,262</u>	<u>4,091,074</u>	<u>6,043,336</u>
Total liabilities and net assets	<u>\$ 2,210,762</u>	<u>\$ 5,650,399</u>	<u>\$ 7,861,161</u>

CITY OF NORFOLK, VIRGINIA

Exhibit H-2

**Combining Statement of Revenues, Expenses, and
Changes in Fund Net Assets - Internal Service Funds
For the Year Ended June 30, 2011**

	Storehouse	Fleet Management	Total
OPERATING REVENUES			
Charges for services	\$ 3,981,423	\$ 11,272,623	\$ 15,254,046
Miscellaneous	-	84,791	84,791
Total operating revenues	<u>3,981,423</u>	<u>11,357,414</u>	<u>15,338,837</u>
OPERATING EXPENSES			
Personal services	478,149	2,968,417	3,446,566
Cost of goods sold	3,149,061	7,717,918	10,866,979
Plant operations	11,668	1,346,366	1,358,034
Depreciation	4,734	293,076	297,810
Retirement and OPEB contributions	81,691	523,471	605,162
Provision for bad debts	-	29,341	29,341
Other	41,723	1,403,167	1,444,890
Total operating expenses	<u>3,767,026</u>	<u>14,281,756</u>	<u>18,048,782</u>
Operating income (loss)	<u>214,397</u>	<u>(2,924,342)</u>	<u>(2,709,945)</u>
NONOPERATING REVENUE			
Interest and investment income	-	202	202
Total nonoperating revenue	<u>-</u>	<u>202</u>	<u>202</u>
Net income (loss)	<u>214,397</u>	<u>(2,924,140)</u>	<u>(2,709,743)</u>
Change in net assets	214,397	(2,924,140)	(2,709,743)
Other Financing Sources			
Transfers in	-	510,996	510,996
	-	510,996	510,996
Net Change in Fund Balance	214,397	(2,413,144)	(2,198,747)
Net assets--beginning	1,737,865	6,504,218	8,242,083
Net assets--ending	<u>\$ 1,952,262</u>	<u>\$ 4,091,074</u>	<u>\$ 6,043,336</u>

CITY OF NORFOLK, VIRGINIA

Exhibit H-3

**Combining Statement of Cash Flows - Internal Service Funds
For the Year Ended June 30, 2011**

	Storehouse	Fleet Management	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	\$ 3,982,708	\$ 11,488,457	\$ 15,471,165
Payments to suppliers	(3,172,158)	(8,710,420)	(11,882,578)
Payments to employees	(516,515)	(3,387,727)	(3,904,242)
Other payments	-	(1,389,001)	(1,389,001)
Net cash used in operating activities	<u>294,035</u>	<u>(1,998,691)</u>	<u>(1,704,656)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Interfund transfers in (out)	<u>(80,817)</u>	<u>802,429</u>	<u>721,612</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Principal paid on capital debt	-	(1,747)	(1,747)
Net cash used in capital and related financing activities	<u>-</u>	<u>(1,747)</u>	<u>(1,747)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest and dividends	-	202	202
Net cash provided by investing activities	<u>-</u>	<u>202</u>	<u>202</u>
Net increase (decrease) in cash and short term investments	213,218	(1,197,807)	(984,589)
Cash and short term investments - beginning of the year	<u>-</u>	<u>1,438,322</u>	<u>1,438,322</u>
Cash and short term investments - end of the year	<u>\$ 213,218</u>	<u>\$ 240,515</u>	<u>\$ 453,733</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (used in) Operating Activities			
Operating income (loss)	\$ 214,397	\$ (2,924,342)	\$ (2,709,945)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation expense	4,734	293,074	297,808
Change in assets and liabilities:			
Receivables, net	1,285	160,384	161,669
Inventories	(24,461)	36,242	11,781
Vouchers payable	54,755	317,624	372,379
Accrued payroll	51,590	30,528	82,118
Obligation for Employees' Retirement System	3,577	-	3,577
Other liabilities	(11,842)	87,799	75,957
Net cash provided by (used in) operating activities	<u>\$ 294,035</u>	<u>\$ (1,998,691)</u>	<u>\$ (1,704,656)</u>

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS



CITY OF NORFOLK, VIRGINIA

Exhibit I

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011**

Schedule I

Federal Granting Agency/Recipient	CFDA	Federal	ARRA
Recipient State Agency/Grant program/Grant No.	Number	Expenditures	Expenditures
<u>Department of Agriculture:</u>			
Direct Payments:			
USDA Summer Food Service Program (SFSP)	10.559	9,722	
Food Stamp Program - Administration	10.561	4,599,676	
ARRA - Food Stamp Program - Administration	10.561		104,721
Subtotal		4,704,397	
Pass-Through Payments:			
State Department of Agriculture:			
National School Breakfast Program	10.553	2,674,905	
National School Lunch Program	10.555	8,702,645	
National School Lunch Program (Commodities)	10.556	1,013,773	
USDA School Nutrition Program	10.559	117,278	
<u>Department of Housing and Urban Development:</u>			
Direct Payments:			
Community Development Block Grant	14.218	5,541,671	
For Kids, Inc. Haven Family Services	14.231	49,276	
ESG Planning Council	14.231	24,267	
Salvation Army	14.231	25,244	
Ecumenical Family Shelter	14.231	38,600	
St Columbia Ecumenical	14.231	29,947	
Subtotal		167,334	
Supportive Housing Program	14.235	313,071	
Shelter Plus Care Program	14.238	417,624	
HOME CHDO Investment Plan	14.239	135,743	
HOME CHDO Operating	14.239	66,585	
Home Investment Program	14.239	36,159	
HOME - Homeowner's Rehab	14.239	205,865	
NRHA - Homebuyer Assistance	14.239	229,230	
HOME NRHA Administration	14.239	206,717	
HOME - Rapid Exit Program	14.239	48,082	
Subtotal		928,381	
ARRA - CDBG R	14.253		530,440
ARRA - Homeless Prevention (S09-MY-51-002)	14.257		1,046,598
Pass-Through Payments:			
Neighborhood Stabilization	14.228	460,373	
<u>Department of Justice:</u>			
Direct Payments:			
U.S. Marshall Service	16.000	42,154	
Community Oriented Policing Services:			
Justice Assistance Grant	16.523	173,109	
Edward Byrne Memorial Grant	16.523	170,718	
Subtotal		343,827	
Bulletproof Vests Grant	16.607	9,070	
Asset Forfeiture - Special Police Grant	16.700	104,211	
COPS Technology	16.710	156,495	
COPS in School	16.710	672,663	
ARRA - COPS Hiring Program	16.710		409,517
Subtotal		1,238,675	
ARRA - Justice Assistance Grant	16.804		243,257
Pass-Through Payments:			
Department of Criminal Justice Services:			
Juvenile Accountability Block Grant	16.523	63,723	
VSTOP Prosecutorial Project	16.540	40,330	
Victim Witness	16.540	259,304	
Evening Reporting	16.540	80,249	
Subtotal		379,883	
Second Chance Act Grant	16.579	5,378	
<u>Department of Labor:</u>			
Direct Payments:			
ARRA - Workforce Investment Act - Youth Activities	17.259		101,659

CITY OF NORFOLK, VIRGINIA

Exhibit I

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011**

Schedule I

Federal Granting Agency/Recipient	CFDA	Federal	ARRA
Recipient State Agency/Grant program/Grant No.	Number	Expenditures	Expenditures
<u>Department of Transportation:</u>			
Direct Payments:			
ARRA - Norview Ave Bridge	20.205		528,676
ARRA - Citywide Repaving	20.205		695,089
	Subtotal		1,223,765
Pass-Through Payments:			
Selective Enforcement	20.511	32,907	
<u>Environmental Protection Agency:</u>			
Pass-Through Payments:			
Virginia Resources Authority - Revolving Loan	66.458	7,044,397	
<u>Department of Homeland Security</u>			
Direct Payments:			
Bomb Squad Initiative	97.004	303,043	
FEMA - Assistance to Firefighters	97.044	54,755	
Pass-Through Payments:			
Port Security Grant	97.056	471,068	
FEMA Hazard Mitigation	97.092	7,775	
Homeland Security Grant	97.073	6,835	
Prescription Drug Abuse Enforcement	97.073	284,997	
	Subtotal	291,832	
Buffer Zone	97.078	55,578	
<u>Department of Education:</u>			
Direct Payments:			
School Assistance in Federally Affected Areas	84.041	4,135,387	
Pass-Through Payments:			
Department of Education:			
Adult Literacy	84.002	302,615	
Title I:			
Educationally Deprived Children- Programs Operated by LEA's	84.010	12,826,934	
Title 1 Distinguished School - Ocean View	84.010	6,224	
School Improvement - Title I	84.010	235,553	
Negligent Delinquent Children	84.010	127,817	
	Subtotal	13,196,528	
ARRA - Title 1 Part A Entitlements	84.389		4,892,995
ARRA - Neglected, Delinquent or At-Risk	84.389		14,219
	Subtotal		4,907,214
ARRA - 1003g School Improvement Funds of ARRA	84.388		1,582,140
Evenstart Program	84.213	378,832	
Program for Neglected Children	84.013	69,759	
Title III:			
Limited English	84.365	65,067	
Title VI-B:			
Assistance to States for Education of Handicapped Children:			
Special Education Flow Thru (Federal)	84.027	4,926,072	
Virginia Incentive Program for Speech - Language Pathologist	84.027	33,000	
	Subtotal	4,959,072	
ARRA - IDEA Part B, Flow Thru	84.391		2,603,532
Handicapped Preschool Incentive Grant	84.173	209,503	
ARRA - IDEA Part B Preschool	84.392		114,567
Title IV-B:			
Carl Perkins Vocational	84.048	938,288	
Drug Free Act	84.186	29,241	
Math Solutions Study Project (National Science Foundation)	47.076	44,251	
McKinney Homeless Assistance	84.196	36,395	
Enhancing Education with Tech Phase II	84.318	2,720	
Enhancing Education with Tech (WHRO)	84.318	326,949	
	Subtotal	329,669	
ARRA - Enhancing Education through Technology	84.386		783,552
ARRA - Educational Technology for ARRA	84.386		8,816
	Subtotal		792,368
21st Century Community Learning Center	84.287	482,174	

CITY OF NORFOLK, VIRGINIA

Exhibit I

Schedule of Expenditures of Federal Awards

Schedule I

For the Year Ended June 30, 2011

Federal Granting Agency/Recipient	CFDA	Federal	ARRA
Recipient State Agency/Grant program/Grant No.	Number	Expenditures	Expenditures
<u>Department of Education (continued):</u>			
Early Reading First	84.359	1,231,800	
State Council of Higher Education	84.367	38,914	
Teacher & Principal Training	84.367	2,114,333	
	Subtotal	<u>2,153,247</u>	
Striving Readers Intervention	84.371	328,873	
Fruit and Vegetable Program	10.582	169,305	
VDOE Mini Grant	84.027	1,200	
ARRA - Grants for Infants and Families	84.393		180,655
State Fiscal Stabilization Fund (Norfolk Public Schools)	84.394	3,860,040	
ARRA - Education Jobs Fund of ARRA	84.410		3,584,368
Mental Retardation Early Intervention	84.181	334,475	
<u>Department of Energy</u>			
Direct Payments:			
ARRA - Energy Efficiency and Conservation Block Grant (DE-EE000880)	81.128		1,980,304
<u>Department of the Navy:</u>			
Pass-Through Payments:			
Navy Junior ROTC	12.000	455,270	
ERATE - Universal Service Funds	12.000	461,736	
Medicaid - Special Education	12.000	395,946	
	Subtotal	<u>1,312,952</u>	
Hampton Roads Full Scale Training	12.607	130,739	
<u>Federal Emergency Management Agency</u>			
Direct Payments:			
Disaster Grants - Public Assistance	97.036	63,617	
Noreaster Disaster Assistance	97.036	4,126	
	Subtotal	<u>67,743</u>	
<u>Department of Health and Human Services:</u>			
Direct Payments:			
HIV/AIDS Grant	93.914	6,553,936	
Minority AIDS Initiative	93.914	67,027	
	Subtotal	<u>6,620,963</u>	
NIC Pool Funds	99.000	275,713	
Pass-Through Payments:			
Projects for Assistance in Transition to Homeless (PATH)	93.150	105,675	
Mental Health VASIP / COSIG	93.243	241	
Youth & Family Services Grant	93.556	195,868	
Temporary Assistance to Needy Families (BEN-10-057-16)	93.558	4,059,404	
Refugee and Entrant Assistance State Administered Prog	93.566	11,758	
Local-Income Home Energy Assistance	93.568	282,390	
Payments to States for Child Care Assistance	93.575	2,829,500	
Child Development Care	93.596	2,540,091	
Independent Living Program - Education and Training	93.599	23,219	
Family Preservation	93.645	15,941	
Foster Care - Title IV - E	93.658	2,577,095	
ARRA - Foster Care Title IV-E	93.658		101,272
	Subtotal	<u>2,678,367</u>	
Adoptive Assistance	93.659	796,080	
ARRA - Adoptive Assistance	93.659		49,380
	Subtotal	<u>845,460</u>	
Social Services Block Grant	93.667	2,697,370	
Independent Living Initiative Program	93.674	62,500	
ARRA - Child Care and Development Block Grant	93.713		305,825
FAMIS Outreach Grants	93.767	134,265	
Medical Assistance Program - Administrative	93.778	2,713,884	
Mental Health Federal Block Grant	93.958	127,154	
Substance Abuse Federal Block Grant	93.959	1,868,907	
<u>Other Federal Assistance:</u>			
Sheriff Social Security	N/A	10,400	
Totals		<u>97,700,785</u>	<u>19,861,582</u>

CITY OF NORFOLK, VIRGINIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2011

1. General

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

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

2. Basis of Accounting

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

3. Relationship to the Basic Financial Statements

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

Major governmental funds		\$ 25,395,502
Non-major governmental funds		23,348,305
Total revenues from federal government		48,743,807
Component Unit - School Board		
Total Federal Grants Awarded	58,132,003	
Direct Payments:		
Navy Junior ROTC	455,270	
Erate - Universal Service Funds	461,736	
Medicaid	395,946	
Total - Norfolk Public Schools		59,444,955
Component Unit - Community Services Board		3,347,802
Total federal financial assistance reported in basic financial statements		\$ 111,536,564
Federal awards not reported as revenue in basic financial statements		
Enterprise - VRA Loan - WasteWater Fund		7,044,397
Noreaster Disaster Assistance reimbursements received fiscal year 2011 but reported on Schedule of Expenditures of Federal Awards fiscal year 2010		(1,332,228)
CSA Pool - Medicaid Adjustment		275,713
Other reconciling items		37,921
Total federal awards		\$ 117,562,367
Reconciliation to Exhibit A-3		
Revenues from federal government		\$ 48,743,807
Revenues from Commonwealth of Virginia		100,745,167
Total intergovernmental revenue		\$ 149,488,974

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.

CITY OF NORFOLK, VIRGINIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2011

5. Sub-recipients

Federal funds passed through to subrecipients for the year ended June 30, 2011 were as follows:

<u>Federal Granting Agency / Grant Program / Subrecipient</u>	<u>Amount</u>	
Department of Housing and Urban Development		
<u>Community Development Block Grant:</u>		
St Columbia Ecumenical Ministries	\$ 39,559	
Foodbank of Southeastern Virginia	29,064	
The Planning Council	59,632	
The Salvation Army	89,754	
YMCA of South Hampton Roads	48,445	
William A Hunton YMCA	27,884	
Tidewater AIDS Community Task Force	19,755	
ACCESS	46,408	
Oakmont Community Development	20,000	
Ecumenical Family Shelter	14,546	
Virginia Supportive Housing	26,758	
For KIDS, Inc.	54,713	
Habitat for Humanity	18,594	
Second Chances	52,505	
American Red Cross	39,450	
National Institute for Learning Development	2,121	
International Black Women's Congress	49,504	
Urban League of Hampton Roads	28,399	
Child and Family Services of Eastern Virginia	29,111	
Community Mediation Center	-	
The STOP Organization	182,281	
Barrett Haven	14,370	
Horizons Hampton Roads	5,783	
Park Place Schools	2,038	
YWCA of South Hampton Roads	31,650	
NRHA	3,811,670	
Total Community Development Block Grant	\$ 4,743,994	
<u>ARRA - Homeless Prevention</u>		
Access AIDS / Candii	73,645	
For KIDS, Inc	83,890	
The Planning Council	28,050	
Community Services Board	44,561	
Total ARRA - Homeless Prevention	230,146	
<u>HOME Grant Program</u>		
NRHA	1,987,182	
	1,987,182	
<u>Emergency Shelter Grant Program</u>		
Ecumenical Family Shelter	49,747	
For KIDS, Inc	49,520	
Salvation Army	25,244	
St. Columbia	27,425	
The Planning Council	36,153	
YWCA of South Hampton Roads	26,825	
Total Emergency Shelter Grant Program	214,914	
Total Department of Housing and Urban Development	\$ 7,176,236	

CITY OF NORFOLK, VIRGINIA

Subrecipients

CITY OF NORFOLK, VIRGINIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2011

<u>Federal Granting Agency / Grant Program / Subrecipient</u>	<u>Amount</u>	
Department of Justice		
<u>ARRA - Justice Assistance Grant</u>		
Community Services Board	52,599	
Norfolk Public Schools	26,325	
Total ARRA - Justice Assistance Grant		78,924
Total Department of Justice		\$ 78,924
Department of Health and Human Services		
<u>Temporary Assistance for Needy Families</u>		
Goodwill	262,014	
Norfolk Community Services Board	47,694	
Total Temporary Assistance for Needy Families		309,708
<u>Child Care and Development Block Grant</u>		
The Planning Council	245,931	
Total Child Care and Development Block Grant		245,931
<u>Social Services Block Grant</u>		
Community Personal Care Inc.	84,728	
Labor of Love Total Healthcare, Inc	62,794	
Senior Services of Southeastern Virginia	133,517	
Total Social Services Block Grant		281,039
<u>HIV/AIDS Grant</u>		
Bayview Pharmacy	194,601	
EVMS - Center for Comprehensive Care Of Immune Deficiency	1,335,487	
Community Psychological Group	139,296	
ACCESS	825,121	
Hampton / Newport News CSB	3,553	
Health and Home Support Services	205,273	
International Black Womens Congress	197,667	
Norfolk Community Health Center	455,649	
Norfolk Community Services Board	115,595	
Peninsula Institute of Community Health	464,417	
Portsmouth Community Health Center	307,758	
Tidewater AIDS Community Task Force	907,204	
Urban League of Hampton Roads	234,345	
Virginia Beach Department of Health	79,906	
Total HIV/AIDS Grant		5,465,872
Total Department of Health and Human Services		\$ 6,302,550
Total Payment to Sub-Recipients		\$ 13,557,710

**SCHEDULE OF REVENUES AND
EXPENDITURES
– BUDGET AND ACTUAL –**

~Special Revenue Funds~

~Internal Service Funds~

~Capital Projects Fund~



**Schedule of Revenues and Expenditures - Budget and Actual
Towing and Recovery Operation's Fund
For the Year Ended June 30, 2011**

	Budget	Actual	Positive (Negative) Variance
Revenues:			
Use of money and property	\$ -	\$ 1,673	\$ 1,673
Charges for services	1,684,800	1,470,490	(214,310)
Miscellaneous	195,700	86,777	(108,923)
Total revenue	<u>\$ 1,880,500</u>	<u>\$ 1,558,940</u>	<u>\$ (321,560)</u>
Expenditures:			
Towing and recovery	\$ 1,880,500	\$ 1,589,702	\$ 290,798
Total expenditures:	<u>\$ 1,880,500</u>	<u>\$ 1,589,702</u>	<u>\$ 290,798</u>

**Schedule of Revenues and Expenditures - Budget and Actual
Storm Water Utility Fund
For the Year Ended June 30, 2011**

	Budget	Actual	Positive (Negative) Variance
Revenues:			
Use of money and property	\$ 10,000	\$ 6,824	\$ (3,176)
Charges for services	10,795,000	11,741,567	946,567
Intergovernmental - federal	-	298,990	298,990
Intergovernmental - state	-	62,609	62,609
Miscellaneous	-	29,678	29,678
Total revenue	<u>\$ 10,805,000</u>	<u>\$ 12,139,668</u>	<u>\$ 1,334,668</u>
Expenditures:			
Storm water	\$ 8,283,346	\$ 8,475,317	\$ (191,971)
Transfer out	2,521,654	2,627,135	(105,481)
Total expenditures:	<u>\$ 10,805,000</u>	<u>\$ 11,102,452</u>	<u>\$ (297,452)</u>

CITY OF NORFOLK, VIRGINIA

Exhibit J-1

**Schedule of Revenues and Expenditures - Budget and Actual
Golf Fund
For the Year Ended June 30, 2011**

	Budget	Actual	Positive (Negative) Variance
Revenues:			
Charges for services	\$ 80,000	\$ 100,506	\$ 20,506
Use of money and property	1,313,800	1,012,498	(301,302)
Transfer in	-	429,965	429,965
Total revenue	<u>\$ 1,393,800</u>	<u>\$ 1,542,969</u>	<u>\$ 149,169</u>
Expenditures:			
Operations	\$ 1,393,800	\$ 1,416,328	\$ (22,528)
Total expenditures:	<u>\$ 1,393,800</u>	<u>\$ 1,416,328</u>	<u>\$ (22,528)</u>

CITY OF NORFOLK, VIRGINIA

Exhibit J-1

**Schedule of Revenues and Expenditures - Budget and Actual
Emergency Operations Fund (EOC 911)
For the Year Ended June 30, 2011**

	Budget	Actual	Positive (Negative) Variance
Revenues:			
Other local taxes	\$ 3,571,596	\$ 3,571,596	\$ -
Charges for services	1,000	2,941	1,941
Recovered cost	1,145,486	1,109,245	(36,241)
Intergovernmental - federal	63,617	70,054	6,437
Rollover from last year	1,256,378	1,256,378	-
Transfer in	2,142,023	2,062,023	(80,000)
Total revenue	<u>\$ 8,180,100</u>	<u>\$ 8,072,237</u>	<u>\$ (107,863)</u>
Expenditures:			
Operations	\$ 8,180,100	\$ 6,869,692	\$ 1,310,408
Total expenditures	<u>\$ 8,180,100</u>	<u>\$ 6,869,692</u>	<u>\$ 1,310,408</u>

CITY OF NORFOLK, VIRGINIA

Exhibit J-1

**Schedule of Revenues and Expenditures - Budget and Actual
Cemeteries Fund
For the Year Ended June 30, 2011**

	Budget	Actual	Positive (Negative) Variance
Revenues:			
Charges for services	\$ 1,975,347	\$ 1,185,010	\$ (790,337)
Transfer in	536,753	734,983	198,230
Rollover from last year	170,000	170,000	-
Total revenue	<u>\$ 2,682,100</u>	<u>\$ 2,089,993</u>	<u>\$ (592,107)</u>
Expenditures:			
Operations	<u>\$ 2,512,100</u>	<u>\$ 2,177,534</u>	<u>\$ 334,566</u>

**Schedule of Revenues and Expenditures - Budget and Actual
Public Amenities Fund
For the Year Ended June 30, 2011**

	Budget	Actual	Positive (Negative) Variance
Revenues:			
Taxes-Hotel & Restaurant	\$ 5,159,892	\$ 5,172,217	\$ 12,325
Use of money and property	-	20,859	20,859
Rollover from last year	3,124,808	3,124,808	-
Total revenue	<u>\$ 8,284,700</u>	<u>\$ 8,317,884</u>	<u>\$ 33,184</u>
Expenditures:			
Transfer out (CIP)	\$ 4,400,000	\$ 4,420,859	\$ (20,859)
Transfer out (Debt Service)	1,470,095	1,470,095	-
Challenge Grants	500,000	500,000	-
All purpose	1,914,605	1,624,808	289,797
Total expenditures:	<u>\$ 8,284,700</u>	<u>\$ 8,015,762</u>	<u>\$ 268,938</u>

CITY OF NORFOLK, VIRGINIA

Exhibit J-1

**Schedule of Revenues and Expenditures - Budget and Actual
Tax Increment Financing Fund
For the Year Ended June 30, 2011**

	Budget	Actual	Positive (Negative) Variance
Revenues:			
Taxes-real property	\$ 3,661,800	\$ 3,661,800	\$ -
Use of money and property	-	1,127	1,127
Total revenue	<u>\$ 3,661,800</u>	<u>\$ 3,662,927</u>	<u>\$ 1,127</u>
Expenditures:			
Debt service	\$ 809,245	\$ 809,244	\$ 1
All purpose	282,577	-	282,577
Transfer out	2,569,978	2,571,105	(1,127)
Total expenditures:	<u>\$ 3,661,800</u>	<u>\$ 3,380,349</u>	<u>\$ 281,451</u>

CITY OF NORFOLK, VIRGINIA

Exhibit J-2

**Schedule of Revenues and Expenditures - Budget and Actual
Fleet Internal Service Fund
For the Year Ended June 30, 2011**

	<u>Budget</u>	<u>Actual</u>	Positive (Negative) Variance
Revenues:			
Use of money and property	\$ 9,978	\$ 202	\$ (9,776)
Charges for services	11,547,719	11,272,623	(275,096)
Miscellaneous & recovered costs	102,903	84,791	(18,112)
Other Sources and Transfer In	-	510,996	510,996
Total revenue	<u>\$ 11,660,600</u>	<u>\$ 11,868,612</u>	<u>\$ 208,012</u>
Expenditures:			
Fleet	<u>\$ 11,660,600</u>	<u>\$ 14,281,756</u>	<u>\$ (2,621,156)</u>

**Schedule of Revenues and Expenditures - Budget and Actual
Storehouse Internal Service Fund
For the Year Ended June 30, 2011**

	<u>Budget</u>	<u>Actual *</u>	Positive (Negative) Variance
Revenues:			
Charges for services	\$ 627,500	\$ 832,362	\$ 204,862
	<u>\$ 627,500</u>	<u>\$ 832,362</u>	<u>\$ 204,862</u>
Expenditures:			
Storehouse	<u>\$ 627,500</u>	<u>\$ 617,965</u>	<u>\$ 9,535</u>

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

CITY OF NORFOLK, VIRGINIA

Exhibit J-3

CITY OF NORFOLK, VA
 Capital Improvement Program
 Schedule of Expenditures - Budget and Actual
 From Inception and for the Year Ended June 30, 2011

	Expenditures				
	Project Budget	Prior Years	Current	Total	Available
Community Development					
Neighborhood Project Development	\$ 12,985,000	\$ 12,089,726	\$ 376,527	\$ 12,466,253	\$ 518,747
Neighborhood Conservation/Revitalization	76,839,500	58,133,040	3,183,705	61,316,745	15,522,755
Broad Creek Renaissance	14,338,000	10,869,092	1,257,397	12,126,489	2,211,511
Neighborhood Streets Improvements	1,700,000	1,050,364	16,233	1,066,597	633,403
Neighborhood commercial Improvements	9,452,000	6,929,648	103,721	7,033,369	2,418,631
Create Special Service Areas	1,000,000	-	140,397	140,397	859,603
Other	195,000	71,300	101,680	172,980	22,020
Community Development Total	116,509,500	89,143,170	5,179,660	94,322,830	22,186,670
Cultural Facilities					
Attucks Theatre Renovations	190,000	93,661	23,216	116,877	73,123
Scope and Chrysler Hall Improvements	13,315,000	12,000,591	548,475	12,549,066	765,934
Chrysler Museum Improvements	4,105,000	1,590,654	810,954	2,401,608	1,703,392
Civic Building Improvements	749,000	82,005	428,000	510,005	238,995
Conference Center	61,720,000	14,734,533	180,430	14,914,963	46,805,037
Harrison Opera House Improvements	405,000	404,091	-	404,091	909
MacArthur Memorial Improvements	2,050,000	47,442	-	47,442	2,002,558
Nauticus/Maritime Center Improvements	3,595,000	2,750,000	3,790	2,753,790	841,210
USS Wisconsin Improvements	6,253,992	1,405,904	1,047,806	2,453,710	3,800,282
Other	3,852,000	2,186,734	253,911	2,440,645	1,411,355
Cultural Facilities Total	96,234,992	35,295,615	3,296,582	38,592,197	57,642,795
Economic Development					
Acquire/Dispose/Upgrade City Property	33,066,894	23,915,931	5,198,785	29,114,716	3,952,178
Nauticus/Cruise Terminal Development	38,350,370	38,050,511	584	38,051,095	299,275
Huntersville Redevelopment	1,000,000	70,882	-	70,882	929,118
Wachovia Center Development	5,375,000	157,060	2,518,650	2,675,710	2,699,290
Kroc Center Development	4,040,000	3,992,313	2,465	3,994,778	45,222
Other	3,761,965	427,283	735,352	1,162,635	2,599,330
Economic Development Total	85,594,229	66,613,980	8,455,836	75,069,816	10,524,413
General/Other					
Campostella Landfill Closure	2,300,000	983,402	179,126	1,162,528	1,137,472
Beach Erosion Control	13,867,500	10,030,776	682,712	10,713,488	3,154,012
Transfer to Debt Service	-	2,380,150	504,569	2,884,719	(2,884,719)
IFMS Implementation	5,916,804	5,852,821	40,082	5,892,903	23,901
Waterway Dredging Projects	3,935,000	2,247,955	349,136	2,597,091	1,337,909
Conservation and Green Vision Implementation	6,350,000	3,659,821	115,202	3,775,023	2,574,977
Conservation and Green Vision Implementation	5,900,000	-	236,761	236,761	5,663,239
Other	3,165,740	1,097,016	1,650,423	2,747,439	418,301
General/Other Total	41,435,044	26,251,941	3,758,011	30,009,952	11,425,092
Public Buildings and Facilities					
Fire Station Emergency Generation Program	575,000	504,448	55,810	560,258	14,742
Infrastructure Improvements	4,336,125	1,700,886	2,040,848	3,741,734	594,391
Annual Roof Maintenance	5,975,000	4,865,530	606,830	5,472,360	502,640
Library Facilities - Anchor Branch	10,476,238	10,292,339	220	10,292,559	183,679
Police Precinct Replacement	24,742,000	12,435,574	7,254,182	19,689,756	5,052,244
Courts Replacement and Renovations	74,195,281	12,996,560	(527,230)	12,469,330	61,725,951
Jail Renovations	1,976,500	713,012	20,075	733,087	1,243,413
Selden Arcade Renovations	8,831,883	8,270,661	129,881	8,400,542	431,341
City Hall Building Renovations	4,955,000	3,147,281	378,650	3,525,931	1,429,069
Tow Yard Acquisition	1,300,000	-	-	-	1,300,000
Fire Facilities Replacement/Improvements	2,188,500	1,406,475	76,321	1,482,796	705,704
Police Training Facilities	5,550,000	5,340,752	103,312	5,444,064	105,936
Main Library Construction	18,136,000	11,379,546	2,477,235	13,856,781	4,279,219
Design /Construct Government Center Plaza	656,500	480,005	30,386	510,391	146,109
Other	8,166,400	3,585,860	748,305	4,334,165	3,832,235
Public Buildings and Facilities Total	172,060,427	77,118,929	13,394,825	90,513,754	81,546,673

CITY OF NORFOLK, VIRGINIA

Exhibit J-3

CITY OF NORFOLK, VA
 Capital Improvement Program
 Schedule of Expenditures - Budget and Actual
 From Inception and for the Year Ended June 30, 2011

	Expenditures				
	Project Budget	Prior Years	Current	Total	Available
Parks/Recreational Facilities					
Zoo Master Plan	25,803,500	23,940,360	154,188	24,094,548	1,708,952
Titustown Recreation Center Improvements	550,000	208,961	-	208,961	341,039
Botanical Gardens	2,014,000	1,480,414	5,792	1,486,206	527,794
Existing Recreation Center Improvements	9,886,141	7,533,580	465,504	7,999,084	1,887,057
Norview Recreation Center	7,949,500	7,549,422	51,753	7,601,175	348,325
Lambert's Point Golf Course	400,000	-	-	-	400,000
Lambert's Point Community & Recreational Center	7,417,000	6,434,292	206,418	6,640,710	776,290
Harbor Park Improvements	475,000	187,259	89,850	277,109	197,891
Athletic Field Renovations	2,734,000	1,591,441	186,719	1,778,160	955,840
Norfolk Fitness & Wellness Center Renovations	1,808,670	1,658,891	15,148	1,674,039	134,631
Broadcreek & Westside Neighborhood Parks	2,625,709	2,163,231	229,326	2,392,557	233,152
Town Point Park Improvements	11,525,000	11,459,937	10,300	11,470,237	54,763
Martin Luther King Park	123,000	116,020	-	116,020	6,980
Waterside Waterfront Renovations	837,500	158,109	188,007	346,116	491,384
Ingleside Gymnasium	1,936,000	9,500	100,350	109,850	1,826,150
Other	12,138,038	2,263,199	1,117,799	3,380,998	8,757,040
Parks/Recreational Facilities Total	88,223,058	66,754,616	2,821,154	69,575,770	18,647,288
Schools					
Blair Middle School Replacement	11,284,000	8,741,580	738	8,742,318	2,541,682
Norfolk Public School Initiative	5,265,000	5,263,456	-	5,263,456	1,544
Norview Construction	26,878,031	26,876,228	-	26,876,228	1,803
Southside Middle School	2,250,000	-	-	-	2,250,000
High School Athletic Field	1,500,000	1,493,083	2,008	1,495,091	4,909
Coleman Place Elementary Replacement	19,217,641	17,847,291	2,949	17,850,240	1,367,401
Crossroads Elementary Replacement	27,070,525	401,780	6,553,217	6,954,997	20,115,528
Other	11,346,824	6,740,952	524,919	7,265,871	4,080,953
Schools Total	104,812,021	67,364,370	7,083,831	74,448,201	30,363,820
Storm Water					
Storm Water Quality Improvements	8,720,000	5,241,505	163,706	5,405,211	3,314,789
Storm Water Facility Improvements	1,650,000	1,417,036	199,248	1,616,284	33,716
Old Dominion University Master Plan	414,000	403,765	-	403,765	10,235
Drain Line Clean & Slip Lining	697,267	690,095	5,748	695,843	1,424
Neighborhood Flood Reduction	10,016,000	6,186,245	2,474,376	8,660,621	1,355,379
Bulkheading Master Project	2,600,000	1,191,463	309,066	1,500,529	1,099,471
Other	500,000	4,000	-	4,000	496,000
Storm Water Total	24,597,267	15,134,109	3,152,144	18,286,253	6,311,014
Transportation					
Old Dominion University Master Plan	8,463,600	8,482,864	372	8,483,236	(19,636)
VDOT Urban Support Program	10,813,512	7,762,708	138,889	7,901,597	2,911,915
Bridge Maintenance & Repair Program	18,871,208	10,407,075	1,750,863	12,157,938	6,713,270
Signal & Intersection Enhancements	9,362,500	5,053,003	750,463	5,803,466	3,559,034
Citywide Soundwall Program	5,105,260	3,893,501	88,502	3,982,003	1,123,257
Neighborhood Streets Improvements	48,851,286	24,270,838	3,936,339	28,207,177	20,644,109
Atlantic City Development	12,575,000	6,891,119	1,741,660	8,632,779	3,942,221
Citywide Boat Ramp Improvements	1,944,250	1,923,778	3,579	1,927,357	16,893
Construct Light Rail	74,117,974	44,081,224	16,940,716	61,021,940	13,096,034
Develop Multi-Modal Transfer Station at Harbor Park	606,000	-	363	363	605,637
Other	15,423,673	6,631,657	3,037,380	9,669,037	5,754,636
Transportation Total	206,134,263	119,397,767	28,389,126	147,786,893	58,347,370
Grand Total	\$ 935,600,801	\$ 563,074,497	\$ 75,531,169	\$ 638,605,666	\$ 296,995,135

**STATISTICAL
SECTION
(Unaudited)**



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

STATISTICAL SECTION

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

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

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

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

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

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

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



(UNAUDITED)

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

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Governmental activities:										
Invested in capital assets, net of related debt	\$ 537,356	\$ 470,451	\$ 411,993	\$ 403,577	\$ 391,392	\$ 332,988	\$ 325,173	\$ 252,128	\$ 155,954	\$ 324,576
Restricted	72,938	35,753	55,786	6,788	6,605	6,731	6,890	64,397	120,974	6,744
Unrestricted	34,968	72,904	86,959	91,869	96,705	127,479	90,917	63,013	76,365	5,347
Subtotal governmental activities net assets	<u>645,262</u>	<u>579,108</u>	<u>554,738</u>	<u>502,234</u>	<u>494,702</u>	<u>467,198</u>	<u>422,980</u>	<u>379,538</u>	<u>353,293</u>	<u>336,667</u>
Business-type activities:										
Invested in capital assets, net of related debt	128,521	195,799	223,018	237,044	259,198	268,503	241,203	237,307	229,693	267,107
Restricted	46,861	37,216	36,041	-	-	2,526	2,506	39,306	40,056	12,928
Unrestricted	85,619	39,277	20,293	48,563	43,383	34,373	72,387	43,921	63,316	62,458
Subtotal business-type activities net assets	<u>261,001</u>	<u>272,292</u>	<u>279,352</u>	<u>285,607</u>	<u>302,581</u>	<u>305,402</u>	<u>316,096</u>	<u>320,534</u>	<u>333,065</u>	<u>342,493</u>
Primary government:										
Invested in capital assets, net of related debt	665,877	666,250	635,011	640,621	650,590	601,491	566,376	489,435	385,647	591,683
Restricted	119,799	72,969	91,827	6,788	6,605	9,257	9,396	103,703	161,030	19,672
Unrestricted	120,587	112,181	107,252	140,432	140,088	161,852	163,304	106,934	139,681	67,805
Total primary government net assets	<u>\$ 906,263</u>	<u>\$ 851,400</u>	<u>\$ 834,090</u>	<u>\$ 787,841</u>	<u>\$ 797,283</u>	<u>\$ 772,600</u>	<u>\$ 739,076</u>	<u>\$ 700,072</u>	<u>\$ 686,358</u>	<u>\$ 679,160</u>

(UNAUDITED)

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

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Program Revenues										
Governmental activities:										
Charges for services										
General government	\$ 108	\$ 449	\$ 551	\$ 775	\$ 1,230	\$ 2,450	\$ 2,169	\$ 1,800	\$ 13,156	\$ 18,630
Judicial administration	10	191	402	498	200	778	931	935	3,501	3,629
Public safety	2,410	6,282	6,727	11,608	13,041	2,708	2,307	2,797	5,627	7,942
Public works	13,896	16,394	16,829	9,081	10,121	24,181	27,156	26,999	35,451	36,890
Health and public assistance	119	159	154	130	134	101	166	134	83	82
Culture and recreation	1,763	5,907	6,668	7,034	6,198	6,126	6,710	6,232	9,224	10,101
Community development	6	7	11	5	1,063	907	760	1,539	2,259	1,479
Capital grant contributions	-	-	-	-	-	-	-	16,933	7,175	-
Operating grants and contributions	93,270	123,596	105,466	116,399	116,827	115,779	112,960	112,419	127,665	116,648
Total governmental activities program revenue	111,582	152,985	136,808	145,530	148,814	153,030	153,159	169,788	204,141	195,401
Business-type activities:										
Charges for Services										
Water utility	59,318	63,785	60,964	61,002	74,218	69,816	74,240	74,454	78,983	80,573
Wastewater utility	13,389	14,615	18,633	21,329	22,375	22,314	24,917	23,125	23,815	24,362
Parking facilities	18,355	18,574	21,354	21,059	20,911	21,599	20,425	20,048	18,785	19,682
Capital grants and contributions	355	254	205	-	78	731	219	504	366	130
Total business-type activities program revenues	91,417	97,228	101,156	103,390	117,582	114,460	119,801	118,131	121,949	124,747
Total primary government program revenues	202,999	250,213	237,964	248,920	266,396	267,490	272,960	287,919	326,090	320,148
Expenses										
Governmental activities:										
General government	48,062	83,311	86,081	74,344	94,763	113,279	113,142	111,629	112,874	103,550
Judicial administration	8,987	10,856	36,635	40,319	42,494	46,944	48,593	52,209	52,020	49,980
Public safety	122,252	117,488	99,975	107,531	106,705	111,803	126,609	120,703	130,263	129,721
Public works	96,894	103,319	124,833	144,438	109,907	119,176	118,888	134,274	132,176	101,137
Health and public assistance	62,062	70,665	77,668	84,173	91,443	93,775	95,234	93,495	91,923	82,368
Culture and recreation	46,945	44,758	42,495	46,267	44,933	52,965	56,890	63,438	73,342	64,352
Community development	17,218	19,806	10,471	16,974	14,930	14,772	15,345	10,867	15,429	18,638
Education	83,883	88,854	90,020	91,865	92,595	97,595	101,095	104,511	101,011	104,511
Interest on long-term debt	18,536	18,088	17,461	18,516	19,565	19,618	21,457	23,788	26,014	27,931
Intergovernmental	7,932	8,061	6,140	-	-	-	-	-	-	-
Total government activities expenses:	512,771	565,206	591,779	624,427	617,335	669,927	697,253	714,914	735,052	682,188
Business-type activities:										
Water utility	53,712	54,382	60,069	60,207	62,009	60,511	64,877	66,990	64,316	67,852
Wastewater utility	11,379	10,963	11,754	11,957	15,448	17,377	18,614	21,227	18,983	19,707
Parking facilities	14,298	15,834	16,869	18,640	18,356	18,861	21,539	19,036	20,008	22,050
Total business-type activities expenses	79,389	81,179	88,692	90,804	95,813	96,749	105,030	107,253	103,307	109,609
Total primary government expenses	592,160	646,385	680,471	715,231	713,148	766,676	802,283	822,167	838,359	791,797
Net (Expense) Revenue										
Governmental activities	(401,189)	(412,221)	(454,971)	(478,897)	(468,521)	(516,897)	(544,094)	(545,126)	(530,911)	(486,787)
Business-type activities	12,028	16,049	12,464	12,586	21,769	17,711	14,771	10,878	18,642	15,138
Total primary government net expense	\$ (389,161)	\$ (396,172)	\$ (442,507)	\$ (466,311)	\$ (446,752)	\$ (499,186)	\$ (529,323)	\$ (534,248)	\$ (512,269)	\$ (471,649)

(UNAUDITED)

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

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General Revenues and Other Changes in Net Assets										
Governmental Activities:										
Taxes:										
Real estate and personal property	\$ 158,871	\$ 168,731	\$ 181,446	\$ 193,156	\$ 217,787	\$ 241,315	\$ 240,488	\$ 260,640	\$ 256,339	\$ 255,530
Consumption utility	-	-	-	43,387	43,337	42,586	46,582	44,142	44,053	48,360
Sales and use	-	-	-	29,497	30,652	32,402	31,791	29,484	28,249	28,411
Restaurant food	-	-	-	26,669	27,277	28,578	28,758	28,079	27,292	24,094
Business licenses	-	-	-	22,015	24,412	25,268	26,343	27,692	26,009	25,849
Cigarette	-	-	-	6,948	6,819	6,957	7,577	7,333	7,176	7,161
Motor vehicle licenses	-	-	-	2,605	3,576	3,529	3,498	4,005	4,308	4,313
Franchise, admission, recordation and other miscellaneous local	-	-	-	19,356	21,544	19,800	18,025	17,192	16,528	15,698
Other *	127,262	132,847	140,675	-	-	-	-	-	-	-
Interest and investment earnings	5,566	3,018	2,377	4,916	7,306	6,536	5,307	2,789	892	1,065
Grants and contributions not restricted to specific programs	60,367	60,472	77,601	68,219	68,133	66,524	69,352	60,513	32,892	32,642
Miscellaneous	12,003	7,986	18,504	8,496	15,851	4,845	11,881	9,600	5,637	5,901
Gain on disposal of assets	625	4,025	-	-	3,249	65	62	-	-	-
Capital contributions Norfolk Public Schools	-	-	-	-	-	-	-	-	40,387	11,085
Transfers between governmental and business-type activities	8,000	8,500	10,000	10,000	11,868	10,988	10,212	10,215	13,054	10,052
Total governmental activities	372,694	385,579	430,603	435,264	481,811	489,393	499,876	501,684	502,816	470,161
Business-type activities:										
Interest and investment earnings	941	816	609	864	3,161	2,739	3,046	925	618	511
Grants and contributions not restricted to specific programs	-	-	-	-	-	333	-	-	148	557
Unrealized gain (loss) on investments	-	25	(640)	-	-	-	-	-	-	-
Miscellaneous	3,660	2,780	4,624	3,657	3,911	3,554	3,088	2,850	3,432	3,431
Gain (Loss) on disposal of assets	415	121	-	(852)	-	(6)	-	-	2,744	(157)
Transfers between governmental and business-type activities	(8,000)	(8,500)	(10,000)	(10,000)	(11,868)	(10,988)	(10,212)	(10,215)	(13,054)	(10,052)
Total business-type activities	(2,984)	(4,758)	(5,407)	(6,331)	(4,796)	(4,368)	(4,078)	(6,440)	(6,112)	(5,710)
Total primary governmental activities	369,710	380,821	425,196	428,933	477,015	485,025	495,798	495,244	496,704	464,451
Change in Net Assets										
Governmental activities	(28,495)	(26,642)	(24,368)	(43,633)	13,290	(27,504)	(44,218)	(43,442)	(28,095)	(16,626)
Business-type activities	9,044	11,291	7,057	6,255	16,973	13,343	10,693	4,438	12,530	9,428
Total Primary Government changes in net assets	\$ (19,451)	\$ (15,351)	\$ (17,311)	\$ (37,378)	\$ 30,263	\$ (14,161)	\$ (33,525)	\$ (39,004)	\$ (15,565)	\$ (7,198)

Note:

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

(UNAUDITED)

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

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General fund:										
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5
Restricted	-	-	-	-	-	-	-	-	-	395
Committed	-	-	-	-	-	-	-	-	-	1,899
Assigned	-	-	-	-	-	-	-	-	-	38,014
Unassigned	-	-	-	-	-	-	-	-	-	55,968
Reserved*	14,913	8,317	8,152	14,172	16,057	17,223	11,669	7,842	8,296	-
Unreserved*	53,053	49,789	53,948	54,007	66,619	71,056	56,302	50,784	53,840	-
Total general fund	<u>67,966</u>	<u>58,106</u>	<u>62,100</u>	<u>68,179</u>	<u>82,676</u>	<u>88,279</u>	<u>67,971</u>	<u>58,626</u>	<u>62,136</u>	<u>96,281</u>
Capital projects fund:										
Nonspendable	-	-	-	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	-	-	-	-	41,063
Committed	-	-	-	-	-	-	-	-	-	11,978
Assigned	-	-	-	-	-	-	-	-	-	26,307
Unassigned	-	-	-	-	-	-	-	-	-	-
Reserved*	40,849	51,259	80,034	82,373	20,885	48,894	57,186	50,987	60,696	-
Unreserved*	1,009	7,200	14,132	3,394	-	15,424	64,504	25,939	86,260	-
Total capital projects fund	<u>41,858</u>	<u>58,459</u>	<u>94,166</u>	<u>85,767</u>	<u>20,885</u>	<u>64,318</u>	<u>121,690</u>	<u>76,926</u>	<u>146,956</u>	<u>79,348</u>
All Other governmental funds:										
Nonspendable	-	-	-	-	-	-	-	-	-	22
Restricted	-	-	-	-	-	-	-	-	-	2,621
Committed	-	-	-	-	-	-	-	-	-	11,259
Assigned	-	-	-	-	-	-	-	-	-	9,877
Unassigned	-	-	-	-	-	-	-	-	-	-
Reserved*	17,177	8,089	10,509	27,161	19,075	20,123	30,716	27,049	34,634	-
Unreserved*	1,254	14,833	14,058	3,992	17,131	24,211	13,987	12,535	14,008	-
Total Other governmental funds	<u>18,431</u>	<u>22,922</u>	<u>24,567</u>	<u>31,153</u>	<u>36,206</u>	<u>44,334</u>	<u>44,703</u>	<u>39,584</u>	<u>48,642</u>	<u>23,779</u>
Total fund balance, governmental funds	<u>\$ 128,255</u>	<u>\$ 139,487</u>	<u>\$ 180,833</u>	<u>\$ 185,099</u>	<u>\$ 139,767</u>	<u>\$ 196,931</u>	<u>\$ 234,364</u>	<u>\$ 175,136</u>	<u>\$ 257,734</u>	<u>\$ 199,408</u>

Note:

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

(UNAUDITED)

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

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Revenues:										
General property taxes	\$ 159,512	\$ 168,893	\$ 178,361	\$ 193,293	\$ 211,788	\$ 235,399	\$ 241,290	\$ 252,003	\$ 257,055	\$ 258,004
Other local taxes	127,262	132,847	140,675	150,477	157,616	159,119	162,573	157,927	153,615	153,886
Licenses and permits	2,700	2,973	3,204	3,542	4,088	4,071	4,055	4,012	3,526	3,691
Fines and forfeitures	1,541	1,569	1,627	1,763	1,461	1,605	1,317	1,260	1,164	1,298
Use of money and property	11,247	8,791	8,333	10,232	10,498	11,105	10,560	8,332	6,746	7,169
Charges for services	18,312	29,390	31,342	29,129	32,772	37,071	40,159	40,345	50,540	47,955
Miscellaneous	12,337	24,785	17,339	18,951	33,494	11,691	17,923	12,911	18,080	14,850
Recovered costs	10,008	9,556	12,297	14,188	12,667	8,408	8,622	8,952	9,503	10,723
Intergovernmental	133,332	131,071	160,118	147,045	149,757	156,637	156,862	149,774	152,619	149,489
Total Revenues	476,251	509,875	553,296	568,620	614,141	625,106	643,361	635,516	652,848	647,065
Expenditures:										
Current										
General government	44,126	64,639	76,127	67,434	92,062	102,031	110,974	102,426	97,061	80,855
Judicial administration	8,790	9,280	35,603	38,110	41,795	45,173	47,331	50,347	48,726	47,535
Public safety	115,912	123,202	94,979	102,278	105,634	108,565	116,208	118,073	115,488	115,975
Public works	56,124	57,162	80,613	64,497	46,959	49,161	60,370	56,146	59,574	70,124
Health and public assistance	61,601	68,140	76,221	83,451	91,535	93,397	95,159	91,648	89,682	79,757
Culture and recreation	40,849	40,149	40,081	40,290	42,995	46,397	51,071	52,248	51,708	45,862
Community development	16,945	17,673	8,048	12,716	13,552	11,158	10,745	9,899	10,851	16,565
Education	83,883	88,854	90,020	91,865	92,595	97,595	101,095	104,511	101,011	104,511
Debt Service:										
Principal retirement	31,177	32,450	32,731	47,407	37,660	35,872	40,260	48,092	46,052	50,865
Interest and other charges	17,460	15,998	16,820	18,061	18,802	18,917	20,468	23,666	23,782	29,675
Intergovernmental	7,932	8,061	6,140	-	-	-	-	-	-	-
Capital outlay	30,516	37,770	45,026	85,144	91,632	94,595	114,007	104,892	99,210	76,534
Total Expenditures	515,315	563,378	602,409	651,253	675,221	702,861	767,688	761,948	743,145	718,258
(Deficiency) of revenues (under) expenditures	(39,064)	(53,503)	(49,113)	(82,633)	(61,080)	(77,755)	(124,327)	(126,432)	(90,297)	(71,193)
Other Financing Sources (Uses):										
Proceeds of refunding bonds	-	31,123	83,219	30,389	-	15,480	-	16,000	-	84,136
Proceeds of capital leases	2,184	7,503	4,430	4,702	4,828	-	-	-	-	-
Proceeds of debt (general obligation bonds and notes)	56,179	47,695	69,685	70,840	-	121,705	145,663	55,280	156,208	2,821
Payment to refunded bonds escrow agent	(30,452)	(31,123)	(83,219)	(30,389)	-	(15,480)	-	(16,000)	-	(84,136)
Premium on bonds issued	-	-	389	2,259	-	2,070	5,785	1,707	3,633	505
Miscellaneous	-	(2,989)	(7)	-	(122)	66	62	-	-	-
Proceeds from sale or disposal of fixed assets	-	4,025	1,062	-	-	-	-	-	-	-
Operating transfers in	72,913	78,637	75,587	82,354	97,185	89,254	109,901	105,641	104,007	104,873
Operating transfers (out)	(64,913)	(70,137)	(65,587)	(72,354)	(86,142)	(78,176)	(99,653)	(95,425)	(90,953)	(95,332)
Total other financing sources (uses)	35,911	64,734	85,559	87,801	15,749	134,919	161,758	67,203	172,895	12,867
Net change in fund balances	<u>\$ (3,153)</u>	<u>\$ 11,231</u>	<u>\$ 36,446</u>	<u>\$ 5,168</u>	<u>\$ (45,331)</u>	<u>\$ 57,164</u>	<u>\$ 37,431</u>	<u>\$ (59,229)</u>	<u>\$ 82,598</u>	<u>\$ (58,326)</u>
Debt service as a percentage of noncapital expenditures	10.03%	9.22%	8.89%	11.56%	9.67%	9.01%	9.13%	10.40%	9.69%	12.19%

(UNAUDITED)

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

	Fiscal Year									
Function/Program	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Governmental Activities:										
General government	\$ 11,272	\$ 43,823	\$ 15,945	\$ 25,544	\$ 24,802	\$ 16,614	\$ 17,707	\$ 16,042	\$ 19,736	\$ 21,795
Judicial administration	4,466	4,482	17,960	19,423	19,605	27,904	28,707	23,173	26,461	27,069
Public safety	22,128	23,941	12,832	19,822	20,674	8,137	5,244	11,036	7,459	12,335
Public works	31,670	34,082	40,783	28,440	30,438	44,769	47,407	48,156	55,542	61,552
Health and public assistance	34,127	34,453	36,733	39,064	39,930	42,261	40,567	41,695	62,585	52,280
Culture and recreation	6,097	10,225	10,221	9,956	9,603	9,655	10,359	9,148	23,976	10,330
Community development	1,822	1,979	2,334	3,281	3,762	3,690	3,168	20,538	7,532	10,040
Interest on Long-term debt	-	-	-	-	-	-	-	-	849	-
Subtotal governmental activities program revenue	<u>111,582</u>	<u>152,985</u>	<u>136,808</u>	<u>145,530</u>	<u>148,814</u>	<u>153,030</u>	<u>153,159</u>	<u>169,788</u>	<u>204,140</u>	<u>195,401</u>
Business-type activities:										
Water utility	59,389	64,039	61,126	61,002	74,277	70,411	74,416	74,958	79,349	80,703
Wastewater utility	13,673	14,615	18,676	21,329	22,394	22,450	24,960	23,125	23,815	24,362
Parking facilities	18,355	18,574	21,354	21,059	20,911	21,599	20,425	20,048	18,785	19,682
Subtotal business-type activities program revenues	<u>91,417</u>	<u>97,228</u>	<u>101,156</u>	<u>103,390</u>	<u>117,582</u>	<u>114,460</u>	<u>119,801</u>	<u>118,131</u>	<u>121,949</u>	<u>124,747</u>
Total primary government program revenues	<u>\$ 202,999</u>	<u>\$ 250,213</u>	<u>\$ 237,964</u>	<u>\$ 248,920</u>	<u>\$ 266,396</u>	<u>\$ 267,490</u>	<u>\$ 272,960</u>	<u>\$ 287,919</u>	<u>\$ 326,089</u>	<u>\$ 320,148</u>

(UNAUDITED)

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

Fiscal Year	General Property Taxes	Other Local Taxes	Licenses and Permits	Fines and Forfeitures	Use of Money and Property	Charges for Services	Miscellaneous	Recovered Costs	Inter-Governmental Revenues	Totals
2002	\$ 159,512	\$ 127,262	\$ 2,700	\$ 1,541	\$ 11,247	\$ 18,312	\$ 12,337	\$ 10,008	\$ 133,332	\$ 476,251
2003	168,893	132,847	2,973	1,569	8,791	29,390	24,785	9,556	131,071	509,875
2004	178,361	140,675	3,204	1,627	8,333	31,342	17,339	12,297	160,118	553,296
2005	193,293	150,477	3,542	1,763	10,232	29,129	18,951	14,188	147,045	568,620
2006	211,788	157,616	4,088	1,461	10,498	32,772	33,494	12,667	149,757	614,141
2007	235,399	159,119	4,071	1,605	11,105	37,071	11,691	8,408	156,637	625,106
2008	241,290	162,573	4,055	1,317	10,650	40,159	17,923	8,622	156,862	643,451
2009	252,004	157,926	4,012	1,260	8,332	40,345	12,911	8,952	149,774	635,516
2010	257,055	153,615	3,526	1,164	6,746	50,540	18,080	9,503	152,619	652,848
2011	258,004	153,886	3,691	1,298	7,169	47,955	14,850	10,723	149,489	647,065
Change 2002-2011	61.7%	20.9%	36.7%	-15.8%	-36.3%	161.9%	20.4%	7.1%	12.1%	35.9%

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

Fiscal Year	Consumer's Utility Taxes	Sales and Use Taxes	Restaurant Food Taxes	Business License Taxes	Cigarette Taxes	Motor Vehicle Licenses	Other	Totals	
2002	\$ 37,922	\$ 25,267	\$ 19,288	\$ 18,644	\$ 4,280	\$ 3,554	\$ 18,307	\$ 127,262	
2003	37,930	25,854	21,680	18,472	4,220	3,462	21,229	132,847	
2004	39,231	27,867	21,808	20,279	7,639	3,456	20,395	140,675	
2005	39,371	29,497	22,550	22,015	6,948	2,605	27,491	150,477	
2006	43,337	30,652	27,277	24,412	6,819	3,576	21,543	157,616	
2007	42,586	32,402	28,578	25,268	6,957	3,529	19,799	159,119	
2008	46,582	31,791	28,758	26,343	7,577	3,498	18,024	162,573	
2009	44,142	29,484	28,078	27,692	7,333	4,005	17,192	157,926	
2010	44,053	28,249	27,292	26,009	7,176	4,308	16,528	153,615	
2011	48,360	28,411	24,094	25,849	7,161	4,313	15,698	153,886	
Change 2002-2011		27.5%	12.4%	24.9%	38.6%	67.3%	21.4%	-14.3%	20.9%

Note:

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

(UNAUDITED)

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

Year	Real Property	Personal Property	Other Property	Total Taxable Assessed Value	Estimate Actual Taxable Value
2002	\$ 8,882,064	\$ 1,273,647	\$ 281,182	\$ 10,436,893	\$ 10,436,893
2003	9,356,760	1,311,951	271,046	10,939,757	10,939,757
2004	10,029,639	1,503,713	281,578	11,814,930	11,814,930
2005	10,960,812	1,569,991	305,154	12,835,957	12,835,957
2006	12,691,527	1,655,021	316,863	14,663,411	14,663,411
2007	15,607,512	1,687,318	324,387	17,619,217	17,619,217
2008	18,401,851	1,983,503	193,287	20,578,641	20,578,641
2009	19,397,795	1,676,811	233,703	21,308,309	21,308,309
2010	19,940,273	1,610,680	226,801	21,777,754	21,777,754
2011	19,320,642	1,832,276	230,756	21,383,674	21,383,674

Notes:

1. Real property and personal property includes both general and public service corporations.
2. Other property includes machinery and tools, mobile homes, airplanes and boats.
3. Estimated actual taxable property values are based on data supplied by the City's Commissioner of the Revenue and the City Assessor.

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

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Property tax rate per \$100 of assessed value:										
Real property	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.35	\$ 1.27	\$ 1.11	\$ 1.11	\$ 1.11	\$ 1.11
Business improvement District	0.18	0.18	0.18	0.18	0.18	0.18	0.18	0.18	0.16	0.16
Personal property	4.00	4.00	4.00	4.00	4.00	4.00	4.25	4.25	4.25	4.33
Machinery and tools	4.00	4.00	4.00	4.00	4.00	4.00	4.25	4.25	4.25	4.25
Mobile homes	1.40	1.40	1.40	1.40	1.35	1.27	1.11	1.11	1.11	1.11
Airplanes	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
Boats (pleasure)	0.01	0.01	0.01	0.01	0.01	0.01	0.50	0.50	0.50	0.50
Boats (business)	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Recreational vehicles	2.00	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Disabled veterans	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00

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%	96%	100%
As determined by the Commonwealth's Department of Taxation	88%	88%	86%	65%	76%	76%	93%	N/A	N/A	N/A

Notes:

1. Cities in Virginia have jurisdiction over the entire area within their boundaries and operate independently of a county government since they are located outside of any county boundaries.
2. The real property and personal property assessments for public service corporations are based on information furnished to the Commissioner of the Revenue by the State Corporation Commission and the Commonwealth's Department of Taxation for calendar years 2002 through 2011.
3. The most recent Virginia Assessment/Sales ratio study is for 2009

N/A - Not available

(UNAUDITED)

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

Taxpayer	2002			2011		
	Real Property Taxable Assessed Value	Rank	Percentage of Total Assessed Value	Real Property Taxable Assessed Value	Rank	Percentage of Total Assessed Value
Virginia Power Co.	\$ 167,115,403	2	1.88%	\$ 270,009,241	1	1.40%
MacArthur Shopping Center LLC (Taubman Co.)	149,780,110	3	1.69%	152,853,900	2	0.79%
Norfolk Southern Corporation	71,911,174	4	0.81%	148,086,410	3	0.77%
Verizon Virginia, Inc.	193,357,336	1	2.18%	139,564,095	4	0.72%
Old Dominion University Real Estate Foundation				101,124,500	5	0.52%
Bank of America	64,360,500	5	0.72%	80,654,300	6	0.42%
Virginia Natural Gas, Inc.	39,965,364	10	0.45%	70,523,192	7	0.37%
Cox Virginia Telecom	47,786,599	9	0.54%	62,560,511	8	0.32%
Dominion Tower Ltd. Partnership				59,652,400	9	0.31%
Norfolk Housing, LLC				55,511,700	10	0.29%
Ford Motor Company	61,274,200	7	0.69%			
Military Circle Ltd. Partnership	62,386,800	6	0.70%			
New Life Tower	50,872,600	8	0.57%			
Total	<u>\$ 908,810,086</u>		<u>10.23%</u>	<u>\$ 1,140,540,249</u>		<u>5.90%</u>
Total Assessed Value	\$ 8,882,063,788			\$ 19,320,643,495		

Note:

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

(UNAUDITED)

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

Tax Year	Original Tax Levy	Adjusted Tax Levy (1)	Current Collections	Percentage of Current Collections to Tax Levy (2)	Delinquent Collections	Total Collections	Percentage of Total Collections to Tax Levy (2)
2002	\$ 171,755	\$ 154,152	\$ 147,416	95.63%	\$ 6,704	\$ 154,120	99.98%
2003	179,220	164,908	155,276	94.16%	9,591	164,867	99.98%
2004	191,397	179,753	165,100	91.85%	14,590	179,690	99.96%
2005	209,202	200,742	180,348	89.84%	20,259	200,607	99.93%
2006	227,796	228,295	197,669	86.58%	29,034	226,703	99.30%
2007	254,703	241,300	219,993	91.17%	18,784	238,777	98.95%
2008	258,016	254,815	220,253	86.44%	30,757	251,010	98.51%
2009	261,535	257,767	233,725	90.67%	19,455	253,180	98.22%
2010	258,544	253,665	239,192	94.29%	4,651	243,843	96.13%
2011	254,756	254,756	235,518	92.45%	-	235,518	92.45%

Notes:

1. Adjusted Tax Levy has been adjusted to reflect residual taxable amount after exonerations and reassessments. Information obtained from Office of the City Treasurer.
2. Percentage of Collections to Tax Levy are calculated using the adjusted Tax Levy amounts.

(UNAUDITED)

City of Norfolk, Virginia
Debt Capacity Information
Schedule 1
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years
(Amount in Thousands)

Fiscal Year	General Obligation Bonds *	General Obligation Notes	Revenue Bonds	Total Outstanding Debt	Outstanding Debt per Capita (Actual)	% of Personal Income	Debt to Net Asset Ratio
Governmental Activities							
2002	\$ 348,296	\$ 2,297	\$ -	\$ 350,593	\$ 1,489	5.58%	1.84
2003	361,656	1,726	-	363,382	1,536	5.44%	1.59
2004	398,606	1,110	-	399,716	1,675	5.67%	1.39
2005	421,008	250	-	421,258	1,760	5.69%	1.19
2006	382,773	239	-	383,012	1,600	4.83%	1.29
2007	469,498	227	-	469,725	1,941	5.66%	0.99
2008	571,138	2,000	-	573,138	2,359	6.63%	0.74
2009	577,936	1,000	-	578,936	2,373	6.74%	0.66
2010	688,152	1,812	-	689,964	2,842	N/A	0.51
2011	639,675	1,208	-	640,883	N/A	N/A	0.53
Business Type Activities							
2002	\$ 112,050	\$ -	\$ 360,635	\$ 472,685	\$ 2,008	7.52%	0.55
2003	99,220	-	370,855	470,075	1,987	7.04%	0.58
2004	87,636	-	365,464	453,100	1,899	6.42%	0.62
2005	91,520	-	382,689	474,209	1,981	6.41%	0.60
2006	93,099	-	374,159	467,258	1,952	5.89%	0.65
2007	107,311	-	364,834	472,145	1,951	5.69%	0.65
2008	124,092	-	420,819	544,911	2,243	6.30%	0.58
2009	158,227	-	416,746	574,973	2,357	6.69%	0.56
2010	199,620	-	409,158	608,778	2,507	N/A	0.55
2011	187,199	-	449,443	636,642	N/A	N/A	0.54
Total Primary Governmental Activities							
2002	\$ 460,346	\$ 2,297	\$ 360,635	\$ 823,278	\$ 3,497	13.10%	1.10
2003	460,876	1,726	370,855	833,457	3,523	12.49%	1.02
2004	486,242	1,110	365,464	852,816	3,574	12.09%	0.98
2005	512,528	250	382,689	895,467	3,741	12.10%	0.88
2006	475,872	239	374,159	850,270	3,552	10.71%	0.94
2007	576,809	227	364,834	941,870	3,893	11.36%	0.82
2008	695,230	2,000	420,819	1,118,049	4,601	12.94%	0.66
2009	736,163	1,000	416,746	1,153,909	4,730	13.42%	0.61
2010	887,772	1,812	409,158	1,298,742	5,349	N/A	0.53
2011	826,874	1,208	449,443	1,277,525	N/A	N/A	0.53

Notes:

* Includes the remaining balance of \$12,885,000 on a 20-year \$13,000,000 Section 108 Loan with the Department of Housing and Urban Development (HUD). Revenues from the Broad Creek Tax Increment Financing (TIF) District are the primary revenues pledged to support the bond's debt service. In Virginia, this TIF pledge constitutes a general obligation when determining the City's legal debt margin.

N/A - not available

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

(UNAUDITED)

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

Year	Gross Bonded Debt (in thousands)	Debt Payable from Enterprise Revenue (in thousands)	Net Bonded Debt (in thousands)	Assessed Value of Taxable Property (in thousands)	Population	Ratio of Net Bonded Debt To Assessed Value	Net Bonded Debt per Capita
2002	\$ 460,346	\$ 112,050	\$ 348,296	\$ 10,436,893	235,405	3.34%	1,480
2003	460,876	99,220	361,656	10,939,757	236,550	3.31%	1,529
2004	486,242	87,636	398,606	11,814,930	238,650	3.37%	1,670
2005	512,528	91,520	421,008	12,835,957	239,396	3.28%	1,759
2006	475,872	93,099	382,773	14,663,411	239,355	2.61%	1,599
2007	576,809	107,311	469,498	17,619,217	241,941	2.66%	1,941
2008	695,230	124,092	571,138	20,578,641	242,983	2.78%	2,351
2009	736,163	158,227	577,936	21,308,309	243,957	2.71%	2,369
2010	887,772	199,620	688,152	21,777,754	242,803	3.16%	2,834
2011	826,874	187,199	639,675	21,383,674	N/A	2.99%	N/A

Notes:

1. Assessed value of taxable property is detailed in Revenue Capacity Schedule 1.
2. The source of 2002 through 2009 population estimates is the Weldon Cooper Center for Public Service, University of Virginia & U.S. Census Bureau. The source for the 2010 population estimate is the U.S. Census Bureau. Data was not available for 2011.

N/A - not available

City of Norfolk, Virginia
Debt Capacity Information
Schedule 3
Computation of Direct Bonded Debt
June 30, 2011

Jurisdiction	Net Bonded Debt Outstanding (in thousands)	% Applicable to Government	\$ Applicable to Government (in thousands)
Direct: City of Norfolk	\$ 639,675	100%	\$ 639,675

Notes:

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

(UNAUDITED)

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

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Total assessed value of real property	\$ 8,882,063,788	\$ 9,356,759,552	\$ 10,029,638,801	\$ 10,960,812,421	\$ 12,691,527,668	\$ 15,496,207,804	\$ 18,401,851,069	\$ 19,395,789,387	\$ 19,940,273,451	\$ 19,320,643,495
Overall debt limitation - 10% of assessed valuation	888,206,379	935,675,955	1,002,963,880	1,096,081,242	1,269,152,767	1,549,620,780	1,840,185,107	1,939,578,939	1,994,027,345	1,932,064,350
Net debt applicable to debt limitation	463,645,861	464,176,270	489,541,678	514,905,063	478,467,462	579,224,191	697,450,234	738,173,200	889,556,676	829,621,927
Legal Debt Margin Within 10% Limitation	\$ 424,560,518	\$ 471,499,685	\$ 513,422,202	\$ 581,176,179	\$ 790,685,305	\$ 970,396,589	\$ 1,142,734,873	\$ 1,201,405,739	\$ 1,104,470,669	\$ 1,102,442,422
Net debt percentage of 10% limitation	52.20%	49.61%	48.81%	46.98%	37.70%	37.38%	37.90%	38.06%	44.61%	42.94%

(UNAUDITED)

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

Fiscal Year	Revenue Available for Debt Service (1)	Operating Expenses Less Depreciation & Amortization (2)	Income Available for Debt Service	Debt Service			Coverage
				Principal	Interest	Total	
2002	\$ 63,681,665	\$ 29,021,459	\$ 34,660,206	\$ 4,890,000	\$ 14,090,180	\$ 18,980,180	1.83
2003	67,760,029	30,867,286	36,892,743	5,700,000	14,600,283	20,300,283	1.82
2004	64,366,942	36,623,654	27,743,288	5,955,000	14,336,043	20,291,043	1.37
2005	69,183,154	37,584,692	31,598,462	6,250,000	14,041,059	20,291,059	1.56
2006	78,788,158	37,086,776	41,701,382	6,580,000	14,827,960	21,407,960	1.95
2007	76,013,563	35,050,694	40,962,869	7,310,000	14,379,821	21,689,821	1.89
2008	78,730,024	39,559,202	39,170,822	7,665,000	14,022,200	21,687,200	1.81
2009	78,020,552	40,807,627	37,212,925	8,050,000	16,411,343	24,461,343	1.52
2010	82,470,020	37,278,349	45,191,671	9,420,000	15,929,680	25,349,680	1.78
2011	83,737,444	39,779,361	43,958,083	9,875,000	16,527,844	26,402,844	1.66

Notes:

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

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

Fiscal Year	Revenue Available for Debt Service (1)	Operating Expenses Less Depreciation & Amortization (2)	Income Available for Debt Service	Debt Service			Coverage
				Principal (3)	Interest (3)(4)	Total	
2002	\$ 18,427,725	\$ 7,309,883	\$ 11,117,842	\$ 1,010,000	\$ 4,370,126	\$ 5,380,126	2.07
2003	18,879,428	7,481,301	11,398,127	1,080,000	4,305,825	5,385,825	2.12
2004	21,614,695	8,503,800	13,110,895	1,155,000	4,232,717	5,387,717	2.43
2005	21,329,936	9,984,289	11,345,647	1,225,000	4,540,463	5,765,463	1.97
2006	21,823,360	9,483,391	12,329,969	1,760,000	4,147,035	5,907,035	2.09
2007	22,348,513	9,359,808	12,988,705	1,825,000	4,628,423	6,453,423	2.01
2008	21,338,661	10,554,971	10,783,690	1,935,000	4,456,598	6,391,598	1.69
2009	20,060,905	10,762,214	9,298,691	2,040,000	4,254,117	6,294,117	1.48
2010	19,039,563	10,741,343	8,298,220	2,370,000	4,084,135	6,454,135	1.29
2011	20,079,618	10,513,723	9,565,895	2,445,000	4,009,864	6,454,864	1.48

Notes:

1. Includes operating revenue, plus interest income not capitalized.
2. Includes operating expenses, less depreciation and amortization.
3. Excludes subordinate debt service.
4. Reflects actual interest paid on the Variable Rate Parking System Revenue Bonds, Series 2000A and 2004A.

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

Fiscal Year	Revenue Available for Debt Service (1)	Operating Expenses Less Depreciation & Amortization (2)	Income Available for Debt Service	Debt Service			Coverage
				Principal	Interest	Total	
2010	\$ 24,122,430	\$ 11,282,865	\$ 12,839,565	\$ 425,000	\$ -	\$ 425,000	30.21
2011	24,856,689	11,489,891	13,366,798	850,000	-	850,000	15.73

Notes:

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

(UNAUDITED)

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

Fiscal Year	Principal on Serial Bonds	Redemption of Other Long-Term Debt	Interest on Serial Bonds	Interest on Other Debt	Total Debt Service	Total General Expenditures	Ratio of Debt Service to Total General Expenditures
2002	\$ 31,177,249	\$ 4,221,984	\$ 17,459,383	\$ 625,397	\$ 53,484,013	\$ 431,283,578	12.40%
2003	32,449,555	4,270,903	15,993,552	544,262	53,258,272	451,633,988	11.79%
2004	32,735,609	4,988,796	16,781,410	494,610	55,000,425	490,944,275	11.20%
2005	35,752,761	5,157,895	17,623,223	437,894	58,971,773	490,923,834	12.01%
2006	37,659,547	5,886,597	18,824,743	379,498	62,750,385	510,999,836	12.28%
2007	35,871,841	3,666,990	18,168,611	338,085	58,045,527	539,491,519	10.76%
2008	40,259,954	5,011,098	18,661,266	235,154	64,167,472	574,581,092	11.17%
2009	47,607,092	1,755,630	22,345,114	86,970	71,794,806	584,533,217	12.28%
2010	45,496,455	1,529,811	22,898,993	4,448	69,929,707	567,371,918	12.33%
2011	49,650,794	-	28,802,303	-	78,453,097	577,669,780	13.58%

Notes:

1. Total general expenditures include the expenditures of the general fund and debt service fund.
2. Total general expenditures are presented using the modified accrual basis of accounting.

(UNAUDITED)

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

<u>Year</u>	<u>Population</u>	<u>Personal Income (000's)</u>	<u>Per Capita Personal Income</u>	<u>Civilian Labor Force Estimates</u>	<u>% Unemployed</u>
2002	235,405	\$ 6,285,658	\$ 26,149	98,883	5.5
2003	236,550	6,674,414	27,720	98,939	5.7
2004	238,650	7,054,054	29,152	99,029	5.5
2005	239,396	7,399,230	31,156	100,614	5.4
2006	239,355	7,937,282	33,234	97,533	4.1
2007	241,941	8,292,887	34,834	97,380	4.1
2008	242,983	8,643,180	36,834	101,457	5.3
2009	243,957	8,595,424	36,838	101,847	8.4
2010	242,803	N/A	N/A	N/A	9.2
2011	N/A	N/A	N/A	N/A	N/A

Note:

1. Population from Weldon & Cooper Center for Public Services & U.S. Census Bureau. Population data was not available for 2011.
2. Unemployment rate and civilian labor force from the U.S. Bureau of Labor Statistics. Data not available for FY2011
3. Personal income, per capita personal income and civilian labor force estimates from U.S. Bureau of Economic Analysis. Data not available for 2010 or 2011.
4. All data on an average annual calendar year.

N/A - Not available

(UNAUDITED)

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

Employer	Rank	
	2011	2002
U.S. Department of Defense	1	1
Norfolk City School Board	2	2
Sentara Healthcare	3	3
City of Norfolk	4	4
Old Dominion University, Norfolk	5	7
Children's Hospital of the King's Daughters	6	8
Norshipco	7	
Medical College of Hampton Roads	8	
Norfolk State University	9	10
Portfolio Recovery Association	10	
United States Postal Service		9
Bank of America		5
Ford Motor Company		6
Total Employment	90,948	90,572

Note:

1. The source of the City's top ten employers is the Virginia Employment Commission.
2. The data for 2011 is the quarter ended March 2011 as that is the most current data available.
3. The source of the City's total employment is the Bureau of Labor Statistics. The 2011 total employment data was not available therefore 2010 data was used.
4. Each of the top 10 employers has 1000+ employees. The actual number of employees data for each employer was not available.

(UNAUDITED)

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

Year	Residential Construction			Non-Residential Construction	
	Building Permits	Number of Units	Estimated Value (in thousands)	Building Permits	Estimated Value (in thousands)
2002	290	462	\$ 44,498	53	\$ 51,451
2003	277	324	39,979	41	32,262
2004	506	601	75,801	71	14,658
2005	560	1,191	204,391	80	80,316
2006	531	1,058	133,053	60	165,989
2007	389	491	688,476	55	81,396
2008	277	815	101,212	35	102,714
2009	217	543	36,458	38	138,131
2010	193	554	58,800	35	104,922
2011	221	479	37,298	27	40,073

Notes:

The source of residential and nonresidential construction is the City's planning department. Nonresidential construction includes commercial buildings, public buildings, schools, public utility buildings and miscellaneous structures.

(UNAUDITED)

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

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Goods-Producing Industries:										
Agriculture, forestry, fishing & hunting	***	***	***	***	***	***	***	***	***	-
Mining	***	***	***	***	***	***	***	***	***	***
Construction	6.3	6.2	5.7	6.1	6.1	6.1	6.2	6.0	4.9	4.8
Manufacturing	9.8	9.8	9.8	9.8	9.6	8.7	7.9	7.3	7.3	6.7
Service-Providing Industries:										
Wholesale trade	5.8	5.3	5.2	5.0	5.0	5.0	5.1	4.6	4.2	4.0
Retail trade	14.7	14.3	14.0	14.2	14.0	14.3	14.6	13.8	13.0	12.9
Transportation and warehousing	11.6	11.0	10.1	9.7	9.9	9.3	9.4	9.5	8.6	8.8
Utilities	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	***	***
Information	4.1	4.2	4.0	4.2	4.0	3.5	3.7	3.4	2.8	2.6
Finance and insurance	7.4	6.9	6.9	7.1	6.7	6.0	6.6	6.6	5.7	5.5
Real estate and rental and leasing	2.8	2.7	2.8	2.7	2.8	2.9	2.9	2.7	2.7	2.6
Professional and technical services	7.3	8.2	8.1	10.2	10.1	10.2	10.7	11.3	11.6	11.5
Management of companies and enterprises	4.1	4.0	3.8	3.6	3.7	2.7	2.4	2.5	2.2	2.1
Administrative, support, and waste services	7.6	7.7	7.8	7.5	7.5	7.4	7.4	7.6	6.5	6.7
Educational services	14.1	14.4	14.5	14.7	15.2	15.5	15.6	16.4	16.6	16.4
Health care and social assistance	17.8	18.3	18.9	19.2	19.6	20.1	20.6	21.3	20.8	21.4
Arts, entertainment and recreation	2.1	2.1	2.2	2.2	2.3	2.4	2.4	2.4	2.2	2.2
Accommodation and food services	10.3	10.4	10.7	11.1	10.9	11.1	10.6	10.3	10.2	10.4
Public administration	15.5	15.7	15.1	12.3	12.1	12.2	12.1	13.7	14.1	14.0
Other services	4.5	4.1	4.1	4.2	4.3	4.1	4.0	3.9	3.7	3.8
Total (adjusted for rounding)	146.6	146.1	144.5	144.6	144.6	142.3	143.0	144.1	137.1	136.4

Note:

1. Labor Market Statistics, Virginia Employment Commission is the source of annual employment averages by industry.
2. All information on an average annual calendar year.
3. Asterisks indicate non-disclosable data.
4. This schedule includes data for the ten year period 2001 - 2010 as calendar year 2011 data was not available.

(UNAUDITED)

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

Function/Program	Fical Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Governmental activities:										
General government	494	438	396	457	450	477	264	481	438	492
Judicial administration	28	27	25	20	16	17	18	16	14	12
Public safety										
Police	858	857	875	858	839	1,031	887	861	878	891
Fire	485	490	491	507	499	508	508	641	639	529
Other	86	85	84	84	84	-	-	84	83	90
Public works	380	393	389	389	392	379	346	414	440	431
Health and public assistance	579	557	604	513	562	469	598	487	485	532
Culture and recreational	428	479	484	483	406	478	569	558	509	512
Community development	64	64	72	74	70	59	95	75	113	137
Business-type activities:										
Water utility	235	245	251	279	264	261	290	268	269	289
Wastewater utility	74	79	84	91	95	96	103	99	95	103
Parking facilities	65	68	72	77	78	90	88	89	87	85
Total full-time equivalent positions	3,776	3,782	3,827	3,832	3,755	3,865	3,766	4,073	4,050	4,103

Notes:

1. Fiscal years 2002 through 2011's average FTE data obtained from City's human resources information system.

(UNAUDITED)

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

Function/Program	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Police:										
Service calls	288,004	274,245	206,644	206,378	191,037	237,451	258,254	242,139	245,336	241,282
Arrests	27,199	24,909	25,923	22,799	22,235	22,222	24,050	26,583	28,069	27,930
Reports filed	34,587	35,116	34,087	34,167	29,600	31,986	31,220	32,477	31,487	30,507
Fire:										
Incidences (fires, EMS)	39,621	41,484	38,509	39,605	40,337	31,266	41,212	39,714	40,234	40,641
Highways and Streets:										
Streets resurfacing (miles)	120	115	131	83	77	70	80	66	69	67
Sanitation:										
Total solid waste collected and disposed (tons)	97,749	101,604	105,079	104,247	99,131	97,143	93,799	92,333	100,480	84,162
Water Utilities:										
Water delivered to water mains (gallons in thousands)	24,960,000	24,818,000	24,822,000	24,723,000	21,721,000	24,326,000	24,150,000	22,974,000	22,666,500	22,810,560
Total water consumption (gallons in thousands)	22,323,287	23,128,234	23,217,169	22,991,359	23,012,112	22,474,000	24,455,000	21,293,000	21,280,000	21,155,000
Percent of unmetered water	8.33%	8.81%	6.51%	7.95%	7.13%	7.30%	6.95%	7.31%	6.11%	7.25%
Average daily delivery (gallons in thousands)	68,230	68,000	67,820	67,740	68,090	66,650	66,200	62,900	62,100	62,494
Maximum daily pumpage (gallons in thousands)	84,730	81,820	77,960	81,470	83,640	83,600	82,000	79,000	76,400	80,200
Minimum daily pumpage (gallons in thousands)	56,800	58,190	59,340	58,410	57,200	56,200	52,200	52,000	52,200	52,350

(UNAUDITED)

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

Function/Program	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Public Safety:										
Police										
Stations	2	2	2	2	3	3	3	3	3	3
Fire										
Fire stations	15	15	15	15	14	14	14	14	14	14
Paramedic units	10	10	10	11	11	11	11	12	12	12
Transportation and Engineering:										
Streets (lane miles)	2,011	2,006	2,013	2,015	2,183	2,193	2,210	2,193	2,188	2,188
Sidewalks (miles)	968	968	968	968	968	968	968	968	968	968
Bridges	50	50	50	50	50	49	49	49	50	50
Public Recreation:										
Parks:										
Acreage	587	588	589	590	591	587	586	587	587	587
Regional parks	1	1	1	1	1	1	1	2	2	2
Neighborhood parks	121	121	121	121	121	85	85	71	71	71
Preserves and nature areas	1	1	1	1	1	1	1	1	1	1
Nature education centers	3	3	3	3	3	1	1	1	1	1
Playgrounds	45	45	45	45	45	79	123	100	101	101
Hiking trails (miles)	7	8	9	10	11	1	2	2	2	2
Recreation:										
Acreage	243	243	243	243	231	860	868	954	957	957
Recreational and senior centers	24	23	26	22	22	18	19	25	30	30
Swimming pools	4	4	4	6	6	6	8	6	6	6
Tennis Courts	143	143	146	152	152	101	134	148	148	148
Baseball/softball diamonds	36	36	36	36	36	63	99	86	86	86
Football/soccer fields	18	18	18	18	18	47	65	49	49	49
Field hockey	4	4	4	4	4	5	5	3	3	3
Basketball courts	42	42	42	42	42	229	179	204	203	203
Municipal beaches	3	3	3	3	3	3	3	3	3	3
Public Services:										
Traffic Engineering:										
Traffic signals	289	291	294	299	299	283	287	284	301	304
Traffic signs	9,376	9,825	10,021	6,044	7,936	7,363	6,752	4,436	4,272	60,000
Street lights	31,594	31,502	31,694	31,721	29,888	30,200	30,583	30,653	30,717	31,277
Utilities:										
Water fund capital assets (in thousands)	\$ 429,567	\$ 428,801	\$ 429,714	\$ 424,948	\$ 425,289	\$ 431,655	\$ 436,488	\$ 437,973	\$ 442,304	\$ 448,407
Wastewater fund capital assets (in thousands)	96,175	103,208	110,360	120,685	134,152	147,020	163,068	177,928	183,974	198,842
Total utilities assets (in thousands)	\$ 525,742	\$ 532,009	\$ 540,074	\$ 545,633	\$ 559,441	\$ 578,675	\$ 599,556	\$ 615,901	\$ 626,278	\$ 647,842
Water customer accounts	63,633	63,885	63,343	64,905	65,548	65,000	65,549	64,433	66,140	64,289
Miles of water main in the system	815	817	817	817	825	827	829	832	835	838
Municipal Golf:										
Golf courses	1	1	1	1	2	3	3	3	3	3
Convention Center:										
Meeting rooms	4	4	4	7	7	8	8	8	8	8
Exhibit space (square feet)	58,430	58,430	58,430	58,430	58,430	58,430	58,430	58,430	58,430	58,430
Meeting/ballroom space (square feet)	5,230	5,230	5,230	9,700	9,700	9,700	9,700	9,700	9,700	9,700
Parking Facilities:										
Parking lots/garages	30	30	28	28	28	21	23	23	26	25
Parking meters	301	482	579	600	660	718	669	614	584	584
Stormwater Management:										
Miles of storm sewers	351	351	351	351	351	357	357	357	357	357
Education:										
High schools	5	5	5	5	5	5	5	5	5	5
Middle schools	8	8	8	9	9	9	9	9	8	8
Elementary schools	35	35	35	35	35	35	35	35	35	35
Other educational facilities	13	13	13	11	11	11	11	9	5	5

OTHER REPORTS OF INDEPENDENT AUDITORS



COMPLIANCE SECTION





KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Norfolk (the City) as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements. Our report was modified to indicate that the City implemented a new accounting standard effective July 1, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Specifications for Audits of Counties, Cities and Towns* (the Specifications), issued by the Auditors of Public Accounts of the Commonwealth of Virginia.

Internal Control over Financing Reporting

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified two deficiencies in internal control over financial reporting that we consider to be significant deficiencies that are described in the accompanying schedule of findings and questioned costs at findings 2011-1 and 2011-2. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Norfolk, Virginia's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, the results of our tests disclosed two instances of noncompliance that are required to be reported under the Specifications, and which are described in the accompanying schedule of findings and questioned costs as State Findings 2011-1 and 2011-2.

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

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

KPMG LLP

December 13, 2011



KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

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

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

Compliance

We have audited the compliance of the City of Norfolk, Virginia (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2011. 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 of the City's compliance with those requirements.

In our opinion, the City of Norfolk, Virginia 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, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2011-5.

Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.



Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2011-3 and 2011-4 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2011-5 and 2011-6 to be significant deficiencies.

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

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

KPMG LLP

December 13, 2011

CITY OF NORFOLK, VIRGINIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

(1) Summary of Auditors' Results

- (a) The type of report issued on the financial statements: **Unqualified opinion**
- (b) Significant deficiencies in internal control were disclosed by the audit of the financial statements: **2011-1 and 2011-2**
- (c) Material weaknesses: **None**
- (d) Noncompliance, which is material to the financial statements: **None**
- (e) Significant deficiencies in internal control over major programs: **Yes – 2011-5 and 2011-6. Material weaknesses: Yes – 2011-3 and 2011-4**
- (f) The type of report issued on compliance for major programs: **Unqualified opinion**
- (g) Any audit findings, which are required to be reported under Section 510(a) of OMB Circular A-133: **Yes – 2011-3 through 2011-6**
- (h) Major programs:
 - **Special Education Cluster: CFDA Nos. 84.027, 84.173, 84.391, and 84.392**
 - **Title I Grants to Local Educational Agencies Cluster: CFDA Nos. 84.010 and 84.389**
 - **State Fiscal Stabilization Fund Cluster: CFDA No. 84.394**
 - **Job Opportunity Act: CFDA No. 84.410**
 - **State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP): CFDA 10.561**
 - **Impact Aid: CFDA 84.041**
 - **Homelessness Prevention and Rapid Re-Housing (HPRP): CFDA No. 14.257**
 - **Public Safety Partnership and Community Policing (COPS): CFDA No. 16.710**
 - **Temporary Assistance for Needy Families: CFDA No. 93.558**
 - **Community Development Block Program (CDBG): CFDA Nos. 14.218 and 14.253**
 - **Energy Efficiency and Conservation Block Grant Program (EECBG): CFDA 81.128**
 - **Capitalization Grants for Clean Water State Revolving Funds: CFDA No. 66.458**
- (i) Dollar threshold used to determine Type A programs: **\$3,000,000**
- (j) Auditee qualified as low-risk auditee under Section 530 of OMB Circular A-133: **Yes**

CITY OF NORFOLK, VIRGINIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

Finding #2011-1 Capital Asset Policy Formalization

Condition Found

The City of Norfolk, Virginia (the City) finances the majority of major capital projects for the Norfolk Public Schools (the Schools). The Schools contract and manage the projects and maintain and use the assets in their operations. Additionally, the City reimburses the Schools for any capital additions that do not meet the capitalization policy.

Historically, the City has recorded the original school buildings in its financial statements, and the Schools have recorded renovations and building improvements. In fiscal 2010, the City and the Schools determined that the above funding arrangement, as well as a lack of clarity around the treatment of major renovations, had resulted in certain capitalized assets associated with several historical building renovations being recorded as capital assets by both entities. Virginia law, consistent with U.S. generally accepted accounting principles (GAAP), provides for flexibility in determining whether capital assets funded by debt issued by the City are recorded as capital assets by the City or the Schools.

Cause and Effect

Considering past practice, the City and the Schools have mutually agreed that major renovations should be recorded as capital assets on the City's books. Accordingly, the net book value of building improvements was transferred from the Schools' books and recorded by the City.

Recommendation

The City Code, as it relates to the treatment of school buildings, was adopted prior to changes in both GAAP and related Virginia law. Consequently, the lack of documentation and a formal agreement specifying the accounting treatment and policies associated with debt financed school building transactions between the City and the Schools has prevented both entities from have a clear policy to account for these assets. We recommend that the City and the Schools mutually develop a written memorandum of understanding describing the policies and procedures to be followed by both entities in recording and reporting on capital asset additions.

Views of Responsible Officials

Management agrees with this finding. We will review and amend, as appropriate and necessary, current policies and procedures to ensure that the intent of the City Code is fulfilled in a manner that ensures consistency and proper financial reporting of school buildings.

Finding #2011-2 Parking Fund Cash Receipts

Condition Found

Current Parking Fund operating procedures require that cash receipts collected by parking attendants be recorded to the Cashier Report and to a deposit slip at the end of each attendant's shift. The completed Cashier Report and deposit slip are required to be signed by both the attendant and the supervisor on duty. During cash receipt testing, we noted four instances where the supervisor on duty signed as both the

CITY OF NORFOLK, VIRGINIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

cashier and supervisor on both the cashier report and the deposit slip. All four instances occurred at the same parking facility and with two different supervisors.

Cause and Effect

We noted that all instances identified occurred at the garage which is the last one to close each night and with the last supervisor on duty, which makes him the only individual responsible for closing the garage facility. Current Parking Fund policies do not specifically address situations wherein a supervisor would need to act in the capacity of a cashier. Because the situation was not addressed, supervisors completed the forms in both capacities in order to comply with the rest of the policies in place. As a result, in certain circumstances, the intended segregation of duties was not achieved.

Recommendation

The Parking Fund should update its current policies in place relating to cash receipting to provide guidance for supervisors who are on duty without relief and specifically to address the fact that a second parking employee should always co-sign the completed Cashier Report and deposit slip to ensure proper segregation of duties.

Views of Responsible Officials

Management agrees with this finding. Since being made aware of the four instances noted, we have enhanced existing policies and created additional policies and procedures to further strengthen internal controls. It is also important to note that all time in and time out parking revenue transactions are recorded in the Parking Fund's system and audited by the Parking Fund's internal audit staff who are separate from the operational supervisors and attendants.

(3) Findings and Questioned Costs Related to Federal Awards

Finding# 2011-3: Special Tests and Provisions – Child Support Non-Cooperation

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

Temporary Assistance for Needy Families: CFDA No. 93.558, Program Year 2011, U.S. Department of Health and Human Services – Commonwealth of Virginia Department of Social Services, award (BEN-10-057-16)

Recipient

City of Norfolk.

Criteria

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

CITY OF NORFOLK, VIRGINIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Condition Found

In a sample of 50 families tested for child noncooperation, six families received additional payments after the City was notified of the individual's noncooperation with DCSE. Also, in this same sample, three families tested were not properly notified of the suspension of their benefits prior to termination.

Perspective and Questioned Costs

Six out of 50 families selected for testwork received additional payments totaling \$2,215.25. Each family selected for testwork represented the last full monthly payment for assistance. The total amount sampled was \$17,375.50. Because the City is the administrator of these local funds, and the State provides payments directly to the individuals, there are not questioned costs to the City in relation to this finding.

Cause and Effect

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

Recommendation

The City should implement a process to ensure that all cases referred by DCSE are processed for benefits to be stopped in a timely manner and to ensure that all staff are aware of this requirement and how to handle these referrals. We further recommend that a management review control be implemented to oversee this process as this is the third year in a row where KPMG has identified and reported these findings.

Views of Responsible Officials

Management concurs with the finding. All TANF-VIEW workers attended a refresher training on 7/29/11 conducted by the State TANF Benefits Coordinator. Workers have been notified that claims have to be established immediately after information is discovered effecting program eligibility. The new electronic DCSE notification system was established in February 2011. DCSE notifications are received on the first of the month. On the 6th of the month, the Supervisor receives an alert on cases that have not been processed and alerts the worker to process immediately. On the 9th day of the month, the Supervisor checks again to make sure the cases have been done. Since this system and procedure have been in place, all case actions have been taken. Additionally, on July 1, 2011, the City hired a new Director of Human Services whose top priority has been to go through policies and procedures to ensure that we are being compliant with those policies and procedures.

Finding# 2011-4: Special Tests and Provisions – Refusal to Work (VIEW)

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

Temporary Assistance for Needy Families: CFDA No. 93.558, Program Year 2011, U.S. Department of Health and Human Services – Commonwealth of Virginia Department of Social Services, award (BEN-10-057-16)

Recipient

City of Norfolk

CITY OF NORFOLK, VIRGINIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Criteria

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

Condition Found

In our sample of 80 Refusal to Work (VIEW) sanctions tested, eight individuals received an additional TANF benefit payment after assistance should have been terminated. Also, in this same sample, one family tested was not properly sanctioned.

Perspective and Questioned Costs

Eight sanctions out of 80 in total selected for testwork resulted in overpayment totaling \$3,586. Each sanction selected for testwork presented the last full monthly payment for assistance. The total amount sampled was \$30,411.50. Because the City is the administrator of these local funds, and the State provides payments directly to the individuals, there were no questioned costs to the City in relation to this finding.

Cause and Effect

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

Recommendation

The City should implement a process to ensure that all sanctions are stopped in a timely manner and to ensure that all staff are aware of this requirement and how to handle these referrals. We further recommend that a management review control be implemented to oversee this process.

Views of Responsible Officials

Management concurs with the finding. All TANF – VIEW workers attended a refresher training on 7/29/11 conducted by the State TANF Benefits Coordinator. The request to sanction will be sent immediately by the VIEW unit and the benefit worker will send the Advance Notice of Proposed Action within 3 working days after receipt of the notification. On the 23rd of each month, the VIEW worker will check the profile to make sure the case has been discontinued or suspended. If the action has not been taken, the Benefits supervisor will follow up to ensure all actions are taken before the end of the month. The Benefit workers will send sanction notices for all cases, even those in suspense for other actions. Additionally, on July 1, 2011, the City hired a new Director of Human Services whose top priority has been to go through policies and procedures to ensure that we are being compliant with those policies and procedures.

Finding# 2011-5: Reporting

Program, CFDA No., Program Year, Federal Agency, and Grant Number

Energy Efficiency and Conservation Block Grant (EECBG): CFDA No. 81.128, Program Year: July 1, 2010 through June 30, 2011, U.S. Department of Energy, award (DE-EE00008800)

CITY OF NORFOLK, VIRGINIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Recipient

City of Norfolk

Criteria

Per the Office of Management and Budget (OMB)'s *Federal Financial Report Instructions* (June 2010), quarterly and semiannual interim reports shall be submitted no later than 30 days after the end of each reporting period (i.e., 3/31, 6/30, 9/30, 12/31).

The U.S. Department of Energy's Performance and Accountability for Grants in Energy (PAGE) reporting system confirms this deadline, stating, "Currently, the Federal Financial Report is due within thirty calendar days after the end of a quarter. [It is] used to meet DOE and program specific requirements, and must be submitted through PAGE."

Condition Found

Upon review of the four Federal Financial Reports (SF-425) selected for testwork over internal controls and compliance, the report for the quarter ending June 30, 2011 was submitted after the 30-day deadline set forth by OMB.

Perspective and Questioned Costs

There are no known questioned costs associated with the Q4 SF-425.

Cause and Effect

The untimely completion and submission of the SF-425 through PAGE was due to inadequate management review and oversight.

Recommendation

City management should develop and implement a policy to ensure that all reports are completed and submitted in a timely manner.

Views of Responsible Officials

Management concurs with this finding. We will enhance current procedures to ensure that financial reports are submitted by the required deadlines.

Finding# 2011-6: Allowable Activities and Allowable Costs

Program, CFDA No., Program Year, Federal Agency, and Grant Number

Homelessness Prevention and Rapid Re-Housing (HPRP): CFDA No. 14.257, Program Year 2011, U.S. Department of Housing and Urban Development (HUD), award (S09-MY-51-002)

Recipient

City of Norfolk

CITY OF NORFOLK, VIRGINIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Criteria

According to the U.S. Department of Housing and Urban Development (Docket No. Fr-5307-N-01), federal funds are to be allocable to specific eligible activities as defined in part IV part A of the report. These activities are to be adequately supported and approved by appropriate levels of management.

Conditions Found

In our sample of 80 disbursements tested, one disbursement did not agree to supporting documentation for the expenditure. In another instance, a disbursement was made from a City employee's personal checking account directly to a vendor before approval by proper levels of management. The City employee was then reimbursed with federal funds for the expenditure.

Perspective and Questioned Costs

The one discrepancy identified where documentation did not agree to supporting documentation amounted to \$80. The disbursement made to a City employee rather than directly to a vendor amounted to \$315. In our sample of 80 items, a total of \$114,716 was tested. The total population was approximately \$802,800.

Cause and Effect

There were instances of inadequate management review and oversight.

Recommendation

The City should provide additional training for personnel to ensure that disbursement policies are appropriately followed, which includes ensuring that the payment amount agrees to supporting documentation, that amounts charged to the grant are for allowable activities, and that disbursements are approved by appropriate levels of management. The City should also develop and implement procedures around disbursements in emergency situations.

Views of Responsible Officials

We continue to recognize the importance of accurate payments and appropriate supporting documentation. During the latter part of FY11, we changed the method we use for the processing of financial assistance files. We moved to a single file management system and increased the number of independent persons who review the file after the administrator has prepared it for payment entry. These changes were made subsequent to the first discrepancy identified.

With regard to the second discrepancy, this represented an emergency situation. This particular instance involved an ongoing case with someone with a significant disability that required immediate action be taken. While we acknowledge this was an emergency situation and that the payment made was for an allowable activity, we also recognize the importance of appropriate management approval for any and all transactions. We will ensure that we understand the appropriate approval levels required for transactions and incorporate that understanding throughout our operations.

CITY OF NORFOLK, VIRGINIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

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

State Finding 2011-1: Conflicts of Interest

In accordance with the Auditor of Public Accounts *Specifications for Counties, Cities and Towns, Chapter 3, Section 5*, local government officials are required to file a statement of economic interest with the clerk of the governing body annually. In our testwork of all applicable officials, one official did not submit his annual disclosure form on or before the January 18th deadline and another annual disclosure form had not been dated upon receipt by the City; therefore, KPMG was unable to determine timeliness. There are no known questioned costs associated with this finding. We recommend that the City implement a management control to oversee this process to ensure that statements are filed timely for all required officials.

Views of Responsible Officials

Management agrees with this finding. We will continue to look for ways to improve the timeliness of annual disclosure submissions.

State Finding 2011-2: Child Welfare Trust Account

In accordance with the Auditor of Public Accounts Audit *Specifications for Counties, Cities, and Towns Chapter 3, Section 15*, local agencies are required to credit special welfare deposits accurately and timely to the special welfare account or the dedicated account of the appropriate individual. In our testwork of five receipts and five disbursements posted to special welfare accounts, we noted delays between the dates the City Finance Department received the deposits and the date the City Treasurer deposited the funds into the special welfare bank account in two separate instances. We also noted that special welfare accounts had significant reconciling items on the monthly reconciliations as a result of the delays in depositing these funds. There are no known questioned costs associated with the timing of the deposits. City management should develop and implement a process to ensure effective communication between the Finance Department and the Treasurer's Office.

Views of Responsible Officials

Management agrees with this finding. We will work to improve the communication between the Finance Department and the Treasurer's Office as well as develop a process that ensures the timeliness of deposits.