



Comprehensive Annual  
Financial Report  
Fiscal Year Ended June 30, 2015



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**City of Norfolk, Virginia  
Comprehensive Annual  
Financial Report  
For the Fiscal Year Ended  
June 30, 2015**

**Prepared by:  
The Department of Finance**

**Christine Garczynski  
Acting Director of Finance**



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## **City of Norfolk, Virginia**

### **Code of Ethics**

The City of Norfolk conducts its business fairly, impartially, ethically and in compliance with all laws and regulations. The City is committed to conducting its business with integrity underlying all relationships, including those with citizens, customers, suppliers, communities and among employees. The highest standards of ethical conduct are required of City employees in performing their responsibilities. Employees will not engage in conduct or activity that may raise questions as to the City's honesty, impartiality, or reputation, or otherwise negatively reflect on the City.

### **Values**

Accountability, Integrity, Innovation and Respect

### **Acknowledgments**

This report has been accomplished through the efficient and dedicated services of the staff of the Department of Finance and contributing departments and our independent auditors, KPMG LLP. The contributions of all are invaluable and clearly reflect the high standards set by the City of Norfolk.

It is also appropriate to thank the City Manager, Deputy City Managers, Mayor and Members of the City Council for making possible the excellent financial position of the City through their interest and support in planning and conducting the financial affairs of the City.



**CITY OF NORFOLK, VIRGINIA  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
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**CITY OF NORFOLK, VIRGINIA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**June 30, 2015**

**Municipal Officials**

**Honorable City Council**

President and Mayor  
Vice Mayor  
Member  
Member  
Member  
Member  
Member  
Member

Paul D. Fraim  
Angelia Williams Graves  
Andrew A. Protogyrou  
Paul R. Riddick  
Thomas R. Smigiel  
Theresa W. Whibley, M.D.  
Mamie Johnson  
Barclay C. Winn

**City Manager  
Marcus D. Jones**

Deputy Manager  
Deputy Manager  
Deputy Manager  
Deputy Manager  
City Attorney  
City Auditor  
City Clerk  
Acting City Real Estate Assessor  
City Treasurer  
Commissioner of the Revenue  
Community Services Board  
Director of Budget & Strategic Planning  
Director of Communications  
Director of Cultural Facilities, Arts & Entertainment  
Acting Director of Finance  
Director of Economic Development  
Director of Emergency Preparedness & Response  
Director of Fire & Paramedical Rescue  
Director of General Services  
Director of Human Resources  
Director of Human Services  
Director of Communications & Information Technology  
Director of Libraries  
Director of Maritime Center (Nauticus)  
Director of Planning & Community Development  
Director of Recreation, Parks & Open Space  
Director of Public Health  
Director of Public Works  
Director of Utilities  
Director of Zoological Park  
Police of Chief  
Registrar of Voters

Wynter Benda  
Peter Chapman  
Sabrina Joy-Hogg  
Ronald H. Williams, Jr.  
Bernard A. Pishko, Esquire  
John H. Sanderlin, Jr., CPA  
R. Breckenridge Daughtrey  
William Marchand  
Anthony L. Burfoot  
C. Evans Poston, Jr.  
Sarah Fuller  
Betty Meyer  
Robert Batcher  
John S. Rhamstine  
Christine Garczynski  
Chuck Rigney  
James Redick  
Jeffrey Wise  
David S. Freeman, AICP  
Capri Stanley-Smith, CCP, PHR  
Stephen Hawks  
Steven DeBerry  
Sonal Rastogi  
Stephen Kirkland  
George Homewood  
Darrell Crittendon  
Demetria Lindsay, M.D.  
David L. Ricks, P.E.  
Kristen M. Lentz, P.E.  
Gregory Bockheim  
Michael Goldsmith  
Elisa J. Long



**CITY OF NORFOLK, VIRGINIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**June 30, 2015**  
**Municipal Officials**

**JUDICIAL**

**Fourth Judicial Circuit Court**

Chief Judge  
Judge  
Judge  
Judge  
Judge  
Judge  
Judge  
Clerk

John R. Doyle, III  
Junius P. Fulton, III  
Mary Jane Hall  
Jerrauld C. Jones  
Everett A. Martin, Jr.  
David W. Lannetti  
Joseph A. Miglioizzi, Jr.  
Michelle J. Atkins  
George E. Schaefer, III

**Norfolk General District Court**

Chief Judge  
Judge  
Judge  
Judge  
Clerk

Joan E. Mahoney  
Bruce A. Wilcox  
S. Clark Daugherty  
Michael Charles Rosenblum  
Thomas E. Baldwin

**Norfolk Juvenile and Domestic Relations District Court**

Chief Judge  
Judge  
Judge  
Judge  
Clerk

Joseph P. Massey  
M. Randolph Carlson, II  
Lauri D. Hogge  
William P. Williams  
Lynn M. Simmons  
Debra A. Hill

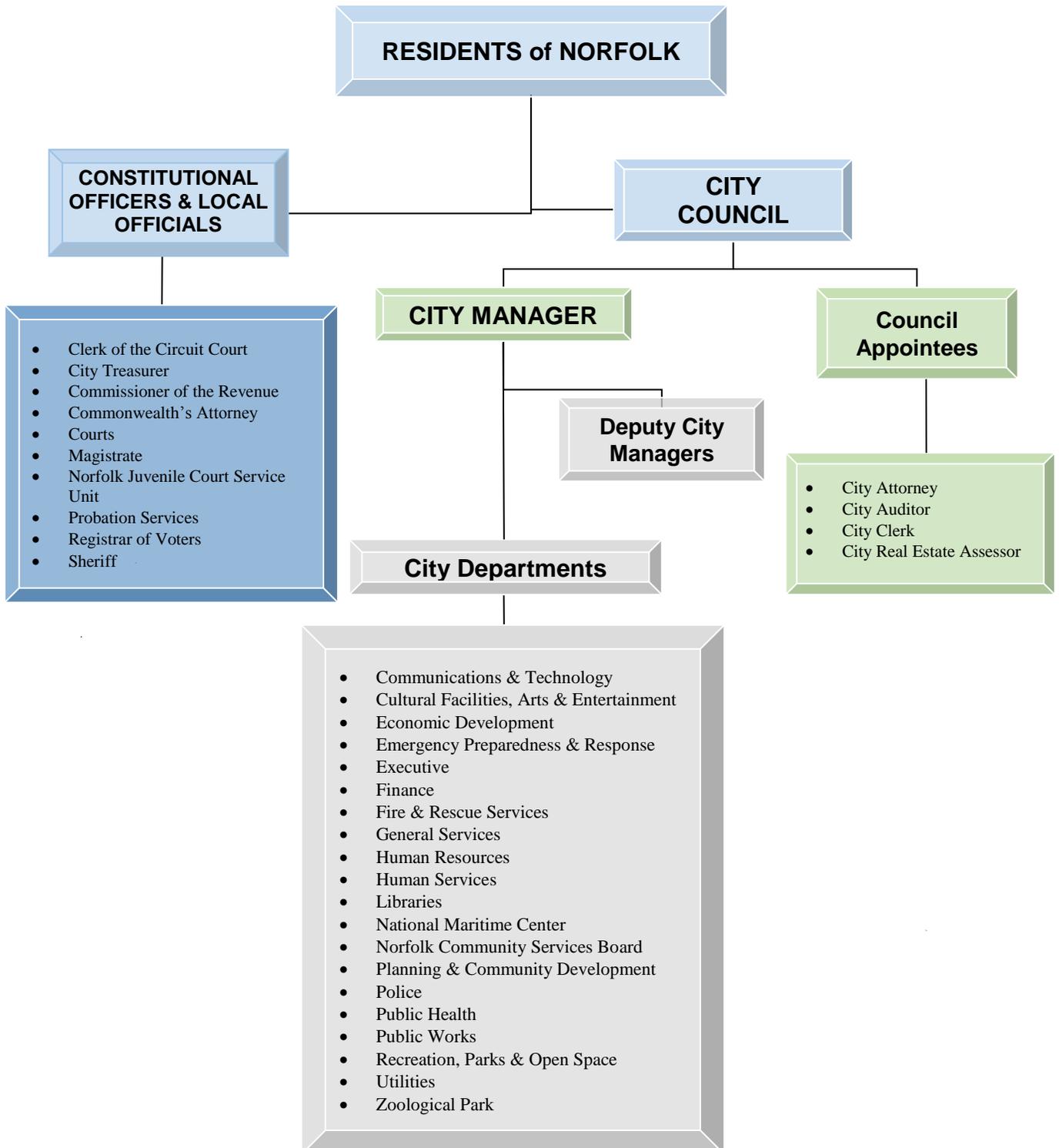
**Other Judicial Officials**

Commonwealth's Attorney  
Sheriff

Gregory D. Underwood  
Robert J. McCabe

**CITY OF NORFOLK, VIRGINIA  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 For the Year Ended June 30, 2015**

**ORGANIZATIONAL  
 CHART**





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December 23, 2015

To the Honorable Council and  
Residents of Norfolk, Virginia:

The Comprehensive Annual Financial Report (CAFR) of the City of Norfolk (the City) for the fiscal year that ended June 30, 2015, is hereby submitted. The *Code of Virginia* and the Charter of the City of Norfolk require the City to publish, at the close of each fiscal year, a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with *Government Auditing Standards* by a firm of licensed certified public accountants. This report has been prepared by the Department of Finance and complies with state law and guidelines of the Auditor of Public Accounts of the Commonwealth of Virginia.

Responsibility for the accuracy of the data and the completeness and fairness of presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that presents fairly the financial position and results of operations of various funds and component units of the City. Extensive disclosures have been included to enable the reader to gain a comprehensive understanding of the City's financial activities.

Important information regarding the financial statements and audit is discussed under the Financial Information located on page 11.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). The MD&A immediately follows the independent auditors' report and provides a narrative introduction, overview and analysis to accompany 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" to meet the special needs of federal grantor agencies. The Single Audit reports on compliance with requirements applicable to each major program and internal controls over compliance in accordance with U.S. Office of Management and Budget Circular A-133. These reports are available in the Other Reports of Independent Auditors section of this report.

## Profile of the City

Norfolk was established in August 1682 after a 1680 British Act ordered the establishment of a port town of 50 acres in each Virginia county. Norfolk was granted borough status in 1736 and was officially incorporated as a city in 1845. Norfolk derives its governing authority from a charter granted by the General Assembly of the Commonwealth of Virginia (the Commonwealth) 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 City Charter. The City Council is comprised of eight members, who formulate policies for the administration of the City. Seven members are elected through a ward system and the Mayor is elected at-large. The Vice Mayor is elected by the City Council.

Among the City officials appointed by the City Council is the City Manager, the administrative head of the municipal government. The City Manager carries out policies of the City Council, directs business procedures and appoints, with the power to remove, the heads of departments and other employees of the City except those otherwise specifically covered by statutory provisions.



The City provides a full range of general governmental services for its residents. These services include 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, construction and maintenance of public buildings and infrastructure; parks and cemeteries operations and maintenance; recreation and library services; collection and disposal of refuse and recycling; water and wastewater utilities; construction and operation of parking facilities; arts, entertainment and cultural affairs; and general administrative services. The City budget appropriates all funds including City, state and federal pass-through funds for education, public health, correctional facilities and judicial activities.

Cities in Virginia have sole jurisdiction over the entire area within their boundaries and operate independently from any municipal government. City jurisdictions do not overlap with any other municipal jurisdiction and, consequently, citizens of Virginia cities are not subject to overlapping debt or taxation. Further, cities in Virginia are prohibited from annexation to adjust their boundaries.

## **Financial Information**

All the financial activities of the financial reporting entity are included within this report. In accordance with the requirements of the Governmental Accounting Standards Board (GASB), the financial reporting entity consists of the primary government (the City of Norfolk), as well as its component units. The City has included the financial data of three discrete component units which are legally separate entities: School Board for the City of Norfolk, Waterside Associates and the Economic Development Authority (EDA). The discretely presented component units are reported in a separate column in the financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position, results of operations, and cash flows from those of the primary government. The Employees' Retirement System of the City is a blended component unit, and although legally separate, it is considered a part of the City's operations, and therefore data from this entity is combined with financial information from the City. Additional information on these component units can be found in Note I of the Notes to the Basic Financial Statements contained within this document.

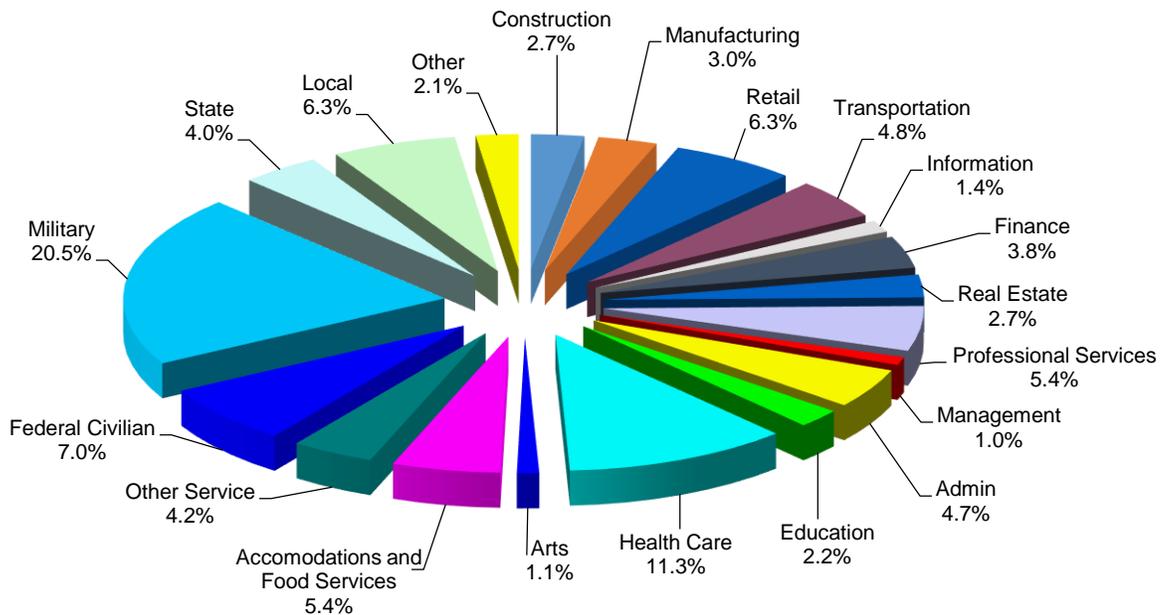
## **Budget Process**

The Commonwealth of Virginia and the City Charter mandate a balanced budget. The City's annual operating budget is proposed by the City Manager, in accordance with the City Charter, at least 60 days before the end of each fiscal year, and is adopted by City Council at least 30 days before the close of the previous fiscal year. The budget is prepared by fund (e.g., general, special revenue, capital projects), function (e.g., public safety) and department (e.g., police). The City Manager or a designee is authorized to transfer resources between any fund, department or activity without further approval by City Council. The budget is regularly reviewed and operational adjustments are made as needed. The development of the fiscal year 2015 and 2016 budgets included thorough analysis of each budget action through a two-year lens to better assist the City in future fiscal planning. The fiscal year 2015 and 2016 budgets continued the focus of building a data-driven organization that provides effective and efficient program and services. Both the fiscal year budgets were structurally balanced and reinforced the commitment to further strengthen the City's long-term financial sustainability.

## **Local Economic Condition and Outlook**

The City has a stable economic base anchored by the world's largest naval station and the Port of Virginia, one of the busiest ports on the east coast. Norfolk is a leader in health care, education and finance within the Hampton Roads region. The City is becoming a favored location for international companies as evidenced by a partnership with the Export Import Bank, the creation of the Global Initiatives Fund, and the Export Tech Program. While Norfolk's economy is grounded by its maritime assets and is the core of a military region, it is also home to an economy with diverse corporate strength. As shown in the following chart, except for the military, no one sector comprises more than 12 percent of total employment. This diversity is especially important to act as a mitigating factor against the Federal Government's reduction in defense spending. In addition, the City continues to promote comprehensive urban revitalization, foster job growth and expand economic opportunities to enhance diversification while capitalizing on Norfolk's competitive advantage. Since 2008, the City has announced \$1.5 billion in new development, business, and pending public/private projects. The City recognizes that expanding its business and industrial tax base will ease the burden on homeowners and is committed to promoting economic development throughout the City.

## Norfolk Employment by Sector



Source: Bureau of Economic Analysis, total full-time and part-time employment by North American Industry Classification System industry, for 2014; Total employment – 203,215.

With 203,215 jobs, Norfolk serves its role well as the region’s urban job center and has the highest job density in the region. The City provides urban assets by serving as the region’s downtown commercial core and by supplying its only rail transit system, the Tide, to support residents and employees.

Norfolk’s reputation as an entrepreneurial hub is fast-growing. Local residents and businesses see momentum in the entrepreneurial environment, and Entrepreneur magazine recently named Norfolk one of the top five U.S. markets for startups. This spirit of hard work is evident throughout the City, as residents, businesses, and military personnel and their families revitalize old spaces, create new businesses and infuse energy into emerging industries.

### Military

The City is home to the world’s largest naval complex, with headquarters for Commander in Chief of U.S. Atlantic Command, NATO’s Supreme Allied Command Atlantic, Commander in Chief U.S. Atlantic Fleet and other major naval commands. According to the most recent data available to the City, the U.S. Navy’s direct economic impact on the region was nearly \$10 billion in fiscal year 2014, an increase of about \$770 million from the previous year. Comprised of a total annual payroll of \$8.4 billion, the balance is consumed on goods and services, including contracts for ship construction, maintenance, utilities, supplies and transportation. The region is home port to approximately 69 ships and home to 39 aircraft squadrons with about 77 military personnel



working at Navy bases in the area. This includes the addition of one ship and about 1,400 personnel from the previous year and also one additional aircraft squadron. More than half of the region's navy personnel work at Norfolk Naval Station, which is home to aircraft carriers, submarines and destroyers. The world's largest naval base employs nearly 44,000 sailors, more than 13,000 civilian workers and more than 7,000 contractors. The military assigns to and reassigns from its various locations within the region ships, squadrons and personnel on a regular basis, however the natural deep water harbors and existing infrastructure make future defense consolidation within Norfolk and the region a strong possibility.

While serving as a the stalwart industry in the foundation of the region's economy, over 8,000 service members transition out of the military annually in the Hampton Roads region, providing the City with a highly skilled labor force.

### *The Port of Virginia and Shipping*

The City also serves as a gateway between world commerce centers and the Heartland Corridor, which offers efficient train routing between the Port of Virginia and the Midwest. 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. Over 19 million tons of general cargo was shipped from the region's three main marine cargo terminals in calendar year 2014, an increase of 1.2 percent over 2013.



Located 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. The Virginia Port Authority was awarded a \$15 million Transportation Investment Generating Economic Recovery (TIGER) grant from the U.S. Department of Transportation to create a new intermodal gate complex at Norfolk International Terminals. This project was implemented in December 2014 with the goal of easing commuter traffic, reducing truck traffic on local roads and increasing cargo velocity and efficiency at NIT.

## Transportation

Norfolk leads the way as the most multi-modal city in Hampton Roads.

### *Norfolk International Airport*

Norfolk International Airport is one of the most powerful economic generators in the Hampton Roads region. Designated as Virginia's first green airport, Norfolk International Airport is served by American Airlines, Delta,



Southwest, United and their regional partners. Averaging 68 departures daily to major cities throughout the United States, the airport served nearly 3.1 million passengers on 75,000 flights, shipped approximately 70 million pounds of cargo and is presently ranked in the top 20 percent of the country's airports in terms of passengers served annually. Adjacent to the celebrated Norfolk Botanical Garden, Norfolk International Airport is surrounded by year-round beauty and is a role model for reconciling air facilities and a delicate ecological sanctuary.



Southwest, United and their regional partners. Averaging 68 departures daily to major cities throughout the United States, the airport served nearly 3.1 million passengers on 75,000 flights, shipped approximately 70 million pounds of cargo and is presently ranked in the top 20 percent of the country's airports in terms of passengers served annually. Adjacent to the celebrated Norfolk Botanical Garden, Norfolk International Airport is surrounded by year-round beauty and is a role model for reconciling air facilities and a delicate ecological sanctuary.

### *Public Transportation*

The Tide, Virginia's first light rail system, turned four years old in August 2015, with total ridership exceeding 6.1 million passengers. The Tide runs from the Eastern Virginia Medical Complex (near Fort Norfolk) to Newtown Road at the Norfolk/Virginia Beach city line. The City is in the preliminary study stages of expansion to connect the existing 7.4 mile light rail to the region's largest employer – Norfolk Naval Station.



### *Passenger Rail*

The Amtrak Virginia passenger rail line began operation in December 2012 and connects Norfolk to Washington, D.C. via Petersburg and Richmond and continues north to Boston. Ridership for the federal fiscal year 2015 was over 152,000 passengers. This ridership is expected to increase as a result of the new later morning departure times.

*Amtrak Station*



### *Transportation Initiatives*

Construction is underway on the Downtown Tunnel/Midtown Tunnel/MLK Extension project. This \$1.9 billion project is expected to be completed in 2017.

The Commonwealth also funded the \$89 million Hampton Boulevard Grade Separation project, which was completed in fall 2015. This project removed the railroad crossing conflict affecting Hampton Boulevard by depressing the road below the existing railroad tracks to improve vehicular traffic to the port terminals and Navy base.

Construction is also underway on the I-564 intermodal connector project. This \$170 million project is expected to alleviate congestion and improve transportation flow on City and naval station streets, when completed in June 2017. This project is funded by the Commonwealth.

### Education – Pre-K to 12

Norfolk public schools have a low pupil-teacher ratio with class sizes below the national average. Norfolk offers innovative public school programs, which include Early Childhood Education, a unique, comprehensive program for three and four-year-olds and their parents located in the public housing community of Diggs Town, at the Park Place/Colonial Place Community Center and various Norfolk public elementary schools.

Elevate Early Education, or E3, opened a new 12,545 square foot preschool in Park Place in January 2015. Norfolk is the only city in the Commonwealth with an E3 school. It serves approximately 100 children ages 1 to 5 from all income classes. This school was funded by \$10 million of philanthropic support. The goal is to have an innovative model with a replicable curriculum geared towards producing kindergarten readiness in preschoolers across the income spectrum.

The City is also home to the Governor's Magnet School for the Arts, Virginia's only magnet school for the arts, which offers classes in performing or visual arts to approximately 360 students from six cities and two counties. Sponsored by the Virginia Department of Education and eight local public school divisions, the School consolidated its campus in downtown Norfolk in the historic 52,000 square foot Monroe Building on Granby Street.

School construction remains a priority as the City made a commitment to build or replace six schools starting in 2010. The first school replaced was Crossroads Elementary, which houses Pre-Kindergarten - 8 grade. This school replaced the existing elementary school in 2012 to create a more efficient footprint on the same 10-acre site. In fiscal year 2014, City Council approved a \$0.04 real estate tax property rate increase. Two cents of the increase is dedicated to the City's School Construction, Technology, and Infrastructure (CTI) Program. This dedicated source allows the City to fund the design and construction needed for the remaining five schools (Campostella, Richard Bowling at Broad Creek, Ocean View, Larchmont, and Camp Allen). Construction is underway for a replacement Richard H. Bowling Jr. Elementary School in the Broad Creek area of the City, as well as a STEM (science, technology, engineering and mathematics) school serving students in kindergarten through grade 8 in the Campostella community. Construction is scheduled to begin in March 2016 on replacement elementary schools for Larchmont and Ocean View. The City is working with the federal government on the replacement of the Camp Allen Elementary School. Camp Allen is located on Naval Station Norfolk, and is part of a federal initiative to upgrade schools on military bases and serving military dependents. U.S. Department of Defense dollars will pay 80 percent of the nearly \$28.7 million construction cost. Construction on the replacement school is anticipated to begin in 2016, and the first phase of the facility will open for students in early 2018.

### Higher Education

Higher education plays a critical role in developing a highly skilled and competitive workforce. The City is home to five institutions of higher education including Old Dominion University, Norfolk State University, Virginia Wesleyan College, Eastern Virginia Medical School and Tidewater Community College. All of these institutions support a workforce development pipeline to help Norfolk residents with the skills they need to engage in growing and emerging industries. The two university institutional research parks are undergoing innovative initiatives including simulation, materials, spaceport, coastal and physical oceanography, as well as applied collaborative projects with the private sector. This research work has the potential to spur new economic growth, particularly as the pipeline between academia and industry continues to strengthen.

### Healthcare

The City's five major healthcare complexes provide premier services to all of southeastern Virginia, the eastern shore of Virginia and northeastern North Carolina. Sentara Norfolk General is home to the region's heart hospital, a 112-bed, 254,000 square foot center ranked nationally by U.S. News and World Report. Children's Hospital of The King's Daughters, the site of Virginia's only free-standing, full-service pediatric hospital is home to one of the nation's top pediatric residency programs. Work is well underway on a \$126 million renovation of Sentara Leigh Hospital that includes two five-story towers for inpatient rooms, a 48-bed orthopedic and rehabilitation center and a new parking garage designed to increase the hospital's size by 40 percent. The first tower was completed in November 2013 and the two-story atrium and second tower is expected to be completed in 2016. Bon Secours DePaul Medical Center is also undergoing change. A new \$25 million, 105,000 square foot, four-story medical office building with specialist care and a comprehensive cancer center is underway. The third and final phase of the campus expansion is the building of a 124-bed replacement hospital, scheduled to open in 2017.

### New Investments

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.

Described below are major investments of private investors, City sponsored or public-private projects.

### Residential Development

Neighborhood revitalization is one of the City's core initiatives and one of four pillars in the economic development plan. By increasing the diversity of housing opportunities, the City expects to increase the diversity of its citizenry and expand the tax base. The City's goal for neighborhood and commercial development is to provide an environment that will increase private sector investment, retail sales generation and corresponding municipal revenue generation, create a framework for targeted and



coordinated public and private investment and build upon and coordinate with other ongoing community development initiatives.

Residential investment continues to grow throughout the City, including downtown. Plans are underway to construct affordable new housing in the Saint Paul's redevelopment area. Additionally, the Metro on Granby project includes two new \$12 million apartment buildings: 401 Granby with 65 units and 2,100 square feet of retail, and 416 Boush with 71 units and pool/fitness center. Other new residential projects downtown include The Wainwright Downtown (126 units), 450 Boush (150 units), the Tazewell (54 units), Banks at Berkley (50 units), Clairmont Apartments (156 apartments and 25 single-family homes), Element at Ghent (164 units), Fort Tar Lofts (13 units), The James (79 units), The Seaboard (135 units), The Promenade Pointe (187 units), The Pointe at Pickett Farm (300 units), 1500 Monticello (a mixed-use project with 207 units and 10,131 square feet of retail space), and The Watermark (372 units).

The seven-mile stretch of beaches on the Chesapeake Bay known as Ocean View has experienced redevelopment over the past decade. A portion of the homes are currently occupied with the remainder of the properties planned for development. Lot sales total approximately \$47 million representing nearly \$230 million in home values and approximately \$2.6 million in annual real estate taxes to the City. East Beach Phase 7, the final phase of East Beach consists of 38,000 square feet of retail and commercial space, as well as a mixture of 80 townhomes, single family homes, cottages and carriage houses. A \$25 million project with 80 homes to the south of East Beach, Pointe East at Harbor Walk, is being developed by Franciscus Homes. East Beach Marina Apartments, with 136 apartments, is also being developed in East Beach. This project has waterfront boardwalk access and was completed in 2014.



Broad Creek is a \$200 million community near Norfolk State University with 600 mixed-income homes. In Broad Creek, the region's first mixed-use, mixed-income community, construction is complete on 400 rental units and 70 homes. Construction on Broad Creek Village, a mixed-use residential and retail development, and is being followed by Broad Creek's final phase of 200 mixed-income residential units north of Princess Anne Road.

### Commercial Development

Simon Property Group, Inc. is investing approximately \$75 million to build a Premium Outlets mall in Hampton Roads on an existing City-owned golf course. The redevelopment plan calls for the City to retain approximately 65 acres for green space, walking trails, a possible amphitheater to host open-air music concerts, picnic areas, a pedestrian bridge over the lake, and boat rentals. The project which is expected to produce 500 construction and 800 permanent jobs is anticipated to open in spring 2017. Simon Premium Outlet Park will include approximately 90 stores, 350,000 square feet of leasable space and generate an estimated \$3 million in tax revenue.



### Quality of Life, Arts and Culture

The 80,000 square foot Half Moone Cruise and Celebration Center is located in the harbor between Town Point Park and Nauticus/Battleship Wisconsin. Carnival Cruise Lines sails from the Half Moone Center, generating tourism dollars for the City and serving as a catalyst for job growth. The Half Moone Center continues to serve as a multi-purpose facility for the City offering five distinct event spaces that can accommodate 50 to 1,500 guests.

The Colonel Samuel L. Slover Library, the new main public library, opened in December 2014. It combines the historic downtown Seaboard Building with a new architecturally significant structure designed by a nationally recognized New Haven, Connecticut architectural firm, Newman Architects. The City combined the historic integrity of the Seaboard Building with a seamless expansion creating a state-of-the-art, technically advanced library complex. Frank Batten Sr., former CEO and chairman of Landmark Communications, donated \$40 million to the City to accelerate the planning and construction of the downtown library by at least ten years. Combined with the City's \$20 million brings the total project investment to over \$60 million. This facility provides state-of-the-art services to our citizens through a public – private partnership with resources that document our history, inform us today, and educate our citizens for tomorrow. The American Public Works Association (APWA) Mid-Atlantic Chapter selected the Slover Library as the Project of the Year in the Structures Category - \$25 - \$75 Million Project. This recognition for our amazing new public library puts our City on the national radar as an exciting, progressive and vibrant urban locality.

### Hotel Development

Norfolk has approximately 5,000 hotel rooms, including over 1,500 in the downtown area. Tourism and conventions employ over 6,700 workers in the City and generate \$24.1 million in state taxes and \$21.2 million in local tax revenue. It is estimated travelers to the City spend over \$690 million annually. Construction of the new Hilton Norfolk at The Main and The Exchange conference center is underway. The \$147 million public/private downtown project will include a 50,000 square foot conference center; a 20-story hotel with approximately 300 rooms, three restaurants and a parking garage. The project is expected to create approximately 500 construction jobs, 250 hotel jobs and an estimated \$2 million in annual tax revenue. It is being developed by Gold Key PHR Hotels and Resort, with delivery expected in January 2017.



### Public Safety

This City's new courthouse complex will house the General District, Circuit, and Juvenile and Domestic Relations Courts. The complex is being built in two phases to allow uninterrupted court operations. The first building was constructed next to St. Paul's Boulevard. Phase I grand opening was in January 2015 and now houses General District Court and Circuit Court. The former General District Courts portion of the Public Safety building was demolished to make way for a Phase II addition. Phase II is underway and is estimated to be completed in summer 2017. This state-of-the-art courts facility will be a LEED-certifiable (Leadership in Energy and Environmental Design) green building. The total cost is \$123.3 million and represents Norfolk's largest investment in a public building.



### Waterfront Recreation Investment

Norfolk has seven miles of Chesapeake Bay beachfront and a total of 144 miles of shoreline including along Downtown's Elizabeth River, the Lafayette River, lakes, the Hampton Roads Harbor and the Chesapeake Bay. Town Point Park, located in the downtown area along the Elizabeth River, brings thousands of visitors downtown annually and generates both tax and parking revenue.

Located in the heart of the central business district and adjacent to the City of Norfolk's world class waterfront and festival site, the renovation of the Waterside Festival Marketplace will reposition the facility into the Waterside District, a world-class dining and entertainment complex. The Waterside District will be a regional destination for the very best in entertainment and dining. The project, which broke ground in August 2015, is a \$40 million public-private partnership between Norfolk and Cordish Companies. An overhaul and rebranding of Norfolk's iconic Waterside Festival Marketplace will allow visitors to enjoy the best national and local brands and concepts in an atmosphere that melds the energy of the city and its beautiful waterfront. The anchor will be a 30,000 square foot section known as "The Marketplace" which will have as many as nine businesses and restaurants, including a live performance stage, roof top deck and a craft brewery. The new Waterside District is anticipated to open in spring 2017. Paired with the current development of The Main, a conference center and hotel, Waterside will bring millions in new tax revenue and 800 permanent jobs.



### *Sports and Recreation*

Norfolk is home to the Norfolk Tides, (a AAA minor league baseball team) and the Norfolk Admirals (an ECHL affiliate hockey team), Virginia's only AAA professional sports franchises. Old Dominion University ("ODU") began a football program in the fall of 2009, and currently competes in the Conference USA. Norfolk State University has a long-established football program, which currently competes in the Mid-Eastern Athletic Conference.

### **Adopted Financial Policies**

City Council is committed to strengthening the City's long-term fiscal sustainability and supporting activities of a Well-Managed Government. In fiscal year 2013, City Council adopted financial policies to include achieving a structurally balanced budget within five years, formalizing a plan to fund reserves, adopting self-imposed debt affordability measures and formally adopting financial policies for the Parking Facilities Fund. Furthermore, City Council committed to monitoring the policies annually and revisiting them every two to three years. The City met its goal to achieve structural balance in fiscal year 2015, four years ahead of schedule. The City continues to meet its reserve and debt policies.

### **Long-Term Financial Planning**

The City prepares a five-year annual financial plan with revenue and expenditure projections. The multi-year forecast serves as a planning tool for the City's annual budget. Additionally, the multi-year budgeting process allows the City to systematically plan for multi-year program financing guided by the strategic plan.

The City was able to develop a structurally balanced budget for fiscal year 2015. The City achieved this goal four years ahead of schedule and will need to continue its five-pronged approach of raising revenue, reducing expenditures, becoming more efficient, growing the

economy and sharing services to address budget challenges in the upcoming years. Continuing our good fiscal practices we maintained structural balance in fiscal year 2016.

## Debt Administration

Norfolk borrows money by issuing general obligation and revenue bonds to finance major capital projects. Bond financing spreads the cost of land acquisition and building construction over a period of many years, rather than charging the full cost to current taxpayers. The City has the same obligation to adhere to sound financial management that a home or business does. For general capital debt, the City adheres to adopted financials that promote effective financial management. The City has two measures of debt affordability and is in compliance with both of them.

The City has high credit ratings for a local government for its general obligation bonds: Aa2 from Moody's Investors Service, Inc., AA+ from Standard and Poor's Corporation and AA+ from Fitch Investor Service. Standard and Poor's Corporation upgraded the City's general obligation bond rating from AA to AA+ in 2013. Factors contributing to the credit rating include the City's financial position, current and future debt burden, financial management and the health of the economy.

The details of bonds outstanding and bonds authorized, but not issued are shown in Note VIII to the financial statements. Tables 1 through 7 of the Statistical Section provide detailed historical information regarding the debt position and debt service requirements of the City.

## Major Initiatives

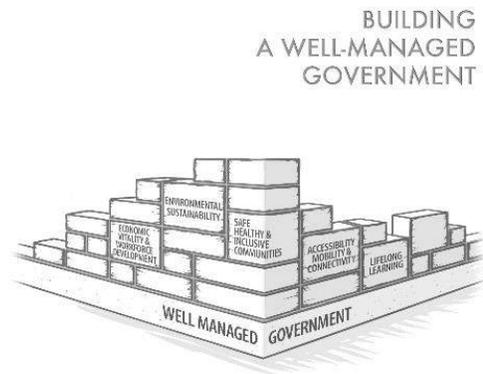
The City of Norfolk's major initiatives support City Council's priorities of accessibility, mobility and connectivity; economic vitality and workforce development; environmental sustainability; lifelong learning; safe, healthy and inclusive communities; and Well-Managed Government.

Some of the key 2015 initiatives include:

### Rockefeller Foundation Initiatives

The City is actively participating in two Rockefeller Foundation initiatives that provide opportunities for Norfolk to engage with stakeholders to envision a future for our City that incorporates both the challenges of living near water and the economic and community building opportunities that solving difficult issues can generate.

The Rockefeller Foundation launched the *100 Resilient Cities Centennial Challenge* (100RC) in 2013. Nearly 400 cities worldwide, representing 78 countries, applied to receive technical support and resources to improve their urban resilience over three years. The City was selected as one of the initial 33 cities. 100RC supports the incorporation of a view of resilience that includes not just the shocks – earthquakes, fires, floods, etc. – but also the stresses that weaken the fabric of a city on a day to day basis. Through a community



stakeholder process, Norfolk is collaboratively working on building resilience around three critical themes: living on the coast in a rising water environment, ensuring economic opportunity for all residents and building on the Neighbors Building Neighborhoods model to support neighborhood vitality.

### *Engaging our Community*

Community engagement has become a year-round activity where we hear from residents. Residents' participation in government increases legitimacy, efficiency and accountability. It creates ownership at all levels, empowers the residents and employees, engages people in decision making, and ensures transparency. Community engagement helps improve resource management and the ability of local authorities to solve problems, creates more inclusive and cohesive communities, and increases the number and quality of initiatives. These gatherings provided insight of resident priorities and also helped them understand the difficult choices decision makers face.

In fiscal year 2015, the City started Mission Possible, an initiative designed to encourage transformation by fostering employee engagement. Mission Possible invited City employees to develop ideas of reengineering current work processes. Over 100 ideas were generated. Mission Possible teams consisting of City staff from various departments from all levels reviewed proposals submitted for further exploration.

### *The RE.invest Initiative*



The RE.invest Initiative is a collaboration among eight partner cities to launch new public-private partnerships to deliver complete portfolios of resilient infrastructure. It focuses on bridging the gap between planning and investment by bringing together public officials, leading engineering and technology firms, investors and communities to develop original ideas in order to creatively address multiple resilience challenges with integrated and implementable solutions in each of the partner cities. Together these concepts represent a set of building blocks of established technologies and services that can be mixed-and-matched in new combinations to meet individual city needs and generate greater benefits than each city could alone.

### *Veteran Affairs*



The City's veteran initiative is aimed at the 10,000 men and women in the region who transition from active military service to the private sector each year. The assistance effort has focused on workforce development, but also includes easing access to mental health services, collecting and providing information on educational opportunities and affordable housing, and providing financial education and training. Since the initiative began, the City has hired a significant number of veterans and as a result is the only municipality in the Commonwealth of Virginia to receive a Virginia Values Veterans (V3) "Gold Level" certification for meeting its commitment to hire and retain veterans.

*The Mayor’s Commission on Poverty Reduction (“Commission”)*

Established in July 2013, the Commission’s vision is for all individuals in Norfolk to have the opportunity to develop skills and earn a wage that allows them to thrive, sustain their families and access essential services. The Commission’s report, delivered to City Council in July 2014, focuses on four critical areas to reduce poverty: 1) supporting early childhood development and parents; 2) improving the education and the career pathways of young people; 3) strengthening opportunities for adults to thrive in the workforce; and 4) revitalizing the City’s neighborhoods to create more engaging, economic opportunities and inclusive communities.

Four Critical Areas of Focus:



The Mayor’s 34-member Commission on Poverty Reduction presented the findings of a one-year study in July 2014. The City Council is committed to poverty mitigation programs, and allocated \$500,000 in fiscal year 2015. These funds laid a solid foundation for achieving immediate progress. These funds supported recommendations in each of the four areas outlined in the plan. Of the 36 action steps outlined in the report, 27 are completed, in progress, or in the planning stage for implementation. The City Council further supported the poverty mitigation efforts with the allocation of \$1 million in fiscal year 2016. Additionally, the City Council set aside \$1.4 million to establish a local housing trust fund as one strategy to provide more affordable housing throughout the City. The housing trust fund will serve as a call to action for other organizations and businesses to provide resources to grow the fund.

*Better Block Initiative*

Better Block is a community driven revitalization project that focuses on an underutilized, auto-oriented city block and temporarily transforming the area into a walkable and bikeable district complete with pop-up businesses and pedestrian friendly landscaping. This allows the community to test future zoning and infrastructure changes that could be a catalyst for revitalization.



After successful Better Block projects on 35<sup>th</sup> Street and in the Arts District, Norview Five Points community members and business owners led a third Better Block in the 6100 block of Sewell’s Point Road in November 2014. These Better Block projects have led to a revitalization of the areas and encouraged new businesses to move to the area.

## Arts District

The New Energy of Norfolk - or NEON - District is home to a new wave of passion and creativity in downtown. Artists revived the outdoor walls of buildings and warehouses with rich murals. Art installations are positioned on the corner of almost every block. The Glass Wheel Studio and Work/Release are new Norfolk art spaces that allow artists to create and showcase work. Restaurants, retail shops and a comedy theater dot the streets of the district, and the City's grand Harrison Opera House stands tall at the north entrance.



## Becoming an Employer of Choice - Attraction, Retention, Motivation and Development (ARMD) Initiative Phase I

Recruiting and retaining qualified employees is key to an efficient, effective, and responsive government. In fiscal year 2015, a three-year initiative was implemented to address the most critical issues impacting employee recruitment and retention. Phase I of the initiative was fully implemented in January 2015 and was primarily built around addressing pay inequities, addressing poverty, and improving employee compensation both now and in retirement.

Having comparable salaries to other regional cities is a priority of ARMD. Regional salary comparisons are done annually and salary ranges are adjusted accordingly. Making these adjustments annually allow the City to maintain its competitive advantage.

As another initiative to align ourselves with our neighboring localities. Fiscal year 2015 included a retirement contribution requirement for employees who were not contributing to the Norfolk Employees Retirement System (NERS). This resulted in an increased monthly benefit for retirement and an apples-to-apples salary comparison to other Virginia localities, who were required to make a similar adjustment for Virginia Retirement System employees. With this change, all employees now contribute five percent of their salary toward their retirement.

Aside from regional inequities, Phase I also focused on poverty reduction. In fiscal year 2015, for the first time, Norfolk instituted a permanent employee living wage. As of today, the minimum permanent employee hourly rate is \$11.47, which on a full-time basis is equal to the federal poverty rate for a family of four.

In addition to specific initiatives to combat regional inequity and poverty, Phase I also included a two percent general wage increase for general and Constitutional Officer employees. Sworn employees also received a step increase for the first time since fiscal year 2009.

Finally, Phase I also included a Deferred Retirement Option Program (DROP). DROP allows retirement eligible sworn Police and Fire-Rescue personnel an opportunity to continue working for the City, while accruing a portion of their retirement benefit. The benefit is payable as a lump sum upon termination with the City.

### Norfolk First Initiative

Growing the City's economy is one of the most important ways to raise local revenue. Norfolk recently embraced a new comprehensive economic and neighborhood development initiative, Norfolk First. This model signals a dramatic shift in how the City's promotes comprehensive urban revitalization, fosters job growth and expands economy opportunity. The pillars of the Norfolk First initiative are based on national best practices and designed to capitalize on Norfolk's competitive advantage as the urban center of Hampton Roads. The Norfolk First Initiative expands our revenue base.



## **INTERNAL CONTROL AND BUDGET ACCOUNTING**

The City's management team is responsible for establishing and maintaining an internal control structure designed to ensure the assets of the government are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes the cost of a control should not exceed the benefits likely to be derived and the evaluation of costs and benefits requires estimates and judgments by management.

The City's control environment reflects the attitude of management at all levels towards ethical behavior, organizational values, competence, integrity and the well-being of the organization. The City's Ethical Fitness: Setting the Tone at the Top initiative was rolled out through the fiscal year to all City employees. The Culture of the Team Norfolk training program includes a series of training modules geared towards promoting a professional environment and ethical culture throughout the City.

Budget controls ensure compliance with legal provisions embodied in the annual appropriated budget approved by City Council. Activities of the General, certain Special Revenue, Debt Service, Enterprise and School Board Governmental Component Unit Funds are included in the annual appropriated budget. The level of budget control is established by each organizational unit. Additional controls are exercised administratively.

As a recipient of federal financial assistance, the City also is responsible for maintaining an adequate internal control structure. This structure allows the City to ensure and document compliance with the U.S. Office of Management and Budget Super Circular for major federal award programs. These reports are available in the Other Reports of Independent Auditors section of this report.

## AWARDS AND RECOGNITION

The City received a number of awards and was recognized by a variety of organizations. Among these awards and recognitions are:

**#1 in U.S. – Let’s Move Cities, Towns and Counties Campaign**, *National League of Cities*, 2015; **Top 5 City for Entrepreneurs**, *Entrepreneur Magazine*, 2014; **#15 Top 20 Cities for College Grads to Find Jobs**, *NerdWallet*, 2015; **Voice of the People Award for Transformation in Natural Environment**, *National Research Center, Inc./ICMA*, 2015; **100 Best Fleets in North America**, *National Automotive Fleet Association*, 2015; **Architectural Design Award**, *American Institute of Architects and the American Library Association*, 2015; **Mid-Atlantic "Award of Merit"**, *Engineering News-Record*, 2015; **Bronze Designation as One of 42 Bicycle Friendly Communities**, *League of American Bicyclists*, 2015; **Award of Excellence — Norfolk Collaboratory**, *City-County Communications & Marketing Association (3CMA)*, 2015; **Virginia International Tattoo named Top U.S. Event**, *American Bus Association*, 2015; **Downtown Norfolk Council Received a Merit Award for the Park Happy Campaign**, *International Downtown Association*, 2015; **Norfolk Designated as a Citizen-Engaged Community for 2014-2016**, *Public Technology Institute*, 2014; **Norfolk Public Schools Awarded \$1.5 million "Operation Thrive: Moving Beyond Resilience," Federal Grant to Assist 10 Schools that Educate Large Percentages of Military-dependent Students**, 2015; **Norfolk Employees’ Retirement System Receives 10<sup>th</sup> consecutive GFOA recognition for its CAFR**, *Government Finance Officers Association of the United States and Canada*, 2015; **Distinguished Budget Presentation Award**, *Government Finance Officers Association of the United States and Canada*, 2015.

## INDEPENDENT AUDIT

According to the City Charter and Section 15.2-2511 of the *Code of Virginia*, as amended, an annual audit by an independent auditor of the City is required. Accordingly, the records have been audited by KPMG LLP. As a result of an audit of the City’s financial records, KPMG LLP has issued unmodified opinions of the City’s financial statements for the year ended June 30, 2015. The independent auditors’ report is presented in the financial section of this report.

## 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 for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2014. This was the 29<sup>th</sup> consecutive year that the City received this prestigious award.

This award is valid for a period of one year only. We believe that our current CAFR continues to meet the Program’s requirements and we are submitting it to the GFOA again this year.

## ACKNOWLEDGMENTS

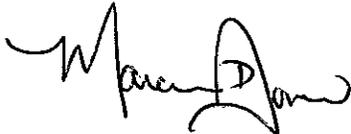
We express our sincere appreciation to all staff who contributed to this report, especially the members of the CAFR Team in the Financial Reporting and Financial Operations Divisions of the Department of Finance, who prepared and compiled this report and maintain the accounting records of the City on a current and timely basis. We commend them for their professionalism, hard work and continued efforts to improve both the financial reporting of the City and this report. In addition, we acknowledge the professionalism, knowledge and assistance of each City department throughout the year in the efficient administration of the City's financial operations.

We also thank the Office of the City Auditor and KPMG LLP for their coordination and support during the year.

This CAFR reflects our commitment to the residents and businesses of Norfolk, the City Council and all interested readers of this report to provide information in conformance with the highest standards of financial reporting.

In closing, credit 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. The City Council's oversight of the financial affairs has resulted in this strong financial report and is commended for their dedication in supporting the policies and practices that made it so.

Respectfully submitted,



Marcus D. Jones  
City Manager



Sabrina Joy-Hogg  
Deputy City Manager for  
Finance, Administration  
and Information



Christine Garczynski  
Acting Director of Finance



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**City of Norfolk  
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For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2014**

Executive Director/CEO



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**CITY OF NORFOLK, VIRGINIA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
For the Year Ended June 30, 2015**

# **FINANCIAL SECTION**

**~ Independent Auditors' Report ~**

**~ Management's Discussion and Analysis ~  
(Unaudited)**

**~ Basic Financial Statements ~**

**Government-Wide Financial Statements**

**Fund Financial Statements**

**Notes to the Basic Financial Statements**

**Required Supplementary Information  
(Unaudited)**





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# **INDEPENDENT AUDITORS' REPORT**





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KPMG LLP  
Suite 1900  
440 Monticello Avenue  
Norfolk, VA 23510

## Independent Auditors' Report

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

### Report on the Financial Statements

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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



### ***Opinion***

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, 2015, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended, in accordance with U.S. generally accepted accounting principles.

### ***Emphasis of Matter***

As discuss in note XXII to the financial statements, in fiscal year 2015, the City adopted new accounting guidance described in Governmental Accounting Standards Board Statement (GASB) No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to these matters.

### ***Other Matters***

#### ***Required Supplementary Information***

U.S. generally accepted accounting principles require that management's discussion and analysis as listed in the accompanying table of contents, the schedule of funding progress for Other Post-Employment Benefit Plans, the schedules of changes in net pension liability and related ratios, schedules of contributions, and budgetary comparison schedules as listed under the caption "Required Supplementary Information" in the accompanying table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Supplementary and Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Other Supplementary Information, Introductory Section, and the Statistical Section as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Other Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Other Supplementary Information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The Introductory Section and the Statistical Section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.



**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2015, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

**KPMG LLP**

Norfolk, Virginia  
December 23, 2015



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**MANAGEMENT'S DISCUSSION  
AND ANALYSIS**

**(Unaudited)**





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**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**For the Fiscal Year Ended June 30, 2015**

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, 2015. 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**

- In fiscal year 2015, the City of Norfolk implemented GASB 68 which required the recording of the net pension liability, pension expense and related deferred inflows and outflows on the statement of net position. The 2014 beginning balances have been restated in the statement of net position to reflect the net pension liability at June 30, 2014. The 2014 statement of activities has not been restated.
- The assets and deferred outflows of resources of the City, on a government-wide basis excluding component units, exceeded its liabilities and deferred inflows of resources at the close of fiscal year 2015 by \$618,128,341 (net position). Of this amount, there is a negative unrestricted net position of \$116,553,979. Total net position increased by \$38,905,975 and unrestricted net position decreased by \$43,911,045.
- As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$53,743,383, a decrease of \$98,239,727 in comparison with the prior year. This decrease was primarily attributable to timing of the City's external borrowings. Rather than issue bonds or draw upon its available line of credit (of which \$123,996,805 was available on June 30, 2015), the City funded \$70,000,000 in authorized capital projects with cash and short-term investments from the unassigned Capital Projects fund and General fund cash balances. Bonds were issued to refund existing debt, but only \$1,000,000 of new debt was issued in fiscal year 2015 for governmental activities. There is a negative unassigned total Governmental fund balance of \$21,956,709 on June 30, 2015. If the City had drawn \$70,000,000 on the line of credit for authorized capital projects in fiscal year 2015, the unassigned total Governmental fund balance on June 30, 2015, would have been \$48,043,291, a decline of \$5,700,092 compared to the prior year.
- The General fund, on a current financial resources basis, reported an increase in fund balance of \$8,807,691. The City budgeted to use approximately \$6.4 million in reserves, but due to the implementation of City-wide cost saving measures

**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**For the Fiscal Year Ended June 30, 2015**

during the fiscal year no reserve funds were required. These cost saving measures will continue and have a positive impact in fiscal year 2016.

- At the end of the current fiscal year, the total unassigned fund balance for the general fund was \$65,580,379, or 7.98 percent of the General fund budget.
- The City's total outstanding bonded indebtedness decreased by \$39,433,920 during the current fiscal year.
- For the fiscal year ended June 30, 2015, the City implemented GASB 68 *Accounting and Financial Reporting for Pensions* and GASB 71 *Pension Transition for contributions made subsequent to the measurement date*, which requires Net Pension Liabilities to be recorded on the Financial Statements. The implementation of GASB 68 and 71 required a restatement of the beginning net position for this adoption of new accounting standards as follows:

	Governmental Activities	Water Utility Fund	Wastewater Utility Fund	Parking Facilities Fund	Total Business-Type Activities	Total Primary Government	Total Component Unit
Balance, June 30, 2014, as originally reported	\$ 370,415,205	\$ 235,353,203	\$ 102,262,928	\$ 47,167,266	\$ 384,783,397	\$ 755,198,602	\$ 8,178,688
Restatement for Pensions	(160,929,310)	(10,026,045)	(2,948,540)	(2,072,341)	(15,046,926)	(175,976,236)	(337,993,441)
Restatement for changes in reporting entity	750,547	(750,547)	-	-	(750,547)	-	22,125,858
Restated Balance at July 1, 2014	\$ 210,236,442	\$ 224,576,611	\$ 99,314,388	\$ 45,094,925	\$ 368,985,924	\$ 579,222,366	\$ (307,688,895)

- The 2015 operating budget included organizational changes to the City's governmental funds which required a restatement of opening fund balance. The City created a new fund for the waste management operation, which was previously included in the general fund, to account for the revenues and expenses associated with waste management. The new waste management fund is a non-major special revenue fund. In addition, the Community Services Board fund which was previously reported as a non-major special revenue fund was consolidated to allow fund deficiencies to be covered by the General fund. The restatement is as follows:

	General Fund	Waste Management Fund	Community Services Board Fund	Water Utility Fund
Balance, June 30, 2014, as originally reported	\$ 85,265,709	\$ -	\$ 3,691,879	\$ 235,353,203
Restatement for Pensions	-	-	-	(10,026,045)
Restatement for changes in reporting entity	3,510,547	931,879	(3,691,879)	(750,547)
Restated Balance at July 1, 2014	\$ 88,776,256	\$ 931,879	\$ -	\$ 224,576,611

- The component unit change for the City of Norfolk for 2015 includes the addition of the Norfolk Economic Development Authority (EDA). EDA is included as a component unit due to a recent contractual commitment by the City to fund development costs of the Lake Wright Property.

**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**For the Fiscal Year Ended June 30, 2015**

**Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The financial section of this report includes management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements are comprised of three components: 1) government-wide financials statements, 2) fund financial statements and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements and related notes 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 deferred outflows and liabilities and deferred inflows using the accrual basis of accounting. The *government-wide financial statements* are comprised of the Statement of Net Position and the Statement of Activities.

The Statement of Net Position presents information on all of the City's assets plus deferred outflows and liabilities plus deferred inflows, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 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"), Norfolk Economic Development Authority ("EDA") and Waterside Associates Limited Partnership ("Waterside Associates"). Financial information for these component units

**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**For the Fiscal Year Ended June 30, 2015**

is reported separately from the financial information presented for the primary government and can be found on pages 60 - 61 of this report.

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

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

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

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

The City adopts an annual budget for certain funds. To demonstrate compliance with this budget, budgetary comparison statements have been provided in this report. (Reference Exhibits E-1 and E-2.)

The basic governmental fund financial statements can be found in pages 62 - 65 of this report.

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

**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**For the Fiscal Year Ended June 30, 2015**

The enterprise funds are used to account for Water and Wastewater Utilities 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 had two internal service funds, Fleet Management and Healthcare Self-Insurance during fiscal year 2015. The internal service funds are allocated to governmental activities at the entity wide level.

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

The basic proprietary fund financial statements can be found on pages 66 - 68 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 pension trust fund, the Commonwealth of Virginia agency fund and other agency funds. Fiduciary funds are not included in the government-wide financial statements because the resources of those funds are dedicated for specific non-city programs. The accounting for fiduciary funds is much like that used in proprietary funds.

The fiduciary fund financial statements can be found in pages 69 - 70 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 74.

**Other Information** – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's Net Pension Liability and other post-employment benefits to its employees. Required supplementary information can be found on pages 144 – 153 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented on pages 162 - 163 and 166 - 168, respectively, of this report.

**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**For the Fiscal Year Ended June 30, 2015**

**Government-Wide Financial Analysis**

Over time, net position may serve as a useful indicator of the City's financial position. In the case of the City, assets exceeded liabilities by \$618,128,341 at the close of fiscal year 2015.

By far, the largest portion of the City's net position, \$694,586,563 or 112 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 and deferred inflows and outflows of resources 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 net investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position, approximately 6.5 percent represent resources that are subject to external restrictions on how they may be used. The negative balance of \$116,553,979 of unrestricted net position is due to the adoption of GASB 68 and the recognition of the net pension liability to the employee retirement system and the Virginia retirement system.

	Governmental Activities		Business-Type Activities		Total	
	2015	restated* 2014	2015	restated* 2014	2015	restated* 2014
Current and Other Assets	\$ 158,994,709	\$ 245,435,361	\$ 197,498,578	\$ 185,664,650	\$ 356,493,287	\$ 431,100,011
Capital Assets	1,070,236,138	1,011,130,051	917,194,149	889,627,701	1,987,430,287	1,900,757,752
Deferred Outflows of Resources	54,191,517	57,245,981	17,736,132	11,317,424	71,927,649	68,563,405
Total Assets and Deferred Outflows of Resources	<u>1,283,422,364</u>	<u>1,313,811,393</u>	<u>1,132,428,859</u>	<u>1,086,609,775</u>	<u>2,415,851,223</u>	<u>2,400,421,168</u>
Long-Term Liabilities	843,666,024	933,854,408	687,696,634	670,940,635	1,531,362,658	1,604,795,043
Other Liabilities	137,693,747	169,619,926	40,412,104	46,665,877	178,105,851	216,285,803
Deferred Inflows of Resources	80,738,835	100,617	7,515,539	17,339	88,254,374	117,956
Total Liabilities and Deferred Inflows of Resources	<u>1,062,098,606</u>	<u>1,103,574,951</u>	<u>735,624,277</u>	<u>717,623,851</u>	<u>1,797,722,883</u>	<u>1,821,198,802</u>
Net Position						
Net Investment in Capital Assets	428,380,397	337,937,410	266,206,166	259,371,019	694,586,563	597,308,429
Restricted	10,485,050	22,062,352	29,610,707	32,494,519	40,095,757	54,556,871
Unrestricted	(217,541,689)	(149,763,320)	100,987,710	77,120,386	(116,553,979)	(72,642,934)
Total Net Position	<u>\$ 221,323,758</u>	<u>\$ 210,236,442</u>	<u>\$ 396,804,583</u>	<u>\$ 368,985,924</u>	<u>\$ 618,128,341</u>	<u>\$ 579,222,366</u>

\*Restated as described in Note XXII

For governmental activities, total net position increased by \$11,087,316 or 5.3 percent overall during the current fiscal year. Factors that contributed to the change in total

**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**For the Fiscal Year Ended June 30, 2015**

governmental net position include an increase in property tax, charges for services and operating grants and contributions.

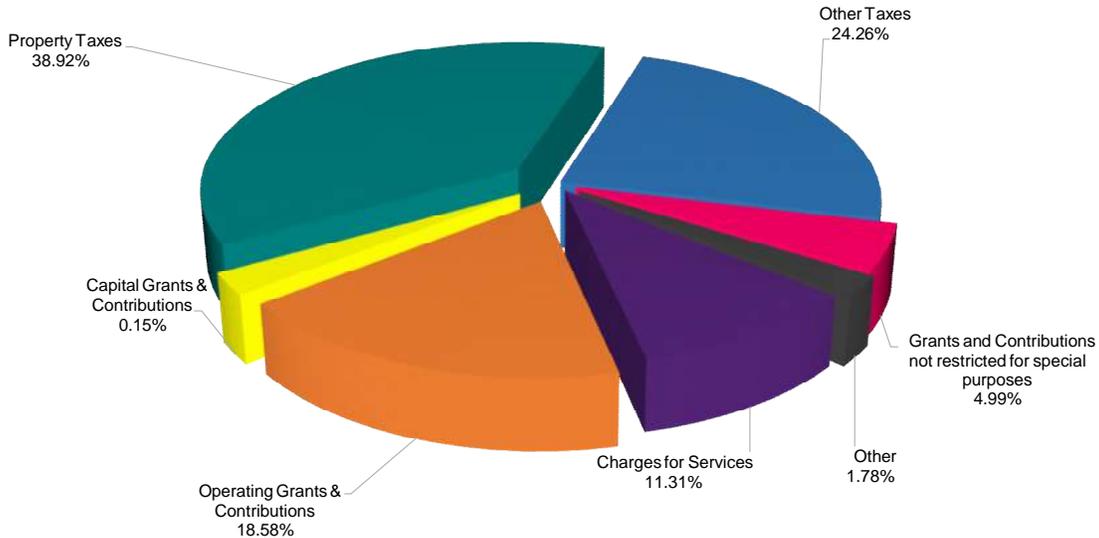
For business-type activities, net position increased by \$27,818,659 or 7.5 percent during the fiscal year. Of this amount, an increase of \$20,462,415, \$7,813,952, and a decrease of \$457,708 are changes attributed to the Water Utility, Wastewater Utility and Parking Facilities funds, respectively. Overall revenues increased by \$3,314,013 compared to prior year due to increases in billing rates for Water and Wastewater Utilities funds and an increase in activity for Parking Facilities fund.

The following presents key programmatic and functional elements of changes in government-wide net position:

Changes in the City of Norfolk's Net Position						
	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
<b>Revenues:</b>						
Program Revenues:						
Charges for Services	\$ 76,555,572	\$ 69,915,807	\$ 130,659,266	\$ 126,629,580	\$ 207,214,838	\$ 196,545,387
Operating Grants & Contributions	125,802,403	120,713,320	-	-	125,802,403	120,713,320
Capital Grants & Contributions	1,000,000	15,932,623	3,005,824	2,760,836	4,005,824	18,693,459
General Revenues:						
Property Taxes	263,490,017	254,357,446	-	-	263,490,017	254,357,446
Other Taxes	164,270,397	161,499,026	-	-	164,270,397	161,499,026
Grants and Contributions not restricted for specific purposes	33,793,343	33,788,087	214,199	218,551	34,007,542	34,006,638
Other	12,079,430	15,346,710	2,614,234	3,570,498	14,693,664	18,917,208
<b>Total Revenues</b>	<b>676,991,162</b>	<b>671,553,019</b>	<b>136,493,523</b>	<b>133,179,465</b>	<b>813,484,685</b>	<b>804,732,484</b>
<b>Expenses:</b>						
General Government	126,958,918	122,656,635	-	-	126,958,918	122,656,635
Judicial Administration	49,056,265	55,062,139	-	-	49,056,265	55,062,139
Public Safety	120,709,855	125,121,896	-	-	120,709,855	125,121,896
Public Works	81,170,952	66,908,888	-	-	81,170,952	66,908,888
Health and Public Assistance	86,775,904	90,919,215	-	-	86,775,904	90,919,215
Culture and Recreation	58,443,117	56,498,810	-	-	58,443,117	56,498,810
Community Development	13,040,139	12,622,530	-	-	13,040,139	12,622,530
Education	117,721,922	109,466,754	-	-	117,721,922	109,466,754
Interest on Long-Term Debt	22,059,855	25,187,109	-	-	22,059,855	25,187,109
Water Utility	-	-	59,455,257	61,608,972	59,455,257	61,608,972
Wastewater Utility	-	-	19,141,968	20,128,611	19,141,968	20,128,611
Parking Facilities	-	-	20,044,558	23,677,028	20,044,558	23,677,028
<b>Total Expenses</b>	<b>675,936,927</b>	<b>664,443,976</b>	<b>98,641,783</b>	<b>105,414,611</b>	<b>774,578,710</b>	<b>769,858,587</b>
Increase (decrease) in Net Position before Transfers	1,054,235	7,109,043	37,851,740	27,764,854	38,905,975	34,873,897
Transfers	10,033,081	10,051,915	(10,033,081)	(10,051,915)	-	-
<b>Increase in Net Position</b>	<b>11,087,316</b>	<b>17,160,958</b>	<b>27,818,659</b>	<b>17,712,939</b>	<b>38,905,975</b>	<b>34,873,897</b>
Net Position Beginning of Year	370,415,205	-	384,783,397	-	755,198,602	-
Restatement (Note XXII)	(160,178,763)	-	(15,797,473)	-	(175,976,236)	-
Restated Net Position Beginning of Year	210,236,442	353,254,247	368,985,924	367,070,458	579,222,366	720,324,705
<b>Net Position End of Year</b>	<b>\$ 221,323,758</b>	<b>\$ 370,415,205</b>	<b>\$ 396,804,583</b>	<b>\$ 384,783,397</b>	<b>\$ 618,128,341</b>	<b>\$ 755,198,602</b>

**CITY OF NORFOLK, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
For the Fiscal Year Ended June 30, 2015**

**Governmental Activities: Revenues by Source**



**Governmental Activities** – The City’s total revenues from governmental activities were \$676,991,162 for the fiscal year that ended June 30, 2015. The largest sources of revenue for the City are property taxes and other taxes which comprise 63.4 percent of total governmental revenues. Revenues from property taxes, which are comprised of personal and real estate taxes, increased by \$9,132,571 compared to prior year. The real estate (general tax) tax rate for fiscal year 2015 was \$1.15 per \$100 of assessed value which had previously changed to set aside \$0.02 for school construction technology and infrastructure spending. Revenues from other taxes increased by \$2,771,371 or 1.7 percent in comparison to the prior year. Other taxes include sales & use, consumers’ utility, restaurant food, business license and hotel/motel taxes.

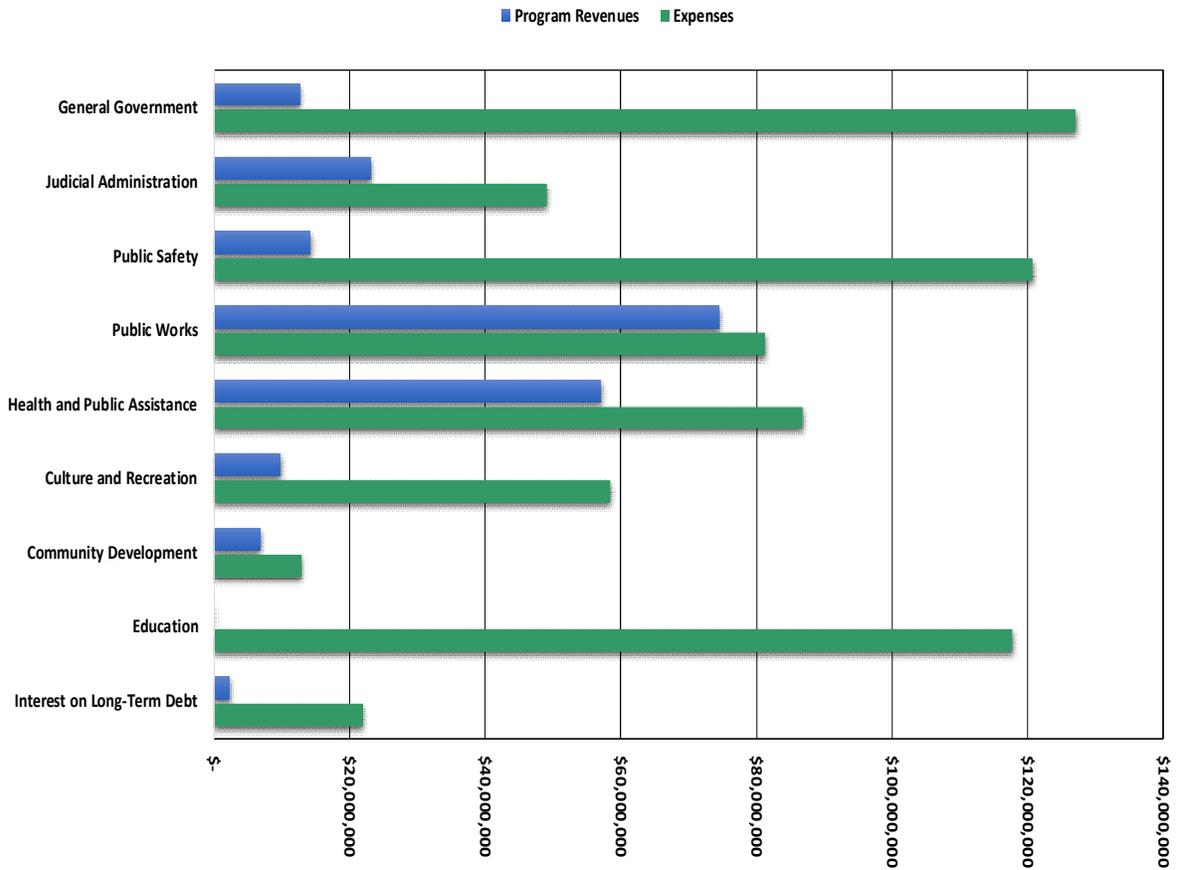
Operating grants and contributions for governmental activities ended the fiscal year at \$125,802,403 which represents an increase of approximately 4.2 percent from the prior year. Grants and contributions not restricted for specific programs represent intergovernmental grants and contributions from state and federal agencies. For the 2015 fiscal year, there was \$33,793,343 in grants and contributions not restricted for specific programs which represents an increase of approximately 0.02 percent from the prior year.

The City’s expenses for governmental activities cover a wide array of services, with \$120,709,855 or 17.9 percent related to public safety and \$117,721,922 or 17.4 percent for education (including payments to the School Board), a component unit. Overall, expenses for governmental activities increased by 1.7 percent due to cost of living increases.

**CITY OF NORFOLK, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
For the Fiscal Year Ended June 30, 2015**

Depreciation expense for governmental activities of \$45,919,233 was recorded.

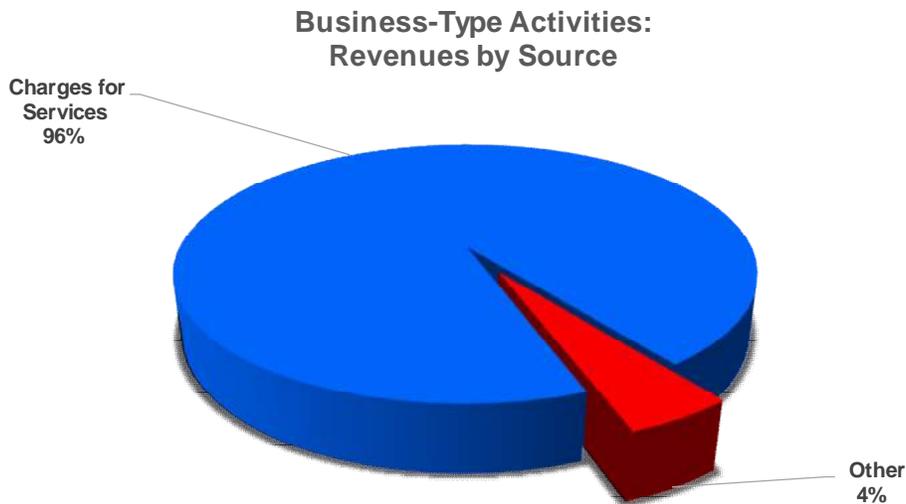
**Governmental Activities  
Expenses and Program Revenues**



**CITY OF NORFOLK, VIRGINIA  
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)  
For the Fiscal Year Ended June 30, 2015**

**Business-type Activities** – Business-type activities increased the City’s net position by \$27,818,659. Key elements of this change are as follows:

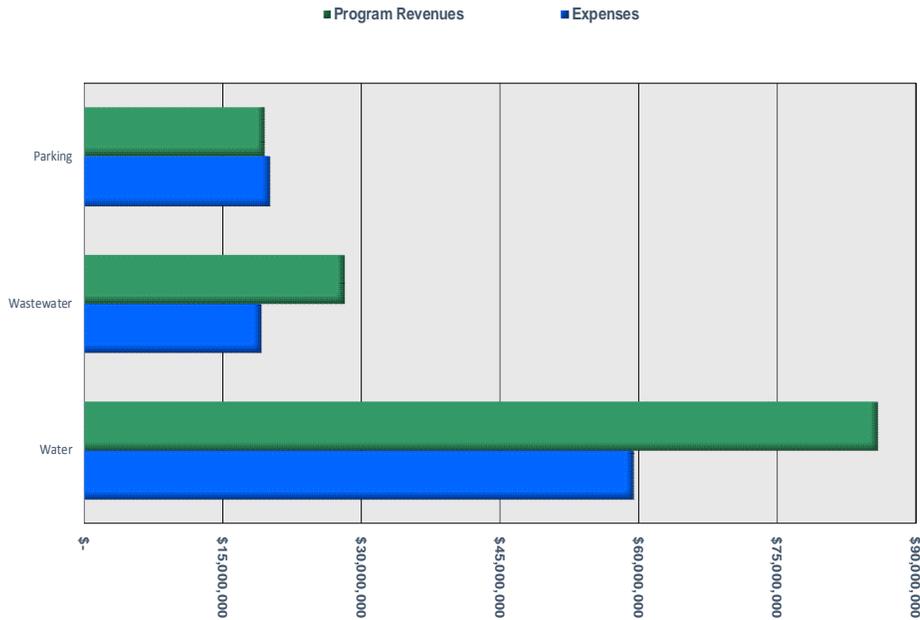
- Revenue from charges for services for business-type activities increased by 3.2 percent. Water Utility charges for services increased \$3,898,719 and Wastewater Utility charges for services increased \$1,024,912.
- Parking facilities revenues decreased \$893,945 or 4.38 percent from the prior year.



Total expenses for Business-type activities decreased overall by \$6,772,873, or 6.4 percent. The Water Utility fund’s expenses decreased by \$2,153,715. The Wastewater Utility fund’s expenses decreased by \$986,688. The Parking Facilities fund’s expenses decreased by \$3,632,470.

**CITY OF NORFOLK, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
For the Fiscal Year Ended June 30, 2015**

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.

The City's 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 reported in the following categories: nonspendable, restricted, committed, assigned and unassigned.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$53,743,383, a decrease of \$98,239,727 or 61.7 percent over the prior year due to timing of the issuance of bonds and decision to spend existing

**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**For the Fiscal Year Ended June 30, 2015**

bond proceeds. Of the total ending fund balance, \$10,485,050 or 19.5 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 \$21,468,360 or 40 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 amounts designated by City Council for the City's self-insured workers; compensation and general liability programs. Assigned fund balance is \$43,746,682 or 81.4 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 negative unassigned balance of \$21,956,709 or 40.9 percent is due to the delay in issuance of debt and is covered by available cash and outstanding line of credit draws.

The City's primary governmental fund is its general fund. As a matter of fiscal policy, the City's unassigned fund balance is targeted to be no less than five percent of the general fund budget, which was \$41,085,682 for fiscal year 2015.

For the general fund, on the budgetary basis of accounting, the City ended the fiscal year with revenues below projections by \$1,753,126. Total expenditures were less than appropriations by \$19,337,179.

The general fund experienced an overall increase in revenue of \$6,724,466 or 1.16 percent over the prior year. Overall expenditures increased by \$7,138,383 or 1.40 percent from fiscal year 2014. General fund financial and budget highlights of the 2015 fiscal year include:

- General property tax revenues increased by \$4,451,251 or 1.75 percent; and
- General government expenditures increased by \$2,789,073 or 2.59 percent.

The City spent \$103,112,892 from the Capital Projects fund to support major capital projects, including construction of the downtown main library, the new courthouse, the Southside aquatic center, five new schools, repairs to City and School buildings, infrastructure and neighborhood improvements. The fund had a total fund balance of negative \$69,920,148 because of timing issues. In fiscal year 2015, the City used all unspent bond proceeds as well as cash on hand and delayed the issuance of new debt to fund these expenditures.

The Debt Service fund did not have any assets, liabilities or net position at fiscal year-end. During the year bonds were issued to refund existing debt but no new debt was issued, additionally \$1,000,000 was drawn from the line of credit established for flexible, interim financing for the management of capital projects.

**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**For the Fiscal Year Ended June 30, 2015**

**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 position of these funds to finance continuing operations of the enterprise operations. Factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

**Capital Asset and Debt Administration**

**Capital Assets** – The City's net investment in capital assets for its governmental and business-type activities as of June 30, 2015, totaled to \$694,586,863. 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, net of the debt outstanding that was used to finance the assets. Infrastructure assets represent 18.75 percent of total general governmental assets.

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

- Construction of the new courthouse complex completed in fiscal year 2015 with \$9 million spent;
- \$10 million was spent on the construction of the new conference center;
- Investment of \$6.6 million in improvements to neighborhood streets throughout the City;
- \$34.7 million for new school construction; and
- Opening of the new downtown main library, of which approximately \$63 million has been invested to date with \$8 million being spent in fiscal year 2015.

Construction in progress totaled \$129 million for governmental activities at the end of the fiscal year. Construction in progress totaled \$52 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	
	2015	2014	2015	2014	2015	2014
Land	\$ 92,312,849	\$ 87,821,231	\$ 49,387,123	\$ 48,122,255	\$ 141,699,972	\$ 135,943,486
Buildings, equipment and vehicles	587,960,978	475,187,666	795,742,125	777,308,440	1,383,703,103	1,252,496,106
Improvements other than buildings	58,597,266	51,101,814	15,864,620	16,269,870	74,461,886	67,371,684
Construction in progress	129,205,974	194,282,981	52,442,255	43,695,329	181,648,229	237,978,310
Intangible assets	1,031,420	1,230,183	3,758,026	4,231,807	4,789,446	5,461,990
Infrastructure	201,127,651	201,506,176	-	-	201,127,651	201,506,176
<b>Total</b>	<b>\$ 1,070,236,138</b>	<b>\$ 1,011,130,051</b>	<b>\$ 917,194,149</b>	<b>\$ 889,627,701</b>	<b>\$ 1,987,430,287</b>	<b>\$ 1,900,757,752</b>

**CITY OF NORFOLK, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
For the Fiscal Year Ended June 30, 2015**

Additional information on the City's capital assets can be found in Note VI on pages 97 - 9098 of this report.

**Long-term Debt** – At June 30, 2015, the City (including the enterprise funds) had total bonded debt outstanding of \$1,247,416,052. Of this amount, \$853,400,129 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:

	Governmental Activities		Business-Type Activities		Totals	
	2015	2014	2015	2014	2015	2014
General Obligation Bonds	\$ 617,328,945	\$ 665,384,732	\$ 236,071,184	\$ 247,315,611	\$ 853,400,129	\$ 912,700,343
Revenue Bonds	-	-	394,015,923	374,149,628	394,015,923	374,149,628
Total	<u>\$ 617,328,945</u>	<u>\$ 665,384,732</u>	<u>\$ 630,087,107</u>	<u>\$ 621,465,239</u>	<u>\$ 1,247,416,052</u>	<u>\$ 1,286,849,971</u>

The City's total debt outstanding decreased by \$39,433,919 or 3.1 percent during the fiscal year. The City spent remaining bond proceeds and used line of credit draws to meet cash flow capital needs.

The development of the Capital Improvement Plan for General Capital (bonds not supported by self-supporting user fees) is guided by two measures of affordability. The measures or debt limits is based on the approved Capital Improvement Plan are as follows:

- Debt service as a percent of the General Fund Budget will not exceed 10 percent; and
- Net debt as a percent of taxable property will not exceed 3.5 percent.

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

The latest credit ratings for the City's general obligation and water revenue bond programs as of the date of this report are as follows:

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

**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**For the Fiscal Year Ended June 30, 2015**

The City's Wastewater Revenue Bonds do not maintain an underlying or stand-alone unenhanced credit rating.

The Commonwealth of Virginia imposes a constitutional statutes limit for the amount of general obligation debt the City may issue up to 10 percent of its total assessed valuation. The City's general obligation debt outstanding is significantly below the City's current debt limitation of \$1,873,420,173.

Additional information on the City's long-term debt can be found in Note VIII on pages 100 - 108 of this report.

**Economic Factors and Next Year's Budgets and Rates**

- The City has still not seen a full recovery of its financial resources, although there has been growth in key revenue sources. Like other localities, the City is highly dependent on real property taxes. Real estate assessments overall have increased for three straight years, although the growth has been about 1-2 percent in each year. The modest growth in overall assessments was because residential assessments, which make up the majority of the City's overall assessments, have lagged in the recovery. After six consecutive years of unprecedented decline, the City's residential assessments is projected to increase as a result of the annual reassessment of existing properties in fiscal year 2016. In fiscal year 2015, residential assessments increased mainly due to growth of new construction. The City's revenues from the Commonwealth have also not fully recovered to its pre-recession level, even though the state's fiscal year 2016 budget did not include a reduction in aid-to-localities. This is a positive turn of events from fiscal year 2015 when the City had to absorb an unanticipated aid-to-localities reduction of \$1.4 million due to the state revenue shortfall. Considering the effects of the national, state and local economic conditions, the City has used a five-pronged approach that analyzes ways to raise revenues, reduce expenditures, become more efficient, grow the economy, and share services to develop the fiscal year 2016 budget as in prior years.
- Taxable real estate assessments are projected to rise slightly in the 2016 fiscal year by 2.0 percent.
- The following reflects other significant tax change projections in comparison to the fiscal year 2015 budget:
  - Business license taxes – 3.8 percent increase;
  - Restaurant food taxes – 2.5 percent increase; and
  - Sales tax – 5.2 percent increase.
- Motor vehicle licenses will rise by \$5.00 to finance capital improvements for safe access of the City's streets.
- Rate increases for the Storm Water, Water Utility and Wastewater Utility funds continue to provide necessary funding to finance capital improvements summarized in the following table.

**CITY OF NORFOLK, VIRGINIA  
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)  
For the Fiscal Year Ended June 30, 2015**

Description	FY 2016 Approved	FY 2015 Approved
Wastewater Fees	\$3.82/100 cubic feet	\$3.67/100 cubic feet
Water Fees	\$4.61/100 cubic feet	\$4.45/100 cubic feet
Stormwater Fees – Residential	\$11.80/month	\$10.52/month
Stormwater Fees – Commercial	\$8.74/month per 2,000 sq. ft.	\$7.55/month per 2,000 sq. ft.
Refuse Disposal – Residential Single or Multiple Units (4 or less)	\$28.01/unit/month	\$28.01/unit/month
Refuse Disposal – Residential Multiple Units (5 or more)	\$46.94/container/month	\$46.94/container/month
Refuse Disposal – Commercial Business once per week	\$61.18/unit/month	\$61.18/unit/month
Refuse Disposal – Commercial Business 5 times per week	\$151.64/unit/month	\$151.64/unit/month
Refuse Disposal – Commercial Combined Commercial and Residential	\$89.19/unit/month	\$89.19/unit/month

- In fiscal year 2015, all members began contributing five percent of their compensation to the Norfolk Employees’ Retirement System. Employees were given a five percent salary increase to cover the deduction in the first year. Previously, only those hired after October 5, 2010, were required to pay member contributions. The changes in member contributions is similar to the actions implemented by the Virginia Retirement System several years ago.

All of these factors were considered in preparing the City’s budget for fiscal year 2016. The fiscal year 2016 operating budget includes transfers in from non-general funds of approximately \$14.9 million, as well as \$8.4 million from carrying forward unspent appropriations from prior years and closeout of accounts including the Norfolk Public Schools and Norfolk Community Services Board carry-forwards.

In October 2015, City Council amended the fiscal year 2016 budget by \$6.5 million for the following: further support the Poverty Commission recommendations; increase funding for the Housing Trust Fund; purchases of additional body cameras for sworn officers; support for the citywide landscaping and street sweeping efforts and capital projects which improve public school facilities, foster economic development, and revitalize and improve neighborhoods; and funds to reduce planned fiscal year 2017 debt payments. With the budget amendment, City Council also increased the risk management reserve and the economic downturn reserve each by \$1 million. This increase brings these reserves to the financial policy goal of \$5 million each.

**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**For the Fiscal Year Ended June 30, 2015**

**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 or the City's website at [www.norfolk.gov](http://www.norfolk.gov).



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# **BASIC FINANCIAL STATEMENTS**





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CITY OF NORFOLK, VIRGINIA

Exhibit 1

Statement of Net Position  
June 30, 2015

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
<b>ASSETS</b>				
Cash and short-term investments	\$ 53,643,888	\$ 101,533,112	\$ 155,177,000	\$ 37,266,325
Unrestricted short-term investments	-	15,097,862	15,097,862	-
Receivables, net:				
Taxes	41,414,517	-	41,414,517	-
Accounts	23,844,143	16,391,836	40,235,979	1,065,750
Accrued investment income	-	13,553	13,553	-
Internal balances	2,246,012	(2,246,012)	-	-
Due from other governments	30,286,556	-	30,286,556	26,609,089
Due from agency funds	227,651	-	227,651	-
Due from primary government	-	-	-	4,577,245
Due from other agencies	62,109	-	62,109	-
Inventories	-	3,234,034	3,234,034	1,258,242
Deposits	7,997	-	7,997	-
Property Held for Resale	-	-	-	22,304,976
Prepaid items	1,027,674	-	1,027,674	1,105
Restricted cash and investments	6,234,162	63,474,194	69,708,356	-
Non-depreciable capital assets	221,587,837	104,318,782	325,906,619	487,500
Depreciable capital assets, net	848,648,301	812,875,367	1,661,523,668	11,287,905
<b>Total assets</b>	<b>1,229,230,847</b>	<b>1,114,692,728</b>	<b>2,343,923,575</b>	<b>104,858,137</b>
<b>Deferred outflows of resources</b>				
Related to pensions	34,595,247	3,131,678	37,726,925	27,973,625
Loss on defeasance of bonds	19,596,270	14,604,454	34,200,724	-
Total deferred outflow of resources	54,191,517	17,736,132	71,927,649	27,973,625
<b>Total assets and deferred outflows of resources</b>	<b>\$ 1,283,422,364</b>	<b>\$ 1,132,428,860</b>	<b>\$ 2,415,851,224</b>	<b>\$ 132,831,762</b>
<b>LIABILITIES</b>				
Vouchers payable	\$ 29,935,650	\$ 8,217,967	\$ 38,153,617	\$ 7,265,769
Employees withholdings	224,348	-	224,348	-
Contract retainage	4,010,836	1,622,766	5,633,602	25,905
Accrued interest	8,951,161	3,321,115	12,272,276	-
Accrued payroll	5,497,522	504,367	6,001,889	33,754,734
Due to other governments	-	-	-	5,207,287
Due to Primary Government	-	-	-	282,478
Due to component unit	4,577,245	-	4,577,245	-
Unearned revenue	16,566,739	-	16,566,739	1,125,610
Other current liabilities	9,658,751	745,323	10,404,074	133,364
Liabilities payable from restricted assets	-	2,832,854	2,832,854	-
Long-term liabilities:				
Due within one year	58,271,495	23,167,712	81,439,207	7,440,542
Net pension liability	153,186,837	14,536,415	167,723,252	309,164,736
Due in more than one year	690,479,187	673,160,219	1,363,639,406	23,886,485
Total liabilities	981,359,771	728,108,738	1,709,468,509	388,286,910
<b>Deferred inflows of resources</b>				
Related to pensions	80,406,403	7,482,065	87,888,468	52,349,660
Gain on defeasance of bonds	332,432	33,474	365,906	-
Total deferred inflows of resources	80,738,835	7,515,539	88,254,374	52,349,660
<b>Total liabilities and deferred inflows of resources</b>	<b>\$ 1,062,098,606</b>	<b>\$ 735,624,277</b>	<b>\$ 1,797,722,883</b>	<b>\$ 440,636,570</b>
<b>NET POSITION</b>				
Net investment in capital assets	\$ 428,380,397	\$ 266,206,166	\$ 694,586,563	\$ 11,775,405
Restricted for:				
Endowed care	5,794,150	-	5,794,150	-
Capital projects	-	-	-	1,135,742
Other programs	4,690,900	-	4,690,900	2,075,837
Reserves	-	29,610,707	29,610,707	-
Unrestricted	(217,541,689)	100,987,710	(116,553,979)	(322,791,792)
Total net position	<b>\$ 221,323,758</b>	<b>\$ 396,804,583</b>	<b>\$ 618,128,341</b>	<b>\$ (307,804,808)</b>

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

**CITY OF NORFOLK, VIRGINIA**  
**Statement of Activities**  
**For the Year Ended June 30, 2015**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Business-Type Activities	Total	Component Units
<b>Primary government:</b>							
<b>Governmental activities:</b>							
General government	\$ 126,958,918	\$ 5,586,803	\$ -	\$ (114,220,436)	\$ -	\$ (114,220,436)	\$ -
Judicial administration	49,056,265	20,174,732	-	(25,943,542)	-	(25,943,542)	-
Public safety	120,709,855	6,662,478	-	(106,484,052)	-	(106,484,052)	-
Public works	81,170,952	34,538,485	-	(4,811,925)	-	(4,811,925)	-
Health and public assistance	86,775,904	5,577,332	-	(29,716,815)	-	(29,716,815)	-
Culture and recreation	58,443,117	8,947,538	-	(48,495,579)	-	(48,495,579)	-
Community development	13,040,139	2,557,165	1,000,000	(5,542,241)	-	(5,542,241)	-
Education	117,721,922	-	-	(117,721,922)	-	(117,721,922)	-
Interest on long-term debt	22,059,855	2,417,415	-	(19,642,440)	-	(19,642,440)	-
Total governmental activities	\$ 675,936,927	\$ 125,802,403	\$ 1,000,000	\$ (472,578,952)	\$ -	\$ (472,578,952)	\$ -
<b>Business-type activities:</b>							
Water Utility	59,455,257	-	2,929,676	-	26,470,043	26,470,043	-
Wastewater Utility	19,141,968	-	-	-	9,001,988	9,001,988	-
Parking facilities	20,044,558	-	76,148	-	(448,734)	(448,734)	-
Total business-type activities	98,641,783	-	3,005,824	-	35,023,307	35,023,307	-
Total primary government	\$ 774,578,710	\$ 125,802,403	\$ 4,005,824	\$ (472,578,952)	\$ 35,023,307	\$ (437,555,645)	\$ -
<b>Component units:</b>							
Norfolk Public Schools	\$ 365,840,927	\$ 207,303,283	\$ 3,540,647	-	-	-	\$ (151,646,015)
Norfolk Economic Development Authority	2,887,640	491,552	-	-	-	-	(2,396,088)
Total component units	\$ 368,728,567	\$ 207,794,835	\$ 3,540,647	-	-	-	\$ (154,042,103)
<b>General revenues:</b>							
<b>Taxes:</b>							
General property taxes - real estate and personal property				263,490,017	-	263,490,017	-
Consumers' utility taxes				42,960,514	-	42,960,514	-
Sales and use taxes				29,981,258	-	29,981,258	-
Restaurant food taxes				32,634,423	-	32,634,423	-
Business license taxes				28,640,356	-	28,640,356	-
Hotel/Motel taxes				8,435,898	-	8,435,898	-
Cigarette taxes				7,820,751	-	7,820,751	-
Admissions taxes				4,286,735	-	4,286,735	-
Motor vehicle licenses				3,952,534	-	3,952,534	-
Franchise, recordation and other miscellaneous local taxes				5,557,928	-	5,557,928	-
Use of money and property				163,773	111,516	275,289	848,543
Miscellaneous				33,793,343	214,199	34,007,542	-
Grants and contributions not restricted to specific programs				11,915,657	2,505,515	14,421,172	515,674
Commonwealth of Virginia				-	(2,797)	(2,797)	31,982,590
Loss from sale of assets				-	-	-	-
Gain from sale of assets				-	-	-	(3,560)
Loss from discontinuation of operations				-	-	-	-
Payment from Primary Government				-	-	-	-
Transfers				-	-	-	-
Total general revenues and transfers				10,033,081	(10,033,081)	-	120,572,943
Changes in net position				483,686,268	(7,204,648)	476,481,620	153,926,190
Net position - beginning				11,087,316	27,818,659	38,905,975	(115,913)
Adjustment to beginning net position related to pensions (Note XXII)				370,415,205	384,763,397	755,198,602	8,178,688
Adjustment to beginning net position related to changes in reporting entity (Note XXII)				(160,929,310)	(15,046,926)	(175,976,236)	(337,993,441)
Restated Net Position - beginning				750,547	(750,547)	-	22,125,858
Net position - ending				\$ 210,236,442	\$ 368,985,924	\$ 579,222,366	\$ (307,688,895)
				\$ 221,323,756	\$ 369,804,563	\$ 618,128,341	\$ (307,804,806)

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

**CITY OF NORFOLK, VIRGINIA**

Exhibit A-1

**Balance Sheet - Governmental Funds  
June 30, 2015**

	Major Funds			Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	Capital Projects	Debt Service		
<b>ASSETS</b>					
Cash and short-term investments	\$ 13,049,798	\$ 6,234,162	\$ -	\$ 26,967,065	\$ 46,251,025
Receivables, net:					
Taxes	41,414,517	-	-	-	41,414,517
Accounts	5,973,188	11,967	-	12,197,528	18,182,683
Due from other funds	61,429,141	2,152,861	-	503,301	64,085,303
Due from other governments	24,181,798	-	-	5,349,105	29,530,903
Due from component units	62,109	-	-	-	62,109
Due from fiduciary funds	227,651	-	-	-	227,651
Deposits	-	7,997	-	-	7,997
Prepaid expenses	221,973	-	-	14	221,987
Total assets	<u>\$ 146,560,175</u>	<u>\$ 8,406,987</u>	<u>\$ -</u>	<u>\$ 45,017,013</u>	<u>\$ 199,984,175</u>
<b>LIABILITIES, DEFERRED INFLOWS</b>					
Vouchers payable	\$ 10,067,910	\$ 12,180,766	\$ -	\$ 4,573,120	\$ 26,821,796
Employee withholdings	224,348	-	-	-	224,348
Contract retainage	64,191	3,685,378	-	261,267	4,010,836
Accrued payroll	5,133,633	-	-	312,675	5,446,308
Due to other funds	8,451	60,883,746	-	939,106	61,831,303
Due to other governments	68,617	-	-	-	68,617
Due to component unit	3,000,000	1,577,245	-	-	4,577,245
Unearned revenue	-	-	-	10,007,793	10,007,793
Other liabilities	2,862,841	-	-	52,370	2,915,211
Total liabilities	<u>21,429,991</u>	<u>78,327,135</u>	<u>-</u>	<u>16,146,331</u>	<u>115,903,457</u>
<b>Deferred Inflow of Resources</b>					
Revenues levied for the next year and unavailable revenue	27,546,236	-	-	2,791,099	30,337,335
<b>FUND BALANCES</b>					
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted	2,099,960	-	-	8,385,090	10,485,050
Committed	4,000,000	14,704,127	-	2,764,233	21,468,360
Assigned	25,903,609	-	-	17,843,073	43,746,682
Unassigned	65,580,379	(84,624,275)	-	(2,912,813)	(21,956,709)
Total fund balances	<u>97,583,948</u>	<u>(69,920,148)</u>	<u>-</u>	<u>26,079,583</u>	<u>53,743,383</u>
Total liabilities and fund balances	<u>\$ 146,560,175</u>	<u>\$ 8,406,987</u>	<u>\$ -</u>	<u>\$ 45,017,013</u>	<u>\$ 199,984,175</u>

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

**CITY OF NORFOLK, VIRGINIA**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**to the Statement of Net Position**  
**June 30, 2015**

Exhibit A-2

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Fund balances - total governmental funds	\$	53,743,383
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Amounts reported for governmental activities in the Statement of Net Position are different because:

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

Gross capital assets at historical cost	2,548,673,399	
Accumulated depreciation	(1,482,163,723)	
		1,066,509,676

Recognition of deferred inflows as revenue in government wide statements	30,215,585
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Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:

Deferred Inflows Related to Pensions	(79,553,516)
Deferred Outflows Related to Pensions	34,258,030
Loss on Defeasance	19,596,270
Gain on Defeasance	(332,432)

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:

Bonds payable	(617,328,942)	
Unamortized bond premium	(48,480,055)	
Line of credit	(1,000,000)	
Net pension liability	(151,529,820)	
Other post employment benefits	(32,031,252)	
Compensated absences	(17,459,781)	
Workers' compensation and claims liability	(29,476,369)	
Prepaid debt service	805,687	
Other	(2,707,200)	
Accrued interest payable	(8,951,161)	
		(908,158,893)

Internal service funds	4,724,789
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Receivable for Build America Bonds - interest rate subsidy	755,652
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GASB Statement 49 Pollution Remediation Obligation	(434,786)
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Net position of governmental activities	\$	<u>221,323,758</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, 2015

	Major Funds			Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	Capital Projects	Debt Service		
<b>REVENUES</b>					
General property taxes	\$ 258,974,929	\$ -	\$ -	\$ 3,457,939	\$ 262,432,868
Other local taxes	154,867,325	-	-	9,403,072	164,270,397
Permits and licenses	3,013,376	-	-	-	3,013,376
Fines and forfeitures	1,261,218	-	-	3,000	1,264,218
Use of money and property	9,564,794	61,827	-	41,544	9,668,165
Charges for services	20,248,407	-	-	39,734,080	59,982,487
Miscellaneous	7,226,869	147,423	-	2,767,042	10,141,334
Intergovernmental	130,397,763	-	-	28,442,331	158,840,094
Total revenues	585,554,681	209,250	-	83,849,008	669,612,939
<b>EXPENDITURES</b>					
Current operating:					
General government	110,304,366	-	-	599,522	110,903,888
Judicial administration	48,294,929	-	-	3,064,991	51,359,920
Public safety	103,162,805	-	-	8,892,313	112,055,118
Public works	19,592,357	-	-	41,777,067	61,369,424
Health and public assistance	69,569,467	-	-	16,062,066	85,631,533
Culture and recreation	39,205,465	-	-	9,559,325	48,764,790
Community development	9,153,306	-	-	3,149,526	12,302,832
Education	117,721,922	-	-	-	117,721,922
Debt service:					
Principal	-	-	49,254,922	-	49,254,922
Interest and other charges	-	-	26,896,108	-	26,896,108
Debt issuance costs	323,098	356,845	-	-	679,943
Capital outlay	-	103,112,892	-	-	103,112,892
Total expenditures	517,327,715	103,469,737	76,151,030	83,104,810	780,053,292
Excess (deficiency) of revenues over expenditures	68,226,966	(103,260,487)	(76,151,030)	744,198	(110,440,353)
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds from line of credit	-	1,000,000	-	-	1,000,000
Issuance of refunding bonds	-	-	74,093,536	-	74,093,536
Proceeds sale of fixed assets	427,600	383,100	-	-	810,700
Payment to bond refunding escrow agent	-	-	(81,266,845)	-	(81,266,845)
Premium on bonds	-	-	7,530,154	-	7,530,154
Transfers in	16,805,117	3,581,711	76,151,030	6,066,194	102,604,052
Transfers out	(76,651,992)	(1,089,441)	(356,845)	(14,472,693)	(92,570,971)
Total other financing sources and uses	(59,419,275)	3,875,370	76,151,030	(8,406,499)	12,200,626
Net changes in fund balances	8,807,691	(99,385,117)	-	(7,662,301)	(98,239,727)
Fund balances - beginning	85,265,709	29,464,969	-	36,501,884	151,232,562
Adjustment to beginning net assets (Note XXII)	3,510,548	-	-	(2,760,000)	750,548
Fund balances - beginning restated	88,776,257	-	-	33,741,884	151,983,110
Fund balances - ending	\$ 97,583,948	\$ (69,920,148)	\$ -	\$ 26,079,583	\$ 53,743,383

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

**CITY OF NORFOLK, VIRGINIA**

**Exhibit A-4**

**Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balances to the Statement of Activities  
For the Year Ended June 30, 2015**

Net change in fund balances--total governmental funds		\$ (98,239,727)
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	105,263,212
	Subtract disposals	(296,408)
	Subtract depreciation expense	<u>(45,633,138)</u>
		59,333,666
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the fund.		
		3,970,002
Bond provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		
	Less debt issued	(75,093,536)
	Add debt repayment	122,149,326
	Premium on bond sale	7,530,154
	Loss on defeasance of debt	(2,867,493)
	Gain on defeasance of debt	309,737
	Amortization of premiums, gains and losses	<u>(5,253,194)</u>
		46,774,994
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)		
	Compensated absences	(944,416)
	Retires Life insurance	35,000
	Net OPEB	(2,049,323)
	Unpaid claims	(421,141)
	Landfill closure	(59,200)
	Net Pension Liability, Net of changes in deferred inflows and outflows	3,063,938
	Prepaid Principal payment	150,687
	Accrued interest payable	<u>1,031,975</u>
		807,520
Internal service funds are used by management to charge the costs of certain services to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activity.		
		(1,268,192)
Adjustment for federal interest rate subsidy		
		75,155
GASB Statement 49 Pollution Remediation Obligation		
		(366,102)
		<u>\$ 11,087,316</u>

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

CITY OF NORFOLK, VIRGINIA

Exhibit B-1

Statement of Fund Net Position - Proprietary Funds  
June 30, 2015

	Business-Type Activities				Governmental Activities- Internal Service Funds
	Water Utility	Wastewater Utility	Parking Facilities	Total	
<b>ASSETS</b>					
Current assets:					
Cash and short-term investments	\$ 75,461,031	\$ 13,274,203	\$ 12,797,878	\$ 101,533,112	\$ 13,627,025
Unrestricted short-term investments	11,887,668	3,210,194	-	15,097,862	-
Receivables, net					
Accounts	5,444,460	2,977,860	1,701,851	10,124,171	5,653,472
Unbilled accounts	4,753,081	1,281,756	232,828	6,267,665	-
Accrued investment income	13,553	-	-	13,553	-
Internal balances	366,925	-	-	366,925	-
Inventories	2,799,620	36,893	397,521	3,234,034	-
Restricted cash and investments	46,614,626	3,249,728	13,609,840	63,474,194	-
Total current assets	<u>147,340,964</u>	<u>24,030,634</u>	<u>28,739,918</u>	<u>200,111,516</u>	<u>19,280,497</u>
Noncurrent assets:					
Capital assets:					
Land and improvements	49,934,849	14,731,626	39,652,307	104,318,782	415,000
Buildings and equipment	669,158,220	310,099,968	199,515,212	1,178,773,400	10,926,774
Accumulated depreciation	(215,434,381)	(75,621,767)	(74,841,885)	(365,898,033)	(7,615,312)
Capital assets, net	<u>503,658,688</u>	<u>249,209,827</u>	<u>164,325,634</u>	<u>917,194,149</u>	<u>3,726,462</u>
Total assets	<u>\$ 650,999,652</u>	<u>\$ 273,240,461</u>	<u>\$ 193,065,552</u>	<u>\$ 1,117,305,665</u>	<u>\$ 23,006,959</u>
Deferred outflows of resources					
Related to pensions	2,070,947	609,442	451,289	3,131,678	337,217
Loss on defeasance of bonds	8,951,897	2,829,141	2,823,416	14,604,454	-
Total deferred outflows	<u>11,022,844</u>	<u>3,438,583</u>	<u>3,274,705</u>	<u>17,736,132</u>	<u>337,217</u>
Total assets and deferred outflows of resources	<u>\$ 662,022,496</u>	<u>\$ 276,679,044</u>	<u>\$ 196,340,257</u>	<u>\$ 1,135,041,797</u>	<u>\$ 23,344,176</u>
<b>LIABILITIES</b>					
Current liabilities:					
Vouchers payable	\$ 5,426,453	\$ 1,983,082	\$ 808,432	\$ 8,217,967	\$ 3,105,192
Contract retainage	951,038	471,926	199,802	1,622,766	-
Accrued interest	-	1,139,415	2,181,700	3,321,115	-
Accrued payroll	329,329	116,003	59,035	504,367	51,214
Internal balances	837,213	267,500	1,508,224	2,612,937	7,988
Unearned revenue	-	-	-	-	6,490,329
Obligations for employees retirement system	-	-	-	-	-
Current portion of bonds payable	8,750,000	10,282,580	3,126,849	22,159,429	-
Liabilities payable from restricted assets	2,832,854	-	-	2,832,854	-
Compensated absences	683,605	222,692	101,986	1,008,283	186,958
Other current liabilities	594,609	101,958	48,756	745,323	6,187,676
Total current liabilities	<u>20,405,101</u>	<u>14,585,156</u>	<u>8,034,784</u>	<u>43,025,041</u>	<u>16,029,357</u>
Noncurrent liabilities:					
General obligation bonds payable	-	97,398,142	139,832,716	237,230,858	-
Revenue bonds payable	379,615,286	52,396,018	-	432,011,304	-
Net pension obligation	9,673,103	2,846,304	2,017,008	14,536,415	1,657,018
Compensated absences	422,684	158,330	152,978	733,992	80,125
Other long-term liabilities	1,888,435	670,896	624,734	3,184,065	-
Total noncurrent liabilities	<u>391,599,508</u>	<u>153,469,690</u>	<u>142,627,436</u>	<u>687,696,634</u>	<u>1,737,143</u>
Total liabilities	<u>\$ 412,004,609</u>	<u>\$ 168,054,846</u>	<u>\$ 150,662,220</u>	<u>\$ 730,721,675</u>	<u>\$ 17,766,500</u>
Deferred inflows of Resources					
Related to pensions	\$ 4,978,861	\$ 1,465,026	\$ 1,038,178	\$ 7,482,065	\$ 852,887
Gain on bonds refunding	-	30,832	2,642	33,474	-
Total deferred inflows of resources	<u>4,978,861</u>	<u>1,495,858</u>	<u>1,040,820</u>	<u>7,515,539</u>	<u>852,887</u>
Total liabilities and deferred inflows of resources	<u>\$ 416,983,470</u>	<u>\$ 169,550,704</u>	<u>\$ 151,703,040</u>	<u>\$ 738,237,214</u>	<u>\$ 18,619,387</u>
<b>NET POSITION</b>					
Net investment in capital assets	\$ 144,465,789	\$ 93,518,618	\$ 28,221,759	\$ 266,206,166	\$ 3,726,462
Restricted for:					
Capital projects					
-	-	-	-	-	-
Other purposes:					
Water utility fund operations	23,486,222	-	-	23,486,222	-
Wastewater utility fund operations	-	228,312	-	228,312	-
Parking facilities fund operations	-	-	5,896,173	5,896,173	-
Unrestricted	77,087,015	13,381,410	10,519,285	100,987,710	998,327
Total net position	<u>\$ 245,039,026</u>	<u>\$ 107,128,340</u>	<u>\$ 44,637,217</u>	<u>\$ 396,804,583</u>	<u>\$ 4,724,789</u>

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

CITY OF NORFOLK, VIRGINIA

Exhibit B-2

Statement of Revenues, Expenses and Changes in Net Position  
 Proprietary Funds  
 For Year Ended June 30, 2015

	Business-Type Activities				Governmental Activities - Internal Service Funds
	Water Utility	Wastewater Utility	Parking Facilities	Total	
<b>Operating revenues:</b>					
Charges for services	\$ 82,995,624	\$ 28,143,966	\$ 19,519,676	\$ 130,659,266	\$ 88,828,633
Miscellaneous	2,407,760	97,755	-	2,505,515	309,196
Total operating revenues	85,403,384	28,241,721	19,519,676	133,164,781	89,137,829
<b>Operating expenses:</b>					
Personal services	15,016,520	4,823,702	6,666,467	26,506,689	2,656,960
Healthcare costs	-	-	-	-	77,540,779
Cost of goods sold	-	-	-	-	5,424,723
Plant operations	6,281,535	2,484,215	1,076,728	9,842,478	3,849,826
Chemicals	3,088,100	37,392	-	3,125,492	-
Depreciation and amortization	12,933,935	5,967,653	5,866,692	24,768,280	286,094
Retirement and OPEB contribution	2,436,750	721,913	491,267	3,649,930	403,587
Administrative expenses	1,160,321	1,317,532	411,185	2,889,038	-
Other	8,899,577	1,349,874	438,757	10,688,208	244,052
Total operating expenses	49,816,738	16,702,281	14,951,096	81,470,115	90,406,021
Operating income (loss), net	35,586,646	11,539,440	4,568,580	51,694,666	(1,268,192)
<b>Nonoperating revenues (expenses):</b>					
Interest income, net of interest capitalized	87,409	-	24,107	111,516	-
Intergovernmental revenue	-	214,199	-	214,199	-
Interest expense and fiscal charges	(9,625,656)	(2,439,687)	(5,093,462)	(17,158,805)	-
Gain (loss) on sale or disposal of capital assets	(2,797)	-	-	(2,797)	-
Miscellaneous revenue (expense)	(12,863)	-	-	(12,863)	-
Total nonoperating revenues (expenses)	(9,553,907)	(2,225,488)	(5,069,355)	(16,848,750)	-
Net income (loss) before contributions and transfers	26,032,739	9,313,952	(500,775)	34,845,916	(1,268,192)
Capital contribution	2,929,676	-	76,148	3,005,824	-
Transfers out	(8,500,000)	(1,500,000)	(33,081)	(10,033,081)	-
Changes in net position	20,462,415	7,813,952	(457,708)	27,818,659	(1,268,192)
Total net position - beginning	235,353,203	102,262,928	47,167,266	384,783,397	7,762,082
Restatement related to pensions (Note XXII)	(10,026,045)	(2,948,540)	(2,072,341)	(15,046,926)	(1,769,101)
Restatement for changes in reporting entity (Note XXII)	(750,547)	-	-	(750,547)	-
Restated net position - beginning	224,576,611	99,314,388	45,094,925	368,985,924	5,992,981
Total net position - ending	\$ 245,039,026	\$ 107,128,340	\$ 44,637,217	\$ 396,804,583	\$ 4,724,789

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

**Statement of Cash Flows - Proprietary Funds**  
**Year Ended June 30, 2015**

	Business-Type Activities				Governmental Activities - Internal Service Funds
	Water Utility	Wastewater Utility	Parking Facilities	Total	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Receipts from customers	\$ 86,621,241	\$ 28,145,640	\$ 19,578,835	\$ 134,345,716	\$ 90,638,609
Payments to suppliers	(8,943,814)	(2,632,245)	(1,085,784)	(12,661,843)	(84,474,788)
Payments to employees	(17,097,373)	(5,424,230)	(7,120,649)	(29,642,252)	(3,001,294)
Other payments	(13,074,063)	(2,626,996)	(953,830)	(16,654,889)	(244,681)
Net cash and short-term investments provided by (used in) operating activities	<u>47,505,991</u>	<u>17,462,169</u>	<u>10,418,572</u>	<u>75,386,732</u>	<u>2,917,846</u>
<b>CASH FLOWS FROM NONCAPITAL</b>					
Other payments					
Internal activity	434,170	248,619	1,508,224	2,191,013	8,903
Intergovernmental revenues	-	214,199	-	214,199	-
Operating subsidies and transfers to other funds	(8,500,000)	(1,500,000)	(33,081)	(10,033,081)	-
Net cash provided by (used in) noncapital financing activities	<u>(8,065,830)</u>	<u>(1,037,182)</u>	<u>1,475,143</u>	<u>(7,627,869)</u>	<u>8,903</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Proceeds from capital/refunding debt	83,680,000	19,578,086	154,674	103,412,760	-
Capital contributions	2,929,676	-	76,148	3,005,824	-
Purchases of capital assets	(28,703,722)	(16,317,910)	(6,874,460)	(51,896,092)	-
Refunding/refinancing of debt principal	(62,600,000)	-	(153,957)	(62,753,957)	-
Principal paid on capital debt	(8,352,786)	(20,448,581)	(3,235,566)	(32,036,933)	-
Interest paid on capital debt	(2,695,685)	(3,551,557)	(5,231,366)	(11,478,608)	-
Net cash provided by (used in) capital and related financing activities	<u>(15,742,517)</u>	<u>(20,739,962)</u>	<u>(15,264,527)</u>	<u>(51,747,006)</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Transfer out	-	-	-	-	2,037
Proceeds from sales and maturities of investments	81,728,640	11,526,401	7,245,956	100,500,997	-
Purchase of investments	(87,247,523)	(9,232,269)	(3,018,097)	(99,497,889)	-
Interest and dividends	87,409	-	24,118	111,527	-
Net cash provided by (used in) investing activities	<u>(5,431,474)</u>	<u>2,294,132</u>	<u>4,251,977</u>	<u>1,114,635</u>	<u>2,037</u>
Net increase (decrease) in cash and short-term investments	18,266,170	(2,020,843)	881,165	17,126,492	2,928,786
Cash and short-term investments - beginning of the year	57,194,861	15,295,046	11,916,713	84,406,620	10,698,239
Cash and short-term investments - end of the year	<u>\$ 75,461,031</u>	<u>\$ 13,274,203</u>	<u>\$ 12,797,878</u>	<u>\$ 101,533,112</u>	<u>\$ 13,627,025</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (used in) Operating Activities:</b>					
Operating income (loss)	\$ 35,586,646	\$ 11,539,440	\$ 4,568,580	\$ 51,694,666	\$ (1,268,192)
Adjustments to reconcile operating income (loss) to net cash and short term investments provided by (used in) operating activities:					
Depreciation expense and Amortization	12,933,935	5,967,653	5,866,692	24,768,280	286,094
Change in assets, deferred outflows and liabilities, deferred inflows:					
Receivables, net	1,217,857	(96,081)	59,159	1,180,935	3,190,366
Inventories	239,175	(254)	(75,101)	163,820	-
Vouchers payable	186,646	(110,384)	66,045	142,307	1,859,326
Accrued payroll	69,548	37,136	(3,414)	103,270	(1,389)
Net pension obligation	286,349	84,249	40,500	411,098	35,839
Other liabilities	(3,014,165)	40,410	(103,889)	(3,077,644)	(1,183,198)
Net cash and short term investments provided by (used in) operating activities	<u>\$ 47,505,991</u>	<u>\$ 17,462,169</u>	<u>\$ 10,418,572</u>	<u>\$ 75,386,732</u>	<u>\$ 2,918,846</u>
<b>Noncash investing, capital and financing activities:</b>					
Unrealized gain / (loss) on investments	\$ (12,863)	\$ -	\$ -	\$ (12,863)	\$ -
Loss on sale or disposal of capital assets	<u>\$ (2,797)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,797)</u>	<u>\$ -</u>
Acquisition of capital assets through change in contract retainage	\$ 173,742	\$ (83,627)	\$ 198,788	\$ 288,903	\$ -
Acquisition of capital assets through vouchers payable	<u>\$ 140,736</u>	<u>\$ 11,794</u>	<u>\$ -</u>	<u>\$ 152,530</u>	<u>\$ -</u>
Capitalized interest, less interest earned on certain long-term construction contracts	\$ 1,242,073	\$ 213,441	\$ -	\$ 1,455,514	\$ -
Deferred inflow of resources	<u>\$ 4,978,861</u>	<u>\$ 1,465,026</u>	<u>\$ 1,038,178</u>	<u>\$ 7,482,065</u>	<u>\$ 852,887</u>

**CITY OF NORFOLK, VIRGINIA**  
**Statement of Fiduciary Net Position**  
**June 30, 2015**

Exhibit C-1

	<b>Pension Trust Fund Employees' Retirement System</b>	<b>Agency Funds</b>
<b>ASSETS</b>		
Cash and short term investments	\$ 46,527,332	\$ 4,357,377
Investments, fair value:		
United States Treasury securities	57,066,102	-
Fixed income securities	77,294,844	-
Equity securities	51,650,658	-
Balanced commingled funds:		
Equity	568,415,391	-
Fixed income	171,970,884	-
Real estate	56,377,425	-
Total investments	982,775,304	-
Receivables:		
Accounts, net of allowance for uncollectible accounts	198	-
Accrued investment income	817,981	-
Due from broker for securities sold	190,815,744	-
Other	-	71,000
Total assets	\$ 1,220,936,559	\$ 4,428,377
<b>LIABILITIES</b>		
Vouchers payable	\$ 523,877	\$ 65,486
Due to brokers for securities purchased	207,208,422	-
Other liabilities	-	4,362,891
Total liabilities	\$ 207,732,299	\$ 4,428,377
<b>NET POSITION</b>		
Restricted for pension benefits	\$ 1,013,204,260	\$ -

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

**CITY OF NORFOLK, VIRGINIA**  
**Statement of Changes in Fiduciary Net Position**  
**Pension Trust Fund - Employees' Retirement System**  
**For the Year ending June 30, 2015**

Exhibit C-2

**Changes to net position attributed to:**

Investment income:

Net depreciation in fair value of investments	\$ 6,993,400
Interest	7,360,605
Dividends	4,009,386
Other	190,304
	18,553,695
Less investment expense	(1,957,143)
<b>Net investment income</b>	<b>16,596,552</b>

Employer contributions	34,932,005
Employee contributions	4,914,726
<b>Total</b>	<b>56,443,283</b>

Benefit payments and expenses:

Refunds of contributions	2,928
Benefits paid to plan members and beneficiaries	79,028,560
Administrative costs	386,494
<b>Total</b>	<b>79,417,982</b>

**Net increase** (22,974,699)

**Net position held in trust for pension benefits:**

Beginning of year	1,036,178,959
End of year	\$ 1,013,204,260

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

**CITY OF NORFOLK, VIRGINIA**  
**Statement of Net Position - Component Units**  
**June 30, 2015**

Exhibit D-1

	Norfolk Public Schools	Norfolk Economic Development Authority	Total
<b>ASSETS</b>			
Cash and short-term investments	\$ 33,598,848	\$ 3,667,477	\$ 37,266,325
Accounts receivable, net of allowance for uncollectible accounts	689,398	251,352	940,750
MUCIPP Program Receivables	-	125,000	125,000
Due from primary government	4,577,245	-	4,577,245
Due from other governments	26,609,089	-	26,609,089
Inventories	1,258,242	-	1,258,242
Property held for sale	-	22,304,976	22,304,976
Prepaid expenses	-	1,105	1,105
Non-depreciable capital assets	487,500	-	487,500
Depreciable capital assets, net	11,287,905	-	11,287,905
Total assets	<u>78,508,227</u>	<u>26,349,910</u>	<u>104,858,137</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Outflows Related to Pensions	27,973,625	-	27,973,625
Total assets and deferred outflows	<u>\$ 106,481,852</u>	<u>\$ 26,349,910</u>	<u>\$ 132,831,762</u>
<b>LIABILITIES</b>			
Vouchers payable	\$ 7,232,695	\$ 33,074	\$ 7,265,769
Contract retainage	25,905	-	25,905
Accrued payroll	33,754,734	-	33,754,734
Unearned revenues	277,573	848,037	1,125,610
Due to primary government	-	282,478	282,478
Other payables	133,364	-	133,364
Due to other government agencies	5,158,691	48,596	5,207,287
Current portion of long-term liabilities	7,440,542	-	7,440,542
Long-term notes payable	-	2,500,000	2,500,000
Long-term vested compensated absences	2,417,135	-	2,417,135
Long-term other post employment benefits	15,743,896	-	15,743,896
Long-term claims and judgments liability	3,225,454	-	3,225,454
Net pension liability	309,164,736	-	309,164,736
Total liabilities	<u>\$ 384,574,725</u>	<u>\$ 3,712,185</u>	<u>\$ 388,286,910</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows related to pensions	52,349,660	-	52,349,660
Total liabilities and deferred inflows	<u>\$ 436,924,385</u>	<u>\$ 3,712,185</u>	<u>\$ 440,636,570</u>
<b>NET POSITION</b>			
Net investment in capital assets	\$ 11,775,405	\$ -	\$ 11,775,405
Restricted for:			
Capital projects	1,135,742	-	1,135,742
Other programs	1,602,837	473,000	2,075,837
Unrestricted	(344,956,517)	22,164,725	(322,791,792)
Total net position	<u>\$ (330,442,533)</u>	<u>\$ 22,637,725</u>	<u>\$ (307,804,808)</u>

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

**CITY OF NORFOLK, VIRGINIA**  
**Statement of Activities - Component Units**  
**For the Year Ended June 30, 2015**

Exhibit D-2

	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
	Charges for Services	Operating Grant Contributions	Capital Grant Contributions	Norfolk Public Schools	Norfolk Economic Development Authority
<b>Norfolk Public Schools:</b>					
Instructional	\$ 265,732,237	\$ 190,302,894	\$ -	\$ (73,411,602)	\$ -
Administration, attendance and health	15,908,470	-	-	(15,908,470)	-
Pupil transportation	12,952,368	914,608	-	(12,037,760)	-
Operation and maintenance	35,231,729	-	-	(35,231,729)	-
Information technology	13,234,422	-	-	(13,234,422)	-
School facilities	5,770,662	-	3,540,647	(2,230,015)	-
Food services	16,966,622	16,085,781	-	552,400	-
Community services	144,417	-	-	(144,417)	-
<b>Total Norfolk Public Schools</b>	<b>365,940,927</b>	<b>207,303,283</b>	<b>3,540,647</b>	<b>(151,646,015)</b>	<b>-</b>
<b>Norfolk Economic Development Authority:</b>					
Economic development	2,847,707	491,552	-	-	(2,356,155)
Interest Expense	39,933	-	-	(39,933)	-
<b>Total Norfolk Economic Development Authority</b>	<b>2,887,640</b>	<b>491,552</b>	<b>-</b>	<b>-</b>	<b>(2,396,088)</b>
<b>Total component units</b>	<b>\$ 368,828,567</b>	<b>\$ 207,303,283</b>	<b>\$ 3,540,647</b>	<b>\$ (151,646,015)</b>	<b>\$ (2,396,088)</b>
General revenues:					
Use of money and property				841,554	6,989
Payment from Primary Government				117,721,922	2,851,021
Miscellaneous				462,169	53,505
Loss on discontinuation of operations				-	-
Gain on disposal of assets				-	(3,560)
Commonwealth of Virginia				31,992,590	-
Total general revenues				151,018,235	2,907,955
Changes in net position				(627,780)	511,867
Net position - beginning				8,178,688	-
Restatement of Net Position related to pensions (Note XXII)				(337,993,441)	-
Restatement of Net Position for changes in reporting entity (Note XXII)				-	22,125,858
Restated of Net Position (deficit) - beginning (Note XXII)				<u>\$ (329,814,753)</u>	<u>\$ 22,125,858</u>
Net position - ending				<u>\$ (330,442,533)</u>	<u>\$ 22,637,725</u>
				<u>\$ (151,646,015)</u>	<u>\$ (154,042,103)</u>

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



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**NOTES TO THE BASIC  
FINANCIAL STATEMENTS**





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**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**For the Year Ended June 30, 2015**

**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 246,000 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 ten-member Board of Trustees. Eight members are appointed by City Council. The City Manager and the Director of Finance are ex-officio members. The ERS is the administrator of a single-employer contributory 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 and certain employee contributions, 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. In November 2014, voters supported a referendum to be able to elect the School Board members which are currently appointed by City Council. The first election will be held in May 2016 and the Members will take office in fiscal year 2017. 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 Waterside became fiscally dependent on the City to support, as well as manage its operations with City Council appointing two of the three board members. In 2014, Waterside was transferred to NRHA to be leased to Norfolk District Associates, LLC to be redeveloped. The City will establish

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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a special fund for 70% of the revenue generated by the newly developed Waterside to pay for its obligations for the redevelopment costs. Beginning in fiscal year 2015, Waterside will be reported with the NRHA.

The Economic Development Authority (EDA), 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. Beginning in fiscal year 2015, the EDA is reported as a component unit of the City, because of the recent commitment to provide funding for the development of the property otherwise known as the Lake Wright Property through the EDA. Separate financial statements are prepared.

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  
[www.norfolk.gov](http://www.norfolk.gov)

The School Board for the City of Norfolk  
800 East City Hall Avenue  
P.O. Box 1357  
Norfolk, Virginia 23501-1357  
[www.nps.k12.va.us](http://www.nps.k12.va.us)

The Economic Development Authority  
500 East Main Street, Suite 1500  
Norfolk, Virginia 23510-2206  
[www.norfolkdevelopment.com](http://www.norfolkdevelopment.com)

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position 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

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2015**

Primary Government is reported separately from certain legally separate *component units* for which the *Primary Government* is financially accountable.

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

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported in 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 or operated 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 include juvenile detention services, emergency call center services, tax increment financing districts, environmental stormwater, towing and recovery operations, waste management, and individual grant programs. In 2015 the Community Services Board, which provides mental health and substance abuse services, was merged with the General Fund.

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2015**

- *Internal Service Funds* account for the City's self-insured healthcare program and fleet management services whose services are provided to other departments or agencies of the City on a cost reimbursement basis. The Healthcare fund was established in fiscal year 2014 and is described in Note XIX.
- The *Pension Trust Fund* accounts for the activities of the Employees' Retirement System, which accumulates resources for pension benefit payments to qualified employees.
- The *Endowed Care Fund* is used to report resources that are restricted to the extent that only the interest may be used to support the City's cemetery operations.
- The *Agency Funds* are used to account for the assets held by a governmental unit as an agent for individuals, private organizations, other governmental units and/or other funds. Agency funds do not involve the measurement of results of operations as they are custodial in nature (assets = liabilities).

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

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

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

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2015**

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

- Real property taxes
- Personal property taxes
- Sales and use taxes
- Consumer utility taxes
- Environmental storm water billings
- Revenue from the Commonwealth
  - Shared expenses
  - Categorical aid
- Revenue from the federal government

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 position as shown on the Government-wide Statement of Net Position is presented in Exhibit A-2. In addition, a summary reconciliation of the difference between the total net change in fund balances as reflected on the governmental funds' Statement of Revenues, Expenditures and Changes in Fund Balances and the change in net position of governmental activities as shown on the Government-wide Statement of Activities is presented in Exhibit A-4.

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, as well as 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, 2015**

**D. Budgets and Budgetary Accounting**

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

In 2015 the operations of the Norfolk Community Services Board (NCSB) special revenue fund were incorporated into the General Fund. As a result, the local matching funds required from the General Fund for the NCSB is provided within their budget appropriation. Also effective July 1, 2014, the Waste Management Division in the Department of Public Services, previously reported in the General Fund will be reported as a separate special revenue fund.

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. Prior to the adoption of the budget, 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 approval 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 U.S. generally accepted accounting principles (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 U.S. GAAP.

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

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2015**

in the financial statements represent the original appropriations, and all supplemental adjustments or appropriations.

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

**E. Deposits and Investments**

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

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

Investments of the City, as well as its component units, are reported at fair value. Short-term investments are recorded at amortized cost, which approximates fair value. The United States Treasury Securities and fixed income securities traded on a national or international securities exchange are valued based on equivalent values of comparable securities with similar yield and risk. 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, and 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, 2015**

**F. Restricted Assets**

Restricted assets are those whose use is subject to externally imposed constraints such as 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. The Fleet services fund, and the Healthcare fund primarily support governmental activities and are therefore included with 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 and amortization 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 Net Position if they meet the criteria for capitalization in the City's financial statements. Where historical cost records are not available, assets are recorded at estimated historical cost. Gifts or donated fixed assets are recorded at their estimated fair value on the date received. In the enterprise and internal service funds, interest costs incurred on funds borrowed for construction projects are capitalized, net of interest earned on the temporary investment of the unexpended portion of those funds. When an

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2015**

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):

	<b>Governmental Funds</b>	<b>Enterprise Funds</b>	<b>Internal Service Funds</b>
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. Land and Land Improvement Held for Resale**

Land and land improvements held for resale are recorded at the lower of cost or estimated fair value. Cost is determined by acquisition price, if purchased, or at estimated fair value at the date of contribution, if contributed. Subsequent land improvements are added to land and land improvements held for sale. Fair value is the amount at which the asset could be bought or sold in a current transaction between willing parties that is other than in a forced or liquidation sale.

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2015**

**K. Compensated Absences**

It is the City and the School Board's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation leave is fully vested when earned by City employees. Accumulated vacation leave cannot exceed certain limits as codified in Section 2-49 in the City Code of Ordinances. Sick leave does not vest for City employees; however, upon retirement, City employees receive credit for each day of accumulated sick leave toward their pension benefit. There is no liability for unpaid accrued sick leave service since the City does not pay it when the employee separates from service. The additional retirement benefit is reflected in the actuarial liability of the ERS. The entire unpaid liability for vacation leave is recorded in the respective funds in the government-wide financial statements.

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

**L. Net Position/Fund Balances**

Net position in government-wide and proprietary fund financial statements may be classified as net investment in capital assets; restricted; and unrestricted. Restricted net position 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 (ordinance). Committed amounts cannot be used for any other purpose unless approved by City Council by taking the same type of formal action. In the General fund, 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. In the governmental funds, except for the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. Assignment authority has been given to the City Manager by the City Council. The unassigned fund balance classification is for all amounts not included in other classifications.

**M. Estimates**

The preparation of financial statements in conformity with U.S. GAAP 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.

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**N. Bond Premiums, Discounts, Issuance Costs and Loss on Defeasance**

In the government-wide and proprietary fund financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported with the applicable bond premium or discount. Bond issuance costs are expensed in the period incurred. Refer to Note VIII for details on the amounts reported in Long-Term Obligations.

Gains and losses on defeasance from refunding bonds are reported in the government-wide and proprietary fund financial statements as deferred inflows and outflows of resources and are amortized using the straight-line method over the term of the debt.

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

**O. Deferred Inflows and Outflows of Resources**

The City reports deferred inflows and outflows on its fund level balance sheets and government-wide statement of net position. Deferred inflows are items that were previously reported as deferred revenues and certain items that were previously recorded as liabilities such as gains on defeasance of debt. Deferred inflows arise when potential revenue does not meet the “measureable” and “available” criteria for recognition in the current period. Certain intergovernmental receivables such as uncollected property tax not meeting the availability criteria have been deferred and will be realized in a subsequent period in governmental funds. Deferred outflows represent a consumption of net position in a future period.

The City reports the gains and losses on defeasance from debt refundings and certain components of the net pension liability as deferred inflows and outflows. Certain changes in net pension liability are recorded as deferred inflows and outflows and amortized over a closed 5 year period or the average remaining service life of employees in the pension plans. Examples are the differences between actual and projected earnings on investments and the effects of change in assumptions.

**P. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position and the additions and deductions there to, of each of the plans that the City and its component units participate in, which include the Virginia Retirement System (VRS) City of Norfolk Constitutional Offices, VRS Teacher Retirement Plan, the VRS Political Subdivision Retirement Plan and the City of Norfolk Employees’ Retirement Plan (ERS) have been determined on the same basis as they were reported by each respective plan. With the exception of deferred outflows related to employer contributions made after the measurement

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date, deferred inflows and outflows are amortized over a closed five year period or the average remaining service life of the effected employees. Deferred outflows of resources related to employer contributions made after the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The allocation of proportionate shares of the ERS net pension liability and other pension amounts to participating funds is based on employer contributions.

**II. Deposits and Investments**

**Custodial Credit Risk - Deposits**

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

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

**Custodial Credit Risk - Investments**

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

The City's equity and fixed income investments (except for bank deposits) are not insured and are registered in the name of the City and held by State Street Bank as custodian. The remaining City investments are held by the City or in the City's name by the City's custodial

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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. The City uses the segmented time distribution method to evaluate interest rate risks as disclosed below as of June 30, 2015.

**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	\$ 36,388,274	\$ 11,848,716	\$ 8,725,303	\$ 2,663,073	\$ 5,805,382	\$ 7,345,800
Futures/Options/Swaps	345,948	(56,972)	(65,729)	199,510	219,996	49,143
Asset Backed Securities	5,152,533	-	1,187,109	-	3,058,099	907,325
US Government Securities	59,859,438	-	2,793,336	10,286,224	21,848,821	24,931,057
Mortgage Backed Securities	29,979,394	-	18,812	261,972	4,157,227	25,541,383
Certificates of Deposit	682,036	682,036	-	-	-	-
International Equities	219,302,401	-	-	-	-	219,302,401
Common Stock	6,000,192	-	-	-	-	6,000,192
Master Limited Partnerships	45,650,466	-	-	-	-	45,650,466
Municipal Bonds	3,612,263	-	-	-	-	3,612,263
Repurchase Agreements	12,500,000	12,500,000	-	-	-	-
Foreign Government Securities	1,816,432	81,715	303,462	1,431,255	-	-
Fixed Income Funds	171,970,884	-	-	-	-	171,970,884
Domestic Equity Funds	349,112,990	-	-	-	-	349,112,990
Real Estate Funds	56,377,425	-	-	-	-	56,377,425
Money Market Funds	122,338,676	122,338,676	-	-	-	-
<b>Total</b>	<b>\$ 1,121,089,352</b>	<b>\$ 147,394,171</b>	<b>\$ 12,962,293</b>	<b>\$ 14,842,034</b>	<b>\$ 35,089,525</b>	<b>\$ 910,801,329</b>

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

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Per Exhibit 1 (Primary Government):	
Cash and short term investments	\$ 155,177,000
Investments	15,097,862
Restricted cash and investments	<u>69,708,356</u>
Total	\$ 239,983,218
Per Exhibit C-1 (Fiduciary):	
Cash and short term investments	50,884,709
Investments	<u>982,775,304</u>
Total	\$ 1,033,660,013
Total Primary Government and Fiduciary Funds	<u>\$ 1,273,643,231</u>
Less cash	152,553,879
Deposits and investments reported above	<u><u>\$ 1,121,089,352</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 Investors Services ("Moody's"), Fitch Ratings ("Fitch"), and Standard and Poor's ("S&P"), are not permitted without the written permission of the board. PIMCO, one of the ERS fund managers, has been given the authority by the Board to invest 20% of the portfolio in below investment grade securities. The City's Pension Trust fund invests in certain derivatives including futures, swaps and options. Those securities are included in reported investments in the ERS's financial statements. Investments in derivatives with a fair value of \$7,240,424 were held at June 30, 2015. For accounting purposes, all derivative instruments are considered to be investments and not hedges. ERS primarily enters into derivative transactions in order to manage risks from exposure to foreign currency rate fluctuation and to shorten the duration of the fixed income investment portfolio. The City's rated debt investments as of June 30, 2015, 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/Options/ Swaps	Asset Backed Securities	Foreign Government	International Equity Funds	U.S. Government Securities	Mortgage Backed Securities	Repurchase Agreements	Certificates of Deposit	Common Stock	Master Limited Partnerships	Municipal Bonds	Fixed Income/Equity/ Real Estate Funds	Money Market Mutual Funds
AAA	\$ -	\$ -	\$ 24,200	\$ -	\$ -	\$ -	\$ 209,588	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
AAAm	-	-	-	-	-	-	-	-	-	-	-	-	-	122,338,676
AA+	1,024,177	-	862,481	1,734,717	-	59,859,438	12,070	-	-	-	-	-	-	-
AA	-	-	-	-	-	-	1,663,970	-	-	-	-	568,851	-	-
AA-	998,640	-	-	81,715	-	-	-	-	-	-	-	2,219,346	-	-
AAm-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A+	5,548,690	-	-	-	-	-	39,900	-	-	-	-	-	-	-
A	4,740,955	-	-	-	-	-	16,927	-	-	-	-	360,070	-	-
A-	4,173,857	-	-	-	-	-	-	-	-	-	-	-	-	-
BBB+	4,755,288	-	-	-	-	-	-	-	-	-	-	463,996	-	-
BBB	1,210,898	-	-	-	-	-	-	-	-	-	-	-	-	-
BBB-	4,900,956	-	-	-	-	-	104,625	-	-	-	-	-	-	-
BB+	4,215,450	-	1,187,109	-	-	-	-	-	-	-	-	-	-	-
BB	613,296	-	-	-	-	-	-	-	-	-	-	-	-	-
BB-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B+ and Below	746,375	-	49,767	-	-	-	769,262	-	-	-	-	-	-	-
Not Rated	3,459,692	345,948	3,028,976	-	219,302,401	-	27,163,052	12,500,000	682,036	6,000,192	45,650,466	-	577,461,299	-
<b>Total</b>	<b>\$ 36,388,274</b>	<b>\$ 345,948</b>	<b>\$ 5,152,533</b>	<b>\$ 1,816,432</b>	<b>\$ 219,302,401</b>	<b>\$ 59,859,438</b>	<b>\$ 29,979,394</b>	<b>\$ 12,500,000</b>	<b>\$ 682,036</b>	<b>\$ 6,000,192</b>	<b>\$ 45,650,466</b>	<b>\$ 3,612,263</b>	<b>\$ 577,461,299</b>	<b>\$ 122,338,676</b>

The City's Pension Trust fund held \$349,112,990 and \$56,377,425 in Domestic Equity and Real Estate Funds respectively, and an additional \$171,970,884 in Fixed Income Funds that are unrated securities.

### Concentration of Credit Risk

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

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

### Foreign Currency Risk

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

<u>Currency</u>	<u>Fixed-Income</u>
Australian Dollar	\$ 1
Danish Krone	58
Canadian Dollar	41,293
Euro Currency	5,910,811
Japanese Yen	82,198
Mexican Peso	106,151
Pound Sterling	683,766
	<u>\$ 6,824,278</u>

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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.

**School Board**

At June 30, 2015, the School Board has cash of \$43,073,391, including \$9,474,543 held in agency funds.

**Economic Development Authority (EDA)**

At June 30, 2015, the EDA had \$3,667,477 of cash and short term investments. The amount includes \$1,574,885 in cash and cash equivalents of which \$260,540 is in Local Government Investment Pool (LGIP) and a six-month certificate of deposit yielding 0.12% in the amount of \$2,092,592.

**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, 2015, on each \$100 of assessed value, were \$1.15 for real property, an additional \$0.16 for the Downtown Improvement District, \$4.33 for motor vehicles, \$4.33 for business furniture, fixtures and equipment, \$1.50 for recreational vehicles, \$4.25 for machinery and tools, \$1.11 for mobile homes, \$2.40 for airplanes, \$0.50 for recreational boats and \$1.50 for business boats. The City has a Real Estate Tax Relief/ Tax Deferral Program for Norfolk homeowners who are 65 and older or completely disabled and meet certain eligibility requirements.

The property tax calendar is as follows:

	<b>Real Property</b>	<b>Other than Real Property</b>
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 installments 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 of Ordinances.

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**IV. Accounts Receivable**

**A. Unbilled Accounts Receivable**

Following is a summary by fund of unbilled accounts receivable recognized at June 30, 2015:

Storm Water special revenue fund	\$	819,268
Water Utility fund		4,753,081
Wastewater Utility fund		1,281,756
Parking Facilities fund		232,828
		\$ 7,086,933

The associated revenue is included in charges for services. All amounts were billed in July 2015.

**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, 2015, are as follows:

**Primary Government:**

General Fund:		
Taxes	\$	11,661,326
Accounts		16,199,952
Community Service Board		201,096
Total - General Fund		28,062,374
Storm Water special revenue fund		448,800
Waste Management fund		736,800
Parking Facilities fund		10,183,749
Water Utility fund		1,651,710
Wastewater Utility fund		850,000
<b>Total - Primary Government</b>		<b>\$ 41,933,433</b>

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**V. Due From Other Governments**

Amounts due from other governments, at June 30, 2015, are as follows:

	General Fund	Special Revenue Funds	Total Primary Government	Component Unit School Board
Commonwealth of Virginia:				
Shared expenses	\$ -	\$ -	\$ -	\$ -
Categorical aid	-	-	-	-
Non-categorical aid	23,232,447	-	23,232,447	8,210,881
Non-major governmental funds grants	-	1,946,391	1,946,391	-
<b>Total - Commonwealth of Virginia</b>	<b>23,232,447</b>	<b>1,946,391</b>	<b>25,178,838</b>	<b>8,210,881</b>
Federal Government:				
Major governmental funds	949,351	-	949,351	18,398,908
Non-major governmental funds grants	-	3,402,714	3,402,714	-
<b>Total - Federal Government</b>	<b>949,351</b>	<b>3,402,714</b>	<b>4,352,065</b>	<b>18,398,908</b>
<b>Total - Due from other governments</b>	<b>\$ 24,181,798</b>	<b>\$ 5,349,105</b>	<b>\$ 29,530,903</b>	<b>\$ 26,609,789</b>

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**VI. Capital Assets**

A summary of changes in capital assets, at June 30, 2015, follows:

	Primary Government			Ending Balance
	Beginning Balance	Additions	Retirements	
<b>Governmental activities:</b>				
Non-depreciable capital assets:				
Land	\$ 87,821,230	\$ 4,528,000	\$ (36,381)	\$ 92,312,849
Intangible assets	69,014	-	-	69,014
Construction in progress	194,282,981	82,132,188	(147,209,195)	129,205,974
Total non-depreciable assets	<u>282,173,225</u>	<u>86,660,188</u>	<u>(147,245,576)</u>	<u>221,587,837</u>
Depreciable assets:				
Buildings	771,474,397	126,605,597	(126,187)	897,953,807
Improvements other than buildings	73,287,302	10,256,616	-	83,543,918
Equipment and vehicles	138,038,289	14,239,701	(3,044,853)	149,233,137
Intangible assets	4,994,829	-	-	4,994,829
Infrastructure	1,190,008,258	14,768,821	(2,075,434)	1,202,701,645
Total depreciable assets	<u>2,177,803,075</u>	<u>165,870,735</u>	<u>(5,246,474)</u>	<u>2,338,427,336</u>
Less accumulated depreciation/amortization:				
Buildings	(340,216,693)	(19,540,835)	147,229	(359,610,299)
Improvements other than buildings	(22,185,488)	(2,761,164)	-	(24,946,652)
Equipment and vehicles	(94,108,326)	(8,271,129)	2,763,788	(99,615,667)
Intangible assets	(3,833,661)	(198,762)	-	(4,032,423)
Infrastructure	(988,502,082)	(15,147,343)	2,075,431	(1,001,573,994)
Total accumulated depreciation/amortization	<u>(1,448,846,250)</u>	<u>(45,919,233)</u>	<u>4,986,448</u>	<u>(1,489,779,035)</u>
Depreciable assets, net	<u>728,956,825</u>	<u>119,951,502</u>	<u>(260,026)</u>	<u>848,648,301</u>
Total governmental activities capital assets, net	<u>\$ 1,011,130,050</u>	<u>\$ 206,611,690</u>	<u>\$ (147,505,602)</u>	<u>\$ 1,070,236,138</u>
<b>Business-Type activities:</b>				
Non-depreciable capital assets:				
Land	\$ 48,122,255	\$ 1,264,868	\$ -	\$ 49,387,123
Intangible assets	2,435,765	53,639	-	2,489,404
Construction in progress	43,695,329	46,624,791	(37,877,865)	52,442,255
Total non-depreciable assets	<u>94,253,349</u>	<u>47,943,298</u>	<u>(37,877,865)</u>	<u>104,318,782</u>
Depreciable assets:				
Land improvements	20,787,445	-	-	20,787,445
Buildings	387,284,414	12,247,896	-	399,532,310
Equipment and vehicles	722,101,842	30,900,335	(1,123,040)	751,879,137
Intangible assets	6,581,705	-	(7,197)	6,574,508
Totals depreciable assets	<u>1,136,755,406</u>	<u>43,148,231</u>	<u>(1,130,237)</u>	<u>1,178,773,400</u>
Less accumulated depreciation/amortization:				
Land improvements	(4,517,575)	(405,250)	-	(4,922,825)
Buildings	(118,473,900)	(8,574,312)	-	(127,048,212)
Equipment and vehicles	(213,603,916)	(15,268,495)	251,301	(228,621,110)
Intangible assets	(4,785,663)	(520,223)	-	(5,305,886)
Total accumulated depreciation/amortization	<u>(341,381,054)</u>	<u>(24,768,280)</u>	<u>251,301</u>	<u>(365,898,033)</u>
Depreciable assets, net	<u>795,374,352</u>	<u>18,379,951</u>	<u>(878,936)</u>	<u>812,875,367</u>
Business-Type activities capital assets, net	<u>\$ 889,627,701</u>	<u>\$ 66,323,249</u>	<u>\$ (38,756,801)</u>	<u>\$ 917,194,149</u>
<b>Component units activities:</b>				
Non-depreciable capital assets:				
Land	\$ 487,500	\$ -	\$ -	\$ 487,500
Construction in progress	-	-	-	-
Total non-depreciable assets	<u>487,500</u>	<u>-</u>	<u>-</u>	<u>487,500</u>
Depreciable assets:				
Buildings and mobile classrooms	13,018,652	102,685	(6,459,062)	6,662,275
Improvements other than buildings	90,911	-	(90,911)	-
Building improvements	-	-	-	-
Equipment and vehicles	35,724,347	1,388,044	(891,596)	36,220,795
Intangible assets	981,770	341,617	-	1,323,387
Total depreciable assets	<u>49,815,680</u>	<u>1,832,346</u>	<u>(7,441,569)</u>	<u>44,206,457</u>
Less accumulated depreciation:				
Buildings and mobile classrooms	(7,170,123)	(531,989)	3,655,240	(4,046,872)
Improvements other than buildings	(90,910)	-	90,910	-
Building improvements	-	-	-	-
Equipment and vehicles	(26,960,076)	(2,147,963)	882,357	(28,225,682)
Intangible assets	(392,708)	(253,290)	-	(645,998)
Total accumulated depreciation	<u>(34,613,817)</u>	<u>(2,933,242)</u>	<u>4,628,507</u>	<u>(32,918,552)</u>
Depreciable assets, net	<u>15,201,863</u>	<u>(1,100,896)</u>	<u>(2,813,062)</u>	<u>11,287,905</u>
Component units activities capital assets, net	<u>\$ 15,689,363</u>	<u>\$ (1,100,896)</u>	<u>\$ (2,813,062)</u>	<u>\$ 11,775,405</u>

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

<b>Governmental activities:</b>	
General government	\$ 11,758,990
Judicial administration	1,599,298
Public safety	4,308,703
Public works, which includes the depreciation of infrastructure assets	18,521,294
Health and public assistance	222,727
Culture and recreation	8,771,114
Community development	451,013
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	<u>286,094</u>
Total depreciation expense	<u>\$ 45,919,233</u>
 <b>Business-type activities:</b>	
Water Utility fund	\$ 12,933,935
Wastewater Utility fund	5,967,653
Parking facilities fund	<u>5,866,692</u>
Total depreciation expense	<u>\$ 24,768,280</u>
 <b>Component units:</b>	
School Board	\$ 2,931,154
Norfolk Economic Development Authority	<u>2,088</u>
Total component units	<u>\$ 2,933,242</u>

**Land and Land Improvements Held for Resale**

On December 22, 2014, the Authority purchased real estate from J.C. Penney Corporation, Inc. consisting of a tract of land and improvements on approximately 16 acres at The Gallery at Military Circle for \$2,500,000. Closing costs and legal fees paid by the Authority related to the purchase were \$59,976. These fees were capitalized and added to the balance of land and land improvements held for resale.

On October 18, 2013, the Norfolk Redevelopment and Housing Authority (NRHA) donated property including the Lake Wright Golf Course to the Authority with an estimated fair value of \$19,400,000, as determined by an independent appraiser. The Authority entered into an agreement on November 12, 2013, amended on July 1, 2014, to sell a portion of that property to Simon Acquisition II, LLC (Simon) and entered into a second agreement on August 28, 2014, to sell the remainder property to Northampton Development, L.L.C. These agreements were not consummated as of June 30, 2015.

Land and land improvements held for resale also includes three acres which are recorded at approximately \$115,000 per acre, which represents the cost basis of two acres and an amount below the original cost basis of the third.

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The following is a summary by fund of interest expense/revenue capitalized during the fiscal year ended June 30, 2015:

	<b>Expense</b>	<b>Revenue</b>	<b>Capitalized</b>
Water Utility fund	\$ 1,317,414	\$ (75,341)	\$ 1,242,073
Wastewater Utility fund	230,209	(16,768)	213,441
	\$ 1,547,623	\$ (92,109)	\$ 1,455,514

**VII. Short-Term Obligations**

**A. 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 Half Moone Cruise & Celebration Center. As of June 30, 2015, \$28,395,000 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.

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. Since delivery, the interest rate period on the Series 2007 Bonds has been at the Weekly Rate.

A portion of the Series 2007 Bonds maturing on August 1, 2037, in the amount of \$1,910,000 are subject to mandatory redemption. 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.

The City maintains a liquidity facility with respect to the Series 2007 Bonds to assist with the payment of Bonds tendered for purchase by the owners and not remarketed. In 2014, the existing liquidity facility was due to expire, and the City entered into a Standby Bond Purchase Agreement dated as of March 1, 2014 (the "Liquidity Facility") among the City, the Trustee and Royal Bank of Canada (the "Bank"). The annual for the Liquidity Facility fee is 39 basis points (0.39%) for a five-year term. Additionally, RBC provided a rate of 8 basis points (0.08%) to serve as Remarketing Agent. During the fiscal year ended June 30, 2015, the average weekly interest rate on the bonds was 4 basis points (0.04%).

Under the Liquidity Facility, un-remarketed Bonds held by the Bank (the "Bank Bonds"), if any, shall bear interest at the Bank Rate and have interest payable to the Bank in accordance with the Liquidity Facility.

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Through June 30, 2015, all the Series 2007 Bonds have been successfully remarketed by the remarketing agent.

**General Obligation Variable Rate Bond, Series 2013D (Taxable)**

On November 7, 2013, the City entered into a private placement variable rate loan in the original principal amount of \$13,600,000 (the "2013 Variable Rate Loan") with Bank of America, N.A. As of June 30, 2015, \$13,210,000 remains outstanding and included in the City's long-term debt.

Interest on the 2013 Variable Rate Loan is payable semi-annually on each February 1 and August 1, beginning on February 1, 2014, at an interest rate of LIBOR, plus 0.95%. During the fiscal year ended June 30, 2015, the average weekly interest rate on the bonds was 111.23 basis points (1.1123%).

**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 2008 the City established Water revenue and Wastewater revenue bond programs, respectively.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. Revenue bonds are limited liability obligations where revenues derived from the respective acquired or constructed assets are pledged to pay debt service.

A summary of general obligation bond and revenue bond transactions for the fiscal year ended June 30, 2015, 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, 2014	\$ 665,384,732	\$ 547,786	\$ 104,851,060	\$ 141,916,764	\$ 247,315,610
Line of credit draws	1,000,000	-	-	-	-
Bonds retired	(49,212,904)	(547,786)	(7,928,958)	(3,235,566)	(11,712,310)
Bonds refunded	(72,936,422)	-	(10,029,622)	(153,957)	(10,183,579)
Bonds transferred	-	-	-	-	-
Bonds reamortized	-	-	-	-	-
Bonds issued	74,093,536	-	10,496,790	154,674	10,651,464
Bonds outstanding at June 30, 2015	618,328,942	-	97,389,270	138,681,915	236,071,185
Unamortized (discount) premium	48,480,055	-	7,141,545	4,277,650	11,419,195
General obligation bonds outstanding at June 30, 2015, adjusted for unamortized (discount) premium	\$ 666,808,997	\$ -	\$ 104,530,815	\$ 142,959,565	\$ 247,490,380
Revenue bonds outstanding at July 1, 2014		\$ 325,195,000	\$ 48,954,628	\$ -	\$ 374,149,628
Bonds retired		(7,805,000)	(2,490,000)	-	(10,295,000)
Bonds refunded		(62,600,000)	-	-	(62,600,000)
Bonds issued		83,680,000	9,081,295	-	92,761,295
Bonds outstanding at June 30, 2015		338,470,000	55,545,923	-	394,015,923
Unamortized (discount) premium		49,895,286	-	-	49,895,286
Revenue bonds outstanding at June 30, 2015, adjusted for unamortized (discount) premium		\$ 388,365,286	\$ 55,545,923	\$ -	\$ 443,911,208
Total bonds outstanding at June 30, 2015, adjusted for unamortized (discount) premium	\$ 666,808,997	\$ 388,365,286	\$ 160,076,738	\$ 142,959,565	\$ 691,401,589

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General obligation and revenue bonds outstanding at June 30, 2015, are composed of the following individual issues:

Bond Issue/Purpose	Dated	Issue Amount	Interest Rate	Governmental Activities			Balance Outstanding
				Public		Parking Facilities	
				Improvement	Wastewater Utility		
Series 1989 Property Acquisition	7/11/1989	\$ 1,500,000	6.76%	\$ 1,500,000	\$ -	\$ -	\$ 1,500,000
Series 2001 QZAB	12/27/2001	1,062,830	0.00%	61,347	-	-	61,347
Series 2002 Property Acquisition	8/14/2002	3,400,000	5.375%	3,400,000	-	-	3,400,000
Series 2003 VRA	4/8/2003	9,423,794	2.00%	-	5,284,701	-	5,284,701
Series 2004 Property Acquisition	7/29/2004	1,775,000	7.00%	693,620	-	-	693,620
Series 2004 VRA	9/17/2004	11,100,000	3.10%	-	7,063,801	-	7,063,801
Series 2006 VRA	3/14/2006	11,187,809	2.25%	-	7,824,160	-	7,824,160
Series 2006B VRA	9/28/2006	14,250,000	0.00%	-	9,262,500	-	9,262,500
			Variable - June 30, 2015, rate of 0.04%	28,395,000	-	-	28,395,000
Series 2007 VRDB	3/29/2007	32,365,000	3.25 - 4.625%	4,865,000	-	-	4,865,000
Series 2008A&B Refunding	2/13/2008	17,160,000	5.00%	12,310,000	2,235,000	-	14,545,000
Series 2008C Capital Improvement	6/30/2008	153,605,000	3.00 - 5.00%	21,682,976	392,024	-	22,075,000
Series 2009A&B Refunding	5/21/2009	77,175,000	3.00 - 5.00%	8,011,922	595,854	2,907,224	11,515,000
Series 2010A Capital Improvement	1/21/2010	49,875,000	4.04 - 5.962%	108,841,905	8,808,095	-	117,650,000
Series 2010B Capital Improvement	1/21/2010	117,650,000	2.50 - 4.00%	-	-	4,000,000	4,000,000
Series 2010E Capital Improvement	2/25/2010	5,000,000	3.40 - 5.60%	4,000,000	-	-	4,000,000
Series 2010F Capital Improvement	2/25/2010	5,000,000	4.00 - 5.00%	77,152,514	6,588,789	193,697	83,935,000
Series 2010G Refunding	10/19/2010	90,165,000	2.00 - 5.00%	61,445,313	5,958,367	1,626,320	69,030,000
Series 2012A Refunding	5/30/2012	69,030,000	2.00 - 4.00%	6,360,000	-	-	6,360,000
Series 2012B Refunding	5/30/2012	7,805,000	4.00 - 5.00%	52,145,000	11,895,000	-	64,040,000
Series 2012C Capital Improvement	6/28/2012	114,270,000	4.35%	7,350,000	-	-	7,350,000
Series 2012D Capital Improvement	6/28/2012	7,350,000					
Series 2013A Capital Improvements and Refunding	11/7/2013	130,990,000	3.00 - 5.00%	85,400,000	7,205,000	36,740,000	129,345,000
Series 2013B Capital Improvements and Refunding	11/7/2013	81,715,000	0.4290 - 4.955%	-	-	79,850,000	79,850,000
Series 2013C QECB	11/7/2013	2,470,000	4.855%	2,470,000	-	-	2,470,000
			Variable - June 30, 2015, rate of 1.1340%	-	-	13,210,000	13,210,000
Series 2013D Refunding	11/7/2013	13,600,000	2.00 - 5.00%	52,231,220	12,923,780	-	65,155,000
Series 2014 Refunding	4/2/2014	65,155,000	1.400%	5,932,615	1,022,385	-	6,955,000
Series 2014A Refunding	6/2/2014	11,725,000	3.290%	9,112,877	647,449	154,674	9,915,000
Series 2014B Refunding	10/1/2014	9,900,000	2.00 - 5.00%	49,473,844	7,856,156	-	57,330,000
Series 2014C Refunding	9/30/2014	58,510,000	3.320%	14,493,792	1,826,208	-	16,320,000
Series 2015 Refunding	3/2/2015	16,320,000					
Total General Obligation Bonds				\$ 617,328,945	\$ 97,389,269	\$ 138,681,915	\$ 853,400,129

Bond Issue/Purpose	Dated	Interest Rate	Business-type Activities			Balance Outstanding
			Water Utility	Wastewater		
				Utility		
Series 2005 Water Revenue and Refunding	3/23/2005	4.00%	\$ 540,000	\$ -	\$ -	\$ 540,000
Series 2007 Wastewater Revenue	11/9/2007	0.00%	-	12,325,000	-	12,325,000
Series 2008 Water Revenue	4/23/2008	4.00 - 5.00%	5,035,000	-	-	5,035,000
Series 2009 Wastewater Revenue	11/17/2009	0.00%	-	6,000,000	-	6,000,000
Series 2010 Water Revenue	9/30/2010	2.50 - 4.50%	43,665,000	-	-	43,665,000
Series 2010 Wastewater Revenue	10/19/2010	0.00%	-	8,500,000	-	8,500,000
Series 2011 Wastewater Revenue	10/21/2011	0.00%	-	8,602,500	-	8,602,500
Series 2012 Water Revenue Refunding	4/4/2012	2.00 - 5.00%	162,480,000	-	-	162,480,000
Series 2012 Wastewater Revenue	12/18/2012	0.00%	-	11,309,355	-	11,309,355
Series 2013 Water Revenue	2/20/2013	5.00%	43,070,000	-	-	43,070,000
Series 2013 Wastewater Revenue	12/12/2013	0.00%	-	7,598,754	-	7,598,754
Series 2015 Wastewater Revenue	3/2/2015	0.00%	-	1,210,314	-	1,210,314
Series 2015A Water Revenue	4/16/2015	5.25%	29,660,000	-	-	29,660,000
Series 2015B Water Revenue Refunding	4/16/2015	5.00 - 5.25%	54,020,000	-	-	54,020,000
Total Revenue Bonds			\$ 338,470,000	\$ 55,545,923	\$ -	\$ 394,015,923

The Series 2013D General Obligation Variable Rate Bond reset at an interest rate of 1.1340 percent as of June 30, 2015 (see Note VII).

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The Series 2007 General Obligation Variable Rate Demand Bonds, utilized to finance the construction of the cruise terminal, are remarketed weekly and reset at an interest rate of 0.04 percent as of June 30, 2015 (see Note VII).

**B. General Obligation Bonds**

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

<b>Year Ending June 30,</b>	<b>Governmental Activities</b>		<b>Business-type Activities</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2016	44,074,531	26,470,702	10,259,523	8,721,880
2017	44,897,251	24,787,766	11,271,263	8,437,220
2018	44,135,859	22,840,362	11,085,177	8,043,779
2019	47,394,181	20,693,509	10,941,287	7,912,559
2020	46,261,618	18,688,117	11,475,184	7,619,980
2021-2025	193,826,426	66,069,528	59,125,327	31,926,302
2026-2030	126,591,221	28,838,646	49,701,281	21,696,471
2031-2035	53,997,857	6,720,032	40,142,142	12,094,338
2036-2040	11,940,000	1,813,687	32,070,000	2,875,966
2041-2044	4,210,000	344,069	-	-
<b>Total</b>	<b>\$ 617,328,945</b>	<b>\$ 217,266,417</b>	<b>\$ 236,071,184</b>	<b>\$ 109,328,495</b>

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

<b>Year Ending June 30,</b>	<b>Wastewater Utility Fund</b>		<b>Parking Facilities Fund</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2016	7,132,675	3,405,802	3,126,849	5,316,078
2017	7,167,107	3,177,757	4,104,156	5,259,463
2018	6,807,077	2,845,988	4,278,099	5,197,790
2019	6,894,302	2,794,230	4,046,985	5,118,329
2020	6,811,755	2,602,583	4,663,429	5,017,397
2021-2025	35,592,623	8,819,245	23,532,704	23,107,057
2026-2030	21,656,589	3,208,797	28,044,692	18,487,674
2031-2035	5,327,142	418,818	34,815,000	11,675,520
2036-2040	-	-	32,070,000	2,875,966
	<b>\$ 97,389,270</b>	<b>\$ 27,273,220</b>	<b>\$ 138,681,914</b>	<b>\$ 82,055,274</b>

**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

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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 Position 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 Position because their use is limited by applicable bond covenants.

As of June 30, 2015, draws for project expenses of \$2,199,169, \$5,671,812 and \$1,210,314 from bond issuances in fiscal year 2013, 2014 and 2015 respectively, resulted in total VRA drawdowns of \$9,081,295 for fiscal year 2015. In conjunction with the state water control board, the VRA administers and manages the Virginia Water Facilities Revolving Fund and the Bond was sold at 0 percent interest.

The detailed requirements to amortize Water and Wastewater revenue bonds are as follows:

<b>Year Ending June 30,</b>	<u>Water Revenue</u>		<u>Wastewater Revenue</u>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2016	8,750,000	16,612,870	3,149,905	-
2017	10,090,000	15,988,725	3,180,162	-
2018	13,860,000	15,405,600	3,210,420	-
2019	14,200,000	14,714,975	3,210,420	-
2020	13,830,000	14,025,550	3,210,420	-
2021-2025	89,415,000	57,788,850	16,052,102	-
2026-2030	64,420,000	37,584,513	15,627,102	-
2031-2035	42,260,000	25,388,775	7,814,618	-
2036-2040	41,025,000	15,112,931	90,774	-
2041-2045	40,620,000	5,492,056	-	-
<b>Total</b>	<b>\$ 338,470,000</b>	<b>\$ 218,114,845</b>	<b>\$ 55,545,923</b>	<b>\$ -</b>

\*Wastewater Revenue Bonds were issued by Virginia Resources Authority at 0 percent interest

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**D. Current and Advanced Refundings**

On September 30, 2014, the City sold \$58,510,000 of General Obligation Refunding Bonds, Series 2014C to refinance \$56,925,000 of previously issued General Obligation Bonds. The advance's aggregate net present value savings was \$2.34 million representing 4.11 percent of the original bond par amount.

On October 1, 2014, the City sold \$9,915,000 of General Obligation Forward Refunding Bonds, Series 2014B that refinanced \$9,900,000 of previously issued General Obligation Bonds and lower the interest expense on the bonds. The City has achieved a true interest cost (TIC) of 3.29 percent. The total net present value saving achieved was \$487,792 representing 4.93 percent of the original bond par amount.

On March 2, 2015, the City sold \$16,320,000 of General Obligation Forward Refunding Bonds, Series 2015 that refinanced \$16,295,000 of previously issued General Obligation Bonds. The total net present value saving achieved was \$756,829 representing 4.64 percent of the original bond par amount.

On April 16, 2015, the City sold \$54,020,000 of Water Revenue Refunding Bonds, Series 2015B that refinanced \$62,600,000 of previously issued Water Revenue Bonds. The total net present value saving was \$3.84 million representing 6.13 percent of the original bond par amount.

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, 2015, the following defeased bonds from advance refunding are still outstanding:

General Obligation			
Defeased In	Original Issue	Amount	Redemption
2010	2008C	23,135,000	4/1/2017
2014	2008C	66,825,000	4/1/2017
2015	2009A	17,775,000	11/1/2019
2015	2012C	39,150,000	4/1/2021
		<u>\$ 146,885,000</u>	

Water Revenue Bonds			
Defeased In	Original Issue	Amount	Redemption
2012	2005	2,720,000	11/1/2015
2015	2005	15,460,000	11/1/2015
2015	2008	47,140,000	11/1/2018
		<u>\$ 65,320,000</u>	

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**E. Line of Credit**

On December 17, 2014, the City established a revolving line of credit agreement with Bank of America Merrill Lynch (“BofAML”) for up to \$125,000,000. This line of credit will be used to provide flexible interim financing for capital improvements projects, including school construction. Borrowings under the line of credit bear interest payable semi-annually in February and August. Tax-exempt borrowings are at a rate of 70 percent of LIBOR, plus 40 basis points. Taxable borrowings are 100 percent of LIBOR, plus 50 basis points. LIBOR can be the 1, 3, 6 or 12 month LIBOR rate, chosen by the City on the date of each advance, and will be applicable through the end of the chosen LIBOR Period. The full faith and credit pledge of the City secures the line of credit which will be repaid through the issuance of general obligation bonds or other City sources. There is no minimum advance amount and each advance shall be made on three days’ notice given by the City to BofAML. The commitment fee on the unutilized portion of the line will be paid annually in arrears and will be waived in full for any year that has average utilization of at least 40 for that 12-month period.

On December 17, 2014, an initial advance of \$1,000,000 was made on the line of credit at the six month LIBOR Period, and therefore \$124,000,000 is available. The City may prepay all or any portion of any advance without cost, penalty or premium, on the final business day of the then applicable LIBOR Period with ten (10) business days’ electronic notice to BofAML. This line of credit will terminate and all amounts outstanding will be due and payable in full on December 17, 2017, the third anniversary of the closing date. However, the City may request an extension in writing within a time period no greater than 180 days prior to the expiration date of the line of credit and may terminate the agreement on any date 90 days after written notice is provided.

**F. Notes Payable**

On December 14, 2014, the Authority entered into a promissory note to borrow \$2,500,000 to finance the purchase of the real estate from the J.C. Penney Corporation. The Authority is to repay this loan in full, plus any unpaid interest, on the maturity date of September 30, 2017. Interest is to be paid monthly commencing on January 12, 2015, at one-month LIBOR plus 2.5 percent. The interest rate as of June 30, 2015, was 2.62 percent. The loan is collateralized by a certificate of deposit and a negative pledge agreement.

**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 \$5,092,501 for the fiscal year ended June 30, 2015.

Future year lease obligations are listed below:

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Year Ending June 30,	Operating Lease Obligations
2016	\$ 5,033,769
2017	3,287,235
2018	1,933,707
2019	1,757,921
2020	1,426,282
Thereafter	3,042,721
Total minimum lease payments	\$ 16,481,636

**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 \$2,477,200 reported as an obligation for landfill closure and post-closure costs at June 30, 2015, 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, \$1,825,000 is included in the liability above for groundwater corrective action as required by state law. It is not anticipated that a corrective action will be approved within one year, as such the entire amount is reported as a long-term liability.

**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:

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Primary Government:	
Governmental activities:	
General fund	\$ 16,285,110
Non-major governmental funds	1,174,671
Internal service funds	<u>267,084</u>
Total governmental	<u><u>\$ 17,726,865</u></u>
Enterprise funds:	
Water Utility fund	\$ 1,106,289
Wastewater Utility fund	381,022
Parking Facilities fund	<u>254,964</u>
Total enterprise funds	<u><u>\$ 1,742,275</u></u>
Component Unit - School Board	<u><u>\$ 9,501,128</u></u>

**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, 2015, the City's debt limit is \$1,873,420,173 of which \$1,019,675,044 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, 2015, are as follows:

Projects	Total
<b>General Obligation Bonds Authorized and Unissued:</b>	
<b>Capital Fund Projects</b>	
General Capital Improvement Projects	\$ 232,933,386
Maritime Center Capital Improvement Projects	-
Towing and Recovery Capital Improvement Projects	325,481
Storm Water Capital Improvement Projects	<u>4,190,000</u>
Capital Fund Projects Total	<u>\$ 237,448,867</u>
Parking Facilities Fund Projects	11,910,929
Wastewater Utility Fund Projects	<u>18,890,748</u>
<b>G.O. Bonds Authorized and Unissued</b>	<u><u>\$ 268,250,544</u></u>
<b>Revenue Bonds Authorized and Unissued:</b>	
Water Utility Fund Projects	<u>\$ 73,302,116</u>
<b>Revenue Bonds Authorized and Unissued</b>	<u>73,302,116</u>
<b>Total Bonds Authorized and Unissued:</b>	<u><u>\$ 341,552,660</u></u>

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**L. Changes in Long-Term Obligations**

A summary of fiscal year 2015 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, restated	Additions	Reductions		
<b><u>GOVERNMENTAL ACTIVITIES:</u></b>					
Bonds and Line of Credit:					
General obligation bonds	\$ 665,384,732	\$ 74,093,536	\$ (122,149,326)	\$ 617,328,942	\$ 44,074,528
Line of credit	-	1,000,000	-	1,000,000	-
Net premiums	53,552,476	7,530,154	(12,602,575)	48,480,055	-
Total Bonds and Line of Credit	718,937,208	82,623,690	(134,751,901)	666,808,997	44,074,528
Other Liabilities:					
Vested compensated absences	16,515,364	10,418,367	(9,473,950)	17,459,781	9,800,000
Other post-employment benefits	29,981,928	4,739,152	(2,689,829)	32,031,251	-
Retiree's life insurance	265,000	-	(35,000)	230,000	35,000
Self-insurance	29,055,228	5,887,750	(5,466,609)	29,476,369	4,175,009
Net pension liability	235,242,686	122,476,793	(206,189,659)	151,529,820	-
Landfill closure and post-closure costs	2,418,000	59,200	-	2,477,200	-
Total Other Liabilities	313,478,206	143,581,262	(223,855,047)	233,204,421	14,010,009
Governmental Activities					
Long-term liabilities	1,032,415,414	226,204,952	(358,606,948)	900,013,418	58,084,537
Internal Service Funds:					
Net pension liability	\$ 2,547,712	\$ 1,296,611	\$ (2,187,306)	\$ 1,657,017	\$ -
Vested compensated absences	241,280	142,114	(116,310)	267,084	186,958
Total Internal Service Funds	2,788,992	1,438,725	(2,303,616)	1,924,101	186,958
Total Governmental Activities	<u>\$ 1,035,204,406</u>	<u>\$ 227,643,677</u>	<u>\$ (360,910,564)</u>	<u>\$ 901,937,519</u>	<u>\$ 58,271,495</u>
<b><u>BUSINESS-TYPE ACTIVITIES:</u></b>					
Bonds Payable:					
Water	\$ 325,742,786	\$ 83,680,000	\$ (70,952,786)	\$ 338,470,000	\$ 8,750,000
Wastewater	153,805,690	19,578,085	(20,448,581)	152,935,194	10,282,580
Parking facilities	141,916,764	154,674	(3,389,523)	138,681,915	3,126,849
Net premiums	48,652,795	19,036,296	(6,374,610)	61,314,481	-
Total Bonds Payable	670,118,035	122,449,055	(101,165,500)	691,401,590	22,159,429
Other Liabilities:					
Vested compensated absences	1,667,979	1,109,777	(1,035,481)	1,742,275	1,008,283
Net pension liability	22,286,298	11,342,203	(19,092,086)	14,536,415	-
Other post-employment benefits	3,055,094	405,944	(276,972)	3,184,066	-
Total Other Liabilities	27,009,371	12,857,924	(20,404,539)	19,462,756	1,008,283
Total Business-Type Activities	<u>\$ 697,127,406</u>	<u>\$ 135,306,979</u>	<u>\$ (121,570,039)</u>	<u>\$ 710,864,346</u>	<u>\$ 23,167,712</u>
<b><u>COMPONENT UNITS:</u></b>					
Other Liabilities - Norfolk Public Schools:					
Vested compensated absences	\$ 9,433,778	\$ 10,009,999	\$ (9,942,649)	\$ 9,501,128	\$ 7,083,993
Other post employment benefits	15,053,326	3,319,756	(2,629,186)	15,743,896	-
Net pension liability	360,770,756	23,520,955	(75,126,975)	309,164,736	-
Workers' compensation claims	3,746,044	162,513	(372,860)	3,535,697	328,071
Long-term Notes Payable	-	2,500,000	-	2,500,000	-
Claims liability	51,094	102,449	(107,237)	46,306	28,478
Component Units					
Long-term obligations	<u>\$ 389,054,998</u>	<u>\$ 39,615,672</u>	<u>\$ (88,178,907)</u>	<u>\$ 340,491,763</u>	<u>\$ 7,440,542</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 (Note IX.A); a Virginia Retirement System (VRS) plan administered by the Commonwealth of Virginia for the benefit of Norfolk School Board employees (Note IX.B); and a VRS plan for the benefit of state employees in constitutional offices (Note IX.C). In addition, the School Board has a defined contribution plan.

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

**Plan Description**

The ERS is the administrator of a single-employer contributory, defined benefit plan (the Plan) that covers substantially all employees of the City, excluding School Board employees and Constitutional Officers' employees who are covered by the VRS. The ERS provides retirement benefits, as well as death and disability benefits. Cost-of-living adjustments ("COLAs") are not required, are not regularly instituted and are available solely at the discretion of the City Council. The ERS and its benefits are established by Section 37 of the Code of the City of Norfolk, Virginia, as amended. ERS pension expenses and liabilities are allocated based on the employer's contribution to the Plan.

**Plan Membership**

As of June 30, 2014, the actuarial valuation and net pension liability measurement date, the following employees were covered by the benefit terms:

Retirees and Beneficiaries receiving benefits:	
General	2,537
Public Safety	1,181
Vested Former Members:	
General	823
Public Safety	229
Active Plan Members:	
General	2,725
Public Safety	1,219
	8,714
	8,714

**Plan Benefits**

The ERS provides retirement benefits, as well as death and disability benefits. All benefits vest after five years of creditable service. Employee eligibility requirements are as follows:

Retirement (for employees who became members prior to July 1, 1980): Normal retirement is the earlier of age 60 or after completion of 30 years of credited service for general employees, and the earlier of age 55 or after the completion of 25 years

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of credited service for public safety employees. The normal service retirement benefit per annum is equal to 2.0 percent of average final compensation (average of the three highest years of compensation) times years of creditable service, with service limited to 35 years. Public safety employees accrue benefits at 2.5 percent of average final compensation times years of creditable service, not to exceed 65 percent of average final compensation. Mandatory retirement is age 65 for public safety employees.

Retirement (for employees who became members on or after July 1, 1980): Normal retirement is the earlier of age 60 or after completion of 30 years of credited service for general employees, and age 55 or after the completion of 25 years of credited service for public safety employees. The normal service retirement benefit per annum for general employees is equal to 1.75 percent of average final compensation times years of creditable service, with service limited to 35 years. Public safety employees accrue benefits at 2.5 percent of average final compensation times years of creditable service, not to exceed 65 percent of average final compensation. Mandatory retirement is age 65 for public safety employees. There is no mandatory retirement age for general employees.

Effective December 13, 2011, all employees hired on or after December 2011 are required to meet the vesting requirement of five years in order to be eligible to receive benefits under the Plan with the exception of Norfolk Community Services Board employees. The aforementioned had their prior service with the Norfolk Community Services Board counted towards the five year vesting requirement without this service being deemed creditable service in the Plan.

Effective January 1, 2015, the City Council adopted Ordinance Number 45,566 that established a Deferred Retirement Option Program (DROP) for policemen and firemen eligible for normal service retirement. Eligible members may elect to participate for a maximum of four years, deferring receipt of a reduced retirement benefit of seventy percent (70 percent) while continuing employment with the City without loss of any other employee benefits.

Upon the member's election to participate in the DROP; the amount of creditable service and the average final compensation becomes frozen for purposes of determining pension benefits. The participant is considered retired for all purposes related to the Plan and does not accrue additional retirement benefits, except for ad hoc costs-of-living adjustments ("COLAs"), if applicable.

The DROP participant's monthly pension is held in lieu of being paid to the participant. Upon termination of employment, the participant will receive the DROP balance and will begin receiving the monthly pension directly. The participant's DROP balance is not credited with investment gains and losses.

### **Contributions**

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. Effective January 8, 2015, all Plan members pay contribution on a salary reduction basis in the amount of 5 percent of earnable compensation, with

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the exception of City Council members hired before October 5, 2010. Employees of the Norfolk Community Services Board at June 30, 2012, who became City employees on July 1, 2012, were also required to pay member contributions effective January 8, 2015. Total employer contributions to the ERS plan were \$34,392,005 and \$42,330,492 for the years ended June 30, 2015 and 2014, respectively. These contributions combined with employee contributions of \$4,914,706 and \$1,671,644 for the years ended June 30, 2015 and June 30, 2014, respectively were expected to cover the actuarially determined contributions.

**Actuarial Assumptions**

The actuarial assumptions above are based on the presumption that the ERS will continue indefinitely. Were the ERS to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial accrued liability.

For the June 30, 2014, actuarial valuation, the actuarial assumptions included the following:

Actuarial Costs Method	Entry Age Normal
Amortization Method	Level Percent Closed, 20-year layers
Amortization Growth Rate	3.0 percent
Asset Valuation Method	3-year Smoothed Value
Inflation Rate	3.0 percent
Salary Increases – General Employees	Average of 5.64 percent over a 30 year career; based on rates that vary by year of service and are compounded annually
Salary Increases – Public Safety Employees	Average of 6.68 percent over a 30 year career; based on rates that vary by year of service and are compounded annually
Investment Rate of Return	7 percent
Mortality	RP-2000 Combined Healthy Mortality projected to 2010 by scale AA for healthy lives; and RP-2000 Disabled Mortality projected to 2010 by Scale AA for disabled lives.

The long-term expected rate of return on the ERS investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014, are summarized in the following table:

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<u>Asset Class</u>	30-year 2015	
	<u>Long-term Expected Real Rate of Return</u>	<u>Target Allocations</u>
Private Core Real Estate	5.75%	5%
Master Limited Partnerships	7.50%	5%
Core Fixed Income	1.75%	35%
Core Plus Income	2.75%	0%
International Equity (AWI ex US)	5.90%	22%
Domestic Equity (Russell 3000)	4.50%	33%
		<u>100%</u>

**Discount Rate**

The discount rate used to measure the total pension liability was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that Plan member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Net Pension Liability**

The net pension liability was measured as of June 30, 2014, with an actuarial valuation date of June 30, 2014. Pension expense and liability are allocated to governmental and enterprise funds based on the actual employer contributions. The employer contributions made in fiscal year 2015 of \$31,800,327 for governmental activities and \$3,131,678 for business-type activities are included as deferred outflows. As of June 30, 2015, the City reported a net pension liability of \$161,287,252; \$146,750,837 in governmental activities and \$14,536,415 in business-type activities. The net pension liability is allocated based on employer's contributions during the measurement period. The percentage for governmental activities and business-type activities for the measurement periods ended June 30, 2014 and 2013 were 90.99 percent and 9.01 percent, and 91.00 percent and 9.00 percent, respectively. Changes to the ERS net pension liability are as follows:

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	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
<b>Balances at June 30, 2014</b>	<b>\$ 1,159,713,871</b>	<b>\$ 912,363,175</b>	<b>\$ 247,350,696</b>
Service costs	24,578,759	-	24,578,759
Interest	80,203,196	-	80,203,196
Changes in benefits terms	20,689,842	-	20,689,842
Contributions - employer	-	42,330,492	(42,330,492)
Contributions - employee	-	1,671,644	(1,671,644)
Net investment income	-	157,291,834	(157,291,834)
Benefits payments, including refunds of member contributions	(77,065,376)	(77,065,376)	-
Difference between expected and actual experience	(10,654,079)	-	(10,654,079)
Administrative expense	-	(412,808)	412,808
<b>Balances at June 30, 2015</b>	<b>\$ 1,197,466,213</b>	<b>\$ 1,036,178,961</b>	<b>\$ 161,287,252</b>

**Sensitivity of the net pension liability to changes in the discount rate**

The following presents the net pension liability, calculated using the discount rate of 7.0 percent, as well as what the City's ERS net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0 percent) or 1-percentage-point higher (8.0 percent) than the current rate:

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
ERS Net Pension Liability	\$ 285,502,068	\$ 161,287,252	\$ 54,715,590

**Pension Expense and Deferred Inflows and Outflows of Resources Related to the ERS Pension**

Total Pension expense included for the City is \$35,742,992 for Governmental activities and \$3,540,525 for business-type activities.

At June 30, 2015, deferred inflows reported in the City's financial statements are as follows:

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Deferred Inflows  
of Resources

	Governmental Activities	Business-Type Activities	Total
Net difference between expected and actual experience	\$ 7,755,084	\$ 768,180	\$ 8,523,264
Net difference between projected and actual earnings on plan investments	67,779,319	6,713,885	74,493,204
	<u>\$ 75,534,403</u>	<u>\$ 7,482,065</u>	<u>\$ 83,016,468</u>

Deferred outflows related to pension contributions made after the measurement date of \$31,800,327 for governmental activities and \$3,131,678 for business-type activities will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts related to deferred inflows or resources will be recognized in pension expense as follows:

**Amortization of Deferred Inflows**

Year Ended:	Governmental Activities	Business-type Activities	Total
2016	\$ 18,883,601	\$ 1,870,516	\$ 20,754,117
2017	18,883,601	1,870,516	20,754,117
2018	18,883,601	1,870,516	20,754,117
2019	18,883,600	1,870,517	20,754,117
2020	-	-	-
	<u>\$ 75,534,403</u>	<u>\$ 7,482,065</u>	<u>\$ 83,016,468</u>

Deferred inflows and outflows related to changes in proportionate share between the governmental and business-type activities have not been recognized as amounts are not material.

**B. Virginia Retirement System (VRS)**

**Plan Description – Virginia Retirement System**

The School Board and the City of Norfolk both participate in pensions offered by the Virginia Retirement System (VRS), which include two agent multiple-employer plans (for school employee political subdivisions and City of Norfolk state constitutional offices) and a cost-sharing multiple-employer (for teachers) defined benefit pension plan as well as a hybrid plan which contains both defined benefit and defined contribution aspects. All full-time, salaried permanent employees of the School Board, Constitutional Offices of the City of Norfolk, (Commissioner of the Revenue, City Treasurer, Circuit Courts, Commonwealth's Attorney, Sheriff employees) and other members of the School Board must participate in the VRS and are automatically covered by the respective VRS Plans upon employment. Members earn one month of service credit for each month they are employed and for which the City or the School Board and member pay contributions to VRS. Benefits vest after five years of

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service. Members hired before July 1, 2010, and who were vested as of January 1, 2013, are covered under Plan 1. Members hired or rehired on or after July 1, 2010, and Plan 1 members who were not vested on January 1, 2013, are covered under Plan 2. Members hired on or after January 1, 2014, are covered under the Hybrid Retirement Plan (Hybrid Plan), as well as Plan 1 and 2 members who are eligible and opted in during the election window which was January 1, 2014 to April 30, 2014. The Hybrid Plan combines the features of a defined benefit plan and a defined contribution plan. The defined benefit is based on a member's age, creditable service and average final compensation. The benefit from the defined contribution component is dependent upon member and employee contributions as well as investment performance. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2 and the Hybrid Plan, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for nonhazardous duty members is 1.70 percent. The multiplier for Plan 2 members was reduced to 1.65 percent effective January 1, 2013, unless they are hazardous duty employees and their employer has elected the enhanced retirement multiplier. The multiplier for the Hybrid Plan is 1.0 percent.

Retirees are eligible for an annual cost-of-living-adjustment (COLA) effective July 1 of the second calendar year after retirement. Under Plan 1, the COLA cannot exceed 5.00 percent; under Plan 2 and the Hybrid Plan, the COLA cannot exceed 3.00 percent. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The VRS issues a publicly available Comprehensive Annual Financial Report that includes financial statements and required supplementary information for the VRS. The report may be downloaded from the VRS website at <http://www.varetire.org/publications> or obtained by writing the VRS System at P.O. Box 2500, Richmond, Virginia 23218-2500.

Detailed information about the VRS Teacher Retirement Plan's fiduciary net position is available in the separately issued VRS 2014 Comprehensive Annual Financial Report (CAFR). A copy of the 2014 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org> or <http://www.varetire.org/pdf/publications/2014-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, Virginia 23218-2500.

The GASB 68 agent multiple-employer plan's annual actuarial report prepared by VRS for School Board contains combined information related to the School Board and Southeastern Cooperative Educational Programs (SECEP), a joint venture for which the School Board acts as a fiscal agent. As such, amounts reflected herein present only the School Board's proportionate share as of the measurement date which amounted to 99.54 percent and 99.16 percent as of June 30, 2013 and 2014, respectively. The City's participation in the VRS agent multiple-employer plan resides solely within the governmental activities.

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**Contributions**

The contribution requirement for active employees governed by Section 51.1-145 of the *Code of Virginia* (1950), as amended, by the Virginia General Assembly changed the funding requirements for VRS employees. Employees are required to contribute 5.00 percent of their annual reported compensation to the VRS. The Employers actuarially determined contribution rates as of June 30, 2015, not including the employee 5 percent contributions were 12.32 percent of covered payroll for the City of Norfolk employees, 14.50 percent of the annual covered payroll for School Board professional employees and 11.12 percent of annual covered payroll for the other school employees based on the June 30, 2013 actuarial valuation. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Based on the provisions of 51.1-0145 of the *Code of Virginia*, as amended, the contribution were funded at 79.69 percent of the actuarial rate for the year ended June 30, 2015. The School Board's contributions to the VRS for the years ended June 30, 2015 and 2014 for professional employees were \$26,205,705 and \$21,055,714, respectively. Such amounts comprised 100 percent of the required statutory contributions for each of the three years. The School Board's contributions to the VRS for political subdivisions for the years ended June 30, 2015 and 2014 were \$1,767,920 and \$1,721,601, respectively.

The City of Norfolk contributions to the VRS for constitutional offices for the years ended June 30, 2015 and 2014 were \$2,794,920 and \$3,114,312, respectively, which is 100 percent of the actuarial determined contribution.

**Actuarial Assumptions**

The total pension liability was based on an actuarial valuation as of June 30, 2013, using the entry age normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

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Actuarial cost method	Entry Age
Amortization method	Level Percent Closed
Remaining amortization period	30 years
Asset valuation method	5-year Smoothed Market
Actuarial assumptions	
Investment rate of return	7% , net of investment expense
Projected salary increases	3.50-5.35%
Inflationary rate	2.50%
Cost-of-living adjustments	2.25-2.5%

Mortality rates were based on the following (Agent Multiple Plans)

	RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 4 year and females set back 2 years
Pre-Retirement	
	RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.
Post-Retirement	
	RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 year and no provision for future mortality improvement.
Post-Disablement	

Mortality rates were based on the following (Cost Sharing Plan+A30)

	RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 3 year and females set back 5 years
Pre-Retirement	
	RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males setback 2 years and females set back 3 years.
Post-Retirement	
	RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 1 year and no provision for future mortality improvement.
Post-Disablement	

The actuarial assumptions used in the June 30, 2013, valuation were based on the results of an actuarial experience study for the four year period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follow:

- Update mortality table;
- Adjustments to the rates of service retirement;
- Decrease in rates of withdrawals for 3 through 9 years of service;
- Decrease in rates of disability; and
- Reduce rates of salary increase by 0.25 percent per year.

The long-term expected rate of return on pension plan investments was determined using a lag-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

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<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long term Expected Real Rate of Return</u>	<u>Weighted Average Long term Expected Real Rate of Return</u>
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S. Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	<u>100.00%</u>		<u>5.83%</u>
		Inflation	<u>2.50%</u>
		*Expected arithmetic nominal return	<u>8.33%</u>

\*Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33 percent but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44 percent, including expected inflation of 2.5 percent.

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**Discount Rate**

The discount rate used to measure the total pension liability was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, the assumption is that the employer will contribute 100 percent of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

**Pension Expense and Deferred Inflows and Outflows of Resources**

Deferred inflows and outflows are recorded for the net differences between actual and projected investment earnings, contributions made subsequent to the measurement date of June 30, 2014, and changes in proportionate share between June 30, 2013 and June 30, 2014. Pension expense reported for the fiscal year 2015 for the City for Norfolk, School Board Political Subdivisions and School Board Teachers was \$1,749,000, \$743,539 and \$22,777,416, respectively. At June 30, 2015, the reported deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Inflows of Resources</b>		
	<b>Agent Multiple Plans</b>		<b>Cost Sharing Plan</b>
	City of Norfolk Constitutional Offices	School Board Non-Professional	School Board Teachers
Change in proportion and difference between contribution and proportionate rate	\$ -	\$ 51,305	\$ 3,547,561
Net difference between projected and actual earnings on plan investments	<u>4,872,000</u>	<u>4,511,134</u>	<u>44,239,660</u>
	<u>\$ 4,872,000</u>	<u>\$ 4,562,439</u>	<u>\$ 47,787,221</u>

Contributions subsequent to the measurement date are included as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. The City of Norfolk, the School Board Teachers and the School Board Political Subdivisions contributed \$2,794,920, \$26,205,705 and \$1,767,920 respectively in fiscal year 2015. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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	<b>Agent Multiple-Employer Plans</b>		<b>Cost Sharing Plan</b>
	City of Norfolk Constitutional Employees	School Board Political Subdivisions	School Board Teachers
Year Ended:			
2016	\$ (1,218,000)	\$ (1,140,610)	\$ (11,861,935)
2017	(1,218,000)	(1,140,610)	(11,861,935)
2018	(1,218,000)	(1,140,610)	(11,861,935)
2019	(1,218,000)	(1,140,609)	(11,861,935)
2020	-	-	(339,481)
	<u>\$ (4,872,000)</u>	<u>\$ (4,562,439)</u>	<u>\$ (47,787,221)</u>

**Plan Membership**

As of June 30, 2013, actuarial valuation, the plan memberships consisted of the following:

	<b>Agent Multiple Plans</b>	
	City of Norfolk Constitutional Offices	School Board Political Subdivisions
Inactive Member or their beneficiaries		
currently receiving benefits	193	594
Inactive Members	-	-
Vested	72	53
Non-vested	275	321
Active elsewhere in the VRS	182	109
Total Inactive members	<u>529</u>	<u>483</u>
Active Members	<u>622</u>	<u>657</u>
Total	<u>1,344</u>	<u>1,734</u>

**Change in Net Pension Liability**

Below are the schedule of changes in Net Pension Liability for each of the plans:

City of Norfolk

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
<b>Balances at June 30, 2014</b>	<b>\$ 81,034,000</b>	<b>\$ 68,307,000</b>	<b>\$ 12,727,000</b>
Service cost	3,600,000	-	3,600,000
Interest	5,574,000	-	5,574,000
Contributions - employer	-	3,167,000	(3,167,000)
Contributions - employee	-	1,422,000	(1,422,000)
Net investment income	-	10,933,000	(10,933,000)
Benefits payments, including refunds of employee contributions	(2,798,000)	(2,798,000)	-
Administrative expense	-	(57,000)	57,000
Other	-	1,000	(1,000)
<b>Balances at June 30, 2015</b>	<b>\$ 87,410,000</b>	<b>\$ 80,975,000</b>	<b>\$ 6,435,000</b>

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School Board Political Subdivisions

	Total Pension Liability (a)	Increase(Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
<b>Balance at June 30, 2014*</b>	<b>\$ 82,124,515</b>	<b>\$ 65,572,932</b>	<b>\$ 16,551,583</b>
Service costs	1,530,404	-	1,530,404
Interest	5,585,659	-	5,585,659
Contributions - employer	-	1,721,601	(1,721,601)
Contributions - employee	-	774,947	(774,947)
Net investment income	-	10,151,404	(10,151,404)
Benefits payments, including refunds of employee contributions	(4,658,771)	(4,658,771)	-
Administrative expense	-	(56,055)	56,055
Other changes	-	536	(536)
<b>Balance at June 30, 2015</b>	<b>\$ 84,581,807</b>	<b>\$ 73,506,594</b>	<b>\$ 11,075,213</b>

\*The difference between the net pension liability reflected in this schedule and the similar amount reflected in Note 1.1 as of June 30, 2014, is a result of changes in the School Board's proportionate share of the net pension liability which decreased from 99.54 percent as of the June 30, 2013, measurement date for the June 30, 2014, net pension liability to 99.16 percent as of the June 30, 2014, measurement date for the June 30, 2015, net pension liability. All amounts reflected in this schedule are based on the School Board's proportionate share as of the June 30, 2014, measurement date for the June 30, 2015, net pension liability of 99.16 percent.

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the proportionate share of the net pension liability using the discount rate of 7.0 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.0 percent) or one percentage point higher (8.0 percent) than the current rate:

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
<b>Agent Multiple Plans</b>			
School Board non-professional employee net pension liability	\$ 21,076,873	\$ 11,075,213	\$ 2,649,317
City of Norfolk's constitutional offices net pension liability	19,322,710	6,435,715	(4,166,477)
<b>Cost Sharing Plans</b>			
School Board Teachers net pension liability	\$ 437,714,486	\$ 298,089,523	\$ 183,132,236

**Payables to the Pension Plan**

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As of June 30, 2015, the School Board reported a payable of \$219,683 for the outstanding amount of contributions to the political subdivision pension plan required for the year ended June 30, 2015.

As of June 30, 2015, the School Board reported a payable of \$3,363,345 for the outstanding amount of contributions to the teacher's pension plan required for the year ended June 30, 2015.

**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. In the calendar year 2015, the deferral may be up to 25 percent of gross income up to a maximum of \$17,500 per year with increases to the annual contribution limit for catch-up contributions for participants over age 50 or for participants for three years prior to normal retirement age. 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 healthcare 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 65, are eligible to participate at the earlier of age 50 and 15 years of creditable service or 20 years of creditable service. Employees who retire on accidental disability are also eligible. Grandfathered school employees (hired prior to July 1, 2008) who are older than age 50 with at least 5 years of service are eligible as well as non-grandfathered school employees who are older than age 50 with 15 years of creditable service. Retirees that elect to participate may purchase healthcare 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 the 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. As of July 1, 2012, the City became responsible for payment of the Line of Duty Act benefits (LODA). These benefits, which cover certain hazardous duty personnel who are paid or who volunteer, are included as OPEB obligations in the City's financial statements.

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**Funding Policy**

No employee contributions are required prior to retirement to participate in or fund the OPEB Plan. The City and Schools committed to a set contribution amount as an explicit subsidy of \$25 per month for the City and \$75 per month for the Schools per participating retiree. Effective January 1, 2014, the City and the Schools eliminated healthcare coverage for post 65 retirees (e.g. retirees eligible for Medicare) along with the \$25 and \$75 monthly subsidy, respectively. The pre-65 retirees will continue to receive the subsidy and will participate in the consortium with the active employees. Retirees may not convert the benefit into an in-lieu payment to secure coverage under independent plans. The Plan sponsors also pay an implicit subsidy by allowing retirees to participate in the same benefit plans under the same premium structure as available to active employees, however, the Plan sponsors are not required to fund the plan other than the pay-as-you-go amount necessary to provide current benefits to employees.

The annual required contribution was determined as part of the July 1, 2013, actuarial valuation using the entry age normal actuarial cost method. The amortization method is level percent open. The actuarial assumptions included: (a) 3.5 percent investment rate of return and (b) projected salary increases of 3.5 percent per year. Both (a) and (b) include a medical inflation component of 9.0 percent (pre-Medicare) grading to 4.0 percent over 15 years. The actuarial value of the City's assets is equal to the market value of assets. The remaining amortization period is a rolling 30 years.

**Annual OPEB Cost and Net OPEB Obligation**

The City's and the School's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with GASB Statements No. 43 and 45. Under these Statements, 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 ARC represents a level of funding that, if paid on an ongoing 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 the School's annual OPEB cost is as follows (note that amounts may vary from prior years due to change in expected contributions and actual contributions):

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Fiscal Year Ended Year	Annual OPEB Cost	Annual OPEB Cost Contributed Percent Contributed	Net OPEB Obligation
<b>City Employees and Retirees</b>			
June 30, 2013	\$ 6,370,152	59%	\$ 27,359,584
June 30, 2014	\$ 5,363,162	59%	\$ 30,337,282
June 30, 2015	\$ 4,348,284	55%	\$ 31,718,764
<b>Line of Duty Benefits</b>			
June 30, 2014	\$ 3,734,104	28%	\$ 2,699,740
June 30, 2015	\$ 1,426,115	44%	\$ 3,496,553
<b>School Employees and Retirees</b>			
June 30, 2013	\$ 4,728,548	83%	\$ 14,092,158
June 30, 2014	\$ 3,630,442	93%	\$ 15,053,326
June 30, 2015	\$ 2,934,793	90%	\$ 15,743,896

The actuarial liabilities of the Plans as of July 1, 2014, are shown below:

	City	Line of Duty	Schools	Total
Actuarial liability:				
Active employees	\$ 27,032,662	\$ 3,035,485	\$ 31,328,698	\$ 61,396,845
Retirees	10,947,055	12,873,695	8,505,324	32,326,074
Total actuarial liability	\$ 37,979,717	\$ 15,909,180	\$ 39,834,022	\$ 93,722,919
Less: Plan assets	-	-	-	-
Unfunded actuarial accrued liability (UAAL)	\$ 37,979,717	\$ 15,909,180	\$ 39,834,022	\$ 93,722,919

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

	City	Line of Duty	Schools	Total
<b>Expected Net OPEB obligation as of June 30, 2014</b>	\$ 30,337,282	\$ 2,699,740	\$ 15,053,326	\$ 48,090,348
Expected Employer contributions FY 2014	3,160,704	1,034,364	3,381,441	7,576,509
Adjusted FY14 valuation included in FY 2015	(218,740)	-	-	(218,740)
ACTUAL Employer Contributions FY 2014	(3,530,969)	(1,034,364)	(2,996,478)	(7,561,811)
Increase (decrease) In net OPEB Obligation	(589,005)	-	384,963	(204,042)
<b>Adjusted Net OPEB obligation as of June 30, 2014</b>	29,748,277	2,699,740	15,438,289	47,886,306
Annual required contribution (ARC) for FY2015	4,263,307	1,418,403	2,890,694	8,572,404
Interest on net OPEB obligation	1,189,931	107,990	617,532	1,915,453
Adjustment to ARC	(1,104,954)	(100,278)	(573,433)	(1,778,665)
Annual OPEB COST	4,348,284	1,426,115	2,934,793	8,709,192
Less: expected contributions made	(2,377,797)	(629,302)	(2,629,186)	(5,636,285)
Increase in net OPEB obligation	1,970,487	796,813	305,607	3,072,907
<b>Net OPEB obligation as of June 30, 2015</b>	\$ 31,718,764	\$ 3,496,553	\$ 15,743,896	\$ 50,959,213

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**Funded Status and Funding Progress**

As of July 1, 2014, the most recent actuarial valuation date, the combined OPEB Plans were unfunded. The combined actuarial accrued liability for benefits was \$93.7 million and the actuarial value of assets was \$0 resulting in an unfunded actuarial accrued liability (UAAL) of \$93.7 million. The combined covered payroll of active City and School employees covered by the plan was \$365.6 million, and the ratio of the UAAL to the covered payroll was 25.6 percent. Additional details on the plan's funded status and funding progress are included as required supplementary information following these notes to the financial statements. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

The schedule of funding progress which presents current year 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 Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
<b>CITY EMPLOYEES AND RETIREES</b>						
July 1, 2014	\$ -	\$ 37,979,717	\$ 37,979,717	0.0%	\$ 178,792,255	21.2%
<b>LINE OF DUTY BENEFITS</b>						
July 1, 2014	\$ -	\$ 15,909,180	\$ 15,909,180	0.0%	\$ 61,932,622	25.7%
<b>SCHOOL EMPLOYEES AND RETIREES</b>						
July 1, 2014	\$ -	\$ 39,834,022	\$ 39,834,022	0.0%	\$ 186,834,233	21.3%

**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, 2014, with results projected for the fiscal year ended June 30, 2015. The entry age normal actuarial cost method was used with a level percent open amortization method over 30 years. A discount rate of 4.0 percent was used. Annual rates of health care inflation used were 8.33 percent (pre-Medicare) grading to 4.0 percent over 13 years and the annual rate of salary increases used was 3.5 percent.

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, 2015, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	Amount
General Fund	Capital Projects fund	\$ 60,857,050
	Non-major governmental funds	355,297
	HealthCare fund	7,988
	Water Utility fund	208,806
	Total General fund	<u>\$ 61,429,141</u>
Capital Projects Fund	Parking Facilities	\$ 1,508,224
	Water Utility fund	628,407
	Wastewater Utility fund	16,230
	Total Capital Projects fund	<u>\$ 2,152,861</u>
Non-major governmental funds	Other Non-major governmental funds	<u>\$ 503,301</u>
	<b>Total Governmental funds</b>	<u>\$ 64,085,303</u>
<u>Receivable Fund</u>	<u>Payable Fund</u>	Amount
Water Utility Fund	Capital Projects fund	\$ 26,696
	Wastewater Utility fund	251,270
	Non-major governmental funds	88,959
	Total Water Fund	<u>\$ 366,925</u>
	<b>Total Enterprise Funds</b>	<u>\$ 366,925</u>
	<b>Total Due From Other Funds</b>	<u>\$ 64,452,228</u>
<u>Payable Fund</u>	<u>Receivable Fund</u>	
General Fund	Non-Major Governmental	\$ 8,451
		<u>\$ 8,451</u>
Capital Projects Fund	General Fund	\$ 60,857,050
	Water Utility fund	26,696
	Total Capital Projects Fund	<u>\$ 60,883,746</u>
Non-major governmental funds	General Fund	\$ 346,846
	Water Utility fund	88,959
	Non-major governmental funds	503,301
	Total Non-major Governmental Funds	<u>\$ 939,106</u>
	<b>Total Governmental Fund</b>	<u>\$ 61,831,303</u>
<u>Payable Fund</u>	<u>Receivable Fund</u>	
Water Utility fund	General fund	\$ 208,806
	Capital Projects fund	628,407
	Total Water Utility fund	<u>\$ 837,213</u>
Wastewater Utility fund	Capital Projects fund	\$ 16,230
	Water Utility fund	251,270
	Total Wastewater Utility Fund	<u>\$ 267,500</u>
Parking Facilities Fund	Capital Projects Fund	<u>\$ 1,508,224</u>
	Total Parking Facilities Fund	<u>\$ 1,508,224</u>
Healthcare Fund	General Fund	\$ 7,988
	Total Healthcare Fund	<u>\$ 7,988</u>
	<b>Total Enterprise and Internal Service Funds</b>	<u>\$ 2,620,925</u>
	<b>Total Due to Other Funds</b>	<u>\$ 64,452,228</u>

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**XIII. Interfund Transfers**

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.

The following interfund transfers occurred during fiscal year 2015:

<u>Fund</u>	<u>In</u>	<u>Out</u>
General	\$ 16,805,117	\$ 76,651,992
Capital Projects	3,581,711	1,089,441
Debt Service	76,151,030	356,845
Nonmajor Governmental	6,066,194	14,472,693
Water Utility	-	8,500,000
Wastewater Utility	-	1,500,000
Parking Facilities	-	33,081
	<u>\$ 102,604,052</u>	<u>\$ 102,604,052</u>

The purpose of the transfer balances are as follows:

General fund transfers in of \$16,805,117 include \$8,500,000 from the Water Utility fund and \$1,844,013 from the Waste Management fund, \$1,500,000 from the Wastewater Utility fund which represent a return on investment back to the General fund, \$4,928,024 from the TIF fund, and \$33,081 from the Parking Facilities fund to cover parking costs of cruise customers at the Maritime Facility.

The General fund transfers out of \$76,651,992 represent a transfer of \$71,085,769 to the Debt Service fund to fund general obligation debt, \$909,666 to the Capital Projects fund as a contribution for the annual capital improvement plan budget, \$3,120,629 to the Grants special revenue fund in support of grant projects, \$415,153 to the Cemeteries special revenue fund, \$309,048 to the Golf fund and \$811,727 to the Emergency Operations Center/E-911 special revenue fund.

The Capital Projects fund transferred \$1,089,441 to the Grants special revenue fund in support of grant projects. Capital projects transfers in included \$909,666 from the General fund, \$1,000,000 from the Public Amenities fund, \$1,315,200 from the Stormwater fund and \$356,845 from the Debt Service fund.

Debt service transfers in of \$76,151,030 include \$3,371,686 from the Storm Water special revenue fund, \$876,186 from the Public Amenities special revenue fund, \$206,122 from the Towing and Recovery Operations special revenue fund, \$611,266 from the Tax Increment Financing special revenue fund and \$71,085,769 from the General fund to fund the current fiscal year's debt service payments.

The Storm Water special revenue fund transferred \$3,371,686 to the Debt Service fund to cover its general obligation debt service cost, \$5,316 to the Grants fund and \$1,315,200 to the Capital Project fund to support the fund's capital related projects.

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The Public Amenities special revenue fund transferred \$1,000,000 to the Capital Projects fund in support of the fund's capital related projects, and \$876,186 to cover its general obligation debt service cost.

The Towing Recovery Operation special revenue fund transferred \$206,122 to the Debt Service fund to cover its general obligation debt service cost.

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

The Tax Increment Financing special revenue fund transferred \$611,266 to the Debt Service fund to fund current fiscal year debt service payments and \$4,928,024 to the General fund.

The Water 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 \$33,081 to the General fund to cover parking costs of cruise customers at the Maritime Facility.

**XIV. Fund Balance by Functional Category (GASB 54)**

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

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	General Fund	Capital Projects Fund	Non-major Governmental Funds	Total Governmental Funds
<b>FUND BALANCES</b>				
Restricted				
General government	\$ 2,099,960	\$ -	\$ 53,606.00	\$ 2,153,566
Judicial administration	-	-	806,293	806,293
Public safety	-	-	578,713	578,713
Public works	-	-	-	-
Health and public assistance	-	-	820,033	820,033
Culture and recreation	-	-	6,093,793	6,093,793
Community development	-	-	32,652	32,652
Total Restricted	2,099,960	-	8,385,090	10,485,050
Committed				
General government	4,000,000	-	-	4,000,000
Public works	-	-	2,723,035	2,723,035
Health and public assistance	-	-	-	-
Culture and recreation	-	-	41,198	41,198
Other purposes capital	-	14,704,127	-	14,704,127
Total Committed	4,000,000	14,704,127	2,764,233	21,468,360
Assigned				
General government	2,824,449	-	17,764	2,842,213
Judicial administration	-	-	-	-
Public safety	-	-	1,994,612	1,994,612
Public works	-	-	2,013,288	2,013,288
Health and public assistance	-	-	-	-
Culture and recreation	166,354	-	13,817,409	13,983,763
Community development	3,217,961	-	-	3,217,961
Education	3,635,400	-	-	3,635,400
(FY-16 Budget appropriation)	16,059,445	-	-	16,059,445
Total Assigned	25,903,609	-	17,843,073	43,746,682
Unassigned				
Other	65,580,379	(84,624,275)	(2,912,813)	(21,956,709)
Total Unassigned	65,580,379	(84,624,275)	(2,912,813)	(21,956,709)
Total Fund Balances	\$ 97,583,948	\$ (69,920,148)	\$ 26,079,583	\$ 53,743,383

There is a fund deficit in the Capital Projects fund of \$69,920,148 resulting from management decision to finance capital projects with existing cash and draws from a Line of Credit established with the Bank of America in order to reduce interest expense. The authorization to issue bonds to refinance long-term has been made. When the funds are borrowed, the amounts due to the general fund will be repaid.

The Special Revenue Grants fund has a negative balance of \$228,942 which will be covered by grant reimbursements and local match.

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**XV. Deferred Inflow and Outflow of Resources**

Deferred inflows and deferred outflows of resources, as represented in the entity wide and fund financial statements at June 30, 2015, are comprised of the following:

**A. Unavailable Revenues**

Deferred inflows in the General fund and non-major governmental funds, representing uncollected tax billings and other accounts receivable not available for funding of current expenditures, were \$27,546,236 and \$2,791,099 respectively as of June 30, 2015.

**B. Deferred Inflows and Outflows from Refunding Transactions**

Refunding transactions for the City of Norfolk have resulted in a Loss on Defeasance on the entity wide financial statements of \$19,596,270 for governmental activities and \$14,604,454 for business-type activities which consists of a loss of \$8,951,897 for the Water Utility, \$2,829,141 for the Wastewater Utility and \$2,823,416 for Parking Facilities. Gains on the defeasance of debt are reported on the financial statements as deferred inflows of resources and were \$332,432 for governmental activities and \$33,474 for business-type activities, specifically \$30,832 for the Wastewater Utility and \$2,642 for Parking Facilities gains on defeasance.

**C. Deferred Inflows and Outflows Related to Pensions**

Deferred inflows from pension-related items represent the difference between actual and estimated experience and is amortized over a five year period or estimated remaining service life. The amounts included in the June 30, 2015 financial statements are \$80,406,403 for governmental activities (which includes Fleet Management fund of \$852,887), and business-type activities including \$4,978,861 for the Water Utility fund, \$1,465,026 for the Wastewater Utility fund, and \$1,038,178 for the Parking Facilities fund.

Deferred outflows related to pension are the payments made in fiscal year 2015 that will not be reflected in the pension liabilities because they were made after the measurement date. The amounts included as deferred outflows or resources in the June 30, 2015, financial statements are \$34,595,247 for governmental activities (which includes \$337,217 in the Fleet Management fund), \$2,070,947 for the Water Utility fund, \$609,442 for the Wastewater Utility fund and \$451,289 for the Parking Facilities fund.

**XVI. Commitments and Contingencies**

**A. Capital Projects**

Commitments for completion of capital projects in the business-type activities, authorized at June 30, 2015, are as follows:

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Water Utility development projects	\$44,772,562
Wastewater Utility development projects	15,323,217
Parking Facilities development projects	<u>1,227,760</u>
Total	<u><u>\$61,323,539</u></u>

See Exhibit J-3 Schedule of Expenditures for listing of capital projects in the governmental activities, authorized at June 30, 2015.

**B. Contingent Liabilities**

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

The City was a guarantor for \$4,076,049 of VRA debt for the Southeastern Public Service Authority (SPSA) as of June 30, 2015. See Note XXI 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).

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During the fiscal year the City paid the following liabilities for pollution remediation obligations: \$51,124 associated with the cleanup of the USS Wisconsin battleship, in order to open it to the public for tours, \$2,775 of which was associated with Nauticus. 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 and are included in other liabilities on the financial statements. The potential for a change to the estimate is minimal. Additional liabilities incurred were \$110,000 for the USS Wisconsin Battleship, \$200,000 for Meadowbrook School and \$110,000 for the General District Court Building.

	Primary Government				Amounts Due Within One Year
	Beginning Balance	Additions	Reductions	Ending Balance	
<b><u>GOVERNMENTAL ACTIVITIES:</u></b>					
Pollution remediation obligation	\$ 68,685	\$ 420,000	\$ 53,899	\$ 434,786	\$ 434,786

**E. Encumbrances**

Encumbrances as of June 30, 2015, in the General fund and Capital Projects fund totaled \$13,408,941 and \$83,625,047, respectively. Encumbrances as of June 30, 2015 for nonmajor governmental funds in the aggregate totaled \$35,995,717.

**XVII. Surety Bonds and Insurance**

<u>Surety</u>	<u>Official</u>	<u>Amount</u>
Commonwealth of Virginia	C. Evans Poston Jr., Commissioner of the Revenue	\$ 3,000
	Anthony Burfoot, 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>\$ 1,000,000</u>

**XVIII. 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, pursuant to an ordinance adopted by City Council, to cover these risks. The program provides for the payment of claims liabilities,

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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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 2015 was \$7,669,044.

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, 2015, these liabilities were estimated at \$29,476,369 with \$4,175,009 projected as the current portion anticipated to be paid within a year. Estimated liabilities at the end of fiscal year 2015 were determined by an independent actuary.

Effective January 1, 2014, the Norfolk Healthcare Consortium (Consortium) began participating in a city-administered health insurance fund, which is reflected as an internal service fund. The Consortium is comprised of the City, Norfolk Public Schools and Norfolk Redevelopment and Housing Authority. Each participating employee and employer deposits their respective premium into the fund. Medical claims, administrative costs, wellness programs costs, fees related to the Affordable Healthcare Act, and benefit consultant costs are expended from the fund. Employee premiums from city departments are netted against related expenses as a recovered cost. The City has recorded \$6,187,000 for medical and pharmacy claims incurred but not reported as of June 30, 2015. Payments from the Norfolk Public Schools are made in 10 payments per year instead of 12, so there is a portion recognized in the financial statements as unearned income. The unearned income as of June 30, 2015 was \$6,490,329. The City is responsible for deficit conditions that may exist when liabilities exceed assets and may make additional assessments to consortium members as needed.

Changes in the City's claims liability amount in the fiscal years 2015 and 2014 are as follows:

	Workers Compensation and Risk Management		Health Insurance		Total	
	2015	2014	2015	2014	2015	2014
Estimated Outstanding Claims at the Beginning of Year	\$29,055,228	\$30,837,179	\$ 5,705,786	\$ -	\$34,761,014	\$30,837,179
Additional Incurred Claims or Changes in Estimates	5,887,750	5,527,877	\$82,948,159	49,183,482	88,835,909	54,711,359
Claims Paid	(5,466,609)	(7,309,828)	(82,466,945)	(43,477,696)	(87,933,554)	(50,787,524)
Estimated Outstanding Claims at the End of Year	\$29,476,369	\$29,055,228	\$ 6,187,000	\$ 5,705,786	\$35,663,369	\$34,761,014

The City in its General fund has committed \$4,000,000 of fund balance to provide for risks of loss and claims payments that may not be fully covered by purchased insurance or annual budget appropriations. There have not been any significant reductions in insurance

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coverage, and settled claims have not exceeded coverage in any of the past three fiscal years.

The Norfolk Public Schools (NPS) also self-insures its workers compensation and general liability and its future expected self-insured losses as of June 30, 2015, projected at \$3,582,003 of which \$626,494 is the current portion and a longer-term projection of \$3,225,454. The NPS provides payments for that entity's risks of loss through a combination of purchased insurance policies and self-insurance plans. These losses are funded through the NPS operating budgets and/or the City's fund balance designation.

Changes in the School Board's liability amount in the fiscal years 2014 and 2015 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
2014	\$ 2,819,907	\$ 1,611,055	\$ 633,824	\$ 3,797,138
2015	3,797,138	264,962	480,097	3,582,003

**XIX. Jointly Governed Organizations**

**A. Hampton Roads Regional Jail Authority (HRRJA)**

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

The participating governments do not have an equity interest in the HRRJA, and accordingly, no equity interest has been reflected in the City's financial statements at June 30, 2015. 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,

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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, 2015. Complete financial statements of the Commission can be obtained from the Commission.

**C. Transportation District Commission of Hampton Roads (TDC)**

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

The participating governments do not have an equity interest in TDC, and accordingly, no equity interest has been reflected in the City's financial statements at June 30, 2015. Complete financial statements of TDC can be obtained from TDC.

**XX. Joint Ventures**

**A. Southeastern Public Service Authority (SPSA)**

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

In 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

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three year average of proportional municipal tonnages. The member jurisdiction guarantees as of June 30, 2015, were as follows:

<u>Member community</u>	<u>Guarantee percentage</u>	<u>Principal guarantee</u>
Chesapeake	22.49%	\$ 5,398,725
Franklin	0.97%	232,848
Isle of Wight	3.98%	955,398
Norfolk	16.98%	4,076,049
Portsmouth	10.27%	2,465,314
Southampton	2.10%	504,105
Suffolk	12.87%	3,089,444
Virginia Beach	30.34%	7,283,117
	100.00%	\$ 24,005,000

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, 2015. Complete financial statements of the SPSA can be obtained from SPSA.

**B. The Slover Library Foundation (The Foundation)**

The Slover Library Foundation, a not-for-profit organization, was formed on October 31, 2008, to participate in the funding of a new central library for the City. Construction began in early 2012 and was completed in 2015. 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.

**C. Norfolk Botanical Gardens**

The City of Norfolk has an agreement with the Norfolk Botanical Garden Society to operate the Norfolk Botanical Gardens which are owned by the City. This agreement expires on June 30, 2017. The Society receives annual funding from the City of Norfolk for Improvements and operating costs.

**XXI. 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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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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.

**B. Norfolk Airport Authority (The 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 Authority designates its own management and has oversight responsibility for its own fiscal matters. The City does not provide funds for the operations of the Authority and, pursuant to Section 144(q) of the City Charter; the Authority is required to submit its annual budget to the City Council for the purposes of information only. The City has the option to reacquire, without consideration, title to all property and equipment after payment by the Authority of all obligations relating to the improvements at the Airport.

**C. The 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 facility rental fees, patron membership, planned giving and from other independent grants.

**D. 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.

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**XXII. Adoption of New Accounting Pronouncements**

The City of Norfolk implemented GASB 68 and 71 for the fiscal year ended June 30, 2015. GASB 68 required the reporting of net pension liability and current pension expense/revenue on the financial statement and a restatement of the beginning net position related to prior year expenses. Also included is the restatement for changes in reporting entities. Below are the restated beginning net position which represent the change in accounting treatment of net pension liability:

	Governmental Activities	Water Utility Fund	Wastewater Utility Fund	Parking Facilities Fund	Total Business-Type Activities	Total Primary Government	Total Component Unit
Balance, June 30, 2014, as originally reported	\$ 370,415,205	\$ 235,353,203	\$ 102,262,928	\$ 47,167,266	\$ 384,783,397	\$ 755,198,602	\$ 8,178,688
Restatement for Pensions	(160,929,310)	(10,026,045)	(2,948,540)	(2,072,341)	(15,046,926)	(175,976,236)	(337,993,441)
Restatement for changes in reporting entity	750,547	(750,547)	-	-	(750,547)	-	22,125,858
Restated Balance at July 1, 2014	\$ 210,236,442	\$ 224,576,611	\$ 99,314,388	\$ 45,094,925	\$ 368,985,924	\$ 579,222,366	\$ (307,688,895)

The new standard includes recording the current year pension expense, the change in pension liability and deferred inflows and outflows related to various aspects of the net pension liability. The chart below shows the beginning net pension liability and the deferred outflows at the beginning of the year.

	Norfolk ERS	City of Norfolk VRS	Total Adjustment City of Norfolk	VRS Teacher Retirement Plan	VRS Retirement Plan for Political Subdivisions	Total Adjustment School Board
Net pension liability	\$ (247,350,696)	\$ (12,726,353)	\$ (260,077,049)	\$ (344,155,042)	\$ (16,615,714)	\$ (360,770,756)
Prior year accrual of retirement payable	38,602,968	-	38,602,968	-	-	-
Deferred Outflows of Resources:						
Contributions subsequent to measurement date	42,330,492	3,167,353	45,497,845	21,055,714	1,721,601	22,777,315
Net adjustment	\$ (166,417,236)	\$ (9,559,000)	\$ (175,976,236)	\$ (323,099,328)	\$ (14,894,113)	\$ (337,993,441)

The 2015 operating budget made organizational changes to the City's governmental funds. The City created a new fund for the waste management operations which were previously included in the general fund. The assets and liabilities of the Waste Management operations as of July 1, 2014 were moved from the General Fund and Water Utility fund to the new special revenue fund. The new Waste Management fund is a non-major special revenue fund. In addition, the Community Services Board fund previously reported as a non-major special revenue fund was merged into the General fund. The restatement is as follows:

	General Fund	Waste Management Fund	Community Services Board Fund	Water Utility Fund
Balance, June 30, 2014, as originally reported	\$ 85,265,709	\$ -	\$ 3,691,879	\$ 235,353,203
Restatement for Pensions	-	-	-	(10,026,045)
Restatement for changes in reporting entity	3,510,547	931,879	(3,691,879)	(750,547)
Restated Balance at July 1, 2014	\$ 88,776,256	\$ 931,879	\$ -	\$ 224,576,611

**CITY OF NORFOLK, VIRGINIA**  
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**XXIII. Subsequent Events**

**Line of Credit**

On June 15, 2015, the City requested that Bank of America, N.A. reset the LIBOR Period for the advance in the aggregate principal amount of \$1,003,195. The funds for such advance are to pay costs of a tax-exempt project and shall mature on December 19, 2015. On December 15, 2015, the City requested a reset of the LIBOR periods in the aggregate principal amount of \$1,005,891 with the maturity on June 15, 2016. The City may repay all or any portion of any advance without cost, penalty or premium, on the final business day of the then applicable LIBOR period with ten (10) business days' electronic notice to Bank of America, N.A.

On August 18, 2015, a tax-exempt advance of \$50,000,000 was made on the line of credit at the six month LIBOR Period, and therefore \$73,994,109 is available. The City may prepay all or any portion of any advance without cost, penalty or premium, on the final business day of the then applicable LIBOR Period with ten (10) business days' electronic notice to Bank of America Merrill Lynch. The maturity date of the advance is February 18, 2016.

**XXIV. Accounting Pronouncements Issued, But Not Yet Implemented**

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

- *GASB Statement 72: Fair Value Measurement and Application.* The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. The requirements of this Statement are effective for the financial statements beginning for fiscal periods after June 15, 2015.
- *GASB Statement No. 74, Financial Reporting for Postemployment Benefits Plans Other Than Pension Plans.* Statement 74 addresses reporting by OPEB plans that administer benefits on behalf of governments and basically parallels GASB Statement 67 and replaces GASB statement 43. The Statement is effective for fiscal years beginning after June 15, 2016.
- *GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* This statement applies to government employers who provide OPEB plans to their employees and basically parallels GASB Statement 68 and replaces GASB Statement 45. GASB Statement No. 75 requires governments to report a liability on the financial statements for the OPEB that they provide. The Statement is effective for fiscal years beginning after June 15, 2017.

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- GASB Statement No 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement establishes the hierarchy of GAAP for state and local governments. Is supersede Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The Statement is effective for fiscal years beginning after June 15, 2015.



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

**(Unaudited)**





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# CITY OF NORFOLK, VIRGINIA

## Schedule of Funding Progress for Other Post-Employment Benefit Plans (Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) Actuarial Accrued Liability (AAL)	Funded Ratio	Covered Payroll	UUAL as a percentage of covered payroll
<b><u>Other Post-employment Benefits (OPEB):</u></b>						
<b>CITY EMPLOYEES AND RETIREES</b>						
July 1, 2009	\$ -	\$ 59,910,937	\$ 59,910,937	0.0%	\$ 171,944,051	34.8%
July 1, 2010	\$ -	\$ 60,204,591	\$ 60,204,591	0.0%	\$ 175,976,672	34.2%
July 1, 2011	\$ -	\$ 58,495,183	\$ 58,495,183	0.0%	\$ 170,921,920	34.2%
July 1, 2012	\$ -	\$ 57,193,058	\$ 57,193,058	0.0%	\$ 167,592,964	34.1%
July 1, 2013	\$ -	\$ 52,314,519	\$ 52,314,519	0.0%	\$ 180,447,292	29.0%
July 1, 2014	\$ -	\$ 37,979,717	\$ 37,979,717	0.0%	\$ 178,792,255	21.2%
<b>LINE OF DUTY BENEFITS</b>						
July 1, 2012	\$ -	\$ 18,584,711	\$ 18,584,711	0.0%	\$ 61,145,036	30.4%
July 1, 2013	\$ -	\$ 19,945,627	\$ 19,945,627	0.0%	\$ 62,477,160	31.9%
July 1, 2014	\$ -	\$ 15,909,450	\$ 15,909,450	0.0%	\$ 61,932,622	25.7%
<b>SCHOOL EMPLOYEES AND RETIREES</b>						
July 1, 2009	\$ -	\$ 80,250,361	\$ 80,250,361	0.0%	\$ 198,943,586	40.3%
July 1, 2010	\$ -	\$ 82,776,654	\$ 82,776,654	0.0%	\$ 198,660,313	41.7%
July 1, 2011	\$ -	\$ 77,556,192	\$ 77,556,192	0.0%	\$ 171,691,191	45.2%
July 1, 2012	\$ -	\$ 69,496,659	\$ 69,496,659	0.0%	\$ 186,413,340	37.3%
July 1, 2013	\$ -	\$ 46,450,857	\$ 46,450,857	0.0%	\$ 183,295,993	25.3%
July 1, 2014	\$ -	\$ 39,834,022	\$ 39,834,022	0.0%	\$ 186,834,233	21.3%
<b>TOTAL</b>						
July 1, 2009	\$ -	\$ 140,161,298	\$ 140,161,298	0.0%	\$ 370,887,637	37.8%
July 1, 2010	\$ -	\$ 142,981,245	\$ 142,981,245	0.0%	\$ 374,636,985	38.2%
July 1, 2011	\$ -	\$ 136,051,375	\$ 136,051,375	0.0%	\$ 342,613,111	39.7%
July 1, 2012	\$ -	\$ 145,274,428	\$ 145,274,428	0.0%	\$ 415,151,340	35.0%
July 1, 2013	\$ -	\$ 118,711,003	\$ 118,711,003	0.0%	\$ 426,220,445	27.9%
July 1, 2014	\$ -	\$ 93,723,189	\$ 93,723,189	0.0%	\$ 427,559,110	21.9%

**CITY OF NORFOLK**  
**Norfolk Employee's Retirement System**  
Schedule of Changes in Net Pension Liability and Related Ratios (Unaudited)  
For Fiscal Years

	<b>2015</b>
<b>Total Pension Liability</b>	
Service costs	\$ 24,578,759
Interest	80,203,196
Changes of benefit terms	20,689,842
Difference between expected and actual experience	(10,654,079)
Changes in assumptions	-
Benefits payments, including refunds of member contributions	<u>(77,065,376)</u>
<b>Net change in total pension liability</b>	37,752,342
<b>Total pension liability - beginning</b>	1,159,713,871
<b>Total pension liability - ending</b>	<u><u>\$ 1,197,466,213</u></u>
 <b>Plan Fiduciary Net Position</b>	
Employer contributions	\$ 42,330,492
Employee contributions	1,671,644
Net investment income	157,291,834
Benefit payments, Including refunds of member contributions	(77,065,376)
Administrative Expense	<u>(412,808)</u>
<b>Net change in fiduciary net position</b>	123,815,786
<b>Total net position - restated beginning</b>	912,363,175
<b>Total net position - ending</b>	<u><u>\$ 1,036,178,961</u></u>
 <b>Net Pension Liability</b>	 <u><u>\$ 161,287,252</u></u>
Plan fiduciary net position as a percentage of the total pension liability	86.53%
Covered-Employee payroll	\$ 177,560,789
 Net Pension liability as a percentage of covered employee payroll	 90.83%

\*This schedule is intended to illustrate the requirement to show information for 10 years. However, since 2014 is the first fiscal year when the information was available, no other data is included. Additional years will be included as they become available.

**CITY OF NORFOLK**  
**Norfolk Employee's Retirement System**  
Schedule of Employer Contributions (Unaudited)  
Last 10 Fiscal Years  
(Amounts in thousands)

Fiscal Years	Actuarially Determined Required Contributions*	Employer Contributions*	Contribution Deficiency (Excess)	Employer's Covered Employee Payroll**	Contributions as a % of Covered Employee Payroll
2015	\$ 38,263	\$ 34,932	\$ 3,331	\$ 178,468	19.57%
2014	42,330	42,330	-	177,561	23.84%
2013	41,466	41,466	-	184,062	22.53%
2012	42,828	42,828	-	167,593	25.55%
2011	35,515	35,515	-	170,922	20.78%
2010	28,279	28,279	-	175,179	16.14%
2009	25,668	25,668	-	179,591	14.29%
2008	25,136	25,136	-	175,390	14.33%
2007	25,728	25,728	-	168,130	15.30%
2006	23,653	23,653	-	159,279	14.85%

\* The actuarially determined contribution and the employer contributions were adjusted for years prior to 2014 to retrospectively apply the timing of recognition under GASB 67.

\*\* The actuarial determination of the ADC is based on the projection of covered payroll for the period for which the ADC will apply. The covered-employee payroll was provided by the actuary. For the years 2014 and 2015, the balances exclude payroll for active employees participating in DROP for which contributions are not made.

**CITY OF NORFOLK**  
**Virginia Retirement System State Constitutional Offices**  
Schedule of Changes in Net Pension Liability and Related Ratios (Unaudited)  
For Fiscal Years

**2015**

**Total Pension Liability**

Service Costs	\$ 3,599,757
Interest	5,574,444
Changes of benefit terms	-
Difference between expected and actual experience	-
Changes in assumptions	-
Benefits Payments, Including refunds of Member Contributions	<u>(2,797,953)</u>

<b>Net change in total pension liability</b>	6,376,248
<b>Total Pension Liability - Beginning</b>	81,033,885
<b>Total Pension Liability - Ending</b>	<u><u>\$ 87,410,133</u></u>

**Plan Fiduciary Net position**

Employer Contributions	\$ 3,166,738
Employee Contributions	1,421,558
Projected Earnings on Plan Investments	10,932,812
Benefit payments, Including refunds of member contributions	(2,797,953)
Administrative Expense	(56,845)
Other	<u>576</u>

<b>Net change in Fiduciary Net Position</b>	12,666,886
<b>Total Net Position - Restated Beginning</b>	68,307,532
<b>Total Net Position - Ending</b>	<u><u>\$ 80,974,418</u></u>

<b>Net Pension Liability</b>	<u><u>\$ 6,435,715</u></u>
------------------------------	----------------------------

Plan fiduciary net position as a percentage of the total pension liability	92.64%
Covered-Employee payroll	\$ 16,088,362

Net Pension liability as a percentage of covered employee payroll	40.00%
---	--------

\*This schedule is intended to illustrate the requirement to show information for 10 years. However, since 2014 is the first fiscal year when the information was available, no other data is included. Additional years will be included as they become available.

**CITY OF NORFOLK**  
**Virginia Retirement System State Constitutional Offices**

Schedule of Employer Contributions (Unaudited)  
 Last 10 Fiscal Years  
 (Amounts in thousands)

Fiscal Years	Contractually Required Contributions		Contributions in Relation to Contractually Required Contributions		Contribution Deficiency (Excess)	Employer's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
	Contractually Required Contributions	2,795 \$	Contractually Required Contributions	2,795 \$			
2015	\$ 2,795	\$ 2,795	\$ 2,795	\$ 2,795	-	26,952	10.37%
2014	3,167	3,167	3,167	3,167	-	26,952	11.75%
2013	3,135	3,135	3,135	3,135	-	27,300	11.48%
2012	3,212	3,212	3,212	3,212	-	24,677	13.02%
2011	3,289	3,289	3,289	3,289	-	24,539	13.40%
2010	3,371	3,371	3,371	3,371	-	24,539	13.74%
2009	3,490	3,490	3,490	3,490	-	25,997	13.42%
2008	2,376	2,376	2,376	2,376	-	25,855	9.19%
2007	2,305	2,305	2,305	2,305	-	24,932	9.25%
2006	1,812	1,812	1,812	1,812	-	22,898	7.91%

Note: Covered employee payroll prior to June 30, 2014, was calculated on payroll subject to pension coverage. Under GASB 68, covered employee payroll should include total payroll for employees covered under pension plan whether that payroll is subject to pension coverage or not.

See accompanying independent auditors' report

**SCHOOL BOARD OF THE CITY OF NORFOLK**  
**A Component Unit of the City of Norfolk**  
**Virginia Retirement Systems Teachers Retirement Plan**  
Schedule of the School Board's Proportionate Share of the Net Pension Liability (Unaudited)  
For Fiscal Years  
(Amounts in thousands)

	<b>2015</b>
School Board's proportion of the Net Pension Liability	2.467%
School Board's proportionate share of the Net Pension Liability	\$ 298,089
Covered-Employee payroll	\$ 189,067
School Board's proportionate of the Net Pension Liability as a percentage of its covered-employee payroll	158%
Plan fiduciary net position as a percentage of the total pension liability	70.88%

\*The schedule is intended to illustrate the requirement to show information for 10 years. Since 2015 is the first year for presentation, no other data is available. Additional years will be included as they become available.

**SCHOOL BOARD OF THE CITY OF NORFOLK**  
**A Component Unit of the City of Norfolk**  
**Virginia Retirement Systems Teachers Retirement Plan**  
Schedule of the School Board Contributions (Unaudited)  
Last 10 Fiscal Years  
(Amounts in thousands)

Fiscal Years	Contractually Required Contributions	Contributions in Relation to Contractually Required Contributions	Contribution Deficiency (Excess)	Employer's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
2015	\$ 26,206	\$ 26,206	-	\$ 189,624	13.82%
2014	21,056	21,056	-	189,067	11.14%
2013	20,911	20,911	-	144,714	14.45%
2012	19,516	19,516	-	148,138	13.17%
2011	16,027	16,027	-	135,016	11.87%
2010	21,492	21,492	-	157,542	13.64%
2009	26,461	26,461	-	157,178	16.84%
2008	32,696	32,696	-	152,536	21.43%
2007	28,482	28,482	-	187,608	15.18%
2006	21,035	21,035	-	182,016	11.56%

Note: Covered employee payroll prior to June 30, 2014, was calculated on payroll subject to pension coverage. Under GASB 68, covered employee payroll should include total payroll for employees covered under pension plan whether that payroll is subject to pension coverage or not.

**SCHOOL BOARD OF THE CITY OF NORFOLK**  
**A Component Unit of the City of Norfolk**  
**Virginia Retirement Systems Teachers Retirement Plan**  
Schedule of Changes in the School Board's Net Pension Liability and Related Ratios (Unaudited)  
For Fiscal Years  
(Amounts in thousands)

	2015
<b>Total Pension Liability</b>	
Service Costs	\$ 1,530
Interest	5,586
Changes of benefit terms	-
Difference between expected and actual experience	-
Changes in assumptions	-
Benefits Payments, Including refunds of Member Contributions	<u>(4,659)</u>
<b>Net change in total pension liability</b>	2,457
<b>Total Pension Liability - Beginning</b>	82,125
<b>Total Pension Liability - Ending</b>	<u><u>\$ 84,582</u></u>
 <b>Plan Fiduciary Net Position</b>	
Employer Contributions	\$ 1,722
Employee Contributions	775
Projected Earnings on Plan Investments	10,151
Benefit payments, Including refunds of member contributions	(4,659)
Administrative Expense	(56)
Other	<u>1</u>
<b>Net change in Fiduciary Net Position</b>	7,934
<b>Total Net Position - Restated Beginning</b>	65,573
<b>Total Net Position - Ending</b>	<u><u>\$ 73,507</u></u>
 <b>Net Pension Liability</b>	 <u><u>11,075</u></u>
Plan fiduciary net position as a percentage of the total pension liability	86.91%
Covered-Employee payroll	\$ 21,766
Net Pension liability as a percentage of covered employee payroll	50.88%

\*The schedule is intended to illustrate the requirement to show information for 10 years. Since 2015 is the first year for presentation, no other data is available. However, additional years will be included as they become available.

**SCHOOL BOARD OF THE CITY OF NORFOLK**  
**A Component Unit of the City of Norfolk**  
**Virginia Retirement Plan for Political Subdivisions**  
Schedule of the School Board's Contributions (Unaudited)  
Last 10 Fiscal Years  
(Amounts in thousands)

Fiscal Years	Contractually <b>Required</b> Contributions	Contributions in Relation to Contractually <b>Required</b> Contributions	Contribution Deficiency (Excess)	Employer's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
2015	\$ 1,768	\$ 1,768	-	\$ 22,224	7.96%
2014	1,722	1,722	-	21,766	7.91%
2013	1,734	1,734	-	15,661	11.07%
2012	1,858	1,858	-	14,818	12.54%
2011	1,923	1,923	-	15,287	12.58%
2010	1,928	1,928	-	16,169	11.92%
2009	2,016	2,016	-	16,871	11.95%
2008	2,443	2,443	-	17,440	14.01%
2007	2,211	2,211	-	15,166	14.58%
2006	1,596	1,596	-	14,181	11.25%

Note: Covered employee payroll prior to June 30, 2014, was calculated on payroll subject to pension coverage. Under GASB 68, covered employee payroll should include total payroll for employees covered under pension plan whether that payroll is subject to pension coverage or not.

City of Norfolk  
Notes to Required Supplementary Information  
For the Year Ended June 30, 2015

A. VRS Teachers Retirement Plan

**Changes of benefit terms**

There have been no significant changes to the VRS benefit provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component went into effect in fiscal year 2014. The hybrid plan applies to most new employees hired on or after January 1, 2014, and not covered by enhanced hazardous duty benefits. The liabilities presented do not reflect the hybrid plan since it covers new members joining VRS after the valuation date of June 30, 2013. Because this was a new benefit and number of participants was small, the impact on the liabilities as of the measurement date of June 30, 2014 is minimal.

**Changes of assumptions**

The following changes in actuarial assumptions were made effective June 30, 2013, based on the most recent experience study for the four-year period ending June 30, 2012:

- Used the following mortality tables:
  - RP-2000 Employee Mortality Table
  - RP-2000 Combined Mortality Table
  - RP-2000 Disability Mortality Table
- Adjusted the rates of service retirement
- Decreased the rates of withdrawals for 3 through 9 years of service
- Decreased the rates of disability
- Reduced the rates of salary increase by 0.25 percent per year

B. VRS Retirement Plan for Political Subdivisions

**Changes of benefit terms**

There have been no significant changes to the VRS benefit provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component went into effect in fiscal year 2012. The hybrid plan applies to most new employees hired on or after January 1, 2014, and not covered by enhanced hazardous duty benefits. The liabilities presented do not reflect the hybrid plan since it covers new members joining VRS after the valuation date of June 30, 2013. Because this was a new benefit and number of participants was small, the impact on the liabilities as of the measurement date of June 30, 2014, is minimal.

**Changes of assumptions**

The following changes in actuarial assumptions were made effective June 30, 2013, based on the most recent experience study for the four-year period ending June 30, 2012:

- Used the following mortality tables:
  - RP-2000 Employee Mortality Table
  - RP-2000 Combined Mortality Table
  - RP-2000 Disability Mortality Table
- Decreased the rates of service retirement
- Decreased the rates of disability retirement
- Reduced the rates of salary increase by 0.25 percent per year

**CITY OF NORFOLK, VIRGINIA**

Exhibit E-1

**Schedule of Revenue, Budget and Actual (Unaudited)  
General Fund  
For the Year Ended June 30, 2015**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budget Basis Actual</u>	<u>Positive (negative) Variance with Final Budget</u>
General property taxes	\$ 256,620,400	\$ 256,620,400	\$ 258,974,929	\$ 2,354,529
Other local taxes	155,385,600	155,385,600	154,867,325	(518,275)
Permits, privilege fees and licenses	3,009,500	3,009,500	3,013,376	3,876
Fines and forfeitures	1,192,600	1,192,600	1,261,218	68,618
Use of money and property	7,299,200	10,299,200	9,774,306	(524,894)
Charges for services	23,438,726	23,458,726	22,812,094	(646,632)
Miscellaneous revenue	9,009,444	9,009,444	7,570,101	(1,439,343)
Recovered costs	12,427,836	12,262,272	10,651,941	(1,610,331)
Non-categorical aid - Virginia	32,802,100	32,802,100	33,245,972	443,872
Shared expense - Virginia	20,802,200	20,802,200	20,478,109	(324,091)
Categorical aid - Virginia	252,256,961	252,686,307	253,525,365	839,058
Categorical aid - federal	8,551,137	9,179,040	8,545,750	(633,290)
Other sources and transfers	35,035,434	35,006,249	35,240,026	233,777
<b>Total revenue budget</b>	<u>\$ 817,831,138</u>	<u>\$ 821,713,638</u>	<u>\$ 819,960,512</u>	<u>\$ (1,753,126)</u>

Exhibit A-3 for GASB 54 includes the General Fund, the Nauticus Fund and the Community Services Board

**CITY OF NORFOLK, VIRGINIA**

Exhibit E-2

**Schedule of Expenditures, Budget and Actual (Unaudited)  
General Fund  
For the Year Ended June 30, 2015**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Budget Basis Actual</b>	<b>Positive (negative) Variance with Final Budget</b>
Legislative	\$ 4,551,518	\$ 4,566,973	\$ 4,478,055	\$ 88,918
Executive	2,264,625	2,264,625	2,211,686	52,939
Department of Law	4,035,246	4,166,176	4,166,176	-
Finance, City Treasurer, Commissioner of Revenue	9,254,935	9,254,935	9,063,957	190,978
Department of Human Resources	3,271,777	3,271,777	3,219,080	52,697
Courts, Sheriff and Detention	50,121,625	50,310,414	49,366,203	944,211
Department of Public Health	3,330,351	3,330,351	3,293,309	37,042
Department of Human Services	72,406,952	73,310,749	69,671,762	3,638,987
Department of Public Works	24,103,966	24,625,526	24,123,730	501,796
Recreation Parks and Open Space, Maritime Center	21,682,359	22,547,842	21,775,869	771,973
Education	317,618,431	319,250,931	311,405,432	7,845,499
Norfolk Public Libraries	9,850,533	9,850,533	9,564,591	285,942
Elections	661,520	696,520	691,361	5,159
Department of Planning & Community Development	4,615,334	4,632,284	4,447,013	185,271
Department of Neighborhood Development	3,189,860	3,199,860	3,012,302	187,558
Department of Cultural Facilities, Arts & Entertainment	5,666,941	5,666,941	5,574,804	92,137
Departmental Support	17,067,237	16,883,357	15,934,364	948,993
Outside Agencies	42,528,352	42,070,206	41,597,632	472,574
Department of Police	65,217,042	65,617,042	65,095,279	521,763
Department of Fire and Rescue	39,890,780	39,890,780	39,783,637	107,143
Debt service	73,084,865	73,084,865	72,208,722	876,143
Budget and Strategic Planning	1,550,315	1,534,860	1,299,027	235,833
General Services	22,864,529	22,667,090	22,085,852	581,238
Economic Development	1,964,930	1,902,386	1,774,373	128,013
Communications and Public Relations	1,547,595	1,547,595	1,393,549	154,046
Department of Information Technology	11,588,367	11,588,367	11,103,307	485,060
Virginia Zoological Park	3,622,824	3,702,324	3,782,781	(80,457)
Office of Homelessness	278,329	278,329	252,607	25,722
<b>Total expenditure budget</b>	<b>\$ 817,831,138</b>	<b>\$ 821,713,638</b>	<b>\$ 802,376,459</b>	<b>\$ 19,337,179</b>

Exhibit E-2 for GASB 54 includes the General Fund, the Maritime Center and the Community Services Board

**CITY OF NORFOLK, VIRGINIA**  
**Notes to Required Supplementary Information**  
**Reconciliation of (non-GAAP) Budgetary Basis to GAAP (Unaudited)**  
**June 30, 2015**

	General Fund
<u>Sources/inflows of resources:</u>	
Actual amounts (budgetary basis) "available for appropriation" from Exhibit E-1	\$ 819,960,515
<u>Differences--budget to GAAP:</u>	
The effects of accounting for school revenue as a component unit	(196,533,821)
The effects of accounting for transfer from fund balance	(9,377,290)
General fund transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(16,805,118)
The effects of reclassification of recovered costs	(10,618,828)
The effects of accounting for Nauticus	(1,070,777)
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	\$ 585,554,681
<u>Uses/outflows of resources:</u>	
Actual amounts (budgetary basis) "Total charges to appropriations" from Exhibit E-2	\$ 802,376,459
<u>Differences--budget to GAAP:</u>	
The effects of accounting for school expenditures as a component unit	(196,683,509)
The effects of reclassification of recovered costs	(8,201,413)
The effects of accounting for Nauticus fund, Maritime Facility fund and Grants fund	-
Encumbrances for supplies and equipment ordered but not received is reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes	(3,511,830)
General fund transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(76,651,992)
Total expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances--Governmental Funds	\$ 517,327,715

There were no material violations of the annual appropriated budget for the General fund for fiscal year 2015.



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# **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 ~**





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# Nonmajor Governmental Funds

## Special Revenue Funds

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

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

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

Waste Management Fund: To account for the costs and revenues associated with the City's solid waste and environmental management programs.

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

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

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

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

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

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

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



## **Nonmajor Governmental Funds (Cont'd.)**

Endowed Care Fund: The Endowed Care fund is used to report resources that are restricted by City Code. The City's Endowed Care fund is used to account for the perpetual care and endowed care at certain City-owned cemeteries. Both the earnings and principal are used for purposes that support the maintenance of City owned cemeteries.





**Combining Statement of Revenues, Expenditures and Changes in Fund Balance  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2015**

	Special Revenue Funds											Total Nonmajor Governmental Funds	
	Storm Water	Towing	Waste Management	Grants	Community Development	Cemeteries	Community Services Board	Golf	Public Amenities	EOC/ 911	Tax Increment		Total Special Revenue
<b>REVENUES</b>													
General property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,457,939	\$ -	\$ -
Other local taxes	-	-	-	-	-	-	-	-	-	-	9,403,072	-	-
Fines and forfeitures	-	-	-	3,000	-	-	-	-	-	-	3,000	-	-
Use of money and property	7,781	212	15,075	176	-	-	7,218	-	-	-	30,462	11,082	-
Charges for services	151,394,415	1,218,758	21,798,154	129,220	-	1,174,179	-	-	-	-	39,578,940	155,140	-
Miscellaneous	151,937	88,858	4,270	2,487,101	23,876	-	-	-	-	-	2,767,042	-	-
Intergovernmental:													
Commonwealth of Virginia	13,063	-	-	11,134,946	-	-	-	-	-	-	12,578,008	-	-
Federal government	88,050	4,455	-	12,232,548	3,538,270	-	-	-	-	-	15,864,323	-	-
Total revenue	15,400,246	1,313,283	21,817,499	25,995,991	3,563,146	1,174,179	124,166	5,831,476	5,003,861	3,457,939	83,682,786	166,222	83,849,008
<b>EXPENDITURES</b>													
General government	-	-	-	599,522	-	-	-	-	-	-	599,522	-	-
Judicial administration	-	-	-	3,064,991	-	-	-	-	-	-	3,064,991	-	-
Public safety	-	-	-	3,082,799	-	-	-	-	-	-	8,892,313	-	-
Public works	11,059,418	1,263,676	19,117,431	10,336,542	803,026	-	-	-	-	-	41,777,067	-	-
Health and public assistance	-	-	-	15,259,040	-	-	-	-	-	-	16,062,066	-	-
Cultural and recreation	-	-	-	1,292,919	-	1,909,558	432,261	5,924,587	-	-	9,559,325	-	-
Community development	-	-	-	389,406	2,760,120	-	-	-	-	-	3,149,526	-	-
General services	-	-	-	-	-	-	-	-	-	-	-	-	-
Education	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt service:													
Principal	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest and other charges	-	-	-	-	-	-	-	-	-	-	-	-	-
Total expenditures	11,059,418	1,263,676	19,117,431	34,025,219	3,563,146	1,909,558	432,261	5,924,587	5,809,514	-	83,104,810	-	83,104,810
Excess (deficiency) of revenue over (under) expenditures	4,340,828	49,607	2,700,068	(8,028,228)	-	(735,379)	(308,095)	(83,111)	(805,653)	3,457,939	577,976	166,222	744,198
<b>OTHER FINANCING SOURCES (USES)</b>													
Transfers in	-	-	-	4,224,686	-	720,733	309,048	(1,876,186)	(9,300)	-	6,066,194	-	-
Transfers out	(4,692,202)	(206,122)	(1,844,013)	-	-	-	-	1,876,186	811,727	(5,539,290)	(14,167,113)	(305,590)	(14,472,693)
Total other financing sources and uses	(4,692,202)	(206,122)	(1,844,013)	4,224,686	-	720,733	309,048	(1,876,186)	802,427	(5,539,290)	(8,100,919)	(305,590)	(8,406,499)
Net change in fund balances	(951,374)	(166,515)	856,055	(3,803,542)	-	(14,646)	953	(1,969,297)	(3,226)	(2,081,351)	(7,522,943)	(139,358)	(7,662,301)
Fund balances—beginning	3,074,409	381,869	-	3,574,610	-	81,765	187,255	15,572,577	88,197	3,915,815	30,568,376	5,933,508	36,501,884
Adjustment to beginning net assets (Note XXII)	-	-	931,879	-	-	(3,691,879)	-	-	-	-	(2,760,000)	-	(2,760,000)
Fund balances—beginning restated	3,074,409	381,869	931,879	3,574,610	-	81,765	187,255	15,572,577	88,197	3,915,815	27,808,376	5,933,508	33,741,884
Fund balances—ending	2,723,035	225,354	1,787,934	(228,932)	-	67,119	188,208	13,603,280	84,971	1,834,464	20,285,433	5,794,150	26,079,563

## 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:**

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

HealthCare Fund – to provide for the self-insured health care costs for the City of Norfolk, Norfolk Public Schools, NHRA and Pre-65 Retirees.





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**CITY OF NORFOLK, VIRGINIA**

Exhibit G-1

**Combining Statement of Net Position - Internal Service Funds  
June 30, 2015**

	Healthcare	Fleet Management	Total
<b>ASSETS</b>			
Current assets:			
Cash and short-term investments	\$ 12,433,785	\$ 1,193,240	\$ 13,627,025
Receivables, net	5,313,357	340,115	5,653,472
Total current assets	<u>17,747,142</u>	<u>1,533,355</u>	<u>19,280,497</u>
Noncurrent assets:			
Capital assets:			
Land	-	415,000	415,000
Buildings and equipment, net	-	3,311,462	3,311,462
Total noncurrent assets	-	3,726,462	3,726,462
Deferred outflows of resources			
Related to pensions	-	337,217	337,217
Total assets	<u>\$ 17,747,142</u>	<u>\$ 5,597,034</u>	<u>\$ 23,344,176</u>
<b>LIABILITIES</b>			
Current liabilities:			
Vouchers payable	\$ 2,357,237	\$ 747,955	\$ 3,105,192
Unearned revenue	6,490,329	-	6,490,329
Compensated absences	-	186,958	186,958
Accrued payroll	-	51,214	51,214
Internal balances	7,988	-	7,988
Other liabilities	6,187,000	676	6,187,676
Total current liabilities	<u>15,042,554</u>	<u>986,803</u>	<u>16,029,357</u>
Noncurrent liabilities:			
Compensated absences	-	80,125	80,125
Net pension obligations	-	1,657,018	1,657,018
Other long-term liabilities	-	-	-
Total noncurrent liabilities	-	1,737,143	1,737,143
Deferred inflows of Resources			
Related to Pensions	-	852,887	852,887
Total liabilities	<u>\$ 15,042,554</u>	<u>\$ 3,576,833</u>	<u>\$ 18,619,387</u>
<b>NET POSITION</b>			
Net investment in capital assets	\$ -	\$ 3,726,462	\$ 3,726,462
Unrestricted	2,704,588	(1,706,261)	998,327
Total net position	<u>\$ 2,704,588</u>	<u>\$ 2,020,201</u>	<u>\$ 4,724,789</u>

**CITY OF NORFOLK, VIRGINIA**

Exhibit G-2

**Combining Statement of Revenues, Expenses and  
Changes in Fund Net Position - Internal Service Funds  
For the Year Ended June 30, 2015**

	Healthcare	Fleet Management	Total
<b>OPERATING REVENUES</b>			
Charges for services	\$ 75,501,323	\$ 13,327,310	\$ 88,828,633
Miscellaneous	-	309,196	309,196
Total operating revenues	<u>75,501,323</u>	<u>13,636,506</u>	<u>89,137,829</u>
<b>OPERATING EXPENSES</b>			
Personal services	-	2,656,960	2,656,960
Healthcare costs	77,540,779	-	77,540,779
Cost of goods sold	-	5,424,723	5,424,723
Plant operations	-	3,849,826	3,849,826
Depreciation and amortization	-	286,094	286,094
Retirement and OPEB contributions	-	403,587	403,587
Other	-	244,052	244,052
Total operating expenses	<u>77,540,779</u>	<u>12,865,242</u>	<u>90,406,021</u>
Operating income (loss)	<u>(2,039,456)</u>	<u>771,264</u>	<u>(1,268,192)</u>
Net income (loss)	<u>(2,039,456)</u>	<u>771,264</u>	<u>(1,268,192)</u>
Change in net position	<u>(2,039,456)</u>	<u>771,264</u>	<u>(1,268,192)</u>
Net change in net position	(2,039,456)	771,264	(1,268,192)
Net position - beginning	4,744,044	3,018,038	7,762,082
Restatement related to pension (Note XVII)	-	(1,769,101)	(1,769,101)
Net position - ending	<u>\$ 2,704,588</u>	<u>\$ 2,020,201</u>	<u>\$ 4,724,789</u>

**CITY OF NORFOLK, VIRGINIA**

Exhibit G-3

**Combining Statement of Cash Flows - Internal Service Funds  
For the Year Ended June 30, 2015**

	Healthcare	Fleet Management	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers	\$ 76,763,287	\$ 13,875,322	\$ 90,638,609
Payments to suppliers	(74,704,428)	(9,770,360)	(84,474,788)
Payments to employees	-	(3,001,294)	(3,001,294)
Other payments	-	(244,681)	(244,681)
Net cash provide by (used in) operating activities	<u>2,058,859</u>	<u>858,987</u>	<u>2,917,846</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Interfund activity	<u>7,988</u>	<u>915</u>	<u>8,903</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Disposal of Assets	-	2,037	2,037
Net cash provided by investing activities	<u>-</u>	<u>2,037</u>	<u>2,037</u>
Net increase in cash and short-term investments	2,066,847	861,939	2,928,786
Cash and short-term investments - beginning of the year	<u>10,366,938</u>	<u>331,301</u>	<u>10,698,239</u>
Cash and short-term investments - end of the year	<u>\$ 12,433,785</u>	<u>\$ 1,193,240</u>	<u>\$ 13,627,025</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (used in) Operating Activities</b>			
Operating income (loss)	\$ (2,039,456)	\$ 771,264	\$ (1,268,192)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation expense	-	286,094	286,094
Change in assets, deferred outflows and liabilities and deferred inflows:			
Receivables, net	2,951,550	238,816	3,190,366
Vouchers payable	2,355,137	(495,811)	1,859,326
Accrued payroll	-	(1,389)	(1,389)
Net pension liability	-	34,839	34,839
Unearned revenue	(1,689,586)	-	(1,689,586)
Other liabilities	481,214	25,174	506,388
Net cash provided by (used in) operating activities	<u>\$ 2,058,859</u>	<u>\$ 858,987</u>	<u>\$ 2,917,846</u>



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# 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 including Sheriff’s inmate funds and funds held on behalf of employees.

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, 2015**  
(unaudited)

Exhibit H-1

	<u>Other</u>	<u>Commonwealth of Virginia</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and short-term investments	\$ 4,331,181	\$ 26,196	\$ 4,357,377
Receivables, net of allowance for uncollectible accounts	-	-	-
Other	71,000	-	71,000
Total assets	<u>\$ 4,402,181</u>	<u>\$ 26,196</u>	<u>\$ 4,428,377</u>
<b>LIABILITIES</b>			
Vouchers payable	\$ 65,486	-	\$ 65,486
Due to governmental funds	227,651	-	227,651
Due to other agencies	4,109,044	26,196	4,135,240
Total liabilities	<u>\$ 4,402,181</u>	<u>\$ 26,196</u>	<u>\$ 4,428,377</u>

**CITY OF NORFOLK, VIRGINIA**

Exhibit H-2

**Combining Statement of Changes in Assets and Liabilities  
Agency Funds  
For the Year Ended June 30, 2015  
(unaudited)**

	Other			Balance June 30, 2015
	Balance July 1, 2014	Additions	Deductions	
<b>ASSETS</b>				
Cash and short-term investments	\$ 4,324,938	\$ 8,408,325	\$ 8,402,082	\$ 4,331,181
Other receivables	71,724	402,528	403,252	71,000
Total assets	<u>\$ 4,396,662</u>	<u>\$ 8,810,853</u>	<u>\$ 8,805,334</u>	<u>\$ 4,402,181</u>
<b>LIABILITIES</b>				
Vouchers payable	\$ 977	\$ 876,719	\$ 812,210	\$ 65,486
Due to governmental funds	-	227,651	-	227,651
Due to other agencies	4,395,685	8,811,841	9,098,482	4,109,044
Total liabilities	<u>\$ 4,396,662</u>	<u>\$ 9,916,211</u>	<u>\$ 9,910,692</u>	<u>\$ 4,402,181</u>

	Commonwealth of Virginia			Balance June 30, 2015
	Balance July 1, 2014	Additions	Deductions	
<b>ASSETS</b>				
Cash and short-term investments	\$ 26,161	\$ 8,509,724	\$ 8,509,689	\$ 26,196
Total assets	<u>\$ 26,161</u>	<u>\$ 8,509,724</u>	<u>\$ 8,509,689</u>	<u>\$ 26,196</u>
<b>LIABILITIES</b>				
Due to the Commonwealth of Virginia	\$ 26,161	\$ 8,509,724	\$ 8,509,689	\$ 26,196
Total liabilities	<u>\$ 26,161</u>	<u>\$ 8,509,724</u>	<u>\$ 8,509,689</u>	<u>\$ 26,196</u>

	Total			Balance June 30, 2015
	Balance July 1, 2014	Additions	Deductions	
<b>ASSETS</b>				
Cash and short-term investments	\$ 4,351,099	\$ 16,918,049	\$ 16,911,771	\$ 4,357,377
Other receivables	71,724	402,528	403,252	71,000
Total assets	<u>\$ 4,422,823</u>	<u>\$ 17,320,577</u>	<u>\$ 17,315,023</u>	<u>\$ 4,428,377</u>
<b>LIABILITIES</b>				
Vouchers payable	\$ 977	\$ 876,719	\$ 812,210	\$ 65,486
Due to governmental funds	-	227,651	-	227,651
Due to other agencies	4,421,846	17,321,565	17,608,171	4,135,240
Total liabilities	<u>\$ 4,422,823</u>	<u>\$ 18,425,935</u>	<u>\$ 18,420,381</u>	<u>\$ 4,428,377</u>



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# **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**





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**CITY OF NORFOLK, VIRGINIA**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ending June 30, 2015**

Federal Granting Agency/Recipient Recipient State Agency/Grant Program	CFDA Number	Federal Expenditures
<b><u>Department of Agriculture:</u></b>		
Direct Payments:		
Food Stamp Program - Administration	10.561	3,809,047
Pass-through Payments:		
State Department of Agriculture:		
National School Breakfast Program	10.553	3,671,163
National School Lunch Program	10.555	9,172,831
National School Lunch Program	10.555	6,182
National School Lunch Program (Commodities)	10.556	1,409,789
National VA Child & Adult Care Food Program	10.558	779,682
USDA School Nutrition Program	10.559	652,863
USDA School Nutrition Program	10.559	94,766
<b><u>Department of Housing and Urban Development:</u></b>		
Direct Payments:		
Community Development Block Grant	14.218	3,521,570
ESG Administration	14.231	37,107
For Kids, Inc. Haven Family Services	14.231	27,573
ESG Planning Council	14.231	43,112
ESG Outreach Program	14.231	17,829
ESG Rapid Re-housing Program	14.231	132,783
ESG House Emergency Shelter	14.231	36,553
ESG Homeless Prevention Program	14.231	40,907
Salvation Army	14.231	21,807
ESG- Ecumenical Family Shelter	14.231	8,331
St Columbia Ecumenical	14.231	27,499
YWCA South Hampton Roads	14.231	49,807
Shelter Plus Care Program	14.238	504,044
HOME CHDO	14.239	34,089
Home Administration	14.239	8,030
Office to End Homelessness	14.239	36,018
Four for Life Grant	14.239	2,805
HOME NRHA Administration	14.239	83,152
Homebuyer Admin & Assistance	14.239	576,778
Beacon Light CHDO	14.239	7,548
Virginia Supportive Housing	14.239	320,000
HOME HART Program	14.239	5,730
HOME - TBRA Bridge Program	14.239	86,474
<b><u>Department of Justice:</u></b>		
Direct Payments:		
State Criminal Alien Assistance Program	16.606	30,281
Community Oriented Policing Services:		
COPS Hiring Program	16.710	267,156
Edward Byrne Memorial Justice Assistance Grant	16.738	78,732
Asset Forfeiture - Special Police Grant	16.922	268,978
Pass-Through Payments:		
Department of Criminal Justice Services:		
Juvenile Accountability Block Grant	16.523	21,750
VSTOP	16.588	23,751
<b><u>Department of Transportation:</u></b>		
Pass-Through Payments:		
VDOT - Traffic Management System	20.205	136,735
VDOT - Citywide Traffic Signal Safety	20.205	2,446,672
VDOT - Elizabeth River Trail	20.205	1,178,156
VDOT - Congestion Mitigation	20.205	174,826
VDOT - Citywide retiming	20.205	500
Selective Enforcement - Alcohol	20.600	42,989
Selective Enforcement - Speed Initiative	20.607	37,323

**CITY OF NORFOLK, VIRGINIA**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ending June 30, 2015**

Federal Granting Agency/Recipient Recipient State Agency/Grant Program	CFDA Number	Federal Expenditures
<b><u>Environmental Protection Agency:</u></b>		
Pass-Through Payments:		
Virginia Resources Authority - Revolving Loan	66.458	5,671,812
<b><u>Department of Homeland Security</u></b>		
Direct Payments:		
Emergency Preparedness Grant	97.039	14,112
Port Security Grant	97.056	62,012
Pass-Through Payments:		
Emergency Management Performance Grant	97.042	14,161
Port Security Grant	97.056	18,765
Homeland Security	97.067	60,278
Homeland Security Grant	97.073	5,690
<b><u>Department of Education:</u></b>		
Direct Payments:		
School Assistance in Federally Affected Areas	84.041	2,613,766
Pass-Through Payments:		
Department of Education:		
Education Consolidation and Improvement Act of 1981:		
Adult Literacy	84.002	308,143
Title I:		
Educationally Deprived Children- Programs Operated by LEA's	84.010	16,105,395
Negligent Delinquent Children	84.010	169,412
School Improvement - Title I	84.010	1,040,844
1003g School Improvement Grant (Award 2010)	84.377	1,073,412
Title III:		
Limited English	84.365	68,650
Immigrant and Youth State Grant	84.365	13,397
Title V:		
Assistance to States for Education of Handicapped Children:		
Special Education Flow Thru (Federal)	84.027	8,917,731
Handicapped Preschool Incentive Grant	84.173	254,449
Start for Success	84.027A	7,882
Title IV-B:		
Vocational Education:		
Carl Perkins Vocational	84.048	529,428
Special Projects:		
Equipment Assistance Grant	86.804	6,703
Safe Routes to Schools	20.205	80,310
McKinney Homeless Assistance	84.196	17,607
21st Century Community Learning Center	84.287	130,265
Teacher & Principal Training	84.367	1,471,245
Fruit and Vegetable Program	10.582	278,298
Investing in Innovations	84.411A	217,608
Dept of Mental Health, Mental Retardation and Substance Abuse		
Mental Retardation Early Intervention	84.181	217,239
<b><u>Department of Health and Human Services:</u></b>		
Direct Payments:		
Substance Abuse and Mental Health Services Administration	93.243	256,413
HIV/AIDS Grant	93.914	4,643,347
Minority AIDS Initiative	93.914	256,621
The Planning Council	93.914	136,069
Pass-Through Payments:		
Projects for Assistance in Transition to Homeless (PATH)	93.150	90,096
Mental Health VASIP / COSIG	93.243	108,090
Youth & Family Services Grant	93.556	121,363
Temporary Assistance to Needy Families	93.558	4,195,504

**CITY OF NORFOLK, VIRGINIA**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ending June 30, 2015**

<b>Federal Granting Agency/Recipient</b>	CFDA Number	Federal Expenditures
Recipient State Agency/Grant Program	93.566	9,507
Refugee and Entrant Assistance State Administered Prog	93.568	448,362
Local-Income Home Energy Assistance	93.575	(138)
Payments to States for Child Care Assistance	93.596	598,227
Child Development Care	93.599	4,655
Independent Living Program - Education and Training	93.645	27,635
Family Preservation	93.658	2,538,550
Foster Care - Title IV - E	93.659	1,609,182
Adoptive Assistance	93.667	3,490,431
Social Services Block Grant	93.674	40,648
Independent Living Initiative Program	93.767	125,673
FAMIS Outreach Grants	93.778	4,305,580
Medical Assistance Program - Administrative	93.958	136,738
Mental Health Federal Block Grant	93.959	1,710,902
Substance Abuse Federal Black Grant		
Total		<u><u>94,155,787</u></u>

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended June 30, 2015**

**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	\$ 25,961,787	
Non-major governmental funds	15,864,324	
Total revenues from federal government	41,826,111	

**Component Unit - School Board**

Total Federal Grants Awarded	48,860,612	
Other Federal amounts not reported in SEFA:		
Navy Junior ROTC	378,484	
Erate-Universal Service Funds	424,842	
Advance Placement	35,002	
Medicaid	1,968,893	
Total - Norfolk Public Schools		51,667,833

**Total federal financial assistance reported in basic financial statements**

\$ 93,493,944

Federal awards not reported as federal revenue in basic financial statements:

Enterprise - VRA Loan - Wastewater Fund	5,671,812	
CSA Federal Revenue	897,862	
Police Correction and U.S. Marshall	(22,409)	
VDOT programs	(305,662)	
Federal awards not reported on the SEFA:		
Norfolk Public Schools other federal amounts not reported on SEFA	(2,807,221)	
Build America Bond Interest Rate Subsidy	(2,509,920)	
Community Services Board	(94,489)	
Community Development fund	(17,700)	
Other reconciling items	(150,430)	
<b>Total federal awards</b>	<b>\$ 94,155,787</b>	

**Reconciliation to Exhibit A-3**

Revenues from federal government	\$ 41,826,111	
Revenues from Commonwealth of Virginia	117,013,983	
Total intergovernmental revenue	\$ 158,840,094	

**Reconciliation to Exhibit B-3**

**4. Relationship to Federal Financial Reports**

Amounts reported in the accompanying schedule agree substantially with the amounts reported in the federal financial reports.

**CITY OF NORFOLK, VIRGINIA**  
**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended June 30, 2015**

**4. Clusters**

Clustered programs for the year ended June 30, 2015, were as follows:

Grant Program / Cluster	CFDA Number	Federal Expenditures
National School Breakfast Program	10.553	\$ 3,671,163
National School Lunch Program	10.555	9,179,013
National School Lunch Program (Commodities)	10.556	1,409,789
USDA School Nutrition Program	10.559	747,629
<b>Total Child Nutrition Cluster</b>		<b>\$ 15,007,594</b>
Food Stamp Program - Administration	10.561	\$ 3,809,047
<b>Total Supplemental Nutrition Assistance Program (SNAP) Cluster</b>		<b>\$ 3,809,047</b>
Community Development Block Grants/Entitlement Grants	14.218	\$ 3,521,570
ARRA - Community Development Block Grant	14.253	\$ -
<b>Total CDBG - Entitlement Grants Cluster</b>		<b>\$ 3,521,570</b>
ESG Administration	14.231	\$ 37,107
For Kids, Inc. Haven Family Services	14.231	27,573
ESG Planning Council	14.231	43,112
ESG Outreach Program	14.231	17,829
ESG Rapid Re-housing Program	14.231	132,783
ESG House Emergency Shelter	14.231	36,553
ESG Homeless Prevention Program	14.231	40,907
Salvation Army	14.231	21,807
ESG - Ecumenical Family Shelter	14.231	8,331
St Columbia Ecumenical	14.231	27,499
YWCA Shelter Program	14.231	
YWCA South Hampton Roads	14.231	49,807
<b>Total ESG Cluster</b>		<b>\$ 443,308</b>
HOME CHDO	14.239	\$ 34,089
Home Administration	14.239	8,030
Office to End Homelessness	14.239	36,018
Four for Life Grant	14.239	2,805
Habitat for Humanity Real Estate	14.239	
HOME NRHA Administration	14.239	83,152
Homebuyer Administration & Assistance	14.239	576,778
Beacon Light CHDO	14.239	7,548
Virginia Supportive Housing	14.239	320,000
HOME HART Program	14.239	5,730
HOME - TBRA Bridge Program	14.239	86,474
		<b>\$ 1,160,624</b>
Edward Byrne memorial Justice Assistance Grant	16.738	\$ 78,732
<b>Total JAG Program Cluster</b>		<b>\$ 78,732</b>
VDOT - Traffic Management System	20.205	\$ 136,735
VDOT - Citywide Traffic Signal Safety	20.205	2,446,672
VDOT - Elizabeth River Trail	20.205	1,178,156
VDOT - Congestion Mitigation	20.205	174,826
VDOT - Citywide retiming	20.205	500
Safe Routes to School	20.205	80,310
<b>Total Highway Planning and Construction Cluster</b>		<b>\$ 4,017,199</b>
Selective Enforcement - Speed	20.600	\$ 37,323
<b>Total Highway Safety Cluster</b>		<b>\$ 37,323</b>
Virginia Resources Authority - Revolving Loan	66.458	\$ 5,671,812
<b>Total Clean Water State Revolving Fund Cluster</b>		<b>\$ 5,671,812</b>

**Clusters (continued):**

**CITY OF NORFOLK, VIRGINIA**  
**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended June 30, 2015**

<u>Grant Program / Cluster</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
Educationally Deprived Children- Programs Operated by LEA's	84.010	16,105,395
Negligent Delinquent Children	84.010	169,412
School Improvement - Title I	84.010	1,040,844
<b>Total Title I, Part A Cluster</b>		<u>\$ 17,315,651</u>
Special Education Flow Thru (Federal)	84.027	\$ 8,917,731
Handicapped Preschool Incentive Grant	84.173	254,449
Start for Success		\$ 7,882
<b>Total Special Education Cluster (IDEA)</b>		<u>\$ 9,180,062</u>
McKinney Homeless Assistance	84.196	\$ 17,607
<b>Total Education of Homeless Children and Youth Cluster</b>		<u>\$ 17,607</u>
1003g School Improvement Grants (Award 2010)	84.377	\$ 1,073,412
<b>Total School Improvement Grants Cluster</b>		<u>\$ 1,073,412</u>
Temporary Assistance to Needy Families (TANF)	93.558	\$ 4,195,504
<b>Total TANF Cluster</b>		<u>\$ 4,195,504</u>
Payments to States for Child Care Assistance	93.575	\$ (138)
Child Development Care	93.596	\$ 598,227
<b>Total CCDF Cluster</b>		<u>\$ 598,089</u>
Medical Assistance Program - Administrative	93.778	\$ 4,305,580
<b>Total Medicaid Cluster</b>		<u>\$ 4,305,580</u>
HIV/AIDS Grant	93.914	\$ 4,643,347
Minority AIDS Initiative	93.914	256,621
The Planning Council	93.914	136,069
<b>Total Medicaid Cluster</b>		<u>\$ 5,036,037</u>

**5. Sub-recipients**

Federal funds passed through to subrecipients for the year ended June 30, 2015 were as follows:

<u>Federal Granting Agency / Grant Program</u>	<u>Amount</u>
<b>Department of Housing and Urban Development</b>	
Community Development Block Grant (14.218)	4,136,824
HOME Grant Program (14.239)	814,843
Emergency Shelter Grant Program (14.231)	326,434
<b>Total Department of Housing and Urban Development</b>	<u><b>5,278,101</b></u>
<b>Department of Health and Human Services</b>	
Temporary Assistance for Needy Families (93.558)	260,599
Child Development Care (93.596)	37,989
HIV/AIDS Grant (93.914)	4,146,370
Total HIV/AIDS Grant	4,146,370
<b>Total Department of Health and Human Services</b>	<u><b>4,444,958</b></u>
<b>Total Payment to Sub-Recipients</b>	<u><u><b>9,723,059</b></u></u>

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

**~Special Revenue Funds~**

**~Internal Service Funds~**

**~Capital Projects Fund~**





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**Schedule of Revenues and Expenditures - Budget and Actual  
Towing and Recovery Operations Special Revenue Fund  
For the Year Ended June 30, 2015**

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
<b>Revenues:</b>			
Use of money and property	\$ 565	\$ 212	\$ (353)
Charges for services	1,620,182	1,218,758	(401,424)
Intergovernmental federal	-	4,455	4,455
Miscellaneous	86,400	89,858	3,458
Total revenue	<u>\$ 1,707,147</u>	<u>\$ 1,313,283</u>	<u>\$ (393,864)</u>
<b>Expenditures and transfers:</b>			
Towing and recovery	\$ 1,496,219	\$ 1,263,676	\$ 232,543
Transfer out	210,928	206,122	4,806
Total expenditures	<u>\$ 1,707,147</u>	<u>\$ 1,469,798</u>	<u>\$ 237,349</u>

**Schedule of Revenues and Expenditures - Budget and Actual  
Storm Water Utility Special Revenue Fund  
For the Year Ended June 30, 2015**

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
<b>Revenues:</b>			
Use of money and property	\$ 1,460	\$ 7,781	\$ 6,321
Charges for services	15,204,778	15,139,415	(65,363)
Miscellaneous	30,400	151,937	121,537
Intergovernmental - federal	-	88,050	88,050
Intergovernmental - state	-	13,063	13,063
Total revenue	<u>\$ 15,236,638</u>	<u>\$ 15,400,246</u>	<u>\$ 163,608</u>
<b>Expenditures and transfers:</b>			
Public works	\$ 10,508,268	\$ 11,059,418	\$ (551,150)
Transfer out	4,728,370	4,692,202	36,168
Total expenditures	<u>\$ 15,236,638</u>	<u>\$ 15,751,620</u>	<u>\$ (514,982)</u>

**Schedule of Revenues and Expenditures - Budget and Actual  
Golf Special Revenue Fund  
For the Year Ended June 30, 2015**

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Charges for services	\$ 257,897	\$ 116,948	\$ (140,949)
Use of money and property	99,000	7,218	(91,782)
Transfer in	360,908	309,048	(51,860)
Total revenue	<u>\$ 717,805</u>	<u>\$ 433,214</u>	<u>\$ (284,591)</u>
Expenditures:			
Golf operations	<u>\$ 702,805</u>	<u>\$ 432,261</u>	<u>\$ 270,544</u>

**Schedule of Revenues and Expenditures - Budget and Actual  
Emergency Operations Special Revenue Fund (EOC 911)  
For the Year Ended June 30, 2015**

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Other local taxes	\$ 3,571,596	\$ 3,571,596	\$ -
Recovered cost	1,376,253	1,429,999	53,746
Use of money and property	-	2,266	-
Transfer in	1,126,727	811,727	(315,000)
Total revenue	<u>\$ 6,074,576</u>	<u>\$ 5,815,588</u>	<u>\$ (261,254)</u>
Expenditures:			
Operations	\$ 6,074,576	\$ 5,809,514	\$ 265,062
Transfer out	-	9,300	9,300
Total expenditures	<u>\$ 6,074,576</u>	<u>\$ 5,818,814</u>	<u>\$ 274,362</u>

**Schedule of Revenues and Expenditures - Budget and Actual  
Cemeteries Special Revenue Fund  
For the Year Ended June 30, 2015**

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Charges for services	\$ 1,262,773	\$ 1,174,179	\$ (88,594)
Miscellaneous	-	-	-
Recovered Cost	300,000	300,000	-
Transfer in	465,153	420,733	(44,420)
Rollover from last year	35,000	-	(35,000)
Total revenue	<u>\$ 2,062,926</u>	<u>\$ 1,894,912</u>	<u>\$ (168,014)</u>
Expenditures:			
Cemetery operations	<u>\$ 2,062,926</u>	<u>\$ 1,909,558</u>	<u>\$ 153,368</u>

**Schedule of Revenues and Expenditures - Budget and Actual  
Public Amenities Special Revenue Fund  
For the Year Ended June 30, 2015**

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Taxes-Hotel & Restaurant	<u>\$ 5,727,300</u>	<u>\$ 5,831,476</u>	<u>\$ 104,176</u>
Expenditures:			
Transfer out (CIP)	\$ 1,000,000	\$ 1,000,000	\$ -
Transfer out (Debt Service)	876,186	876,186	-
All purpose	3,851,114	5,924,587	(2,073,473)
Total expenditures	<u>\$ 5,727,300</u>	<u>\$ 7,800,773</u>	<u>\$ (2,073,473)</u>

**Schedule of Revenues and Expenditures - Budget and Actual  
Tax Increment Financing Special Revenue Fund  
For the Year Ended June 30, 2015**

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Taxes-real property	\$ 3,338,300	\$ 3,457,939	\$ 119,639
Rollover from last year	2,200,990	-	(2,200,990)
Total revenue	<u>\$ 5,539,290</u>	<u>\$ 3,457,939</u>	<u>\$ (2,081,351)</u>
Expenditures:			
Transfer out (Debt Service)	\$ 611,266	\$ 611,266	\$ -
Transfer out (General Fund)	4,928,024	4,928,024	-
Total expenditures	<u>\$ 5,539,290</u>	<u>\$ 5,539,290</u>	<u>\$ -</u>

**Schedule of Revenues and Expenditures - Budget and Actual  
Community Development Fund  
For the Year Ended June 30, 2015**

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Charges for services	\$ -	\$ 23,876	\$ 23,876
Intergovernmental federal	-	3,539,270	3,539,270
Total revenue	<u>\$ -</u>	<u>\$ 3,563,146</u>	<u>3,563,146</u>
Expenditures:			
Operations	\$ -	\$ 3,563,146	(3,563,146)

**Schedule of Revenues and Expenditures - Budget and Actual  
Waste Management Special Revenue Fund  
For the Year Ended June 30, 2015**

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Use of money and property	\$ 24,000	\$ 15,075	\$ (8,925)
Charges for services	22,030,000	21,798,154	(231,846)
Miscellaneous	-	4,270	4,270
Total revenue	<u>\$ 22,054,000</u>	<u>\$ 21,817,499</u>	<u>\$ (236,501)</u>
Expenditures and transfers:			
Public works	\$ 21,840,313	\$ 19,117,431	\$ 2,722,882
Transfer out	213,687	1,844,013	(1,630,326)
Total expenditures	<u>\$ 22,054,000</u>	<u>\$ 20,961,444</u>	<u>\$ 1,092,556</u>

**Schedule of Revenues and Expenditures - Budget and Actual  
Grants Funds  
For the Year Ended June 30, 2015**

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
<b>Revenues:</b>			
Fines and forfeitures	\$ -	\$ 3,000	\$ 3,000
Use of money and property	-	176	176
Charges for services	-	129,220	129,220
Intergovernmental			
Federal	-	16,643,596	16,643,596
State	-	11,134,946	11,134,946
Operating Transfers	-	4,224,686	4,224,686
Miscellaneous	-	2,497,101	2,497,101
Total revenue	<u>\$ -</u>	<u>\$ 34,632,725</u>	<u>\$ 34,629,725</u>
<b>Expenditures and transfers:</b>			
General Government	\$ -	\$ 599,522	\$ (599,522)
Judicial Administration	-	3,064,991	(3,064,991)
Public Safety	-	3,082,799	(3,082,799)
Public Works	-	10,336,542	(10,336,542)
Health and Public Assistance	-	15,259,040	(15,259,040)
Cultural and Recreation	-	1,292,919	(1,292,919)
Community Development	-	389,406	(389,406)
Total expenditures	<u>\$ -</u>	<u>\$ 34,025,219</u>	<u>\$ (34,025,219)</u>

**Schedule of Revenues and Expenditures - Budget and Actual  
Fleet Internal Service Fund  
For the Year Ended June 30, 2015**

	<u>Budget</u>	<u>Actual Budgetary Basis</u>	<u>Positive (Negative) Variance</u>
Revenues:			
Charges for services	\$ 13,299,414	\$ 13,327,310	\$ 27,896
Miscellaneous & recovered costs	210,700	309,196	98,496
Total revenue	<u>\$ 13,510,114</u>	<u>\$ 13,636,506</u>	<u>\$ 126,392</u>
Expenditures:			
Fleet	<u>\$ 13,510,114</u>	<u>\$ 12,865,242</u>	<u>\$ 644,872</u>

**Schedule of Revenues and Expenditures - Budget and Actual  
Healthcare Management Internal Service Fund  
For the Year Ended June 30, 2015**

	<u>Budget</u>	<u>Actual Budgetary Basis</u>	<u>Positive (Negative) Variance</u>
Revenues:			
Charges for services	<u>\$ 86,282,292</u>	<u>\$ 75,501,323</u>	<u>\$ (10,780,969)</u>
Expenditures:			
Healthcare	<u>\$ 86,282,292</u>	<u>\$ 77,540,779</u>	<u>\$ 8,741,513</u>

**CITY OF NORFOLK, VA**  
**Schedule of Expenditures - Budget and Actual - Capital Projects**  
**From Inception and for the Year Ended June 30, 2015**

	Expenditures				
	Project Budget	Prior Years	Current	Total	Available
<b>Community Development</b>					
Neighborhood Project Development	\$ 13,663,446	\$ 13,557,635	\$ 17,374	\$ 13,575,009	\$ 88,437
Neighborhood Conservation/Revitalization	97,066,317	78,480,072	5,944,031	84,424,103	12,642,214
Broad Creek Renaissance	24,143,761	20,324,045	14,001	20,338,046	3,805,715
Neighborhood Streets Improvements	3,340,938	2,244,114	459,201	2,703,315	637,623
Neighborhood commercial Improvements	12,642,706	10,889,826	214,982	11,104,808	1,537,898
Create Special Service Areas	750,000	493,585	-	493,585	256,415
Other	1,224,774	286,767	-	286,767	938,007
Community Development Total	152,831,942	126,276,044	6,649,589	132,925,633	19,906,309
<b>Cultural Facilities</b>					
Attucks Theatre Renovations	2,550,629	2,558,762	-	2,558,762	(8,133)
Scope and Chrysler Hall Improvements	20,901,450	18,073,429	194,326	18,267,755	2,633,695
Chrysler Museum Improvements	11,808,912	10,789,716	1,000,000	11,789,716	19,196
Civic Building Improvements	1,217,017	1,229,595	-	1,229,595	(12,578)
Conference Center	61,411,437	15,830,870	10,085,913	25,916,783	35,494,654
Harrison Opera House Improvements	404,856	404,856	-	404,856	-
MacArthur Memorial Improvements	2,658,969	2,658,969	-	2,658,969	-
Nauticus/Maritime Center Improvements	3,582,500	3,561,133	20,985	3,582,118	382
USS Wisconsin Improvements	7,954,060	6,704,056	651,035	7,355,091	598,969
Other	6,918,803	4,060,011	683,151	4,743,162	2,175,641
Cultural Facilities Total	119,408,633	65,871,397	12,635,410	78,506,807	40,901,826
<b>Economic Development</b>					
Acquire/Dispose/Upgrade City Property	58,576,578	51,557,819	3,764,659	55,322,478	3,254,100
Nauticus/Cruise Terminal Development	38,326,404	38,282,063	-	38,282,063	44,341
Huntersville Redevelopment	1,000,000	70,882	181,541	252,423	747,577
Wachovia Center Development	5,375,000	3,553,101	-	3,553,101	1,821,899
Kroc Center Development	4,000,000	3,994,779	-	3,994,779	5,221
Other	13,303,292	12,801,754	1,503	12,803,257	500,035
Economic Development Total	120,581,274	110,260,398	3,947,703	114,208,101	6,373,173
<b>General/Other</b>					
Campostella Landfill Closure	2,500,000	1,702,182	240,029	1,942,211	557,789
Beach Erosion Control	28,293,500	26,359,071	422,170	26,781,241	1,512,259
Transfer to Debt Service	6,392,418	5,194,024	117,914	5,311,938	1,080,480
IFMS Implementation	5,900,224	5,900,407	-	5,900,407	(183)
Waterway Dredging Projects	5,709,341	5,191,724	10,874	5,202,598	506,743
Conservation and Green Vision Implementation	6,600,000	4,266,248	-	4,266,248	2,333,752
Public Safety Radio Communication System Upgrade	4,703,668	4,703,668	-	4,703,668	-
Other	13,802,530	9,363,497	65,132	9,428,629	4,373,901
General/Other Total	73,901,681	62,680,821	856,119	63,536,940	10,364,741
<b>Public Buildings and Facilities</b>					
Fire Station Emergency Generation Program	906,700	897,038	-	897,038	9,662
Infrastructure Improvements	4,289,252	3,870,617	3,650	3,874,267	414,985
Annual Roof Maintenance	8,521,000	7,852,634	314,333	8,166,967	354,033
Library Facilities - Anchor Branch	11,476,238	10,303,339	9,993	10,313,332	1,162,906
Police Precinct Replacement	20,630,108	20,328,986	-	20,328,986	301,122
Courts Replacement and Renovations	122,620,170	83,002,263	8,903,555	91,905,818	30,714,352
Jail Renovations	2,529,451	2,435,624	21,506	2,457,130	72,321
Selden Arcade Renovations	8,400,543	8,400,543	-	8,400,543	-
City Hall Building Renovations	14,747,378	11,814,437	675,902	12,490,339	2,257,039
Tow Yard Acquisition	697,045	697,044	-	697,044	1
Fire Facilities Replacement/Improvements	4,143,305	3,751,145	91,690	3,842,835	300,470
Police Training Facilities	656,000	656,000	-	656,000	-
Main Library Construction	69,727,997	55,019,775	7,982,670	63,002,445	6,725,552
Design /Construct Government Center Plaza	4,750,000	610,719	5,043	615,762	4,134,238
Other	12,870,131	12,670,652	278,700	12,949,352	(79,221)
Public Buildings and Facilities Total	286,965,318	222,310,816	18,287,042	240,597,858	46,367,460

**CITY OF NORFOLK, VA**  
**Schedule of Expenditures - Budget and Actual - Capital Projects**  
**From Inception and for the Year Ended June 30, 2015**

	<b>Expenditures</b>				
	Project Budget	Prior Years	Current	Total	Available
<b>Parks/Recreational Facilities</b>					
Zoo Master Plan	27,093,422	26,607,117	-	26,607,117	486,305
Titustown Recreation Center Improvements	3,550,000	3,208,961	-	3,208,961	341,039
Botanical Gardens	2,494,413	1,998,823	-	1,998,823	495,590
Existing Recreation Center Improvements	10,325,433	11,010,394	676,702	11,687,096	(1,361,663)
Norview Recreation Center	7,947,756	7,947,756	-	7,947,756	-
Lambert's Point Golf Course	9,050,000	9,050,000	-	9,050,000	-
Lambert's Point Community & Recreational Center	6,844,027	6,843,948	-	6,843,948	79
Harbor Park Improvements	1,924,747	1,789,289	39,325	1,828,614	96,133
Athletic Field Renovations	2,687,105	2,685,903	-	2,685,903	1,202
Norfolk Fitness & Wellness Center Renovations	1,803,669	1,803,669	-	1,803,669	-
Broadcreek & Westside Neighborhood Parks	2,616,468	2,490,012	120,000	2,610,012	6,456
Town Point Park Improvements	11,525,000	11,478,749	-	11,478,749	46,251
Martin Luther King Park	116,019	116,020	-	116,020	(1)
Waterside Waterfront Renovations	3,671,788	2,228,534	211,714	2,440,248	1,231,540
Ingleside Gymnasium	6,698,813	6,693,093	2,781	6,695,874	2,939
Other	13,413,228	13,185,824	507,488	13,693,312	(280,084)
Parks/Recreational Facilities Total	<u>111,761,888</u>	<u>109,138,092</u>	<u>1,558,010</u>	<u>110,696,102</u>	<u>1,065,786</u>
<b>Schools</b>					
Blair Middle School Replacement	7,071,710	7,071,710	-	7,071,710	-
Norfolk Public School Initiative	5,265,000	5,263,456	-	5,263,456	1,544
Norview Construction	29,865,659	29,865,659	-	29,865,659	-
Southside Middle School	1,535,212	1,414,923	(363,083)	1,051,840	483,372
High School Athletic Field	1,495,091	1,495,091	-	1,495,091	-
Coleman Place Elementary Replacement	20,293,969	20,293,969	-	20,293,969	-
Crossroads Elementary Replacement	29,468,525	27,461,170	-	27,461,170	2,007,355
Larchmont	6,000,000	-	2,091,817	2,091,817	3,908,183
Ocean View	6,000,000	-	2,576,304	2,576,304	3,423,696
Campostella	21,925,282	-	19,358,413	19,358,413	2,566,869
Broad Creek	8,164,323	-	6,452,370	6,452,370	1,711,953
Other	26,112,062	22,461,268	4,544,748	27,006,016	(893,954)
Schools Total	<u>163,196,833</u>	<u>115,327,246</u>	<u>34,660,569</u>	<u>149,987,815</u>	<u>13,209,018</u>
<b>Storm Water</b>					
Storm Water Quality Improvements	21,320,000	17,173,426	1,368,108	18,541,534	2,778,466
Storm Water Facility Improvements	3,584,478	2,940,677	140,139	3,080,816	503,662
Old Dominion University Master Plan	1,788,255	1,788,255	-	1,788,255	-
Drain Line Clean & Slip Lining	995,843	995,843	-	995,843	-
Neighborhood Flood Reduction	15,816,000	13,513,351	1,074,995	14,588,346	1,227,654
Bulkheading Master Project	2,100,000	2,087,100	-	2,087,100	12,900
Other	4,643,375	201,775	950,000	1,151,775	3,491,600
Storm Water Total	<u>50,247,951</u>	<u>38,700,427</u>	<u>3,533,242</u>	<u>42,233,669</u>	<u>8,014,282</u>
<b>Transportation</b>					
Old Dominion University Master Plan	4,998,203	6,940,505	-	6,940,505	(1,942,302)
VDOT Urban Support Program	12,160,025	8,123,009	16,964	8,139,973	4,020,052
Bridge Maintenance & Repair Program	34,168,240	25,607,421	2,966,097	28,573,518	5,594,722
Signal & Intersection Enhancements	14,311,651	9,610,428	1,092,765	10,703,193	3,608,458
Citywide Soundwall Program	8,418,346	8,376,141	10,864	8,387,005	31,341
Neighborhood Streets Improvements	68,705,977	53,201,207	5,445,407	58,646,614	10,059,363
Atlantic City Development	14,717,053	14,287,239	28,246	14,315,485	401,568
Citywide Boat Ramp Improvements	2,388,822	1,934,834	32,672	1,967,506	421,316
Construct Light Rail	109,643,157	70,295,818	7,505	70,303,323	39,339,834
Develop Multi-Modal Transfer Station at Harbor Park	24,643,970	3,464,370	298,593	3,762,963	20,881,007
Other	26,314,733	18,086,976	3,884,539	21,971,515	4,343,218
Transportation Total	<u>320,470,177</u>	<u>219,927,948</u>	<u>13,783,652</u>	<u>233,711,600</u>	<u>86,758,577</u>
<b>Grand Total</b>	<b>\$ 1,399,365,697</b>	<b>\$ 1,070,493,189</b>	<b>\$ 95,911,336</b>	<b>\$ 1,166,404,525</b>	<b>\$ 232,961,172</b>

**STATISTICAL  
SECTION  
(Unaudited)**





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**CITY OF NORFOLK, VIRGINIA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
For the Year Ended June 30, 2015**

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**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.





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(UNAUDITED)

City of Norfolk, Virginia  
Financial Trends Information  
Schedule 1

Net Position by Category  
Last Ten Fiscal Years  
(Amounts in thousands)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015*
Governmental activities:								restated		
Net investment in capital assets	\$ 391,392	\$ 332,988	\$ 325,173	\$ 252,128	\$ 155,954	\$ 324,576	\$ 295,206	\$ 319,550	\$ 337,937	\$ 428,380
Restricted	6,605	6,731	6,890	64,397	120,974	6,744	11,081	11,111	22,062	10,485
Unrestricted	96,705	127,479	90,917	63,013	76,365	5,347	25,832	22,593	(149,763)	(217,542)
Subtotal governmental activities net position	494,702	467,198	422,980	379,538	353,293	336,667	332,119	353,254	210,236	221,323
Business-type activities:										
Net investment in capital assets	259,198	268,503	241,203	237,307	229,693	267,107	270,913	275,195	259,371	266,206
Restricted	-	2,526	2,506	39,306	40,056	12,928	12,928	13,244	32,495	29,610
Unrestricted	43,383	34,373	72,387	43,921	63,316	62,458	72,063	78,631	77,120	100,988
Subtotal business-type activities net position	302,581	305,402	316,096	320,534	333,065	342,493	355,904	367,070	368,986	396,804
Primary government:										
Net investment in capital assets	650,590	601,491	566,376	489,435	385,647	591,683	566,119	594,745	597,308	694,586
Restricted	6,605	9,257	9,396	103,703	161,030	19,672	24,009	24,355	54,557	40,095
Unrestricted	140,088	161,852	163,304	106,934	139,681	67,805	97,895	101,224	(72,643)	(116,554)
Total primary government net position	\$ 797,283	\$ 772,600	\$ 739,076	\$ 700,072	\$ 686,358	\$ 679,160	\$ 688,023	\$ 720,324	\$ 579,222	\$ 618,127

Note: Restatements are due to implementation of new accounting pronouncements.

\* GASB 68 was implemented effective July 1, 2014.

(UNAUDITED)

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

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Program Revenue</b>										
Governmental activities:										
Charges for services:										
General government	\$ 1,230	\$ 2,450	\$ 2,169	\$ 1,800	\$ 13,156	\$ 18,630	\$ 9,441	\$ 9,489	\$ 4,149	\$ 7,152
Judicial administration	200	778	931	935	3,501	3,629	3,690	3,717	3,142	2,938
Public safety	13,041	2,708	2,307	2,797	5,627	7,942	8,424	10,154	7,613	7,563
Public works	10,121	24,181	27,156	26,999	35,451	36,890	50,597	38,320	37,769	41,821
Health and public assistance	134	101	166	134	83	82	50	5,349	5,597	5,577
Culture and recreation	6,198	6,126	6,710	6,232	9,224	10,101	9,751	10,297	9,685	8,948
Community development	1,063	907	760	1,539	2,259	1,479	1,807	2,368	1,960	2,557
Capital grant contributions	-	-	-	16,933	7,175	-	765	15,000	15,933	1,000
Operating grants and contributions	116,827	115,779	112,960	112,419	127,665	116,648	119,553	131,719	120,713	125,802
Total governmental activities program revenue	148,814	153,030	153,159	169,788	204,141	195,401	203,878	226,413	206,561	203,358
Business-type activities:										
Charges for services:										
Water utility	74,218	69,816	74,240	74,454	76,983	80,573	78,148	76,584	79,097	82,996
Wastewater utility	22,375	22,314	24,917	23,125	23,815	24,362	24,798	25,469	27,119	28,144
Parking facilities	20,911	21,599	20,425	20,048	18,785	19,682	19,452	19,162	20,413	19,520
Capital grants and contributions	78	731	219	504	366	130	187	-	2,761	3,005
Total business-type activities program revenues	117,582	114,460	119,801	118,131	121,949	124,747	122,585	121,215	129,390	133,665
Total primary government program revenues	266,396	267,490	272,960	287,919	326,090	320,148	326,463	347,628	335,951	337,023
<b>Expenses</b>										
Governmental activities:										
General government	94,763	113,279	113,142	111,629	112,874	103,550	109,188	119,764	122,656	126,959
Judicial administration	42,494	46,944	48,593	52,209	52,020	49,980	51,102	51,654	55,062	49,056
Public safety	106,705	111,803	126,609	120,703	130,263	129,721	129,138	125,270	125,122	120,710
Public works	109,907	119,176	118,888	134,274	132,176	101,137	91,542	71,324	66,909	81,171
Health and public assistance	91,443	93,775	95,234	93,495	91,923	82,368	75,428	90,993	90,919	86,776
Culture and recreation	44,933	52,965	56,890	63,438	73,342	64,352	63,499	56,039	56,499	58,443
Community development	14,930	14,772	15,345	10,867	15,429	18,638	17,223	16,158	12,622	13,040
Education	92,595	97,595	101,095	104,511	101,011	104,511	104,512	109,287	109,467	117,722
Interest on long-term debt	19,565	19,618	21,457	23,788	26,014	27,931	26,822	28,249	25,187	22,060
Total government activities expenses:	617,335	669,927	697,253	714,914	735,052	682,188	668,454	668,738	664,443	675,937
Business-type activities:										
Water utility	62,009	60,511	64,877	66,990	64,316	67,852	64,473	61,358	61,609	59,455
Wastewater utility	15,448	17,377	18,614	21,227	18,983	19,707	18,806	19,983	20,128	19,142
Parking facilities	18,356	18,861	21,539	19,036	20,008	22,050	20,469	20,961	23,677	20,045
Total business-type activities expenses	95,813	96,749	105,030	107,253	103,307	109,609	103,748	102,302	105,414	98,642
Total primary government expenses	713,148	766,676	802,283	822,167	838,359	791,797	772,202	771,040	769,857	774,579
<b>Net (Expense) Revenue</b>										
Governmental activities	(468,521)	(516,897)	(544,094)	(545,126)	(530,911)	(486,787)	(464,576)	(442,325)	(457,882)	(472,579)
Business-type activities	21,769	17,711	14,771	10,878	18,642	15,138	18,837	18,913	23,976	35,023
Total primary government net expense	\$ (446,752)	\$ (499,186)	\$ (529,323)	\$ (534,248)	\$ (512,269)	\$ (471,649)	\$ (445,739)	\$ (423,412)	\$ (433,906)	\$ (437,556)

(UNAUDITED)

City of Norfolk, Virginia  
Financial Trends Information  
Schedule 2-1

Changes in Net Position  
Last Ten Fiscal Years  
(Amounts in thousands)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>General Revenue and Other Changes in Net Position</b>										
Governmental Activities:										
Taxes:										
Real estate and personal property	\$ 217,787	\$ 241,315	\$ 240,488	\$ 260,640	\$ 256,339	\$ 255,530	\$ 245,439	\$ 246,345	\$ 254,357	\$ 263,490
Consumption utility	43,337	42,586	46,582	44,142	44,053	48,360	43,588	43,211	43,055	42,961
Sales and use	30,652	32,402	31,791	29,484	28,249	28,411	27,599	29,707	29,436	29,981
Restaurant food	27,277	28,578	28,758	28,079	27,292	24,094	30,300	30,818	31,127	32,634
Business licenses	24,412	25,268	26,343	27,692	26,009	25,849	28,667	29,301	29,889	28,640
Cigarette	6,819	6,957	7,577	7,333	7,176	7,161	8,097	7,926	7,409	7,821
Motor vehicle licenses	3,576	3,529	3,498	4,005	4,308	4,313	4,210	4,210	3,966	3,953
Other	21,544	19,800	18,025	17,192	16,528	15,698	18,665	18,124	16,618	18,280
Interest and investment earnings	7,306	6,536	5,307	2,789	892	1,065	916	563	783	164
Grants and contributions not restricted to specific programs	68,133	66,524	69,352	60,513	32,892	32,642	32,726	33,539	33,788	33,793
Miscellaneous	15,851	4,845	11,881	9,600	5,637	5,901	4,653	11,501	14,563	11,916
Gain on disposal of assets	3,249	65	62	-	-	-	-	1,734	-	-
Capital contributions Norfolk Public Schools	-	-	-	-	40,387	11,085	-	-	-	-
Transfers between governmental and business-type activities	11,868	10,988	10,212	10,215	13,054	10,052	10,087	10,114	10,052	10,033
Total governmental activities	481,811	489,393	499,876	501,684	502,816	470,161	455,055	467,093	475,043	483,666
Business-type activities:										
Interest and investment earnings	3,161	2,739	3,046	925	618	511	314	234	496	111
Grants and contributions not restricted to specific programs	-	333	-	-	148	557	371	1,626	219	214
Unrealized gain (loss) on investments	-	-	-	-	-	-	-	-	-	-
Miscellaneous	3,911	3,554	3,088	2,850	3,432	3,431	3,951	4,042	3,162	2,506
Gain (Loss) on disposal of assets	-	(6)	-	-	2,744	(157)	26	9	(88)	(3)
Transfers between governmental and business-type activities	(11,868)	(10,988)	(10,212)	(10,215)	(13,054)	(10,052)	(10,087)	(10,114)	(10,052)	(10,033)
Total business-type activities	(4,796)	(4,368)	(4,078)	(6,440)	(6,112)	(5,710)	(5,425)	(4,203)	(6,263)	(7,205)
Total primary governmental activities	477,015	485,025	495,798	495,244	496,704	464,451	449,630	462,890	468,780	476,461
<b>Change in Net Position</b>										
Governmental activities	13,290	(27,504)	(44,218)	(43,442)	(28,095)	(16,626)	(9,521)	25,485	17,161	11,087
Business-type activities	16,973	13,343	10,693	4,438	12,530	9,428	13,412	15,814	17,713	27,818
Total Primary Government changes in net position	\$ 30,263	\$ (14,161)	\$ (33,525)	\$ (39,004)	\$ (15,565)	\$ (7,198)	\$ 3,891	\$ 41,299	\$ 34,874	\$ 38,905

(UNAUDITED)

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

	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>General Fund:</b>										
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5	\$ -	\$ -	\$ -	\$ -
Restricted	-	-	-	-	-	395	330	300	265	2,100
Committed	-	-	-	-	-	1,899	3,000	3,000	3,000	4,000
Assigned	-	-	-	-	-	38,014	34,839	33,919	23,901	25,904
Unassigned	-	-	-	-	-	55,968	54,338	54,055	58,100	65,580
Reserved <sup>(1)</sup>	16,057	17,223	11,669	7,842	8,296	-	-	-	-	-
Unreserved <sup>(1)</sup>	66,619	71,056	56,302	50,784	53,840	-	-	-	-	-
<b>Total General Fund</b>	<b>82,676</b>	<b>88,279</b>	<b>67,971</b>	<b>58,626</b>	<b>62,136</b>	<b>96,281</b>	<b>92,507</b>	<b>91,274</b>	<b>85,266</b>	<b>97,584</b>
<b>Capital Projects Fund:</b>										
Nonspendable	-	-	-	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	41,063	95,053	-	10,933	-
Committed	-	-	-	-	-	11,978	14,376	13,637	14,480	14,704
Assigned	-	-	-	-	-	26,307	15,345	7,339	4,052	-
Unassigned	-	-	-	-	-	-	-	-	-	(84,624)
Reserved <sup>(1)</sup>	20,885	48,894	57,186	50,987	60,696	-	-	-	-	-
Unreserved <sup>(1)</sup>	-	15,424	64,504	25,939	86,260	-	-	-	-	-
<b>Total Capital Projects Fund</b>	<b>20,885</b>	<b>64,318</b>	<b>121,690</b>	<b>76,926</b>	<b>146,956</b>	<b>79,348</b>	<b>124,774</b>	<b>20,976</b>	<b>29,465</b>	<b>(69,920)</b>
<b>All Other Governmental Funds:</b>										
Nonspendable	-	-	-	-	-	22	23	24	-	-
Restricted	-	-	-	-	-	2,621	9,474	10,811	10,864	8,385
Committed	-	-	-	-	-	11,259	3,246	2,454	5,050	2,764
Assigned	-	-	-	-	-	9,877	13,569	20,708	22,144	17,843
Unassigned	-	-	-	-	-	-	-	-	(1,556)	(2,913)
Reserved <sup>(1)</sup>	19,075	20,123	30,716	27,049	34,634	-	-	-	-	-
Unreserved <sup>(1)</sup>	17,131	24,211	13,987	12,535	14,008	-	-	-	-	-
<b>Total other governmental funds</b>	<b>36,206</b>	<b>44,334</b>	<b>44,703</b>	<b>39,584</b>	<b>48,642</b>	<b>23,779</b>	<b>26,312</b>	<b>33,997</b>	<b>36,502</b>	<b>26,079</b>
<b>Total fund balance, governmental funds</b>	<b>\$ 139,767</b>	<b>\$ 196,931</b>	<b>\$ 234,364</b>	<b>\$ 175,136</b>	<b>\$ 257,734</b>	<b>\$ 199,408</b>	<b>\$ 243,593</b>	<b>\$ 146,247</b>	<b>\$ 151,233</b>	<b>\$ 53,743</b>

(1) The City implemented GASB Statement No. 54 during fiscal year 2011. Prior year amounts have not been restated for the implementation of GASB 54.

(2) The decrease in Capital Projects fund balance is primarily attributable to timing of the City's external borrowing (see page 34).

(UNAUDITED)

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

Table with columns for Fiscal Year (2006-2015) and rows for Revenue, Expenditures, Total revenues, and Debt service. Includes sub-totals for revenues and expenditures, and a net change in fund balances. A note at the bottom explains the debt service classification.

(UNAUDITED)

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

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Function/Program</b>										
Governmental activities:										
General government	\$ 24,802	\$ 16,614	\$ 17,707	\$ 16,042	\$ 19,736	\$ 21,795	\$ 10,466	\$ 10,833	\$ 5,077	\$ 12,739
Judicial administration	19,605	27,904	28,707	23,173	26,461	27,069	27,880	29,479	28,537	23,113
Public safety	20,674	8,137	5,244	11,036	7,459	12,335	14,217	15,980	11,116	14,226
Public works	30,438	44,769	47,407	48,156	55,542	61,552	77,436	68,326	63,124	76,359
Health and public assistance	39,930	42,261	40,567	41,695	62,585	52,280	51,654	62,657	62,224	57,059
Culture and recreation	9,603	9,655	10,359	9,148	23,976	10,330	11,573	26,284	25,837	9,947
Community development	3,762	3,690	3,168	20,538	7,532	10,040	8,538	10,266	7,626	7,498
Interest on Long-term debt	-	-	-	-	849	-	2,115	2,587	3,021	2,417
Total governmental activities	148,814	153,030	153,159	169,788	204,140	195,401	203,879	226,412	206,562	203,358
Business-type activities:										
Water utility	74,277	70,411	74,416	74,958	79,349	80,703	78,335	76,585	81,757	85,925
Wastewater utility	22,394	22,450	24,960	23,125	23,815	24,362	24,798	25,469	27,219	28,144
Parking facilities	20,911	21,599	20,425	20,048	18,785	19,682	19,452	19,162	20,414	19,596
Total business-type activities	117,582	114,460	119,801	118,131	121,949	124,747	122,585	121,216	129,390	133,665
Total primary government	\$ 266,396	\$ 267,490	\$ 272,960	\$ 287,919	\$ 326,089	\$ 320,148	\$ 326,464	\$ 347,628	\$ 335,952	\$ 337,023

(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 <sup>(1)</sup>	Inter-Governmental	Totals
2006	\$ 211,788	\$ 157,616	\$ 4,088	\$ 1,461	\$ 10,498	\$ 32,772	\$ 33,494	\$ 12,667	\$ 149,757	\$ 614,141
2007	235,399	159,119	4,071	1,605	11,105	37,071	11,691	8,408	156,637	625,106
2008	241,290	162,573	4,055	1,317	10,650	40,159	17,923	8,622	156,862	643,451
2009	252,004	157,926	4,012	1,260	8,332	40,345	12,911	8,952	149,774	635,516
2010	257,055	153,615	3,526	1,164	6,746	50,540	18,080	9,503	152,619	652,848
2011	258,004	153,886	3,691	1,298	7,169	47,955	14,850	10,723	149,489	647,065
2012	252,917	161,234	3,575	1,108	6,694	47,859	11,643	10,312	161,572	656,914
2013	246,359	163,297	4,098	1,102	6,539	56,077	26,178	11,396	161,148	676,194
2014	256,979	161,500	3,089	1,242	6,329	60,039	29,133	NA	153,782	672,093
2015	262,433	164,271	3,013	1,264	9,668	59,983	10,141	NA	158,840	669,613
Change 2006-2015	35.8%	9.2%	-14.9%	-28.3%	-5.5%	105.9%	-46.5%	NA	8.0%	17.8%

**City of Norfolk, Virginia**  
**Other Local Tax Revenues by Source, Governmental Funds <sup>(2)</sup>**  
**Schedule 7**  
**Last Ten Fiscal Years**  
(Amounts in Thousands)

Fiscal Year	Consumption Utility Taxes	Sales and Use Taxes	Restaurant Food Taxes	Business License Taxes	Cigarette Taxes	Motor Vehicle Licenses	Other	Total
2006	\$ 43,337	\$ 30,652	\$ 27,277	\$ 24,412	\$ 6,819	\$ 3,576	\$ 21,543	\$ 157,616
2007	42,586	32,402	28,578	25,268	6,957	3,529	19,799	159,119
2008	46,582	31,791	28,758	26,343	7,577	3,498	18,024	162,573
2009	44,142	29,484	28,078	27,692	7,333	4,005	17,192	157,926
2010	44,053	28,249	27,292	26,009	7,176	4,308	16,528	153,615
2011	43,188	28,411	28,474	25,849	7,161	4,313	16,490	153,886
2012	43,588	27,599	30,300	28,667	8,097	4,318	18,665	161,234
2013	43,211	29,707	30,818	29,301	7,926	4,209	18,124	163,296
2014	43,055	29,436	31,127	29,889	7,409	3,966	16,618	161,500
2015	42,961	29,981	32,634	28,640	7,821	3,953	18,281	164,271
Change 2006-2015	-0.9%	-2.2%	19.6%	17.3%	14.7%	10.5%	-15.1%	4.2%

## Notes:

1. Beginning in 2014, recovered costs are classified as the appropriate revenue or expense reimbursement
2. Presents additional details on Other Local Taxes presented in schedule 6 above.

NA - Not Available

(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
2006	\$ 12,691,527	\$ 1,655,021	\$ 316,863	\$ 14,663,411	\$ 14,663,411
2007	15,607,512	1,687,318	324,387	17,619,217	17,619,217
2008	18,401,851	1,983,503	193,287	20,578,641	20,578,641
2009	19,397,795	1,676,811	233,703	21,308,309	21,308,309
2010	19,940,273	1,610,680	226,801	21,777,754	21,777,754
2011	19,320,642	1,832,276	230,756	21,383,674	21,383,674
2012	18,676,729	1,613,797	238,497	20,529,023	20,529,023
2013	18,319,947	1,532,337	241,023	20,093,307	20,093,307
2014	18,421,412	1,512,332	258,302	20,192,046	20,192,046
2015	18,734,201	1,902,442	255,710	20,892,353	20,892,353

## 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**

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Property tax rate per \$100 of assessed value:										
Real property	\$ 1.35	\$ 1.27	\$ 1.11	\$ 1.11	\$ 1.11	\$ 1.11	\$ 1.11	\$ 1.11	\$ 1.15	\$ 1.15
Downtown improvement district	0.18	0.18	0.18	0.18	0.16	0.16	0.16	0.16	0.16	0.16
Personal property	4.00	4.00	4.25	4.25	4.25	4.33	4.33	4.33	4.33	4.33
Machinery and tools	4.00	4.00	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25
Mobile homes	1.35	1.27	1.11	1.11	1.11	1.11	1.11	1.11	1.15	1.15
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	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Boats (business)	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Recreational vehicles	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Disabled veterans	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Total direct tax rate	1.55	1.45	1.25	1.23	1.19	1.19	1.21	1.22	1.22	1.22

## Assessed value of real property as a percent of fair market value:

As determined by the City Assessor	100%	100%	100%	100%	96%	100%	100%	98%	100%	100%
As determined by the Commonwealth's Department of Taxation	76%	76%	93%	96%	N/A	100%	100%	99%	100%	99%

## 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 2006 through 2015.
3. The most recent Virginia Assessment/Sales ratio study is for 2015.
4. The total direct tax rate is calculated using a weighted average formula that combines real, personal and other property using the original property tax levy and total taxable property assessed value.

N/A - Not available

(UNAUDITED)

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

Taxpayer	2006			2015		
	Real Property Taxable Assessed Value	Rank	Percentage of Total Assessed Value	Real Property Taxable Assessed Value	Rank	Percentage of Total Assessed Value
Dominion Virginia Power	\$ 146,231,554	2	1.15%	\$ 310,508,696	1	1.66%
Norfolk Western Railway Company	75,454,011	7	0.59%	198,408,924	2	1.06%
MacArthur Shopping Center LLC	156,945,800	1	1.24%	180,366,200	3	0.96%
Ford Motor Company	81,347,300	5	0.64%			
Bank of America	75,884,300	6	0.60%			
Cox Virginia Telecom	53,031,839	10	0.42%			
Real Estate Foundation				116,806,100	4	0.62%
Norfolk Southern				93,590,800	5	0.50%
Verizon Virginia, Inc.	131,139,260	4	1.03%	84,861,347	6	0.45%
Virginia Natural Gas, Inc.				72,856,378	7	0.39%
Taubman Co.	139,582,300	3	1.10%			
Wells Fargo				70,561,700	8	0.38%
Dominion Enterprises	53,157,400	9	0.42%	61,618,200	9	0.33%
Military Circle Ltd. Partnership	65,249,400	8	0.51%	58,948,000	10	0.31%
Total	<u>\$ 978,023,164</u>		<u>7.71%</u>	<u>\$ 1,248,526,345</u>		<u>6.66%</u>
Total Assessed Value	\$ 12,691,527,668			\$ 18,734,201,726		

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 <sup>(1)</sup>	Current Collections	Percentage of Current Collections to Tax Levy <sup>(2)</sup>	Delinquent Collections	Total Collections	Percentage of Total Collections to Tax Levy <sup>(2)</sup>
2006	\$ 227,796	\$ 202,862	\$ 197,669	97.44%	\$ 5,150	\$ 202,819	99.98%
2007	254,703	230,114	219,993	95.60%	10,120	230,113	100.00%
2008	258,016	243,383	220,253	90.50%	23,117	243,370	99.99%
2009	261,535	251,996	233,725	92.75%	18,252	251,977	99.99%
2010	258,544	257,886	239,192	92.75%	16,987	256,179	99.34%
2011	254,756	253,595	235,518	92.87%	16,434	251,952	99.35%
2012	247,528	247,854	233,396	94.17%	12,654	246,050	99.27%
2013	244,309	244,148	229,872	94.15%	12,096	241,968	99.11%
2014	254,008	255,529	240,481	94.11%	10,816	251,297	98.34%
2015	256,040	259,480	245,803	94.73%	-	245,803	94.73%

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. Taxes collected during the current year that relate to prior years are included in the year assessed. Total collections for the year ended June 30, 2015, were \$259,988,000 of which \$14,185,000 are for prior years and are included under the column entitled "Delinquent Collections."

(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/Line of Credit	Revenue Bonds	Total Outstanding Debt	Outstanding Debt per Capita (Actual)	% of Personal Income	Debt to Net Position Ratio
<b>Governmental Activities</b>							
2006	\$ 397,306	\$ 239	\$ -	\$ 397,545	\$ 1,659	5.41%	1.24
2007	484,782	227	-	485,009	1,993	6.17%	0.96
2008	590,712	2,000	-	592,712	2,457	7.32%	0.71
2009	587,743	1,000	-	588,743	2,441	7.09%	0.64
2010	699,748	1,812	-	701,560	2,902	8.46%	0.50
2011	651,755	1,208	-	652,963	2,689	7.72%	0.52
2012	717,407	-	-	717,407	2,940	8.07%	0.46
2013	664,909	-	-	664,909	2,705	7.25%	0.53
2014	718,937	-	-	718,937	2,918	7.82%	0.49
2015	665,809	1,000	-	666,809	N/A	N/A	0.33
<b>Business-Type Activities</b>							
2006	\$ 92,871	\$ -	\$ 364,535	\$ 457,406	\$ 1,911	5.76%	0.66
2007	107,752	-	355,841	463,593	1,916	5.59%	0.66
2008	125,363	-	413,213	538,576	2,217	6.32%	0.59
2009	159,902	-	410,377	570,279	2,338	6.85%	0.56
2010	201,701	-	403,485	605,186	2,492	7.06%	0.55
2011	189,782	-	445,687	635,469	2,605	7.10%	0.54
2012	193,729	-	439,410	633,139	2,576	6.63%	0.56
2013	184,119	-	486,832	670,951	2,726	6.99%	0.55
2014	259,717	-	410,401	670,118	2,720	7.29%	0.55
2015	247,490	-	443,911	691,401	N/A	N/A	0.57
<b>Total Primary Governmental Activities</b>							
2006	\$ 490,177	\$ 239	\$ 364,535	\$ 854,951	\$ 3,572	10.77%	0.92
2007	592,534	227	355,841	948,602	3,921	11.44%	0.84
2008	716,075	2,000	413,213	1,131,288	4,656	13.28%	0.68
2009	747,645	1,000	410,377	1,159,022	4,751	13.92%	0.64
2010	901,449	1,812	403,485	1,306,746	5,382	15.25%	0.54
2011	841,537	1,208	445,687	1,288,432	5,281	14.40%	0.53
2012	911,136	-	439,410	1,350,546	5,494	14.15%	0.50
2013	849,028	-	486,832	1,335,860	5,427	13.91%	0.51
2014	978,654	-	410,401	1,389,055	5,638	15.11%	0.52
2015	913,299	1,000	443,911	1,358,210	N/A	N/A	0.53

N/A - not available

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

(UNAUDITED)

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

Fiscal 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
2006	\$ 490,177	\$ 92,871	\$ 397,306	\$ 14,663,411	239,355	2.71%	\$ 1,660
2007	592,534	107,752	484,782	17,619,217	241,941	2.75%	2,004
2008	716,075	125,363	590,712	20,578,641	242,983	2.87%	2,431
2009	747,645	159,902	587,743	21,308,309	243,957	2.76%	2,409
2010	901,449	201,701	699,748	21,777,754	242,803	3.21%	2,882
2011	841,537	189,782	651,755	21,383,674	243,985	3.05%	2,671
2012	911,136	193,729	717,407	20,529,023	245,803	3.49%	2,919
2013	849,028	184,119	664,909	20,093,307	246,392	3.31%	2,699
2014	978,654	259,717	718,937	19,788,842	246,394	3.63%	2,918
2015	914,299	247,490	665,809	20,892,353	N/A	3.19%	N/A

Notes:

1. Assessed value of taxable property is detailed in Revenue Capacity Schedule 1.
2. The source of 2006 through 2009 and 2011 through 2014 population estimates is the Weldon Cooper Center for Public Service, University of Virginia. The source for the 2010 population estimate is the U.S. Census Bureau.

N/A - not available

**City of Norfolk, Virginia**  
**Debt Capacity Information**  
**Schedule 3**  
**Computation of Direct Bonded Debt**  
**June 30, 2015**

Jurisdiction	Gross Bonded Debt Outstanding (in thousands)	% Applicable to Government	\$ Applicable to Government (in thousands)
Direct:			
City of Norfolk	\$ 914,299	100%	\$ 914,299

Notes:

1. There is no overlapping debt because cities in Virginia have jurisdiction over the entire area within their boundaries and operate independently of any municipal government.

(UNAUDITED)

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

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total assessed value of taxed real property	\$12,691,527,668	\$15,496,207,804	\$18,401,851,069	\$19,395,789,387	\$19,940,273,451	\$19,320,643,495	\$18,676,730,533	\$18,319,948,478	\$18,421,412,121	\$18,734,201,726
Debt Limit -10% of total assessed valuation	1,269,152,767	1,549,620,780	1,840,185,107	1,939,578,939	1,994,027,345	1,932,064,350	1,867,673,053	1,831,994,848	1,842,141,212	1,873,420,173
Net debt applicable to debt limitation	478,467,462	579,224,191	697,450,234	738,173,200	889,556,676	829,621,927	877,060,431	818,068,050	912,700,343	914,299,379
Legal Debt Margin	\$ 790,685,305	\$ 970,396,589	\$ 1,142,734,873	\$ 1,201,405,739	\$ 1,104,470,669	\$ 1,102,442,422	\$ 990,612,622	\$ 1,013,926,798	\$ 929,440,869	\$ 959,120,794
Net Debt percentage of debt limitation	37.70%	37.38%	37.90%	38.06%	44.61%	42.94%	46.96%	44.65%	49.55%	48.80%

(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 <sup>(1)</sup>	Operating Expenses Less Depreciation & Amortization <sup>(2)</sup>	Income Available for Debt Service	Debt Service			Coverage
				Principal	Interest	Total	
2006	\$ 78,788,158	\$ 34,144,763	\$ 44,643,395	\$ 6,580,000	\$ 14,827,960	\$ 21,407,960	2.09
2007	76,013,563	32,427,377	43,586,186	7,310,000	14,379,821	21,689,821	2.01
2008	78,730,024	37,026,528	41,703,496	7,665,000	14,022,200	21,687,200	1.92
2009	78,020,552	38,182,373	39,838,179	8,050,000	16,411,343	24,461,343	1.63
2010	82,470,020	34,567,741	47,902,279	9,420,000	15,929,680	25,349,680	1.89
2011	83,737,444	37,068,753	46,668,691	9,875,000	16,527,844	26,402,844	1.77
2012	81,295,219	34,667,524	46,627,695	11,285,000	11,184,363	22,469,363	2.08
2013	80,091,220	34,810,702	45,280,518	7,000,000	14,700,777	21,700,777	2.09
2014	82,078,002	34,466,877	47,611,125	7,250,000	15,630,219	22,880,219	2.08
2015	85,403,384	36,882,803	51,550,516	7,805,000	13,905,866	21,710,866	2.37

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  
Wastewater Utility Fund  
Last Six Fiscal Years**

Fiscal Year	Revenue Available for Debt Service <sup>(1)</sup>	Operating Expenses Less Depreciation & Amortization <sup>(2)</sup>	Income Available for Debt Service	Debt Service			Coverage
				Principal	Interest	Total	
2010	\$ 24,122,430	\$ 11,168,344	\$ 12,954,086	\$ 425,000	\$ -	\$ 425,000	30.48
2011	24,856,689	11,375,370	13,481,319	850,000	-	850,000	15.86
2012	25,695,602	10,860,728	14,834,874	1,225,000	-	1,225,000	12.11
2013	25,898,789	11,541,897	14,356,892	1,725,000	-	1,725,000	8.32
2014	27,409,238	10,767,704	16,641,534	1,957,500	-	1,957,500	8.50
2015	28,241,721	10,734,628	17,507,093	2,490,000	-	2,490,000	7.03

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 7

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
2006	\$ 37,659,547	\$ 5,886,597	\$ 18,824,743	\$ 379,498	\$ 62,750,385	\$ 510,999,836	12.28%
2007	35,871,841	3,666,990	18,168,611	338,085	58,045,527	539,491,519	10.76%
2008	40,259,954	5,011,098	18,661,266	235,154	64,167,472	574,581,092	11.17%
2009	47,607,092	1,755,630	22,345,114	86,970	71,794,806	584,533,217	12.28%
2010	45,496,455	1,529,811	22,898,993	4,448	69,929,707	567,371,918	12.33%
2011	49,650,794	-	28,802,303	-	78,453,097	577,669,780	13.58%
2012	55,716,041	-	26,525,905	-	82,241,946	590,849,686	13.92%
2013	50,558,810	-	27,668,004	-	78,226,814	594,180,698	13.17%
2014	48,400,297	-	28,682,414	-	77,082,711	588,506,007	13.10%
2015	49,212,914	-	26,896,108	-	76,109,022	593,478,745	12.82%

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>
2005	239,650	\$ 7,346,427	\$ 30,655	96,113	5.1%
2006	243,406	7,861,702	32,299	95,709	4.3%
2007	241,248	8,094,455	33,552	99,742	4.1%
2008	241,201	8,302,452	34,421	100,847	5.3%
2009	241,725	8,291,931	34,303	98,751	8.5%
2010	242,803	8,458,384	34,816	112,449	8.8%
2011	243,985	8,889,173	36,472	113,035	8.4%
2012	245,803	9,167,589	37,244	113,029	7.6%
2013	246,392	9,192,498	37,477	113,001	6.9%
2014	246,394	9,439,861	38,463	112,971	6.4%

Notes:

1. Population from the Weldon Cooper Center for Public Service, University of Virginia and U.S. Census Bureau. Population data was not available for 2015.
2. Personal income and per capita personal income estimates from U.S. Bureau of Economic Analysis. Data not available for 2015.
3. Unemployment rate and civilian labor force from the U.S. Bureau of Labor Statistics. Data not available for 2015.
4. All information on an average annual calendar year.

(UNAUDITED)

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

Employer	Rank	
	2006	2015
U.S. Department of Defense	1	1
Sentara Healthcare	3	2
Norfolk City Public Schools	2	3
City of Norfolk	4	4
Old Dominion University	5	5
Children's Hospital of the King's Daughters	6	6
Norshipco		7
Eastern Virginia Medical School	10	8
Norfolk State University	9	9
U.S. Navy Exchange		10
United States Postal Service	8	
Ford Motor Company	7	
Total Employment	95,175	133,080

Notes:

1. The source of the City's top ten employers is the Virginia Employment Commission.
2. The data for 2015 is the quarter ended March 2015, as that is the most current data available.
3. The source of the City's total employment is the Bureau of Labor Statistics.
4. Each of the top 10 employers has 1000+ employees. The actual number of employees 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		Estimated Value (in thousands)	Non-Residential Construction		Estimated Value (in thousands)
	Building Permits	Number of Units		Building Permits		
2006	531	1,058	\$	60	\$	165,989
2007	389	491	68,476	55		81,396
2008	277	815	101,212	35		102,714
2009	209	535	35,878	38		138,131
2010	191	621	58,729	35		104,922
2011	221	479	37,298	27		40,073
2012	268	371	39,360	26		116,401
2013	384	822	63,728	28		105,635
2014	432	1,393	93,072	33		37,575
2015	399	711	59,018	36		233,824

Notes:

- 1) The source of residential and nonresidential construction is the City's Department of Planning and Community Development.
- 2) Non-residential 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)

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Goods-Producing Industries:</b>										
Construction	6.0	6.0	6.2	5.9	5.0	4.7	4.4	4.4	4.1	3.8
Manufacturing	9.6	8.7	7.9	7.1	7.1	6.8	6.5	6.5	6.8	6.1
<b>Service-Providing Industries:</b>										
Wholesale trade	5.1	5.1	5.1	4.7	4.3	4.1	3.9	3.9	3.7	3.5
Retail trade	14.1	14.4	14.7	14.1	12.9	12.8	12.9	12.9	12.6	12.7
Transportation and warehousing	9.9	9.3	9.4	9.6	8.8	8.8	8.8	8.8	9.0	8.8
Information	3.9	3.5	3.7	3.5	3.0	2.7	2.5	2.5	2.9	2.8
Finance and insurance	6.7	6.0	6.6	6.6	6.1	5.4	5.5	5.3	5.3	5.6
Real estate and rental and leasing	2.8	2.9	2.8	2.8	2.7	2.6	2.6	2.5	2.5	2.6
Professional and technical services	10.1	10.2	10.7	11.4	11.7	11.6	11.5	11.5	11.0	11.0
Management of companies and enterprises	3.7	2.7	2.5	2.6	2.3	2.1	2.0	2.0	2.0	1.8
Administrative, support and waste services	7.5	7.4	7.4	7.6	6.6	6.6	7.4	6.8	6.8	7.7
Educational services	15.2	15.5	15.6	15.8	16.1	16.1	15.9	16.0	16.1	15.9
Health care and social assistance	19.6	20.1	20.6	21.2	20.7	21.0	21.9	22.4	22.4	21.8
Arts, entertainment and recreation	2.3	2.4	2.4	2.5	2.3	2.2	2.3	2.3	2.3	2.3
Accommodation and food services	10.9	11.1	10.7	10.5	10.3	10.3	10.9	10.9	10.6	10.5
Public administration	12.1	12.2	12.1	13.5	14.1	13.9	14.2	14.4	12.7	12.4
Other services	4.3	4.1	4.0	3.9	3.8	3.8	4.0	4.1	4.2	4.3
<b>Total (adjusted for rounding)</b>	<b>144.6</b>	<b>142.4</b>	<b>143.1</b>	<b>144.0</b>	<b>138.7</b>	<b>136.3</b>	<b>138.0</b>	<b>137.8</b>	<b>136.4</b>	<b>134.4</b>

Notes:

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. This schedule includes data for the ten year period 2005 - 2014 as calendar year. Calendar year data not available for 2015.

(UNAUDITED)

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

Function/Program	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Governmental activities:										
General government	450	477	264	481	438	492	501	461	425	473
Judicial administration	16	17	18	16	14	12	10	13	12	10
Public safety										
Police	839	1,031	887	861	878	891	879	828	837	823
Fire	499	508	508	517	517	510	517	507	504	489
Other	84	-	-	84	83	90	90	77	76	76
Public works	392	379	346	414	440	431	427	395	388	269
Health and public assistance	562	469	598	487	485	532	534	709	697	697
Culture and recreational	406	478	569	558	509	512	501	459	456	429
Community development	70	59	95	75	113	137	142	94	96	103
Business-type activities:										
Water utility	264	261	290	268	269	289	289	266	273	265
Wastewater utility	95	96	103	99	95	103	104	99	99	95
Parking facilities	78	90	88	89	87	85	85	85	76	63
Total full-time equivalent positions	3,755	3,865	3,766	3,949	3,928	4,084	4,079	3,993	3,937	3,792

Note:

1. Data obtained from City's Human Resources Information System.

(UNAUDITED)

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

	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<u>Function/Program</u>										
Police:										
Service calls	191,037	237,451	258,254	242,139	245,336	241,282	251,099	245,620	259,938	240,459
Arrests	22,235	22,222	24,050	26,583	28,069	27,930	29,080	27,073	25,850	21,404
Reports filed	29,600	31,986	31,220	32,477	31,487	30,507	28,649	28,035	26,060	26,039
Fire:										
Incidences (fires, EMS)	40,337	31,266	41,212	39,714	40,234	40,641	45,350	44,370	43,713	44,699
Highways and Streets:										
Streets resurfacing (miles)	77	70	80	66	69	67	139	53	76	25.6
Sanitation:										
Total solid waste collected and disposed (tons)	99,131	97,143	93,799	92,333	100,480	84,162	89,106	83,297	79,382	80,128
Water Utilities:										
Water delivered to water mains (gallons in thousands)	21,721,000	24,326,000	24,150,000	22,974,000	22,666,500	22,810,560	22,039,690	21,532,680	21,147,530	21,530,000
Total water consumption (gallons in thousands)	23,012,112	22,474,000	24,455,000	21,293,000	21,280,000	21,155,000	20,360,972	20,109,000	20,241,312	20,054,780
Percent of unmetered water	7.13%	7.30%	6.95%	7.31%	6.11%	7.25%	7.62%	6.62%	4.29%	6.85%
Average daily delivery (gallons in thousands)	68,090	66,650	66,200	62,900	62,100	62,494	60,217	58,994	57,938	59,000
Maximum daily pumpage (gallons in thousands)	83,640	83,600	82,000	79,000	76,400	80,200	76,310	74,640	74,890	88,970
Minimum daily pumpage (gallons in thousands)	57,200	56,200	52,200	52,000	52,200	52,350	50,070	49,890	48,030	51,110

(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									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Public Safety:										
Police Stations	3	3	3	3	3	3	3	3	3	3
Fire	14	14	14	14	14	14	14	14	14	14
Education:										
High schools	5	5	5	5	5	5	5	5	5	5
Middle schools	9	9	9	9	8	8	8	8	8	7
Elementary (K - 8 & Pre K - 8)	35	35	35	35	35	35	34	33	33	33
Other educational facilities	11	11	11	9	5	5	6	6	6	7
Libraries	10	10	11	11	11	11	11	11	11	11
Public Recreation:										
Parks:										
Acreage	591	587	586	587	587	587	587	587	587	587
Regional parks	1	1	1	2	2	2	2	2	2	2
Neighborhood parks	121	85	71	71	71	71	71	71	71	71
Preserves and nature areas	1	1	1	1	1	1	1	1	1	1
Nature education centers	3	1	1	1	1	1	1	1	1	1
Playgrounds	45	79	123	100	101	101	101	102	105	106
Hiking trails (miles)	11	1	2	2	2	2	2	2	2	2
Recreation:										
Acreage	231	860	868	954	957	957	957	957	957	957
Recreational and senior centers	22	18	19	25	30	30	30	30	30	30
Swimming pools	6	6	8	6	6	6	6	6	6	6
Tennis courts	152	101	134	148	148	148	142	142	142	142
Baseball/softball diamonds	36	63	99	86	86	86	86	86	86	86
Football/soccer fields	18	47	65	49	49	49	49	49	49	49
Field hockey	4	5	5	3	3	3	3	3	3	3
Basketball courts	42	229	179	204	203	203	201	201	201	201
Municipal beaches	3	3	3	3	3	3	3	3	3	3
Municipal golf courses	2	3	3	3	3	3	3	3	3	2
Public Services:										
Transportation and Engineering:										
Streets (lane miles)	2,183	2,193	2,210	2,193	2,188	2,188	2,189	2,174	2,175	2,166
Sidewalks (miles)	968	968	968	968	968	968	968	968	968	968
Bridges	50	49	49	49	50	50	50	50	50	52
Signalized intersections	299	283	287	284	301	304	305	304	311	312
Street lights	29,888	30,200	30,583	30,653	30,717	31,277	31,132	31,138	31,138	31,269
Utilities:										
Water fund capital assets (in thousands)	\$ 425,289	\$ 431,655	\$ 436,488	\$ 437,973	\$ 442,304	\$ 448,407	\$ 470,466	\$ 480,999	\$ 487,577	\$ 503,659
Wastewater fund capital assets (in thousands)	\$ 134,152	\$ 147,020	\$ 163,068	\$ 177,928	\$ 183,974	\$ 198,842	\$ 214,308	\$ 229,891	\$ 238,931	\$ 249,210
Total utilities assets (in thousands)	\$ 559,441	\$ 578,675	\$ 599,556	\$ 615,901	\$ 626,278	\$ 647,249	\$ 684,774	\$ 710,890	\$ 726,479	\$ 752,869
Water customer accounts	65,548	65,000	65,549	64,433	66,140	64,289	64,440	64,654	64,856	65,687
Miles of water main in the system	825	827	829	832	835	838	824	826	828	828
Convention Center:										
Meeting rooms	7	8	8	8	8	8	8	8	8	8
Exhibit space (square feet)	58,430	58,430	58,430	58,430	58,430	58,430	58,430	58,430	58,430	58,430
Meeting/ballroom space (square feet)	9,700	9,700	9,700	9,700	9,700	9,700	9,700	9,700	9,700	9,700
Parking Facilities:										
Parking lots/garages	28	21	23	23	26	25	24	24	24	24
Parking meters	660	718	669	614	584	584	756	738	752	676
Storm Water Management:										
Miles of storm sewers	351	357	357	357	357	357	357	366	386	386

(UNAUDITED)  
**City of Norfolk, Virginia**  
**Operating Information**  
**Schedule 4**  
**Water System Statistics**  
**As of June 30, 2015**

**Average Metered Consumption (million gallons per day)**

<b>Fiscal Year</b>	<b>Norfolk Retail</b>	<b>Virginia Beach</b>	<b>U.S. Navy</b>	<b>Chesapeake</b>	<b>Total</b>
2011	17.4	33.7	4.3	2.2	57.6
2012	17.1	32.4	4.0	2.3	55.8
2013	16.8	32.2	4.0	2.5	55.5
2014	16.7	31.8	4.3	2.3	55.1
2015	16.8	30.8	5.0	2.3	54.9

**Retail Customers' Average Annual Costs - Norfolk Retail**

<b>Fiscal Year</b>	<b>Revenue</b>	<b>Volume (Mgal<sup>1</sup>)</b>	<b>Average Cost</b>	
			<b>Revenue</b>	<b>(\$/Mgal<sup>1</sup>)</b>
2011	\$ 34,472,000	6,362,000	\$	5.42
2012	33,537,000	6,241,000		5.37
2013	33,813,000	6,134,000		5.51
2014	34,920,000	6,092,000		5.73
2015	35,846,000	6,136,000		5.84

**Wholesale Customers' Average Annual Costs - Virginia Beach**

<b>Fiscal Year</b>	<b>Revenue</b>	<b>Volume (Mgal<sup>1</sup>)</b>	<b>Average Cost</b>	
			<b>Revenue</b>	<b>(\$/Mgal<sup>1</sup>)</b>
2011	\$ 28,703,000	12,307,800	\$	2.33
2012	25,519,000	11,826,000		2.16
2013	22,643,000	11,739,000		1.93
2014	23,188,000	11,614,000		1.99
2015	23,771,000	11,257,000		2.11

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

<b>Fiscal Year</b>	<b>Revenue</b>	<b>Volume (Mgal<sup>1</sup>)</b>	<b>Average Cost</b>	
			<b>Revenue</b>	<b>(\$/Mgal<sup>1</sup>)</b>
2011	\$ 8,837,000	1,562,000	\$	5.66
2012	8,534,000	1,460,000		5.85
2013	8,768,000	1,444,000		6.07
2014	9,927,000	1,571,000		6.32
2015	12,017,000	1,838,000		6.54

**Wholesale Customers' Average Annual Costs - Chesapeake**

<b>Fiscal Year</b>	<b>Revenue</b>	<b>Volume (Mgal<sup>1</sup>)</b>	<b>Average Cost</b>	
			<b>Revenue</b>	<b>(\$/Mgal<sup>1</sup>)</b>
2011	\$ 4,299,000	803,000	\$	5.35
2012	4,691,000	840,000		5.58
2013	5,099,000	897,500		5.68
2014	4,912,000	835,300		5.88
2015	5,009,000	823,800		6.08

(1) "Mgal" means 1,000 gallons

**Additional Information:**

1) Water Utility Fund Annual Budget is contained in the City of Norfolk Approved Operating Budget.  
 July 1, 2014 - June 30, 2015  
 July 1, 2015 - June 30, 2016

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

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

(UNAUDITED)  
**City of Norfolk, Virginia**  
**Operating Information**  
**Schedule 5**  
**Wastewater System Statistics**  
**As of June 30, 2015**

**The Wastewater System**

The City owns and operates a sanitary sewer system (the "Wastewater System") which collects and conveys wastewater to the regional treatment agency, the Hampton Roads Sanitation District.

Approximate population served	246,394	citizens
Total wastewater pumping stations	131	pump stations
Miles of gravity wastewater mains	909	miles
Miles of wastewater force mains	67	miles

**Organization and Management**

The Department of Utilities is responsible for the operation of two enterprise funds, the Water Utilities Fund and the Wastewater Utilities Fund. Kristen M. Lentz, P.E. is the Director of Utilities, and Robert Carteris and Eric G. Tucker are the Assistant Directors of Utilities. The Department, which is comprised of eight divisions, is organized as follows: Water Production, Water Quality, Wastewater, Water Distribution, Water Accounts, Engineering, Accounting & Budget and the Director's Office.

**Rates**

Each customer using the Wastewater System is charged at a rate based on the water meter flow unless an effluent meter is used. In the absence of an effluent meter, the water meter flow is used. Rates are set by City Council. Effective in Fiscal Year 2005, the City Council established a long-term retail rate plan and starting in 2006, Fiscal Year wastewater rates increase annually by 4.0% and produces the following rates:

<u>Fiscal Year</u>	<u>Retail Rate</u>
2015	\$3.67 per 100 cubic feet
2016	\$3.82 per 100 cubic feet
Thereafter	4.0% annual increases each July 1

**Largest Users**

<u>Rank</u>	<u>Entity</u>	<u>Usage (CCF)</u>
1	Norfolk Redevelopment and Housing Authority	377,162
2	BAE Systems	162,996
3	Virginia & Norfolk International Terminals	148,730
4	Old Dominion University	112,551
5	S.L. Nusbaum Realty	68,553

**Operating Income**

	<u>Fiscal Year 2014</u>	<u>Fiscal Year 2015</u>
Total Operating Revenues	\$ 27,409,238	\$ 28,241,721
Total Operating Expenses	16,500,470	16,702,281
Total Operating Income	<u>\$ 10,908,768</u>	<u>\$ 11,539,440</u>

(UNAUDITED)  
**City of Norfolk, Virginia**  
**Operating Information**  
**Schedule 6**  
**Parking System Statistics**  
**As of June 30, 2015**

**Short-term Parking Rates at all City-Owned Facilities, Except the MacArthur Center Garages**

Time	Hourly Rates	Time	Hourly Rates
0 to 1 Hour	\$1.50	6 PM to 9 PM/Collect-On-Entry	\$3.00
1 to 2 Hours	3.00	9 PM to 3 AM/Collect-On-Entry	5.00
2 to 3 Hours	4.50	Special Event Rate/Collect-On-Entry	5.00
3 to 4 Hours	6.00		
4 to 5 Hours	7.50		
5 to 6 Hours	9.00		
6 to 7 Hours	10.50		
7 to 8 Hours	12.00		
Maximum Daily Rate (up to 24 Hours)	13.00		
Lost Ticket/Per Day	13.00		

**Short-term Parking Rates at the MacArthur Center Garages**

Monday - Friday	Saturday & Sunday
\$1.00 for first hour - third hour	\$1.00 for entry prior to 6 PM
\$2.00 for each additional hour until 6 PM	\$2.00 for entry after 6 PM
\$2.00 for entry after 6 PM	
Maximum of \$10.00 per 24-hour period	Maximum of \$10.00 per 24-hour period

**Special Event Rates**

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

**Metered Parking Rates**

Metered Area	General Location	Hourly Rate
Tier 1	All streets west of St. Paul's Boulevard, City Hall Avenue and south, Waterside Drive and north, and all streets east of Boush Street including Boush Street	\$0.45 per 15 minutes
Tier 2	All remaining downtown areas with meters	\$0.35 per 15 minutes
Education Lot	Corner of St. Paul's Boulevard and City Hall Avenue	\$0.50 per 30 minutes
Spotswood Lot	Located off Colley Avenue, between Brandon and Spotswood Avenue	\$0.50 per half hour; \$2.00 maximum four hour limit
ODU Village	161 meters located on 41 <sup>st</sup> , 43 <sup>rd</sup> , 45 <sup>th</sup> , 46 <sup>th</sup> , 47 <sup>th</sup> Street and Monarch Way	\$0.50 per 30 minutes

**Monthly Parking Rates at all City-Owned Facilities**

Daytime rates vary from \$37.00 unreserved per month in outlying lots to \$130.00 for reserved spaces in the core downtown. Nightly monthly parking rates vary from \$20.00 per month to \$43.00 per month.

**Parking Fines**

Parking Violation	Fine Schedule	Parking Violation	Fine Schedule
Overtime Parking - Meter	\$25.00	No Parking - This Side	\$30.00
Overtime Parking - Time Zone	40.00	No Stopping Zone	40.00
Overtime Parking - Meter Feeding	30.00	Restricted City Lot	35.00
No Parking	40.00	Handicapped Parking	255.00
No Parking - Fire Hydrant	75.00	Taxi Stand	40.00
No Parking - Cross Walk	40.00	Blocking Driveway	35.00
No Parking - Loading Zone	35.00	Overnight Parking	30.00
No Parking - Here to Corner	35.00	Parking off of Roadway	40.00
No Parking - Facing Wrong Way	30.00	Blocking Fire Lane	105.00
No Parking - Bus Stop	40.00		
No Parking - Street Cleaning	45.00		

**Parking Fines**

Fiscal Year	Parking Tickets Issued	Revenue	Collection Rate
2011	62,731	\$ 2,062,060	82%
2012	58,928	2,169,813	87%
2013	56,751	1,822,693	85%
2014	57,409	2,382,072	100%
2015	46,593	2,292,227	94%

**Additional Information**

- 1) Parking Facilities Fund Annual Budget is contained in the City of Norfolk Approved Operating Budget.  
 July 1, 2014 - June 30, 2015  
 July 1, 2015 - June 30, 2016
- 2) Parking Facilities Fund Financial Statements are contained in the financial section "Enterprise Funds" of each respective year's Comprehensive Annual Financial Report.
- 3) Financial information on the Parking Facilities Fund is provided in the "Introductory Section" and the "Financial Section" of each respective year's Comprehensive Annual Financial Report.



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# **OTHER REPORTS OF INDEPENDENT AUDITORS**





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# COMPLIANCE SECTION





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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 Auditing Standards***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns* (Specifications), issued by the Auditor of Public Accounts of the Commonwealth of Virginia, 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, Virginia (the City) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 23, 2015, which included a paragraph emphasizing that in fiscal year 2015, the City adopted new accounting guidance described in Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, 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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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, and certain provisions of other laws and regulations specified in the Specifications, Chapters Two and Three. 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 instances of noncompliance or other matters that are required to be reported under the Specifications and which are described in the accompanying schedule of finding and responses as items 2015-011 through 2015-014.

### **Responses to the Findings**

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on the responses.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and the Specifications in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**KPMG LLP**

Norfolk, Virginia  
December 23, 2015



**KPMG LLP**  
Suite 1900  
440 Monticello Avenue  
Norfolk, VA 23510

**Independent Auditors' Report on Compliance for Each Major Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations**

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

**Report on Compliance for Each Major Federal Program**

We have audited the City of Norfolk's (the City's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2015. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.



**Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as the following items:

<b>Finding #</b>	<b>CFDA #</b>	<b>Program (or Cluster) Name</b>	<b>Compliance requirement</b>
2015-001	14.218	Community Development Block Grant	Cash Management
2015-001	14.239	Home Investment Partnerships Program	Cash Management
2015-002	14.218	Community Development Block Grant	Reporting
2015-003	14.218	Community Development Block Grant	Matching, Level of Effort, and Earmarking
2015-004	14.218	Community Development Block Grant	Procurement and Suspension and Debarment
2015-005	84.010	Title I, Part A	Special Test and Provisions-Comparability
2015-007	84.027, 84.173, 84.027A	Special Education Cluster (IDEA)	Reporting
2015-009	93.558	Temporary Assistance for Needy Families	Eligibility
2015-010	93.914	HIV Emergency Relief Project Grants	Reporting

Our opinion on each major federal program is not modified with respect to these matters.

The City’s responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City’s responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

**Report on Internal Control over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City’s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain



deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as the following items that we consider to be significant deficiencies:

<b>Finding #</b>	<b>CFDA #</b>	<b>Program (or Cluster) Name</b>	<b>Compliance requirement</b>
2015-001	14.218	Community Development Block Grant	Cash Management
2015-001	14.239	Home Investment Partnerships Program	Cash Management
2015-002	14.218	Community Development Block Grant	Reporting
2015-003	14.218	Community Development Block Grant	Matching, Level of Effort, and Earmarking
2015-004	14.218	Community Development Block Grant	Procurement and Suspension and Debarment
2015-005	84.010	Title I, Part A	Special Test and Provisions-Comparability
2015-006	84.010	Title I, Part A	Special Test and Provisions-School-wide
2015-006	84.027, 84.173, 84.027A	Special Education Cluster (IDEA)	Special Test and Provisions-School-wide
2015-007	84.027, 84.173, 84.027A	Special Education Cluster (IDEA)	Reporting
2015-008	93.558	Temporary Assistance for Needy Families	Special Tests and Provisions-Child Support Non-Cooperation
2015-009	93.558	Temporary Assistance for Needy Families	Eligibility
2015-010	93.914	HIV Emergency Relief Project Grants	Reporting

The City’s responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City’s responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

**Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

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 as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements. We issued our report thereon dated December 23, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic



financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*KPMG LLP*

Norfolk, Virginia  
December 23, 2015

**THE CITY OF NORFOLK, VIRGINIA**

Year ended June 30, 2015

**(1) Summary of Auditors' Results**

***Financial Statements***

- (a) The type of report issued on the financial statements: **Unmodified opinion**
- (b) Material weaknesses in internal control were disclosed by the audit of the financial statements: **None**
- (c) Significant deficiencies in internal control were disclosed by the audit of the financial statements: **None**
- (d) Noncompliance, which is material to the financial statements: **None**

***Federal Awards***

- (a) Material weaknesses in internal control over major programs: **None**
- (b) Significant deficiencies in internal control over major programs: **2015-001 through 2015-010**
- (c) The type of report issued on compliance each for major programs:

<b>Federal programs</b>	<b>CFDA No.</b>	<b>Type</b>
Community Development Block Grant	14.218	Unmodified
Home Investment Partnerships Program	14.239	Unmodified
Title I, Part A Cluster	84.010	Unmodified
Special Education Cluster	84.027, 84.173, and 84.027A	Unmodified
Temporary Assistance for Needy Families	93.558	Unmodified
HIV Emergency Relief Project Grants	93.914	Unmodified
Medical Assistance Program	93.778	Unmodified
Social Services Block Grant	93.667	Unmodified
Substance Abuse Prevention and Treatment Block Grant	93.959	Unmodified
Child Nutrition Cluster	10.553, 10.555 and 10.559	Unmodified

- (d) Any audit findings, which are required to be reported under Section 510(a) of OMB Circular A-133: **2015-001 through 2015-005, 2015-007, 2015-009 and 2015-010**
- (e) Major programs:
  - Community Development Block Grant (CDBG): CFDA No. 14.218
  - Home Investment Partnerships Program (HOME): CFDA No. 14.239
  - Title I, Part A Cluster (Title I): CFDA No. 84.010
  - Special Education Cluster (Special Education): CFDA Nos. 84.027, 84.172, and 84.027A
  - Temporary Assistance for Needy Families (TANF): CFDA No. 93.558
  - HIV Emergency Relief Project Grants (HIV): CFDA No. 93.914
  - Medical Assistance Program (Medicaid): CFDA No. 93.778

**THE CITY OF NORFOLK, VIRGINIA**

Year ended June 30, 2015

- Social Services Block Grant: CFDA No. 93.667
- Substance Abuse Prevention and Treatment Block Grant: CFDA No. 93.959
- Child Nutrition Cluster: CFDA Nos. 10.553, 10.555 and 10.559

(f) Dollar threshold used to determine Type A programs: \$2,824,674

(g) Auditee qualified as low-risk auditee under Section 530 of OMB Circular A-133: **Yes**

**(2) Financial Statement Findings**

None

**(3) Findings and Questioned Costs Related to Federal Awards**

**Finding# 2015-001: Cash Management**

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

Community Development Block Grant, CFDA No. 14.218, Program Year 2015, U.S. Department of Housing and Urban Development, award B14-MC-51-0016

Home Investment Partnerships Program, CFDA No. 14.239, Program Year 2015, U.S. Department of Housing and Urban Development, award M14-MC-51-0203

***Recipient***

City of Norfolk

***Criteria***

In accordance with 24 CFR Section 84.22, payment methods shall be established to minimize the time elapsing between the transfer of funds from the U.S. Treasury and the issuance or redemption of checks, warrants, or payment by other means by the recipients. Additionally, recipients must maintain or demonstrate the willingness to maintain written procedures that minimize the time elapsing between the transfer of funds and disbursement by the recipient. The general rule as clarified in *Chapter 11: Financial Management Guidelines* is three business days of deposit of the funds. If payment takes longer than three business days, written justification should be maintained in the recipient's files.

***Condition Found***

*Community Development Block Grant:* In a sample of sixty five cash management selections, there were two cash advances that were not disbursed to vendors within three business days of deposit of the CDBG funds and no documentation was included in the recipient's files indicating the reason why disbursement of the CDBG funds took longer than three business days.

In our sample of sixty five cash management selections, there were two cash management selections that included invoices where management requested reimbursement for retainage prior to completion of the project and prior to the vendor requesting payment of the retainage. Upon receipt of the retainage from Housing Urban Development (HUD), management did not disburse the funds to the vendor within the three business day time frame. In our allowable costs/activities sample, another invoice was identified that

## THE CITY OF NORFOLK, VIRGINIA

Year ended June 30, 2015

included a request for retainage prior to completion of the project and prior to the vendor requesting payment for the retainage.

Additionally, we identified two cash management selections where management requested reimbursement of the same allowable expenditures twice. Management found the error and returned the funds to HUD within the fiscal year.

*Home Investment Partnerships Program:* In our sample of nine cash management selections, there was one cash advance that was not disbursed to the vendor within three business days of deposit of the HOME funds and no documentation was included in the recipient's file indicating the reason why disbursement of the HOME funds took longer than three business days.

### ***Perspective and Questioned Costs***

*Community Development Block Grant:* Out of sixty five selections of cash management selected for testwork, one cash advance sample was disbursed in 4 working days from the receipt of the CDBG funds and one cash advance sample was disbursed in 12 working days from the receipt of CDBG funds. As the expenditures were allowable, there are no questioned costs in relation to these findings.

Out of sixty five selections of cash management selected for testwork, two reimbursement requests included invoices which requested reimbursement for retainage in the amount of \$10,354.29 prior to completion of the project and prior to the vendor requesting payment of the retainage. An additional sample in our allowable costs/activities sample requested reimbursement for retainage in the amount of \$5,513.16 prior to completion of the project and prior to the vendor requesting payment of the retainage. The retainage was otherwise allowable, therefore there are no questioned costs with this finding.

Out of sixty five selections of cash management selected for testwork, management requested reimbursement for allowable expenditures in the amount of \$34,206 twice. The error was identified by management and the funds were returned to HUD. As the expenditures were allowable, there are no questioned costs in relation to these findings.

*Home Investment Partnerships Program:* Out of nine selections of cash management selected for testwork, one cash advance sample was disbursed in 5 working days from the receipt of the HOME funds. As the expenditures were allowable, there are no questioned costs in relation to these findings.

### ***Cause and Effect***

The requirement to disburse cash advance funds from HUD within three business days of receipt of the funds or to maintain written justification in the recipient's files as to the reason the funds could not be disbursed within three business days was not administered correctly. Furthermore, management requested reimbursement for retainage prior to the expense being incurred and requested reimbursement for the same expenditures twice.

### ***Recommendation***

The City should implement procedures to ensure that cash advances from HUD are disbursed within three business days of receipt of funds or ensure documentation is included in their files as to the reasons why the disbursement of funds could not be made in three business days. Additionally, the City should implement procedures to ensure reimbursements requests are not duplicated.

## THE CITY OF NORFOLK, VIRGINIA

Year ended June 30, 2015

### ***Views of Responsible Officials***

Management agrees with the finding. Management implemented a procedural change in November 2014 and believes this change has already corrected the identified disbursement delay issue. As a result of this procedural change, there were no delayed disbursement issues identified for the remainder of the fiscal year. Management strives to continually improve accuracy and efficiency and will continue to provide proper oversight and adequate training.

The request for reimbursement for retainage was an error and the process has been corrected to properly reflect the expenditure for accounting purposes. The process now holds the retainage in abeyance with respect to grant drawdowns until such time as there is evidence of project completion and impending payment. The City has additionally revised its process for preparing and submitting drawdowns to ensure duplicate payments are not made.

### **Finding# 2015-002: Reporting**

#### ***Program, CFDA No., Program Year, Federal Agency, Grant Number***

Community Development Block Grant: CFDA No. 14.218, Program Year 2015, U.S. Department of Housing and Urban Development, award B14-MC-51-0016

#### ***Recipient***

City of Norfolk

#### ***Criteria***

In accordance with OMB No. 2506, grantees may include reports generated by the Integrated Disbursement and Information System, such as the C04PR26-CDBG Financial Summary (Financial Summary Report), as part of their annual performance and evaluation report that must be submitted for the CDBG Entitlement Program 90 days after the end of the grantee's program year.

In accordance with OMB and HUD requirements, an SF-425 Federal Financial Report must be completed quarterly for the CDBG. The *Federal Financial Report Instructions* published by the OMB, states that when completing the SF-425 Federal Financial Report, grantees should enter the cumulative amounts from the date of the inception of the award through the end date of the reporting specified on the report.

#### ***Condition Found***

In our testwork over the Financial Summary Report, we noted that information included in the report was not calculated correctly, which caused the earmarking ratios to be reported incorrectly. Additionally, upon correcting the Financial Summary report, it was identified that one of the earmarking compliance requirement was not met. The earmarking requirement for the percentage of CDBG funds obligated during the program year for public services is required to be less than 15%. In the current year it was 15.12% or an additional obligation of \$5,010 in public services.

*SF-425 Federal Financial Reports:* In our testwork over the four quarterly SF-425 Federal Financial Reports, all four reports were completed on a quarterly basis. Information was not represented on a cumulative basis from the inception of the award through the end date of the reporting specified on the report. Additionally, we were unable to obtain support for when the first quarter SF-425 Federal Financial Report was submitted.

## THE CITY OF NORFOLK, VIRGINIA

Year ended June 30, 2015

### *Perspective and Questioned Costs*

*Financial Summary Report:* Management did not perform a detail review for accuracy of the Financial Summary Report and submitted the report with incorrect amounts. Once the issue was identified, the City resubmitted a corrected Financial Summary Report. There are no questioned costs associated with this finding.

*SF-425 Federal Financial Report:* The four reports tested were completed on a quarterly basis instead of a cumulative basis. There are no questioned costs associated with this finding.

### *Cause and Effect*

Management did not perform a detail review for accuracy of the Financial Summary Report prior to submission of the Consolidated Annual Performance and Evaluation Report (CAPER). The requirement to report amounts on the SF-425 Federal Financial Reports on a cumulative basis was not administered consistently with the Federal Financial Report Instructions. The City followed informal guidance provided by a representative from the awarding agency and completed the SF-425 Federal Financial Reports on a quarterly basis.

### *Recommendation*

The City should implement procedures to ensure that all reports submitted to HUD are properly reviewed prior to submission to ensure compliance with the reporting requirements.

### *Views of Responsible Officials*

Management agrees with this finding. To address this finding, the City has implemented an internal process to assure timely and accurate submission. All reports will be prepared in advance of their due date, leaving sufficient time for review and corrections, as necessary. All reports will be reviewed by at least one senior team member prior to their submission. This process creates a check and balance system, clear lines of responsibilities, and a tool to confirm compliance.

Additionally, the City continues to hire a full complement of qualified staff and will ensure adequate training in the areas of grant management.

The Financial Summary (PR26) Report contained incorrect calculations that effected the reporting of three program spending ratios. The corrected PR26 indicates that the city spent greater than the maximum allowable for public service projects. Management strives to continually improve accuracy and will implement an additional level of review of the final submission prior to its release.

The City is currently filing form SF-425 on a timely basis. Additionally, the corrected PR26 report has been submitted to HUD.

### **Finding# 2015-003: Matching, Level of Effort, and Earmarking**

#### ***Program, CFDA No., Program Year, Federal Agency, Grant Number***

Community Development Block Grant: CFDA No. 14.218, Program Year 2015, U.S. Department of Housing and Urban Development, award B14-MC-51-0016

## THE CITY OF NORFOLK, VIRGINIA

Year ended June 30, 2015

### ***Recipient***

City of Norfolk

### ***Criteria***

In accordance with 24 CFR section 570.201(e), the amount of CDBG funds obligated during the program year for public services must not exceed 15 percent of the grant amount received for that year plus 15 percent of the program income it received during the preceding program year.

### ***Condition Found***

Per review of the corrected Financial Summary Report used to communicate the compliance with the earmarking requirements, the percentage of CDBG funds obligated during the program year for public services was 15.12% or an additional obligation of \$5,010 in public services.

### ***Perspective and Questioned Costs***

The additional obligation in the current year above the earmarking requirement is \$5,010 out of \$4,175,233 in grant funds for the current year and program income from the prior year.

### ***Cause and Effect***

Management had not implemented a process for subsequent review of the CDBG budget during the year to ensure the earmarking requirements were met.

### ***Recommendation***

The City should implement a process to review the CDBG budget as compared to actual amounts throughout the year to ensure the earmarking requirements are met.

### ***Views of Responsible Officials***

Management agrees with this finding. To address this finding, the City has implemented an internal process to assure timely and accurate submission. All reports will be prepared in advance of their due date, leaving sufficient time for review and corrections, as necessary. All reports will be reviewed by at least one senior team member prior to their submission. This process creates a check and balance system, clear lines of responsibilities, and a tool to confirm compliance.

Additionally, the City continues to hire a full complement of qualified staff and will ensure adequate training in the areas of grant management.

The Financial Summary (PR26) Report contained incorrect calculations that effected the reporting of three program spending ratios. The corrected PR26 indicates that the city spent greater than the maximum allowable for public service projects. Management strives to continually improve accuracy and will implement an additional level of review of the final submission prior to its release.

The corrected PR26 report has been submitted to HUD.

## THE CITY OF NORFOLK, VIRGINIA

Year ended June 30, 2015

### **Finding# 2015-004: Procurement and Suspension and Debarment**

#### ***Program, CFDA No., Program Year, Federal Agency, Grant Number***

Community Development Block Grant: CFDA No. 14.218, Program Year 2015, U.S. Department of Housing and Urban Development, award B14-MC-51-0016

#### ***Recipient***

City of Norfolk

#### ***Criteria***

In accordance with 2 CFR part 180, non-federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principles are suspended or debarred. "Covered Transactions" include those procurement contracts for goods or services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria. When a nonfederal entity enters into a covered transaction with an entity at a lower tier, the nonfederal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA) (now called System for Award Management (SAM)), collecting a certification from the entity, or adding a clause or condition to the contract related to the covered transaction with that entity.

#### ***Condition Found***

For three of the four vendors and subrecipients tested, management was unable to provide documentation of management's review of suspension and debarment prior to use of vendor's services.

#### ***Perspective and Questioned Costs***

There were no questioned costs as none of the vendors or subrecipients noted were identified as being suspended or debarred based on a subsequent review of the SAM.

#### ***Cause and Effect***

Management had not implemented a process for all types of contracts that supported management's determination and verification that a vendor or subrecipient was not suspended or debarred at the time of procurement.

#### ***Recommendation***

The City should implement a procedure to verify and document vendors' and subrecipient's suspension and debarment through the SAM, collecting a certification from the entity, or adding a clause or condition to the contract related to the covered transaction with the vendor.

#### ***Views of Responsible Officials***

Management agrees with the finding. The City is in the process of revising its procedures for verifying the suspension and debarment status of vendors via SAM.gov. Verification will occur during contract implementation, and prior to any contract amendment, to ensure compliance. Additionally, a copy of that verification document will be included in both the contract and project file.

## THE CITY OF NORFOLK, VIRGINIA

Year ended June 30, 2015

### **Finding# 2015-005: Special Tests and Provisions – Comparability**

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

Title I, Part A, CFDA No. 84.010, Program Years 2011, 2012, 2013 and 2014, U.S. Department of Education, Virginia Department of Education, awards 2011-S010A110046, 2012-S010A110046, 2013-S010A110046 and 2014- S010A110046

#### ***Recipient***

Norfolk Public Schools

#### ***Criteria***

In accordance with Section 1120A of the No Child Left Behind Act, a local educational agency may receive funds under Title I, Part A and Title I, Part C only if state and local funds will be used in schools served under this part to provide services that, taken as a whole, are at least comparable to services in schools that are not receiving funds under this part. Each local educational agency shall develop procedures for compliance with the comparability requirements and maintain records that are updated biennially documenting such agency's compliance with the comparability requirements (the Comparability Report).

#### ***Condition Found***

Management uses the average number of students per instructional staff as a measure of comparability. The Comparability Report submitted to the Virginia Department of Education (VDOE) indicated that Norfolk Public Schools did not provide comparable services for the 2014-2015 school year for kindergarten through eighth grade schools. The VDOE notified Norfolk Public Schools (the Schools) regarding the noncompliance. Due to employee turnover, the Schools was unable to provide supporting documentation for the comparability report or proof of management review over the Comparability Report during our audit.

#### ***Perspective and Questioned Costs***

Management did not meet the comparability requirements. Based on the audit finding received from the VDOE, the Schools have added additional instructors to the school to meet the comparability requirements. There are no questioned costs associated with this finding.

#### ***Cause and Effect***

Due to employee turnover, management was not able to provide evidence of a management review process over the submission of the Comparability Report.

#### ***Recommendation***

The Schools should implement a process to review the information included in the Comparability Report and ensure adequate planning and ongoing monitoring to meet the comparability requirements.

#### ***Views of Responsible Officials***

Management agrees with the finding. Norfolk Public Schools has corrected the comparability issue identified by the Virginia Department of Education. Additionally, improvements have been made to the comparability data gathering and reporting process to ensure are all appropriate and supporting documents are maintained and filed.

## THE CITY OF NORFOLK, VIRGINIA

Year ended June 30, 2015

### **Finding# 2015-006: Special Tests and Provisions – Schoolwide**

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

Title I, Part A, CFDA No. 84.010, Program Years 2011, 2012, 2013 and 2014, U.S. Department of Education, Virginia Department of Education, awards 2011-S010A110046, 2012-S010A110046, 2013-S010A110046 and 2014- S010A110046

Special Education Cluster (IDEA), CFDA Nos. 84.027, 84,173, and 84.027A, Program Years 2012, 2013 and 2014, U.S. Department of Education, Virginia Department of Education, awards 2012- H027A120107, 2013- H027A130172 and 2014- H027A140107

#### ***Recipient***

Norfolk Public Schools

#### ***Criteria***

In accordance with 34 CFR section 200.25, a school may operate a schoolwide program if not less than 40 percent of the children enrolled in the school or residing in the school attendance area for the initial year of the schoolwide program are from low-income families. The locality is required to maintain records to demonstrate compliance with this requirement.

#### ***Condition Found***

In our initial sample of 5 schoolwide programs, management was unable to provide evidence of the number of children with low-income families for one school selected. Management determined the percentage of low-income families for a school based on the number of students receiving free and reduced meals. For the one school selected, management reported there were 700 students receiving free and reduced meals representing an 85.6% low-income percentage for the school. However, management was unable to provide supporting documentation for 87 students included in the schools free and reduced meal count. A decrease of 87 students in the free and reduced meal count would bring the school to a 74.9% low-income percentage.

In response to the sample above, we expanded the sample to an additional 27 schools to test 100% of schoolwide programs to address whether the percentage of students who received free-reduced meals reported for each school was greater than 40% based on the supporting documentation. In our additional sample of 27, management was unable to provide evidence of number of children from low-income families for one additional school. With respect to this school, management reported there were 631 students receiving free and reduced meals which equaled a 93.3% low-income percentage for the school. However, management was unable to provide supporting documentation for 244 students included in the school's free and reduced meal count. A decrease of 244 students in the free and reduced meal count would bring the school to a 57.2% low-income percentage.

#### ***Perspective and Questioned Costs***

There were no questioned costs related to this finding as the schools were determined to be in compliance with the 40% requirement.

#### ***Cause and Effect***

Management was not able to provide evidence of how the low-income count was derived for two schools.

## THE CITY OF NORFOLK, VIRGINIA

Year ended June 30, 2015

### ***Recommendation***

The Schools should implement a procedure to ensure adequate documentation is maintained to demonstrate compliance with this requirement.

### ***Views of Responsible Officials***

Management agrees with the finding. The changes in student count identified resulted from schools closings and reconfigurations which required estimation of expected student movements for the Title I application. Appropriate documentation was not maintained for these estimations. As such, Norfolk Public Schools has made improvements to the Title I application process to ensure that supporting documentation is maintained as it relates to the number of eligible students.

### **Finding# 2015-007: Reporting**

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

Special Education Cluster (IDEA), CFDA Nos. 84.027, 84.173, and 84.027A, Program Years 2012, 2013 and 2014, U.S. Department of Education, Virginia Department of Education, awards 2012- H027A120107, 2013- H027A130172 and 2014- H027A140107

#### ***Recipient***

Norfolk Public Schools

#### ***Criteria***

In accordance with 34 CFR section 300.132 through 300.144, each state is required to report to the Secretary an unduplicated count of children with disabilities receiving special education and related services. The local agency is required to establish procedures for counting the number of children with disabilities receiving special education and related services and required to certify to the State that an unduplicated and accurate count has been made.

#### ***Condition Found***

Norfolk Public Schools submitted an unduplicated count of children to the VDOE (December 1 count) which the VDOE used to create the December 1, 2014 count report. To test the inputs in the December 1, 2014 count report, we selected a sample of twenty five children and tested accuracy of significant data elements used in the December 1 count. Of the twenty five children selected, two children receiving special education services were coded to a different school than the school they attend. An additional child was determined to be eligible and receiving special education services prior to December 1, 2014 but was not included in the December 1 count report.

#### ***Perspective and Questioned Costs***

There were no questioned costs related to this finding.

#### ***Cause and Effect***

The management review control over the December 1 count was not operating effectively, which led to the inconsistencies in reporting.

## THE CITY OF NORFOLK, VIRGINIA

Year ended June 30, 2015

### ***Recommendation***

The Schools should implement a process to ensure an adequate review is completed over the December 1 count report.

### ***Views of Responsible Officials***

Management agrees with the finding. Norfolk Public Schools is currently working on making improvements to the process that results in the annual December 1 count report. Improvements will include additional levels of documented reviews as well as a more comprehensive review at the student file level to ensure students are classified appropriately.

### **Finding# 2015-008: 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 2015, U.S. Department of Health and Human Services (HHS), Commonwealth of Virginia Department of Social Services, awards BEN-13-045-12

#### ***Recipient***

City of Norfolk

#### ***Criteria***

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

#### ***Condition Found***

In a sample of eighty instances of noncooperation tested, two families received additional monthly payments after benefits should have been terminated.

#### ***Perspective and Questioned Costs***

Out of eighty instances of noncooperation selected for testwork, there were two instances in which an individual inappropriately received TANF benefits in the amount of \$1,020.50 after the date upon which benefits should have been terminated. The total amount sampled was \$20,891. In each case, the individual had been receiving TANF benefits for longer than 6 months, and became noncompliant with DCSE regulations subsequent to the sixth month. Also, in each instance paternity had not been established. As such, the TANF case must be closed as soon as administratively possible. Because the City is the administrator of these local programs and the State provides payments directly to the individuals, there are no questioned costs to the City in relation to these findings.

#### ***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.

## THE CITY OF NORFOLK, VIRGINIA

Year ended June 30, 2015

### ***Recommendation***

The City should enhance its process to ensure that benefit are terminated timely for all cases referred by the DSCE due to noncooperation.

### ***Views of Responsible Officials***

Management concurs with the finding. Over the past few years, the City has worked to strengthen and improve internal controls and the findings were a result of extraordinary circumstances/requirements beyond our local agency control. Demands on existing eligibility staff due to a challenging VDSS computer system change, the addition of FAMIS caseloads transferred from DMAS, and extensive changes in federal requirements for eligibility for MAGI that affected a large portion of our benefit operations continued into 2015. With the ongoing challenges, the City was only able to decrease the instances of errors from (3) instance in 2014 to (2) instances in 2015 for this program.

The City is committed to continuous improvement of internal controls and will redistribute the Standard Operating Procedure and review compliance with the supervisors. The TANF and VIEW workers continue to receive refresher training on DCSE policy. Notifications are received on the first of the month from the ADAPT notification system. On the sixth of the month, the Supervisor receives an alert on cases that have not been processed and alerts the worker to process immediately. Supervisors will continue to review 100% of case actions. Program Supervisors, on the ninth of the month, will check the notification system to make sure that case actions have been taken in ADAPT and on the work list. Standard operating procedures have been established to ensure timely and accurate processing of cases. All workers are advised to review the wrap-up menu screens in ADAPT to ensure accurate TANF payments. Workers will establish a claim or create a benefit adjustment as soon as possible following the discovery of an error. Management also established a special project where a TANF quality control Benefit Programs Senior worker reviews the DCSE cases for compliance. We also consolidated the TANF cases among three supervisory units and the cases are being transferred directly to those specialized TANF units.

### **Finding# 2015-009: Eligibility**

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

Temporary Assistance for Needy Families, CFDA No. 93.558, Program Year 2015, U.S. Department of Health and Human Services (HHS), Commonwealth of Virginia Department of Social Services, award BEN-13-045-12

#### ***Recipient***

City of Norfolk

#### ***Criteria***

In accordance with the eligibility requirements of the TANF grant, the City is required to maintain sufficient documentation and approval support for the determination of compliance with the eligibility criteria for the individuals applying for TANF assistance. Specifically, the TANF Guidance Manual section 201.1 specifies each factor that is required for the individual to be eligible to receive benefits.

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### ***Condition Found***

In a sample of sixty five selections selected for eligibility testwork, we noted no eligibility findings. However, as part of our testwork over the special tests and provisions –VIEW Sanctions, KPMG determined that one individual received TANF benefits and was not eligible. The individual received ineligible payments in the amount of \$259.

### ***Perspective and Questioned Costs***

There was one instance in which an individual inappropriately received TANF benefits in the amount of \$259 when they should not have. In this case, the individual received a VIEW sanction in March 2014 terminating TANF benefits. Six months later, the individual reapplied for TANF benefits claiming a dependent child. This application for TANF benefits was approved for the adult and child. However, TANF benefits should have only been approved for the child since the adult had a previously outstanding VIEW sanction. Eligibility is tested on an attribute and case basis and the benefits paid to the individuals in the sample tested were not quantified. Because the City is the administrator of these local funds and the State provides payments directly to the individuals, there are no questioned costs to the City in relation to this finding.

### ***Cause and Effect***

The requirement to review and determine eligibility was not administered properly, which led to inconsistencies in the process.

### ***Recommendation***

The City should implement a process to ensure that all eligibility applications are properly approved and maintained. We further recommend that the City increase the frequency and precision level of management’s review to ensure errors are detected and resolved in a timely manner.

### ***Views of Responsible Officials***

Management agrees with the findings. Individual training on proper procedures and TANF policies have been reinforced with all workers. Supervisors from the Intake Units will monitor the first 10 TANF cases monthly. Intake was redesigned in the past year so that TANF applications are assigned to one of the three units (WDC and Berkley). Additionally, dedicated worker(s) from the Intake Units may be assigned to all TANF applications for processing. The TANF refresher quarterly training Powerpoints will be used in Unit meetings to reinforce payment accuracy. Workers will establish a claim or create a benefit adjustment as soon as possible following the discovery of an error.

### **Finding# 2015-010: Reporting**

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

HIV Emergency Relief Grant, CFDA No. 93.914, Program Years March 1, 2014 through February 28, 2015 and March 1, 2015 through February 28, 2016, U.S. Department of Health and Human Services (HHS), awards H89HA0053-16-01 and H89HA00053-17-01

#### ***Recipient***

City of Norfolk

## THE CITY OF NORFOLK, VIRGINIA

Year ended June 30, 2015

### ***Criteria***

In accordance with 45 CFR Section 74.52 and 92, the HHS awarding agency requires recipients to report the status of funds for all non-construction projects or programs. Grantees are required per the Office of Management and Budget (OMB) to use the SF-425 Federal Financial Report (FFR) to report the expenditures.

1. The submission of interim FFRs will be on a quarterly, semiannual, or annual basis, as directed by the federal agency. A final FFR shall be submitted at the completion of the award agreement. The following reporting period end dates shall be used for interim reports: 3/31, 6/30, 9/30, or 12/31. For final FFRs, the reporting period end date shall be the end date of the project or grant period.
2. Quarterly and semi-annual interim reports shall be submitted no later than 30 days after the end of each reporting period. Annual reports shall be submitted no later than 90 days after the end of each reporting period. Final reports shall be submitted no later than 90 days after the project or grant period end date.
3. The agency requires cash management information to be reported on specific lines noted on the SF-425 form.
4. Grantees are required to enter cumulative amounts from date of the inception of the award through the end of the reporting period. For final FFRs, the reporting period end date shall be the end date of the project or grant period.

### ***Condition Found***

In a sample of two quarterly SF-425 FFRs tested, we noted the first quarter SF-425 was not completed by management. As such, management included the first quarter expenditures on the second quarter SF-425. Additionally, we noted the fourth quarter SF-425 was completed using quarterly amounts instead of cumulative amounts.

### ***Perspective and Questioned Costs***

The first quarter and second quarter expenditures were documented on the second quarter SF-425. The fourth quarter SF-425 was completed on a quarterly basis instead of a cumulative basis. There are no questioned costs associated with this finding.

### ***Cause and Effect***

The City did not have adequate staffing assigned to prepare the reports. The requirement to report amounts on a cumulative basis was not administered consistently with the FFR Instructions.

### ***Recommendation***

The City should implement a process to ensure that SF-425s are completed accurately and timely.

### ***Views of Responsible Officials***

Management agrees with this finding. To address this finding, the Department of Finance has implemented an internal process to assure timely submission of all grant reporting requirements. This process entails a joint evaluation by the Department's Accountant IV and the Senior Accounting Manager to review grant requirements, to prepare a reporting schedule, establish timeframes and identify responsible parties. This process creates a check and balance system, clear lines of responsibilities, and a tool for the Senior

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Accounting Manager to confirm grant compliance. This also will provide an opportunity for the Granting Agency to confirm the City's understanding of Agency reporting and process requirements.

Additionally, the Department of Finance continues to hire a full complement of qualified staff and will ensure adequate training in the areas of grant management

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

#### *State Finding 2015-011: 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. The specifications requires local government officials to provide extensive disclosure of personal financial interest that may cause conflicts. The annual disclosure forms are required to be filed on or before January 15<sup>th</sup> of each year. In our testwork of disclosure forms of fifteen local government officials, one was not filed on or before the deadline date. We recommend that the City implement a management review control over the process to ensure the disclosure forms are submitted within the appropriate time frame.

#### *Views of Responsible Officials*

Management concurs with this finding, but notes that local elected officials are required to file a statement of economic interests twice a year, on December 15 and June 15, and certain other local government officials are required to file financial or real estate disclosures annually. The City is committed to obtaining and filing timely and accurate disclosure forms. It is noteworthy that all elected officials filed on time. Although we strive to meet the deadline by communicating extensively, obtaining these forms for those that serve on council-appointed bodies can on occasion be difficult. As we noted previously, when reappointing officials the City Council is now informed of the compliance status, which has significantly helped the City in obtaining these forms more timely. Additionally, last year the State Legislature changed the filing requirements such that, beginning January 1, 2016, the City Clerk is required to report the names of late filers to the Virginia Council of Conflict of Interests and Ethics Advisory Council and a \$500 fine is assessed.

#### *State Finding 2015-012: Highway Maintenance (Weldon Cooper Survey)*

In accordance with the Auditor of Public Accounts *Specifications for Counties, Cities and Towns, Chapter 3, Section 13*, local government officials are required to submit the annual Weldon Cooper Center Local Finance Survey and its supporting schedules, worksheets, and other documentation every year. In our testwork of twenty five expenditures supporting the survey, we noted one expenditure was not accurately reported based upon the supporting documentation. In addition, we noted a total of eighteen invoices were not accurately reported on the Weldon Cooper Center Local Finance Survey. The net impact for the eighteen invoices was an overstatement of expenditures by \$425.22 out of the total expenditures sampled of \$195,708.16. We recommend that the City implement a management review control over the process to ensure that all expenditures submitted on the annual survey are accurate.

#### *Views of Responsible Officials*

Management agrees with the finding, although recognizes the minimal over-reporting relative to the Total Eligible Expenditures. The \$425.22 related to Other Traffic Services (roadside) and was an overstatement of 0.02% of the \$1,715,379.27 total of that category and a 0.002% difference in the Total Eligible Expenditures

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of \$27,826,125.71. Management strives to continually improve accuracy and will implement an additional level of review of the final submission prior to its release.

### ***State Finding 2015-013: Exonerations***

In accordance with the Auditor of Public Accounts *Specifications for Counties, Cities and Towns, Chapter 2, Section 4*, the commissioner of revenue's office must approve all personal property exonerations. In our sample of twenty five personal property tax exonerations, none of the twenty five personal property tax exonerations reflected documentation indicating that they were reviewed and approved. However, we determined that the exonerations were properly calculated and recorded.

### ***Views of Responsible Officials***

Management agrees with the finding, and recognizes that all the exonerations were properly recorded. Management has communicated the need for this review and written approval, by signature, with the Commissioner of the Revenue. The Commissioner of the Revenue has indicated agreement of the need for written approve of all personal property exonerations and has incorporated the approval into the exoneration process.

### ***State Finding 2015-014: Virginia Retirement System***

In accordance with the Auditor of Public Accounts *Specifications for Counties, Cities and Towns, Chapter 3, Section 7*, the local government participating in the Virginia Retirement System (VRS) should reconcile the information in the entity's payroll system to the data in the monthly contribution confirmation in myVRS Navigator each month. The employer should confirm the contributions between the first and the 10th of the following month and schedule payment immediately after confirmation. Additionally the payment for the month must be scheduled immediately after confirming the data. In our sample of twelve months for the City of Norfolk, six months were confirmed after the 10th of the following month. For the sample of twelve months, payments were scheduled between 3 to 35 days after confirming the information, and no payments were submitted within 10 days of the following month. In our sample of three months for Norfolk Public Schools, all samples were confirmed within 10 days of the following month and payment was scheduled immediately for all samples. However, two out of the three samples were paid to VRS on the 14th of the following month.

### ***Views of Responsible Officials***

Management agrees with this finding. Both the City and Norfolk Public Schools strive to make timely monthly contributions to the Virginia Retirement System. While Norfolk Public Schools has ensured that confirmation is performed by the 10th of the following month, payment follows shortly thereafter normally within three days as allowed by VRS.



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