

NEW ISSUE**Book-Entry Only****Bonds Ratings: Moody's Aa2****Fitch AA+****(See "Ratings" herein)****S&P AA****CITY OF NORFOLK, VIRGINIA****\$69,030,000****General Obligation Refunding Bonds,
Series 2012A (Non-AMT)****\$7,805,000****General Obligation Refunding Bonds,
Series 2012B (AMT)****Dated: Date of Delivery****Due: October 1, as shown on the inside front cover**

The City of Norfolk, Virginia (the "City") prepared this Official Statement to provide information on the above-referenced 2012A Bonds and the 2012B Bonds (collectively, the "Bonds"). This cover page presents a summary of selected information for your convenience and does not provide a complete description of the Bonds. To make an informed decision regarding the Bonds, this Official Statement should be read in its entirety.

Tax Matters

In the opinion of Bond Counsel, under current law and assuming the compliance with certain covenants by and the accuracy of certain representations and certifications of the City and other persons and entities described in the section herein "TAX MATTERS" interest on the 2012A Bonds (i) is excludable from the gross income of the owners thereof for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. Interest on the 2012A Bonds must be included in the adjusted current earnings of certain corporations for purposes of computing the federal alternative minimum tax imposed on such corporations and may be subject to other federal income tax consequences as described in "TAX MATTERS."

In the opinion of Bond Counsel, under current law and assuming the compliance with certain covenants by and the accuracy of certain representations and certifications of the City and other persons and entities described in the section herein "TAX MATTERS," interest on the 2012B Bonds (i) is excludable from the gross income of the owners of the 2012B Bonds for federal income tax purposes under Section 103 of the Code, and (ii) will be a specific item of tax preference for purposes of the federal alternative minimum tax. Bond Counsel observes that interest on the 2012B Bonds may be subject to other federal income tax consequences as described in "TAX MATTERS."

Bond Counsel is further of the opinion that interest on the Bonds is excludable from gross income for purposes of income taxation by the Commonwealth of Virginia (the "Commonwealth").

Bond Counsel expresses no opinion regarding any other tax consequence related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

See the section herein "TAX MATTERS" regarding other tax considerations.

Security

The Bonds are general obligations of the City. See the section herein "SECURITY FOR AND SOURCES OF PAYMENT OF THE BONDS."

Redemption

See inside front cover. See the subsection "Redemption Provisions - Manner of Redemption" in the section herein "DESCRIPTION OF THE BONDS" for a description of the redemption provisions with respect to the Bonds.

Authorization

Ordinance Nos. 44,373 and 44,567, adopted by the City Council of the City on September 13, 2011, and February 28, 2012, respectively.

Purpose

The proceeds of the Bonds, together with other available funds, will be used to (i) current and advance refund certain outstanding general obligation bonds of the City, (ii) advance refund a U.S. Department of Housing and Urban Development loan of the City and (iii) pay the underwriters' discount and costs of issuance of the Bonds. See the sections herein "PLAN OF REFUNDING" and "APPLICATION OF PROCEEDS OF THE BONDS."

Interest Payment Dates

Interest on the Bonds will be payable semi-annually on April 1 and October 1, commencing October 1, 2012.

Registration

Book-Entry Only; The Depository Trust Company. See the section herein "BOOK-ENTRY ONLY SYSTEM."

Closing/Delivery Date

On or about May 30, 2012.

Bond Counsel

McGuireWoods LLP, Richmond, Virginia.

Underwriters' Counsel

Kaufman & Canoles, a Professional Corporation, Norfolk, Virginia.

Financial Advisor

Public Financial Management, Inc., Arlington, Virginia.

Registrar/Paying Agent

Acting Director of Finance of the City.

Issuer Contact

Acting Director of Finance of the City. (757) 664-4346.

Raymond James | Morgan Keegan

J.P. Morgan

Loop Capital Markets

RBC Capital Markets

SunTrust Robinson Humphrey

Dated: May 17, 2012

NOTE: The City adopted its Fiscal Year 2013 Budgets on May 22, 2012, after the date of this Official Statement. Certain sections of this Official Statement contain updated disclosure pertaining to the City's Fiscal Year 2013 Budgets. See "TABLE OF CONTENTS."

CITY OF NORFOLK, VIRGINIA

\$69,030,000 General Obligation Refunding Bonds, Series 2012A (Non-AMT)

(Base CUSIP Number 655867)*

Maturities, Amounts, Interest Rates, Yields and Prices

| Year of Maturity (October 1) | Principal Amount | Interest Rate | Yield | Price | CUSIP Suffix |
|---|-----------------------------|--------------------------|--------------|--------------|-------------------------|
| 2015 | \$1,690,000 | 3.000% | 0.560% | 108.052 | MS5 |
| 2016 | 5,185,000 | 4.000 | 0.720 | 113.977 | MT3 |
| 2017 | 4,230,000 | 3.000 | 0.950 | 110.640 | NF2 |
| 2017 | 1,030,000 | 2.000 | 0.950 | 105.450 | MU0 |
| 2018 | 6,645,000 | 5.000 | 1.190 | 123.184 | MV8 |
| 2019 | 3,285,000 | 4.000 | 1.410 | 117.989 | NE5 |
| 2019 | 2,625,000 | 2.000 | 1.410 | 104.097 | MW6 |
| 2019 | 3,525,000 | 5.000 | 1.410 | 124.935 | NK1 |
| 2020 | 1,320,000 | 2.000 | 1.690 | 102.400 | MX4 |
| 2021 | 2,855,000 | 4.000 | 1.900 | 117.885 | MY2 |
| 2021 | 5,410,000 | 5.000 | 1.900 | 126.403 | NH8 |
| 2022 | 1,025,000 | 3.000 | 2.060 | 108.709 | NG0 |
| 2022 | 3,150,000 | 4.000 | 2.060 | 117.975 | MZ9 |
| 2022 | 4,855,000 | 5.000 | 2.060 | 127.242 | NL9 |
| 2023 | 7,185,000 | 4.000 | 2.270 | 115.856** | NJ4 |
| 2023 | 450,000 | 5.000 | 2.200 | 125.757** | NA3 |
| 2024 | 6,065,000 | 5.000 | 2.310 | 124.605** | NB1 |
| 2025 | 4,225,000 | 5.000 | 2.410 | 123.568** | NC9 |
| 2026 | 4,275,000 | 5.000 | 2.490 | 122.746** | ND7 |

Optional Redemption. The 2012A Bonds maturing on or before October 1, 2022, are not subject to optional redemption prior to maturity. The 2012A Bonds maturing on or after October 1, 2023, are subject to redemption prior to their respective maturities on or after October 1, 2022, at the option of the City, in whole or in part (in increments of \$5,000) at any time, at a redemption price equal to 100% of the principal amount of such 2012A Bonds to be redeemed plus the unpaid interest accrued thereon to the date fixed for redemption.

* A registered trademark of the American Bankers Association ("ABA"), used by Standard & Poor's ("S&P") in its operation of the CUSIP Service Bureau for the ABA. The above CUSIP (Committee on Uniform Securities Identification Procedures) numbers have been assigned by an organization not affiliated with the City, and the City is not responsible for the selection or use of the CUSIP numbers. The CUSIP numbers are included solely for the convenience of bondholders and no representation is made as to the correctness of such CUSIP numbers. CUSIP numbers assigned to securities may be changed during the term of such securities based on a number of factors including, but not limited to, the refunding or defeasance of such securities or the use of secondary market financial products. The City has not agreed to, and there is no duty or obligation to, update this Official Statement to reflect any change or correction in the CUSIP numbers set forth above.

** Priced to first optional redemption date of October 1, 2022.

\$7,805,000
General Obligation Refunding Bonds,
Series 2012B (AMT)

(Base CUSIP Number 655867)*

Maturities, Amounts, Interest Rates, Yields and Prices

| Year of Maturity (October 1) | Principal Amount | Interest Rate | Yield | Price | CUSIP Suffix |
|-------------------------------------|-------------------------|----------------------|--------------|--------------|---------------------|
| 2013 | \$ 190,000 | 2.000% | 0.500% | 101.994 | MH9 |
| 2014 | 1,255,000 | 2.000 | 0.670 | 103.077 | MJ5 |
| 2015 | 1,235,000 | 4.000 | 0.950 | 109.991 | MK2 |
| 2016 | 1,230,000 | 4.000 | 1.150 | 112.019 | ML0 |
| 2017 | 1,015,000 | 4.000 | 1.490 | 112.827 | MM8 |
| 2018 | 995,000 | 3.000 | 1.700 | 107.776 | MN6 |
| 2019 | 850,000 | 2.000 | 1.910 | 100.612 | MP1 |
| 2020 | 620,000 | 2.000 | 2.180 | 98.633 | MQ9 |
| 2021 | 415,000 | 2.250 | 2.380 | 98.915 | MR7 |

Optional Redemption. The 2012B Bonds are not subject to optional redemption prior to maturity.

* A registered trademark of the ABA, used by S&P in its operation of the CUSIP Service Bureau for the ABA. The above CUSIP (Committee on Uniform Securities Identification Procedures) numbers have been assigned by an organization not affiliated with the City, and the City is not responsible for the selection or use of the CUSIP numbers. The CUSIP numbers are included solely for the convenience of bondholders and no representation is made as to the correctness of such CUSIP numbers. CUSIP numbers assigned to securities may be changed during the term of such securities based on a number of factors including, but not limited to, the refunding or defeasance of such securities or the use of secondary market financial products. The City has not agreed to, and there is no duty or obligation to, update this Official Statement to reflect any change or correction in the CUSIP numbers set forth above.

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CITY OF NORFOLK, VIRGINIA

CITY COUNCIL

Paul D. Fraim, Mayor
Anthony L. Burfoot, Vice Mayor

Andrew A. Protogyrou
Paul R. Riddick
Thomas R. Smigiel

Dr. Theresa W. Whibley
Angelia M. Williams
Barclay C. Winn

CITY OFFICIALS

Marcus D. Jones, City Manager
Shenette C. Felton, Acting Director of Finance
Bernard A. Pishko, City Attorney

BOND COUNSEL

McGuireWoods LLP
Richmond, Virginia

FINANCIAL ADVISOR

Public Financial Management, Inc.
Arlington, Virginia

THE BONDS ARE EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THE BONDS ARE ALSO EXEMPT FROM REGISTRATION UNDER THE SECURITIES LAWS OF THE COMMONWEALTH OF VIRGINIA.

NO DEALER, BROKER, SALESMAN OR OTHER PERSON HAS BEEN AUTHORIZED BY THE CITY TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS OFFICIAL STATEMENT, AND, IF GIVEN OR MADE, SUCH OTHER INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE CITY. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY, NOR SHALL THERE BE ANY SALE OF THE BONDS BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE AN OFFER, SOLICITATION OR SALE. THIS OFFICIAL STATEMENT IS NOT TO BE CONSTRUED AS A CONTRACT OR AGREEMENT BETWEEN THE CITY AND THE PURCHASERS OR OWNERS OF ANY OF THE BONDS. THE INFORMATION AND EXPRESSIONS OF OPINION IN THIS OFFICIAL STATEMENT ARE SUBJECT TO CHANGE WITHOUT NOTICE, AND NEITHER THE DELIVERY OF THIS OFFICIAL STATEMENT NOR ANY SALE MADE UNDER IT WILL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE CITY SINCE THE RESPECTIVE DATES AS OF WHICH INFORMATION IS GIVEN HEREIN.

Morgan Keegan & Company, Inc. or its successor in interest, J.P. Morgan Securities LLC, Loop Capital Markets LLC, RBC Capital Markets, LLC, and SunTrust Robinson Humphrey, Inc. (collectively, the "Underwriters") may engage in transactions that stabilize, maintain or otherwise affect the price of the Bonds, including transactions to (i) overallot in arranging the sales of the Bonds and (ii) make purchases in sales of the Bonds, for long or short accounts, on a when-issued basis or otherwise, at such prices, in such amounts and in such manner as the Underwriters may determine. Such stabilization, if commenced, may be discontinued at any time.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

All quotations from, and summaries and explanations of, provisions of law and documents herein do not purport to be complete and reference is made to such laws and documents for full and complete statements of their provisions. Any statements made in this Official Statement involving estimates or matters of opinion, whether or not expressly so stated, are intended merely as estimates or opinions and not as representations of fact.

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* Section contains updated disclosure pertaining to the City's Fiscal Year 2013 Budgets, which were adopted on May 22, 2012, after the date of this Official Statement.

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OFFICIAL STATEMENT

Relating to the Issuance of

CITY OF NORFOLK, VIRGINIA

| | |
|---|---|
| \$69,030,000 | \$7,805,000 |
| General Obligation Refunding Bonds, Series 2012A (Non-AMT) | General Obligation Refunding Bonds, Series 2012B (AMT) |

PART I THE BONDS

The purpose of this Official Statement, including the financial information contained in Appendix A attached hereto, is to furnish information in connection with the sale by the City of Norfolk, Virginia (the "City"), of its \$69,030,000 General Obligation Refunding Bonds, Series 2012A (Non-AMT) (the "2012A Bonds"), and \$7,805,000 General Obligation Refunding Bonds, Series 2012B (AMT) (the "2012B Bonds" and, together with the 2012A Bonds, the "Bonds").

The Bonds will be general obligations of the City to the payment of which the full faith and credit of the City are pledged. This Official Statement has been authorized by the City for use in connection with the sale of the Bonds.

The City has undertaken in the Ordinance, as hereinafter defined, to comply with the provisions of Rule 15c2-12 (the "Rule"), promulgated by the Securities and Exchange Commission (the "SEC") and as in effect on the date hereof, by providing annual financial information and material event notices required by the Rule. See Appendix C "FORM OF CONTINUING DISCLOSURE AGREEMENT."

All financial and other information presented in this Official Statement has been provided by the City from its records except for information expressly attributed to other sources. The presentation of information is intended to show recent historic information, and is not intended, unless specifically stated, to indicate future or continuing trends in the financial position or other affairs of the City. No representation is made that past experience, as is shown by such financial and other information, will necessarily continue or be repeated in the future.

This Official Statement should be considered in its entirety, and no one subject discussed should be considered less important than any other by reason of its location in the text. Reference should be made to laws, reports or other documents referred to in this Official Statement for more complete information regarding their contents.

DESCRIPTION OF THE BONDS

General

The Bonds shall be dated the date of delivery, and shall be payable in annual installments, subject to prior redemption, in the principal amounts and at the rates set forth on the inside cover page of this Official Statement. Interest on the Bonds will be payable semi-annually on April 1 and October 1, commencing October 1, 2012.

Redemption Provisions

Optional Redemption. The 2012A Bonds maturing on or before October 1, 2022, are not subject to optional redemption prior to maturity. The 2012A Bonds maturing on or after October 1, 2023, are subject to redemption prior to their respective maturities on or after October 1, 2022, at the option of the City, in whole or in part (in increments of \$5,000) at any time, at a redemption price equal to 100% of the principal amount of such 2012A Bonds to be redeemed plus the unpaid interest accrued thereon to the date fixed for redemption.

The 2012B Bonds are not subject to optional redemption prior to maturity.

No Mandatory Redemption. The Bonds are not subject to mandatory redemption or mandatory sinking fund payments prior to their stated maturities.

Manner of Redemption. If less than all of the 2012A Bonds are called for redemption, the maturities of such 2012A Bonds to be redeemed shall be selected by the Director of Finance of the City in such manner as he or she in his or her discretion may determine. So long as a book-entry system is used for determining beneficial ownership of the 2012A Bonds, if less than all of the 2012A Bonds within a maturity are to be redeemed, The Depository Trust Company, New York, New York ("DTC"), and its participants shall determine which of such Bonds within a maturity are to be redeemed.

Any notice of optional redemption of any of the 2012A Bonds may state that it is conditioned upon there being available on the date fixed for redemption an amount of money sufficient to pay the redemption price plus interest accrued and unpaid to such date, and any conditional notice so given may be rescinded at any time before the payment of the redemption price of any such condition so specified is not satisfied. If a redemption does not occur after a conditional notice is given due to an insufficient amount of funds on deposit by the City, the corresponding notice of redemption shall be deemed to be revoked.

Notice of redemption shall be given by certified or registered mail to DTC or its nominee as the registered owner of the applicable 2012A Bonds. Such notice shall be mailed not more than 60 days nor less than 30 days before the date fixed for redemption. The City will not be responsible for mailing notices of redemption to the Beneficial Owners, as hereinafter defined, of the applicable 2012A Bonds.

BOOK-ENTRY ONLY SYSTEM

The description which follows of the procedures and recordkeeping with respect to beneficial ownership interests in the Bonds, payments of principal of and interest on the bonds to DTC, its nominee, Direct Participants (as defined below) or Beneficial Owners (as defined below), confirmation and transfer of beneficial ownership interests in the bonds and other bond-related transactions by and between DTC, the Direct Participants and Beneficial Owners is based solely on information furnished by DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee), or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of the Bonds in the aggregate principal amount of such issue and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the "Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of the Bonds (the "Beneficial Owner") is in turn to be recorded on the Direct Participants' and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct Participants and Indirect Participants acting on behalf of the Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, the Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their

registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts the Bonds are credited, which may or may not be the Beneficial Owners. The Direct Participants and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults and proposed amendments to the security documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to a Bond unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts such Bond is credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and distributions on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the bond registrar or paying agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct Participants or Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Direct Participants or Indirect Participant and not of DTC, the City or the bond registrar and paying agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and distributions to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the bond registrar and paying agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct Participants and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the City or the bond registrar and paying agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

Neither the City nor the bond registrar and paying agent has any responsibility or obligation to the Direct Participants or Indirect Participants or the Beneficial Owners with respect to (i) the accuracy of any records maintained by DTC or any Direct Participant or Indirect Participant; (ii) the payment by any Direct Participant or Indirect Participant of any amount due to any Beneficial Owner in respect of the principal of and interest on the Bonds; (iii) the delivery or timeliness of delivery by any Direct or Indirect Participant of any notice to any Beneficial Owner that is required or permitted to be given to such owners; or (iv) any other action taken by DTC, or its nominee, Cede & Co., as Holder, including the effectiveness of any action taken pursuant to an Omnibus Proxy.

So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references in this Official Statement to the holders of the Bonds or Bondholders mean Cede & Co. and not the Beneficial Owners, and Cede & Co. will be treated as the only Holder of the Bonds.

The City may enter into amendments to the agreement with DTC or successor agreements with a successor securities depository, relating to the book-entry system to be maintained with respect to the Bonds without the consent of Beneficial Owners or Bondholders.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

AUTHORIZATION AND PURPOSES OF THE BONDS

The Bonds have been authorized and are being issued pursuant to the Public Finance Act of 1991, Chapter 26, Title 15.2 of the Code of Virginia of 1950, as amended (the "Virginia Code"), as authorized by Ordinance Nos. 44,373 and 44,567, adopted by the City Council of the City (the "City Council") on September 13, 2011, and February 28, 2012, respectively (collectively, the "Ordinance").

The proceeds of the Bonds, together with other available funds, will be used to (i) current and advance refund certain outstanding general obligation bonds of the City, (ii) advance refund a U.S. Department of Housing and Urban Development loan of the City and (iii) pay the underwriter's discount and costs of issuance of the Bonds as set forth in the sections herein "PLAN OF REFUNDING" and "APPLICATION OF PROCEEDS OF BONDS."

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PLAN OF REFUNDING

Description of Refunded Bonds

The proceeds of the Bonds, together with other available funds, will be used to (i) current and advance refund certain outstanding general obligation bonds of the City as set forth below (collectively, the "Refunded Bonds"), (ii) advance refund a U.S. Department of Housing and Urban Development loan of the City (the "Refunded HUD Note"), and (iii) pay the underwriter's discount and costs of issuance of the Bonds. The following table sets forth the details of the Refunded Bonds and the Refunded HUD Note:

Refunded 1997 Bonds
\$4,000,000 General Obligation Qualified Redevelopment Bonds,
Series 1997 (AMT)
(Base CUSIP Number 655864)*

| Year of Maturity (June 1) | Principal Amount | Interest Rate | Redemption Date | Redemption Price | CUSIP Suffix* |
|--|-----------------------------|--------------------------|----------------------------|-----------------------------|--------------------------|
| 2013 | \$ 200,000 | 5.625% | 6/30/2012 | 100% | V86 |
| 2014 | 200,000 | 5.625 | 6/30/2012 | 100 | V94 |
| 2015 | 200,000 | 5.750 | 6/30/2012 | 100 | W28 |
| 2016 | 200,000 | 5.750 | 6/30/2012 | 100 | W36 |
| 2017 | <u>200,000</u> | 5.750 | 6/30/2012 | 100 | W44 |
| | \$1,000,000 | | | | |

Refunded 1998 Bonds
\$2,560,000 General Obligation Qualified Redevelopment Bonds,
Series 1998 (AMT)
(Base CUSIP Number 655864)*

| Year of Maturity (July 1) | Principal Amount | Interest Rate | Redemption Date | Redemption Price | CUSIP Suffix* |
|--|-----------------------------|--------------------------|----------------------------|-----------------------------|--------------------------|
| 2013 | \$130,000 | 4.800% | 6/30/2012 | 100% | 2H8 |
| 2014 | 130,000 | 4.900 | 6/30/2012 | 100 | 2J4 |
| 2015 | 130,000 | 4.900 | 6/30/2012 | 100 | 2K1 |
| 2016 | 130,000 | 5.000 | 6/30/2012 | 100 | 2L9 |
| 2017 | 130,000 | 5.000 | 6/30/2012 | 100 | 2M7 |
| 2018 | <u>125,000</u> | 5.100 | 6/30/2012 | 100 | 2N5 |
| | \$775,000 | | | | |

* A registered trademark of the ABA, used by S&P in its operation of the CUSIP Service Bureau for the ABA. The above CUSIP numbers have been assigned by an organization not affiliated with the City, and the City is not responsible for the selection or use of the CUSIP numbers. The CUSIP numbers are included solely for the convenience of bondholders and no representation is made as to the correctness of such CUSIP numbers. CUSIP numbers assigned to securities may be changed during the term of such securities based on a number of factors including, but not limited to, the refunding or defeasance of such securities or the use of secondary market financial products. The City has not agreed to, and there is no duty or obligation to, update this Official Statement to reflect any change or correction in the CUSIP numbers set forth above.

Refunded 1999 Bonds
\$4,000,000 General Obligation Qualified Redevelopment Bonds,
Series 1999 (AMT)
(Base CUSIP Number 655864)*

| Year of Maturity (July 1) | Principal Amount | Interest Rate | Redemption Date | Redemption Price | CUSIP Suffix* |
|--|-----------------------------|--------------------------|----------------------------|-----------------------------|--------------------------|
| 2013 | \$ 200,000 | 5.125% | 6/30/2012 | 100% | 3X2 |
| 2014 | 200,000 | 5.125 | 6/30/2012 | 100 | 3Y0 |
| 2015 | 200,000 | 5.250 | 6/30/2012 | 100 | 3Z7 |
| 2016 | 200,000 | 5.250 | 6/30/2012 | 100 | 4A1 |
| 2017 | 200,000 | 5.300 | 6/30/2012 | 100 | 4B9 |
| 2018 | 200,000 | 5.300 | 6/30/2012 | 100 | 4C7 |
| 2019 | <u>200,000</u> | 5.300 | 6/30/2012 | 100 | 4D5 |
| | | | | | |
| | \$1,400,000 | | | | |

Refunded 2000 Bonds
\$3,995,000 General Obligation Qualified Redevelopment Bonds,
Series 2000 (AMT)
(Base CUSIP Number 655864)*

| Year of Maturity (July 1) | Principal Amount | Interest Rate | Redemption Date | Redemption Price | CUSIP Suffix* |
|--|-----------------------------|--------------------------|----------------------------|-----------------------------|--------------------------|
| 2013 | \$ 200,000 | 5.375% | 6/30/2012 | 100% | 5T9 |
| 2014 | 200,000 | 5.400 | 6/30/2012 | 100 | 5U6 |
| 2015 | 200,000 | 5.450 | 6/30/2012 | 100 | 5V4 |
| 2016 | 200,000 | 5.500 | 6/30/2012 | 100 | 5W2 |
| 2017 | 200,000 | 5.625 | 6/30/2012 | 100 | 5X0 |
| 2020 | <u>595,000</u> | 5.650 | 6/30/2012 | 100 | 5Y8 |
| | | | | | |
| | \$1,595,000 | | | | |

Refunded 2002 Bonds
\$7,955,000 General Obligation Qualified Redevelopment Bonds,
Series 2002 (AMT)
(Base CUSIP Number 655864)*

| Year of Maturity (January 1) | Principal Amount | Interest Rate | Redemption Date | Redemption Price | CUSIP Suffix* |
|---|-----------------------------|--------------------------|----------------------------|-----------------------------|--------------------------|
| 2013 | \$ 400,000 | 4.500% | 6/30/2012 | 100% | 7H3 |
| 2014 | 400,000 | 4.600 | 6/30/2012 | 100 | 7J9 |
| 2015 | 400,000 | 4.700 | 6/30/2012 | 100 | 7K6 |
| 2016 | 400,000 | 4.750 | 6/30/2012 | 100 | 7L4 |
| 2017 | 400,000 | 4.750 | 6/30/2012 | 100 | 7M2 |
| 2019 | 800,000 | 5.000 | 6/30/2012 | 100 | 7P5 |
| 2022 | <u>1,200,000</u> | 5.000 | 6/30/2012 | 100 | 7S9 |
| | | | | | |
| | \$4,000,000 | | | | |

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Refunded 2005 Bonds**\$94,355,000 General Obligation Capital Improvement and Refunding Bonds,****Series 2005****(Base CUSIP Number 655867)***

| Year of Maturity (March 1) | Principal Amount | Interest Rate | Redemption Date | Redemption Price | CUSIP Suffix* |
|---|-----------------------------|--------------------------|----------------------------|-----------------------------|--------------------------|
| 2023 | \$1,860,000 | 4.125% | 3/1/2015 | 100% | CE7 |
| 2024 | 1,860,000 | 4.375 | 3/1/2015 | 100 | CF4 |
| 2025 | <u>1,860,000</u> | 4.500 | 3/1/2015 | 100 | CG2 |
| | | | | | \$5,580,000 |

Refunded 2006 Bonds**\$115,055,000 General Obligation Capital Improvement and Refunding****Bonds, Series 2006****(Base CUSIP Number 655867)***

| Year of Maturity (October 1) | Principal Amount | Interest Rate | Redemption Date | Redemption Price | CUSIP Suffix* |
|---|-----------------------------|--------------------------|----------------------------|-----------------------------|--------------------------|
| 2015 | \$ 4,150,000 | 4.000% | 10/1/2014 | 100% | DD8 |
| 2016 | 4,165,000 | 4.000 | 10/1/2014 | 100 | DE6 |
| 2017 | 4,185,000 | 4.000 | 10/1/2014 | 100 | DF3 |
| 2018 | 5,485,000 | 4.000 | 10/1/2014 | 100 | DG1 |
| 2019 | 8,170,000 | 4.000 | 10/1/2014 | 100 | DH9 |
| 2021 | 6,870,000 | 4.250 | 10/1/2014 | 100 | DK2 |
| 2022 | 5,685,000 | 4.250 | 10/1/2014 | 100 | DL0 |
| 2023 | 4,220,000 | 4.250 | 10/1/2014 | 100 | DM8 |
| 2024 | 4,245,000 | 4.250 | 10/1/2014 | 100 | DN6 |
| 2025 | 4,275,000 | 4.250 | 10/1/2014 | 100 | DP1 |
| 2026 | <u>4,295,000</u> | 4.250 | 10/1/2014 | 100 | DQ9 |
| | | | | | \$55,745,000 |

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Refunded HUD Note

**U.S. Department of Housing and Urban Development Section 108 Loan
Guarantee Program Fixed Rate Note dated February 28, 2004**

| Year of Maturity (August 1) | Principal Amount | Interest Rate | Redemption Date | Redemption Price |
|--|-----------------------------|--------------------------|----------------------------|-----------------------------|
| 2012 | \$ 200,000 | 4.960% | 8/1/2012 | 100% |
| 2013 | 505,000 | 5.080 | 8/1/2013 | 100 |
| 2014 | 810,000 | 5.190 | 8/1/2014 | 100 |
| 2015 | 924,000 | 5.360 | 8/1/2014 | 100 |
| 2016 | 950,000 | 5.480 | 8/1/2014 | 100 |
| 2017 | 1,050,000 | 5.590 | 8/1/2014 | 100 |
| 2018 | 1,150,000 | 5.680 | 8/1/2014 | 100 |
| 2019 | 1,250,000 | 5.760 | 8/1/2014 | 100 |
| 2020 | 1,350,000 | 5.810 | 8/1/2014 | 100 |
| 2021 | 1,450,000 | 5.870 | 8/1/2014 | 100 |
| 2022 | 1,500,000 | 5.920 | 8/1/2014 | 100 |
| 2023 | <u>1,596,000</u> | 5.970 | 8/1/2014 | 100 |
| | | | | \$12,735,000 |

Escrow Agreement and Defeasance

A portion of the proceeds of the Bonds and other available funds of the City in the amount of \$76,329,290.37 will be deposited with Regions Bank, Richmond, Virginia ("Escrow Agent"), pursuant to an Escrow Agreement dated May 30, 2012, between the City and the Escrow Agent (the "Escrow Agreement"). A portion of the proceeds of the Bonds and other available funds of the City in the amount of \$14,415,228.88 will be deposited with BNY Mellon, Pittsburgh, Pennsylvania ("HUD Trustee") in accordance with that certain Trust Agreement by and between the Secretary of the United States Department of Housing and Urban Development and Chemical Bank, as Trustee, dated as of January 1, 1995, as previously amended and supplemented (the "HUD Trust Agreement"). The Escrow Agreement will provide for the purchase of direct, non-callable obligations of the Treasury (the "Escrow Securities") that will mature and bear interest at times and in amounts sufficient to pay the principal of, premium and interest on the Refunded Bonds. The Trust Agreement and related documents provide that upon receipt of and verification by the HUD Trustee of cash and other direct, non-callable obligations of the Treasury (the "Defeasance Securities") in amounts sufficient to pay to the principal or and interest on the Refunded HUD Note (i) the HUD Trustee shall hold such items in a separate defeasance account from which the payment of principal and interest upon the Refunded HUD Note will be paid, and (ii) the City will be released from its obligations under the Refunded HUD Note. The sufficiency of the Escrow Securities deposited with the Escrow Agent and of the Defeasance Securities deposited with the HUD Trustee was verified by Grant Thornton, LLP, Minneapolis, Minnesota. See the section herein "VERIFICATION OF MATHEMATICAL COMPUTATIONS."

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APPLICATION OF PROCEEDS OF BONDS

The following tables set forth the anticipated application of the proceeds of the Bonds for the purposes described above:

| | <u>2012A Bonds</u> | <u>2012B Bonds</u> | <u>Total</u> |
|-----------------------------------|-------------------------------|------------------------------|-------------------------------|
| Sources of Proceeds: | | | |
| Par Amount of Bonds | \$69,030,000.00 | \$7,805,000.00 | \$76,835,000.00 |
| Net Original Issue Premium | 13,149,384.45 | 513,416.60 | 13,662,801.05 |
| Cash Contribution from the City | <u>-</u> | <u>729,155.00</u> | <u>729,155.00</u> |
| Total: | <u><u>\$82,179,384.45</u></u> | <u><u>\$9,047,571.60</u></u> | <u><u>\$91,226,956.05</u></u> |
| Uses of Proceeds: | | | |
| Refunding Escrow Deposits: | | | |
| Cash Deposit | \$ 1.24 | \$ 28,501.01 | \$ 28,502.25 |
| SLGS Purchases | 81,746,465.00 | 8,969,552.00 | 90,716,017.00 |
| Issuance Expenses * | <u><u>432,918.21</u></u> | <u><u>49,518.59</u></u> | <u><u>482,436.80</u></u> |
| Total: | <u><u>\$82,179,384.45</u></u> | <u><u>\$9,047,571.60</u></u> | <u><u>\$91,226,956.05</u></u> |

* Includes Underwriters' discount, ratings, legal fees and other costs of issuance.

SECURITY FOR AND SOURCES OF PAYMENT OF THE BONDS

General

The Bonds are general obligations of the City and the City's full faith and credit are irrevocably pledged to the payment of principal of, premium, if any, and interest on the Bonds. While the Bonds remain outstanding and unpaid, the City Council is authorized and required to levy and collect annually, at the same time and in the same manner as other taxes of the City are assessed, levied and collected, a tax upon all taxable property within the City, over and above all other taxes authorized or limited by law, and without limitation as to rate or amount, sufficient to pay when due the principal of and interest on the Bonds to the extent other funds of the City are not lawfully available and appropriated for such purpose. The City Council has authorized the issuance of general obligation bonds in addition to the Bonds, and the City expects to issue such additional general obligation bonds in the summer of 2012.

The City has never defaulted in the payment of either principal of, or interest on, any indebtedness.

Bondholders' Remedies in Event of Default

Section 15.2-2659 of the Virginia Code provides that upon affidavit of any owner, or any paying agent therefor, of a general obligation bond or note in default as to payment of principal or interest, the Governor of the Commonwealth (the "Governor") shall conduct a summary investigation. If such default is established to the Governor's satisfaction, the Governor shall order the State Comptroller to withhold all funds appropriated and payable by the Commonwealth to the political subdivision so in default and apply the amount so withheld to payment of the defaulted principal and interest. The State Comptroller advises that to date no order to withhold funds pursuant to Section 15.2-2659, or its predecessors,

Sections 15.1-225 and 15.1-227.61, has ever been issued. Although Section 15.2-2659 has not been considered by a Virginia court, the Attorney General of Virginia has opined that appropriated funds may be withheld by the Commonwealth pursuant to one of its predecessor provisions, Section 15.1-225. Each fiscal year of the City (each a "Fiscal Year") ends on June 30th, and for Fiscal Year 2011, the Commonwealth provided \$99,194,049 to the City which was deposited in the City's General Fund.

Although Virginia law currently does not authorize such action, future legislation may enable the City to file a petition for relief under the United States Bankruptcy Code (the "Bankruptcy Code") if it is insolvent or unable to pay its debts. Bankruptcy proceedings by the City could have adverse effects on the Bondholders, including (i) delay in the enforcement of their remedies, (ii) subordination of their claims to claims of those supplying goods and services to the City after the initiation of bankruptcy proceedings and to the administrative expenses of bankruptcy proceedings or (iii) imposition without their consent of a reorganization plan reducing or delaying payment of the Bonds. The Bankruptcy Code contains provisions intended to ensure that, in any reorganization plan not accepted by at least a majority of a class of creditors such as the owners of general obligation bonds, such creditors will have the benefit of their original claim or the "indubitable equivalent." The effect of these and other provisions of the Bankruptcy Code cannot be reliably predicted and may be significantly affected by judicial interpretation.

TAX MATTERS

Opinions of Bond Counsel

Bond Counsel's opinion regarding the 2012A Bonds will state that, under current law and assuming the compliance with the Covenants, as hereinafter defined, by and assuming the accuracy of certain representations and certifications of the City and certain other persons and entities, interest on the 2012A Bonds (including any accrued "original issue discount" properly allocable to the owners of the 2012A Bonds) (i) is excludable from the gross income of the owners of the 2012A Bonds for purposes of federal income taxation under Section 103 of the Code, and (ii) is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. Interest on the 2012A Bonds must be included in the adjusted current earnings of certain corporations for purposes of computing the federal alternative minimum tax imposed on such corporations. See Appendix B for the form of the opinion of Bond Counsel with respect to the 2012A Bonds.

Bond Counsel's opinion regarding the 2012B Bonds will state that, under current law, interest on the 2012B Bonds (including any accrued "original issue discount" properly allocable to the owners of the 2012B Bonds) is excludable from gross income for purposes of federal income taxation (except when held by a "substantial user" of the facilities financed by the 2012B Bonds or by a "related user" within the meaning of Section 147(a) of the Code) but that interest on the 2012B Bonds is a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations (a "Specific Tax Preference Item"). See Appendix B for the form of the opinion of Bond Counsel with respect to the 2012B Bonds.

Bond Counsel will express no opinion regarding other federal tax consequences arising with respect to the Bonds.

Each of Bond Counsel's opinions speaks as of its date, is based on current legal authority and precedent, covers certain matters not directly addressed by such authority and precedent, and represents Bond Counsel's judgment as to the proper treatment of interest on the Bonds for federal income tax purposes. Bond Counsel's opinions do not contain or provide any opinion or assurance regarding the future activities of the City or about the effect of future changes in the Code, the applicable regulations,

the interpretation thereof or the enforcement thereof by the IRS. The City has covenanted, however, to comply with the requirements of the Code.

Reliance and Assumptions; Effect of Certain Changes

In delivering its opinions regarding the Bonds, Bond Counsel is relying upon and assuming the accuracy of certifications and representations of representatives of the Underwriters and other public officials as to facts material to the opinions, which Bond Counsel has not independently verified.

In addition, Bond Counsel is assuming continuing compliance with the Covenants, as hereinafter defined, by the City. The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied after the issuance of the Bonds in order for interest on the Bonds to be and remain includable from gross income for purposes of federal income taxation. These requirements include, by way of example and not limitation, restrictions on the use, expenditure and investment of the proceeds of the Bonds and the use of the property financed or refinanced by the Bonds, limitations on the source of the payment of and the security for the Bonds, and the obligation to rebate certain excess earnings on the gross proceeds of the Bonds to the Treasury. Prior to the issuance of the Bonds, the City will enter into a tax certificate for the Bonds (the "Tax Certificate") that contains covenants (the "Covenants") with which the City has agreed to comply. Failure by the City to comply with the Covenants could cause interest on the Bonds to become includable in gross income for federal income tax purposes retroactively to their date of issue. In the event of noncompliance with the Covenants, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Bonds from becoming includable in gross income for federal income tax purposes.

Bond Counsel has no responsibility to monitor compliance with the Covenants after the date of issue of the Bonds.

Certain requirements and procedures contained, incorporated or referred to in the Tax Certificate, including the Covenants, may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such document. Bond Counsel expresses no opinion concerning any effect on excludability of interest on the Bonds from gross income for federal income tax purposes of any such subsequent change or action that may be made, taken or omitted upon the advice or approval of counsel other than Bond Counsel.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral federal income tax matters with respect to the Bonds. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner thereof. Prospective purchasers of such Bonds, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning or disposing of the Bonds.

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers including, without limitation, financial institutions, certain insurance companies, certain corporations (including S corporations and foreign corporations), certain foreign corporations subject to the "branch profits tax," individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers attempting to qualify for the earned income tax credit.

In addition, prospective purchasers should be aware that the interest paid on, and the proceeds of the sale of, tax-exempt obligations, including the Bonds, are in many cases required to be reported to the IRS in a manner similar to interest paid on taxable obligations. Additionally, backup withholding may apply to any such payments made to any Bond owner who fails to provide an accurate Form W-9 Request for Taxpayer Identification Number and Certification, or a substantially identical form, or to any Bond owner who is notified by the IRS of a failure to report all interest and dividends required to be shown on federal income tax returns. The reporting and withholding requirements do not in and of themselves affect the excludability of such interest from gross income for federal income tax purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

Original Issue Discount

The "original issue discount" ("OID") on any Bond is the excess of such bond's stated redemption price at maturity (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates) over the issue price of such Bond. The "issue price" of a bond is the initial offering price to the public at which price a substantial amount of such bonds of the same maturity was sold. The "public" does not include bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers. The issue price for each maturity of the Bonds is expected to be the initial public offering price set forth on the inside front cover page of this Official Statement, but is subject to change based on actual sales. Accrued OID on the Bonds with OID (the "OID Bonds") is excludable from gross income for purposes of federal and Virginia income taxation. However, the portion of the OID that is deemed to have accrued to the owner of an OID Bond in each year may be included in determining the alternative minimum tax with respect to the Bonds and the distribution requirements of certain investment companies and may result in some of the collateral federal income tax consequences mentioned in the preceding subsection. Therefore, owners of OID Bonds should be aware that the accrual of OID in each year may result in alternative minimum tax liability, additional distribution requirements or other collateral federal and Virginia income tax consequences although the owner may not have received cash in such year.

OID is treated under Section 1288 of the Code as accruing under a constant yield method that takes into account compounding on a semiannual or more frequent basis. If an OID Bond is sold or otherwise disposed of between semiannual compounding dates, then the OID which would have accrued for that semiannual compounding period for federal income tax purposes is to be apportioned in equal amounts among the days in such compounding period.

In the case of an original owner of an OID Bond, the amount of OID that is treated as having accrued on such OID Bond is added to the owner's cost basis in determining, for federal income tax purposes, gain or loss upon its disposition (including its sale, redemption or payment at maturity). The amounts received upon such disposition that are attributable to accrued OID will be excluded from the gross income of the recipients for federal income tax purposes. The accrual of OID and its effect on the redemption, sale or other disposition of OID Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above.

Prospective purchasers of OID Bonds should consult their own tax advisors with respect to the precise determination for federal income tax purposes of the OID accrued upon sale or redemption of such OID Bonds and with respect to state and local tax consequences of owning OID 2012A Bonds.

Bond Premium

In general, if an owner acquires a bond or note for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the bond or

note after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that bond or note (a "Premium Bond"). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond, determined based on constant yield principles. An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Prospective purchasers of any Premium Bond should consult their own tax advisors regarding the treatment of bond premium for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of such Premium Bond.

Effects of Future Enforcement, Regulatory and Legislative Actions

The IRS has established a program to audit tax-exempt obligations to determine whether the interest thereon is includable in gross income for federal income tax purposes. If the IRS does audit the Bonds, the IRS will, under its current procedures, treat the City as the taxpayer. As such, the beneficial owners of the Bonds will have only limited rights, if any, to participate in the audit or any administrative or judicial review or appeal thereof. Any action of the IRS, including but not limited to the selection of the Bonds for audit, or the course or result of such audit, or an audit of other obligations presenting similar tax issues, may affect the marketability or market value of the Bonds.

Legislation affecting tax-exempt obligations is regularly considered by the United States Congress and various State legislatures. Such legislation may effect changes in federal or State income tax rates and the application of federal or State income tax laws (including the substitution of another type of tax), or may repeal or reduce the benefit of the excludability of interest on the tax-exempt obligations from gross income for federal or State income tax purposes. The U.S. Department of the Treasury and the IRS are continuously drafting regulations to interpret and apply the provisions of the Code and court proceedings may be filed the outcome of which could modify the federal or State tax treatment of tax-exempt obligations. There can be no assurance that legislation proposed or enacted after the date of issue of the Bonds, regulatory interpretation of the Code or actions by a court involving either the Bonds or other tax-exempt obligations will not have an adverse effect on the Bonds' federal or State tax status, marketability or market price or on the economic value of the tax-exempt status of the interest on the Bonds.

Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential consequences of any such pending or proposed federal or State tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

Opinion of Bond Counsel – Virginia Income Tax Consequences

Bond Counsel's opinion also will state that, under current law, interest on the Bonds is excludable from the gross income of the owners thereof for purposes of income taxation by the Commonwealth. Bond Counsel will express no opinion regarding (i) other Virginia tax consequences arising with respect to the Bonds or (ii) any consequences arising with respect to the Bonds under the tax laws of any state or local jurisdiction other than Virginia. Prospective purchasers of the Bonds should consult their own tax

advisors regarding the tax status of interest on the Bonds in a particular state or local jurisdiction other than Virginia.

PENDING LITIGATION

The City, in the course of doing business, has been named as defendant in certain personal injury cases and suits for property damage.

These suits are being defended by the City Attorney and associated independent counsel retained by the City Attorney, and it is the opinion of the City Attorney that any possible losses in connection with the above pending litigation will not materially and adversely affect the City's financial condition. The City Attorney is also of the opinion that the above pending litigation will not affect the validity of the Bonds or the ability of the City to levy and collect ad valorem taxes for the payment of the Bonds or the interest thereon. There is no pending litigation with respect to the Bonds or the ability of the City to levy and collect ad valorem taxes for the payment of such Bonds or interest thereon.

RATINGS

The City has requested that the Bonds be rated and has furnished certain information to the rating agencies including information that may not be included in this Official Statement. The Bonds have been rated 'Aa2' by Moody's Investors Service ("Moody's"), 'AA+' by Fitch Ratings ("Fitch") and 'AA' by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("Standard & Poor's").

The ratings reflect only the views of the respective rating agency. Any explanation of the significance of the ratings may be obtained only from the respective rating agency. Generally, rating agencies base their ratings upon information and materials provided to them and upon investigations, studies and assumptions by the rating agencies. There is no assurance that such ratings will not be withdrawn or revised downward by Moody's, Fitch or Standard & Poor's. Such action may have an adverse effect on the market price of the Bonds. The City has not undertaken any responsibility after the issuance of the Bonds to assure maintenance of the ratings or to oppose any such revision or withdrawal.

FINANCIAL STATEMENTS

The City's audited general purpose financial statements for the Fiscal Year 2011 are published in Appendix A with accompanying notes. In addition, Appendix A also includes a report of the City's independent accountants.

CERTIFICATES OF CITY OFFICIALS

Concurrently with the delivery of the Bonds, the City will furnish (i) a certificate, dated the date of delivery of the Bonds, signed by the officers who sign the Bonds, stating that, to the best of their knowledge, no litigation is then pending or threatened to restrain or enjoin the issuance or delivery of the Bonds or the levy or collection of taxes to pay principal, premium, if any, or interest thereon or in any manner questioning the proceedings and authority under which the Bonds is issued and (ii) a certificate dated the date of delivery of the Bonds signed by the appropriate City officials and stating that the descriptions and statements in this Official Statement including the Appendices hereto (except in the section above "PENDING LITIGATION" or relating to DTC) at the time of acceptance of the proposal for the Bonds and at the date of delivery were and are true and correct in all material respects and do not contain any untrue statement of a material fact or omit to state any material fact required to be stated

therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

The City Attorney will furnish, concurrently with the delivery of the Bonds, a certificate dated the date of delivery of the Bonds stating that no litigation is pending or, to the best of his knowledge, threatened against the City either (i) to restrain or enjoin the issuance or delivery of the Bonds, (ii) to question in any manner the authority of the City to issue or the issuance of the Bonds, or the validity of any proceedings authorizing the Bonds or the levy or collection of taxes to pay the Bonds or (iii) to question in any manner the boundaries of the City or the title of any officers of the City to their respective offices.

FINANCIAL ADVISOR

The City has retained Public Financial Management, Inc. of Arlington, Virginia ("PFM"), as Financial Advisor in connection with the issuance and sale of the Bonds. Although PFM has assisted in the preparation of this Official Statement, PFM is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. PFM is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The arithmetical accuracy of certain computations included in the schedules provided by PFM on behalf of the City relating to forecasted payments of principal and interest to redeem the Refunded Bonds was examined by Grant Thornton, LLP, Minneapolis, Minnesota (the "Verification Agent"). Such computations were based solely upon assumptions and information supplied by PFM on behalf of the City. The Verification Agent has restricted its procedures to examining the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

RELATIONSHIP OF PARTIES

Kaufman & Canoles, a Professional Corporation, counsel to the Underwriters, also serves as counsel to the City in unrelated matters.

UNDERWRITING

The Bonds are being purchased by the Underwriters pursuant to a Bond Purchase Agreement (the "Bond Purchase Agreement") between the City and Morgan Keegan & Company, Inc. or its successor in interest ("Morgan Keegan"), as representative of the Underwriters. The Bond Purchase Agreement sets forth the obligation of the Underwriters to purchase the Bonds at an aggregate purchase price of \$90,295,737.97 (representing the sum of (i) the \$69,030,000 par amount of the 2012A Bonds, plus original issue premium of \$13,149,384.45, less an underwriting discount of \$181,949.29 on such 2012A Bonds, and (ii) the \$7,805,000 par amount of the 2012B Bonds, plus net original issue premium of \$513,416.60, less an underwriting discount of \$20,113.79 on such 2012B Bonds and is subject to certain terms and conditions, including the approval of certain legal matters by counsel. The Bond Purchase Agreement provides that the Underwriters will purchase all of the Bonds if any are purchased. The Underwriters may offer and sell the Bonds to certain dealers (including dealers depositing the Bonds into investment trusts) and others at prices different from the public offering prices stated on the cover page of

this Official Statement. The public offering prices may be changed from time to time at the discretion of the Underwriters.

On April 2, 2012, Raymond James Financial, Inc. ("RJF"), the parent company of Raymond James & Associates, Inc. ("Raymond James"), acquired all of the stock of Morgan Keegan from Regions Financial Corporation. Morgan Keegan and Raymond James are each registered broker-dealers. Both Morgan Keegan and Raymond James are wholly owned subsidiaries of RJF and, as such, are affiliated broker-dealer companies under the common control of RJF, utilizing the trade name "Raymond James | Morgan Keegan" that appears on the cover of this Official Statement. It is anticipated that the businesses of Raymond James and Morgan Keegan will be combined.

Morgan Keegan, one of the Underwriters, has entered into a distribution arrangement with Raymond James for the distribution of the Bonds at the original issue prices. Such arrangement generally provides that Morgan Keegan will share a portion of its underwriting compensation or selling concession with Raymond James.

J.P. Morgan Securities LLC ("JPMS"), one of the Underwriters of the Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of UBS Financial Services Inc. ("UBSFS") and Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings, including the Bonds, at the original issue prices. Pursuant to each Dealer Agreement, each of UBSFS and CS&Co. will purchase Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

SunTrust Robinson Humphrey, Inc. ("STRH"), one of the Underwriters of the Bonds, has an affiliate SunTrust Investment Services, Inc. ("STIS") which will also participate in the retail distribution of the Bonds. STRH may share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Bonds with STIS. STRH and STIS are both subsidiaries of SunTrust Banks, Inc.

CONTINUING DISCLOSURE

The City will execute and deliver to the purchasers of the Bonds a Continuing Disclosure Agreement, the form of which is set forth as Appendix C to this Official Statement, pursuant to which the City will covenant and agree, for the benefit of the owners of the Bonds to provide certain annual financial information and material event notices required by the Rule. As described in Appendix C, such undertakings require the City to provide only limited information at specified times.

The continuing obligation of the City to provide annual financial information and notices referred to above will terminate with respect to the respective Bonds when such Bonds are no longer outstanding. Any failure by the City to comply with the foregoing will not constitute a default with respect to the applicable Bonds.

The City failed to comply with certain provisions of the Rule with respect to its water revenue bonds (but not its general obligation bonds) by not filing in a timely manner with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system and the respective nationally recognized municipal securities information repositories certain operating data for the Fiscal Years 2006 through 2010. The data previously was included in the statistical section of the City's Comprehensive Annual Financial Report but was inadvertently omitted for such years. Subsequently, the City filed such information, and the City has established procedures to reduce the likelihood of future reoccurrences.

MISCELLANEOUS

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Any statement made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly identified, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. The distribution of this Official Statement has been duly authorized by the City, which has deemed this Official Statement final within the meaning of the Rule.

The references herein to and summaries of Federal, Commonwealth and City laws, including but not limited to the Constitution of the Commonwealth, the Virginia Code, the Charter of the City (the "City Charter") and documents, agreements and court decisions are summaries of certain provisions thereof. Such summaries do not purport to be complete and are qualified in their entirety by reference to the full text of such acts, laws, documents, agreements or decisions, copies of which are available for inspection during normal business hours at the office of the City Attorney.

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Any questions concerning the content of this Official Statement should be directed to the City's Acting Director of Finance, 810 Union Street, Suite 600 City Hall Building, Norfolk, Virginia 23510, (757) 664-4346.

CITY OF NORFOLK, VIRGINIA

/s/ Marcus D. Jones

Marcus D. Jones
City Manager

/s/ Shenette C. Felton

Shenette C. Felton
Acting Director of Finance

PART II **CITY INDEBTEDNESS**

Limitation on Incurrence of Debt

Pursuant to the Constitution of Virginia (the "Constitution"), the City is authorized to issue bonds and notes secured by a pledge of its full faith and credit and unlimited taxing power. There is no requirement in the Constitution, the Virginia Code or the City Charter that the issuance of general obligation bonds of the City be subject to approval of the electorate of the City at referendum. The issuance of general obligation bonds is subject to a limitation of 10% of the assessed value of taxable real property.

At March 31, 2012, the total assessed value of taxable real property in the City was \$18,662,081,433. Based on Virginia's constitutional debt limitation formula, this resulted in a debt limit of \$1,866,208,143. As presented in Table II-1 below, the City's outstanding general obligation bonds and other tax-secured indebtedness as of March 31, 2012 was \$774,360,184 representing 41.49% of the constitutional debt limit.

Table II-1
City of Norfolk, Virginia
Computation of Legal Debt Margin
March 31, 2012

| | |
|--|-------------------------------|
| Total assessed value of taxable real property | \$18,662,081,433 |
| Debt Limit-10 percent of total assessed value | 1,866,208,143 |
| Less: Outstanding General Obligation Debt ^{(1) (2) (3) (4) (5) (6)} | 774,360,184 |
| Legal Debt Margin | <u><u>\$1,091,847,959</u></u> |
| Amount of debt as a percent of debt limit | <u><u>41.49%</u></u> |

Source: Department of Finance, City of Norfolk, Virginia.

Notes:

- (1) Defeased bonds are not included in gross debt. Funds to redeem these bonds have been irrevocably deposited with an escrow agent.
- (2) Reflects only bonded debt and does not include the City's capital lease obligations. See the subsection herein "DEBT INCURRED BY OTHER GOVERNMENTAL ENTITIES – Capital Lease Obligations" for information about the City's capital lease obligations.
- (3) The amount of general obligation bonds authorized by ordinance for Capital Improvement Projects, but not yet issued, is \$287,517,347.
- (4) Water Revenue Bonds, Wastewater Revenue Bonds and Parking System Revenue Bonds are excluded from gross debt, since these bonds are payable solely from the revenue of their respective enterprise activities.
- (5) Includes the remaining balance of \$1,410,000 on a general obligation guaranty of \$3,300,000 of bonds issued by Norfolk Redevelopment and Housing Authority in August 1998. The bonds mature on August 15, 2015.
- (6) Includes the remaining balance of \$12,735,000 on a 20-year \$13,000,000 Section 108 Loan with HUD, supported by the Broad Creek Renaissance TIF District, which matures on August 1, 2023.

Debt Outstanding

The tables that follow detail the City's current general obligation debt outstanding. Table II-2 presents the City's gross and net outstanding tax-supported and self-supporting general obligation bonded indebtedness as of March 31, 2012. Table II-3 provides a comparative statement of key debt ratios for the past 10 Fiscal Years and Table II-4 presents the rate of retirement for all general obligation bonds as of June 30, 2011. Table II-5 presents the recent historical relationship between debt service on bonds paid from actual general governmental expenditures for the past 10 Fiscal Years. Table II-6 presents the historical relationship of the City's net bonded debt to assessed value of taxable real property and net bonded debt per capita. Table II-7 provides a statement of future annual debt service requirements on the City's existing general obligation bonds.

Table II-2
City of Norfolk, Virginia
General Obligation Debt Statement⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾⁽⁷⁾

| | As of March 31, 2012 |
|--|---------------------------------|
| A. General Fund Bonds Outstanding Debt ⁽⁵⁾⁽⁶⁾⁽⁸⁾ | \$594,502,015 |
| B. Enterprise Fund Bonds Outstanding Debt ⁽²⁾ | <u>178,448,169</u> |
| C. Total General Obligation Bond Indebtedness Outstanding Debt (A+B) | <u>\$772,950,184</u> |

Source: Department of Finance, City of Norfolk, Virginia.

Notes:

- (1) The amount of general obligation bonds authorized by ordinance for Capital Improvement Projects, but not yet issued, is \$287,517,347.
- (2) Water Revenue Bonds, Wastewater Revenue Bonds and Parking System Revenue Bonds are excluded from enterprise fund debt, since these bonds are payable solely from the revenue of their respective enterprise activities.
- (3) Reflects only bonded debt and does not include the City's capital lease obligations. See "DEBT INCURRED BY OTHER GOVERNMENTAL ENTITIES – Capital Lease Obligations" for information about the City's capital lease obligations.
- (4) Defeased bonds are not included in gross debt. Funds to redeem these bonds have been irrevocably deposited with an escrow agent.
- (5) Includes the bonded debt of the Environmental Storm Water Fund, Maritime Facility Fund and the Towing and Recovery Fund, which are special revenue funds.
- (6) Excludes the remaining balance of \$1,410,000 on a general obligation guaranty of \$3,300,000 of bonds issued by Norfolk Redevelopment and Housing Authority in August 1998. The bonds mature on August 15, 2015.
- (7) There are no overlapping or underlying taxing jurisdictions in the City.
- (8) Includes the remaining balance of \$12,735,000 on a 20-year \$13,000,000 Section 108 Loan with HUD, supported by the Broad Creek Renaissance TIF District, which matures on August 1, 2023.

Table II-3
City of Norfolk, Virginia
Key Debt Trends
Fiscal Years 2002 - 2011

| Fiscal Year Ended June 30 | Gross Bonded Debt (in thousands) ^{(1) (2) (3)} | Gross Bonded Principal Outstanding Per Capita ⁽⁴⁾ | Percent of Gross Bonded Debt to Real Property Assessed Value ⁽⁵⁾ |
|--------------------------------------|--|---|--|
| 2002 | \$460,346 | \$1,956 | 5.18% |
| 2003 | 460,876 | 1,948 | 4.93 |
| 2004 | 486,242 | 2,037 | 4.85 |
| 2005 | 512,528 | 2,141 | 4.68 |
| 2006 | 475,872 | 1,988 | 3.75 |
| 2007 | 576,809 | 2,384 | 3.70 |
| 2008 | 695,230 | 2,861 | 3.28 |
| 2009 | 736,163 | 3,018 | 3.39 |
| 2010 | 887,772 | 3,656 | 4.45 |
| 2011 | 826,874 | 3,389 | 4.28 |

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2011, and Department of Finance, City of Norfolk, Virginia.

Notes:

- (1) There are no overlapping or underlying taxing jurisdictions in the City.
- (2) Debt payable from Enterprise Revenue can be found in Table II-6.
- (3) The defeased portions of bonds are not included in Gross Bonded Debt. Unamortized premium/discount is not included in Gross Bonded Debt.
- (4) Gross Bonded Principal Outstanding Per Capita is based on the population figures from Table II-6.
- (5) Based on the taxable real property assessed value figures from Table III-2.

Table II-4
City of Norfolk, Virginia
Principal Retirement
All General Obligation Bonds
As of June 30, 2011

| Maturing By Fiscal Year | Cumulative Amount Matured | Percent of Principal Retired |
|------------------------------------|--------------------------------------|---|
| 2016 | \$353,237,210 | 42.72% |
| 2021 | 560,416,924 | 67.78 |
| 2026 | 727,351,744 | 87.96 |
| 2031 | 811,293,665 | 98.11 |
| 2036 | 822,958,665 | 99.53 |
| 2038 | 826,873,665 | 100.00 |

Source: Department of Finance, City of Norfolk, Virginia.

Table II-5
City of Norfolk, Virginia
Ratio of Annual Debt Service to
Total General Governmental Expenditures
Fiscal Years 2002 - 2011

| Fiscal Year Ended June 30 | Total Debt Service ⁽¹⁾ | Total General Expenditures ⁽²⁾ | Percent of Debt Service To Total General Expenditures |
|--------------------------------------|--|--|--|
| 2002 | \$53,484,013 | \$431,283,578 | 12.40% |
| 2003 | 53,258,272 | 451,633,988 | 11.79 |
| 2004 | 55,000,425 | 490,944,275 | 11.20 |
| 2005 | 58,971,773 | 490,923,834 | 12.01 |
| 2006 | 62,750,385 | 510,999,836 | 12.28 |
| 2007 | 58,045,527 | 539,491,519 | 10.76 |
| 2008 | 64,167,472 | 574,581,092 | 11.17 |
| 2009 | 71,794,806 | 584,533,217 | 12.28 |
| 2010 | 69,929,707 | 567,371,918 | 12.33 |
| 2011 | 78,453,097 | 577,669,780 | 13.58 |

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2011.

Notes: (1) Includes debt service on general obligation bonds supported by the General Fund.

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

Table II-6
City of Norfolk, Virginia
Ratio of Net General Bonded Debt to Assessed Value and
Net Bonded Debt Per Capita
Fiscal Years 2002 - 2011

| Fiscal Year Ended June 30 | Estimated Population | Assessed Value of Taxable Property (In Thousands) | Gross Bonded Debt | Debt Payable from Enterprise Revenue | Net Bonded Debt | Ratio of Net Bonded Debt to Assessed Value | Net Bonded Debt Per Capita |
|--------------------------------------|---------------------------------|--|------------------------------|---|------------------------|---|---------------------------------------|
| 2002 | 235,405 | \$10,436,893 | \$460,345,861 | \$112,049,824 | \$348,296,037 | 3.34% | \$1,480 |
| 2003 | 236,550 | 10,939,757 | 460,876,270 | 99,220,319 | 361,655,951 | 3.31 | 1,529 |
| 2004 | 238,650 | 11,814,930 | 486,241,680 | 87,635,923 | 398,605,757 | 3.37 | 1,670 |
| 2005 | 239,396 | 12,835,957 | 512,528,634 | 91,520,158 | 421,008,476 | 3.28 | 1,759 |
| 2006 | 239,355 | 14,663,411 | 475,872,461 | 93,099,000 | 382,773,000 | 2.61 | 1,599 |
| 2007 | 241,941 | 17,619,217 | 576,809,191 | 107,310,741 | 469,498,450 | 2.66 | 1,941 |
| 2008 | 242,983 | 20,578,641 | 695,230,000 | 124,092,000 | 571,138,000 | 2.78 | 2,351 |
| 2009 | 243,957 | 21,308,309 | 736,163,200 | 158,227,193 | 577,936,007 | 2.71 | 2,369 |
| 2010 | 242,803 | 21,777,754 | 887,771,677 | 199,619,847 | 688,151,830 | 3.16 | 2,834 |
| 2011 | 243,985 | 21,383,674 | 826,873,664 | 187,198,781 | 639,674,884 | 2.99 | 2,622 |

Sources: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2011. The source of 2002 through 2009 and 2011 population estimates is the Weldon Cooper Center for Public Service, University of Virginia (the "Weldon Cooper Center"). The source for the 2010 population estimate is the U.S. Census Bureau.

Table II - 7
City of Norfolk, Virginia
Long-Term Debt Service Requirements⁽¹⁾

| Fiscal Year Ending June 30 | Existing General Obligation Debt Service ⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾ | | | Debt Service on the Bonds | | | Total Debt Service ⁽²⁾⁽³⁾⁽⁴⁾ | | |
|-------------------------------|--|---------------|--------------------|---------------------------|--------------|--------------------|---|---------------|--------------------|
| | Principal | Interest | Total Debt Service | Principal | Interest | Total Debt Service | Principal | Interest | Total Debt Service |
| 2012 | \$ 66,727,449 | \$34,511,406 | \$101,238,855 | \$ - | \$ - | \$ - | \$ 66,727,449 | \$34,511,406 | \$101,238,855 |
| 2013 | 58,722,025 | 28,352,174 | 87,074,199 | - | 2,661,707 | 2,661,707 | 58,722,025 | 31,013,881 | 89,735,906 |
| 2014 | 125,721,894 | 26,100,353 | 151,822,247 | 190,000 | 3,181,538 | 3,371,538 | 125,911,894 | 29,281,890 | 155,193,784 |
| 2015 | 51,724,115 | 19,653,400 | 71,377,515 | 1,255,000 | 3,167,088 | 4,422,088 | 52,979,115 | 22,820,488 | 75,799,603 |
| 2016 | 42,358,229 | 20,073,162 | 62,431,391 | 2,925,000 | 3,104,488 | 6,029,488 | 45,283,229 | 23,177,650 | 68,460,879 |
| 2017 | 38,448,557 | 18,228,009 | 56,676,566 | 6,415,000 | 2,926,138 | 9,341,138 | 44,863,557 | 21,154,147 | 66,017,704 |
| 2018 | 36,112,558 | 16,548,114 | 52,660,672 | 6,275,000 | 2,703,788 | 8,978,788 | 42,387,558 | 19,251,901 | 61,639,459 |
| 2019 | 33,969,109 | 14,827,999 | 48,797,108 | 7,640,000 | 2,428,688 | 10,068,688 | 41,609,109 | 17,256,686 | 58,865,795 |
| 2020 | 30,128,227 | 13,525,997 | 43,654,224 | 10,285,000 | 2,059,063 | 12,344,063 | 40,413,227 | 15,585,060 | 55,998,287 |
| 2021 | 36,473,886 | 11,989,777 | 48,463,663 | 1,940,000 | 1,851,088 | 3,791,088 | 38,413,886 | 13,840,864 | 52,254,750 |
| 2022 | 28,853,269 | 10,705,716 | 39,558,985 | 8,680,000 | 1,634,669 | 10,314,669 | 37,533,269 | 12,340,385 | 49,873,654 |
| 2023 | 27,084,570 | 9,462,695 | 36,547,265 | 9,030,000 | 1,237,900 | 10,267,900 | 36,114,570 | 10,700,595 | 46,815,165 |
| 2024 | 27,182,852 | 8,249,188 | 35,432,040 | 7,635,000 | 883,200 | 8,518,200 | 34,817,852 | 9,132,388 | 43,950,240 |
| 2025 | 24,599,395 | 7,081,664 | 31,681,059 | 6,065,000 | 576,625 | 6,641,625 | 30,664,395 | 7,658,289 | 38,322,684 |
| 2026 | 23,495,424 | 5,945,813 | 29,441,237 | 4,225,000 | 319,375 | 4,544,375 | 27,720,424 | 6,265,188 | 33,985,612 |
| 2027 | 22,407,159 | 4,844,555 | 27,251,714 | 4,275,000 | 106,875 | 4,381,875 | 26,682,159 | 4,951,430 | 31,633,589 |
| 2028 | 21,683,341 | 3,783,986 | 25,467,327 | - | - | - | 21,683,341 | 3,783,986 | 25,467,327 |
| 2029 | 11,720,000 | 2,701,478 | 14,421,478 | - | - | - | 11,720,000 | 2,701,478 | 14,421,478 |
| 2030 | 11,865,000 | 2,060,581 | 13,925,581 | - | - | - | 11,865,000 | 2,060,581 | 13,925,581 |
| 2031 | 12,005,000 | 1,455,020 | 13,460,020 | - | - | - | 12,005,000 | 1,455,020 | 13,460,020 |
| 2032 | 1,495,000 | 756,820 | 2,251,820 | - | - | - | 1,495,000 | 756,820 | 2,251,820 |
| 2033 | 4,970,000 | 522,061 | 5,492,061 | - | - | - | 4,970,000 | 522,061 | 5,492,061 |
| 2034 | 1,650,000 | 407,466 | 2,057,466 | - | - | - | 1,650,000 | 407,466 | 2,057,466 |
| 2035 | 1,730,000 | 318,409 | 2,048,409 | - | - | - | 1,730,000 | 318,409 | 2,048,409 |
| 2036 | 1,820,000 | 225,098 | 2,045,098 | - | - | - | 1,820,000 | 225,098 | 2,045,098 |
| 2037 | 1,910,000 | 126,255 | 2,036,255 | - | - | - | 1,910,000 | 126,255 | 2,036,255 |
| 2038 | 2,005,000 | 23,474 | 2,028,474 | - | - | - | 2,005,000 | 23,474 | 2,028,474 |
| Totals | \$746,862,059 | \$262,480,670 | \$1,009,342,729 | \$76,835,000 | \$28,842,226 | \$105,677,226 | \$823,697,059 | \$291,322,896 | \$1,115,019,955 |

Source: Department of Finance, City of Norfolk, Virginia.

Notes:

- (1) Figures may not sum due to rounding.
- (2) Includes principal payable from the City's enterprise funds.
- (3) Existing General Obligation Debt Service includes self-supporting principal payable from the City's Environmental Storm Water Fund, and the Towing and Recovery Fund, which are both special revenue funds.
- (4) Includes estimated net debt service on the City's General Obligation Variable Rate Demand Bonds, Series 2007, assuming an average interest rate of 3.74%.
- (5) Includes all interest on the Build America Bonds and Recovery Zone Economic Development Bonds issued in 2010 and has not been adjusted for the subsidy payments expected to be received by the City.
- (6) FY 2014 debt service includes the General Obligation Bond Anticipation Notes issued on March 24, 2011 (the "2011 BANs"). The City expects to refinance the 2011 BANs prior to their maturity of January 1, 2014.

DEBT INCURRED BY OTHER GOVERNMENTAL ENTITIES

Overlapping Debt

The City is autonomous from any county, town or other political subdivision. There are no overlapping or underlying taxing jurisdictions with debt outstanding for which City residents are liable.

Short-Term Borrowing

The City has not borrowed on a short-term basis for working capital purposes in the past five Fiscal Years.

Capital Lease Obligations

The City does not have any capital lease obligations outstanding.

Water Revenue Bonds

Since 1993, and for all future financings, capital improvements of the Water Utility System have been and are anticipated to be financed with revenue bonds. The revenue covenant for these revenue bonds requires the City to establish, fix, charge and collect rates, fees and other charges for the use of and for the services furnished by the water system, and will, from time to time and as often as appears necessary, revise such rates, fees and other charges, so that in each Fiscal Year net revenues are not less than the greater of (i) the sum of 1.1 times senior debt service and 1.0 times subordinated debt service for the Fiscal Year and (ii) 1.0 times the funding requirements for transfers from the revenue fund to the operating fund, the bond fund, the parity debt service fund, the debt service reserve fund, the subordinate debt service fund and the repair and replacement reserve fund. The Fiscal Year 2011 results reflect compliance with this requirement.

Parking System Revenue Bonds

Since 1997, capital improvements of the Parking Facilities Fund have been financed primarily with revenue bonds. The revenue covenant for these revenue bonds requires the City to establish, fix, charge and collect rates, fees and other charges for the use of and for the services furnished by the parking facilities. The City will, from time to time and as often as appears necessary, revise such rates, fees and other charges, so that in each Fiscal Year net revenues are not less than the greater of (i) the sum of 1.25 times senior debt service and 1.0 times subordinated debt service for the Fiscal Year and (ii) 1.0 times the funding requirements for transfers from the revenue fund to the bond fund, the parity debt service fund, the debt service reserve fund, the MacArthur Garage reserve fund, the repair and replacement reserve fund, the surety bond interest fund and the subordinate debt service fund. The Fiscal Year 2011 results reflect compliance with this requirement.

Debt History

The City has never defaulted in the payment of either principal of, or interest on, any indebtedness.

Capital Improvement Program Budget

The City has a Capital Improvement Program ("CIP") budget which plans for capital type improvements for a five-year period. This CIP budget is reviewed and revised annually.

The City approved its CIP budget for Fiscal Year 2012 on May 17, 2011. The total of the CIP budget for Fiscal Year 2012, as amended, is \$159,940,300, which includes \$45,909,666 in cash contributions and a transfer from the Operating Budget for Fiscal Year 2012, and which transfer reduces the City's reliance on bond financing. The CIP budget for Fiscal Year 2012 also includes the reappropriation of \$33,374,161 of previously authorized but unissued, bonds. The City approved its CIP budget for Fiscal Year 2013 on May 22, 2012.* The total of the CIP budget for Fiscal Year 2013 is \$93,580,300, which includes \$4,874,866 in cash contributions. The CIP budget for Fiscal Year 2013 also includes the reappropriation of \$4,662,990 of previously authorized but unissued bonds. Each capital project included in the CIP budget for Fiscal Year 2012 or Fiscal Year 2013 is either approved for funding in the CIP budget for Fiscal Year 2012 or Fiscal Year 2013, as applicable, or included as a planned project in Fiscal Years 2014 through 2017. Future year projects in the CIP Budget are considered for planning purposes only and may be modified, at any time, by the City Council. In addition, the CIP budget is used by the City as a means of identifying short- and long-term needs and as a guide for identifying various funding sources for future CIP budgets.

The CIP budget is developed in coordination with and at the same time as other City budgets. It is prepared for submission by the City Manager to the City Council concurrently with the Proposed Operating Budget. Hearings are held as appropriate, and the final CIP budget is adjusted with a determination being made of the source and amount of funding to be recommended for each item.

* The CIP Budget for Fiscal Year 2013 was adopted on May 22, 2012, after the date of the Preliminary Official Statement of the City dated May 9, 2012 (the "Preliminary Official Statement"), and this Official Statement. Accordingly, the disclosure associated with the Adopted Fiscal Year 2013 CIP Budget is an expansion of the disclosure contemplated in the Preliminary Official Statement and this Official Statement.

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The CIP budgets for Fiscal Year 2012 and Fiscal Year 2013 are summarized in Table II-8.

Table II-8
City of Norfolk, Virginia
Capital Improvement Program for Fiscal Year 2012, as Amended and Fiscal Year 2013

| Uses | Approved Budget Fiscal Year 2012, Approved Budget as Amended | Approved Budget Fiscal Year 2013 |
|---|--|-------------------------------------|
| General Capital Projects | \$112,925,500 | \$49,395,100 |
| Parking Fund Projects | 2,414,800 | 2,500,000 |
| Maritime Fund Projects | - | - |
| Storm Water Fund Projects | 3,500,000 | 5,815,200 |
| Water Fund Projects | 24,100,000 | 18,870,000 |
| Wastewater Fund Projects | 17,000,000 | 17,000,000 |
| Towing and Recovery Fund Projects | - | - |
| Total Capital Program | <u>\$159,940,300</u> | <u>\$93,580,300</u> |
| Appropriation Source | | |
| General Capital Projects | | |
| From Bond Issue | \$39,856,473 | \$42,622,444 |
| Reappropriation of Prior Bond Authorization | 29,259,361 | 4,662,990 |
| From Cash | 43,809,666 | 2,109,666 |
| Parking Fund Projects | | |
| From Bond Issue | 2,114,800 | 2,170,000 |
| From MacArthur Center Reserve Fund | 300,000 | 330,000 |
| Maritime Fund Projects | | |
| From Bond Issue | - | - |
| Storm Water Fund Projects | | |
| Reappropriation of Prior Bond Authorization | 2,000,000 | - |
| From Bond Issue | - | 3,500,000 |
| From Cash | 1,500,000 | 2,315,200 |
| Water Fund Projects | | |
| From Bond Issue | 23,800,000 | 18,750,000 |
| From Cash | 300,000 | 120,000 |
| Wastewater Fund Projects | | |
| From Bond Issue | 17,000,000 | 17,000,000 |
| Towing and Recovery Fund Projects | | |
| From Bond Issue | - | - |
| Total Capital Program | <u>\$159,940,300</u> | <u>\$93,580,300</u> |

Sources: Capital Improvement Program Budget, Fiscal Year Ending June 30, 2012; Capital Improvement Program Budget, Fiscal Year Ending June 30, 2013.

Table II-9A summarizes the CIP for Fiscal Years 2012 through 2016 as set forth in the approved Fiscal Year 2012 CIP Budget, and Table II-9B summarizes the CIP for Fiscal Years 2013 through 2017 as set forth in the approved Fiscal Year 2013 CIP Budget.

Table II-9A
City of Norfolk, Virginia
Capital Improvement Program, as Amended
Fiscal Years 2012 - 2016

| Description | FY-2012 Budget, as Amended | FY-2013 Plan | FY-2014 Plan | FY-2015 Plan | FY-2016 Plan | FY 2012 – 2016 Total |
|--------------------------|-------------------------------|---------------|---------------|--------------|--------------|-------------------------|
| General Capital | | | | | | |
| Schools | \$ 12,800,000 | \$ 12,750,000 | \$ 22,800,000 | \$ 8,000,000 | \$ 5,200,000 | \$ 61,550,000 |
| Non-Schools | 100,125,500 | 42,977,400 | 61,421,000 | 21,588,600 | 14,629,000 | 240,741,500 |
| Total General Capital | \$112,925,500 | \$ 55,727,400 | \$ 84,221,000 | \$29,588,600 | \$19,829,000 | \$302,291,500 |
| Storm Water Fund | 3,500,000 | 3,500,000 | 3,500,000 | 3,500,000 | 3,500,000 | 17,500,000 |
| Parking Facilities Fund | 2,414,800 | - | - | - | - | 2,414,800 |
| Wastewater Fund | 17,000,000 | 17,000,000 | 17,000,000 | 17,000,000 | 17,000,000 | 85,000,000 |
| Maritime Fund | - | - | - | - | - | - |
| Water Fund | 24,100,000 | 18,745,000 | 19,700,000 | 23,200,000 | 18,200,000 | 103,945,000 |
| Towing and Recovery Fund | - | - | - | - | - | - |
| Total Capital Program | \$159,940,300 | \$94,972,400 | \$124,421,000 | \$73,288,600 | \$58,529,000 | \$511,151,300 |

Source: Capital Improvement Program Budget, Fiscal Year Ending June 30, 2012.

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Table II-9B
City of Norfolk, Virginia
Capital Improvement Program
Fiscal Years 2013 - 2017

| Description | FY-2013 | FY-2014 Plan | FY-2015 Plan | FY-2016 Plan | FY-2017 Plan | FY 2013 – 2017 Total |
|------------------------------|-----------------------|----------------------|---------------------|---------------------|---------------------|-----------------------------|
| General Capital* | \$49,395,100 | \$70,708,382 | \$25,859,600 | \$15,535,000 | \$13,490,000 | \$174,988,082 |
| Storm Water Fund | 5,815,200 | 3,500,000 | 3,500,000 | 3,500,000 | 3,500,000 | 19,815,200 |
| Parking Facilities Fund | 2,500,000 | - | - | - | - | 2,500,000 |
| Wastewater Fund | 17,000,000 | 17,000,000 | 17,000,000 | 17,000,000 | 17,000,000 | 85,000,000 |
| Maritime Fund | - | - | - | - | - | - |
| Water Fund | 18,870,000 | 20,680,000 | 23,630,000 | 18,400,000 | 15,770,000 | 97,350,000 |
| Towing and Recovery Fund | - | - | - | - | - | - |
| Total Capital Program | \$93,580,300** | \$111,888,382 | \$69,989,600 | \$54,435,000 | \$49,760,000 | \$379,653, 282 |

Source: Capital Improvement Program Budget, Fiscal Year Ending June 30, 2013.

* The City no longer allocates the General Capital line items between "Schools" and "Non-Schools" projects.

** The discrepancy between the proposed Fiscal Year 2013 CIP Budget referenced in the Preliminary Official Statement of the City and the Adopted Fiscal Year 2013 CIP Budget is attributable to the addition of several projects totaling \$750,000.

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PART III **FINANCIAL INFORMATION**

Fiscal Year

The City's Fiscal Year commences July 1 and closes on June 30.

Reporting Entity

For financial reporting purposes, in accordance with generally accepted accounting principles ("GAAP"), the City's financial statements include the City of Norfolk (primary government) and the following component units:

- The School Board of the City of Norfolk (the "School Board");
- The Employees' Retirement System of the City of Norfolk;
- The Norfolk Community Services Board; and
- Waterside Associates Limited Partnership.

Complete financial statements of the individual component units can be obtained from their respective administrative offices. Contact information for such administrative offices can be obtained through contacting the office of the Director of Finance of the City.

BASIS OF ACCOUNTING AND ACCOUNTING STRUCTURE

The City's financial statements include the following sections:

Management's Discussion and Analysis ("MD&A").

- The MD&A introduces the basic financial statements and provides an analytical overview of the government's financial activities.

Basic Financial Statements. The Basic Financial Statements include:

- Government-wide financial statements, consisting of a statement of net assets and a statement of activities;
- Fund financial statements, consisting of a series of statements that focus on information of the government's major governmental, proprietary and fiduciary funds and component units; and
- Notes to the financial statements provide information essential to a user's understanding of the basic financial statements.

Required Supplementary Information ("RSI"). In addition to MD&A, budgetary comparison schedules are presented as RSI along with other types of data as required by the Government Accounting Standards Board ("GASB").

The government-wide financial statements are reported using the economic resources, measurement focus and the accrual basis of accounting, as are the proprietary 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 fund 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. 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.

INDEPENDENT ACCOUNTANTS

Section 99 of the City Charter requires that "...as soon as practicable after the close of each fiscal year an annual audit shall be made of all the accounts of the city offices...by certified public accountants selected by the council...". The firm of KPMG LLP serves as the City's independent auditors. The audited general purpose financial statements for Fiscal Year 2011 with accompanying notes are published in Appendix A.

BUDGETARY PROCESS

The City Charter requires that no less than 60 days before the end of the Fiscal Year, the City Manager must submit to the City Council a proposed balanced operating budget for the ensuing Fiscal Year that commences July 1. The Public Schools' proposed budget is approved by the School Board, transmitted to the City Manager for review and then submitted to the City Council for consideration as part of the City's general operating budget. The City Council is required to hold a public hearing on the budget at which time all interested persons have the opportunity to comment. See the subsection "GENERAL FUND OPERATING BUDGET RESULTS FOR FISCAL YEAR 2011 – General Fund Operating Budget" for a discussion of the General Fund Operating Budget for Fiscal Year 2012.

The financial forecast, the first step in the budget process, is an essential component of the annual process of assessing the City's overall financial condition and looking at its finances in a multi-year context. The primary objective of the financial forecast is to project where current budget decisions lead in terms of future revenue and expenditures and their impact on the City's financial stability. It is believed that the financial forecast provides the opportunity to proactively evaluate policies with the goal of maximizing opportunities or, in the worst case, minimizing the negative impact of economic downturns.

GENERAL GOVERNMENTAL REVENUE

Overview

General governmental revenue is derived from general property taxes, other local taxes, permits, privilege fees and regulatory licenses, fines and forfeitures, use of money and property, charges for services, recovered costs and non-categorical aid, shared expenses and categorical aid from the Commonwealth. General Fund disbursements include the normal recurring activities of the City, such as police, public works, general government, transfers to the School Operating Fund for local share of costs and to the Debt Service Fund to pay principal and interest on the City's general obligation bonds for other than enterprise fund purposes.

Property Tax Rates, Levies and Collections

An annual ad valorem tax is levied by the City on the assessed value of real property located within the City as of July 1, and on tangible personal property located within the City as of October 1. Real property taxes are the largest single source of tax revenue. Tax rates are applied to the assessed valuation of property.

The ratio of the assessed value of real property to its estimated fair market value is 100% (other than public service properties). The City taxes several categories of personal property, each of which is assessed on a different basis. Machinery and tools are assessed at 100% of original cost; vehicles and boats are assessed at 100% of certain published loan values; and mobile homes are assessed on the same basis as real property.

The City has the power to levy taxes on property located within its boundaries without limitation as to rate or amount for the payment of its obligations. Rates are established by the City Council. The tax rates approved in the Operating Budget for Fiscal Year 2012 and Fiscal Year 2013 on each \$100 of assessed value are as follows: \$1.50 for recreational vehicles; \$2.40 for airplanes; \$1.11 for real property; \$4.33 for personal property; \$4.25 for machinery and tools; and \$1.11 for mobile homes. The rate on personal recreational boats consists of a decal fee of \$10 or \$25, depending on the length of the boat, plus a tax of \$0.50 per \$100 on the assessed value of the boat. The tax rate for commercial boats is \$1.50 per \$100 of the assessed value of the boat and a boat decal is not required. The tax rate for real property located in the City's Business Improvement District is an additional \$0.16 on the real property rate of \$1.11 per \$100 of assessed value.

Real property levies are payable during the year of assessment in four equal installments, on or before September 30, December 5, March 31 and June 5. Personal property, recreational vehicles, machinery and tools, mobile homes, airplanes and boat levies are payable on or before June 5 of the year assessed or thirty days after acquisition. Certain types of personal property such as automobiles, trucks, motorcycles, trailers and recreational vehicles are prorated throughout the year and payable 30 days after acquisition.

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

The City Council may require the sale of real property in satisfaction of delinquent taxes, pursuant to the provisions of Section 89 of the City Charter.

Other Revenue Sources

The City levies various other local taxes: (1) a 1% local sales tax (collected by the Commonwealth and remitted to the City); (2) a tax on water, electric and gas utility bills; (3) a cigarette tax of 75 cents per packet; (4) property transfer recordation taxes; (5) an automobile license tax; (6) various business license/franchise taxes; (7) a hotel and motel tax of 8% and a \$2 per room, per night surcharge of which 1% is dedicated to tourism and economic development; (8) an admissions tax of 10%; and (9) a restaurant food tax of 6.5%, which includes alcoholic beverages, of which 1% is dedicated to tourism and economic development.

Fees, Licenses and Permits – The City requires that licenses or permits be obtained for the performance of certain activities and that fees be paid for services provided by certain City departments.

Revenue from the Commonwealth – The City receives payments for highway maintenance, a share of state sales taxes allocated for education and, in addition, reimbursement for a portion of expenditures for such functions as Sheriff's office, Commissioner of the Revenue, City Treasurer, Clerk of the Circuit Court and Commonwealth's Attorney office. The City also receives categorical aid revenue for such purposes as public assistance, education and local law enforcement.

Other Revenue – The primary sources of other revenue to the General Fund include transfers from the Water Utility and Wastewater Utility Funds, interest on investments and impact aid from the federal government. Tables III-1A and III-1B show the City's General Fund revenue by source for each of the last 10 Fiscal Years.

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Table III-1A
City of Norfolk, Virginia
Total Revenue by Source, Governmental Funds
Fiscal Years 2002 - 2011
(Amounts in Thousands)

| Fiscal Year Ended June 30 | General Property Taxes | Other Local Taxes | Licenses and Permits | Fines and Forfeitures | Use of Money and Property | Charges for Services | Miscellaneous | Recovered Costs | Inter- Governmental Revenue | Total |
|--------------------------------------|---------------------------------------|------------------------------|-------------------------------------|--------------------------------------|--|---------------------------------|----------------------|----------------------------|--|--------------|
| 2002 | \$159,512 | \$127,262 | \$2,700 | \$1,541 | \$11,247 | \$18,312 | \$12,337 | \$10,008 | \$133,332 | \$476,251 |
| 2003 | 168,893 | 132,847 | 2,973 | 1,569 | 8,791 | 29,390 | 24,785 | 9,556 | 131,071 | 509,875 |
| 2004 | 178,361 | 140,675 | 3,204 | 1,627 | 8,333 | 31,342 | 17,339 | 12,297 | 160,118 | 553,296 |
| 2005 | 193,293 | 150,477 | 3,542 | 1,763 | 10,232 | 29,129 | 18,951 | 14,188 | 147,045 | 568,620 |
| 2006 | 211,788 | 157,616 | 4,088 | 1,461 | 10,498 | 32,772 | 33,494 | 12,667 | 149,757 | 614,141 |
| 2007 | 235,399 | 159,119 | 4,071 | 1,605 | 11,105 | 37,071 | 11,691 | 8,408 | 156,637 | 625,106 |
| 2008 | 241,290 | 162,573 | 4,055 | 1,317 | 10,650 | 40,159 | 17,923 | 8,622 | 156,862 | 643,451 |
| 2009 | 252,004 | 157,926 | 4,012 | 1,260 | 8,332 | 40,345 | 12,911 | 8,952 | 149,774 | 635,516 |
| 2010 | 257,055 | 153,615 | 3,526 | 1,164 | 6,746 | 50,540 | 18,080 | 9,503 | 152,619 | 652,848 |
| 2011 | 258,004 | 153,886 | 3,691 | 1,298 | 7,169 | 47,955 | 14,850 | 10,723 | 149,489 | 647,065 |

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2011.

Table III-1B
City of Norfolk, Virginia
Other Local Tax Revenues by Source, Governmental Funds
Fiscal Years 2002 - 2011
(Amounts in Thousands)

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

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2011.

Table III-2 sets forth the assessed value of all taxable property in the City for the past 10 Fiscal Years. The total assessed value of all taxable property in the City at June 30, 2011, was approximately \$21.4 billion. The estimated assessed value of tax-exempt properties owned by federal and Commonwealth governments, churches and schools, among others, was approximately \$10.5 billion for Fiscal Year 2011 and is presented in Table III-3.

Table III-2
City of Norfolk, Virginia
Assessed Valuations and Estimated
Actual Values of Taxable Property
Fiscal Years 2002 - 2011
(Amount In Thousands)

| Fiscal Year Ended June 30 | Real Property⁽¹⁾ | Personal Property⁽¹⁾ | Other Property⁽²⁾ | Total Taxable Assessed Value⁽³⁾ | Estimated Actual Taxable Value⁽⁴⁾ |
|--------------------------------------|--|--|---|---|---|
| 2002 | \$ 8,882,064 | \$1,273,647 | \$281,182 | \$10,436,893 | \$10,436,893 |
| 2003 | 9,356,760 | 1,311,951 | 271,046 | 10,939,757 | 10,939,757 |
| 2004 | 10,029,639 | 1,503,713 | 281,578 | 11,814,930 | 11,814,930 |
| 2005 | 10,960,812 | 1,569,991 | 305,154 | 12,835,957 | 12,835,957 |
| 2006 | 12,691,527 | 1,655,021 | 316,863 | 14,663,411 | 14,663,411 |
| 2007 | 15,607,512 | 1,687,318 | 324,387 | 17,619,217 | 17,619,217 |
| 2008 | 18,401,851 | 1,983,503 | 193,287 | 20,578,641 | 20,578,641 |
| 2009 | 19,397,795 | 1,676,811 | 233,703 | 21,308,309 | 21,308,309 |
| 2010 | 19,940,273 | 1,610,680 | 226,801 | 21,777,754 | 21,777,754 |
| 2011 | 19,320,642 | 1,832,276 | 230,756 | 21,383,674 | 21,383,674 |

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2011.

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) Taxable property values are based on data supplied by the City's Commissioner of the Revenue. Adjustments were made to prior years' data to reflect the figures reported in the Commissioner of the Revenue's Annual Reports.

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

Table III-3
City of Norfolk, Virginia
Estimated Value of Nontaxable Real Property⁽¹⁾
Fiscal Years 2007 - 2011
(Amounts In Thousands)

| Fiscal Year | Property Owned By: | | | | | | | | | | | |
|----------------------|---------------------------|----------------------------|------------------------|----------------------------|--|----------------------------|---------------------------------|----------------------------|--|----------------------------|-----------------------|----------------------------|
| | Federal Government | | City of Norfolk | | Norfolk Redevelopment and Housing Authority | | Commonwealth of Virginia | | All Other Organizations⁽²⁾ | | Total | |
| Ended June 30 | Assessed Value | Estimated Tax Value | Assessed Value | Estimated Tax Value | Assessed Value | Estimated Tax Value | Assessed Value | Estimated Tax Value | Assessed Value | Estimated Tax Value | Assessed Value | Estimated Tax Value |
| 2007 | \$4,581,576 | \$58,186 | \$1,718,375 | \$21,823 | \$465,660 | \$5,914 | \$769,584 | \$9,774 | \$1,439,067 | \$18,276 | \$8,974,261 | \$113,973 |
| 2008 | 4,672,997 | 51,870 | 1,837,974 | 20,402 | 513,373 | 5,698 | 814,505 | 9,041 | 1,539,360 | 17,087 | 9,378,209 | 104,098 |
| 2009 | 5,001,343 | 55,515 | 1,970,451 | 21,872 | 546,112 | 6,062 | 67,882 | 753 | 2,458,410 | 27,288 | 10,044,197 | 111,491 |
| 2010 | 5,012,218 | 55,636 | 2,111,344 | 23,436 | 624,889 | 6,936 | 86,250 | 957 | 2,593,841 | 28,792 | 10,428,542 | 115,757 |
| 2011 | 5,027,656 | 55,807 | 2,130,587 | 23,650 | 663,759 | 7,368 | 90,948 | 1,010 | 2,622,567 | 29,110 | 10,535,517 | 116,944 |

Sources: Annual Reports of the City Assessor 2007 - 2011.

Notes:

- (1) The assessed value was 100% of fair market value. The Fiscal Year 2011 estimated tax value is at a rate of \$1.11 per \$100 of estimated assessed value.
- (2) All other organizations include religious organizations, secular organizations, universities, Virginia Port Authority, Norfolk Airport Authority and other regional general municipal entities.

Table III-4 presents the property tax rate per \$100 of assessed value and the equalization ratios used to determine the fair market value of taxable property for Fiscal Years 2008 through 2013.

Table III-4
City of Norfolk, Virginia
Direct Property Rates
Fiscal Years 2008 – 2013

| | Fiscal Year | | | | | |
|--|--------------------|-------------|-------------|-------------|-------------|-------------|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| Property tax rate per \$100 of assessed value: | | | | | | |
| Real Property | \$1.11 | \$1.11 | \$1.11 | \$1.11 | \$1.11 | \$1.11 |
| Business Improvement District | 0.18 | 0.18 | 0.16 | 0.16 | 0.16 | 0.16 |
| Personal property | 4.25 | 4.25 | 4.25 | 4.33 | 4.33 | 4.33 |
| Machinery and tools | 4.25 | 4.25 | 4.25 | 4.25 | 4.25 | 4.25 |
| Mobile homes | 1.11 | 1.11 | 1.11 | 1.11 | 1.11 | 1.11 |
| Airplanes | 2.40 | 2.40 | 2.40 | 2.40 | 2.40 | 2.40 |
| Boats (business) | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 |
| Boats (recreational) | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 |
| Recreational vehicles | 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 |
| Assessed value of real property as a percent of fair market value: | | | | | | |
| As determined by the City Assessor | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |
| As determined by the Commonwealth's Department of Taxation ⁽¹⁾⁽²⁾ | 93.00% | -- | -- | -- | -- | -- |

Sources: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2011, Approved Operating Budget, Fiscal Year Ended June 30, 2012 and Approved Operating Budget, Fiscal Year Ended June 30, 2013.

Notes: (1) The most recent Virginia Assessment/Sales Ratio Study is for 2009.

(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 2008 through 2012.

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. Table III-5 sets forth the City's assessed values and tax levies on real and personal property for Fiscal Years 2007 through 2011.

Table III-5
City of Norfolk, Virginia
Assessed Valuation and Change in Property Tax Levy
Fiscal Years 2007 - 2011
(Amounts In Thousands)

| Assessed Valuation | | | | |
|--------------------------------------|----------------------|--|------------------------------|---|
| Fiscal Year Ended June 30 | Real Property | Personal Property & Other | Property Tax Levy | Percentage Increase in Property Tax Levy |
| 2007 | \$15,607,512 | \$2,011,705 | \$254,703 | 11.81% |
| 2008 | 18,401,851 | 2,176,790 | 258,016 | 1.30 |
| 2009 | 19,397,795 | 1,910,514 | 261,535 | 1.36 |
| 2010 | 19,940,273 | 1,837,481 | 258,544 | (1.14) |
| 2011 | 19,320,642 | 2,063,032 | 254,756 | (1.47) |

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2011.

Table III-6 sets forth information concerning the City's real and personal property tax collection rate for Fiscal Years 2002 through 2011.

Table III-6
City of Norfolk, Virginia
Real and Personal Property Tax Levies and Collections⁽¹⁾
Fiscal Years 2002 - 2011
(In Thousands)

| Fiscal Year Ended June 30 | Original Tax Levy | Adjusted Tax Levy⁽²⁾ | Current Collections | Percent of Current Collections | | Total Collections | Percentage of Total Tax Collections to Tax Levy⁽³⁾ |
|--------------------------------------|------------------------------|--|--------------------------------|---|-----------------------------------|------------------------------|--|
| | | | | to Tax Levy⁽³⁾ | Delinquent Collections | | |
| 2002 | \$171,755 | \$154,152 | \$147,416 | 95.63% | \$ 6,704 | \$154,120 | 99.98% |
| 2003 | 179,220 | 164,908 | 155,276 | 94.16 | 9,591 | 164,867 | 99.98 |
| 2004 | 191,397 | 179,753 | 165,100 | 91.85 | 14,590 | 179,690 | 99.96 |
| 2005 | 209,202 | 200,742 | 180,348 | 89.84 | 20,259 | 200,607 | 99.93 |
| 2006 | 227,796 | 228,295 | 197,669 | 86.58 | 29,034 | 226,703 | 99.30 |
| 2007 | 254,703 | 241,300 | 219,993 | 91.17 | 18,784 | 238,777 | 98.95 |
| 2008 | 258,016 | 254,815 | 220,253 | 86.44 | 30,757 | 251,010 | 98.51 |
| 2009 | 261,535 | 257,767 | 233,725 | 90.67 | 19,455 | 253,180 | 98.22 |
| 2010 | 258,544 | 253,665 | 239,192 | 94.29 | 4,651 | 243,843 | 96.13 |
| 2011 | 254,756 | 254,756 | 235,518 | 92.45 | - | - | 92.45 |

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2011.

Notes: (1) Delinquent tax collections are reported in the year collected.

(2) Adjusted to reflect residual taxable amount after exonerations and reassessments.

(3) Calculated using the Adjusted Tax Levy amounts and not the Original Tax Levy amounts.

Table III-7 sets forth the City's 10 largest taxpayers and the assessed value of real property owned by each such taxpayer during Fiscal Year 2011. The aggregate assessed value of the 10 largest taxpayers represented 5.9% of the City's total assessable base at June 30, 2011.

Table III-7
City of Norfolk, Virginia
Ten Principal Real Property Taxpayers⁽¹⁾
June 30, 2011

| Taxpayer | Type of Business | Real Property Assessed Value | Percentage of Total Real Property Assessed Value to Total Assessed Value |
|--|-------------------------|-------------------------------------|---|
| Dominion Virginia Power | Public Service Utility | \$270,009,241 | 1.40% |
| MacArthur Shopping Center LLC (Taubman Co.) | Retail | 152,853,900 | 0.79 |
| Norfolk Southern Corporation | Railroad | 148,086,410 | 0.77 |
| Verizon Virginia, Inc. | Public Service Utility | 139,564,095 | 0.72 |
| Old Dominion University Real Estate Foundation | Real Estate | 101,124,500 | 0.52 |
| Bank of America | Bank | 80,654,300 | 0.42 |
| Virginia Natural Gas, Inc. | Public Service Utility | 70,523,192 | 0.37 |
| Cox Virginia Telecom | Public Service Utility | 62,560,511 | 0.32 |
| Dominion Tower Ltd. Partnership | Partnership | 59,652,400 | 0.31 |
| Norfolk Housing, LLC | Real Estate | 55,511,700 | 0.29 |
| Total Principal Taxpayers | | \$1,140,540,249 | 5.90% |
| Total Assessed Value | | \$19,320,643,495 | |

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2011.

Notes: (1) Total assessed value of taxable real property including public service corporations at June 30, 2011, was \$19,320,643,495.

GENERAL FUND EXPENDITURES

Costs of General City Government

The costs of most general government functions are paid from governmental funds. These costs include expenditures for police protection, fire and paramedical services, public health and social services, planning and zoning management, code enforcement, street maintenance, traffic control, parks and cemeteries operation and maintenance, recreation and library services, economic development, refuse disposal and general administrative services. Table III-8 presents the number of positions budgeted for employees (including salaries and related employee benefits such as health insurance and pension contributions).

Table III-8
City of Norfolk, Virginia
Budgeted Positions
Fiscal Years 2008 – 2013

| Fiscal Year | Number of Budgeted Positions⁽¹⁾ |
|--------------------|---|
| 2008 | 4,111 |
| 2009 | 4,115 |
| 2010 | 4,071 |
| 2011 | 3,902 |
| 2012 | 3,912 |
| 2013 | 3,996 |

Sources: Approved Operating Budgets, Fiscal Years Ended June 30, 2008 through 2013.

Note: (1) Figures shown represent the number of permanent and permanent part-time General Fund positions, exclusive of School Board positions.

Protected Self-Insurance Program

The City is exposed to various risks of losses related to torts; theft and destruction of assets; errors and omissions; injuries to employees; and natural disasters. On July 11, 1978, the City established a protected Self-Insurance Program Fund, pursuant to an ordinance adopted by the City Council, to cover itself from these risks of losses. The program provides for the payment of claims liabilities, property losses and related expenses covered by a combination of purchased insurance policies and self-insurance plans. The total of insurance premiums, self-insurance claims and related expense payments made during Fiscal Year 2011 was \$5,874,648.

The City currently reports all these activities as part of the risk management function in the general government section of the General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. At June 30, 2011, these liabilities were \$31,673,082 of which \$3,721,292 represents the current portion anticipated to be paid within a year. Estimated liabilities for Fiscal Year 2011 were determined by an independent actuary.

Changes in the City's claims liability amount in Fiscal Years 2007 through 2011 are as follows:

| Fiscal Year | Unpaid Claims | | | |
|--------------------|------------------------------|--------------------------------------|--------------------|-----------------------|
| | Beginning Balance | Claims Incurred Estimated | Claims Paid | Ending Balance |
| 2007 | \$19,922,358 | \$10,659,920 | \$ 5,515,618 | \$25,066,660 |
| 2008 | 25,066,660 | 12,313,224 | 12,305,870 | 25,059,306 |
| 2009 | 25,059,306 | 14,134,010 | 4,686,127 | 34,507,189 |
| 2010 | 34,507,189 | 174,757 | 4,411,759 | 30,270,187 |
| 2011 | 30,270,187 | 5,628,197 | 4,225,302 | 31,673,082 |

Retirement Plan

The City has a single-employer noncontributory, defined benefit retirement plan that covers substantially all employees of the City, excluding School Board and Constitutional Officers employees who are covered by the Virginia Retirement System. The City's contribution requirements are designed

to fund the plan's current service cost. Actuarially required contributions are appropriated each year by City Council. See Section IX of the City's Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2011, attached hereto as Appendix A, for a discussion of the City's pension plans.

Total annual pension contributions for all City employees over the last three Fiscal Years to the City's noncontributory retirement are presented in Table III-9.

Table III-9
City of Norfolk, Virginia
Schedule of Annual Pension Contributions
Fiscal Years 2009 - 2011 ⁽¹⁾

| Fiscal Year | Annual Pension Contribution |
|--------------------|------------------------------------|
| 2009 | \$28,278,984 |
| 2010 | 35,515,472 |
| 2011 | 42,828,229 |

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2011.

Note: (1) Actuarially required Pension Contributions are funded and paid in the Fiscal Year following the contribution determination.

Other Post-Employment Benefits

In June 2004, the GASB issued Statement No. 45 ("GASB 45"), Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions, which the City was required to implement with respect to its financial statements for Fiscal Year 2008. GASB 45 established new standards as to how the City must account for and report the costs of its Other Post-Employment Benefits ("OPEB") – health insurance, life insurance, and other non-pension benefits provided to its retirees.

GASB 45 requires that the City and Schools recognize the costs of their OPEB during the period of their employee's active employment, while the benefits are being earned, and disclose their unfunded actuarial accrued liability in order to accurately report the total future cost of post-employment benefits and the financial impact on the City. These GASB 45 requirements are very similar to requirements for pension benefits.

During Fiscal Year 2008, the following steps were taken in preparation for the implementation of GASB 45:

- The City and Schools completed an actuarial valuation of the benefits;
- The City's Retirement Board of Trustees agreed to act as an OPEB Board of Trustees to manage the investment function of a formal employee benefit trust, should such a trust be established; and
- The City allocated \$1,898,253 in excess of the Fiscal Year 2008 existing pay-as-you-go contributions toward addressing the liability.

Over time, the City and the Schools plan to gradually increase funding until the annual actuarial required contribution is fully funded. As of June 30, 2011, the following was projected:

| | City | Schools | Total |
|--|---------------------|--------------------|---------------------|
| Actuarial Accrued Liability as of June 30, 2011 ⁽¹⁾ | \$60,204,591 | \$82,776,654 | \$142,981,425 |
| Net OPEB obligation as of June 30, 2010 | 14,160,022 | 3,946,939 | 18,106,961 |
| Actuarial Required Contribution for Fiscal Year 2011 | 7,990,415 | 6,001,485 | 13,991,900 |
| Estimated Pay Go contribution and Explicit Subsidies | (1,988,286) | (1,882,979) | (3,871,265) |
| Net OPEB obligation as of June 30, 2011 | <u>\$20,162,151</u> | <u>\$8,065,445</u> | <u>\$28,227,596</u> |

Source: Actuarial Valuation Report by Cheiron, Inc. measures as of July 1, 2010, for Fiscal Year 2011.

Note: (1) Estimates as shown assume the City and Schools establish a trust. Estimate for the Schools assumes a pay-as-you-go or "Pay Go" basis for calculating liability and the City assumes a prorated basis for calculating liability. In Fiscal Year 2011, the City allocated \$1,898,253 in excess of the Fiscal Year 2008 existing pay-as-you-go contribution toward addressing the liability.

Employee Relations and Collective Bargaining

The Supreme Court of Virginia has ruled that in the absence of legislation, municipalities and school boards in Virginia do not have the authority to enter into collective bargaining agreements.

PUBLISHED FINANCIAL INFORMATION

The City issues and distributes a Comprehensive Annual Financial Report on its financial operations for each Fiscal Year. The City also publishes annually an Operating Budget and a five-year Capital Improvement Program Budget. These documents are available via the internet at www.norfolk.gov. In addition, the City will undertake to provide or cause to be provided certain Annual Financial Information described in the section "CONTINUING DISCLOSURE" to fulfill the requirements of the Rule promulgated by the SEC.

GENERAL FUND OPERATING BUDGET RESULTS FOR FISCAL YEAR 2011

On the budgetary basis of accounting, General Fund revenues were \$787,717,300 representing 99.04% of budgeted revenue. General Fund expenditures were \$771,649,442 representing 97.02% of budgeted expenditures. Table III-10 summarizes key financial results.

Table III-10
City of Norfolk, Virginia
General Fund Operating Budget Summary Results
for the Fiscal Year 2011

| | Fiscal Year 2011 Final Budget | Fiscal Year 2011 Results | Percent of Budget | Variance Positive (Negative) |
|--|--|-------------------------------------|------------------------------|---|
| Total Revenue and non-revenue receipts | \$795,347,620 | \$787,717,300 | 99.04% | \$ (7,630,320) |
| Total Expenditures | <u>795,347,620</u> | <u>771,649,442</u> | 97.02% | (23,698,178) |
| Revenue greater (less) than expenditures | <u>\$ 0</u> | <u>\$ 16,067,858</u> | | <u>\$ 16,067,858</u> |

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2011.

General Fund Operating Budget

The Fiscal Year Ending June 30, 2012, General Fund Operating Budget (the "Fiscal Year 2012 Budget") was adopted on May 17, 2011, and totals \$795,016,200 reflecting a 0.46% decrease over the adopted Fiscal Year Ended June 30, 2011, General Fund Operating Budget of \$791,369,297. Real estate tax revenues, the largest general property tax source, are estimated to decline by approximately 2.58% in Fiscal Year 2012 from the previous year's revenues. Revenues from the Commonwealth, mostly for education, are anticipated to decrease 3.4% or nearly \$10.1 million. The Fiscal Year 2012 Budget anticipates carrying over \$16,057,700 of the General Fund balance from Fiscal Year 2011 to Fiscal Year 2012 as part of the operating budget. These carry forward funds are dedicated to one-time expenditures and are from savings in prior years and the closeout of accounts.

The Fiscal Year 2012 Budget focuses on targeted priorities including education, public safety and neighborhood revitalization. Major revenue and expenditure categories are summarized in the following tables for Fiscal Year 2012 and Fiscal Year 2013.

Table III-11A
City of Norfolk, Virginia
General Fund Budget
Fiscal Year 2012

| Anticipated Revenue Receipts | Approved Budget | Appropriations For Expenditures | Approved Budget |
|-------------------------------------|------------------------|--|------------------------|
| General Property Taxes | \$246,979,300 | Legislative | \$4,438,800 |
| Other Local Taxes | 150,730,000 | Executive | 5,170,300 |
| Permits and Fees | 3,856,300 | Department of Law | 3,941,200 |
| Fines and Forfeitures | 1,250,000 | Constitutional Officers | 5,343,900 |
| Use of Money and Property | 5,811,300 | Judicial | 45,634,100 |
| Charges for Services | 33,929,900 | Office of Elections | 906,300 |
| Miscellaneous Revenue | 8,298,300 | General Management | 35,231,000 |
| Recovered Costs | 10,579,200 | Non-Departmental Appropriations | 58,455,000* |
| Non-Categorical Aid – Virginia | 31,857,000 | Community Development | 10,615,700 |
| Shared Expenses – Virginia | 19,153,000 | Parks, Recreation and Cultural | 34,136,000* |
| Categorical Aid – Virginia | 236,303,700 | Public Health and Assistance | 62,999,000 |
| Federal Aid | 12,345,200 | Public Safety | 106,782,700 |
| Other Sources and Transfers In | 28,260,600 | Public Works | 43,096,900 |
| | | Debt Service | 82,052,400 |
| | | Education | 290,550,000 |
| Subtotal | \$789,353,000* | Subtotal | \$789,353,000* |
| Adjustment for GASB 54 | -2,286,000 | Adjustment for GASB 54 | -2,286,000 |
| National Maritime Center (Nauticus) | 5,310,200 | National Maritime Center (Nauticus) | 5,310,200 |
| Cruise Ship Terminal | 2,638,400 | Cruise Ship Terminal | 2,638,400 |
| Total | \$795,016,200 | Total | \$795,016,200 |

Source: Approved Operating Budget for Fiscal Year Ending June 30, 2012.

* Includes account adjustments made to reflect the GASB 54 requirements, for government fund.

City Council adopted the CIP budget for Fiscal Year 2012, which totals \$151,640,300, on May 17, 2011. The CIP was amended on September 13, 2011 by \$8,000,000 and on December 13, 2011, by \$300,000 such that the CIP, as amended, is equal to \$159,940,300. See Table II-8 in the section entitled "DEBT INCURRED BY OTHER GOVERNMENTAL ENTITIES – Capital Improvement Program Budget."

The City Council adopted the CIP budget for Fiscal Year 2013, which totals \$93,580,300, on May 22, 2012.* See Table II-8 in the section entitled "DEBT INCURRED BY OTHER GOVERNMENTAL ENTITIES – Capital Improvement Program Budget."

The Fiscal Year Ending June 30, 2013, General Fund Operating Budget (the "Fiscal Year 2013 Budget") was adopted on May 22, 2012, and totals \$799,790,809 reflecting a 0.6% increase over the adopted Fiscal Year Ended June 30, 2012, General Fund Operating Budget of \$795,016,200. Real estate tax revenues, the largest general property tax source, are estimated to decline by approximately 0.85% in Fiscal Year 2013 from the previous year's revenues. Revenues from federal government aid are anticipated to decrease 45% or nearly \$5.5 million.

The Fiscal Year 2013 Budget focuses on targeted priorities including education, public safety and neighborhood revitalization. Major revenue and expenditure categories are summarized in the following tables.

Table III-11B
City of Norfolk, Virginia
General Fund Budget
Fiscal Year 2013

| Anticipated Revenue Receipts | Approved Budget | Appropriations For Expenditures | Approved Budget |
|-------------------------------------|------------------------|--|------------------------|
| General Property Taxes | \$244,871,000 | Legislative | \$ 4,549,986 |
| Other Local Taxes | 154,180,000 | Executive | 2,052,514 |
| Permits and Fees | 4,427,928 | Department of Law | 3,930,466 |
| Fines and Forfeitures | 1,235,800 | Constitutional Officers | 5,532,679 |
| Use of Money and Property | 6,903,200 | Judicial | 47,334,967 |
| Charges for Services | 35,908,538 | Office of Elections | 873,086 |
| Miscellaneous Revenue | 8,904,776 | General Management | 48,861,230 |
| Recovered Costs | 11,372,200 | Non-Departmental Appropriations | 63,282,992 |
| Non-Categorical Aid – Virginia | 31,982,000 | Community Development | 2,093,459 |
| Shared Expenses – Virginia | 19,333,200 | Parks, Recreation and Cultural | 35,857,061 |
| Categorical Aid – Virginia | 237,923,794 | Public Health and Assistance | 51,981,175 |
| Federal Aid | 6,805,200 | Public Safety | 105,766,540 |
| Other Sources and Transfers In | <u>35,943,173</u> | Public Works | 42,000,527 |
| | | Debt Service | 78,098,397 |
| | | Education | <u>302,033,320</u> |
| | | Subtotal | \$794,248,399 |
| | | National Maritime Center (Nauticus) | \$5,542,410 |
| Total | \$799,790,809 | Total | \$799,790,809 |

Source: Approved Operating Budget for Fiscal Year Ending June 30, 2013.

* The General Fund Operating Budget for Fiscal Year Ending June 30, 2013, General Fund Operating Budget was adopted on May 22, 2012, after the date of the Preliminary Official Statement and this Official Statement. Accordingly, the disclosure associated with the Adopted Fiscal Year 2013 Operating Budget is an expansion of the disclosure contemplated in the Preliminary Official Statement and this Official Statement.

Table III-12
City of Norfolk, Virginia
General Governmental Expenditures by Function
Fiscal Years 2002 - 2011
(Amounts In Thousands)

| Fiscal Year Ended June 30 | General Government Administration | Judicial Administration | Public Safety | Public Works | Health and Public Assistance | Culture and Recreation | Community Development | Debt Service | Inter- Governmental | Capital Outlay | Total | |
|--|--|------------------------------------|--------------------------|-------------------------|---|---------------------------------------|----------------------------------|-------------------------|--------------------------------|---------------------------|--------------|-----------|
| 2002 | \$ 44,126 | \$ 8,790 | \$115,912 | \$56,124 | \$61,601 | \$ 83,883 | \$40,849 | \$16,945 | \$48,637 | \$7,932 | \$ 30,516 | \$515,315 |
| 2003 | 64,639 | 9,280 | 123,202 | 57,162 | 68,140 | 88,854 | 40,149 | 17,673 | 48,448 | 8,061 | 37,770 | 563,378 |
| 2004 ⁽¹⁾ | 76,127 | 35,603 | 94,979 | 80,613 | 76,221 | 90,020 | 40,081 | 8,048 | 49,551 | 6,140 | 45,026 | 602,409 |
| 2005 | 67,434 | 38,110 | 102,278 | 64,497 | 83,451 | 91,865 | 40,290 | 12,716 | 65,468 | - | 85,144 | 651,253 |
| 2006 | 92,062 | 41,795 | 105,634 | 46,959 | 91,535 | 92,595 | 42,995 | 13,552 | 56,462 | - | 91,632 | 675,221 |
| 2007 | 102,031 | 45,173 | 108,565 | 49,161 | 93,397 | 97,595 | 46,397 | 11,158 | 54,789 | - | 94,595 | 702,861 |
| 2008 | 110,974 | 47,331 | 116,208 | 60,370 | 95,159 | 101,095 | 51,071 | 10,745 | 60,728 | - | 114,007 | 767,688 |
| 2009 | 102,426 | 50,347 | 118,073 | 56,146 | 91,648 | 104,511 | 52,248 | 9,899 | 71,758 | - | 104,892 | 761,948 |
| 2010 | 97,061 | 48,726 | 115,488 | 59,574 | 89,682 | 101,011 | 51,708 | 10,851 | 69,834 | - | 99,210 | 743,145 |
| 2011 | 80,855 | 47,535 | 115,975 | 70,124 | 79,757 | 104,511 | 45,862 | 16,565 | 80,540 | - | 76,534 | 718,258 |

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2011.

Note: (1) Sheriff and Jail expenditures were reclassified in Fiscal Year 2004 from Public Safety to Judicial Administration.

RESULTS OF FINANCIAL OPERATIONS

A comparative balance sheet at June 30, 2010, and at June 30, 2011, extracted from the June 30, 2011, Comprehensive Annual Financial Report for the General Fund is presented in Table III-13. The Comparative Statement of Revenue and Expenditures for the City's General Fund for the past five Fiscal Years are presented in Table III-14. The City's most recent General Fund statements of changes in fund balances for the past five Fiscal Years are summarized in Table III-15.

Table III-13
City of Norfolk, Virginia
Balance Sheet, General Fund
June 30, 2011, with comparative totals for 2010

| | 2010 | 2011 |
|---|----------------------|----------------------|
| ASSETS | | |
| Cash and short-term investments | \$55,198,615 | \$60,426,113 |
| Receivables, net: | | |
| Taxes | 51,172,410 | 49,321,490 |
| Accounts | 1,585,551 | 1,833,896 |
| Note | - | - |
| Accrued investment income | 5,596 | 6,595 |
| Due from other funds | 1,905,426 | 19,890,925 |
| Due from other governments | 21,957,460 | 22,067,200 |
| Restricted cash held with fiscal agent | - | - |
| Prepays | 16,075 | 5,483 |
| Other assets | - | - |
| Total Assets | <u>\$131,841,127</u> | <u>\$153,551,702</u> |
| LIABILITIES | | |
| Vouchers payable | \$ 7,552,528 | \$ 8,672,549 |
| Employee withholdings | 883,770 | 838,376 |
| Contract retainage | - | 131,427 |
| Accrued payroll | 4,284,722 | 6,700,996 |
| Accrued expenses | - | - |
| Due to other funds | 12,805,299 | 217,911 |
| Due to other government units | - | - |
| Due to component units | - | - |
| Deferred revenue | 37,869,110 | 35,394,901 |
| Other liabilities | 6,309,199 | 5,314,807 |
| Total Liabilities | <u>\$69,704,628</u> | <u>\$57,270,967</u> |
| FUND BALANCES | | |
| Reserved for: | | |
| Encumbrances | \$ 7,876,338 | \$ 5,483 |
| Retirees' life insurance – future expenditures | 420,000 | 395,000 |
| Unreserved, reported in: | | |
| General Fund – Designated for future expenditures | 12,280,898 | 38,014,373 |
| General Fund – Undesignated | 41,559,263 | 55,967,308 |
| Total Fund Balances | <u>62,136,499</u> | <u>96,280,735</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$131,841,127</u> | <u>\$153,551,702</u> |

Sources: Comprehensive Annual Financial Report for the Fiscal Years Ended June 30, 2010 and 2011.

Table III-14
City of Norfolk, Virginia
Comparative Statement of Revenue and Expenditures, General Fund
Fiscal Years 2007 – 2011

| | Fiscal Year | | | | |
|--|---------------------|------------------------|-----------------------|---------------------|----------------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 |
| REVENUE: | | | | | |
| General property taxes | \$233,112,175 | \$238,739,614 | \$249,021,469 | \$253,711,095 | \$254,342,239 |
| Other local taxes | 149,792,683 | 153,068,673 | 149,143,513 | 145,065,893 | 145,141,964 |
| Permits and licenses | 4,071,084 | 4,055,323 | 4,011,771 | 3,526,260 | 3,690,959 |
| Fines and forfeitures | 1,568,816 | 1,307,680 | 1,259,775 | 1,163,491 | 1,287,993 |
| Use of money and property | 7,220,387 | 7,208,529 | 6,468,854 | 6,044,924 | 6,634,420 |
| Charges for services | 18,083,478 | 19,937,632 | 20,382,047 | 29,402,549 | 31,629,625 |
| Miscellaneous | 4,100,316 | 4,792,166 | 6,323,499 | 5,113,199 | 8,584,798 |
| Recovered costs | 8,337,397 | 8,620,136 | 8,952,032 | 8,205,934 | 10,722,712 |
| Intergovernmental | <u>125,574,811</u> | <u>122,498,492</u> | <u>123,889,498</u> | <u>116,028,629</u> | <u>116,589,551</u> |
| Total Revenue | <u>551,861,147</u> | <u>560,228,245</u> | <u>569,452,458</u> | <u>568,261,974</u> | <u>578,624,261</u> |
| EXPENDITURES: | | | | | |
| Current operating: | | | | | |
| General government | 101,191,123 | 107,878,689 | 102,304,247 | 95,385,671 | 78,643,175 |
| Judicial administration | 44,115,143 | 46,015,225 | 47,316,777 | 45,150,197 | 44,519,302 |
| Public safety | 96,884,619 | 103,792,189 | 107,927,615 | 105,006,515 | 103,863,085 |
| Public works | 36,775,654 | 42,909,508 | 38,806,007 | 44,664,401 | 55,910,310 |
| Health and public assistance | 65,364,955 | 66,221,236 | 65,330,416 | 61,463,322 | 59,272,655 |
| Culture and recreation | 37,332,038 | 41,205,827 | 41,805,449 | 39,370,680 | 39,502,709 |
| Community development | 6,182,579 | 6,542,288 | 6,579,369 | 6,924,553 | 10,713,656 |
| Education | 97,594,910 | 101,094,910 | 104,511,131 | 101,011,131 | 104,511,131 |
| Debt service | | | | | |
| Principal | - | - | - | - | 535,000 |
| Interest and other charges | - | - | - | - | 138,279 |
| Capital outlay | | | | | <u>1,003,250</u> |
| Total Expenditures | <u>485,441,021</u> | <u>515,659,872</u> | <u>514,581,011</u> | <u>498,976,470</u> | <u>498,612,552</u> |
| Excess (deficiency) of revenue over expenditures | 66,420,126 | 44,568,373 | 54,871,447 | 69,285,504 | 80,011,709 |
| Other financing sources (uses): | | | | | |
| Proceeds of refunding bonds | - | - | - | - | - |
| Proceeds from sale of land | - | 11,320,660 | 8,487,667 | - | - |
| Proceeds from capital leases | - | - | - | - | - |
| Capital contributions | - | - | - | - | - |
| Issuance of debt | - | - | - | 2,885,518 | - |
| Payment to bond refunding escrow agent | - | - | - | - | - |
| Premium on bonds | - | - | - | - | - |
| Transfers in | 11,824,628 | 10,000,000 | 12,948,230 | 12,566,907 | 12,940,571 |
| Transfers out | <u>(72,641,665)</u> | <u>(86,197,266)</u> | <u>(85,652,562)</u> | <u>(81,227,400)</u> | <u>(82,595,066)</u> |
| Total Other Financing Sources (Uses) | <u>(60,817,037)</u> | <u>(64,876,606)</u> | <u>(64,216,665)</u> | <u>(65,774,975)</u> | <u>(69,654,495)</u> |
| Net Change in Fund Balance | <u>\$ 5,603,089</u> | <u>\$ (20,308,233)</u> | <u>\$ (9,345,218)</u> | <u>\$ 3,510,529</u> | <u>\$ 10,357,214</u> |

Sources: Comprehensive Annual Financial Reports for the Fiscal Years Ended June 30, 2007 through 2011.

Table III-15
City of Norfolk, Virginia
Comparative Statement of Changes in Fund Balance, General Fund
Fiscal Years 2007 - 2011

| | Fiscal Year | | | | |
|-----------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 |
| Net Change in Fund Balance | \$ 5,603,089 | \$(20,308,233) | \$(9,345,218) | \$ 3,510,529 | \$10,357,214 |
| Fund balance at beginning of year | 82,676,302 | 88,279,421 | 67,971,188 | 58,625,970 | 62,136,499 |
| Adjustment to beginning balance | <u>30</u> | - | - | - | <u>23,787,022</u> |
| Fund Balance at end of year | <u>\$88,279,421</u> | <u>\$67,971,188</u> | <u>\$58,625,970</u> | <u>\$62,136,499</u> | <u>\$96,280,735</u> |

Sources: Comprehensive Annual Financial Reports for the Fiscal Years Ended June 30, 2007 through 2011.

PART IV
ENTERPRISE FUNDS

WATER UTILITY FUND

Overview

The City-owned water system (the "Water System"), operated by its Department of Utilities, is one of the largest municipal water systems in the Commonwealth. More than 1.1 million people are served by the Water System. The Water System distributes treated water throughout the City, to the City limits of the Cities of Virginia Beach ("Virginia Beach") and Chesapeake ("Chesapeake") and to the gates of Naval bases located in the City, Virginia Beach and Chesapeake. A Naval base in the City of Portsmouth ("Portsmouth") is provided raw water service. The distribution of average metered consumption in Fiscal Year 2011 is shown in Table IV-1.

Table IV-1
City of Norfolk, Virginia
Water System
Average Metered Water Delivered by Customer
Fiscal Year 2011

| Customer | Metered Consumption (MGD) | Percent of Total |
|-----------------|----------------------------------|-------------------------|
| Norfolk | 17.4 | 30.2% |
| Virginia Beach | 33.7 | 58.5% |
| U.S. Navy | 4.3 | 7.5% |
| Chesapeake | 2.2 | 3.8% |
| | 57.6 | 100.00% |

Source: Department of Utilities, City of Norfolk, Virginia.

As of June 30, 2011, the Water System provided potable water to approximately 64,289 Norfolk retail service customers (i.e. accounts) and wholesale service to the United States Navy, Virginia Beach, Chesapeake, Portsmouth and the Western Tidewater Water Authority ("WTWA"), which includes the City of Suffolk and Isle of Wight County.

Wholesale Contracts

A significant portion of the Water System's revenue is derived from wholesaling water to the U.S. Navy, Chesapeake, Portsmouth, Virginia Beach and the WTWA. The City has wholesale contracts with the U.S. Navy and Virginia Beach. In the absence of a wholesale contract, the City of Chesapeake purchases treated water from the City at a current rate of \$5.49 per 1000 gallons. If a wholesale contract between Chesapeake and the City is executed, the City anticipates that Chesapeake will continue to purchase treated water from the City pursuant to the wholesale customer treated water rate ordinance. The City also has executed a raw water contract with Chesapeake and began delivering 7 MGD of raw water in 2006. In addition, the City has a contract with Virginia Beach for wheeling and treating Lake Gaston water and a contract with Portsmouth for the sale of emergency raw water. On September 29, 2009, the City entered into a 40-year raw water sales agreement with WTWA, currently comprised of the City of Suffolk and Isle of Wight County, to furnish a minimum of 3 mgd and gradually increasing to 15 mgd by 2038.

Financial Management

On July 1, 1979, the City Council established the Water Utility Fund as a distinct enterprise fund to account for all of the financial activity related to providing water services to its customers. Since its inception, the Fund has operated on a self-supporting basis.

Historically, regular annual transfers have been made from the Water Utility Fund to the City's General Fund for payments-in-lieu of taxes and as a return on the City's investment in the Water System. Additionally, transfers have been made to pay all debt service on general obligation bonds issued by the City prior to the creation of the water revenue bond program in 1993 to pay for Water System improvements. The City intends to pay for all future Water System capital costs from revenue of the Water System and proceeds of water revenue bonds. The Water Utility Fund is reported on an accrual basis of accounting.

City general obligation debt issued to finance water utility projects is carried as a liability on the Water Utility Fund balance sheet. The Water Utility Fund provides the funds for debt service on such bonds.

Water Rates

Retail rates are set by City Council. Effective in Fiscal Year 2004, the City Council established a long-term retail rate plan and starting in Fiscal Year 2007 water rates increase 3.5% annually and produces the following rates:

| Fiscal Year | Retail Rate |
|--------------------|-----------------------------------|
| 2012 | \$4.01 per 100 cubic feet |
| Thereafter | 3.5% annual increases each July 1 |

U.S. Navy and Chesapeake wholesale rate revisions for inclusion in City ordinances are approved by City Council. Virginia Beach formula driven biennial wholesale rate revisions are governed by contract. In order to encourage conservation, the current rate structure is a uniform rate per thousand gallons, with no quantity discount. Retail customers are charged a monthly service charge.

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WASTEWATER UTILITY FUND

As of June 30, 2011:

| | |
|-----------------------------------|-------------------|
| Approximate population served | 64,289 accounts |
| Total wastewater pumping stations | 130 pump stations |
| Miles of gravity wastewater mains | 838 miles |
| Miles of wastewater force mains | 66 miles |

The City owns and operates a sanitary sewer system (the "Sewer System") which collects and conveys wastewater to the regional treatment agency, the Hampton Roads Sanitation District. Approximately 64,289 accounts located within the City are served by the Sewer System. Since July 1, 1983, the Wastewater Utility Fund has been operated as an enterprise fund.

City general obligation debt issued to finance wastewater utility projects as well as wastewater revenue debt is carried as a liability on the Wastewater Utility Fund balance sheet. The Wastewater Utility Fund provides the funds for debt service on such bonds.

Each customer using the City Sewer 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 Fiscal Year 2006, wastewater rates increase annually by 4.0% and produces the following rates:

| Fiscal Year | Retail Rate |
|--------------------|-----------------------------------|
| 2012 | \$3.26 per 100 cubic feet |
| Thereafter | 4.0% annual increases each July 1 |

PARKING FACILITIES FUND

The City presently owns and operates 15 multi-level parking garages, 9 surface lots and more than 500 on-street spaces. These facilities provide a total inventory of over 19,000 downtown parking spaces.

The Parking Facilities Fund was established during Fiscal Year 1991. City general obligation debt issued to finance Parking Facilities Fund projects is carried as a liability on the Parking Facilities Fund's balance sheet. The Division of Parking provides the funds for debt service on such debt. The Parking Facilities Fund balance sheet on June 30, 2011 presents total assets of \$226.840 million, which includes restricted investments of over \$24.567 million, to be utilized for garage construction and required master indenture reserves. In addition, fixed assets, including parking structures, consist of over \$176.182 million of the total \$226.840 million in assets. The Parking Facilities Fund also manages parking enforcement operations and collects fines and delinquent fees. In Fiscal Year 2011, 62,667 tickets were issued resulting in 82% collection rate and revenue of \$2.4 million.

Transfers have been made from the Parking Facilities Fund to the Debt Service Fund to pay all debt service on general obligation bonds issued by the City to pay for Parking System improvements. Revenue of the Parking System has fully covered debt service on general obligation bonds issued for the Parking System.

PART V
THE CITY OF NORFOLK

INTRODUCTION

The City of Norfolk was established as a town in 1682, as a borough in 1736 and incorporated as a city in 1845. The City lies at the mouth of the James and Elizabeth Rivers and the Chesapeake Bay, and is adjacent to the Atlantic Ocean and the cities of Virginia Beach, Portsmouth and Chesapeake.

Table V-1
City of Norfolk, Virginia
Area of City

| Year | Square Miles |
|-------------|---------------------|
| 1950 | 37.19 |
| 1960 | 61.85 |
| 1970 | 61.85 |
| 1980 | 65.75 |
| 1990 | 65.98 |
| 2012 | 65.98 |

CITY GOVERNMENT

Norfolk is an independent, full-service City with sole local government taxing power within its boundaries. It derives its governing authority from the City Charter, originally adopted by the General Assembly of Virginia (The "General Assembly") in 1918, which authorizes a council-manager form of government. The City Council exercises all of the governmental powers conferred upon the City. Having sought and gained approval from the U.S. Justice Department and the General Assembly, the City gave its citizens the right to elect their Mayor directly, effective May 2006. Previously the City's Mayor had been chosen by the City Council from among its members. This change added an eighth member to the City Council, with the Mayor elected at large, and retains the current seven wards with two members elected from super wards. The City Council elects a Vice Mayor from among its members. Among the City officials appointed by the City Council is the City Manager, the administrative head of the municipal government. The City Manager carries out its policies, 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 Council also appoints certain boards, commissions and authorities of the City.

Certain Elected Officials

The City's current elected officials include:

Paul D. Fraim, Mayor

In May 2006, Mayor Fraim became the City's first popularly elected mayor in nine decades. Mayor Fraim is a 26-year incumbent on City Council, and was first elected Mayor by his peers in 1994. He is the president of the law firm Fraim & Fiorella, P.C., and was first elected to City Council in 1986. He has a Bachelor of Arts degree from Virginia Military Institute, Lexington, Virginia, and a Masters in Education degree from the University of Virginia, Charlottesville, Virginia. He received his law degree from the University of Richmond, Richmond, Virginia. Mayor Fraim is an active member of the Virginia State Bar, the Virginia Bar Association and the Norfolk-Portsmouth Bar Association and has held a number of leadership positions in these organizations.

Anthony L. Burfoot, Vice Mayor

Mr. Burfoot, representing Ward 3, was first elected to City Council in July 2002. He is employed by New York Life as a licensed Life and Annuities Health Agent. Effective December 15, 2008, Vice Mayor Burfoot became a chief deputy for Norfolk's City Treasurer Thomas W. Moss, Jr. He received a Bachelor of Science degree in Public Administration and a Master's degree in Educational and Administrative Supervision from Virginia State University, Petersburg, Virginia. He is involved in many civic and business activities.

Andrew A. Protopyrou, Council Member

Mr. Protopyrou, representing Ward 1, was first elected to City Council on May 4, 2010. Mr. Protopyrou is an attorney and a member of Protopyrou & Rigney, P.L.C. He has a Bachelor of Arts degree from Virginia Military Institute, Lexington, Virginia, and he received his law degree from the University of Richmond, Richmond, Virginia. Mr. Protopyrou is active in many local professional and civic organizations, where he has held a number of leadership positions.

Paul R. Riddick, Council Member

Mr. Riddick, representing Ward 4, was first elected to City Council in July 1992. He is the owner and operator of Riddick Funeral Service in Norfolk. He attended Norfolk State University, Norfolk, Virginia, and has an Associates in Art and Sciences degree in Funeral Service from John Tyler Community College, Chester, Virginia. Mr. Riddick is active in many local professional organizations.

Thomas R. Smigiel, Council Member

Mr. Smigiel, representing Ward 5, was first elected to City Council on May 4, 2010. He received a Bachelor of Science degree in Education from Old Dominion University, Norfolk, Virginia, and a Master's degree in School Administration from Cambridge College's Regional Center, Chesapeake, Virginia. He is currently an Assistant Principal at Lake Taylor High School in Norfolk. He is involved in many local professional and civic organizations, where he has held a number of leadership positions.

Dr. Theresa W. Whibley, Council Member

Dr. Whibley, representing Ward 2, was first elected to City Council in July 2006. She is an obstetrician and gynecologist in private practice at Woman Caring, PLC in Norfolk. Dr. Whibley is a graduate of Eastern Virginia Medical School, Jones Institute of Reproductive Medicine, Norfolk, Virginia, Old Dominion University, Norfolk, Virginia and the College of William and Mary, Williamsburg, Virginia. Dr. Whibley is active in many local professional organizations.

Angelia M. Williams, Council Member

Ms. Williams, representing Super Ward 7, was first elected to City Council on November 2, 2010. She holds a current real estate license and is a realtor with Long & Foster Realtors. Ms. Williams received an Associate of Science degree in Business Administration from Tidewater Community College in 2004. She graduated from the University of Virginia's Sorensen Institute for Political Leadership in 2005 and from the Alpha School of Real Estate in 2008. She is currently working toward her Bachelor's degree in Business Administration and Political Science at Old Dominion University, Norfolk, Virginia. She is involved in many local professional and civic organizations, where she has held a number of leadership positions.

Barclay C. Winn, Council Member

Mr. Winn, representing Super Ward 6, was first elected to City Council in July 2000. He is the Chief Executive Officer of Winn Nursery of Virginia, Inc. which is headquartered in Norfolk. He received a Bachelor of Science degree from North Carolina State University, Raleigh, North Carolina. Mr. Winn is active in many civic and business activities.

Certain Appointed Officials

Marcus D. Jones, City Manager

Marcus D. Jones returned to the City of Norfolk on February 1, 2011, to assume the post of City Manager. His responsibilities include the supervision of the administrative operations of the City including the preparation of its annual budget. Prior to returning to Norfolk, he served as Deputy Chief Administrative Officer for Finance & Administration for the City of Richmond, Virginia. Prior to serving in Richmond, Mr. Jones served as an Assistant City Manager and Director of Budget & Grants Management for the City of Norfolk from 2007 to 2009. In the prior decade, Mr. Jones served the Commonwealth as Governors Mark Warner and Jim Gilmore's, Deputy Secretary of Finance and Assistant Secretary of Finance, respectively. He earned his Bachelor's degree in Public Administration from James Madison University, Harrisonburg, Virginia, and a Masters degree in Public Administration from Virginia Commonwealth University, Richmond, Virginia.

Shenette C. Felton, Acting Director of Finance

Shenette C. Felton was appointed by City Council as Acting Director of Finance on May 9, 2011. At the direction of the City Manager, she is responsible for identifying strategic opportunities for the City in the policy areas of taxation, financial management and fiscal policy development. In addition, she is responsible for the administration of the financial affairs of the City which include cash management and investments, debt management, financial accounting and reporting, procurement, risk management and retiree benefits. Prior to her appointment as Acting Director of Finance, she served as Assistant Director of Finance & City Controller. Prior to joining the City, she was an audit manager for a public accounting firm. Ms. Felton earned a Bachelor of Business Administration degree, with honors, in Accounting from the School of Business at Howard University in the District of Columbia. She is a licensed Certified Public Accountant.

Bernard A. Pishko, City Attorney

Bernard A. Pishko was first appointed by City Council as City Attorney in November 1997. He previously served as Deputy City Attorney from 1989 to 1997 and as an Assistant City Attorney from 1984 to 1989. He has practiced law since 1982. The City Attorney is also general counsel for the Norfolk School Board, Norfolk Recreational Facilities Authority, Norfolk Community Services Board, Hospital Authority of Norfolk, Norfolk Municipal Employees' Retirement System, Norfolk Electoral Board, Civil Service Commission and The Chrysler Museum of Art. Mr. Pishko is a member of many professional associations and community organizations. He received his undergraduate degree from Brown University, Providence, Rhode Island, a Masters degree in Business Administration from the College of William and Mary, Williamsburg, Virginia, and a law degree from the Marshall-Wythe School of Law, Williamsburg, Virginia.

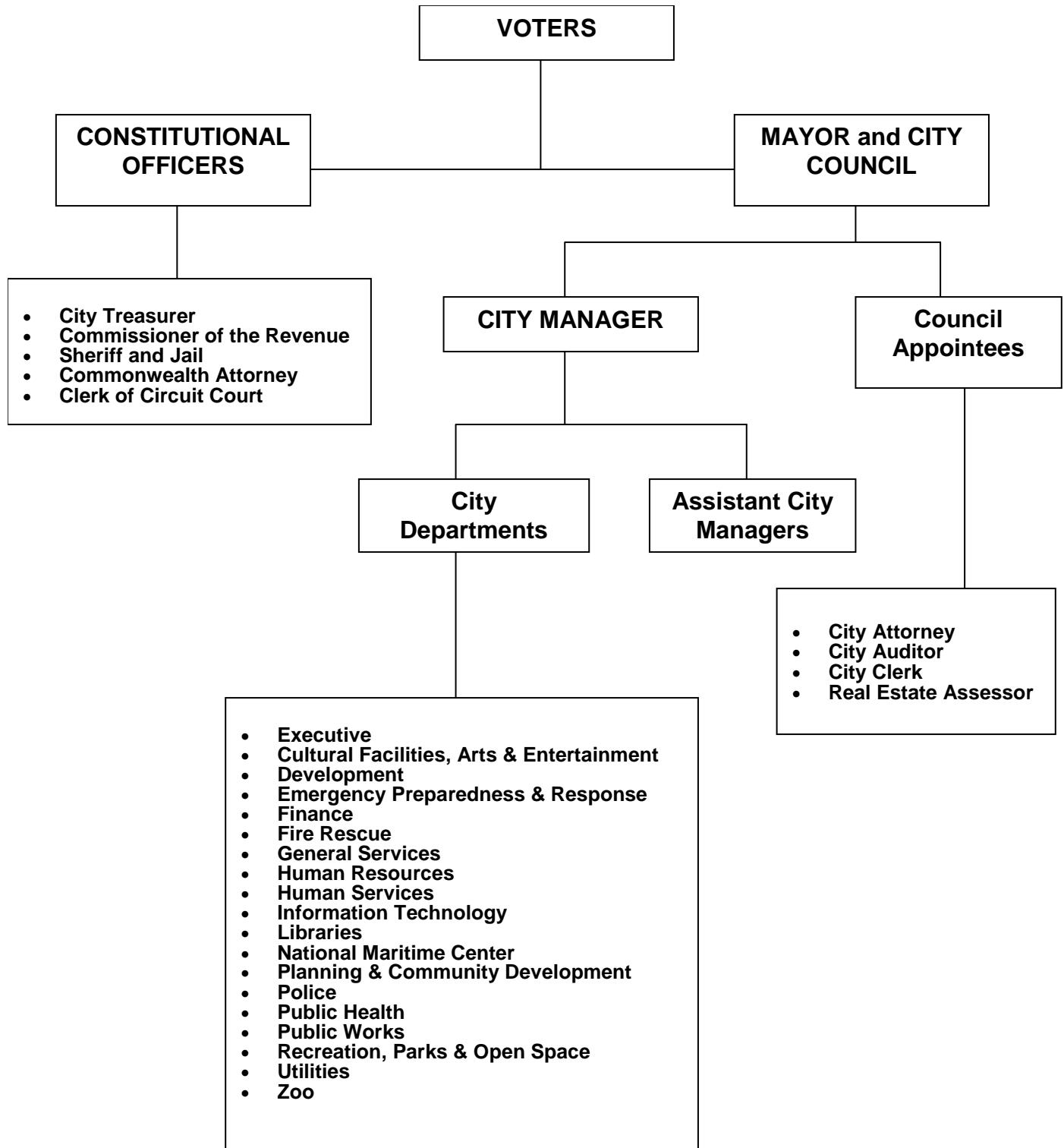
Governmental Services and Facilities

In Virginia, cities and counties are not overlapping units of government. Each city or county is a distinct political entity providing services for the population within its respective jurisdiction. The City of Norfolk provides a comprehensive range of public services characteristic of its form of government under Virginia law. These services are designed to provide an environment within which the educational,

physical, social and cultural needs of its citizens are met. These general governmental services include police protection, fire and paramedical services, public health and social services, planning and zoning management, code enforcement, storm water management, street maintenance, traffic control, parks and cemeteries operation and maintenance, recreation and library services, economic development, solid waste disposal and general administrative services. In addition, water and wastewater utilities and parking facilities services are provided under an enterprise fund concept with user-charges set by City Council.

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City Organization



OTHER GOVERNMENTAL ENTITIES

School Board of the City of Norfolk

The seven members of the School Board are appointed by the City Council. The School Board is a corporate body and in its corporate capacity is vested with all of the duties, obligations and responsibilities imposed upon school boards by law. The City Council is required to appropriate annually to the School Board the amount needed for the support of the public schools in maintaining educational programs which meet the standards of quality prescribed by law. Categorical aid from the Commonwealth and the federal government designated for educational purposes is included in the City's General Fund budgetary revenue. This categorical aid, plus monies derived from local sources, provides the funds for the major share of the School Board's operations. On an ongoing basis, the City also issues debt to finance needed capital projects of the school system.

The School Board presently operates 35 elementary schools, nine middle schools, five high schools and several auxiliary schools, including alternative, magnet and specialty programs. For the Fiscal Year 2011 the School Board's expenditures for education totaled \$370,542,917.

Norfolk Airport Authority

The Norfolk Airport Authority, a political subdivision of the Commonwealth, was created to operate an airport and to promote industrial growth and consists of both an Airport Fund and an Investment Fund. The Airport Fund was established by the Authority to account for the operations of the Norfolk International Airport (the "Airport"). Revenue generated by airport operations is used to meet all operating expenses and to provide for payment of all principal and interest on debt of the Authority related to the Airport. The Investment Fund was established by the Authority to provide for certain airport capital improvements.

The Authority finances individual capital projects by issuing bonds or obtaining loans and intergovernmental grants in its own name and concurrently entering into leases which provide for payment of all principal and interest on the related obligations as they become due. Revenue includes rental income on non-airport property owned by the Authority and interest on investments.

The Authority's Commissioners are appointed by City Council, but the Commission designates its own management and has oversight responsibility for its own financial 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.

Hampton Roads Regional Jail Authority

The Hampton Roads Regional Jail Authority ("HRRJA") is a regional organization which includes the cities of Hampton, Newport News, Norfolk and Portsmouth, created for the purpose of providing, operating and maintaining a regional jail facility for the correctional overflow from each community. HRRJA is a primary government, with no component units, that is a body politic and corporate created pursuant to Article 3.1, Chapter 3, Title 53.1 of the Virginia Code and is governed by a 12 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 regional jail facility (the "Jail"), which opened in April 1998, consists of approximately 385,518 square feet of building area, including three housing building units, a support building and a

central plant. The Jail holds 875 inmates, 250 of which are designated to the City. The City is responsible for 28.57% of the total operating cost less the revenue derived from the Virginia Compensation Board and the per diem reimbursement from the Commonwealth for the housing of state inmates.

The Southeastern Public Service Authority of Virginia

The Southeastern Public Service Authority ("SPSA") is a joint venture of the cities of Chesapeake, Franklin, Norfolk, Portsmouth, Suffolk and Virginia Beach and the counties of Isle of Wight and Southampton, created for the purpose of providing, operating and maintaining a regional system for the collection, transfer, processing and disposal of solid waste refuse.

SPSA is a primary government, with no component units, that is a public body politic and corporate created pursuant to the Virginia Water and Sewer Authorities Act, and is governed by an eight-member Board of Directors, consisting of a representative appointed by each of the member cities and counties. Budgeting and financing of SPSA is subject to the approval of the Board of Directors, with each individual having a single vote. SPSA is responsible for its own financial matters, maintains its own books of account and is audited annually by independent accountants that it engages.

The regional system includes solid waste transfer stations in each of the member jurisdictions, a landfill, rolling stock and ancillary facilities.

Transportation District Commission of Hampton Roads

Hampton Roads Transit ("HRT") was created on October 1, 1999, with the consolidation of the Tidewater Regional Transit and Peninsula Transportation District Commission. It is believed to be the first voluntary merger of public transit agencies in the nation. The district continues to be a political subdivision of the Commonwealth, formed as a joint exercise of governmental power in accordance with the provisions of Chapter 32 of Title 15.2 of the Virginia Code. The District provides public transportation facilities and services within cities of Norfolk, Chesapeake, Hampton, Newport News, Portsmouth, Suffolk and Virginia Beach.

The Transportation District Commission of Hampton Roads, a political subdivision of the Commonwealth, was formed on May 9, 1973, as a joint exercise of governmental power in accordance with provisions of Chapter 32 of Title 15.2 of the Virginia Code.

Table V-2
City of Norfolk, Virginia
Contributions to Transportation District Commission of Hampton Roads
Fiscal Years 2008 – 2012

| Fiscal Year | Contributions |
|--------------------|----------------------|
| 2008 | \$7,047,624 |
| 2009 | 7,666,622 |
| 2010 | 7,666,622 |
| 2011 | 5,981,085 |
| 2012 | 6,634,958 |

Sources: Approved Operating Budgets, Fiscal Years Ended June 30, 2008 through 2012.

Hospital Authority of Norfolk

The Hospital Authority of Norfolk (the "HAN"), which has a nine-member Board of Commissioners appointed by City Council, is a tax-exempt, not-for-profit political subdivision of the Commonwealth. The 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.

Norfolk Redevelopment and Housing Authority

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. The NRHA provides subsidized public housing and administers redevelopment and conservation efforts within the City in accordance with state and federal legislation. The seven members of the Board of Commissioners are appointed by City Council. The NRHA is responsible, through a contract with the City, for the administration of such activities as community development and urban renewal. The NRHA develops its operating budget without approval from the City Council and executes contracts on its own behalf. The City does not exercise a significant degree of oversight responsibility for the NRHA, as it is responsible for designating its own management, developing its own operating budget and executing major contracts on its own behalf. The NRHA is responsible for its own financial matters as it maintains its own books of account, 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.

ECONOMIC AND DEMOGRAPHIC FACTORS

Population

As reflected in Table V-3 and V-4 below, from 2002 to 2011 the City's population grew 3.6%. The City is the second most populous city in Virginia, as shown in Table V-4.

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Table V-3
Population Trend Comparisons
2002-2011

| Year | Norfolk⁽¹⁾ | Hampton Roads MSA⁽¹⁾⁽²⁾ | Virginia⁽³⁾ | U.S.⁽³⁾ |
|-------------|------------------------------|---|-------------------------------|---------------------------|
| 2002 | 235,405 | 1,574,500 | 7,276,785 | 287,726,647 |
| 2003 | 236,550 | 1,583,900 | 7,363,300 | 290,210,914 |
| 2004 | 238,650 | 1,605,900 | 7,454,688 | 292,892,127 |
| 2005 | 239,396 | 1,615,415 | 7,546,725 | 295,560,549 |
| 2006 | 239,355 | 1,619,600 | 7,628,347 | 298,362,973 |
| 2007 | 241,941 | 1,623,624 | 7,698,775 | 301,290,332 |
| 2008 | 242,983 | 1,632,970 | 7,795,424 | 304,059,724 |
| 2009 | 243,957 | 1,644,005 | 7,882,590 | 307,006,550 |
| 2010 | 242,803 | 1,648,136 | 8,001,024 | 308,745,538 |
| 2011 | 243,985 | 1,661,279 | 8,096,604 | 311,591,917 |

Sources: U.S. Census Bureau and the Weldon Cooper Center.

Notes:

- (1) Norfolk and Hampton Roads MSA population estimates are from the Weldon Cooper Center, except for the 2010 population estimates which are from the U.S. Census Bureau.
- (2) The Hampton Roads MSA is the Virginia portion only.
- (3) U.S. and Virginia population estimates are from the U.S. Census Bureau.

Table V-4
Five Most Populous Cities in Virginia

| City | 2010 Census Population | 2011 Population Estimate |
|----------------|-------------------------------|---------------------------------|
| Virginia Beach | 437,994 | 441,246 |
| Norfolk | 242,803 | 243,985 |
| Chesapeake | 222,209 | 225,898 |
| Richmond | 204,219 | 206,238 |
| Newport News | 180,719 | 181,027 |

Source: U.S. Census Bureau and the Weldon Cooper Center.

Table V-5 provides an annual comparison of per capita personal income since 2001.

Table V-5
City of Norfolk, Virginia
Per Capita Personal Income Comparisons
2001-2010

| Year | City | Hampton Roads MSA | State | U.S. |
|-------------|-------------|--------------------------|--------------|-------------|
| 2001 | 25,356 | 28,516 | 33,246 | 31,157 |
| 2002 | 26,006 | 29,603 | 33,737 | 31,481 |
| 2003 | 27,893 | 31,422 | 35,033 | 32,295 |
| 2004 | 28,930 | 32,723 | 36,869 | 33,909 |
| 2005 | 30,875 | 34,413 | 38,898 | 35,452 |
| 2006 | 32,609 | 36,567 | 41,218 | 37,725 |
| 2007 | 34,375 | 38,689 | 43,261 | 39,506 |
| 2008 | 35,330 | 40,146 | 44,691 | 40,947 |
| 2009 | 34,680 | 39,325 | 43,192 | 38,846 |
| 2010 | 35,816 | 40,234 | 44,267 | 39,937 |

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System.

The age distribution of the City's population is presented in Table V-6.

Table V-6
City of Norfolk, Virginia
City Population Distribution by Age
1960-2010

| Year | Population | Under 20 | 20-64 | 65 or Older |
|-------------|-------------------|-----------------|--------------|--------------------|
| 1960 | 305,872 | 39.8% | 54.5% | 5.7% |
| 1970 | 307,951 | 35.4 | 57.8 | 6.8 |
| 1980 | 266,979 | 30.7 | 60.1 | 9.2 |
| 1990 | 261,250 | 28.1 | 61.4 | 10.5 |
| 2000 | 234,403 | 27.3 | 61.5 | 11.2 |
| 2010 | 242,803 | 25.3 | 65.3 | 9.4 |

Source: U.S. Census Bureau.

Housing and Construction Availability

Table V-7 provides an annual breakdown of residential building permits over the past 10 Fiscal Years.

Table V-7
City of Norfolk, Virginia
Residential Construction
Fiscal Years 2002 - 2011

| Fiscal Year | Building Permits | Number of Units | Value (in thousands) |
|--------------------|-------------------------|------------------------|-----------------------------|
| 2002 | 290 | 462 | \$44,498 |
| 2003 | 287 | 609 | 61,790 |
| 2004 | 506 | 766 | 83,525 |
| 2005 | 560 | 1,191 | 204,391 |
| 2006 | 531 | 1,058 | 133,053 |
| 2007 | 389 | 491 | 68,476 |
| 2008 | 277 | 815 | 101,212 |
| 2009 | 209 | 535 | 35,878 |
| 2010 | 191 | 621 | 58,729 |
| 2011 | 121 | 479 | 37,298 |

Source: Permit Tracking System, Department of Planning, City of Norfolk, Virginia.

Table V-8 presents annual nonresidential construction permits, which includes commercial buildings, public buildings, schools, public utility buildings and miscellaneous structures, over the past 10 Fiscal Years.

Table V-8
City of Norfolk, Virginia
Nonresidential Construction
Fiscal Years 2002 - 2011

| Fiscal Year | Building Permits | Value (in thousands) |
|--------------------|-------------------------|-----------------------------|
| 2002 | 53 | \$51,451 |
| 2003 | 35 | 24,084 |
| 2004 | 59 | 134,197 |
| 2005 | 70 | 70,677 |
| 2006 | 60 | 165,989 |
| 2007 | 55 | 81,396 |
| 2008 | 35 | 102,714 |
| 2009 | 38 | 138,131 |
| 2010 | 35 | 104,922 |
| 2011 | 27 | 40,073 |

Source: Permit Tracking System, Department of Planning, City of Norfolk, Virginia.

Employment

Businesses in the City provide residents with employment opportunities in a variety of industries of which services, government and trade are the most significant.

The unemployment rate for the City is illustrated in Table V-9.

Table V-9
City of Norfolk, Virginia
Unemployment Rates
2002 - 2011

| Year | Norfolk | Hampton Roads MSA | Virginia | U.S. |
|-------------|----------------|--------------------------|-----------------|-------------|
| 2002 | 5.1% | 4.1% | 4.2% | 5.8% |
| 2003 | 5.3 | 4.2 | 4.1 | 6.0 |
| 2004 | 5.1 | 4.0 | 3.7 | 5.5 |
| 2005 | 5.0 | 3.9 | 3.5 | 5.1 |
| 2006 | 4.2 | 3.3 | 3.1 | 4.6 |
| 2007 | 4.1 | 3.2 | 3.0 | 4.6 |
| 2008 | 5.3 | 4.2 | 4.0 | 5.8 |
| 2009 | 8.7 | 7.0 | 6.8 | 9.3 |
| 2010 | 9.2 | 7.4 | 6.9 | 9.6 |
| 2011 | 8.7 | 7.0 | 6.2 | 8.9 |

Source: U.S. Bureau of Labor Statistics.

Table V-10
City of Norfolk, Virginia
Civilian Employment and Average Weekly Gross Wages
3rd Quarter, 2011

| | Number of Establishments | Number of Employees | Average Weekly Wage | Percentage of Employment |
|-----------------------------------|---------------------------------|----------------------------|----------------------------|---------------------------------|
| Construction | 395 | 4,418 | \$840 | 3.22% |
| Manufacturing | 138 | 6,602 | 1,026 | 4.81 |
| Trade, Transportation & Utilities | 1,261 | 25,557 | 893 | 18.64 |
| Information | 103 | 2,495 | 1,093 | 1.82 |
| Financial Activities | 597 | 8,240 | 977 | 6.01 |
| Professional & Business Services | 1,011 | 20,975 | 1,170 | 15.29 |
| Education and Health Services | 799 | 37,007 | 826 | 26.99 |
| Leisure and Hospitality | 610 | 13,466 | 357 | 9.82 |
| Other Services | 556 | 4,104 | 572 | 2.99 |
| Public Administration | 75 | 14,270 | 1,389 | 10.40 |
| Natural Resources & Mining | 3 | 12 | 808 | 0.01 |
| Total | 5,548 | 137,146 | | 100.00% |

Sources: U.S. Bureau of Labor Statistics. Virginia Employment Commission, Quarterly Census of Employment & Wages Program. Totals include non-disclosable data.

Economic Development

Economic development initiatives are focused on the attraction, expansion and retention of businesses, neighborhood and community revitalization and commercial corridor development. Some of the City-led initiatives to stimulate commercial revitalization include: Tax Abatement Program, State Enterprise Zone, Federal Empowerment and HUB Zones, Small Area Aesthetic Matching Grant Program, Aesthetic Improvement Grant Pool, Pedestrian Commercial Overlay Zones, Tax and Grant Benefits, Concentrated Development Zone Incentives, public infrastructures, and amenities.

Downtown Development

Downtown offers a mix of cultural attractions and entertainment for its citizens and tourists.

The current average vacancy rate for Downtown Class A office space is approximately 12.21%, as shown in Table V-11 below.

Table V-11
City of Norfolk, Virginia
Downtown Norfolk Vacancy
January 2012

| Class A | Rentable SF | Vacant SF | % Vacant |
|------------------------|--------------------|------------------|-----------------|
| 150 West Main Street | 225,498 | 44,969 | 19.94% |
| Crown Center | 58,674 | - | 0.00 |
| Dominion Tower | 403,276 | 52,495 | 13.02 |
| Main Street Tower | 187,000 | 4,105 | 2.20 |
| Norfolk Southern Tower | 293,035 | 48,564 | 16.57 |
| Wells Fargo Center | 299,887 | 46,928 | 15.65 |
| World Trade Center | 366,106 | 42,505 | 11.61 |
| Total | 1,833,476 | 239,566 | 13.07% |

Source: CoStar, May 2012.

Bank presence along Main Street includes Bank of America, BB&T, Monarch, Old Point National, PNC, SunTrust, TowneBank and Wells Fargo. Bank of Hampton Roads, Heritage, Southern Bank and several credit unions are also located downtown.

The Wells Fargo Center, a \$170 million office, retail and residential development opened June 7, 2010, on Monticello Avenue adjacent to the Monticello Avenue light rail station as well as to MacArthur Center, Scope and Chrysler Hall. The Wells Fargo Center adds approximately 255,000 square feet of office space and 50,000 square feet of retail space to the downtown market. This City block development features a 23-story Class A office tower and 1,850 parking spaces in two garages built by the City. The project also includes Monticello Station, a 121-unit apartment development.

The construction of a new \$123.3 million Consolidated Courts Complex, which broke ground in January 2012, is underway near City Hall adjacent to the Civic Plaza light rail station. This new complex will house the General District, Circuit, and Juvenile and Domestic Relations Courts, and is scheduled to be completed by Fall 2015.

Recently the City announced that the retail presence on Granby Street will be expanded with the introduction of Urban Outfitters, an eclectic national clothing chain that targets teens and young adults.

Residential Development

Neighborhood revitalization is one of the City's core initiatives and part of 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. The Belmont at Freemason, located downtown adjacent to a Tide light rail station, opened in September 2010. It contains 241 apartments in two buildings and a garage with 531 parking spaces at Brambleton and Bute Streets with an estimated value of \$45 million. Plans are underway to convert two historic buildings, the former Union Mission (renamed the Rockefeller) and the Savoy, into affordable work force apartments.

Residential development also continues to grow in areas beyond downtown Norfolk. The River House, a \$32 million, 194-unit luxury apartment community on Haven Creek at the Granby Street Bridge is complete. The River House is anticipated to strengthen the Riverview commercial corridor and boost prospects for development of adjoining property in this vital area situated between two desirable and historic neighborhoods. 201 Twenty-One, a \$41 million, mixed-use 4-story structure in Ghent with 224 apartments and over 50,000 square feet of retail space, opened in September 2010. The District at ODU, a project with 307 apartments specifically targeted to students attending Old Dominion University, opened in August 2010. The 180-unit Meadowood Apartments, a \$21 million investment, opened in October 2011. SouthWind Apartments, a \$15 million development in Denby Park on a former trailer park, is now occupied. Additional investment along Newport Avenue includes Westport Commons, an \$80 million townhouse/condominium project. Three additional apartment projects that are in varying stages of development include Waters Edge in Campostella, with 246 units; The Green at Ghent, with 130 units; and Promenade Pointe in Roland Park, with 187 units.

The seven-mile stretch of beaches on the Chesapeake Bay known as Ocean View experienced redevelopment over the past decade. The East Beach section of Ocean View will have 700 housing units with prices ranging from \$350,000 to over \$1.5 million, with an average home sales price of \$733,507. 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 \$230,000,000 in home values and approximately \$2,553,000 in annual real estate taxes to the City. The East Beach community has been designated as the site of 2012 Homearama, which will be the third time it has been held there. A 157-unit condominium development to the south of East Beach, Pointe East at Harbor Walk, is being developed by Franciscus Homes.

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, began during 2008, and is being followed by Broad Creek's final phase of 200 mixed-income residential units north of Princess Anne Road.

The City is also redeveloping the Fort Norfolk area, which is a 30-acre urban waterfront area linking downtown Norfolk to the region's medical complex and Ghent community. In the Fort Norfolk section of downtown Norfolk, the City's first retirement community, known as Harbor's Edge, opened in September 2006. Riverview Lofts, a project to convert a former industrial building into 81 condominiums, began construction in 2011. Fort Norfolk Plaza across Brambleton from the medical complex that includes Sentara Norfolk General Hospital and Eastern Virginia Medical School, is a \$70 million, 9-story medical office tower and parking garage that opened in August 2010.

Arts and Culture

Norfolk offers a mix of cultural attractions and entertainment for its citizens and tourists. Norfolk's entertainment and theatre venues include the Attucks Theatre, the Harrison Opera House, Chrysler Museum, and the "Theater District" which includes Chrysler Hall, Jeanne and George Roper Theater, Wells Theatre and the NorVa.

Recent investments to the City's cultural attractions include the new Virginia Arts Festival headquarters, a new home for the Hurrah Players, and the recently opened Chrysler Museum Glass Art Studio. The Virginia Arts Festival moved into its new 18,000-square-foot building, the Clay and Jay Barr Education Center, on August 23, 2010. The building, which is located across the street from Chrysler Hall, houses year-round education outreach activities, a rehearsal and intimate performance space, as well as the Festival's administrative offices. Adjacent to the Education Center is the new home of the Hurrah Players, which features a 100-seat theater and two rehearsal halls. A new addition to Norfolk's Chrysler Museum is the new Chrysler Museum Glass Studio, which opened in November 2011. It is a state-of-the-art, 7,000 square foot facility which supports artists working in a variety of glassmaking processes, including blown glass, casting, fusing, flameworking, and cold working. Located adjacent to the museum, the facility is the only one of its kind in the Mid-Atlantic region, and spotlights the museum's extensive glass collection.

Significant improvements to the Virginia Zoological Park for the Trail of the Tiger exhibit have been completed, and design work has begun for a new \$4.25 million animal wellness center. The Zoo Animal Wellness Center will consist of an 8,000 square foot Veterinary Hospital and 3,000 square foot Nutrition Center. The hospital will provide state of the art surgical and treatment suites, laboratory and pharmacy. One wing of the hospital will be for housing animals that have just arrived at the Zoo and animals that may be sick. The surgical and treatment suites will have large viewing windows on the outside walls so visitors will be able to see treatment in progress. The project has an estimated completion date of September 2013.

Several new projects are underway in 2012. The Slover Memorial Library, a new main public library, will consist of the interim Norfolk Main Library at the Seaboard Building, located at 235 East Plume Street, and a new adjoining building. A nationally recognized New Haven, Connecticut architectural firm, Newman Architects, is leading the creative team developing the new library. The City plans to combine the historic integrity of the Seaboard Building with a seamless expansion creating a state-of-the-art, highly efficient library complex. A \$20 million gift from Frank Batten Sr., announced in 2008, allowed the City to accelerate the planning and construction of the downtown library by at least ten years. An additional \$20 million matching grant was announced in 2010, which combined with the City's original \$20 million brings the total project investment to over \$60 million. Construction on the new library could begin as early as 2012. A second project is the \$6 million expansion of the MacArthur Memorial, under construction in 2012. In the Wards Corner section of the City work has begun on a new \$8.5 million performing arts center for Norfolk Collegiate School. A virtual groundbreaking took place in December 2011 for the center, which will include a 425-seat theater, an on-site art gallery, classrooms, workshops, and practice studios.

Today, there are more than 350 public art programs that support thousands of artists' projects in government buildings, the airport, in libraries, in parks and in neighborhoods. Additional artwork is being displayed in the new light rail stations.

In 2006, a Public Arts Commission was established to develop policies for the creation of artwork that will create a unique image and sense of place for Norfolk. The City capital improvement budget allocates 1% of specified construction projects valued at over \$500,000 for the purpose of acquisition of artwork. The first two projects funded from the One Percent for Art funds were incorporated in the Town Point Park renovation which was completed in July 2009. The first was a photo-based tile mural along a

new fence in Town Point Park that depicted the downtown waterfront through the years. The second was a stainless-steel mermaid sculpture perched atop a new fountain between the Half Moone Cruise and Celebration Center and Nauticus that commemorated the 10th anniversary of the mermaid as the City's brand image.

Transportation Initiatives

The City's new light rail system, the Tide, began operation in August 2011, exceeding passenger count expectations. The Tide runs from the EVMC medical complex near Fort Norfolk to the Newtown Road/Virginia Beach city line. Construction on the Amtrak passenger rail line connecting Norfolk to Washington DC via Petersburg and Richmond is underway. Estimated annual ridership is 67,000. The intercity passenger rail will serve a multi-modal center located at Harbor Park, which includes a light rail station and will feature ferry service to Portsmouth. The initial phase will include construction of a \$3 million, 3,500 square foot train station to support the upcoming restoration of intercity passenger rail service to Norfolk by the end of 2012. The facility will link intercity passenger rail to the light rail and regional bus systems, ferry service, cruise ship facilities and provide direct interstate access.

In 2012 construction is expected to begin on the Downtown Tunnel/Midtown Tunnel/MLK extension project. This \$1.9 billion project achieved financial close on its senior and subordinate funding in April 2012, is planned to occur the next five years and involves state-backed outreach for small, women-owned, minority or disadvantaged businesses, as well as an on-the-job training program.

In 2013 construction is expected to begin on the I-564 intermodal connector project. This \$170 million project is expected to alleviate congestion and improve the level of service on City and naval station streets. The road repositioning is expected to reduce truck traffic on the adjacent roadways.

Cruise Norfolk

The 80,000 square foot Half Moone Cruise and Celebration Center (the "Half Moone Center") opened in spring 2007 and is located in the harbor between Town Point Park and Nauticus/Battleship Wisconsin. The Half Moone Center continues to serve as a multi-purpose facility for the City. In 2011, the City celebrated its tenth anniversary of welcoming Carnival Cruise Lines to the Half Moone Center. Nearly 40,000 cruise passengers utilized the terminal in 2011, and the City anticipates approximately 50,000 will utilize the terminal in 2012. Additionally in 2011, the Half Moone Center hosted its first tradeshow. The tradeshow drew visitors and exhibitors from across the Mid-Atlantic region, and the show organizers have reserved a return trip to the City in 2013. The Half Moone Center is also scheduled to host a tradeshow in summer 2012. The first floor of the Half Moone Center can be used for large-scale exhibits, and during summer 2012, it will be hosting *Classic Craft: The Bill Hoover Boat Collection*.

Norfolk Airport

The Airport is served by American, Continental, Delta, Southwest, United Express and US Airways. The Airport generates nearly 1,700 jobs and over \$135 million in direct economic impacts annually. In calendar year 2011, over 3.2 million passengers used the Airport, a 4.17% decrease from 2010. In addition, over 64 million pounds of cargo flowed through the Airport in calendar year 2011, a 1.81% increase over 2010. In Norfolk, service has remained stable over the past two years, with an average of 80 daily departures.

Hotel Development

Norfolk has nearly 5,000 hotel rooms, including over 1,500 in the downtown area. Tourism and conventions employ over 6,600 workers in the City and generate \$23.4 million in state taxes and \$20.6 million in local tax revenue. Travelers to the City spend over \$640 million annually.

A \$73 million, 301 room, Westin hotel has been proposed to be built above a proposed new conference center at the corner of Granby and Main Streets. This 23-story building is expected to include residential condos above the hotel, as well as integrated parking.

Waterfront Recreation Investment

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 for the City. Construction was completed on a \$11.5 million renovation in July 2009, the first renovation in its 25 year history.

Norfolk has been chosen as one of five ports to host OpSail in 2012. The 2012 event is part of the commemoration of the bicentennial of the War of 1812 and the birth of the "Star Spangled Banner." For the first time the U.S. Navy will participate in its own parade of sails and events throughout the region depicting the history of the U.S. Navy. Norfolk and the Port of Hampton Roads will host the OpSail flotilla from June 6-11, 2012, in conjunction with the City's annual Harborfest.

Norfolk boasts over 144 miles of shore where the Chesapeake Bay meets the Atlantic Ocean. Numerous marinas are all along Downtown's Elizabeth River, the Lafayette River, lakes, the Hampton Roads Harbor and the Chesapeake Bay. East Beach, located on the Chesapeake Bay, was named one of the top restored beaches in America in 2008 by the American Shore and Beach Preservation Association due in part to the investment of \$2.5 million in beach erosion funds.

In December 2011, the City received five proposals from a request for proposals issued by Waterside Associates LLC for the redevelopment of Waterside.

Sports and Recreation

Norfolk has several waterfronts with the Chesapeake Bay on its North boundary and two major rivers within its boundaries. The City has a public boat ramp in Willoughby Spit with access to the Chesapeake Bay, as well as the recently rehabilitated Haven Creek boat ramp with access to the Lafayette River. Three golf courses are also located within the City.

The Kroc Center, an \$80 million state of the art community center located in the Broad Creek community, broke ground in October 2011. Norfolk is the newest city to have a Kroc Center, which is a program of the Ray and Joan Kroc Foundation and the Salvation Army. The Colonel Samuel L. Slover Memorial Library, Norfolk's new main library located downtown, is slated to begin construction in early 2012. It will have the most technologically advanced programming available today, to be supported by an endowment from the Batten Foundation.

A 24,290 square foot community center located in Lamberts Point opened in February 2010. This community center is adventure-themed and features a 25-foot climbing wall. Lamberts Point is the City's first official "green" building with many environmentally friendly elements. The community center is seeking LEED® (Leadership in Energy and Environmental Design) certification.

Grandy Village is currently undergoing a \$50 million transformation, which includes the construction of the now open Grandy Village Community and Education Center, an outdoor environmental and educational learning laboratory on the riverfront. It features a wetlands nature trail, canoe and kayak launch, and a wetlands pavilion overlooking the water. The new building meets U.S. Green Building Council LEED® standards, and is open to all Norfolk residents.

The Skate Park at Northside Park is a professionally designed, 21,000 square feet skate plaza. The concrete facility integrates transitional and street style elements into one park. Designed to be one of the region's largest, tournament-style skate parks, it boasts one of the largest bowls in Hampton Roads with a 7' to 9' transition next to a mini half-pipe.

The Southside Aquatic Center, a \$7.7 million facility, broke ground in October 2011. The 20,000 square foot facility, located in Campostella, will feature a 25-yard, six-lane competition pool as well as two 1-meter diving boards, a two-story twisty tube slide, locker rooms, and instructional areas. There also will be a handicap-accessible plunge area.

The inaugural season of the Norfolk SharX, an indoor soccer team, began in November 2011. The SharX team is one of three expansion teams in the Major Indoor Soccer League.

Norfolk is also home to the Norfolk Tides, (a AAA minor league baseball team), the Norfolk Admirals (an AHL hockey team) and hosts Arena Racing USA on an indoor track. Old Dominion University ("ODU") began a football program in the fall of 2009, and Norfolk State University has a long-established football program, which currently competes in the Mid-Eastern Athletic Conference.

Norfolk's Educational Institutions

Available within the City are a wide variety of educational facilities including public elementary, middle and high schools, private and parochial schools, two universities, one college, one community college and a medical school.

Public Schools

Norfolk public schools have a low pupil-teacher ratio with class sizes well 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 at Ocean Air Elementary.

Norfolk continues to invest in its public schools facilities. Facilities receiving renovations and new construction include Norview High School, Blair Middle School, Bay View Elementary, Granby High School, Taylor Elementary and the School of International Studies at Meadowbrook.

In January 2011, construction commenced on the Crossroads Pre-Kindergarten - 8th Grade School, which is designed to replace the existing elementary school, creating a more efficient footprint on the same 10-acre site. The new school features a three story academic wing, a media center, a multi-purpose room, a gymnasium and a student dining area with a performance platform. A dedicated portion of the facility will be used by the Recreation, Parks and Open Space Department including access to many of the public portions of the building.

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The City is home to the Governor's Magnet School for the Arts, Virginia's only magnet school for the arts, which offers classes in performing or visual arts to approximately 300 students from six cities and two counties. The school system also has a program for gifted science students that enables the students to study at Eastern Virginia Medical School. Student population for the past five Fiscal Years is shown in Table V-12.

Table V-12
City of Norfolk, Virginia
Public Schools Student Population
Fiscal Years 2007-2011

| Fiscal Year | September 30 Membership | Percent Change |
|--------------------|------------------------------------|-----------------------|
| 2007 | 33,593 | -1.38% |
| 2008 | 32,947 | -1.92 |
| 2009 | 32,272 | -2.05 |
| 2010 | 31,766 | -1.57 |
| 2011 | 31,485 | -0.85 |

Source: Virginia Department of Education.

Higher Education

Norfolk is home to five institutions of higher learning: ODU, Norfolk State University, Virginia Wesleyan College, Tidewater Community College and Eastern Virginia Medical School. ODU is one of only 100 public research universities nationwide, with a full and part-time enrollment of over 22,000 students. Norfolk State University is Virginia's largest public, historically black university and the seventh largest in the nation. A \$17.6 million student center at Tidewater Community College's downtown campus opened in summer 2011.

A new \$80 million 100,000-square-foot education and research building at Eastern Virginia Medical School opened to fall classes in 2011. It includes an auditorium, classrooms, exam rooms, training rooms, multidisciplinary labs and research space. The new building, which includes renovations to neighboring Lewis Hall, created space to increase medical student enrollment by 30% and physician assistant student enrollment by 60%.

Institutional Technology Parks

Old Dominion University – University Village. ODU, in partnership with the City, the NRHA, and private developers, continues the expansion of a large scale, mixed-use redevelopment project. This redevelopment project, the University Village, will directly impact 75 acres (13 City blocks) and result in over \$260 million in private and public investments. The project includes student housing, retail, a convocation center, parking, research/office buildings, apartments and a hotel. The research park, named Innovation Research Park, is one of a few research parks in the country located on the campus of its research institution.

Norfolk State University – Research and Innovations to Support Empowerment Center (the "RISE Center"). The RISE Center, located on the campus of Norfolk State University, is designed to promote interaction between the university, the business sector and community and federal agencies in research and technology. The first phase of the Marie V. McDemmond Center for Applied Research houses classrooms, labs and offices for professors in areas such as materials research, engineering and computational science, as well as the office of research and technology.

Norfolk's Medical Institutions

Within the City, there are five general, acute care and specialized hospitals including Sentara Norfolk General Hospital ("Sentara Norfolk General"), Sentara Leigh Hospital, Bon Secours DePaul Medical Center, Children's Hospital of The King's Daughters ("CHKD") and Lake Taylor Transitional Care Hospital ("Lake Taylor Transitional"). Sentara Norfolk General opened a \$100 million heart hospital in February 2006, a 112-bed, 254,000 square feet center. The heart hospital was the first step in Sentara's 2010 expansion plan for the medical complex. CHKD, the site of Virginia's only free-standing, full-service pediatric hospital is home to one of the nation's top pediatric residency programs. With 212 rooms, the hospital serves the medical and surgical needs of children throughout the greater Hampton Roads metro area, the eastern shore of Virginia and northeastern North Carolina.

Sentara Leigh Hospital completed \$20.5 million in renovations to its surgery and emergency departments in August 2010. Work on a major campus upgrade for Sentara Leigh has begun. The current hospital will be replaced with two five-story towers for inpatient rooms, a 48-bed orthopedic and rehabilitation center, and an internal garden, as well as a new parking deck for staff. The \$126 million expansion will increase the hospital's size by more than 40%, to 517,000 square feet. The targeted opening is in January 2016.

DePaul Hospital is also undergoing change, with plans to build and open a new 124-bed DePaul by 2014.

The Virginia Port Authority

In 1981, the General Assembly passed landmark legislation designed to unify the ports in southeastern Virginia Hampton Roads harbor under a single agency, the Virginia Port Authority, with a single operating company, the Virginia International Terminals, Inc. The Port of Virginia (the "Port"), one of the world's largest natural deep-water harbors, is an integral part of Norfolk's economy.

The Virginia Port Authority is one of the top three ports on the east coast in terms of total value of port trade. Over 15.6 million tons of cargo shipped from the region's three main marine cargo terminals in 2011. In 2011, the port handled a total of 15,615,938 tons of general cargo, including 15,268,380 tons of containerized cargo, with 347,558 tons of breakbulk making up the remainder. By way of comparison, the port handled a total of 17,833,147 tons of general cargo in 2008 prior to the worldwide economic downturn that affected virtually every port with container shipping operations.

Table V-13
Virginia Port Authority Terminals
General Cargo Tonnage
Calendar Years 2007 – 2011

| Calendar Year | Total General Cargo Tonnage (000's) | Percent Change over Previous Year |
|----------------------|--|--|
| 2007 | 17,726 | 6.89% |
| 2008 | 17,833 | 0.60 |
| 2009 | 14,908 | (16.40) |
| 2010 | 15,323 | 2.78 |
| 2011 | 15,616 | 1.91 |

Source: Virginia Port Authority.

Increase in the port-related business use of the Virginia International Terminals drives new capital investment into the region. The Heartland Corridor, opened in September 2010, gives the Port rail access to markets in Ohio, Illinois, Michigan and points west. Additionally, by 2012, a 300-acre expansion of Norfolk International Terminal will be completed making it the largest inter-modal center in the United States. Two new government incentive programs were announced in 2011: the Barge and Rail Use tax credit, which provides a \$25 per twenty foot equivalent unit ("TEU") income tax credit for shippers that transfer their cargo via barge or rail; and the Port Volume Increase tax credit, which provides a \$50 per TEU tax credit for any company engaged in the manufacturing or distribution of manufactured goods that increases its cargo moving through the port by 5% in a taxable year.

Business, Industry and Commerce

Several major companies are headquartered in Norfolk, including:

- Norfolk Southern, a Fortune 500 company and one of the country's largest railroad operators;
- Landmark Communications, one of the country's largest privately owned media companies with ownership of several daily newspapers, local TV stations, and specialty publications;
- Dominion Enterprises, a wholly-owned subsidiary of Landmark Communications, Inc., is a print and internet media group that includes numerous specialty publications and online classifieds;
- FHC Health Systems, one of the top 250 largest private companies in the country, specializing in health care management, health services, and online medical reports;
- CMA CGM Inc., the America's Headquarters, one of the world's largest container transportation and shipping company;
- Portfolio Recovery Associates, a firm whose primary business is the purchase, collection and management of defaulted customer receivables; and
- BlackHawk Products Group, which provides tactical gear such as holsters, body armor, and backpacks to the U.S. Defense Department and law enforcement agencies throughout the world.

The \$14 million Virginia Renaissance Center is being developed by Jacoby Development Group at the site of the former Ford Plant in Campostella. Of the 110 acre site, 40 acres have been sold to Katoen Natie for \$12 million to repackage and distribute plastic pellets. Katoen Natie expects to create 200 jobs and has an option to purchase a 25 acre site for Phase II future expansion. The remaining acreage is being marketed to port-related and more traditional industrial companies.

There are a large variety of industrial, commercial and service employers located within the City. Table V-14 below presents data regarding the major non-government employers in the City.

Table V-14
City of Norfolk, Virginia
Major Non-Government Employers in 3rd Quarter 2011

| Company | Number of Employees | Product/Service |
|--|------------------------|---|
| | 1,000+ | |
| Sentara Healthcare | | Hospitals |
| Old Dominion University | | Educational Services |
| Children's Hospital of the King's Daughter | | Hospitals |
| Norfolk State University | | Educational Services |
| Norshipco | | Transportation Equipment Manufacturing |
| Eastern Virginia Medical School | | Educational Services |
| Portfolio Recovery Association | | Administrative and Support Services |
| Wal-Mart | | General Merchandise Stores |
| Bon Secours DePaul Medical Center | | Hospitals |
| Bank of America | | Credit Intermediation and Related Activities |
| | 500 - 999 | |
| Maersk Line Limited | | Water Transportation |
| Virginia International Terminal | | Support Activities for Transportation |
| ODU Research Foundation | | Professional, Scientific and Technical Services |
| Sentara Health Management | | Insurance Carriers and Related Activities |
| Tidewater Wholesale Grocery | | Merchant Wholesalers, Nondurable Goods |
| Colonna's Shipyard | | Transportation Equipment Manufacturing |
| Personal-Touch Home Care, Inc. | | Ambulatory Health Care Services |
| Tidewater Community College | | Educational Services |
| McDonald's | | Food Services |
| CMA-CGM (America), Inc. | | Support Activities for Transportation |
| | 250 - 499 | |
| 7-Eleven | | Gasoline Stations; Food and Beverage Stores |
| Farm Fresh | | Food and Beverage Stores |
| Virginia Wesleyan College | | Educational Services |
| American Funds Service Company | | Financial Investments |
| The Virginian-Pilot | | Publishing Industries |
| Raytheon Technical Services | | Professional, Scientific and Technical Services |
| Electronic Data Systems Corp | | Internet Service Providers and Data Processing Services |
| Lake Taylor Hospital | | Nursing and Residential Care Facilities |
| Marine Hydraulics International | | Transportation Equipment Manufacturing |
| Food Lion | | Food and Beverage Stores |
| United Services Automobile Association | | Insurance Carriers and Related Activities |
| Virginia Dominion Power | | Utilities |
| Clark Nexsen Owen Barbieri | | Professional, Scientific and Technical Services |
| CP&O LLC | | Support Activities for Transportation |
| Transit Management Company | | Transit and Ground Passenger Transportation |
| ITT Educational Services, Inc. | | Educational Services |
| Zim | | Support Activities for Transportation |
| MDT Personnel LLC | | Administrative and Support Services |
| Aramark Campus LLC | | Food Services and Drinking Places |

Source: Virginia Employment Commission.

Table V-15
City of Norfolk, Virginia
Business Growth
A Sampling of Business Activity in 2008-2013

| Company | Type | E/N | C/D/A | Investment (mil) |
|-------------------------------------|--|------------|--------------|-----------------------------|
| 201 Twenty-One | Mixed-use residential apartments & retail | N | C | 40 |
| Bay Village Condominiums | Senior only residences | N | D | 15 |
| Belmont at Freemason | Apartments | N | C | 45 |
| Colonnas Shipyard | Expansion | E | C | 14 |
| CMA CGM | Americas Headquarters, shipping line | E | C | 11.5 |
| Commander Corporate Center | Second office building for spec | N | C | 12 |
| Court Complex | New combined Hall of Justice | N | D | 108 |
| Eastern Virginia Medical School | New education and research building | N | C | 80 |
| Fort Norfolk Plaza | Mixed-use medical office, retail | N | C | 70 |
| Hampton Roads Barge Company | New transportation/shipping company | N | C | 2.3 |
| Harris Teeter Expansion | Demolition of existing and construction of new grocery store | E | C | 14 |
| Harris Teeter | Construction of new store Wards Corner | N | A | 18 |
| Hurrah Players | theatre, dance, voice and acting troupe | N | C | 1.4 |
| Kroc Center | Community center | N | D | 84 |
| Lamberts Point | Recreation facility | N | D | 7.6 |
| Light Rail | Starter Line | N | D | 338.3 |
| MacArthur Memorial | Expansion | E | D | 5 |
| Marine Hydraulics | Expansion | E | C | 82 |
| Norfolk State University (NSU) | Library and student center | N | C | 75 |
| Norfolk International Terminals | Central Rail Yard, phase I & II | N | C | 26.4 |
| Norfolk International Terminals | Renovation of the South Berth | E | C | 275 |
| Norfolk International Terminals | North Gate relocation | E | C | .85 |
| Norfolk International Terminals | rail yard sound wall: | N | C | 1.5 |
| Norfolk International Terminals | Transfer Zone safety improvements | N | C | 2.5 |
| Norfolk International Terminals | straddle carrier parking lot | N | D | 3.5 |
| Old Dominion University (ODU) | Innovations Research Park II | N | C | 22.5 |
| Old Dominion University (ODU) | Student fitness center | N | C | 28 |
| Old Point National Bank | New branch office in Ghent | N | C | 2.8 |
| P & P, LLC | Office/flex (4th building on site) | E | D | 1 |
| Residence Inn by Marriott | Extended-stay hotel | N | C | 35 |
| Riverside Terrace / Westport | Phasing townhouses and condominiums | N | D | 80 |
| Sentara Offices | 48,000 sq ft office Poplar Halls | N | D | 9 |
| Sentara Garage | Colley Avenue | N | D | 15 |
| Sheraton Hotel | Renovation | E | C | 32 |
| SouthWind Apartment Community | 120 apartments | N | C | 15 |
| Tidewater Community College | Student center | N | C | 17.6 |
| The Market at Ghent | Expansion to existing Farm Fresh store | E | C | 3 |
| The River House Apartments | 197 apartments | N | C | 36 |
| Union Mission Building | Renovation into 60+ apartments | N | A | 22 |
| Virginia Arts Festival Headquarters | Offices and rehearsal studios | N | C | 7.5 |
| Virginia Zoo | Trail of the Tiger | E | C | 15 |
| Wells Fargo Center | Mixed-use Class A office, retail and residential | N | C | 170 |
| Westin Hotel & Conference Center | Hotel and conference center | N | A | 150 |

Source: Economic Development Department, City of Norfolk, Virginia.

E/N – Expansion or New; C/D/A – Completed, Under Development, or Announced

Military

The presence of the military in Norfolk has a significant impact on the local economy. The City is the home of the world's largest naval complex, with headquarters for Commander in Chief of U.S. Atlantic Command, NATO's Supreme Allied Command Atlantic, Commander in Chief U.S. Atlantic

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

The U.S. Navy's direct economic impact on the region was \$13.5 billion in Fiscal Year 2011, comprised of a total annual payroll of \$8.2 billion and the balance consumed on goods and services and procurement contracts. The City expects to continue as a center of activity for the U.S. Navy with current total personnel (military and civilian) in excess of 70,000. There were 82,463 active-duty U.S. Navy military personnel in Hampton Roads in 2010, of which 63%, or 51,547, were assigned to Norfolk.

The Navy's newest local command, the Navy Reserve Forces Command, relocated to Norfolk from New Orleans in 2009. The Reserve Forces Command is the global headquarters for more than 68,000 reserve sailors and brought approximately 450 military and civilian employees to Hampton Roads. The Command is responsible for readiness, oversight, manpower management, logistics, mobilization and training of reserve sailors.

On August 9, 2010, Defense Secretary Robert Gates announced a series of steps aimed at reducing overhead in the defense budget and redirecting the money saved to the war effort and preparation for future conflicts. Among his directives was the closure of the Joint Forces Command ("JFCOM") which is headquartered in Norfolk. JFCOM was disestablished in August 2011, with all related personnel moves completed in March 2012. About half of the JFCOM workforce was retained, including approximately 1,900 of the 3,800 employed in the Hampton Roads area. Of JFCOM's 21 buildings in Norfolk and Suffolk, four remain in use, including the Joint Warfighting Center in Suffolk and three other buildings in Norfolk. The majority of the military personnel were reassigned to other units within Norfolk and the region. The military, particularly the Navy, will remain a mainstay of the increasingly diversified southeastern Virginia economy.

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APPENDIX A

**CITY OF NORFOLK, VIRGINIA
GENERAL PURPOSE FINANCIAL
STATEMENTS FOR THE FISCAL YEAR
ENDED JUNE 30, 2011**

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KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

Independent Auditors' Report

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

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

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

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

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

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



The accompanying Management's Discussion and Analysis on pages 3 to 18, schedule of funding progress on page 93, and schedules of revenue, and budgetary comparison schedule on pages 94 through 96 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

KPMG LLP

December 13, 2011

**MANAGEMENT'S DISCUSSION
AND ANALYSIS
(Unaudited)**



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

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

Financial Highlights

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

Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Government-Wide Financial Analysis

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

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

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

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

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

Summary of the City of Norfolk's Net Assets

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

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

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

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

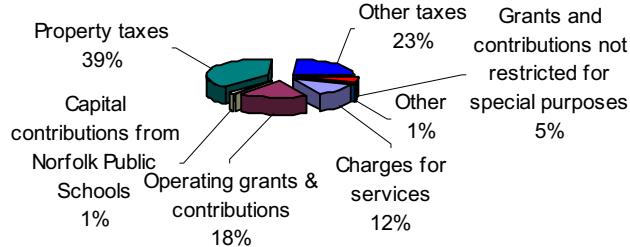
Key programmatic and functional elements of these changes in government-wide net assets are demonstrated on the following page:

Changes in the City of Norfolk's Net Assets

| | Governmental Activities | | Business-Type Activities | | Totals | |
|---|-------------------------|-----------------------|--------------------------|-----------------------|-----------------------|-----------------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charges for Services | \$ 78,753,208 | \$ 69,300,499 | \$ 124,617,316 | \$ 121,582,120 | \$ 203,370,524 | \$ 190,882,619 |
| Operating Grants & Contributions | 116,647,782 | 127,665,377 | - | - | 116,647,782 | 127,665,377 |
| Capital Grants & Contributions | - | 7,175,380 | 129,652 | 366,363 | 129,652 | 7,541,743 |
| General Revenues: | | | | | | |
| Property Taxes | 255,529,830 | 256,339,199 | - | - | 255,529,830 | 256,339,199 |
| Other Taxes | 153,885,777 | 153,615,005 | - | - | 153,885,777 | 153,615,005 |
| Grants and Contributions not restricted for specific purposes | 32,641,609 | 32,892,521 | 557,326 | 147,752 | 33,198,935 | 33,040,273 |
| Capital Contributions from Norfolk Public Schools | 11,084,963 | 40,387,140 | - | - | 11,084,963 | 40,387,140 |
| Other | 6,966,793 | 6,528,503 | 3,784,728 | 6,794,339 | 10,751,521 | 13,322,842 |
| Total Revenues | 655,509,962 | 693,903,624 | 129,089,022 | 128,890,574 | 784,598,984 | 822,794,198 |
| Expenses: | | | | | | |
| General Government | 103,550,071 | 112,874,315 | - | - | 103,550,071 | 112,874,315 |
| Judicial Administration | 49,979,896 | 52,019,797 | - | - | 49,979,896 | 52,019,797 |
| Public Safety | 129,720,786 | 130,262,485 | - | - | 129,720,786 | 130,262,485 |
| Public Works | 101,136,816 | 132,176,401 | - | - | 101,136,816 | 132,176,401 |
| Health and Public Assistance | 82,368,494 | 91,923,045 | - | - | 82,368,494 | 91,923,045 |
| Culture and Recreation | 64,352,295 | 73,342,471 | - | - | 64,352,295 | 73,342,471 |
| Community Development | 18,637,893 | 15,428,530 | - | - | 18,637,893 | 15,428,530 |
| Education | 104,511,131 | 101,011,131 | - | - | 104,511,131 | 101,011,131 |
| Interest on Long-Term Debt | 27,930,691 | 26,013,627 | - | - | 27,930,691 | 26,013,627 |
| Water Utility | - | - | 67,852,343 | 64,316,142 | 67,852,343 | 64,316,142 |
| Wastewater Utility | - | - | 19,706,851 | 18,982,468 | 19,706,851 | 18,982,468 |
| Parking Facilities | - | - | 22,049,383 | 20,007,897 | 22,049,383 | 20,007,897 |
| Total Expenses | 682,188,073 | 735,051,802 | 109,608,577 | 103,306,507 | 791,796,650 | 838,358,309 |
| | | | | | | |
| Increase (decrease) in Net Assets before Transfers | (26,678,111) | (41,148,178) | 19,480,445 | 25,584,067 | (7,197,666) | (15,564,111) |
| Transfers | 10,052,045 | 13,054,009 | (10,052,045) | (13,054,009) | - | - |
| Increase (decrease) in Net Assets | (16,626,066) | (28,094,169) | 9,428,400 | 12,530,058 | (7,197,666) | (15,564,111) |
| Adj to beginning net assets (GASB 51) | - | 1,849,274 | - | - | - | 1,849,274 |
| Net Assets Beginning of Year | 353,293,340 | 379,538,235 | 333,064,207 | 320,534,149 | 686,357,547 | 700,072,384 |
| Net Assets End of Year | \$ 336,667,274 | \$ 353,293,340 | \$ 342,492,607 | \$ 333,064,207 | \$ 679,159,881 | \$ 686,357,547 |

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

Governmental Activities: Revenues by Source



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

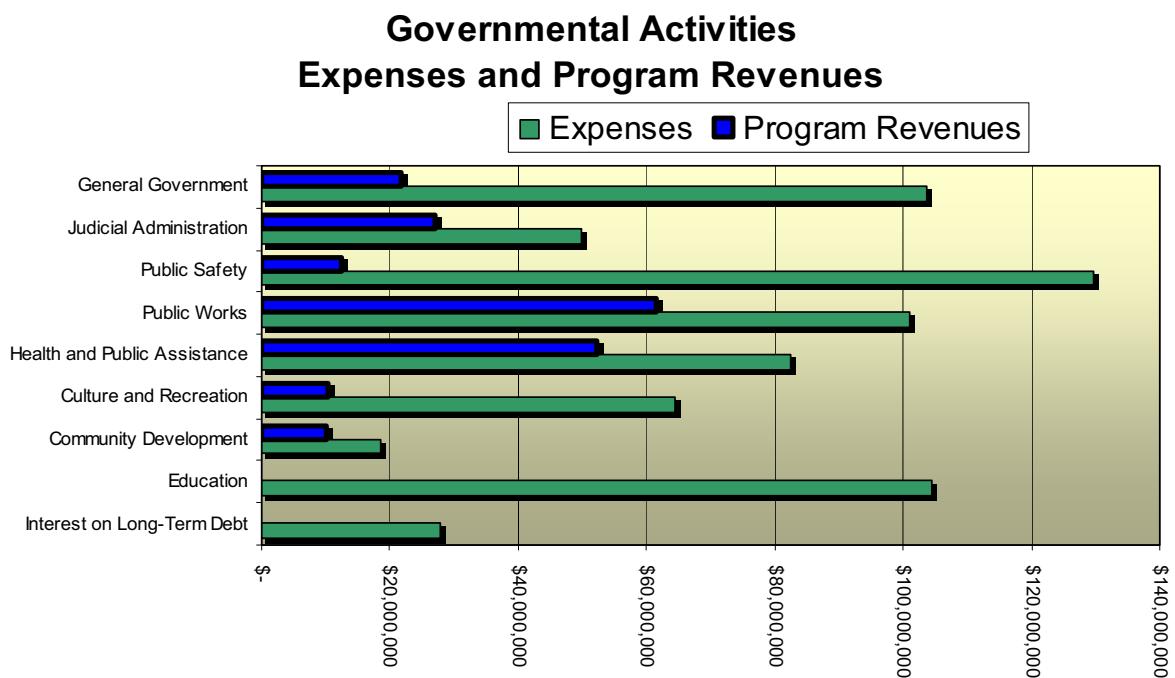
Operating grants and contributions for governmental activities ended the fiscal year at \$116,647,782, a decrease of \$11,017,595 over the prior year. Grants and contributions not restricted for specific programs represent intergovernmental grants and contributions from State and Federal agencies. For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

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

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

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

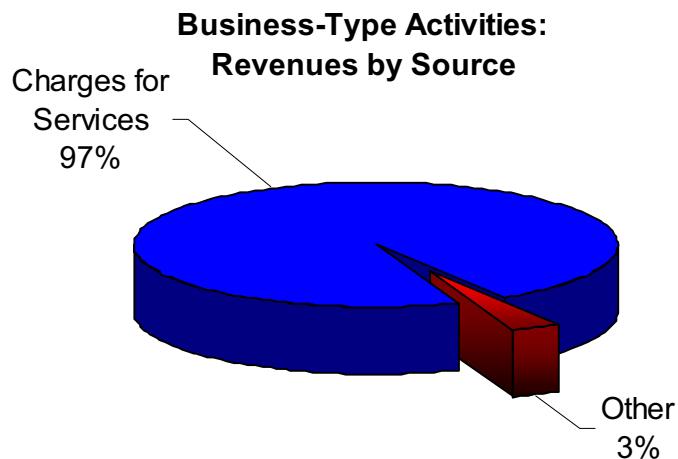
Depreciation expense for governmental activities of \$38,190,537 was recorded.



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

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

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

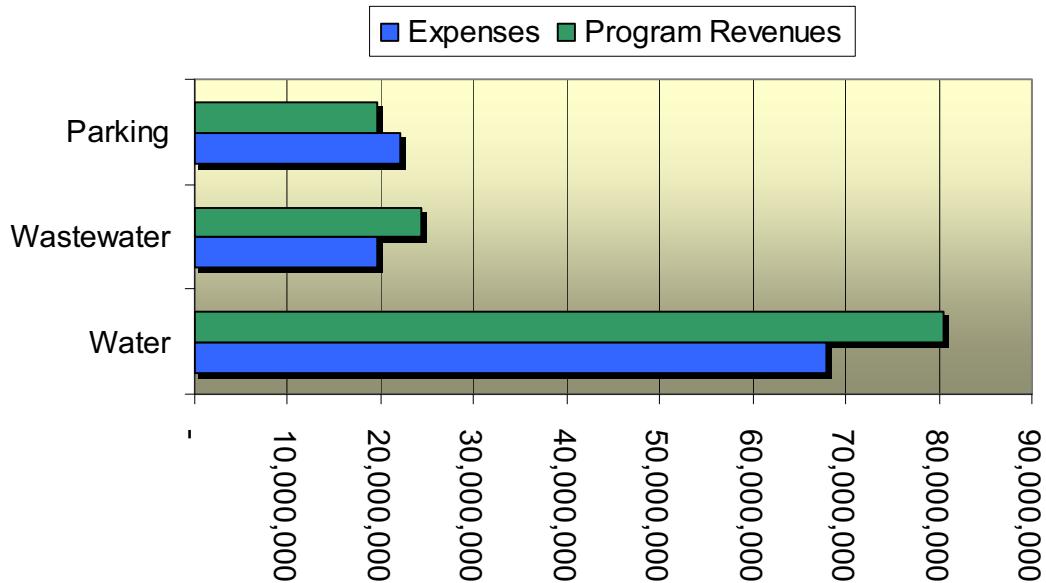


Operating expenses for Business-type activities increased overall by \$4,285,178 or 5.38 percent. The Water Utility fund's operating expenses increased by \$2,921,290 primarily due to increases in electricity costs as well as an increase in the required retirement contribution.

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

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

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



Financial Analysis of the Government's Funds

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

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

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

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

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

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

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

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

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

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

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

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

General Fund:

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

Supplemental appropriations:

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

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

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

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

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

Capital Asset and Debt Administration

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

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

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

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

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

| | Governmental Activities | | Business-Type Activities | | Totals | |
|-----------------------------------|-------------------------|----|--------------------------|----|-------------------------|-------------------------|
| | 2011 | | 2010 | | 2011 | |
| | \$ | | \$ | | \$ | |
| Land | 84,906,993 | \$ | 71,715,935 | \$ | 46,646,352 | \$ 46,276,852 |
| Buildings & equipment | 435,827,900 | | 450,150,100 | | 713,195,494 | 715,228,925 |
| Improvements other than buildings | 43,831,541 | | 47,878,205 | | 16,543,057 | 3,943,044 |
| Construction in progress | 106,304,559 | | 91,960,126 | | 43,246,176 | 36,512,238 |
| Intangible assets | 1,291,324 | | 1,364,909 | | 4,816,735 | 5,761,008 |
| Infrastructure | 193,120,753 | | 194,445,227 | | - | - |
| Total | <u>\$ 865,283,070</u> | | <u>\$ 857,514,502</u> | | <u>\$ 824,447,814</u> | <u>\$ 807,722,067</u> |
| | | | | | <u>\$ 1,689,730,884</u> | <u>\$ 1,665,236,569</u> |

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

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

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

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

City of Norfolk's Bonded Debt

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

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

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

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

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

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

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

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

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

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

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

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

Economic Factors and Next Year's Budgets and Rates

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

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

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

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

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

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

Requests for Information

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

BASIC FINANCIAL STATEMENTS



CITY OF NORFOLK, VIRGINIA

Exhibit 1

Statement of Net Assets
June 30, 2011

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

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, 2011

Exhibit 2

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | |
|--|--------------------|-----------------------|------------------------------------|-------------------------|---|-------------------------|-----------------------|
| | | Charges for Services | Operating Grants and Contributions | | Primary Government Business-Type Activities | Total | Component Units |
| | | | Capital Grants and Contributions | Governmental Activities | | | |
| Primary government: | | | | | | | |
| Governmental activities: | \$ 103,550,071 | \$ 18,629,782 | \$ 3,165,045 | \$ (81,755,244) | \$ (81,755,244) | \$ - | \$ - |
| General government | 49,979,896 | 3,629,295 | 23,439,401 | (22,911,200) | (22,911,200) | | |
| Judicial administration | 129,720,766 | 7,942,486 | 4,392,897 | (117,385,403) | (117,385,403) | | |
| Public safety | 101,136,816 | 36,889,862 | 24,661,997 | (39,584,987) | (39,584,987) | | |
| Public works | 82,388,484 | 81,412 | 52,198,615 | (30,088,487) | (30,088,487) | | |
| Health and public assistance | 64,352,295 | 10,100,930 | 228,874 | (54,022,481) | (54,022,481) | | |
| Culture and recreation | 18,637,983 | 1,479,441 | 8,560,953 | (8,597,489) | (8,597,489) | | |
| Community development | 104,511,131 | - | - | (104,511,131) | (104,511,131) | | |
| Education | 27,930,691 | - | - | (27,930,691) | (27,930,691) | | |
| Interest on long-term debt | | | | | | | |
| Total governmental activities | 682,198,073 | <u>\$ 78,753,208</u> | <u>\$ 116,647,782</u> | <u>\$ (486,787,083)</u> | <u>\$ (486,787,083)</u> | <u>\$ -</u> | <u>\$ -</u> |
| Business-type activities: | | | | | | | |
| Water | 67,852,343 | 80,573,611 | - | 129,652 | 0 | 12,650,920 | 12,650,920 |
| Wastewater | 19,706,891 | 24,362,092 | - | - | 0 | 4,655,241 | 4,655,241 |
| Parking facilities | 22,049,383 | 19,681,613 | - | - | 0 | (2,367,770) | (2,367,770) |
| Total business-type activities | <u>109,608,577</u> | <u>124,617,316</u> | <u>\$ 203,370,524</u> | <u>\$ 129,652</u> | <u>\$ 0</u> | <u>\$ 15,135,391</u> | <u>\$ 15,135,391</u> |
| Total primary government | <u>791,796,650</u> | <u>\$ 116,647,782</u> | <u>\$ (486,787,083)</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ (471,681,692)</u> | <u>\$ -</u> |
| Component units: | | | | | | | |
| Norfolk Public Schools | 370,542,917 | \$ 4,847,324 | \$ 209,643,854 | \$ 6,877,496 | | | |
| Watertide Fund | 1,778,954 | 169,511 | - | - | | | |
| Community Services Board | 26,046,621 | 6,939,297 | 13,669,432 | - | | | |
| Total component units | <u>396,368,492</u> | <u>\$ 11,946,132</u> | <u>\$ 223,303,286</u> | <u>\$ 6,877,496</u> | <u>\$ 0</u> | <u>\$ (149,174,243)</u> | <u>\$ (1,609,443)</u> |
| General revenues: | | | | | | | |
| Taxes: | | | | | | | |
| General property taxes - real estate and personal property | | | | | 255,529,830 | - | 255,529,830 |
| Consumers' utility taxes | | | | | 48,360,323 | - | 48,360,323 |
| Sales and use taxes | | | | | 28,410,605 | - | 28,410,605 |
| Restaurant food taxes | | | | | 24,094,023 | - | 24,094,023 |
| Business license taxes | | | | | 25,849,255 | - | 25,849,255 |
| Hotel/Motel taxes | | | | | 6,512,106 | - | 6,512,106 |
| Cigarette taxes | | | | | 7,180,873 | - | 7,180,873 |
| Admissions taxes | | | | | 3,859,803 | - | 3,859,803 |
| Motor vehicle licenses | | | | | 4,313,329 | - | 4,313,329 |
| Franchise, recondation and other miscellaneous local taxes | | | | | 5,325,460 | - | 5,325,460 |
| Use of money and property | | | | | 1,065,315 | 511,289 | 1,576,604 |
| Grants and contributions not restricted to specific programs | | | | | 32,641,609 | 557,326 | 33,198,935 |
| Miscellaneous | | | | | 5,901,478 | 3,430,663 | 9,332,141 |
| Commonwealth of Virginia | | | | | - | - | 6,409 |
| Loss from sale of assets | | | | | - | - | 28,911,984 |
| Payment from Primary Government | | | | | - | (157,224) | (157,224) |
| Capital contributions - Norfolk Public Schools | | | | | - | - | (235) |
| Transfers | | | | | 11,094,963 | 11,094,963 | 11,094,963 |
| Total general revenues and transfers | | | | | <u>10,052,045</u> | <u>(10,052,045)</u> | <u>\$ -</u> |
| Changes in net assets | | | | | <u>470,161,017</u> | <u>(5,705,991)</u> | <u>\$ 464,451,026</u> |
| Net assets - beginning | | | | | <u>(16,626,066)</u> | <u>9,428,007</u> | <u>\$ 7,197,666</u> |
| Adjustment to beginning net assets - component unit | | | | | <u>353,293,340</u> | <u>333,406,427</u> | <u>686,357,547</u> |
| Net assets - ending | | | | | <u>\$ 36,667,274</u> | <u>\$ 342,492,607</u> | <u>\$ 679,159,881</u> |
| | | | | | | | <u>\$ 20,550,460</u> |

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

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

Exhibit A-1

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

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 Assets
June 30, 2011

Exhibit A-2

| | |
|--|------------------------------|
| Fund balances--total governmental funds | \$ 199,407,835 |
| Amounts reported for governmental activities in the Statement of Net Assets are different because: | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds: | |
| | |
| Cost of capital assets | 2,223,074,482 |
| Accumulated depreciation | <u>(1,362,687,920)</u> |
| | 860,386,562 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds: | |
| | |
| Adjustment for deferred revenue | 35,696,629 |
| Build America Bonds (BABs) | 649,370 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds: | |
| | |
| Bonds and notes payable | (640,883,146) |
| Unamortized Bond premium | (12,080,458) |
| Retirement contribution | (38,140,246) |
| Other post employment benefits | (18,118,060) |
| Compensated absences | (14,622,920) |
| Workers' compensation and claims liability | (31,673,082) |
| Other | (2,174,660) |
| Accrued interest payable | <u>(7,434,860)</u> |
| | (765,127,432) |
| Internal service funds | 6,043,336 |
| GASB Statement 49 Pollution Remediation Obligation | (389,026) |
| Net assets of governmental activities | <u><u>\$ 336,667,274</u></u> |

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

CITY OF NORFOLK, VIRGINIA

Exhibit A-3

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

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

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, 2011**

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

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

CITY OF NORFOLK, VIRGINIA

Exhibit B-1

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

| | Business-Type Activities | | | | Governmental Activities- Internal Service Funds |
|---|---------------------------------|-----------------------|-----------------------|-------------------------|--|
| | Water Utility | Wastewater Utility | Parking Facilities | Totals | |
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and short term investments | \$ 23,874,446 | \$ 5,873,554 | \$ 19,497,798 | \$ 49,245,798 | \$ 453,733 |
| Restricted cash held with fiscal agent | 246,313 | 69,028 | 24,566,838 | 24,882,179 | - |
| Unrestricted short term investments | 13,263,144 | 7,337,687 | - | 20,600,831 | - |
| Receivables, net | | | | | |
| Accounts | 6,652,303 | 1,886,043 | 1,130,411 | 9,668,757 | 113,313 |
| Unbilled accounts | 7,707,220 | 1,105,598 | 224,001 | 9,036,819 | - |
| Accrued investment income | 4,120 | - | - | 4,120 | - |
| Internal balances | - | 1,362 | - | 1,362 | 90,818 |
| Due from other governments | - | 53,550 | - | 53,550 | - |
| Inventories | 1,419,063 | 32,417 | 397,560 | 1,849,040 | 2,306,789 |
| Restricted cash and investments | 60,709,091 | 693,066 | 4,841,085 | 66,243,242 | - |
| Total current assets | <u>113,875,700</u> | <u>17,052,305</u> | <u>50,657,693</u> | <u>181,585,698</u> | <u>2,964,653</u> |
| Noncurrent assets: | | | | | |
| Capital assets: | | | | | |
| Land and improvements | 35,070,601 | 20,980,977 | 36,145,187 | 92,196,765 | 415,000 |
| Buildings and equipment | 580,884,524 | 233,043,851 | 192,574,244 | 1,006,502,619 | 10,579,767 |
| Accumulated depreciation | <u>(167,222,416)</u> | <u>(54,491,590)</u> | <u>(52,537,564)</u> | <u>(274,251,570)</u> | <u>(6,098,259)</u> |
| Capital assets, net | <u>448,732,709</u> | <u>199,533,238</u> | <u>176,181,867</u> | <u>824,447,814</u> | <u>4,896,508</u> |
| Total assets | <u>\$ 562,608,409</u> | <u>\$ 216,585,543</u> | <u>\$ 226,839,560</u> | <u>\$ 1,006,033,512</u> | <u>\$ 7,861,161</u> |
| LIABILITIES | | | | | |
| Current liabilities: | | | | | |
| Vouchers payable | \$ 4,845,596 | \$ 5,161,929 | \$ 472,308 | \$ 10,479,833 | \$ 715,116 |
| Contract retainage | 435,885 | 551,452 | 50,967 | 1,038,304 | - |
| Accrued interest | 90,666 | 1,153,515 | 2,167,613 | 3,411,794 | - |
| Accrued payroll | 510,836 | 112,586 | 102,148 | 725,570 | 167,040 |
| Internal balances | 1,335,003 | - | - | 1,335,003 | - |
| Obligations for employees retirement system | 2,770,254 | 739,000 | 606,650 | 4,115,904 | 605,162 |
| Current portion of bonds payable | 13,343,267 | 8,390,509 | 4,029,104 | 25,762,880 | - |
| Liabilities payable from restricted assets | 2,839,254 | - | - | 2,839,254 | - |
| Compensated absences | 729,300 | 157,969 | 114,039 | 1,001,308 | 224,832 |
| Other current liabilities | 175,661 | 11,750 | 155,370 | 342,781 | 14,166 |
| Total current liabilities | <u>27,075,722</u> | <u>16,278,710</u> | <u>7,698,199</u> | <u>51,052,631</u> | <u>1,726,316</u> |
| Noncurrent liabilities: | | | | | |
| General obligation bonds payable | 1,759,117 | 91,282,973 | 86,052,428 | 179,094,518 | - |
| Revenue bonds payable | 329,244,547 | 22,443,584 | 78,923,585 | 430,611,716 | - |
| Compensated absences | 366,812 | 200,079 | 171,058 | 737,949 | 91,509 |
| Other long-term liabilities | 1,199,565 | 425,777 | 418,749 | 2,044,091 | - |
| Total noncurrent liabilities | <u>332,570,041</u> | <u>114,352,413</u> | <u>165,565,820</u> | <u>612,488,274</u> | <u>91,509</u> |
| Total liabilities | <u>\$ 359,645,763</u> | <u>\$ 130,631,123</u> | <u>\$ 173,264,019</u> | <u>\$ 663,540,905</u> | <u>\$ 1,817,825</u> |
| NET ASSETS | | | | | |
| Invested in capital assets, net of related debt | 154,341,182 | 78,109,238 | 34,656,901 | 267,107,321 | 4,896,508 |
| Restricted | 11,000,000 | - | 1,927,772 | 12,927,772 | - |
| Unrestricted | <u>37,621,464</u> | <u>7,845,182</u> | <u>16,990,868</u> | <u>62,457,514</u> | <u>1,146,828</u> |
| Total net assets | <u>202,962,646</u> | <u>85,954,420</u> | <u>53,575,541</u> | <u>342,492,607</u> | <u>6,043,336</u> |
| Total liabilities and net assets | <u>\$ 562,608,409</u> | <u>\$ 216,585,543</u> | <u>\$ 226,839,560</u> | <u>\$ 1,006,033,512</u> | <u>\$ 7,861,161</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 Assets
Proprietary Funds
For Year Ended June 30, 2011**

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

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

CITY OF NORFOLK, VIRGINIA

Exhibit B-3

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

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

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

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

Exhibit C-1

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

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

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

Exhibit C-2

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

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

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

Exhibit D-1

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

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, 2011

Exhibit D-2

| | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Assets | | |
|---------------------------------------|-----------------------|-------------------------------|-----------------------------|------------------------|---|--------------------------|----------------------|
| | Charges for Services | Operating Grant Contributions | Capital Grant Contributions | Norfolk Public Schools | Waterside Associates | Community Services Board | Total |
| Norfolk Public Schools: | | | | | | | |
| Instructional | \$ 267,477,276 | \$ 2,245,732 | \$ 196,967,388 | \$ (68,234,156) | \$ - | \$ - | \$ (68,234,156) |
| Administration, attendance and health | 12,412,261 | - | - | (12,412,261) | - | - | (12,412,261) |
| Pupil transportation | 11,028,062 | - | - | (11,028,062) | - | - | (11,028,062) |
| Operations and maintenance | 35,283,073 | - | - | (35,283,073) | - | - | (35,283,073) |
| Information technology | 8,273,981 | - | - | (8,273,981) | - | - | (8,273,981) |
| School facilities | 20,295,542 | - | - | (13,388,046) | - | - | (13,388,046) |
| Food services | 15,564,577 | 2,601,592 | 12,646,466 | (316,519) | - | - | (316,519) |
| Other | 238,145 | - | - | (238,145) | - | - | (238,145) |
| Total Norfolk Public Schools | 370,542,917 | 4,847,324 | 209,643,854 | 6,877,496 | (149,174,243) | - | (149,174,243) |
| Waterside Associates: | | | | | | | |
| Cultural and recreational | 1,778,954 | 169,511 | - | - | (1,609,443) | - | (1,609,443) |
| Community Services Board: | | | | | | | |
| Health and public assistance | 26,046,621 | 6,929,297 | 13,659,432 | - | - | (5,457,892) | (5,457,892) |
| Total component units | \$ 398,368,492 | 11,946,132 | 223,303,286 | 6,877,496 | (149,174,243) | (1,609,443) | (5,457,892) |
| General revenues: | | | | | | | |
| Loss on sale of assets | | | | | | (235) | (235) |
| Use of money and property | | | | | | 25,823 | 1,035,187 |
| Payment from Primary Government | | | | | | 3,851,000 | 109,848,631 |
| Miscellaneous | | | | | | 1,590 | 6,409 |
| Commonwealth of Virginia | | | | | | - | 28,911,984 |
| Total general revenues | | | | | | - | - |
| Changes in net assets | | | | | | 3,878,176 | 139,801,976 |
| Net assets-begging | | | | | | (1,579,714) | (16,439,602) |
| Adjustment to beginning net assets | | | | | | 8,505,860 | 8,331,860 |
| Net assets-ending | | | | | | - | (1,341,111) |
| | | | | | | \$ 6,926,146 | \$ 20,550,460 |

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

NOTES TO THE BASIC FINANCIAL STATEMENTS



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

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

I. Summary of Significant Accounting Policies

A. Financial Reporting Entity Information

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

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

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

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

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

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

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

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

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

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

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

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

B. Government-wide and Fund Financial Statements

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

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

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

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

The City reports the following major governmental funds:

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

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

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

The City reports the following major proprietary funds:

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

Additionally, the City reports the following other fund types:

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

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

operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

D. Budgets and Budgetary Accounting

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

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

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

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

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

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

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

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

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

E. Deposits and Investments

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

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

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

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

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

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

F. Restricted Assets

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

G. Interfund Transactions

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

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

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

H. Inventories

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

I. Capital Assets

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

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

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

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

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

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

J. Compensated Absences

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

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

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

K. Net Assets/Fund Balances

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

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

L. Estimates

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

M. Bond Premiums, Discounts and Issuance Costs

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

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

II. Deposits and Investments

Custodial Credit Risk - Deposits

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

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

Custodial Credit Risk - Investments

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

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

Interest Rate Risk

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

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

Segmented Time Distribution (as of June 30, 2011)

Primary Government

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

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

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

Per Exhibit 1 (Primary Government):

| | |
|---|-----------------------|
| Cash and short-term investments | \$ 239,403,481 |
| Restricted cash held with fiscal agents | 24,882,179 |
| Investments | 20,600,831 |
| Restricted cash and investments | <u>66,373,172</u> |
| Total | <u>\$ 351,259,663</u> |

Per Exhibit C-1 (Fiduciary):

| | |
|---|-----------------------------|
| Cash and short-term investments | 11,449,361 |
| Investments | <u>864,382,867</u> |
| Total | <u>\$ 875,832,228</u> |
| Total Primary Government and Fiduciary | <u>\$ 1,227,091,891</u> |
| Less: Actual cash | 128,056,827 |
| Deposits and investments reported above | <u>\$ 1,099,035,064</u> |

Credit Risk Related to Issuer

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

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
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The Primary Government's Rated Debt Investment

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

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

Concentration of Credit Risk

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

Foreign Currency Risk

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

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

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

Community Services Board (CSB)

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

School Board

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

Waterside Associates

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

III. Property Taxes

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

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

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

The property tax calendar is as follows:

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

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

IV. Accounts Receivable

A. Unbilled Accounts Receivable

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

| | |
|-------------------------|---------------------------|
| Water Utility fund | \$ 7,707,220 |
| Wastewater Utility fund | 1,105,598 |
| Parking Facilities fund | 224,001 |
| | <hr/> <u>\$ 9,036,819</u> |

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

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

B. Allowances for Uncollectible Accounts Receivable

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

Primary Government:

General Fund:

| | |
|----------|-------------------|
| Taxes | \$ 13,557,342 |
| Accounts | <u>15,846,000</u> |
| | 29,403,342 |

| | |
|-----------------------------------|-----------------------------|
| Storm Water special revenue fund | 433,000 |
| Water Utility fund | 3,219,603 |
| Wastewater Utility fund | <u>1,114,241</u> |
| Total - Primary Government | <u>\$ 34,170,186</u> |

Component Units:

| | |
|--------------------------------|--------------------------|
| Community Services Board | \$ 413,504 |
| Waterside Associates | <u>15,061</u> |
| Total - Component Units | <u>\$ 428,565</u> |

V. Due From Other Governments

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

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

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

VI. Changes in Capital Assets

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

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

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

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

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

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

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

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

VII. Short-Term Obligations

A. Bond Anticipation Notes

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

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

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

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

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

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

B. Variable Rate Bonds

General Obligation Variable Rate Demand Bonds, Series 2007

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

VIII. Long-Term Obligations

A. General Obligation and Revenue Bonds

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

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

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

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

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

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

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

| Bond Issue/Purpose | Dated | Issue Amount | Interest Rate | Governmental Activities | | Business-type Activities | | | Balance Outstanding |
|---|------------|----------------------------------|----------------------------------|-------------------------------|--------------------------|-------------------------------|-------------------------------|----------------|---------------------|
| | | | | Public Improvement Allocation | Water Utility Allocation | Wastewater Utility Allocation | Parking Facilities Allocation | | |
| Series 1989 Property Acquisition | 7/11/1989 | \$ 1,500,000 | 6.76% | \$ 1,500,000 | \$ - | \$ - | \$ - | \$ - | \$ 1,500,000 |
| Series 1997 QRB | 4/15/1997 | 4,000,000 | 5.60 - 5.75% | 1,200,000 | - | - | - | - | 1,200,000 |
| Series 1998 QRB | 9/15/1998 | 2,560,000 | 4.70 - 5.10% | 1,035,000 | - | - | - | - | 1,035,000 |
| Series 1999 QRB | 7/1/1999 | 4,000,000 | 5.10 - 5.30% | 1,800,000 | - | - | - | - | 1,800,000 |
| Series 1999 QZAB | 8/19/1999 | 7,000,000 | none | 538,456 | - | - | - | - | 538,456 |
| Series 2000 QRB | 7/15/2000 | 3,995,000 | 5.25 - 5.65% | 1,995,000 | - | - | - | - | 1,995,000 |
| Series 2000 QZAB | 11/22/2000 | 3,637,170 | none | 839,347 | - | - | - | - | 839,347 |
| Series 2001 QZAB | 12/27/2001 | 1,062,830 | none | 306,736 | - | - | - | - | 306,736 |
| Series 2002 Capital Improvement and Refunding | 2/13/2002 | 74,200,000 | 5.00% | 6,754,773 | 730,014 | 1,632,904 | 92,308 | 9,209,999 | |
| Series 2002 QRB | 2/13/2002 | 7,955,000 | 4.50 - 5.50% | 4,400,000 | - | - | - | - | 4,400,000 |
| Series 2002 Property Acquisition | 8/14/2002 | 3,400,000 | 5.38% | 3,400,000 | - | - | - | - | 3,400,000 |
| Series 2002B Capital Improvement and Refunding | 11/1/2002 | 74,490,000 | 3.00 - 5.25% | 10,993,859 | 773,371 | 1,017,996 | 424,774 | 13,210,000 | |
| Series 2003 VRA | 4/8/2003 | 9,423,794 | 3.50% | - | - | 7,133,548 | - | 7,133,548 | |
| Series 2003 Capital Improvement and Refunding | 11/15/2003 | 69,375,000 | 3.50 - 4.75% | 8,400,029 | - | 164,971 | - | 8,565,000 | |
| Series 2004 Refunding | 3/16/2004 | 96,395,000 | 4.00 - 5.00% | 23,005,282 | - | 3,769,718 | - | 26,775,000 | |
| Series 2004 HUD | 3/3/2004 | 13,000,000 | 4.32 - 5.97% | 12,885,000 | - | - | - | - | 12,885,000 |
| Series 2004 Property Acquisition | 7/29/2004 | 1,775,000 | 7.00% | 1,191,738 | - | - | - | - | 1,191,738 |
| Series 2004 VRA | 9/17/2004 | 11,100,000 | 3.10% | - | - | 9,094,805 | - | 9,094,805 | |
| Series 2005 Capital Improvement and Refunding | 3/16/2005 | 94,355,000 | 4.125 - 5.00% | 47,141,645 | - | 5,463,355 | - | 52,605,000 | |
| Series 2006 VRA | 3/14/2006 | 11,187,809 | 3.00% | - | - | 9,836,537 | - | 9,836,537 | |
| Series 2006B VRA | 9/28/2006 | 14,250,000 | none | - | - | 12,112,500 | - | 12,112,500 | |
| Series 2006 Capital Improvement and Refunding | 11/15/2006 | 115,055,000 | 4.00 - 5.00% | 74,598,833 | - | 8,268,527 | 2,567,640 | 85,435,000 | |
| | | | variable - June 30, 2011 rate of | | | | | | |
| Series 2007 VRDB (AMT) | 3/29/2007 | 32,365,000 | 0.08% | 30,830,000 | - | - | - | - | 30,830,000 |
| Series 2008A&B Refunding | 2/13/2008 | 17,160,000 | 3.00 - 4.625% | 11,540,000 | - | - | - | - | 11,540,000 |
| Series 2008C Capital Improvement | 6/30/2008 | 153,605,000 | 4.70 - 5.00% | 90,755,000 | - | 19,125,000 | - | 109,880,000 | |
| Series 2009A Capital Improvement | 5/21/2009 | 55,280,000 | 2.00 - 4.375% | 50,760,000 | - | - | - | - | 50,760,000 |
| Series 2009B Refunding | 5/21/2009 | 21,895,000 | 3.00 - 5.00% | 11,676,487 | 2,393,303 | 1,047,489 | 682,721 | 15,800,000 | |
| Series 2010A Capital Improvement | 1/21/2010 | 49,875,000 | 1.75 - 5.00% | 42,366,404 | - | 2,982,886 | 4,526,009 | 49,874,999 | |
| Series 2010B Capital Improvement | 1/21/2010 | 117,650,000 | 4.04 - 5.962% | 108,841,905 | - | 8,808,095 | - | 117,650,000 | |
| Series 2010E Capital Improvement | 2/25/2010 | 5,000,000 | 2.00 - 4.00% | - | - | - | - | 5,000,000 | 5,000,000 |
| Series 2010F Capital Improvement | 2/25/2010 | 5,000,000 | 1.30 - 5.05% | 5,000,000 | - | - | - | - | 5,000,000 |
| Series 2010G Refunding | 5/21/2009 | 90,165,000 | 2.50 - 5.00% | 83,098,006 | - | 6,867,368 | 199,626 | 90,165,000 | |
| Series 2011A Bond Anticipation Note | 3/24/2011 | 51,655,000 | 2.00 - 3.00% | 721,403 | - | - | 50,933,597 | 51,655,000 | |
| Series 2011B Bond Anticipation Note | 3/24/2011 | 23,650,000 | 2.09% | 2,099,982 | - | - | 21,550,018 | 23,650,000 | |
| Total General Obligation Bonds | | | | \$ 639,674,884 | \$ 3,896,689 | \$ 97,325,399 | \$ 85,976,693 | \$ 826,873,664 | |
| | | | | | | | | | |
| Bond Issue/Purpose | Dated | Interest Rate | Water Utility | Business-type Activities | | | Balance Outstanding | | |
| | | | | Wastewater Utility | Parking Facilities | | | | |
| Series 1993 Water Revenue | 11/1/1993 | 5.25 - 5.375% | \$ 42,375,000 | \$ - | \$ - | \$ - | \$ 42,375,000 | | |
| Series 1995 Water Revenue | 8/15/1995 | 5.75 - 5.90% | 81,135,000 | - | - | - | 81,135,000 | | |
| Series 1998 Water Revenue and Refunding | 11/1/1998 | 4.75 - 5.125% | 63,950,000 | - | - | - | 63,950,000 | | |
| Series 1999 Parking System Revenue | 2/15/1999 | 4.00 - 5.00% | - | - | 13,320,000 | - | 13,320,000 | | |
| Series 2001 Water Revenue and Refunding | 10/15/2001 | 4.00 - 5.00% | 28,865,000 | - | - | - | 28,865,000 | | |
| Series 2000B Parking System Revenue and Refunding | 10/1/2000 | 5.50 - 5.50% | - | - | 15,155,000 | - | 15,155,000 | | |
| | | variable - June 30, 2011 rate of | | | | | | | |
| Series 2004A Variable Rate Parking System Revenue | 10/28/2004 | 0.16% | - | - | 6,065,000 | - | 6,065,000 | | |
| Series 2004B Parking System Revenue and Refunding | 10/28/2004 | 2.50 - 5.00% | - | - | 25,890,000 | - | 25,890,000 | | |
| Series 2005 Water Revenue and Refunding | 3/23/2005 | 3.50 - 5.00% | 20,695,000 | - | - | - | 20,695,000 | | |
| Series 2005 Parking System Revenue Refunding | 6/15/2005 | 4.00 - 5.00% | - | - | 24,390,000 | - | 24,390,000 | | |
| Series 2007 Wastewater Revenue | 11/9/2007 | 0.00% | - | 15,725,000 | - | - | 15,725,000 | | |
| Series 2008 Water Revenue | 4/23/2008 | 3.00 - 5.00% | 56,460,000 | - | - | - | 56,460,000 | | |
| Series 2009 Wastewater Revenue | 11/17/2009 | 0.00% | - | 4,879,354 | - | - | 4,879,354 | | |
| Series 2010 Water Revenue | 9/30/2010 | 2.00 - 4.50% | 47,415,000 | - | - | - | 47,415,000 | | |
| Series 2010 Wastewater Revenue | 10/19/2010 | 0.00% | - | 3,123,305 | - | - | 3,123,305 | | |
| Total Revenue Bonds | | | \$ 340,895,000 | \$ 23,727,659 | \$ 84,820,000 | \$ 449,442,659 | | | |

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

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

B. General Obligation Bonds

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

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

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

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

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

C. Revenue Bonds

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

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

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

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

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

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

D. Mortgage Payable

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

E. Other Notes and Loans

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

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

F. Advanced Refundings

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

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

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

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

General Obligation

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

G. Lease Obligations

Operating Leases:

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

Future year lease obligations are listed below:

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

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

H. Landfill Liability

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

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

I. Compensated Absences

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

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

CITY OF NORFOLK, VIRGINIA
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J. Debt Limit

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

K. Bonds Authorized and Unissued

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

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

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

L. Changes in Long-Term Obligations

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

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

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

IX. Pension Plans

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

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

Plan Description

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

Funding Policy

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

Annual Pension Cost

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

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

employees and (c) an assumed inflation rate of 3.5%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period. The remaining amortization period at June 30, 2011 was 14 years.

Three-Year Trend Information

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

Funding Status and Funding Progress

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

CITY - EMPLOYEES' RETIREMENT SYSTEM

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

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

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

B. School Board – Retirement Plan

Plan Description – Virginia Retirement System (VRS)

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

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

Funding Policy

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

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

Annual Pension Cost – Agent Multiple-Employer Plan

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

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

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

Funding Status and Funding Progress

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

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

SCHOOL BOARD COMPONENT UNIT - VRS NON-PROFESSIONAL EMPLOYEES

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

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

C. State Employees – Virginia Retirement System (VRS)

Plan Description

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

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

Funding Policy

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

Annual Pension Cost

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

Trend information for the City VRS plan is as follows:

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

Funding Status and Funding Progress

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

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CITY - VRS EMPLOYEES

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

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

X. Deferred Compensation Plan

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

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

XI. Other Post-employment Benefits (OPEB)

Plan Description

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

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

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

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

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

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

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

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

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

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

Funded Status and Funding Progress

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

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

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

Actuarial Methods and Assumptions

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

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

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

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XII. Interfund Receivable and Payable Balances

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

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

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

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

XIII. Interfund Transfers

The following interfund transfers occurred during fiscal year 2011:

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

The purpose of the transfer balances are as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

CITY OF NORFOLK, VIRGINIA
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XIV. Fund Balance by Functional Category (GASB 54)

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

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

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XV. Recovered Costs

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

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

XVI. Other Liabilities

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

Governmental Funds:

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

Internal Service Funds:

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

Enterprise Funds:

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

Fiduciary Funds:

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

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

XVII. Supplemental Appropriations

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

General Fund:

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

Supplemental appropriations from additional revenue:

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

XVIII. Deferred Revenue

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

A. Non-major governmental funds

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

B. Deferred property tax revenue

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

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

XIX. Commitments and Contingencies

A. Capital projects

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

| | |
|---|-----------------------------|
| Water Utility development projects | \$ 23,275,000 |
| Wastewater Utility development projects | 16,689,872 |
| Parking Facilities development projects | <u>1,433,984</u> |
| Total | <u><u>\$ 41,398.856</u></u> |

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

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

B. Contingent liabilities

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

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

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

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

C. Litigation

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

D. Pollution remediation obligation

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

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

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

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

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

E. Encumbrances

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

XX. Surety Bonds and Insurance

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

XXI. Self and Purchased Insurance Programs

The City is exposed to various risks of losses related to torts; theft and destruction of assets; errors and omissions; injuries to employees; and, natural disasters. On July 11, 1978, the City established a protected self-insurance program fund, pursuant to an ordinance adopted by City Council, to cover itself from these risks of losses. The program provides for the payment of claims liabilities, property losses, and related expenses covered by a combination of purchased insurance policies and self-insurance plans. The total of insurance premiums, self-insurance claims, and related expense payments made during fiscal year 2011 was \$5,874,648.

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

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

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

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

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

The School Board also participates in a self-insurance program and its future expected self-insured losses as of June 30, 2011 were recorded at \$2,610,119 of which \$256,635 is the current portion and \$2,353,484 is the long-term portion. The School Board also provides payments for its risks of loss through a combination of purchased insurance policies and self-insurance plans. These losses are funded through the Public Schools operating budgets and/or the City's fund balance designation.

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

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

XXII. Jointly Governed Organizations

A. Hampton Roads Regional Jail Authority (HRRJA)

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

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

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

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

B. Hampton Roads Planning District Commission (the Commission)

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

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

C. Transportation District Commission of Hampton Roads (TDC)

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

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

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

XXIII. Joint Venture

Southeastern Public Service Authority (SPSA)

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

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

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

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

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

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

XXIV. Related Organizations

A. Norfolk Redevelopment and Housing Authority (NRHA)

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

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

B. Norfolk Airport Authority

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

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

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

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

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

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

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

E. The Hospital Authority of Norfolk (HAN)

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

F. The Slover Library Foundation (the Foundation)

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

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

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

XXV. Adjustments to Beginning Fund Balances

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

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

XXVI. Subsequent Events

Wastewater System Revenue Bond, Series 2011

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

Lambert's Point Landfill

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

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

XXVII. Accounting Pronouncements Issued But Not Yet Implemented

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

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

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

(Unaudited)



CITY OF NORFOLK, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress (unaudited)

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

See accompanying independent auditors' report

CITY OF NORFOLK, VIRGINIA

Exhibit E-1

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

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

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

See accompanying independent auditors' report

CITY OF NORFOLK, VIRGINIA

Exhibit E-2

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

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

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

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

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

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

OTHER SUPPLEMENTARY INFORMATION

COMBINING FINANCIAL STATEMENTS

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

OTHER SCHEDULES

- ~ Schedule of Expenditures of Federal Awards ~**
- ~ Notes to Schedule of Expenditures of Federal Awards ~**
- ~ Schedule of Revenues and Expenditures – Budget and
Actual – Special Revenue Funds ~**
- Schedule of Revenues and Expenditures – Budget and
Actual – Internal Service Funds ~**
- Schedule of Revenues and Expenditures – Budget and
Actual – Capital Projects Fund ~**



Nonmajor Governmental Funds

Special Revenue Funds

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

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

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

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

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

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

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

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

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

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

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

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



Nonmajor Governmental Funds (Con't.)

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

Permanent Fund

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

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



CITY OF NORFOLK, VIRGINIA

Exhibit F-1

Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2011

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

CITY OF NORFOLK, VIRGINIA

Exhibit F-1

Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2011

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

CITY OF NORFOLK, VIRGINIA

Exhibit F-2

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

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

CITY OF NORFOLK, VIRGINIA

Exhibit F-2

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

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

Agency Funds

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

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

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



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

Exhibit G-1

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

CITY OF NORFOLK, VIRGINIA

Exhibit G-2

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

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

Internal Service Funds

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

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

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



CITY OF NORFOLK, VIRGINIA
Combining Statement of Net Assets - Internal Service Funds
June 30, 2011

Exhibit H-1

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

CITY OF NORFOLK, VIRGINIA

Exhibit H-2

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

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

See accompanying independent auditors' report

CITY OF NORFOLK, VIRGINIA

Exhibit H-3

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

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

See accompanying independent auditors' report

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS



CITY OF NORFOLK, VIRGINIA

Exhibit I

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

Schedule I

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

CITY OF NORFOLK, VIRGINIA

Exhibit I

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

Schedule I

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

CITY OF NORFOLK, VIRGINIA

Exhibit I

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

Schedule I

| Federal Granting Agency/Recipient Recipient State Agency/Grant program/Grant No. | CFDA Number | Federal Expenditures | ARRA Expenditures |
|--|--------------------|-----------------------------|--------------------------|
| <u>Department of Education (continued):</u> | | | |
| Early Reading First | 84.359 | 1,231,800 | |
| State Council of Higher Education | 84.367 | 38,914 | |
| Teacher & Principal Training | 84.367 | <u>2,114,333</u> | |
| | Subtotal | 2,153,247 | |
| Striving Readers Intervention | 84.371 | 328,873 | |
| Fruit and Vegetable Program | 10.582 | 169,305 | |
| VDOE Mini Grant | 84.027 | 1,200 | |
| ARRA - Grants for Infants and Families | 84.393 | | 180,655 |
| State Fiscal Stabilization Fund (Norfolk Public Schools) | 84.394 | 3,860,040 | |
| ARRA - Education Jobs Fund of ARRA | 84.410 | | 3,584,368 |
| Mental Retardation Early Intervention | 84.181 | 334,475 | |
| <u>Department of Energy</u> | | | |
| Direct Payments: | | | |
| ARRA - Energy Efficiency and Conservation Block Grant (DE-EE0000880) | 81.128 | | 1,980,304 |
| <u>Department of the Navy:</u> | | | |
| Pass-Through Payments: | | | |
| Navy Junior ROTC | 12.000 | 455,270 | |
| ERATE - Universal Service Funds | 12.000 | 461,736 | |
| Medicaid - Special Education | 12.000 | <u>395,946</u> | |
| | Subtotal | 1,312,952 | |
| Hampton Roads Full Scale Training | 12.607 | 130,739 | |
| <u>Federal Emergency Management Agency</u> | | | |
| Direct Payments: | | | |
| Disaster Grants - Public Assistance | 97.036 | 63,617 | |
| Noreaster Disaster Assistance | 97.036 | <u>4,126</u> | |
| | Subtotal | 67,743 | |
| <u>Department of Health and Human Services:</u> | | | |
| Direct Payments: | | | |
| HIV/AIDS Grant | 93.914 | 6,553,936 | |
| Minority AIDS Initiative | 93.914 | <u>67,027</u> | |
| | Subtotal | 6,620,963 | |
| NIC Pool Funds | 99.000 | 275,713 | |
| Pass-Through Payments: | | | |
| Projects for Assistance in Transition to Homeless (PATH) | 93.150 | 105,675 | |
| Mental Health VASIP / COSIG | 93.243 | 241 | |
| Youth & Family Services Grant | 93.556 | 195,868 | |
| Temporary Assistance to Needy Families (BEN-10-057-16) | 93.558 | 4,059,404 | |
| Refugee and Entrant Assistance State Administered Prog | 93.566 | 11,758 | |
| Local-Income Home Energy Assistance | 93.568 | 282,390 | |
| Payments to States for Child Care Assistance | 93.575 | 2,829,500 | |
| Child Development Care | 93.596 | 2,540,091 | |
| Independent Living Program - Education and Training | 93.599 | 23,219 | |
| Family Preservation | 93.645 | 15,941 | |
| Foster Care - Title IV - E | 93.658 | 2,577,095 | |
| ARRA - Foster Care Title IV-E | 93.658 | <u>101,272</u> | |
| | Subtotal | 2,678,367 | |
| Adoptive Assistance | 93.659 | 796,080 | |
| ARRA - Adoptive Assistance | 93.659 | <u>49,380</u> | |
| | Subtotal | 845,460 | |
| Social Services Block Grant | 93.667 | 2,697,370 | |
| Independent Living Initiative Program | 93.674 | 62,500 | |
| ARRA - Child Care and Development Block Grant | 93.713 | | 305,825 |
| FAMIS Outreach Grants | 93.767 | 134,265 | |
| Medical Assistance Program - Administrative | 93.778 | 2,713,884 | |
| Mental Health Federal Block Grant | 93.958 | 127,154 | |
| Substance Abuse Federal Block Grant | 93.959 | 1,868,907 | |
| <u>Other Federal Assistance:</u> | | | |
| Sheriff Social Security | N/A | 10,400 | |
| | Totals | <u>97,700,785</u> | <u>19,861,582</u> |

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

Notes- fed sch

1. General

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

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

2. Basis of Accounting

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

3. Relationship to the Basic Financial Statements

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

| | |
|--|-------------------|
| Major governmental funds | \$ 25,395,502 |
| Non-major governmental funds | 23,348,305 |
| Total revenues from federal government | <u>48,743,807</u> |

Component Unit - School Board

| | |
|---------------------------------|-------------------|
| Total Federal Grants Awarded | 58,132,003 |
| Direct Payments: | |
| Navy Junior ROTC | 455,270 |
| Erate - Universal Service Funds | 461,736 |
| Medicaid | <u>395,946</u> |
| Total - Norfolk Public Schools | <u>59,444,955</u> |

Component Unit - Community Services Board

| | |
|--|------------------------------|
| Total federal financial assistance reported in basic financial statements | <u>\$ 111,536,564</u> |
|--|------------------------------|

Federal awards not reported as revenue in basic financial statements

| | |
|--|------------------------------|
| Enterprise - VRA Loan - WasteWater Fund | 7,044,397 |
| Noreaster Disaster Assistance reimbursements received fiscal year 2011 but reported on Schedule of Expenditures of Federal Awards fiscal year 2010 | (1,332,228) |
| CSA Pool - Medicaid Adjustment | 275,713 |
| Other reconciling items | <u>37,921</u> |
| Total federal awards | <u>\$ 117,562,367</u> |

Reconciliation to Exhibit A-3

| | |
|--|------------------------------|
| Revenues from federal government | \$ 48,743,807 |
| Revenues from Commonwealth of Virginia | 100,745,167 |
| Total intergovernmental revenue | <u>\$ 149,488,974</u> |

4. Relationship to Federal Financial Reports

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

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

Subrecipients

5. Sub-recipients

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

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

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

Subrecipients

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

SCHEDULE OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL –

~Special Revenue Funds~

~Internal Service Funds~

~Capital Projects Fund~



CITY OF NORFOLK, VIRGINIA

Exhibit J-1

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

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

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

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

CITY OF NORFOLK, VIRGINIA**Exhibit J-1****Schedule of Revenues and Expenditures - Budget and Actual
Golf Fund
For the Year Ended June 30, 2011**

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

CITY OF NORFOLK, VIRGINIA**Exhibit J-1****Schedule of Revenues and Expenditures - Budget and Actual
Emergency Operations Fund (EOC 911)
For the Year Ended June 30, 2011**

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

CITY OF NORFOLK, VIRGINIA

Exhibit J-1

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

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

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

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

CITY OF NORFOLK, VIRGINIA**Exhibit J-1****Schedule of Revenues and Expenditures - Budget and Actual
Tax Increment Financing Fund
For the Year Ended June 30, 2011**

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

CITY OF NORFOLK, VIRGINIA

Exhibit J-2

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

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

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

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

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

CITY OF NORFOLK, VIRGINIA

Exhibit J-3

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

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

CITY OF NORFOLK, VIRGINIA

Exhibit J-3

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

| Expenditures | | | | | |
|---|-----------------------|-----------------------|----------------------|-----------------------|-----------------------|
| | Project Budget | Prior Years | Current | Total | Available |
| Parks/Recreational Facilities | | | | | |
| Zoo Master Plan | 25,803,500 | 23,940,360 | 154,188 | 24,094,548 | 1,708,952 |
| Titustown Recreation Center Improvements | 550,000 | 208,961 | - | 208,961 | 341,039 |
| Botanical Gardens | 2,014,000 | 1,480,414 | 5,792 | 1,486,206 | 527,794 |
| Existing Recreation Center Improvements | 9,886,141 | 7,533,580 | 465,504 | 7,999,084 | 1,887,057 |
| Norview Recreation Center | 7,949,500 | 7,549,422 | 51,753 | 7,601,175 | 348,325 |
| Lambert's Point Golf Course | 400,000 | - | - | - | 400,000 |
| Lambert's Point Community & Recreational Center | 7,417,000 | 6,434,292 | 206,418 | 6,640,710 | 776,290 |
| Harbor Park Improvements | 475,000 | 187,259 | 89,850 | 277,109 | 197,891 |
| Athletic Field Renovations | 2,734,000 | 1,591,441 | 186,719 | 1,778,160 | 955,840 |
| Norfolk Fitness & Wellness Center Renovations | 1,808,670 | 1,658,891 | 15,148 | 1,674,039 | 134,631 |
| Broadcreek & Westside Neighborhood Parks | 2,625,709 | 2,163,231 | 229,326 | 2,392,557 | 233,152 |
| Town Point Park Improvements | 11,525,000 | 11,459,937 | 10,300 | 11,470,237 | 54,763 |
| Martin Luther King Park | 123,000 | 116,020 | - | 116,020 | 6,980 |
| Waterside Waterfront Renovations | 837,500 | 158,109 | 188,007 | 346,116 | 491,384 |
| Ingleside Gymnasium | 1,936,000 | 9,500 | 100,350 | 109,850 | 1,826,150 |
| Other | 12,138,038 | 2,263,199 | 1,117,799 | 3,380,998 | 8,757,040 |
| Parks/Recreational Facilities Total | 88,223,058 | 66,754,616 | 2,821,154 | 69,575,770 | 18,647,288 |
| Schools | | | | | |
| Blair Middle School Replacement | 11,284,000 | 8,741,580 | 738 | 8,742,318 | 2,541,682 |
| Norfolk Public School Initiative | 5,265,000 | 5,263,456 | - | 5,263,456 | 1,544 |
| Norview Construction | 26,878,031 | 26,876,228 | - | 26,876,228 | 1,803 |
| Southside Middle School | 2,250,000 | - | - | - | 2,250,000 |
| High School Athletic Field | 1,500,000 | 1,493,083 | 2,008 | 1,495,091 | 4,909 |
| Coleman Place Elementary Replacement | 19,217,641 | 17,847,291 | 2,949 | 17,850,240 | 1,367,401 |
| Crossroads Elementary Replacement | 27,070,525 | 401,780 | 6,553,217 | 6,954,997 | 20,115,528 |
| Other | 11,346,824 | 6,740,952 | 524,919 | 7,265,871 | 4,080,953 |
| Schools Total | 104,812,021 | 67,364,370 | 7,083,831 | 74,448,201 | 30,363,820 |
| Storm Water | | | | | |
| Storm Water Quality Improvements | 8,720,000 | 5,241,505 | 163,706 | 5,405,211 | 3,314,789 |
| Storm Water Facility Improvements | 1,650,000 | 1,417,036 | 199,248 | 1,616,284 | 33,716 |
| Old Dominion University Master Plan | 414,000 | 403,765 | - | 403,765 | 10,235 |
| Drain Line Clean & Slip Lining | 697,267 | 690,095 | 5,748 | 695,843 | 1,424 |
| Neighborhood Flood Reduction | 10,016,000 | 6,186,245 | 2,474,376 | 8,660,621 | 1,355,379 |
| Bulkheading Master Project | 2,600,000 | 1,191,463 | 309,066 | 1,500,529 | 1,099,471 |
| Other | 500,000 | 4,000 | - | 4,000 | 496,000 |
| Storm Water Total | 24,597,267 | 15,134,109 | 3,152,144 | 18,286,253 | 6,311,014 |
| Transportation | | | | | |
| Old Dominion University Master Plan | 8,463,600 | 8,482,864 | 372 | 8,483,236 | (19,636) |
| VDOT Urban Support Program | 10,813,512 | 7,762,708 | 138,889 | 7,901,597 | 2,911,915 |
| Bridge Maintenance & Repair Program | 18,871,208 | 10,407,075 | 1,750,863 | 12,157,938 | 6,713,270 |
| Signal & Intersection Enhancements | 9,362,500 | 5,053,003 | 750,463 | 5,803,466 | 3,559,034 |
| Citywide Soundwall Program | 5,105,260 | 3,893,501 | 88,502 | 3,982,003 | 1,123,257 |
| Neighborhood Streets Improvements | 48,851,286 | 24,270,838 | 3,936,339 | 28,207,177 | 20,644,109 |
| Atlantic City Development | 12,575,000 | 6,891,119 | 1,741,660 | 8,632,779 | 3,942,221 |
| Citywide Boat Ramp Improvements | 1,944,250 | 1,923,778 | 3,579 | 1,927,357 | 16,893 |
| Construct Light Rail | 74,117,974 | 44,081,224 | 16,940,716 | 61,021,940 | 13,096,034 |
| Develop Multi-Modal Transfer Station at Harbor Park | 606,000 | - | 363 | 363 | 605,637 |
| Other | 15,423,673 | 6,631,657 | 3,037,380 | 9,669,037 | 5,754,636 |
| Transportation Total | 206,134,263 | 119,397,767 | 28,369,126 | 147,786,893 | 58,347,370 |
| Grand Total | \$ 935,600,801 | \$ 563,074,497 | \$ 75,531,169 | \$ 638,605,666 | \$ 296,995,135 |

APPENDIX B

FORMS OF LEGAL OPINIONS OF BOND COUNSEL

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May __, 2012

Mayor and Council of the
City of Norfolk, Virginia
Norfolk, Virginia

\$ _____
City of Norfolk, Virginia
General Obligation Refunding Bonds,
Series 2012A (Non-AMT)

Ladies and Gentlemen:

We have served as bond counsel to the City of Norfolk, Virginia (the "City") in connection with the issuance and sale by the City of its \$ _____ General Obligation Refunding Bonds, Series 2012A (Non-AMT) (the "2012A Bonds"), dated the date of their delivery.

In connection with this opinion, we have examined (i) the Constitution of Virginia (the "Constitution"), (ii) the applicable laws of (A) the Commonwealth of Virginia (the "Commonwealth"), including without limitation the Public Finance Act of 1991, Chapter 26, Title 15.2, Code of Virginia of 1950, as amended, and (B) the United States of America, including without limitation the Internal Revenue Code of 1986, as amended (the "Code"), and (iii) copies of proceedings and other documents relating to the issuance and sale of the 2012A Bonds by the City as we have deemed necessary to render the opinions contained herein.

As to questions of fact material to the opinions, we have relied upon (i) representations of the City, including, without limitation, representations as to the use of proceeds of the 2012A Bonds, (ii) certifications of public officials furnished to us, and (iii) certifications and representations contained in certificates of the City and others delivered at closing, without undertaking to verify them by independent investigation. In addition, without undertaking to verify the same by independent investigation, we have relied on computations provided to us by Public Financial Management, Inc., Arlington, Virginia, financial advisor to the City, the mathematical accuracy of which was verified by Grant Thornton, LLP, Minneapolis, Minnesota, relating to the yield on investments in the escrow fund established with a portion of the proceeds of the 2012A Bonds and the yield on the 2012A Bonds.

We have assumed that all signatures on documents, certificates, and instruments examined by us are genuine, all documents, certificates, and instruments submitted to us as originals are authentic, and all documents, certificates, and instruments submitted to us as copies conform to the originals. In addition, we have assumed that all documents, certificates, and

Mayor and Council of the
City of Norfolk, Virginia
May __, 2012
Page 2

instruments relating to this financing have been duly authorized, executed, and delivered by all parties to them other than the City, and we have further assumed the due organization, existence, and powers of all parties other than the City.

Based on the foregoing, in our opinion, under current law:

1. The 2012A Bonds have been authorized and issued in accordance with the Constitution and laws of the Commonwealth and constitute valid and binding general obligations of the City.

2. The Council of the City has the power and is authorized and required by law to levy and collect annually, at the same time and in the same manner as other taxes of the City are assessed, levied and collected, a tax upon all taxable property within the City, over and above all other taxes authorized or limited by law, and without limitation as to rate or amount, sufficient to pay when due the principal of and premium, if any, and interest on the 2012A Bonds to the extent other funds of the City are not lawfully available and appropriated for such purpose.

3. Interest on the 2012A Bonds, including any accrued "original issue discount" properly allocable to the owners of the 2012A Bonds, (i) is excludable from gross income for purposes of federal income taxation under Section 103 of the Code and (ii) is not a specific item of tax preference for purposes of the federal alternative minimum income tax imposed on individuals and corporations. However, for purposes of the alternative minimum tax imposed on corporations (as defined for federal income tax purposes) under Section 56 of the Code, interest on the 2012A Bonds must be included in computing adjusted current earnings. The "original issue discount" on any 2012A Bond is the excess of its stated redemption price at maturity over the initial offering price to the public at which price a substantial amount of the 2012A Bonds of the same maturity was sold. The "public" does not include bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers. We express no opinion regarding other federal tax consequences arising with respect to the 2012A Bonds.

In delivering this opinion, we are (i) relying upon and assuming the accuracy of certifications and representations of representatives of the City and certain affiliated parties as to facts material to the opinion, and (ii) assuming continuing compliance with the Covenants (as defined below) by the City, so that interest on the 2012A Bonds will remain excludable from gross income for federal income tax purposes. The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied after the issuance of the 2012A Bonds in order for interest on the 2012A Bonds to be and remain excludable from gross income for purposes of federal income taxation. These requirements include, by way of example and not limitation, restrictions on the use, expenditure and investment of the proceeds of the 2012A Bonds and the use of the property financed or refinanced by the 2012A Bonds, limitations

Mayor and Council of the
City of Norfolk, Virginia
May __, 2012
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on the source of the payment of and the security for the 2012A Bonds, and the obligation to rebate certain excess earnings on the gross proceeds of the 2012A Bonds to the United States Treasury. The tax certificates and related documents for the 2012A Bonds (the "Tax Certificates") contain covenants (the "Covenants") with which the City and certain affiliated entities have agreed to comply. Failure to comply with the Covenants could cause interest on the 2012A Bonds to become includable in gross income for federal income tax purposes retroactive to their date of issue. In the event of noncompliance with the Covenants, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the 2012A Bonds from becoming includable in gross income for federal income tax purposes.

We have no responsibility to monitor compliance with the Covenants after the date of issue of the 2012A Bonds.

Certain requirements and procedures contained, incorporated or referred to in the Tax Certificates, including the Covenants, may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such document. We express no opinion concerning any effect on the excludability of interest on the 2012A Bonds from gross income for federal income tax purposes of any such subsequent change or action that may be made, taken or omitted upon the advice or approval of counsel other than this firm.

4. Interest on the 2012A Bonds is excludable from gross income of the owners thereof for purposes of income taxation by the Commonwealth. We express no opinion regarding (i) other tax consequences arising with respect to the 2012A Bonds under the laws of the Commonwealth, or (ii) any consequences arising with respect to the 2012A Bonds under the tax laws of any state or local jurisdiction other than the Commonwealth.

Our services as bond counsel to the City have been limited to rendering the foregoing opinion based on our review of such legal proceedings as we deem necessary to approve the validity of the 2012A Bonds and the income tax status of the interest on them. We express no opinion as to the accuracy, completeness or sufficiency of any offering material or information that may have been relied upon by any owner of the 2012A Bonds in making a decision to purchase the 2012A Bonds.

Very truly yours,

May __, 2012

Mayor and Council of the
City of Norfolk, Virginia
Norfolk, Virginia

\$ _____
City of Norfolk, Virginia
General Obligation Refunding Bonds,
Series 2012B (AMT)

Ladies and Gentlemen:

We have served as bond counsel to the City of Norfolk, Virginia (the "City") in connection with the issuance and sale by the City of its \$ _____ General Obligation Refunding Bonds, Series 2012B (AMT) (the "2012B Bonds"), dated the date of their delivery.

In connection with this opinion, we have examined (i) the Constitution of Virginia (the "Constitution"), (ii) the applicable laws of (A) the Commonwealth of Virginia (the "Commonwealth"), including without limitation the Public Finance Act of 1991, Chapter 26, Title 15.2, Code of Virginia of 1950, as amended, and (B) the United States of America, including without limitation the Internal Revenue Code of 1986, as amended (the "Code"), and (iii) copies of proceedings and other documents relating to the issuance and sale of the 2012B Bonds by the City as we have deemed necessary to render the opinions contained herein.

As to questions of fact material to the opinions, we have relied upon (i) representations of the City, including, without limitation, representations as to the use of proceeds of the 2012B Bonds, (ii) certifications of public officials furnished to us, and (iii) certifications and representations contained in certificates of the City and others delivered at closing, without undertaking to verify them by independent investigation. In addition, without undertaking to verify the same by independent investigation, we have relied on computations provided to us by Public Financial Management, Inc., Arlington, Virginia, financial advisor to the City, the mathematical accuracy of which was verified by Grant Thornton, LLP, Minneapolis, Minnesota, relating to the yield on investments in the escrow fund established with a portion of the proceeds of the 2012B Bonds and the yield on the 2012B Bonds.

We have assumed that all signatures on documents, certificates, and instruments examined by us are genuine, all documents, certificates, and instruments submitted to us as originals are authentic, and all documents, certificates, and instruments submitted to us as copies conform to the originals. In addition, we have assumed that all documents, certificates, and instruments relating to this financing have been duly authorized, executed, and delivered by all

Mayor and Council of the
City of Norfolk, Virginia
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parties to them other than the City, and we have further assumed the due organization, existence, and powers of all parties other than the City.

Based on the foregoing, in our opinion, under current law:

1. The 2012B Bonds have been authorized and issued in accordance with the Constitution and laws of the Commonwealth and constitute valid and binding general obligations of the City.

2. The Council of the City has the power and is authorized and required by law to levy and collect annually, at the same time and in the same manner as other taxes of the City are assessed, levied and collected, a tax upon all taxable property within the City, over and above all other taxes authorized or limited by law, and without limitation as to rate or amount, sufficient to pay when due the principal of and premium, if any, and interest on the 2012B Bonds to the extent other funds of the City are not lawfully available and appropriated for such purpose.

3. Interest on the 2012B Bonds, including any accrued "original issue discount" properly allocable to the owners of the 2012B Bonds, is excludable from gross income for purposes of federal income taxation under Section 103 of the Code, except when held by a "substantial user" of the property to be financed by the 2012B Bonds or a "related person" within the meaning of Section 147(a) of the Code. Interest on the 2012B Bonds, including any accrued "original issue discount" properly allocable to the owners of the 2012B Bonds, must be included as a specific item of tax preference for purposes of the federal alternative minimum income tax imposed on individuals and corporations. The "original issue discount" on any 2012B Bond is the excess of its stated redemption price at maturity over the initial offering price to the public at which price a substantial amount of the 2012B Bonds of the same maturity was sold. The "public" does not include bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers. We express no opinion regarding other federal tax consequences arising with respect to the 2012B Bonds.

In delivering this opinion, we are (i) relying upon and assuming the accuracy of certifications and representations of representatives of the City and certain affiliated parties as to facts material to the opinion, and (ii) assuming continuing compliance with the Covenants (as defined below), so that interest on the 2012B Bonds will remain excludable from gross income for federal income tax purposes. The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied after the issuance of the 2012B Bonds in order for interest on the 2012B Bonds to be and remain excludable from gross income for purposes of federal income taxation. These requirements include, by way of example and not limitation, restrictions on the use, expenditure and investment of the proceeds of the 2012B Bonds and the use of the property financed or refinanced by the 2012B Bonds, limitations on the source of the payment of and the security for the 2012B Bonds, and the obligation to rebate certain excess

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earnings on the gross proceeds of the 2012B Bonds to the United States Treasury. The tax certificate and related documents for the 2012B Bonds (the "Tax Certificates") contain covenants (the "Covenants") with which the City and certain affiliated parties have agreed to comply. Failure to comply with the Covenants could cause interest on the 2012B Bonds to become includable in gross income for federal income tax purposes retroactive to their date of issue. In the event of noncompliance with the Covenants, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the 2012B Bonds from becoming includable in gross income for federal income tax purposes.

We have no responsibility to monitor compliance with the Covenants after the date of issue of the 2012B Bonds.

Certain requirements and procedures contained, incorporated or referred to in the Tax Certificates, including the Covenants, may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such document. We express no opinion concerning any effect on the excludability of interest on the 2012B Bonds from gross income for federal income tax purposes of any such subsequent change or action that may be made, taken or omitted upon the advice or approval of counsel other than this firm.

4. Interest on the 2012B Bonds is excludable from gross income of the owners thereof for purposes of income taxation by the Commonwealth. We express no opinion regarding (i) other tax consequences arising with respect to the 2012B Bonds under the laws of the Commonwealth, or (ii) any consequences arising with respect to the 2012B Bonds under the tax laws of any state or local jurisdiction other than the Commonwealth.

Our services as bond counsel to the City have been limited to rendering the foregoing opinion based on our review of such legal proceedings as we deem necessary to approve the validity of the 2012B Bonds and the income tax status of the interest on them. We express no opinion as to the accuracy, completeness or sufficiency of any offering material or information that may have been relied upon by any owner of the 2012B Bonds in making a decision to purchase the 2012B Bonds.

Very truly yours,

APPENDIX C

FORM OF CONTINUING DISCLOSURE AGREEMENT

(See Attached)

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CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the City of Norfolk, Virginia (the "City") in connection with the issuance by the City of \$69,030,000 original aggregate principal amount of its General Obligation Refunding Bonds, Series 2012A (Non-AMT) (the "2012A Bonds") and the \$7,805,000 original aggregate principal amount of its General Obligation Refunding Bonds (AMT), Series 2012B (the "2012B Bonds", together with the 2012A Bonds, the "Bonds") pursuant to Ordinance Nos. 44,373 and 44,567, adopted by the City Council of the City on September 13, 2011 and February 28, 2012, respectively (collectively, the "Ordinance"). The proceeds of the Bonds are being used by the City, along with other available funds, to (i) current and advance refund certain outstanding general obligation bonds of the City, (ii) advance refund a U.S. Department of Housing and Urban Development loan of the City, and (iii) pay the underwriters' discount and costs of issuance of the Bonds. Pursuant to the Ordinance, the City approved the offering and sale of the Bonds to the public pursuant to an Official Statement relating to the Bonds, dated May 30, 2012 (the "Final Official Statement"). The City has determined that it constitutes an "obligated person" within the meaning of the Rule (as hereinafter defined) with respect to the Bonds and, accordingly, hereby represents, covenants and agrees as follows:

Section 1. Purpose of the Disclosure Agreement; Representation. This Disclosure Agreement is being executed and delivered by the City for the benefit of the Holders (as defined below) and in order to assist the Participating Underwriters (as defined below) in complying with the Rule (as defined below). The City acknowledges that it is undertaking primary responsibility for any reports, notices or disclosures that may be required under this Disclosure Agreement.

Section 2. Definitions. In addition to the definitions set forth in the Ordinance, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Financial Information" with respect to any Fiscal Year of the City means the following:

(i) the financial statements (consisting of at least a statement of net assets, a statement of cash flows and a statement of revenues, expenses and changes in fund net assets for all governmental/enterprise funds) of the City, which (A) are prepared annually in accordance with generally accepted accounting principles in effect from time to time consistently applied (provided that nothing in this clause (A) will prohibit the City after the date of the Final Official Statement from changing such principles so as to comply with generally accepted accounting principles as then in effect or to comply with a change in applicable Virginia law); and (B) are audited by an independent certified public accountant or firm of such accountants in accordance with generally accepted auditing standards as in effect from time to time; and

(ii) updates of the operating data contained in the sections in the Final Official Statement "Table II-3, Key Debt Trends," "Table II-6, Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita," "Table III-2, Assessed Valuations and Estimated Actual Values of Taxable Property," "Table III-5, Assessed Valuation and Change in Property Tax Levy," "Table III-6, Real and Personal Property Tax Levies and Collections,"

"Table III-7, Ten Principal Real Property Taxpayers" and "Table III-14, Comparative Statement of Revenue and Expenditures, General Fund."

"Dissemination Agent" shall mean the City, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

"Fiscal Year" shall mean the twelve-month period, at the end of which the financial position of the City and results of its operations for such period are determined. Currently, the City's Fiscal Year begins July 1 and continues through June 30 of the next year.

"Holder" shall mean, for purposes of this Disclosure Agreement, any person who is a record owner or beneficial owner of an Obligation.

"Make Public" or **"Made Public"** has the meaning set forth in Section 4 of this Disclosure Agreement.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of such Bonds.

"Rule" shall mean Rule 15c2-12 under the Securities Exchange Act of 1934 and any similar rules of the SEC relating to disclosure requirements in the offering and sale of municipal securities, all as in effect from time to time.

"SEC" shall mean the U.S. Securities and Exchange Commission.

Section 3. Obligations of the City. (a) The City shall complete the preparation of the Annual Financial Information with respect to any Fiscal Year of the City not later than 270 days after the end of such Fiscal Year.

(b) The City shall, in accordance with the Rule, Make Public or cause to be Made Public by the Dissemination Agent (if other than the City), the Annual Financial Information within 30 days after it is prepared in final form.

(c) The City shall Make Public or cause to be Made Public by the Dissemination Agent (if other than the City), in a timely manner not in excess of 10 business days after the occurrence of the event, notice of the occurrence of any of the following events with respect to the 2012 Bonds:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;

- (iv) unscheduled draws on any credit enhancement maintained with respect to the 2012 Bonds reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 - TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- (vii) modifications to rights of Holders, if material;
- (viii) bond calls, if material, and tender offers;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the Bonds, if material;
- (xi) rating changes;
- (xii) bankruptcy, insolvency, receivership or similar event of the City;*
- (xiii) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

Provided that nothing in this subsection (c) shall require the City to maintain any debt service reserve, credit enhancement or credit or liquidity providers with respect to the Bonds or to pledge any property as security for repayment of the Bonds.

(d) The City shall notify the MSRB of any change in its Fiscal Year not later than the date on which it first provides any information to the MSRB in the current Fiscal Year.

* The event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan or reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

Section 4. Information Made Public. Information shall be deemed to have been "Made Public" for purposes of this Disclosure Agreement if transmitted to the MSRB, in an electronic format as prescribed by the MSRB. Should the SEC approve any additional or subsequent filing system for satisfying the continuing disclosure filing requirements of the Rule, any filings required under this Disclosure Agreement may be made by transmitting such filing to such system, as described in the applicable SEC regulation or release approving such filing system.

Section 5. Incorporation by Reference. Any or all of the Annual Financial Information may be incorporated by specific reference from other documents, including official statements containing information with respect to the City, which are available to the public on the internet website of the MSRB or filed with the SEC. The City shall clearly identify each such other document so incorporated by reference.

Section 6. CUSIP Numbers. The City shall reference, or cause the Dissemination Agent (if different from the City) to reference, the CUSIP prefix number for the Bonds in any notice provided to the MSRB pursuant to Sections 3 and 4.

Section 7. Termination of Reporting Obligation. The obligations of the City under this Disclosure Agreement shall terminate upon the earlier to occur of the legal defeasance or final retirement of the Bonds.

Section 8. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement and may discharge any such Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the City shall be the Dissemination Agent.

Section 9. Identifying Information. All documents provided to the MSRB hereunder shall be accompanied by identifying information as prescribed by the MSRB.

Section 10. Amendment. Notwithstanding any other provision of this Disclosure Agreement, the City may amend this Disclosure Agreement, if such amendment is supported by an opinion of independent counsel with expertise in federal securities laws addressed to the City and to the Participating Underwriters for the Bonds to the effect that such amendment is permitted or required by the Rule.

Section 11. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Financial Information or notice of occurrence of an event listed in Section 3(c), in addition to that which is required by this Disclosure Agreement. If the City chooses to report any information in any Annual Financial Information or include any information in a notice of occurrence of an event listed in Section 3(c), in addition to that which is specifically required by this Disclosure Agreement, the City shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Financial Information or notice of occurrence of such an event.

Section 12. Default. Any Holder, whether acting jointly or severally, may take such action as may be permitted by law against the appropriate public official to secure compliance with the obligations of the City under this Disclosure Agreement. In addition, any Holder, whether acting jointly or severally, may take such action as may be permitted by law to challenge the adequacy of any information provided pursuant to this Disclosure Agreement, or to enforce any other obligation of the City hereunder. A default under this Disclosure Agreement shall not be deemed an event of default under the Ordinance or other debt authorization of the City, and the sole remedy under this Disclosure Agreement in the event of any failure of the City to comply herewith shall be an action to compel performance. Nothing in this provision shall be deemed to restrict the rights or remedies of any Holder pursuant to the Securities Exchange Act of 1934, the rules and regulations promulgated thereunder, or other applicable laws.

Section 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the City, the Participating Underwriters and Holders from time to time of the City's Bonds, and shall create no rights in any other person or entity.

Section 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

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Date: May ___, 2012

CITY OF NORFOLK, VIRGINIA

By: _____

City Manager,
City of Norfolk, Virginia

By: _____

Acting Director of Finance,
City of Norfolk, Virginia

Approved as to Form and Correctness:

Office of City Attorney
City of Norfolk, Virginia

[Signature Page to Continuing Disclosure Agreement]