

**NEW ISSUE****Bonds Ratings: Moody's Aa2****S&P AA+****(See "Ratings" herein) Fitch AA+****Book-Entry Only****CITY OF NORFOLK, VIRGINIA**

**\$130,990,000**  
**General Obligation**  
**Capital Improvement**  
**and Refunding Bonds,**  
**Series 2013A (Tax-Exempt)**

**\$81,715,000**  
**General Obligation**  
**Capital Improvement**  
**and Refunding Bonds,**  
**Series 2013B (Taxable)**

**\$2,470,000**  
**General Obligation**  
**Qualified Energy**  
**Conservation Bonds,**  
**Series 2013C (Taxable)**

**Dated: Date of Delivery****Due: August 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 2013A Bonds, 2013B Bonds and 2013C 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-2013A BONDS" interest on the 2013A 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, and (ii) is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, interest on the 2013A 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-2013A BONDS."

In the opinion of Bond Counsel, under current law, interest on the 2013B Bonds and the 2013C Bonds is includible in gross income for federal income tax purposes, see "TAX MATTERS-2013B BONDS AND 2013C BONDS." 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. 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 sections herein "TAX MATTERS-2013A BONDS" and "TAX MATTERS-2013B BONDS AND 2013C BONDS" 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 pages and see the section "DESCRIPTION OF THE BONDS-Redemption Provisions," for a description of the redemption provisions with respect to the Bonds.

**Authorization**

Ordinance No. 45,247 and Ordinance No. 45,262, adopted by the City Council of the City on September 10, 2013, and October 8, 2013, respectively.

**Purpose**

The proceeds of the Bonds, together with other available funds, will be used to (i) finance capital projects, (ii) refund certain outstanding bond anticipation notes and parking system revenue bonds of the City, and (iii) pay the underwriters' discount and costs of issuance of the Bonds. See the section herein "APPLICATION OF PROCEEDS OF THE BONDS."

**Interest Payment Dates**

Interest on the Bonds will be payable semi-annually on February 1 and August 1, commencing February 1, 2014.

**Registration**

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

**Closing/Delivery Date**

On or about November 7, 2013.

**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**

Director of Finance of the City.

**Issuer Contact**

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

**BofA Merrill Lynch****Citigroup****J.P. Morgan****Raymond James**

**Siebert**  
**Brandford Shank &**  
**Co., L.L.C.**

**Wells Fargo**  
**Securities**

Dated: October 17, 2013

**CITY OF NORFOLK, VIRGINIA**

**\$130,990,000**

**General Obligation Capital Improvement and Refunding Bonds,  
Series 2013A (Tax-Exempt)**

**(Base CUSIP Number 655867)\*\***

**MATURITIES, AMOUNTS, INTEREST RATES, PRICES AND YIELDS**

**\$121,825,000 Serial 2013A Bonds**

<b><u>Year Of Maturity (August 1)</u></b>	<b><u>Principal Amount</u></b>	<b><u>Interest Rate</u></b>	<b><u>Price</u></b>	<b><u>Yield</u></b>	<b><u>CUSIP** Suffix</u></b>
2014	\$ 1,645,000	2.000%	101.333%	0.180%	QP7
2015	1,640,000	3.000	104.575	0.350	QQ5
2016	1,630,000	4.000	109.060	0.650	QR3
2017	4,680,000	5.000	114.541	1.020	QS1
2018	7,265,000	5.000	116.330	1.420	QT9
2019	7,275,000	5.000	117.354	1.800	QU6
2020	7,280,000	5.000	117.773	2.150	QV4
2021	4,760,000	5.000	117.784	2.460	QW2
2022	4,725,000	5.000	117.783	2.700	QX0
2023	4,735,000	5.000	117.693	2.900	QY8
2024	4,455,000	5.000	115.490*	3.140	QZ5
2025	4,455,000	5.000	114.049*	3.300	RA9
2026	5,005,000	5.000	112.629*	3.460	RB7
2027	5,005,000	5.000	111.317*	3.610	RC5
2028	8,805,000	5.000	110.195*	3.740	RD3
2029	7,280,000	5.000	109.086*	3.870	RE1
2030	6,410,000	5.000	108.074*	3.990	RP6
2030	1,295,000	4.000	98.316	4.140	RF8
2031	10,685,000	5.000	107.406*	4.070	RG6
2032	10,845,000	5.000	106.743*	4.150	RH4
2033	4,680,000	4.300	99.336	4.350	RJ0
2034	4,470,000	5.000	105.676*	4.280	RN1
2034	2,800,000	4.250	97.569	4.430	RK7

**\$7,430,000 5.000% Term 2013A Bonds due August 1, 2038, Priced at 103.978%\* to yield 4.490% CUSIP\*\* Suffix: RL5**

**\$1,735,000 4.625% Term 2013A Bonds due August 1, 2043, Priced at 98.326% to yield 4.730% CUSIP\*\* Suffix: RM3**

\* Priced to first optional redemption date of August 1, 2023.

\*\* 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.

### OPTIONAL REDEMPTION

The 2013A Bonds maturing on or before August 1, 2023, are not subject to optional redemption prior to maturity. The 2013A Bonds maturing on or after August 1, 2024, are subject to redemption prior to their respective maturities on or after August 1, 2023, 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 2013A Bonds to be redeemed, plus the unpaid interest accrued thereon to the date fixed for redemption.

### MANDATORY SINKING FUND REDEMPTION

The 2013A Bonds maturing on August 1, 2038, are subject to mandatory sinking fund redemption in part, on August 1 in the years and in the amounts set forth below, at a redemption price equal to 100% of the principal amount of such 2013A Bonds to be redeemed, plus the unpaid interest accrued thereon to the date fixed for redemption:

<u>Year</u>	<u>Amount</u>
2035	\$ 255,000
2036	265,000
2037	280,000
2038 <sup>^</sup>	6,630,000

<sup>^</sup> Final Maturity

The 2013A Bonds maturing on August 1, 2043, are subject to mandatory sinking fund redemption in part, on August 1 in the years and in the amounts set forth below, at a redemption price equal to 100% of the principal amount of such 2013A Bonds to be redeemed, plus the unpaid interest accrued thereon to the date fixed for redemption:

<u>Year</u>	<u>Amount</u>
2039	\$315,000
2040	330,000
2041	350,000
2042	365,000
2043 <sup>^</sup>	375,000

<sup>^</sup> Final Maturity

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**CITY OF NORFOLK, VIRGINIA**

**\$81,715,000**  
**General Obligation Capital Improvement and Refunding Bonds,**  
**Series 2013B (Taxable)**

**(Base CUSIP Number 655867)\***

**MATURITIES, AMOUNTS, INTEREST RATES, PRICES AND YIELDS**

**\$47,050,000 Serial 2013B Bonds**

<b><u>Year Of Maturity (August 1)</u></b>	<b><u>Principal Amount</u></b>	<b><u>Interest Rate</u></b>	<b><u>Price</u></b>	<b><u>Yield</u></b>	<b><u>CUSIP* Suffix</u></b>
2014	\$1,865,000	0.280%	100.000%	0.280%	RQ4
2015	1,980,000	0.429	100.000	0.429	RR2
2016	3,095,000	0.986	100.000	0.986	RS0
2017	3,320,000	1.521	100.000	1.521	RT8
2018	3,145,000	1.941	100.000	1.941	RU5
2019	3,580,000	2.444	100.000	2.444	RV3
2020	3,475,000	2.764	100.000	2.764	RW1
2021	3,220,000	3.085	100.000	3.085	RX9
2022	3,850,000	3.365	100.000	3.365	RY7
2023	3,810,000	3.565	100.000	3.565	RZ4
2024	3,550,000	3.765	100.000	3.765	SA8
2025	4,220,000	3.965	100.000	3.965	SB6
2026	4,075,000	4.115	100.000	4.115	SC4
2027	3,865,000	4.265	100.000	4.265	SD2

\$3,890,000 4.755% Term 2013B Bonds due August 1, 2030, Priced at 100.000% to yield 4.755% CUSIP\* Suffix: SE0

\$30,775,000 4.955% Term 2013B Bonds due August 1, 2037, Priced at 100.000% to yield 4.955% CUSIP\* Suffix: SF7

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\* 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.

### OPTIONAL REDEMPTION

Prior to August 1, 2023, the 2013B Bonds are subject to redemption at the option of the City on any date prior to their maturity, in whole or in part (in increments of \$5,000), at a redemption price equal to the greater of:

- (a) the price set forth above (but not less than 100%) of such 2013B Bonds to be redeemed; or
- (b) the sum of the present values of the remaining scheduled payments of principal and interest to the maturity date of the 2013B Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date fixed for the redemption (the "Scheduled Redemption Date") of such 2013B Bonds, discounted to the Scheduled Redemption Date on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, as hereinafter defined, plus 20 basis points;

plus, in each case, the unpaid interest accrued thereon to the Scheduled Redemption Date.

*Definition of Treasury Rate.* "Treasury Rate" means, with respect to any Scheduled Redemption Date for a particular Bond, the yield to maturity as of such Scheduled Redemption Date of United States Department of the Treasury ("Treasury") securities with a constant maturity excluding inflation indexed securities (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two business days, but no more than 45 days, prior to the Scheduled Redemption Date or, if such Statistical Release is no longer published, any publicly available source of similar market data) most nearly equal to the period from the Scheduled Redemption Date to the maturity date of the Bond to be redeemed; provided, however, that if the period from the Scheduled Redemption Date to such maturity date is less than one year, the weekly average yield on actually traded Treasury securities adjusted to a constant maturity of one year will be used.

*Calculation of Redemption Price.* The redemption price of any 2013B Bonds to be redeemed by optional or extraordinary optional redemption will be determined by an independent accounting firm, investment banking firm or financial advisor retained by the City to calculate such redemption price. The City may conclusively rely on the determination of such redemption price by such independent accounting firm, investment banking firm or financial advisor and will not be liable for such reliance.

The 2013B Bonds maturing on or after August 1, 2024, are subject to redemption prior to their respective maturities on or after August 1, 2023, 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 2013B Bonds to be redeemed, plus the unpaid interest accrued thereon to the date fixed for redemption.

### MANDATORY SINKING FUND REDEMPTION

The 2013B Bonds maturing on August 1, 2030, are subject to mandatory sinking fund redemption in part, on August 1 in the years and in the amounts set forth below, at a redemption price equal to 100% of the principal amount of such 2013B Bonds to be redeemed, plus the unpaid interest accrued thereon to the date fixed for redemption:

<u>Year</u>	<u>Amount</u>
2029	\$2,275,000
2030 <sup>^</sup>	1,615,000

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<sup>^</sup> Final Maturity

The 2013B Bonds maturing on August 1, 2037, are subject to mandatory sinking fund redemption in part, on August 1 in the years and in the amounts set forth below, at a redemption price equal to 100% of the principal amount of such 2013B Bonds to be redeemed, plus the unpaid interest accrued thereon to the date fixed for redemption:

<u>Year</u>	<u>Amount</u>
2033	\$6,935,000
2034	1,005,000
2035	7,455,000
2036	7,250,000
2037 <sup>^</sup>	8,130,000
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<sup>^</sup> Final Maturity	

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**CITY OF NORFOLK, VIRGINIA**  
**\$2,470,000**  
**General Obligation Qualified Energy Conservation Bonds,**  
**Series 2013C (Taxable)**

**(Base CUSIP Number 655867)\***

**MATURITY, AMOUNT, INTEREST RATE, PRICE AND YIELD**

\$2,470,000 4.855% Term 2013C Bonds due August 1, 2032, Priced at 100.000% to yield 4.855% CUSIP\* Suffix: SG5

*Optional Redemption of the 2013C Bonds.* The 2013C Bonds are subject to redemption at the option of the City on any date prior to their maturity, in whole or in part (in increments of \$5,000), at a redemption price equal to the greater of:

(a) the price set forth above (but not less than 100%) of such 2013C Bonds to be redeemed; or

(b) the sum of the present values of the remaining scheduled payments of principal and interest to the maturity date of the 2013C Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the Scheduled Redemption Date of such 2013C Bonds, discounted to the Scheduled Redemption Date on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, as hereinafter defined, plus 20 basis points;

plus, in each case, the unpaid interest accrued thereon to the Scheduled Redemption Date.

*Mandatory Sinking Fund Deposits.* The 2013C Bonds are subject to mandatory sinking fund deposits in part, on August 1 in the years and in the amounts set forth below:

<u><b>Year</b></u>	<u><b>Amount</b></u>
2024	\$305,000
2025	310,000
2027	285,000
2028	335,000
2029	340,000
2030	340,000
2031	205,000
2032 <sup>^</sup>	350,000

<sup>^</sup> Final Maturity

*Extraordinary Optional Redemption of the 2013C Bonds.* On any day on or after the occurrence of an Extraordinary Event, as hereinafter defined, the 2013C Bonds are subject to redemption prior to their maturity at the option of the City, in whole or in part (in increments of \$5,000), at a redemption price equal to the greater of:

(a) the price set forth above (but not less than 100%) of such 2013C Bonds to be redeemed; or

(b) the sum of the present values of the remaining scheduled payments of principal and interest to the maturity date of the 2013C Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the Scheduled Redemption Date for such 2013C Bonds, discounted to such Scheduled Redemption Date on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, plus 100 basis points;

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plus, in each case, unpaid interest accrued on the 2013C Bonds to be redeemed to the Scheduled Redemption Date.

*Definition of Extraordinary Event.* An "Extraordinary Event" means an event after which the City determines that a material adverse change has occurred to Sections 54A, 54D or 6431 of the Internal Revenue Code of 1986, as amended, or there is any guidance published by the Internal Revenue Service (the "IRS") or the Treasury with respect to such sections or any other determination by the IRS or the Treasury, which determination is not the result of any act or omission by the City, pursuant to which the City's interest subsidy payments from the Treasury are reduced or eliminated.

*Calculation of Redemption Price.* The redemption price of any 2013C Bonds to be redeemed by optional or extraordinary optional redemption will be determined by an independent accounting firm, investment banking firm or financial advisor retained by the City to calculate such redemption price. The City may conclusively rely on the determination of such redemption price by such independent accounting firm, investment banking firm or financial advisor and will not be liable for such reliance.

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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

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## **CITY OFFICIALS**

Marcus D. Jones, City Manager  
Alice M. Kelly, CPA, Director of Finance  
Bernard A. Pishko, City Attorney

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## **BOND COUNSEL**

McGuireWoods LLP  
Richmond, Virginia

## **FINANCIAL ADVISOR**

Public Financial Management, Inc.  
Arlington, Virginia

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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.

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Merrill Lynch, Pierce, Fenner & Smith Incorporated, Citigroup Global Markets Inc., J. P. Morgan Securities LLC, Raymond James & Associates, Inc., Siebert Brandford Shank & Co., L.L.C. and Wells Fargo Bank, National Association (collectively, the "Underwriters") may engage in transactions that stabilize, maintain or otherwise affect the price of the Bonds, including transactions to (i) overalloc 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.

This Official Statement contains statements which, to the extent they are not recitations of historical fact, constitute "forward-looking statements." In this respect, the words, "estimate," "project," "anticipate," "expect," "intend," "believe" and similar expressions are intended to identify forward-looking statements. A number of important factors affecting the City's financial results could cause actual results to differ materially from those stated in the forward-looking statements.

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## **OFFICIAL STATEMENT**

### **Relating to the Issuance of**

#### **CITY OF NORFOLK, VIRGINIA**

**\$130,990,000**  
**General Obligation**  
**Capital Improvement**  
**and Refunding Bonds,**  
**Series 2013A (Tax-Exempt)**

**\$81,715,000**  
**General Obligation**  
**Capital Improvement**  
**and Refunding Bonds,**  
**Series 2013B (Taxable)**

**\$2,470,000**  
**General Obligation**  
**Qualified Energy**  
**Conservation Bonds,**  
**Series 2013C (Taxable)**

#### **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 \$130,990,000 General Obligation Capital Improvement and Refunding Bonds, Series 2013A (Tax-Exempt) (the "2013A Bonds"), \$81,715,000 General Obligation Capital Improvement and Refunding Bonds, Series 2013B (Taxable) (the "2013B Bonds") and \$2,470,000 General Obligation Qualified Energy Conservation Bonds, Series 2013C (Taxable) (the "2013C Bonds" and together with the 2013A Bonds and the 2013B 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 notice of certain enumerated events 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 pages of this Official Statement. Interest on the Bonds will be payable semi-annually on February 1 and August 1, commencing February 1, 2014.

### Designation of 2013C Bonds as Qualified Energy Conservation Bonds and Specified Tax Credit Bonds

The City will designate and issue the 2013C Bonds as "qualified energy conservation bonds" ("Qualified Energy Conservation Bonds") as such term is defined in Section 54D of the Internal Revenue Code of 1986, as amended (the "Code") and will irrevocably elect to treat the 2013C Bonds as "specified tax credit bonds" ("Specified Tax Credit Bonds") as defined in Section 6431(f) of the Code. Section 6431(f) of the Code authorizes an issuer of a Specified Tax Credit Bond periodically to receive a refundable credit under Section 6431 of the Code (the "Interest Subsidy Payment") in lieu of providing a federal tax credit to the owner of such bond.

### Redemption Provisions

*Optional Redemption of the 2013A Bonds.* The 2013A Bonds maturing on or before August 1, 2023, are not subject to optional redemption prior to maturity. The 2013A Bonds maturing on or after August 1, 2024, are subject to redemption prior to their respective maturities on or after August 1, 2023, 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 2013A Bonds to be redeemed, plus the unpaid interest accrued thereon to the date fixed for redemption.

*Mandatory Sinking Fund Redemption of the 2013A Bonds.* The 2013A Bonds maturing on August 1, 2038, are subject to mandatory sinking fund redemption in part, on August 1 in the years and in the amounts set forth below, at a redemption price equal to 100% of the principal amount of such 2013A Bonds to be redeemed, plus the unpaid interest accrued thereon to the date fixed for redemption:

<u>Year</u>	<u>Amount</u>
2035	\$ 255,000
2036	265,000
2037	280,000
2038 <sup>^</sup>	6,630,000

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<sup>^</sup> Final Maturity

The 2013A Bonds maturing on August 1, 2043, are subject to mandatory sinking fund redemption in part, on August 1 in the years and in the amounts set forth below, at a redemption price equal to 100% of the principal amount of such 2013A Bonds to be redeemed, plus the unpaid interest accrued thereon to the date fixed for redemption:

<u>Year</u>	<u>Amount</u>
2039	\$315,000
2040	330,000
2041	350,000
2042	365,000
2043 <sup>^</sup>	375,000

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<sup>^</sup> Final Maturity

*Optional Redemption of the 2013B Bonds.* Prior to August 1, 2023, the 2013B Bonds are subject to redemption at the option of the City of any date prior to their maturity, in whole or in part (in increments of \$5,000), at a redemption price equal to the greater of:

(1) the price set forth on page (iii) (but not less than 100%) of such 2013B Bonds to be redeemed; or

(2) the sum of the present values of the remaining scheduled payments of principal and interest to the maturity date of the 2013B Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date fixed for the redemption of such 2013B Bonds (the "Scheduled Redemption Date"), discounted to the Scheduled Redemption Date on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, plus 20 basis points;

plus, in each case, the unpaid interest accrued thereon to the Scheduled Redemption Date.

For purposes of this Official Statement, the term "Treasury Rate" means, with respect to any Scheduled Redemption Date for a particular Bond, the yield to maturity as of such Scheduled Redemption Date of United States Department of the Treasury ("Treasury") securities with a constant maturity excluding inflation indexed securities (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two business days, but no more than 45 days, prior to the Scheduled Redemption Date or, if such Statistical Release is no longer published, any publicly available source of similar market data) most nearly equal to the period from the Scheduled Redemption Date to the maturity date of the Bond to be redeemed; provided, however, that if the period from the Scheduled Redemption Date to such maturity date is less than one year, the weekly average yield on actually traded Treasury securities adjusted to a constant maturity of one year will be used.

The 2013B Bonds maturing on or after August 1, 2023, are subject to redemption prior to their respective maturities on or after August 1, 2023, 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 2013B Bonds to be redeemed, plus the unpaid interest accrued thereon to the date fixed for redemption.

*Mandatory Sinking Fund Redemption of the 2013B Bonds.* The 2013B Bonds maturing on August 1, 2030, are subject to mandatory sinking fund redemption in part, on August 1 in the years and in the amounts set forth below, at a redemption price equal to 100% of the principal amount of such 2013B Bonds to be redeemed, plus the unpaid interest accrued thereon to the date fixed for redemption:

<u>Year</u>	<u>Amount</u>
2029	\$2,275,000
2030 <sup>^</sup>	1,615,000
<hr/>	
<sup>^</sup> Final Maturity	

The 2013B Bonds maturing on August 1, 2037, are subject to mandatory sinking fund redemption in part, on August 1 in the years and in the amounts set forth below, at a redemption price equal to 100% of the principal amount of such 2013B Bonds to be redeemed, plus the unpaid interest accrued thereon to the date fixed for redemption:

<u>Year</u>	<u>Amount</u>
2033	\$6,935,000
2034	1,005,000
2035	7,455,000
2036	7,250,000
2037 <sup>^</sup>	8,130,000
<hr/>	
<sup>^</sup> Final Maturity	

*Optional Redemption of the 2013C Bonds.* The 2013C Bonds are subject to redemption at the option of the City of any date prior to their maturity, in whole or in part (in increments of \$5,000), at a redemption price equal to the greater of:

(1) the price set forth on page (v) (but not less than 100%) of such 2013C Bonds to be redeemed; or

(2) the sum of the present values of the remaining scheduled payments of principal and interest to the maturity date of the 2013C Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the Scheduled Redemption Date of such 2013C Bonds, discounted to the Scheduled Redemption Date on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, plus 20 basis points;

plus, in each case, the unpaid interest accrued thereon to the Scheduled Redemption Date.



*Mandatory Sinking Fund Deposits for the 2013C Bonds.* The 2013C Bonds are subject to mandatory sinking fund deposits in part, on August 1 in the years and in the amounts set forth below:

<u>Year</u>	<u>Amount</u>
2024	\$305,000
2025	310,000
2027	285,000
2028	335,000
2029	340,000
2030	340,000
2031	205,000
2032 <sup>^</sup>	350,000

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<sup>^</sup> Final Maturity

*Extraordinary Optional Redemption of the 2013C Bonds.* On any day on or after the occurrence of an Extraordinary Event, as hereinafter defined, the 2013C Bonds are subject to redemption prior to their maturity at the option of the City, in whole or in part (in increments of \$5,000), at a redemption price equal to the greater of:

(1) the price set forth on page (v) (but not less than 100%) of such 2013C Bonds to be redeemed; or

(2) the sum of the present values of the remaining scheduled payments of principal and interest to the maturity date of the 2013C Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the Scheduled Redemption Date for such 2013C Bonds, discounted to such Scheduled Redemption Date on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, plus 100 basis points; plus, in each case, unpaid interest accrued on the 2013C Bonds to be redeemed to the Scheduled Redemption Date.

For purposes of this Official Statement, the term "Extraordinary Event" will have occurred if the City determines that a material adverse change has occurred to Sections 54A, 54D or 6431 of the Code, or there is any guidance published by the Internal Revenue Service (the "IRS") or the Treasury with respect to such sections or any other determination by the IRS or the Treasury, which determination is not the result of any act or omission by the City, pursuant to which the City's Interest Subsidy Payments from the Treasury are reduced or eliminated.

*Calculation of Redemption Price.* The redemption price of any 2013C Bonds to be redeemed by optional or extraordinary optional redemption will be determined by an independent accounting firm, investment banking firm or financial advisor retained by the City to calculate such redemption price. The City may conclusively rely on the determination of such redemption price by such independent accounting firm, investment banking firm or financial advisor and will not be liable for such reliance.

*Manner of Redemption.* If less than all of the Bonds are called for redemption, the maturities of such 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 Bonds, if less than all of the 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.

*Notice of Redemption.* Any notice of optional redemption of any of the 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. The City may rescind any redemption of the Bonds and notice thereof on any date prior to the scheduled redemption date by causing written notice of such rescission to be given to the Owners of such Bonds so called for redemption. Notice of the rescission of any such redemption of the Bonds shall be given in the same manner in which notice of redemption of such Bonds was originally given. The actual receipt by the Beneficial Owner (as defined in Appendix D) of any Bond of notice of such rescission shall not be a condition precedent to rescission, and failure to receive such notice or any defect in such notice shall not affect the validity of the rescission.

Notice of redemption shall be given by certified or registered mail to DTC or its nominee as the registered owner of the applicable 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 of the applicable Bonds.

#### **Special Redemption Considerations for the 2013C Bonds**

The Code requires that the City redeem the portion of the 2013C Bonds in an amount equal to the unexpended Available Project Proceeds, as hereinafter defined, on November 7, 2016 (unless such date is extended by the IRS for up to an additional two years). This redemption will be effected through the optional redemption provisions described in "DESCRIPTION OF THE BONDS – Redemption Provisions-Optional Redemption" above (and not pursuant to the redemption provisions relating to an Extraordinary Event described above). The City anticipates expending all of the Available Project Proceeds of the 2013C Bonds within three years of the date of issuance. However, there can be no assurance that all such proceeds will be expended prior to the date that would require the City to exercise its right to cause the optional redemption of the applicable portion of the 2013C Bonds to maintain the status of the 2013C Bonds as Qualified Energy Conservation Bonds. "Available Project Proceeds" means (i) the excess of (A) the proceeds received by the City from the sale of the 2013C Bonds (the par amount or \$2,470,000.00) over (B) the issuance costs of the 2013C Bonds to be paid from such proceeds (to the extent that such issuance costs (including underwriters' discount) do not exceed 2% of such proceeds (or \$49,400.00)), and (ii) the proceeds derived from any investment of the excess described in clause (i) of this definition.

#### **Restriction on Defeasance of the 2013B Bonds and the 2013C Bonds**

The City will not defease or permit a defeasance of any of the 2013B Bonds or the 2013C Bonds (collectively, the "2013B/C Bonds") unless it receives an opinion from nationally-recognized bond counsel to the effect that (i) the holders of the 2013B/C Bonds being defeased will not recognize income, gain or loss for U.S. federal income tax purposes as a result of the defeasance and (ii) the defeasance will not otherwise alter those holders' U.S. federal income tax treatment of principal and interest payments on the 2013B/C Bonds being defeased. See the subsection "TAX MATTERS-2013B BONDS AND 2013C BONDS – Defeasance."

### **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 No. 45,247 and Ordinance No. 45,262, adopted by the City Council of the City (the "City Council") on September 10, 2013, and October 8, 2013, respectively (collectively, the "Ordinance").

The proceeds of the Bonds, together with other available funds, will be used to (i) finance capital projects, (ii) refund certain outstanding bond anticipation notes and parking system revenue bonds of the City, and (iii) pay the underwriters' discount and costs of issuance of the Bonds as set forth in the sections "PLAN OF FINANCE" and "APPLICATION OF PROCEEDS OF THE BONDS."

## **PLAN OF FINANCE**

### **Capital Projects Financing**

The City expects to use a portion of the proceeds of the 2013A Bonds and the 2013C Bonds to pay the costs of projects identified in the City's Capital Improvement Program, as the City Council may amend it from time to time and the acquisition of various personal property, including the construction and renovation of Crossroads Elementary School.

### **Refunding**

The City may use the proceeds of the 2013A Bonds and the 2013B Bonds, together with other available funds, to refund, redeem and defease all or portions of various bond anticipation notes and parking system revenue bonds (the "Refunded Obligations"). The table below sets forth the Refunded Obligations.

#### **\$51,655,000 General Obligation Bond Anticipation Note, Series 2011A (Tax-Exempt) (the "2011A BAN") (Base CUSIP Number 655867)\***

<b><u>Year of Maturity (January 1)</u></b>	<b><u>Refunded Principal Amount</u></b>	<b><u>Interest Rate</u></b>	<b><u>Redemption Date</u></b>	<b><u>Redemption Price</u></b>	<b><u>CUSIP Suffix*</u></b>
2014	\$36,930,000	3.000%	11/08/2013	100%	MF3
2014	14,725,000	2.000	11/08/2013	100%	MG1

#### **\$23,650,000 General Obligation Bond Anticipation Note, Series 2011B (Taxable) (the "2011B BAN") (Base CUSIP Number 655867)\***

<b><u>Year of Maturity (January 1)</u></b>	<b><u>Refunded Principal Amount</u></b>	<b><u>Interest Rate</u></b>	<b><u>Redemption Date</u></b>	<b><u>Redemption Price</u></b>	<b><u>CUSIP Suffix*</u></b>
2014	\$23,650,000	2.090%	11/08/2013	100%	ME6

\* 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.

**\$17,475,000 Parking System Revenue Bonds, Series 1999**  
**(Base CUSIP Number 655899)\***

<b>Year of Maturity (February 1)</b>	<b>Refunded Principal Amount</b>	<b>Interest Rate</b>	<b>Redemption Date</b>	<b>Redemption Price</b>	<b>CUSIP Suffix*</b>
2014	\$ 525,000	4.700%	11/08/2013	100%	BE1
2015	550,000	4.800	11/08/2013	100%	BF8
2020	3,180,000	5.000	11/08/2013	100%	BG6
2029	8,085,000	5.000	11/08/2013	100%	BH4

**\$17,860,000 Parking System Revenue and Refunding Bond, Series 2000B**  
**(Base CUSIP Number 655899)\***

<b>Year of Maturity (February 1)</b>	<b>Refunded Principal Amount</b>	<b>Interest Rate</b>	<b>Redemption Date</b>	<b>Redemption Price</b>	<b>CUSIP Suffix*</b>
2031	\$15,155,000	5.500%	11/08/2013	100%	BK7

**\$30,905,000 Parking System Revenue and Refunding Bonds, Series 2004B**  
**(Base CUSIP Number 655899)\***

<b>Year of Maturity (February 1)</b>	<b>Refunded Principal Amount</b>	<b>Interest Rate</b>	<b>Maturity or Redemption Date</b>	<b>Maturity or Redemption Price</b>	<b>CUSIP Suffix*</b>
2014	\$2,135,000	5.000	02/01/2014	100%	BV3
2015	2,235,000	4.000	02/01/2014	100%	BW1
2016	2,320,000	4.500	02/01/2014	100%	BX9
2017	2,430,000	4.500	02/01/2014	100%	BY7
2018	2,535,000	4.500	02/01/2014	100%	BZ4
2019	2,655,000	4.000	02/01/2014	100%	CA8
2020	340,000	4.000	02/01/2014	100%	CB6
2021	355,000	4.000	02/01/2014	100%	CC4
2022	370,000	4.125	02/01/2014	100%	CD2
2023	385,000	4.250	02/01/2014	100%	CE0
2024	400,000	4.250	02/01/2014	100%	CF7
2029	2,275,000	4.500	02/01/2014	100%	CG5
2035	3,500,000	4.500	02/01/2014	100%	CH3

\* 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.

**\$26,045,000 Parking System Revenue Refunding Bonds, Series 2005A**  
**(Base CUSIP Number 655899)\***

<b>Year of Maturity (February 1)</b>	<b>Refunded Principal Amount</b>	<b>Interest Rate</b>	<b>Maturity or Redemption Date</b>	<b>Maturity or Redemption Price</b>	<b>CUSIP Suffix*</b>
2019†	\$ 225,000	4.000	02/01/2015	100%	CV2
2021	5,170,000	5.000	02/01/2015	100%	CN0
2023	5,710,000	5.000	02/01/2015	100%	CQ3
2025	6,285,000	5.000	02/01/2015	100%	CS9
2027	6,940,000	5.000	02/01/2015	100%	CU4

† The mandatory redemption payments for the 2019 Term Bond due February 1, 2014, and 2015 will be paid as scheduled with the remainder of the mandatory redemption payments redeemed at the redemption date.

**\$5,845,000 Parking System Revenue Refunding Bond, Series 2012 (Taxable) (the "2012 PRB")**

<b>Year of Maturity (August 1)</b>	<b>Refunded Principal Amount</b>	<b>Interest Rate</b>	<b>Redemption Date</b>	<b>Redemption Price</b>	<b>CUSIP Suffix*</b>
2019	\$5,690,000	Variable	11/08/2013	100%	None

**Escrow Agreement and Defeasance**

A portion of the proceeds of the 2013A Bonds and the 2013B Bonds, together with other available funds, will be deposited with U.S. Bank Trust National Association (the "Escrow Agent"), pursuant to an Escrow Agreement to be dated the date of delivery of the Bonds, between the City and the Escrow Agent (the "Escrow 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 Obligations other than the 2011A BAN, the 2011B BAN and the 2012 PRB. The City will use a portion of the proceeds of the 2013A Bonds and the 2013B Bonds, together with other available funds and a portion of the proceeds of the 2013 Variable Rate Loan, as hereinafter defined, to redeem the 2011A BAN and the 2011B BAN. The City will use a portion of the proceeds of the 2013A Bonds and the 2013B Bonds, together with other available funds, to redeem the 2012 PRB. The sufficiency of the Escrow Securities deposited with the Escrow Agent was verified by Robert Thomas CPA, LLC. See the section herein "VERIFICATION OF MATHEMATICAL COMPUTATIONS."

\* 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.

### **Private Placement Loans**

On October 2, 2013, the City entered into a Bond Purchase and Loan Agreement (the "Forward Refunding Agreement") with Banc of America Preferred Funding Corporation (the "Forward Refunding Lender"), under which the City has the ability to issue three separate bonds in the aggregate principal amount of \$37,960,000 (collectively, the "Forward Refunding Bonds"), the proceeds of which the City would use to currently refund its outstanding General Obligation Refunding Bonds, Series 2004, General Obligation Capital Improvement and Refunding Bonds, Series 2005 and General Obligation Capital Improvement and Refunding Bonds, Series 2006 on June 2, 2014, October 1, 2014, and March 2, 2015, respectively (collectively, the "Forward Refunded Bonds"). The City has the ability to terminate the Forward Refunding Agreement without issuing the Forward Refunding Bonds, and the Forward Refunding Lender is not required to purchase any Forward Refunding Bond unless the City satisfies certain advance conditions specified in the Forward Refunding Agreement, so there can be no assurance that the City will issue any of the Forward Refunding Bonds or refund any of the outstanding Forward Refunded Bonds.

In addition, on or about November 7, 2013, the City expects to enter into a private placement variable rate loan in the original principal amount of \$13,600,000 (the "2013 Variable Rate Loan") with Bank of America, N.A., and expects to use the proceeds of such loan, along with other available funds, and a portion of the 2013B Bonds to refund the City's General Obligation Bond Anticipation Note, Series 2011B (Taxable). The closing of the 2013 Variable Rate Loan is subject to the satisfaction of certain closing conditions on or before the expected closing date. There can be no assurance that the closing conditions will be satisfied or that the City will close on the 2013 Variable Rate Loan.

## APPLICATION OF PROCEEDS OF THE BONDS

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

	<u>2013A Bonds</u>	<u>2013B Bonds</u>	<u>2013C Bonds</u>	<u>Total</u>
Sources of Proceeds:				
Par Amount of Bonds	\$130,990,000.00	\$81,715,00.00	\$2,470,000.00	\$215,175,000.00
Net Original Issue Premium	13,705,466.60	-	-	13,705,466.60
Parking Indenture Debt				
Service Fund Release	1,191,881.92	1,191,867.01	-	2,383,748.93
Parking Indenture Debt				
Service Reserve Fund Release	1,255,151.33	1,450,069.49	-	2,705,220.82
Cash Contribution from the City	1,231,839.92	6,500,000.00	-	7,731,839.92
Total:	<u>\$148,374,339.77</u>	<u>\$90,856,936.50</u>	<u>\$2,470,000.00</u>	<u>\$241,701,276.27</u>
Uses of Proceeds:				
Deposit to Project Fund	\$93,734,081.83	\$ -	\$2,458,452.19	\$96,192,534.02
Refunding Deposits:				
Cash Deposit	44,406,936.79	51,578,089.17	-	95,985,025.96
Escrow Securities	9,599,209.25	38,894,959.13	-	48,494,168.38
Costs of Issuance*	634,111.90	383,888.20	11,547.81	1,029,547.91
Total:	<u>\$148,374,339.77</u>	<u>\$90,856,936.50</u>	<u>\$2,470,000.00</u>	<u>\$241,701,276.27</u>

\* Includes underwriters' discount and other costs of issuing the Bonds, including legal, financial advisory, rating and printing.

## 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. In order to provide for the maturing principal of some of the 2013C Bonds, the City expects to make annual deposits into a sinking fund. See the subsection "THE 2013 Bonds – Redemption Provisions."

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 30, and for Fiscal Year 2012, the Commonwealth provided \$372,450,353 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-2013A BONDS**

#### **Opinion of Bond Counsel – Federal Income Tax Consequences**

Bond Counsel's opinion regarding the 2013A 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 2013A Bonds (including any accrued "original issue discount" properly allocable to the owners of the 2013A Bonds) (i) is excludable from the gross income of the owners of the 2013A 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 2013A 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 2013A Bonds.

Bond Counsel will express no opinion regarding other federal tax consequences arising with respect to the 2013A Bonds.

Bond Counsel's opinion 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 2013A Bonds for federal income tax purposes. Bond Counsel's opinion does 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 opinion regarding the 2013A Bonds, Bond Counsel is relying upon and assuming the accuracy of certifications and representations of representatives of the Underwriters and other third parties, and public officials as to facts material to the opinion, which Bond Counsel has not independently verified.

In addition, Bond Counsel is assuming continuing compliance with the Covenants by the City. The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied after the issuance of the 2013A Bonds in order for interest on the 2013A 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 2013A Bonds and the use of the property financed or refinanced by the 2013A Bonds, limitations on the source of the payment of and the security for the 2013A Bonds, and the obligation to rebate certain excess earnings on the gross proceeds of the 2013A Bonds to the Treasury. Prior to the issuance of the 2013A Bonds, the City will enter into a tax certificate for the 2013A 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 2013A Bonds to become includible 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 2013A Bonds from becoming includible 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 2013A 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 2013A 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 2013A 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 2013A 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 2013A Bonds.

Prospective purchasers of the 2013A 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 2013A 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 2013A 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 2013A 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 2013A 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 2013A 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 2013A 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 2013A 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 Bonds.

### **Bond Premium**

In general, if an owner acquires a bond 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 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 (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 includible in gross income for federal income tax purposes. If the IRS does audit the 2013A Bonds, the IRS will, under its current procedures, treat the City as the taxpayer. As such, the beneficial owners of the 2013A 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 2013A 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 2013A 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 2013A Bonds, regulatory interpretation of the Code or actions by a court involving either the 2013A Bonds or other tax-exempt obligations will not have an adverse effect on the 2013A 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 2013A Bonds.

Prospective purchasers of the 2013A 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 2013A 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 tax consequences arising with respect to the 2013A Bonds under the laws of the Commonwealth or (ii) any consequences arising with respect to the 2013A Bonds under the tax laws of any state or local jurisdiction other than the

Commonwealth. Prospective purchasers of the 2013A Bonds should consult their own tax advisors regarding the tax status of interest on the 2013A Bonds in a particular state or local jurisdiction other than the Commonwealth.

## **TAX MATTERS-2013B BONDS AND 2013C BONDS**

### **Opinion of Bond Counsel – Federal Income Tax Consequences**

Bond Counsel's opinion with respect to the 2013B Bonds will state that, based on current law, interest on the 2013B Bonds is includible in the gross income of the owners thereof for purposes of federal income taxation.

Bond Counsel's opinion with respect to the 2013C Bonds will state that, based on current law, interest on the 2013C Bonds is includible in the gross income of the owners thereof for purposes of federal income taxation as required under Section 6431(f)(1)(D) of the Code.

Bond Counsel will express no opinion regarding other federal tax consequences arising with respect to the 2013B/C Bonds. See Appendix B for the form of the opinion of Bond Counsel with respect to the 2013B Bonds and the form of the opinion of Bond Counsel with respect to the 2013C Bonds.

### **Summary**

The following is a summary of certain of the United States federal income tax consequences of the ownership of the 2013B/C Bonds as of the date hereof. Each prospective purchaser of the 2013B/C Bonds should consult with its own tax advisor regarding the application of United States federal income tax laws, as well as any state, local, foreign or other tax laws, to its particular situation.

This summary is based on the Code, as well as Treasury regulations and administrative and judicial rulings and practice. Legislative, judicial and administrative changes may occur, possibly with retroactive effect, that could alter or modify the continued validity of the statements and conclusions set forth herein. This summary is intended as a general explanatory discussion of the consequences of holding the 2013B/C Bonds generally and does not purport to furnish information in the level of detail or with the prospective purchaser's specific tax circumstances that would be provided by a prospective purchaser's own tax advisor. For example, it generally is addressed only to original purchasers of the 2013B/C Bonds that are "U.S. holders," as hereinafter defined, deals only with 2013B/C Bonds held as capital assets within the meaning of Section 1221 of the Code and does not address tax consequences to owners that may be relevant to investors subject to special rules, such as individuals, trusts, estates, tax-exempt investors, foreign investors, cash method taxpayers, dealers in securities, currencies or commodities, banks, thrifts, insurance companies, electing large partnerships, mutual funds, regulated investment companies, real estate investment trusts, S corporations, persons that hold the 2013B/C Bonds as part of a straddle, hedge, integrated or conversion transaction, and persons whose "functional currency" is not the U.S. dollar. In addition, this summary does not address alternative minimum tax issues or the indirect consequences to a holder of an equity interest in an owner of the 2013B/C Bonds.

As used herein, a "U.S. holder" is a "U.S. person" that is a beneficial owner of a 2013B/C Bond. A "non-U.S. investor" is a holder (or beneficial owner) of a 2013B/C Bond that is not a U.S. person. For these purposes, a "U.S. person" is a citizen or resident of the United States, a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof (except, in the case of a partnership, to the extent otherwise provided in Treasury regulations), an estate the income of which is subject to United States federal income taxation regardless of its source or a

trust if (i) a United States court is able to exercise primary supervision over the trust's administration and (ii) one or more United States persons have the authority to control all of the trust's substantial decisions.

### **General Federal Income Tax Status of the 2013B/C Bonds**

The 2013B/C Bonds will be treated, for federal income tax purposes, as a debt instrument. Accordingly, interest will be included in the income of the owner as it is paid (or, if the owner is an accrual method taxpayer, as it is accrued) as interest.

Owners of the 2013B/C Bonds that allocate a basis in the 2013B/C Bonds that is greater than the principal amount of the 2013B/C Bonds should consult their own tax advisors with respect to whether or not they should elect to amortize such premium under Section 171 of the Code.

If an owner purchases the 2013B/C Bonds for an amount that is less than the principal amount of the 2013B/C Bonds, and such difference is not considered to be de minimis, then such discount will represent market discount that ultimately will constitute ordinary income (and not capital gain). Further, absent an election to accrue market discount currently, upon a sale or exchange of a 2013B/C Bond, a portion of any gain will be ordinary income to the extent it represents the amount of any such market discount that was accrued through the date of sale. In addition, absent an election to accrue market discount currently, the portion of any interest expense incurred or continued to carry a market discount bond that does not exceed the accrued market discount for any taxable year, will be deferred.

### **Sale and Exchange of the 2013B/C Bonds**

Upon a sale or exchange of a 2013B/C Bond, an owner generally will recognize gain or loss on the 2013B/C Bond equal to the difference between the amount realized on the sale and its adjusted tax basis in such 2013B/C Bond. Such gain or loss generally will be capital gain (although any gain attributable to accrued market discount of the 2013B/C Bond not yet taken into income will be ordinary). The adjusted basis of the owner in a 2013B/C Bond will (in general) equal its original purchase price increased by any original issue discount or market discount includible in the gross income of the owner with respect to the 2013B/C Bonds and decreased by any principal payments received on the 2013B/C Bond. In general, if the 2013B/C Bond is held for longer than one year, any gain or loss would be long-term capital gain or loss, and capital losses are subject to certain limitations.

### **Defeasance**

Defeasance of any 2013B/C Bond may result in a reissuance thereof, in which event an owner will recognize taxable gain or loss equal to the difference between the amount realized from the sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and the holder's adjusted tax basis in the 2013B/C Bond. The City will not defease or permit the defeasance of any 2013B/C Bonds, unless it receives an opinion from nationally-recognized bond counsel to the effect that (i) the holders of the 2013B/C Bonds being defeased will not recognize income, gain or loss for U.S. federal income tax purposes as a result of the defeasance and (ii) the defeasance will not otherwise alter those holders' U.S. federal income tax treatment of principal and interest payments on the 2013B/C Bonds being defeased. See the subsection "DESCRIPTION OF THE BONDS – Restriction on the Defeasance of the 2013B Bonds and the 2013C Bonds."

## **Foreign Investors**

Distributions of the 2013B/C Bonds to a non-U.S. holder that has no connection with the United States other than holding its 2013B/C Bond generally will be made free of withholding tax, as long as that the non-U.S. holder has complied with certain tax identification and certification requirements.

## **Circular 230**

Under 31 C.F.R. part 10, the regulations governing practice before the IRS (Circular 230), the City and its tax advisors are (or may be) required to inform you that (i) any advice contained herein, including any opinions of counsel referred to herein, is not intended or written to be used, and cannot be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer; (ii) any such advice is written to support the promotion of marketing of the 2013B/C Bonds and the transactions described herein (or in such opinion or other advice); and (iii) each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

## **Backup Withholding**

Under current United States federal income tax laws, a 28% backup withholding tax requirement may apply to certain payments of interest and original issue discount on, and the proceeds of a sale, exchange or redemption of, the 2013B/C Bonds. Certain persons making such payments are required to submit information returns (that is, IRS Forms 1099) to the IRS with regard to those payments. Backup withholding and information reporting will generally not apply with respect to payments made to certain exempt recipients such as corporations or certain exempt entities.

## **Interest Subsidy Payments**

The City will designate the 2013C Bonds as Qualified Energy Conservation Bonds and will irrevocably elect to treat the 2013C Bonds as Specified Tax Credit Bonds. Section 6431(f) of the Code authorizes an issuer of a Specified Tax Credit Bond periodically to receive a refundable Interest Subsidy Payment in lieu of providing a federal tax credit to the owner of such bond. If such Specified Tax Credit Bond is a Qualified Energy Conservation Bond, Section 6431(b) (as modified by Section 6431(f)) requires the Secretary of the United States Department of the Treasury to pay (contemporaneously with each interest payment date under a Specified Tax Credit Bond) to the issuer of such bond an amount equal to 70% of the lesser of (i) the amount of interest payable under such bond on such date or (ii) the amount of interest which would have been payable under such bond on such date if such interest were determined at the applicable credit rate determined under Section 54A(b)(3) with respect to such bond.

An owner of a Specified Tax Credit Bond such as a 2013C Bond is entitled to receive only periodic payments of current interest in addition to the payment of the principal of and premium, if any, thereon at maturity or upon earlier redemption. Section 6431(f)(1)(D) of the Code provides that the interest on a Specified Tax Credit Bond is includible in gross income for purposes of federal income taxation. On October 1, 2013, the IRS Office of Tax Exempt Bonds announced that the Interest Subsidy Payment on Specified Tax Credit Bonds would be reduced by 7.2% during federal fiscal year 2014 as a result of the ongoing federal sequestration. The Interest Subsidy Payments to be received by the City are not directly pledged as security for or a source of payment of the principal of or interest on or any premium, if any, on the 2013C Bonds. See "PART V – The City of Norfolk – Economic and Demographic Factors – Federal Government Impacts."

## **Opinion of Bond Counsel – Virginia Income Tax Consequences**

Bond Counsel's opinion also will state that, under current law, interest on the 2013B/C 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 tax consequences arising with respect to the 2013B/C Bonds under the laws of the Commonwealth or (ii) any consequences arising with respect to the 2013B/C Bonds under the tax laws of any state or local jurisdiction other than the Commonwealth. Prospective purchasers of the 2013B/C Bonds should consult their own tax advisors regarding the tax status of interest on the 2013B/C Bonds in a particular state or local jurisdiction other than the Commonwealth.

## **PENDING LITIGATION**

The City, in the course of its activities, 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 Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("Standard & Poor's") and 'AA+' by Fitch Ratings ("Fitch"). Standard & Poor's rating reflects an upgrade from the City's prior rating.

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 2012 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 under the headings "PENDING LITIGATION," "RELATIONSHIP OF PARTIES," "UNDERWRITING" and in Appendix D) 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 the descriptions and statements in this Official Statement under the heading "PENDING LITIGATION" 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 and 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 Obligations was examined by Robert Thomas CPA, LLC (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**

McGuireWoods LLP, Richmond, Virginia, Bond Counsel, represents the Underwriters from time to time in unrelated matters. Kaufman & Canoles, a Professional Corporation, Norfolk, Virginia, counsel to the Underwriters, also serves as counsel to the City in unrelated matters.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial



advisory, investment management, principal investment, hedging, financing and brokerage services. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for City, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities, which may include credit default swaps) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the City.

The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

## **UNDERWRITING**

The Bonds are being purchased by the Underwriters pursuant to a Bond Purchase Agreement (the "Bond Purchase Agreement") between the City and Merrill Lynch, Pierce, Fenner & Smith Incorporated, 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 \$228,452,893.06 (representing the sum of (i) the \$130,990,000.00 par amount of the 2013A Bonds, plus net original issue premium of \$13,705,466.60, less an underwriting discount of \$261,307.58, (ii) the \$81,715,000.00 par amount of the 2013B Bonds, less an underwriting discount of \$161,261.20, and (iii) the \$2,470,000.00 par amount of the 2013C Bonds, less an underwriting discount of \$5,004.76 on such 2013C Bonds, and the Bond Purchase Agreement 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.

Citigroup Global Markets Inc. ("CGMI"), one of the Underwriters of the Bonds, has entered into an agreement (the "Citigroup Distribution Agreement") with TMC Bonds L.L.C. ("TMC") for the distribution to retail investors of certain municipal securities offerings. In connection with the Citigroup Distribution Agreement, TMC has established an electronic primary offering application through which certain broker-dealers and municipal securities dealers approved by CGMI and TMC (each an "Approved Party") can submit orders for, and receive allocations of, new issue municipal securities for retail investors, and CGMI may share with TMC a portion of its underwriting compensation, which TMC may share with each Approved Party, with respect to Bonds that are allocated to such retail orders. Any such sharing will not affect the aggregate underwriting compensation set forth above or CGMI's share of such compensation. Citigroup Financial Products Inc., CGMI's parent company, owns a 31.35% equity interest in TheDebtCenter L.L.C., the parent company of TMC.

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 the Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any of the Bonds that such firm sells.

Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association ("WFBNA"). WFBNA, one of the Underwriters of the Bonds, has entered into an agreement (the "WF Distribution Agreement") with, its affiliate, Wells Fargo Advisors, LLC ("WFA") for the distribution of certain municipal securities offerings, including the Bonds. Pursuant to the WF Distribution Agreement, WFBNA will share a portion of its underwriting compensation with respect to the Bonds with WFA. WFA is also a subsidiary of Wells Fargo & Company. WFBNA also utilizes the distribution capabilities of its affiliates, Wells Fargo Securities, LLC ("WFSLLC") and Wells Fargo Institutional Securities, LLC ("WFIS"), for the distribution of municipal securities offerings, including the Bonds. In connection with utilizing the distribution capabilities of WFSLLC, WFISNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, WFIS, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

The City intends to use a portion of the proceeds of the 2013A Bonds and the 2013B Bonds to refund, redeem and defease the Refunded Obligations. To the extent an Underwriter or an affiliate thereof is an owner of Refunded Obligations, such Underwriter or affiliate, as applicable, would receive a portion of the proceeds of the 2013A Bonds or the 2013B Bonds, as applicable, in connection with the refunding, redemption and defeasance of the Refunded Obligations.

### **CONTINUING DISCLOSURE**

The City will execute and deliver for the benefit of the Beneficial Owners 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 Beneficial Owners, to provide certain annual financial information and notice of certain enumerated events 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 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.

As described below, the City did not comply with certain continuing disclosure undertakings with respect to its water revenue bonds and certain of its parking system 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 (i) in the case of certain water revenue bonds and parking system revenue bonds, specified operating data for the Fiscal Years 2007 through 2010, and (ii) in the case of certain parking system revenue bonds, notice of ratings changes related to ratings action affecting the insurer of such bonds in 2008 and 2009. The data described in clause (i) previously was included in the statistical section of the City's Comprehensive Annual Financial Report but was inadvertently omitted for such years, and subsequently, the City filed such information. The City filed the notices relating to the rating changes described in clause (ii) and has continually made all required filings since 2009. The City has established procedures to reduce the likelihood of future reoccurrences. Except as described above, the City is not aware of any instance in the previous five years in which it has not complied with, in any material respect, its previous continuing disclosure undertakings.

## 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.

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

## CITY OF NORFOLK, VIRGINIA

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*/s/ Marcus D. Jones*

City Manager

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*/s/ Alice M. Kelly*

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 September 30, 2013, the total assessed value of taxable real property in the City was \$18,343,460,178. Based on Virginia's constitutional debt limitation formula, this resulted in a debt limit of \$1,834,346,018. As presented in Table II-1 below and based on the City's unaudited records, the City's outstanding general obligation bonds and other tax-secured indebtedness as of September 30, 2013, was \$814,211,335 representing 44.39% of the constitutional debt limit.

**Table II-1  
City of Norfolk, Virginia  
Computation of Legal Debt Margin<sup>(1)</sup>  
September 30, 2013**

Total assessed value of taxable real property	\$18,343,460,178
Debt Limit-10 percent of total assessed value	1,834,346,018
Less: Outstanding General Obligation Debt <sup>(2) (3) (4) (5) (6)</sup>	814,211,335
Legal Debt Margin	<u>\$1,020,134,683</u>
Amount of debt as a percent of debt limit	<u>44.39%</u>

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

- Notes:
- (1) Figures are unaudited.
  - (2) Defeased bonds are not included in gross debt. Funds to redeem these bonds have been irrevocably deposited with an escrow agent.
  - (3) 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. This City does not currently have any capital lease obligations outstanding.
  - (4) The amount of general obligation bonds authorized by ordinance for Capital Improvement Projects, but not yet issued, is \$301,296,003.
  - (5) 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. The City expects to refund all Parking System Revenue Bonds with the proceeds of the 2013A Bonds and the 2013B Bonds, and such refunding bonds would be included in the gross debt calculation in the future.
  - (6) Includes the remaining balance of \$990,000 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.

## **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 September 30, 2013. 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 September 30, 2013. 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** <sup>(1) (2) (3) (4) (5) (8)</sup>

	<b><u>As of</u></b> <b><u>September 30, 2013</u></b>
A. General Fund Outstanding Debt	
General Fund Bonds Outstanding Debt <sup>(6)(7)(9)</sup>	\$591,543,541
Self-Supporting General Fund Bonds Outstanding Debt <sup>(9)</sup>	<u>19,994,899</u>
Total	611,488,440
B. Enterprise Fund Bonds Outstanding Debt <sup>(3)</sup>	<u>201,732,895</u>
C. Total General Obligation Bond Indebtedness Outstanding Debt (A+B)	<u>\$813,221,335</u>

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

- Notes:
- (1) Figures are unaudited.
  - (2) The amount of general obligation bonds authorized by ordinance for Capital Improvement Projects, but not yet issued, is \$301,296,003.
  - (3) 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. The City expects to refund all Parking System Revenue Bonds with the proceeds of the 2013A Bonds and the 2013B Bonds, and such refunding bonds would be included in the gross debt calculation in the future.
  - (4) 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. This City does not currently have any capital lease obligations outstanding.
  - (5) Defeased bonds are not included in gross debt. Funds to redeem these bonds have been irrevocably deposited with an escrow agent.
  - (6) Includes the bonded debt of the Environmental Storm Water Fund, Maritime Facility Fund and the Towing and Recovery Fund, which are special revenue funds.
  - (7) Excludes the remaining balance of \$990,000 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.
  - (8) There are no overlapping or underlying taxing jurisdictions in the City.
  - (9) Effective with the issuance of the 2013A Bonds and the 2013B Bonds, all of the City's debt that supports its parking system will be general obligation debt.

**Table II-3**  
**City of Norfolk, Virginia**  
**Key Debt Trends**  
**Fiscal Years 2004 – 2013**

<b>Fiscal Year Ended June 30</b>	<b>Gross Bonded Debt (in thousands) <sup>(1) (2) (3)</sup></b>	<b>Gross Bonded Principal Outstanding Per Capita <sup>(4)</sup></b>	<b>Percent of Gross Bonded Debt to Real Property Assessed Value <sup>(5)</sup></b>
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
2012	875,786	3,563	4.26
2013	817,078	N/A	N/A

Sources: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2012, 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 September 30, 2013**

<b>Maturing By Fiscal Year</b>	<b>Cumulative Amount Matured</b>	<b>Percent of Principal Retired</b>
2018	\$333,263,503	40.79%
2023	556,059,564	68.05
2028	725,131,335	88.75
2033	794,806,335	97.27
2038	808,571,335	98.96
2043	813,221,335	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 2003 – 2012**

<b>Fiscal Year Ended June 30</b>	<b>Total Debt Service<sup>(1)</sup></b>	<b>Total General Expenditures<sup>(2)</sup></b>	<b>Percent of Debt Service To Total General Expenditures</b>
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
2012	82,241,946	590,849,686	13.92

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2012.

- 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 2003 - 2012**

<b>Fiscal Year Ended June 30</b>	<b>Estimated Population</b>	<b>Assessed Value of Taxable Property (In Thousands)</b>	<b>Gross Bonded Debt</b>	<b>Debt Payable from Enterprise Revenue</b>	<b>Net Bonded Debt</b>	<b>Ratio of Net Bonded Debt to Assessed Value</b>	<b>Net Bonded Debt Per Capita</b>
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
2012	245,803	20,529,023	875,785,431	187,909,550	687,875,882	3.35	2,798

Sources: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2012, and the Department of Finance, City of Norfolk, Virginia. The source of 2003 through 2011 and 2012 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 <sup>(1)</sup>**

Existing General Obligation Debt Service <sup>(2)(3)(4)(5)(6)</sup>				Debt Service on the Bonds <sup>(7)(8)</sup>			Total Debt Service		
Fiscal Year Ending June 30	Principal	Interest	Total Debt Service	Principal	Interest	Total Debt Service	Principal	Interest	Total Debt Service
2014	\$56,197,707	\$33,544,284	\$89,741,991	\$ -	\$ 2,368,143	\$ 2,368,143	\$56,197,707	\$35,912,426	\$ 92,110,133
2015	56,040,215	30,151,640	86,191,855	3,900,000	10,121,892	14,021,892	59,940,215	40,273,532	100,213,747
2016	51,044,052	27,808,765	78,852,817	4,025,000	10,055,477	14,080,477	55,069,052	37,864,242	92,933,294
2017	50,623,514	25,579,645	76,203,159	5,150,000	9,959,526	15,109,526	55,773,514	35,539,171	91,312,685
2018	48,141,036	23,466,731	71,607,767	8,375,000	9,748,887	18,123,887	56,516,036	33,215,618	89,731,655
2019	47,345,468	21,264,196	68,609,665	10,705,000	9,374,344	20,079,344	58,050,468	30,638,540	88,689,008
2020	46,151,803	19,304,252	65,456,054	11,325,000	8,915,747	20,240,747	57,476,803	28,219,998	85,696,801
2021	44,143,982	17,351,002	61,494,984	11,245,000	8,434,389	19,679,389	55,388,982	25,785,391	81,174,373
2022	43,259,164	15,586,122	58,845,286	8,495,000	8,011,363	16,506,363	51,754,164	23,597,485	75,351,649
2023	41,835,511	13,684,685	55,520,195	9,110,000	7,636,676	16,746,676	50,945,511	21,321,360	72,266,871
2024	40,263,055	11,860,740	52,123,795	9,105,000	7,243,419	16,348,419	49,368,055	19,104,159	68,472,214
2025	36,120,042	10,143,904	46,263,946	8,890,000	6,846,582	15,736,582	45,010,042	16,990,486	62,000,528
2026	33,194,056	8,496,294	41,690,350	9,590,000	6,432,522	16,022,522	42,784,056	14,928,815	57,712,871
2027	32,149,176	6,927,880	39,077,056	9,715,000	5,994,828	15,709,828	41,864,176	12,922,707	54,786,884
2028	27,174,270	5,505,485	32,679,755	9,815,000	5,544,071	15,359,071	36,989,270	11,049,556	48,038,825
2029	17,240,000	4,167,587	21,407,587	9,825,000	5,072,969	14,897,969	27,065,000	9,240,556	36,305,556
2030	17,385,000	3,266,511	20,651,511	10,610,000	4,570,831	15,180,831	27,995,000	7,837,341	35,832,341
2031	17,525,000	2,402,885	19,927,885	10,405,000	4,062,883	14,467,883	27,930,000	6,465,768	34,395,768
2032	7,020,412	1,538,230	8,558,642	11,640,000	3,526,437	15,166,437	18,660,412	5,064,667	23,725,079
2033	10,495,412	1,072,287	11,567,699	11,915,000	2,943,697	14,858,697	22,410,412	4,015,984	26,426,396
2034	2,580,000	748,202	3,328,202	11,615,000	2,376,449	13,991,449	14,195,000	3,124,651	17,319,651
2035	2,660,000	634,421	3,294,421	8,275,000	1,907,866	10,182,866	10,935,000	2,542,287	13,477,287
2036	2,750,000	517,187	3,267,187	8,385,000	1,506,402	9,891,402	11,135,000	2,023,589	13,158,589
2037	2,840,000	396,419	3,236,419	8,220,000	1,099,968	9,319,968	11,060,000	1,496,387	12,556,387
2038	2,935,000	271,962	3,206,962	9,145,000	674,919	9,819,919	12,080,000	946,881	13,026,881
2039	930,000	209,250	1,139,250	7,560,000	265,617	7,825,617	8,490,000	474,867	8,964,867
2040	930,000	162,750	1,092,750	315,000	72,959	387,959	1,245,000	235,709	1,480,709
2041	930,000	116,250	1,046,250	330,000	58,044	388,044	1,260,000	174,294	1,434,294
2042	930,000	69,750	999,750	350,000	42,319	392,319	1,280,000	112,069	1,392,069
2043	930,000	23,250	953,250	365,000	25,784	390,784	1,295,000	49,034	1,344,034
2044	-	-	-	375,000	8,672	383,672	375,000	8,672	383,672
	\$741,763,874	\$286,272,563	\$1,028,036,437	\$228,775,000	\$144,903,680	\$373,678,680	\$970,538,874	\$431,176,243	\$1,401,715,118

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

- Notes:
- (1) Figures may not sum due to rounding. Does not account for the potential debt service savings that would result from the issuance of the Forward Refunding Bonds. See "PART I – PLAN OF FINANCE – Private Placement Loans."
  - (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 all 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, Recovery Zone Economic Development Bonds and Qualified School Construction Bonds issued in 2010 and 2012 and has not been adjusted for the subsidy payments expected to be received by the City.
  - (6) Fiscal Year 2014 debt service includes the unrefunded interest of the General Obligation Bond Anticipation Notes issued on March 24, 2011 (the "2011 BANs"). The City refunded the 2011 BANs with a portion of the proceeds of the 2013A Bonds and the 2013B Bonds.
  - (7) Includes all interest on the Qualified Energy Conservation Bonds, Series 2013C, and has not been adjusted for the subsidy payments expected to be received by the City.
  - (8) Includes estimated debt service on the 2013 Variable Rate Loan, assuming an average interest rate of 4.22%.

## **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 2012 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 City expects to refund, redeem and defease all outstanding parking system revenue bonds and the Master Indenture of Trust that secures them with a portion of the proceeds from the 2013A Bonds and the 2013B Bonds. See "PART IV – ENTERPRISE FUNDS – PARKING FACILITIES FUND."

### **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 2014 on May 14, 2013. The total of the CIP budget for Fiscal Year 2014 is \$129,290,582, which includes \$12,209,866 in cash contributions. Each capital project included in the CIP budget for Fiscal Year 2014 is either approved for funding in the CIP budget for Fiscal Year 2014 or included as a planned project in Fiscal Years 2015 through 2018. 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 budgets for Fiscal Years 2013 and 2014 are summarized in Table II-8.

**Table II-8**  
**City of Norfolk, Virginia**  
**Capital Improvement Program for Fiscal Years 2013 and 2014**

Uses	Fiscal Year 2013	Fiscal Year 2014
General Capital Projects	\$49,395,100	\$88,840,382
Parking Fund Projects	2,500,000	2,900,000
Stormwater Fund Projects	5,815,200	4,815,200
Water Fund Projects	18,870,000	15,735,000
Wastewater Fund Projects	<u>17,000,000</u>	<u>17,000,000</u>
Total Capital Program	<u>\$93,580,300</u>	<u>\$129,290,582</u>
<b>Appropriation Source</b>		
General Capital Projects		
From Bond Issue	\$42,622,444	\$79,780,716
From Capital Projects Fund Balance	-	1,950,000
Reappropriation of Prior Bond Authorization	4,662,990	-
From School Funds	-	3,200,000
From Land Acquisition / Revolving Fund	-	800,000
From General Fund	-	609,666
From Public Amenities	-	1,500,000
From Cash	2,109,666	1,000,000
Parking Fund Projects		
From Bond Issue	2,170,000	-
From Cash	330,000	2,900,000
Storm Water Fund Projects		
From Bond Issue	3,500,000	3,500,000
From Cash	2,315,200	1,315,200
Water Fund Projects		
From Bond Issue	18,750,000	14,850,000
From Cash	120,000	885,000
Wastewater Fund Projects		
From Bond Issue	<u>17,000,000</u>	<u>17,000,000</u>
Total Capital Program	<u>\$93,580,300</u>	<u>\$129,290,582</u>

Sources: Capital Improvement Program Budget, Fiscal Years 2013 and 2014.

**Table II-9**  
**City of Norfolk, Virginia**  
**Capital Improvement Program**  
**Fiscal Years 2014 – 2018**

<b>Description</b>	<b>FY-2014 Budget</b>	<b>FY-2015 Plan</b>	<b>FY-2016 Plan</b>	<b>FY-2017 Plan</b>	<b>FY-2018 Plan</b>	<b>FY 2014 – 2018 Total</b>
General Capital	\$88,840,382	\$49,809,600	\$31,176,000	\$40,350,000	\$20,500,000	\$230,675,982
Storm Water Fund	4,815,200	4,815,200	4,815,200	4,815,200	4,815,200	24,076,000
Parking Facilities Fund	2,900,000	2,900,000	2,900,000	2,900,000	2,900,000	14,500,000
Wastewater Fund	17,000,000	17,000,000	17,000,000	17,000,000	17,000,000	85,000,000
Water Fund	15,735,000	19,220,000	13,550,000	15,320,000	18,250,000	82,075,000
Total Capital Program	<u>\$129,290,582</u>	<u>\$93,744,800</u>	<u>\$69,441,200</u>	<u>\$80,385,200</u>	<u>\$63,465,200</u>	<u>\$436,326,982</u>

Source: Capital Improvement Program Budget, Fiscal Year 2014.

## **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; 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. Effective July 1, 2012, the Norfolk Community Services Board is no longer a component unit.

## **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 2012 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 2012 – General Fund Operating Budget" for a discussion of the General Fund Operating Budget for Fiscal Years 2013 and 2014.

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.

### **FINANCIAL POLICIES**

On July 23, 2013, the City Council adopted a resolution that formalized certain financial policies of the City (the "Financial Policies"). The Financial Policies were adopted to strengthen the City's long-

term fiscal responsibility by emphasizing budget and debt policies and provide a framework within which future financial decisions will be considered and made. The Financial Policies provide that the City should strive to achieve a structurally balanced budget, and establish and maintain reserves. The policies provide that with the achievement of a structurally balanced budget, the undesignated, unassigned surplus in the General Fund of at least 0.5% of the General Fund budget (up to \$2 million) will be used to finance capital projects, reduce debt or fund reserves. The Financial Policies also provide that the City will add to its General Fund Unassigned Reserve, Risk Management Reserve and Economic Downturn Reserve in that order of priority. The Financial Policies establish the minimum balances at 5% of the General Fund budget for the General Fund Unassigned Reserve with no maximum balance, \$3 million for the Risk Management Reserve (with a maximum balance of \$5 million) and \$3 million for the Economic Downturn Reserve (with a maximum balance of \$5 million). The Financial Policies provide that net tax-supported debt service should not exceed 10% of the General Fund budget and that net tax-supported debt should not exceed 3.5% of total taxable property value. The Financial Policies also provide certain policies for the Parking Facilities Fund. See "PART IV – ENTERPRISE FUNDS – Parking Facilities Fund."

## **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 2014 on each \$100 of assessed value are as follows: \$1.50 for recreational vehicles; \$2.40 for airplanes; \$1.14 for real property; \$4.33 for personal property; \$4.25 for machinery and tools; and \$1.14 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 Downtown Improvement District is an additional \$0.16 on the real property rate of \$1.31 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 of 20 cigarettes; (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 amusement and admissions tax of 10%; and (9) a food and beverage 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.



**Table III-1A**  
**City of Norfolk, Virginia**  
**Total Revenue by Source, Governmental Funds**  
**Fiscal Years 2003 – 2012**  
**(Amounts in Thousands)**

<b>Fiscal Year Ended June 30</b>	<b>General Property Taxes</b>	<b>Other Local Taxes</b>	<b>Licenses and Permits</b>	<b>Fines and Forfeitures</b>	<b>Use of Money and Property</b>	<b>Charges for Services</b>	<b>Miscellaneous</b>	<b>Recovered Costs</b>	<b>Inter- Governmental Revenue</b>	<b>Total</b>
2003	\$168,893	\$132,847	\$2,973	\$1,569	\$ 8,791	\$29,390	\$24,785	\$ 9,556	\$131,071	\$509,875
2004	178,361	140,675	3,204	1,627	8,333	31,342	17,339	12,297	160,118	553,296
2005	193,293	150,477	3,542	1,763	10,232	29,129	18,951	14,188	147,045	568,620
2006	211,788	157,616	4,088	1,461	10,498	32,772	33,494	12,667	149,757	614,141
2007	235,399	159,119	4,071	1,605	11,105	37,071	11,691	8,408	156,637	625,106
2008	241,290	162,573	4,055	1,317	10,650	40,159	17,923	8,622	156,862	643,451
2009	252,004	157,926	4,012	1,260	8,332	40,345	12,911	8,952	149,774	635,516
2010	257,055	153,615	3,526	1,164	6,746	50,540	18,080	9,503	152,619	652,848
2011	258,004	153,886	3,691	1,298	7,169	47,955	14,850	10,723	149,489	647,065
2012	252,917	161,234	3,575	1,108	6,694	47,859	11,643	10,312	161,572	656,914

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2012.

**Table III-1B**  
**City of Norfolk, Virginia**  
**Other Local Tax Revenues by Source, Governmental Funds**  
**Fiscal Years 2003 – 2012**  
**(Amounts in Thousands)**

<b>Fiscal Year Ended June 30</b>	<b>Sales and Use Taxes</b>	<b>Consumer's Utility Taxes</b>	<b>Business License Taxes</b>	<b>Motor Vehicle Licenses</b>	<b>Cigarette Taxes</b>	<b>Restaurant Food Taxes</b>	<b>Other</b>	<b>Total</b>
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	43,188	25,849	4,313	7,161	28,474	16,490	153,886
2012	27,599	43,588	28,667	4,318	8,097	30,300	18,665	161,234

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2012.

Table III-2 sets forth the assessed value of all taxable property in the City for the past ten Fiscal Years. The total assessed value of all taxable property in the City at June 30, 2012, was approximately \$20.5 billion. The estimated assessed value of tax-exempt properties owned by federal and Commonwealth governments, churches and schools, among others, was approximately \$9.7 billion for Fiscal Year 2012 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 2003 – 2012**  
**(Amount In Thousands)**

<b>Fiscal Year Ended June 30</b>	<b>Real Property<sup>(1)</sup></b>	<b>Personal Property<sup>(1)</sup></b>	<b>Other Property<sup>(2)</sup></b>	<b>Total Taxable Assessed Value<sup>(3)</sup></b>	<b>Estimated Actual Taxable Value<sup>(4)</sup></b>
2003	\$ 9,356,760	\$1,311,951	\$271,046	\$10,939,757	\$10,939,757
2004	10,029,639	1,503,713	281,578	11,814,930	11,814,930
2005	10,960,812	1,569,991	305,154	12,835,957	12,835,957
2006	12,691,527	1,655,021	316,863	14,663,411	14,663,411
2007	15,607,512	1,687,318	324,387	17,619,217	17,619,217
2008	18,401,851	1,983,503	193,287	20,578,641	20,578,641
2009	19,397,795	1,676,811	233,703	21,308,309	21,308,309
2010	19,940,273	1,610,680	226,801	21,777,754	21,777,754
2011	19,320,642	1,832,276	230,756	21,383,674	21,383,674
2012	18,676,729	1,613,797	238,497	20,529,023	20,529,023

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2012.

- 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 <sup>(1)</sup>**  
**Fiscal Years 2009 – 2013**  
**(Amounts In Thousands)**

<b>Fiscal Year Ended June 30</b>	<div style="text-align: center;">Property Owned By:</div> <div style="display: flex; justify-content: space-between; padding: 0 10px;"> <span><b>Federal Government</b></span> <span><b>City of Norfolk</b></span> <span><b>Norfolk Redevelopment and Housing Authority</b></span> <span><b>Commonwealth of Virginia</b></span> <span><b>All Other Organizations <sup>(2)</sup></b></span> <span><b>Total</b></span> </div>											
	<b>Assessed Value</b>	<b>Estimated Tax Value</b>	<b>Assessed Value</b>	<b>Estimated Tax Value</b>	<b>Assessed Value</b>	<b>Estimated Tax Value</b>	<b>Assessed Value</b>	<b>Estimated Tax Value</b>	<b>Assessed Value</b>	<b>Estimated Tax Value</b>	<b>Assessed Value</b>	<b>Estimated Tax Value</b>
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
2012	4,122,082	45,755	2,177,030	24,165	615,196	6,829	87,631	973	2,744,048	30,459	9,745,988	108,180
2013	5,032,370	55,859	2,152,041	23,888	609,433	6,765	88,081	978	2,741,544	30,431	10,623,468	117,920

Sources: Annual Reports of the City Assessor 2009 – 2013.

- Notes:
- (1) The assessed value was 100% of fair market value. The Fiscal Year 2013 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 2010 through 2014.

**Table III-4**  
**City of Norfolk, Virginia**  
**Direct Property Rates**  
**Fiscal Years 2010 – 2014**

	Fiscal Year				
	2010	2011	2012	2013	2014
Property tax rate per \$100 of assessed value:					
Real Property	\$1.11	\$1.11	\$1.11	\$1.11	\$1.15
Business Improvement District	0.16	0.16	0.16	0.16	0.16
Personal property	4.25	4.33	4.33	4.33	4.33
Machinery and tools	4.25	4.25	4.25	4.25	4.25
Mobile homes	1.11	1.11	1.11	1.11	1.15
Airplanes	2.40	2.40	2.40	2.40	2.40
Boats (business)	1.50	1.50	1.50	1.50	1.50
Boats (recreational)	0.50	0.50	0.50	0.50	0.50
Recreational vehicles	1.50	1.50	1.50	1.50	1.50
Disabled veterans	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	96.00%	100.00%	100.00%	100.00%	100.00%
As determined by the Commonwealth's Department of Taxation <sup>(1) (2)</sup>	N/A	N/A	N/A	N/A	N/A

Sources: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2012, Approved Operating Budget, Fiscal Year 2014.

Notes: (1) The most recent Virginia Assessment/Sales Ratio Study is for 2012.

(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 2010 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 2008 through 2012.

**Table III-5**  
**City of Norfolk, Virginia**  
**Assessed Valuation and Change in Property Tax Levy**  
**Fiscal Years 2008 – 2012**  
**(Amounts In Thousands)**

<b>Fiscal Year Ended June 30</b>	<b>Assessed Valuation</b>		<b>Property Tax Levy</b>	<b>Percentage Increase in Property Tax Levy</b>
	<b>Real Property</b>	<b>Personal Property &amp; Other</b>		
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)
2012	18,676,729	1,852,294	247,529	(2.84)

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2012.

Table III-6 sets forth information concerning the City's real and personal property tax collection rate for Fiscal Years 2003 through 2012.

**Table III-6**  
**City of Norfolk, Virginia**  
**Real and Personal Property Tax Levies and Collections <sup>(1)</sup>**  
**Fiscal Years 2003 – 2012**  
**(In Thousands)**

<b>Fiscal Year Ended June 30</b>	<b>Original Tax Levy</b>	<b>Adjusted Tax Levy <sup>(2)</sup></b>	<b>Current Collections</b>	<b>Percent of Current Collections to Tax Levy <sup>(3)</sup></b>	<b>Delinquent Collections</b>	<b>Total Collections</b>	<b>Percentage of Total Tax Collections to Tax Levy <sup>(3)</sup></b>
2003	\$179,220	\$156,223	\$155,276	99.39%	\$ 930	\$156,206	99.99%
2004	191,397	166,456	165,100	99.19	1,335	166,435	99.99
2005	209,202	183,406	180,348	98.33	3,021	183,369	99.98
2006	227,796	202,908	197,669	97.42	5,152	202,821	99.96
2007	254,703	230,243	219,993	95.55	8,312	228,305	99.16
2008	258,016	243,614	220,253	90.41	20,678	240,931	98.90
2009	261,535	252,376	233,725	92.61	16,099	249,824	98.99
2010	258,544	258,328	239,192	94.59	15,967	255,159	98.77
2011	254,756	254,350	235,518	92.60	14,054	249,572	98.12
2012	247,529	247,529	233,396	94.29	-	233,396	94.29

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

- Notes:
- (1) Delinquent tax collections are reported in the year collected. Figures are unaudited.
  - (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 2013. The aggregate assessed value of the 10 largest taxpayers represented 6.24% of the City's total assessable base at June 30, 2013.

**Table III-7**  
**City of Norfolk, Virginia**  
**Ten Principal Real Property Taxpayers<sup>(1)</sup>**  
**June 30, 2013**

<b>Taxpayer</b>	<b>Type of Business</b>	<b>Real Property Assessed Value</b>	<b>Percentage of Total Real Property Assessed Value to Total Assessed Value</b>
Dominion Virginia Power	Public Service Utility	\$292,679,729	1.60%
MacArthur Shopping Center LLC (Taubman Co.)	Retail	160,697,300	0.88
Norfolk Western Railway Company	Railroad	130,136,689	0.71
Verizon Virginia, Inc.	Public Service Utility	114,436,112	0.62
Old Dominion University Real Estate Foundation	Real Estate	97,755,300	0.53
Norfolk Southern	Railroad	86,978,700	0.47
Dominion Tower Ltd. Partnership	Public Service Utility	70,699,085	0.39
Virginia Natural Gas, Inc.	Public Service Utility	66,624,400	0.36
Wells Fargo Building	Real Estate	65,577,400	0.36
Military Circle Ltd. Partnership	Real Estate	58,279,300	0.32
Total Principal Taxpayers		<u>\$1,143,864,015</u>	<u>6.24%</u>

Sources: Department of Finance and Real Estate Tax Assessor's Office, City of Norfolk, Virginia.

Note: (1) Based on total assessed value of taxable real property including public service corporations as of June 30, 2013, was \$18,319,948,478.



## 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 2010 – 2014**

<b>Fiscal Year</b>	<b>Number of Budgeted Positions <sup>(1)</sup></b>
2010	4,071
2011	3,902
2012	3,912
2013	4,007
2014	3,976

Sources: Approved Operating Budgets, Fiscal Years 2010 through 2014.

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 2012 was \$6,660,414.

The City currently reports all these activities as part of the risk management function in the general government section of the General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. At June 30, 2012, these liabilities were \$31,400,391 of which \$3,649,622 represents the current portion anticipated to be paid within a year. Estimated liabilities for Fiscal Year 2012 were determined by an independent actuary.

Changes in the City's claims liability amount in Fiscal Years 2008 through 2012 are as follows:

<b>Fiscal Year</b>	<b>Unpaid Claims</b>	<b>Claims Incurred</b>		<b>Ending Balance</b>
	<b>Beginning Balance</b>	<b>Estimated</b>	<b>Claims Paid</b>	
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
2012	31,673,082	4,403,895	4,676,586	31,400,391

### **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, 2012, 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. The Fiscal Year 2013 and Fiscal Year 2014 actuarially determined contribution rate is applied to the then current payroll and produces an annual actuarially required contribution (ARC) of \$40.8 million and \$41.9 million, respectively. These figures fully fund the ARC for those years, as identified by the January 2013 Actuarial Valuation Report by Cheiron, Inc. The City's funded ratio for Fiscal Year 2013 is estimated to be 80%.

**Table III-9**  
**City of Norfolk, Virginia**  
**Schedule of Annual Pension Contributions**  
**Fiscal Years 2010 - 2012<sup>(1)</sup>**

<b>Fiscal Year</b>	<b>Annual Pension Contribution</b>
2010	\$35,515,472
2011	42,828,229
2012	41,466,456

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2012.

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 July 1, 2012, the following was projected:

	<b>City</b>	<b>Schools</b>	<b>Total</b>
Actuarial Accrued Liability as of July 1, 2012 <sup>(1)</sup>	\$57,193,058	\$69,496,659	\$126,689,717
Net OPEB obligation as of June 30, 2011	25,458,971	11,711,301	37,170,272
Actuarial Required Contribution for Fiscal Year 2013	6,370,162	4,728,547	11,098,709
Estimated Pay Go contribution and Explicit Subsidies	<u>(4,469,549)</u>	<u>(2,347,690)</u>	<u>(6,817,239)</u>
Net OPEB obligation as of June 30, 2012	<u>\$27,359,584</u>	<u>\$14,092,158</u>	<u>\$ 41,451,742</u>

Source: Actuarial Valuation Report by Cheiron, Inc. measures as of July 1, 2012, for Fiscal Year 2013.

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.

### **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](http://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. See Appendix C "FORM OF CONTINUING DISCLOSURE AGREEMENT."

## GENERAL FUND OPERATING BUDGET RESULTS FOR FISCAL YEAR 2012

On the budgetary basis of accounting, General Fund revenues were \$795,566,423 representing 100.07% of budgeted revenue. General Fund expenditures were \$771,752,681 representing 97.07% of budgeted expenditures. Table III-10 summarizes key financial results.

**Table III-10**  
**City of Norfolk, Virginia**  
**General Fund Operating Budget Summary Results**  
**for Fiscal Year 2012**

	<b>Fiscal Year 2012 Final Budget</b>	<b>Fiscal Year 2012 Results</b>	<b>Percent of Budget</b>	<b>Variance Positive (Negative)</b>
Total Revenue and non-revenue receipts	\$795,016,200	\$795,566,423	100.07%	\$ 550,223
Total Expenditures	<u>795,016,200</u>	<u>771,752,681</u>	97.07%	<u>23,263,519</u>
Revenue greater (less) than expenditures	<u>\$ 0</u>	<u>\$ 23,813,742</u>		<u>\$23,813,742</u>

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2012.

### **General Fund Operating Budget and Results**

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 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 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.

Except where noted, the financial data in this Official Statement is excerpted from the published audited Comprehensive Annual Financial Report (the "CAFR") for Fiscal Year 2012. The audited CAFR for Fiscal Year 2013 is expected to be published in December 2013.

**The following is a summary of Fiscal Year 2013 General Fund financial data that is preliminary, unaudited, subject to change due to internal adjustments and pending the results of the independent audit.**

The City estimates that General Fund Revenue was \$801.6 million, or 0.2% less than the final 2013 budgeted revenue of \$803 million. The largest variances appear to be attributable to state revenue estimated to be approximately \$300,000 less than budgeted, due to lower social services expenditures and a reduction in federal revenues of approximately \$660,000 due to the timing of receiving reimbursement from storm damage. Larger shortfalls in zoo admissions and refuse fees further contributed to the revenue shortfall, as shown in charges for services, by an estimated \$600,000. Local taxes make up about 19 percent of the City's General Fund revenues. The Commonwealth provides nearly 34 percent of General Fund revenues which consist of funding for dedicated purposes such as education, social services, transportation, City's share of personal property tax relief funds and the tax on rental of cars.

Expenditures were approximately \$789 million, or approximately 1.8% less than the final 2013 budget of \$803 million. The reductions in the operating budget were achieved through control of discretionary spending, savings in across-the-board reductions in expenditures and specific departments/offices absorbing Commonwealth reductions and ongoing realignment of expenditures to reduce costs. Combining the lower than budgeted revenues and expenditures, the City preliminarily expects to end Fiscal Year 2013 with a General Fund positive variance of approximately \$12.6 million.

The City Council adopted the CIP budget for Fiscal Year 2014, which totals \$129,290,582 on May 14, 2013. See Table II-8 in the section entitled "DEBT INCURRED BY OTHER GOVERNMENTAL ENTITIES – Capital Improvement Program Budget."

The Fiscal Year 2014, General Fund Operating Budget (the "Fiscal Year 2014 Budget") was adopted on May 14, 2013, and totals \$817,500,799 reflecting a 2.2% increase over the adopted Fiscal Year 2013, General Fund Operating Budget of \$799,790,809.

The Fiscal Year 2014 Budget focuses on targeted priorities including education, public safety and neighborhood revitalization. The budget was balanced on a multi-faceted approach: raise revenue, reduce expenditures and become more efficient and grow the economy. Revenue was increased, in part by an increase in the Real Estate Tax Rate by four cents to: (i) fund the new School Construction, Technology, and Infrastructure (CTI) Program, (ii) fund Norfolk Public Schools operating expenses, and (iii) fund general fund operating expenses and capital projects, as well as several increased fees to support operations including ambulance, police record service fees and planning permit technology fees. Expenditures were reduced and efficiencies gained through the elimination of redundant processes and the reduction of certain budget items, continuation of focus on cost containment measures and identifying further opportunities for operating efficiencies through internal and external collaboration.

Major revenue and expenditure categories for the Fiscal Year 2013 and Fiscal Year 2014 budgets are summarized in the following tables.

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

<b>Anticipated Revenue Receipts</b>	<b>Approved Budget</b>	<b>Appropriations For Expenditures</b>	<b>Approved Budget</b>
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 2013.

**Table III-11B**  
**City of Norfolk, Virginia**  
**General Fund Budget**  
**Fiscal Year 2014**

<b>Anticipated Revenue Receipts</b>	<b>Approved Budget</b>	<b>Appropriations For Expenditures</b>	<b>Approved Budget</b>
General Property Taxes	\$255,632,400	Legislative	\$ 4,607,534
Other Local Taxes	154,727,600	Executive	4,384,072
Permits and Fees	2,350,340	Department of Law	4,040,898
Fines and Forfeitures	1,203,300	Constitutional Officers	5,595,812
Use of Money and Property	7,226,500	Judicial	49,188,896
Charges for Services	38,372,254	Office of Elections	843,921
Miscellaneous Revenue	9,781,303	General Management	40,679,397
Recovered Costs	10,676,100	Non-Departmental Appropriations	68,550,148
Non-Categorical Aid – Virginia	31,981,000	Community Development	9,148,345
Shared Expenses – Virginia	20,820,050	Parks, Recreation and Cultural	42,294,665
Categorical Aid – Virginia	239,087,828	Public Health and Assistance	51,093,100
Federal Aid	6,539,621	Public Safety	106,203,040
Other Sources and Transfers In	<u>39,102,503</u>	Public Works	42,983,976
		Debt Service	75,929,113
		Education	<u>311,957,882</u>
Total	\$817,500,799	Total	\$817,500,799

Source: Approved Operating Budget for Fiscal Year 2014.

**Table III-12**  
**City of Norfolk, Virginia**  
**General Governmental Expenditures by Function**  
**Fiscal Years 2003 – 2012**  
**(Amounts In Thousands)**

<b>Fiscal Year Ended June 30</b>	<b>General Government Administration</b>	<b>Judicial Administration</b>	<b>Public Safety</b>	<b>Public Works</b>	<b>Health and Public Assistance</b>	<b>Education</b>	<b>Culture and Recreation</b>	<b>Community Development</b>	<b>Debt Service</b>	<b>Inter- Governmental</b>	<b>Capital Outlay</b>	<b>Total</b>
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 <sup>(1)</sup>	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
2012	100,504	48,233	116,296	62,330	74,331	104,512	44,529	15,142	85,043	-	98,892	749,812

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2012.

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, 2011, and at June 30, 2012, extracted from the June 30, 2012, 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, 2012, with comparative totals for 2011**

	<b>2011</b>	<b>2012</b>
<b>ASSETS</b>		
Cash and short-term investments	\$60,426,113	\$65,871,509
Receivables, net:		
Taxes	49,321,490	41,295,356
Accounts	1,833,896	1,791,337
Note	-	-
Accrued investment income	6,595	8,376
Due from other funds	19,890,925	9,638,381
Due from other governments	22,067,200	21,386,204
Restricted cash held with fiscal agent	-	-
Prepays	5,483	-
Other assets	-	-
<b>Total Assets</b>	<u>\$153,551,702</u>	<u>\$139,991,163</u>
<b>LIABILITIES</b>		
Vouchers payable	\$ 8,672,549	\$ 9,227,612
Employee withholdings	838,376	867,108
Contract retainage	131,427	130,133
Accrued payroll	6,700,996	4,165,872
Accrued expenses	-	-
Due to other funds	217,911	884,234
Due to other government units	-	395,060
Due to component units	-	-
Deferred revenue	35,394,901	27,916,406
Other liabilities	5,314,807	3,897,547
<b>Total Liabilities</b>	<u>\$57,270,967</u>	<u>\$47,483,972</u>
<b>FUND BALANCES</b>		
Reserved for:		
Nonspendable	\$ 5,483	\$ -
Restricted	395,000	330,000
Committed	1,898,571	3,000,000
Assigned	38,014,373	34,838,715
Unassigned	55,967,308	54,338,476
<b>Total Fund Balances</b>	<u>96,280,735</u>	<u>92,507,191</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$153,551,702</u>	<u>\$139,991,163</u>

Sources: Comprehensive Annual Financial Report for the Fiscal Years Ended June 30, 2011, and 2012.



**Table III-14**  
**City of Norfolk, Virginia**  
**Comparative Statement of Revenue and Expenditures, General Fund**  
**Fiscal Years 2008 – 2012**

	<u>Fiscal Year</u>				
	2008	2009	2010	2011	2012
<b>REVENUE:</b>					
General property taxes	\$238,739,614	\$249,021,469	\$253,711,095	\$254,342,239	\$250,117,894
Other local taxes	153,068,673	149,143,513	145,065,893	145,141,964	152,172,224
Permits and licenses	4,055,323	4,011,771	3,526,260	3,690,959	3,574,887
Fines and forfeitures	1,307,680	1,259,775	1,163,491	1,287,993	1,106,931
Use of money and property	7,208,529	6,468,854	6,044,924	6,634,420	6,367,808
Charges for services	19,937,632	20,382,047	29,402,549	31,629,625	32,030,115
Miscellaneous	4,792,166	6,323,499	5,113,199	8,584,798	8,572,621
Recovered costs	8,620,136	8,952,032	8,205,934	10,722,712	10,311,990
Intergovernmental	<u>122,498,492</u>	<u>123,889,498</u>	<u>116,028,629</u>	<u>116,589,551</u>	<u>112,645,842</u>
Total Revenue	<u>\$560,228,245</u>	<u>\$569,452,458</u>	<u>\$568,261,974</u>	<u>\$578,624,261</u>	<u>\$576,900,312</u>
<b>EXPENDITURES:</b>					
<b>Current operating:</b>					
General government	107,878,689	102,304,247	95,385,671	78,643,175	100,373,625
Judicial administration	46,015,225	47,316,777	45,150,197	44,519,302	45,112,553
Public safety	103,792,189	107,927,615	105,006,515	103,863,085	105,379,222
Public works	42,909,508	38,806,007	44,664,401	55,910,310	46,373,034
Health and public assistance	66,221,236	65,330,416	61,463,322	59,272,655	54,974,389
Culture and recreation	41,205,827	41,805,449	39,370,680	39,502,709	40,003,396
Community development	6,542,288	6,579,369	6,924,553	10,713,656	9,955,520
Education	101,094,910	104,511,131	101,011,131	104,511,131	104,511,131
<b>Debt service</b>					
Principal	-	-	-	535,000	565,000
Interest and other charges	-	-	-	138,279	107,619
<b>Capital outlay</b>	-	-	-	1,003,250	-
Total Expenditures	<u>\$515,659,872</u>	<u>\$514,581,011</u>	<u>\$498,976,470</u>	<u>\$498,612,552</u>	<u>\$507,355,489</u>
Excess (deficiency) of revenue over expenditures	\$44,568,373	\$54,871,447	\$69,285,504	\$80,011,709	\$69,544,823
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	-	2,411,915
Payment to bond refunding escrow agent	-	-	-	-	-
Premium on bonds	-	-	-	-	-
Transfers in	10,000,000	12,948,230	12,566,907	12,940,571	12,289,939
Transfers out	<u>(86,197,266)</u>	<u>(85,652,562)</u>	<u>(81,227,400)</u>	<u>(82,595,066)</u>	<u>(88,020,221)</u>
Total Other Financing Sources (Uses)	<u>(64,876,606)</u>	<u>(64,216,665)</u>	<u>(65,774,975)</u>	<u>(69,654,495)</u>	<u>(73,318,367)</u>
Net Change in Fund Balance	<u>\$ (20,308,233)</u>	<u>\$ (9,345,218)</u>	<u>\$ 3,510,529</u>	<u>\$ 10,357,214</u>	<u>\$ (3,773,544)</u>

Sources: Comprehensive Annual Financial Reports for the Fiscal Years Ended June 30, 2008, through 2012.

**Table III-15**  
**City of Norfolk, Virginia**  
**Comparative Statement of Changes in Fund Balance, General Fund**  
**Fiscal Years 2008 – 2012**

	<b>Fiscal Year</b>				
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Net Change in Fund Balance	\$(20,308,233)	\$(9,345,218)	\$ 3,510,529	\$10,357,214	\$(3,773,544)
Fund balance at beginning of year	88,279,421	67,971,188	58,625,970	62,136,499	96,280,735
Adjustment to beginning balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,787,022</u>	<u>-</u>
Fund Balance at end of year	<u>\$67,971,188</u>	<u>\$58,625,970</u>	<u>\$62,136,499</u>	<u>\$96,280,735</u>	<u>\$92,507,191</u>

Sources: Comprehensive Annual Financial Reports for the Fiscal Years Ended June 30, 2008, through 2012.

**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 2013 is shown in Table IV-1.

**Table IV-1**  
**City of Norfolk, Virginia**  
**Water System**  
**Average Metered Water Delivered by Customer**  
**Fiscal Year 2013**

<b>Customer</b>	<b>Metered Consumption (MGD)</b>	<b>Percent of Total</b>
Norfolk	16.8	30.1%
Virginia Beach	32.2	57.6
U.S. Navy	4.0	7.2
Chesapeake	2.5	4.5
	55.9	100.0%

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

As of June 30, 2013, the Water System provided potable water to approximately 64,654 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 \$5.88 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:

<b>Fiscal Year</b>	<b>Retail Rate</b>
2013	\$4.15 per 100 cubic feet
2014	\$4.30 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.

## **WASTEWATER UTILITY FUND**

<b>As of June 30, 2013:</b>	
Approximate population served	64,654 accounts
Total wastewater pumping stations	131 pump stations
Miles of gravity wastewater mains	844.4 miles
Miles of wastewater force mains	66.4 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 64,654 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:

<b>Fiscal Year</b>	<b>Retail Rate</b>
2013	\$3.39 per 100 cubic feet
2014	\$3.53 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 580 on-street spaces. These facilities provide a total inventory of over 19,800 downtown parking spaces. The Parking Facilities Fund was established during Fiscal Year 1990. 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's balance sheet on June 30, 2012 presents total assets of \$212 million, which includes restricted investments of over \$14 million, to be utilized for garage construction and required master indenture reserves. In addition, fixed assets, including parking structures, consist of over \$171 million of the total \$212 million in assets. The Parking Facilities Fund also manages parking enforcement operations and collects fines and delinquent fees. In Fiscal Year 2012, 58,917 tickets were issued resulting in an 87% collection rate and revenue of \$2.3 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.

As the Parking System has matured and economic conditions have changed, the City undertook a comprehensive process to ensure the short- and long-term fiscal strength of the Parking Facilities Fund. On July 23, 2013, City Council adopted a resolution formalizing Parking Facilities Fund financial policies.

The approved policy provides that the Parking Facilities Fund will continue to be self-supporting, maintain annual net revenue in an amount sufficient to provide debt service coverage of at least 1.1 times its total annual debt service, limit variable-rate debt to approximately 20 percent (20%) of its total outstanding debt, and maintain a working cash balance, excluding any future balance in the Debt Service Reserve, of a minimum of 240 days of operating and maintenance expenses. Additionally, the Parking Facilities Fund will strive to maintain an unpledged debt service reserve fund equal to one half of maximum annual debt service on Parking Facilities Fund debt. See "Part III – Financial Information – Financial Policies."

The Parking System Revenue Bonds were issued under a Master Indenture of Trust, which is expected to be defeased in its entirety with the issuance of the 2013A Bonds and 2013B Bonds. The City, as part of its approved policies for the Parking Facilities Fund, has designated certain reserve fund provisions. The Parking Facilities Fund will continue to maintain the Repair and Replacement Reserve with a minimum of \$400,000 to pay the costs of capital repairs and replacements with respect to all of the system. Additionally, the Parking Facilities Fund will maintain the MacArthur Center Garage Reserve Fund in an amount not-to-exceed \$750,000 to pay reasonable and necessary expenses for the MacArthur Center.

**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**

<b>Year</b>	<b>Square Miles</b>
1950	37.19
1960	61.85
1970	61.85
1980	65.75
1990	65.98
2013	65.98

The City was a 2013 recipient of the National Civic League's "All-America City" award. The City received the award in recognition for innovatively promoting civic engagement and cooperation among public, private and nonprofit sectors to address local challenges, specifically in regards to Veteran's initiatives, flood mitigation and its Neighbors Building Neighborhoods program.

**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 27-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 Master's 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 the Commonwealth of Virginia as the Chief Deputy Treasurer for the City. He is also the CEO for Better Days Foundation, Inc. and the President and CEO of Urban Restoration Development & Consulting, LLC. 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. Protogyrou, Council Member**

Mr. Protogyrou, representing Ward 1, was first elected to City Council in May 2010. Mr. Protogyrou is an attorney and a member of Protogyrou & 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. Protogyrou 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 in May 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 in November 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 received a Bachelor's degree in Business Administration and Political Science from 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 in February 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 2004 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 Master's degree in Public Administration from Virginia Commonwealth University, Richmond, Virginia.

#### **Alice M. Kelly, CPA, Director of Finance**

Alice M. Kelly assumed her position as Director of Finance in January 2013. 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. Ms. Kelly has worked for the City since April 1990 in various capacities and departments including Utilities, Finance and Public Works. She previously served as Acting Director of Finance from June 2008 to August 2009, and prior to her appointment as Director of Finance, her most recent position was Assistant Director of Public Works. Ms. Kelly earned a Bachelor of Science degree in Accounting from Virginia Polytechnic Institute and State University (Virginia Tech), Blacksburg, Virginia. She is a licensed Certified Public Accountant and serves on the Board of the Norfolk Municipal Employees Federal Credit Union.

#### **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 Master's 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.

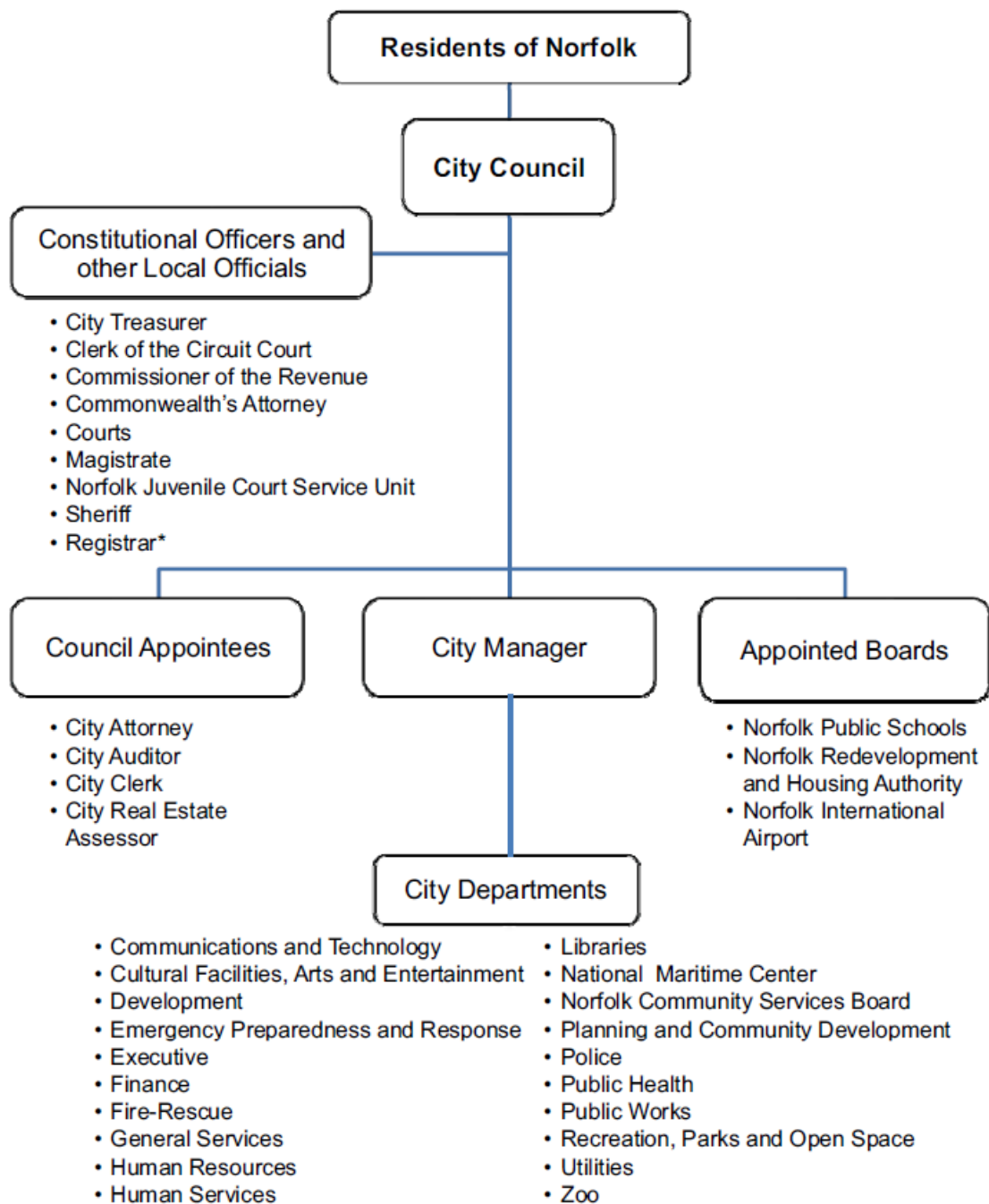


### **Governmental Services and Facilities**

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 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



\*Appointed by State Board of Elections

## **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 2012 the School Board's expenditures for education totaled \$372,450,353.

### ***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. 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.

### ***Hampton Roads Planning District Commission***

Hampton Roads Planning District Commission ("HRPDC"), 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. HRPDC 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 HRPDC is received primarily from member contributions and various state and federal grant programs. The participating governments do not have an equity interest in HRPDC, and accordingly, no equity interest has been reflected in the City's financial statements. Complete financial statements of HRPDC can be obtained from HRPDC.

### ***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.

### ***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.

### ***The Economic Development Authority of the City of Norfolk***

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

### ***The Slover Library Foundation***

The Slover Library Foundation (the "Library Foundation"), a not-for-profit organization, was formed on October 31, 2008, to participate in the funding of a new central library for the City. Construction began in early 2012. The new central library will be named the Colonel Samuel L. Slover Memorial 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 Library Foundation will be used for construction costs and the purchase and maintenance of technology to be used in the library. The Library 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.

### ***The Chrysler Museum, Inc.***

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

## **ECONOMIC AND DEMOGRAPHIC FACTORS**

### **Population**

As reflected in Table V-2 and V-3 below, from 2003 to 2012 the City's population grew 3.6%. The City is the second most populous city in Virginia, as shown in Table V-3.

**Table V-2  
Population Trend Comparisons  
2003 – 2012**

<b>Calendar Year</b>	<b>Norfolk<sup>(1)</sup></b>	<b>Hampton Roads MSA<sup>(1)(2)</sup></b>	<b>Virginia<sup>(3)</sup></b>	<b>U.S.<sup>(3)</sup></b>
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
2012	245,803	1,679,326	8,185,861	313,914,040

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-3  
Five Most Populous Cities in Virginia**

<b>City</b>	<b>2010 Census Population</b>	<b>2012 Population Estimate</b>
Virginia Beach	437,994	447,489
Norfolk	242,803	245,803
Chesapeake	222,209	228,210
Richmond	204,219	208,834
Newport News	180,719	183,331

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

Table V-4 provides an annual comparison of per capita personal income since 2002.

**Table V-4**  
**City of Norfolk, Virginia**  
**Per Capita Personal Income Comparisons**  
**2002 – 2011**

<b>Calendar Year</b>	<b>City</b>	<b>Hampton Roads MSA</b>	<b>State</b>	<b>U.S.</b>
2002	\$26,006	\$29,603	\$33,737	\$31,481
2003	27,893	31,442	35,033	32,295
2004	28,930	32,723	36,869	33,909
2005	30,875	34,413	38,898	35,452
2006	30,609	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	34,690	39,325	43,192	38,846
2010	35,816	40,234	44,267	39,937
2011	36,873	41,976	46,107	41,560

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System. 2011 is most recent year for which data is available.

The age distribution of the City's population is presented in Table V-5.

**Table V-5**  
**City of Norfolk, Virginia**  
**City Population Distribution by Age**  
**1960 – 2010**

<b>Year</b>	<b>Population</b>	<b>Under 20</b>	<b>20-64</b>	<b>65 or Older</b>
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**

The City has seen total home sales increase by 8.8% for the calendar year through August 2013, as compared to the same period for the 2012. Total sales for the calendar year through August 2013 were 1,783, as compared to 1,639 for the same period for 2012. The average home price through August 2013 has increased approximately 12%, from \$176,968 to \$198,172, when compared to the same period for 2012.

Table V-6 provides an annual breakdown of residential building permits over the past 10 Fiscal Years.

**Table V-6  
City of Norfolk, Virginia  
Residential Construction  
Fiscal Years 2004 – 2013**

<b>Fiscal Year</b>	<b>Building Permits</b>	<b>Number of Units</b>	<b>Value (in thousands)</b>
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	221	479	37,298
2012	268	371	39,360
2013	385	948	67,302

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

Table V-7 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-7  
City of Norfolk, Virginia  
Nonresidential Construction  
Fiscal Years 2004 – 2013**

<b>Fiscal Year</b>	<b>Building Permits</b>	<b>Value (in thousands)</b>
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
2012	26	116,401
2013	28	105,635

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-8.

**Table V-8**  
**City of Norfolk, Virginia**  
**Unemployment Rates**  
**2004 – 2013**

<b>Calendar Year</b>	<b>Norfolk</b>	<b>Hampton Roads MSA</b>	<b>Virginia</b>	<b>U.S.</b>
2004	5.1%	4.0%	3.7%	5.5%
2005	5.0	3.9	3.5	5.1
2006	4.2	3.3	3.0	4.6
2007	4.1	3.2	3.1	4.6
2008	5.3	4.2	4.0	5.8
2009	8.7	7.1	6.9	9.3
2010	9.2	7.5	7.1	9.6
2011	8.5	7.1	6.4	8.1
2012	7.9	6.6	5.9	8.1
2013 <sup>(1)</sup>	7.5	6.2	5.8	7.7

Source: U.S. Bureau of Labor Statistics.

Note: (1) Figures as of July 2013.

**Table V-9**  
**City of Norfolk, Virginia**  
**Civilian Employment and Average Weekly Gross Wages**  
**1<sup>st</sup> Quarter, 2013**

	<b>Number of Establishments</b>	<b>Number of Employees</b>	<b>Average Weekly Wage</b>	<b>Percentage of Employment</b>
Construction	380	3,769	\$ 851	2.80%
Manufacturing	144	6,706	1,085	4.98
Trade, Transportation & Utilities	1,221	24,867	805	18.47
Information	95	2,749	1,121	2.04
Financial Activities	575	8,038	1,243	5.97
Professional & Business Services	1,037	20,867	1,214	15.50
Education and Health Services	894	38,273	869	28.42
Leisure and Hospitality	640	12,441	346	9.24
Other Services	568	4,123	552	3.06
Public Administration	70	12,825	1,338	9.52
<b>Total</b>	<b>5,624</b>	<b>134,658</b>	<b>N/A</b>	<b>100.00%</b>

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

## **Federal Government Impacts**

From October 1, 2013, through October 16, 2013, the United States Government initiated a partial shutdown due to Congress failing to pass authorization for funding of government operations for fiscal year 2014. This shutdown has affected most federal government agencies with the exception of the U.S. Postal Service, active military personnel, air traffic control, federal corrections personnel and NASA mission control. Prior to the federal government shutdown, on September 30, 2013, President Obama signed into law H.R. 3210, known as the Pay Our Military Act, which provides pay authorization for military personnel and defense contractors supporting our armed forces. Additionally, Social Security beneficiaries will continue to receive payments. The effects of a protracted federal government shutdown on state and local municipalities have yet to be determined, and the City continues to monitor the situation and expects to respond as it deems necessary.

Additionally, as a continuation of the federal government sequestration, which began in fiscal year 2013, federal subsidy payments to issuers of direct pay qualified bonds will be cut by 7.2% in fiscal year 2014. This cut will affect the subsidy received on the City's Series 2010B Build America Bonds, Series 2010B Recovery Zone Economic Development Bonds, Series 2010F Recovery Zone Economic Development Bonds and Series 2012D Qualified School Construction Bonds. The 2013C Bonds are expected to be direct pay qualified bonds and thus will be affected by cuts in subsidy payments caused by federal budget sequestration. The total sequestration amount expected to be deducted from the City's anticipated subsidy payment for fiscal year 2014 represents only 0.02% of the City's fiscal year 2014 budget of \$817.5 million. The City budgets for all interest payments on a gross basis, so any subsidy reduction is not expected to materially affect the City's finances.

Federal sequestration could result in a softening of the regional economy due to the concentration of direct and indirect federally funded employment; however, any potential adverse effects on the City's revenue sources are not expected to be material.

## **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. In the past 18 months, the City has seen economic development from existing and new business, as well as new retail development and redevelopment of existing infrastructure, including over \$40 million in business expansion and retention and the creation of approximately 400 jobs for existing companies; over \$50 million in investment from new business and the creation of approximately 300 jobs; over \$41 million in new retail investment and the creation of approximately 570 retail jobs; and over \$300 million in reinvestment and redevelopment projects. The following pages describe many of the economic development projects that account for these investments and employment.

## **Downtown Development**

Downtown offers a mix of cultural attractions and entertainment for its citizens and tourists. The average vacancy rate for Downtown Class A office space as of July 2013 is approximately 11.46%, as shown in Table V-10 below.

**Table V-10**  
**City of Norfolk, Virginia**  
**Downtown Norfolk Vacancy**  
**July 2013**

<b>Class A</b>	<b>Rentable SF</b>	<b>Vacant SF</b>	<b>% Vacant</b>
150 West Main Street	225,498	36,347	16.12%
Crown Center	58,674	-	0.00
Dominion Tower	403,276	39,592	9.82
Main Street Tower	187,000	4,105	2.20
Norfolk Southern Tower	293,035	32,006	10.92
Wells Fargo Center	299,887	42,849	17.15
World Trade Center	366,106	49,556	13.54
<b>Total</b>	<b>1,833,476</b>	<b>204,455</b>	<b>11.46%</b>

Source: CoStar, July 2013.

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 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 includes 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, as well as 50,000 square feet of retail space.

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.

The retail presence on Granby Street expanded in 2012 to include 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, including downtown. 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 the Savoy, a historical building, into affordable work force apartments. Other new residential projects downtown include 401 Granby Street (65 units), 416 Boush (71 units), and the Wainwright Apartments (126 units).

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 opened in 2009. 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. Promenade Pointe, with 187 apartments, is under construction near Roland Park. The Element at Ghent, with 164 apartments is also in the planning stages.

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 million in home values and approximately \$2,553,000 in annual real estate taxes to the City. The East Beach community was the site of 2012 Homearama, which was the third time it was held there. A 157-unit condominium development to the south of East Beach, Pointe East at Harbor Walk, is being developed by Franciscus Homes. East Beach Marina Apartments, with 136 apartments, is also being developed in East Beach.

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, opened in 2012. 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.

Two major projects underway in 2013 are: the expansion and renovation of the Chrysler Museum of Art, and the consolidation on Granby Street downtown of the Governor's School for the Arts. The \$24 million Chrysler Museum project will include a 10,000 square foot addition as well as renovations to the main building. The Governor's School for the Arts is consolidating several instruction spaces into the historic 52,000 square foot Monroe Building, spurring a \$9 million renovation expected to be completed

in December 2013. The consolidated Granby Street campus will be home to over 360 students, faculty and staff.

A major city initiative underway is the development of a Downtown Arts and Design District, in the area north of Brambleton Avenue. Sparked by interest from the public, a workgroup was established to explore possibilities for an arts district and to develop an implementation plan. Urban Design Associates was hired to develop a master plan for an arts district. The City engaged Team Better Block to create a "living charette" to support the vision of future development and improvements. In May 2013 the City Council adopted revisions to the D-4 downtown zoning district to create a Downtown Arts and Design zoning district with an expanded mission statement and list of permitted use more in line with the vision of the arts district.

Other recent investments to the City's cultural attractions include the Virginia Arts Festival headquarters, a home for the Hurrah Players, and the Chrysler Museum Glass Art Studio. The Virginia Arts Festival moved into its 18,000-square-foot building, the Clay and Jay Barr Education Center, in August 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. The Chrysler Museum Glass Studio, an addition to Norfolk's Chrysler Museum, opened in November 2011. The studio 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.

Improvements to the Virginia Zoological Park for the Trail of the Tiger exhibit have been completed, and construction is nearing completion 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 80,000 square foot Half Moone Cruise and Celebration 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 2012, the City celebrated its eleventh anniversary of welcoming Carnival Cruise Lines to the Half Moone Center. Nearly 40,000 cruise passengers utilized the terminal in 2012, and the City anticipates approximately 50,000 will utilize the terminal in 2013. In June 2013, Carnival Cruise Lines announced that it would not deploy any ships from the City after 2013. The City is pursuing other cruise line partners.

The Slover Memorial Library, a new main public library, is under construction. It combines the historic downtown Seaboard Building with a new architecturally significant structure designed by a nationally recognized New Haven, Connecticut architectural firm, Newman Architects. The City 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. The MacArthur Memorial completed a \$6 million expansion 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. Also in Wards Corner, construction of an 8-acre shopping center anchored by Harris Teeter is expected to open in the spring of 2014.

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.

### **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 Eastern Virginia Medical School complex near Fort Norfolk to the Newtown Road/Virginia Beach city line. Amtrak passenger rail line service connecting Norfolk to Washington DC via Petersburg and Richmond began operation in December 2012. 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 new service. 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 began 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 over 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. On May 21, 2013, a final order was entered in the Circuit Court of the City of Portsmouth, Virginia, regarding a lawsuit styled *Meeks, et al. v. Virginia Department of Transportation & Elizabeth River Crossings Opco, LLC*. The ruling of the lawsuit prevents tolls, which were expected to pay for construction expenses, from being imposed on the project. The case was heard in the Supreme Court of Virginia in September 2013 and a ruling is anticipated in November 2013. Both the Virginia Department of Transportation and its contracting partner, Elizabeth River Crossings Opco, LLC, have indicated that they expect the project will continue in some manner regardless of the outcome.

The state-funded Hampton Boulevard Grade Separation project is an \$89 million project, expected to be completed in the summer of 2014. This project will remove the railroad crossing conflict affecting Hampton Boulevard by depressing the road below the existing railroad tracks to improve vehicular traffic to the port terminals and Navy base.

In December 2012, the Commonwealth reached a commercial and financial close with US 460 Mobility Partners and Route 460 Funding Corporation of Virginia to finance, design and build a new 55-mile section of the U.S. Route 460 in southeastern Virginia. The new route will be a four-lane divided highway from Prince George County to Suffolk. The Commonwealth anticipates that this project will bring jobs and business benefits to the region and will create opportunities for distribution centers and light manufacturing that will drive cargo through the Port of Virginia.

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.

In order to provide additional state funds to road construction and maintenance, effective July 1, 2013, the Commonwealth commenced collecting an increased sales and use tax and new state and regional taxes on gasoline, motor vehicle sales and other specific taxes, which includes the collection of sales and use taxes from remote sellers (i.e., retailers that, other than their sales to residents, do not have a physical presence in the Commonwealth). Under existing federal law, the Commonwealth does not have the authority to collect state and local retail sales and use tax from remote sellers, but if federal law changes, then the taxes on remote sellers will be collected. In addition, purchasers in the Hampton Roads region, which includes the City, will pay increased sales and use taxes and other specific regional taxes on transactions that take place in Hampton Roads jurisdictions. Receipts from such additional taxes must be

used to pay for transportation projects within the region. Such projects will be prioritized and selected by the Hampton Roads Transportation Planning Organization, a metropolitan planning organization having representatives from all Hampton Roads jurisdictions. There can be no assurance that these new state and regional taxes will not be changed, but such taxes are expected to generate approximately \$880 million per year for transportation funding across the Commonwealth, with the Hampton Roads regional taxes expected to generate approximately \$200 million per year for the Hampton Roads region.

### **Norfolk Airport**

Norfolk International Airport ("NIA") is one of the most powerful economic generators in the Hampton Roads region. Currently, NIA is served by American, Delta, Southwest, United and US Airways. Offering over 150 arrivals and departures daily to major cities throughout the United States, NIA presently ranks in the top 20% of the country's airports in terms of passengers served annually, with nearly 3.3 million passengers and 84,000 flights in 2012.

NIA generates nearly 1,700 jobs and over \$135 million in direct economic impacts annually. More than 760,000 annual visitors use NIA and other facilities in the region and contribute an additional \$565 million in indirect economic impacts that create more than 12,500 local jobs with a payroll in excess of \$210 million. Total direct and indirect/induced economic impact to the region is nearly \$1.1 billion annually, according to the Commonwealth of Virginia Statewide Impact Study – Technical Report, issued August 2011.

HMS Host, the concession provider, has completed an expansion and upgrade of the dining facilities and a \$17 million facelift to the main terminal lobby and screening area is underway.

### **Hotel Development**

Norfolk has nearly 5,000 hotel rooms, including over 1,500 in the downtown area. Tourism and conventions employ over 6,700 workers in the City and generate \$24.1 million in state taxes and \$21.2 million in local tax revenue. Travelers to the City spend over \$690 million annually. A \$126 million hotel and conference center to be constructed downtown was announced in March 2013 and will include a 50,000 square foot conference center; a 20-story hotel with 300 rooms, three restaurants, rooftop garden and bar; and a 600-space parking garage. It is being developed by Gold Key PHR Hotels and Resort, with delivery expected as early as spring 2016. The Norfolk Waterside Marriott, a 397 room hotel, completed a \$4.5 million renovation in October 2013.

### **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 an \$11.5 million renovation in July 2009, the first renovation in its 25 year history.

Norfolk was chosen as one of five ports to host OpSail in 2012. The 2012 event was part of the commemoration of the bicentennial of the War of 1812 and the birth of the "Star Spangled Banner." The U.S. Navy participated in a parade of sails and events throughout the region depicting the history of the U.S. Navy. Norfolk and the Port of Hampton Roads hosted the OpSail flotilla from June 6-11, 2012, in conjunction with the City's annual Harborfest.

Norfolk has seven miles of Chesapeake Bay beachfront and a total of 144 miles of shoreline along its lakes, rivers and the Chesapeake Bay. 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 Festival Marketplace. The City is negotiating with the Cordish Company for an approximate \$28 million renovation that would reposition the facility into Waterside Live! a world-class dining and entertainment complex.

### **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 is scheduled to open in 2014. Norfolk's center is the final of 22 Kroc Centers being built across the nation by the Ray and Joan Kroc Foundation and the Salvation Army.

The Y on Granby, a 32,000 square foot YMCA facility in Park Place, opened in June 2013. The \$8 million project features an outdoor pool with slides, soundproof music room, gym and computer lab. The construction of an early childhood center is expected to be completed in late 2014 or early 2015.

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, opened in September 2013. The 20,000 square foot facility, located in Campostella, features 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.

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

### **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 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.

The new Crossroads Elementary School, housing Pre-Kindergarten - 8<sup>th</sup> grade, opened in September 2012, and replaced the existing elementary school to create 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 is used by the Recreation, Parks and Open Space Department including access to many of the public portions of the building.

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 will be consolidating its location in downtown Norfolk on Granby Street. The facility is scheduled to open, following a \$9,000,000 renovation, in January 2014. The school system also has a program for gifted science students that enables them to study at Eastern Virginia Medical School. Student population for the past five Fiscal Years is shown in Table V-11.

**Table V-11**  
**City of Norfolk, Virginia**  
**Public Schools Student Population**  
**Fiscal Years 2008 - 2012**

<b>Fiscal Year</b>	<b>September 30 Membership</b>	<b>Percent Change</b>
2008	32,947	(1.92)%
2009	32,272	(2.05)
2010	31,766	(1.57)
2011	31,485	(0.85)
2012	31,142	(1.09)

Source: Virginia Department of Education, Superintendent's Annual Report.

### **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. 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 ("University Village"). University Village is a mixed-use development initiative by the Old Dominion University Real Estate Foundation, in partnership with the City, the NRHA and private developers, and represents the expansion of a 75-acre urban village, adjacent to the Ted Constant Convocation Center. University Village includes The District Apartments,

University Village Apartments, restaurants, shops, the North Village Parking Garage, the Innovation Research Park, the president's house, Marriott SpringHill Suites Hotel, the University Bookstore and the Powhatan Sports Complex to support the expansion of the University's athletic programs. The Innovation Research Park @ ODU currently consists of two 100,000 sq. ft. Class A wet/dry lab buildings, and is one of a few research parks in the country located on the campus of its research institution. It was designed to leverage the access, proximity and infrastructure of ODU, the surrounding federal labs, and military centers to aid companies at every point in their lifecycle.

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 is home to the area's heart hospital, a 112-bed, 254,000 square feet center. 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.

Work on a major campus upgrade for Sentara Leigh Hospital 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 2014.

Bon Secours DePaul Medical Center is also undergoing change. The hospital recently broke ground on a new \$25 million medical office building with specialist care and a comprehensive cancer center. The third and final phase of the campus expansion is the building of a 124-bed replacement hospital, scheduled to open in 2017.

### **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. In 2012, the port handled a total of 17,527,727 tons of general cargo, including 17,155,583 tons of containerized cargo, with 372,144 tons of breakbulk making up the remainder.

**Table V-12**  
**Virginia Port Authority Terminals**  
**General Cargo Tonnage**  
**Calendar Years 2008 – 2012**

<b>Calendar Year</b>	<b>Total General Cargo Tonnage (in thousands)</b>	<b>Percent Change over Previous Year</b>
2008	17,833	0.60%
2009	14,908	(16.40)
2010	15,323	2.78
2011	15,616	1.91
2012	17,528	12.24

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 gives the Port rail access to markets in Ohio, Illinois, Michigan and points west. Additionally, a 300-acre expansion of Norfolk International Terminal makes it the largest inter-modal center in the United States.

### **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 which recently expanded its regional headquarters and added approximately 350 new jobs; 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 as a warehouse and distribution center to repackage and distribute plastic pellets. Katoen Natie expects to create 200 jobs and in 2012 exercised its option to develop an adjacent 25 acre site. 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-13 below presents data regarding the major non-government employers in the City.

**Table V-13**  
**City of Norfolk, Virginia**  
**Major Non-Government Employers in 1<sup>st</sup> Quarter 2013**

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

Source: Virginia Employment Commission.

New development, expansion and retention of Norfolk's business community has led to continued economic growth over the past five years. Recent growth in areas such as manufacturing, research and technology, healthcare, residential apartments, craft brewing and boutique retail has increased the diversification of Norfolk's local economy. Since 2008, the City has realized over \$1.6 billion in new development, business expansion and announcements of pending projects.

**Table V-14**  
**City of Norfolk, Virginia**  
**Business Growth**  
**A Sampling of Business Activity in 2008 - 2013**

<b>Company</b>	<b>Type</b>	<b>E/N</b>	<b>C/D/A</b>	<b>Investment (mil)</b>
201 Twenty-One	Mixed-use residential apartments & retail	N	C	\$ 40
Bauer Compressor Facility	Expansion of existing Norfolk business	E	A	15
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 Court Complex	N	D	123
Eastern Virginia Medical School	New education and research building	N	C	80
Fort Norfolk Plaza	Mixed-use medical office, retail	N	C	70
Ghent Station	New medical space and retail	N	A	17.5
Hampton Roads Barge Company	New transportation/shipping company	N	C	2.3
Harris Teeter Expansion	Replacement of existing grocery store	E	C	14
Harris Teeter	Construction of new store at Wards Corner	N	D	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	C	7.6
Light Rail	Starter line	N	C	338.3
MacArthur Memorial	Expansion	E	C	5
Marine Hydraulics	Expansion	E	C	82
Norfolk State University (NSU)	Library and student center	N	C	75
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
Passenger Rail Facility	Station for new Amtrak service	N	A	3.8
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 at Poplar Halls	N	D	9
Sentara Garage	Colley Avenue	N	D	15
Sheraton Hotel	Renovation	E	C	32
Slover Library	Construction of new main library	N	D	64
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
Virginia Arts Festival Headquarters	Offices and rehearsal studios	N	C	7.5
Virginia Zoo	Animal Wellness Center	E	D	4.3
Wells Fargo Center	Mixed-use office, retail and residential	N	C	170
<b>Total:</b>				<b><u>\$1,617</u></b>

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

Note: 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 \$14.9 billion in Fiscal Year 2011, comprised of a total annual payroll of \$8.6 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) of nearly 70,000. There were 83,095 active-duty U.S. Navy military personnel in Hampton Roads in 2011, of which 59%, or 49,328, were assigned to Norfolk. In addition, the City is home port to 87 ships, including the USNS Comfort, a hospital ship, which moved from Baltimore in 2013, and home to 37 aircraft squadrons.

Norfolk is home to the Navy Reserve Forces Command. This is the global headquarters for more than 68,000 reserve sailors and is responsible for readiness, oversight, manpower management, logistics, mobilization and training of reserve sailors.

**APPENDIX A**

**CITY OF NORFOLK, VIRGINIA  
GENERAL PURPOSE FINANCIAL  
STATEMENTS FOR THE FISCAL YEAR  
ENDED JUNE 30, 2012**

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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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

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

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



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

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

KPMG LLP

January 15, 2013

**MANAGEMENT'S DISCUSSION  
AND ANALYSIS**

**(Unaudited)**



**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**For the Fiscal Year Ended June 30, 2012**

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

**Financial Highlights**

- The assets of the City, on a government-wide basis excluding component units, exceeded its liabilities at the close of fiscal year 2012 by \$683,050,349 (net assets). Of this amount, \$95,304,028 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors. Total net assets increased by \$3,890,468 and unrestricted net assets increased by \$27,499,609.
- As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$243,593,795, an increase of \$44,185,960 in comparison with the prior year. This increase was primarily attributable to the capital projects fund with the issuance of debt during the fiscal year which resulted in total proceeds of \$122,734,890 (including premium) as well as reimbursement in the amount of \$13,594,998 received from various sources for expenditures related to the light rail system. These increases were somewhat offset by capital outlays of \$98,892,003. Approximately 22.3 percent or \$54,338,476 is unassigned.
- The General Fund, on a current financial resources basis, reported a decrease in fund balance of \$3,773,544. A decrease in fund balance was planned and approved in the adoption of the fiscal year 2012 budget. The City budgeted to use approximately \$17.7 million in reserves, but due to the implementation of City-wide cost saving measures during the fiscal year only \$3.8 million was needed. These cost saving measures will continue and positively impact fiscal year 2013.
- At the end of the current fiscal year, the total unassigned fund balance for the general fund was \$54,338,476 or 6.83 percent of the general fund budget.
- The City's total outstanding bonded indebtedness increased by \$11,989,269 during the current fiscal year.

**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**For the Fiscal Year Ended June 30, 2012**

**Overview of the Financial Statements**

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

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

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

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

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

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

**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**For the Fiscal Year Ended June 30, 2012**

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

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

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

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

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

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

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

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

**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**For the Fiscal Year Ended June 30, 2012**

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

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

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

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

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

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

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

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

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

**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**For the Fiscal Year Ended June 30, 2012**

**Government-Wide Financial Analysis**

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

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

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

**Summary of the City of Norfolk's Net Assets**

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



**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**For the Fiscal Year Ended June 30, 2012**

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

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

**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**For the Fiscal Year Ended June 30, 2012**

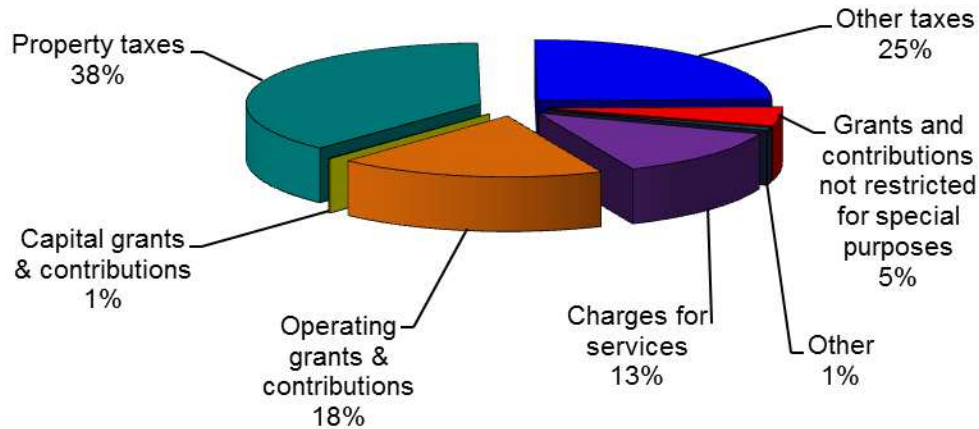
Key programmatic and functional elements of these changes in government-wide net assets are demonstrated on the following page:

**Changes in the City of Norfolk's Net Assets**

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

**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**For the Fiscal Year Ended June 30, 2012**

**Governmental Activities: Revenues by Source**



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

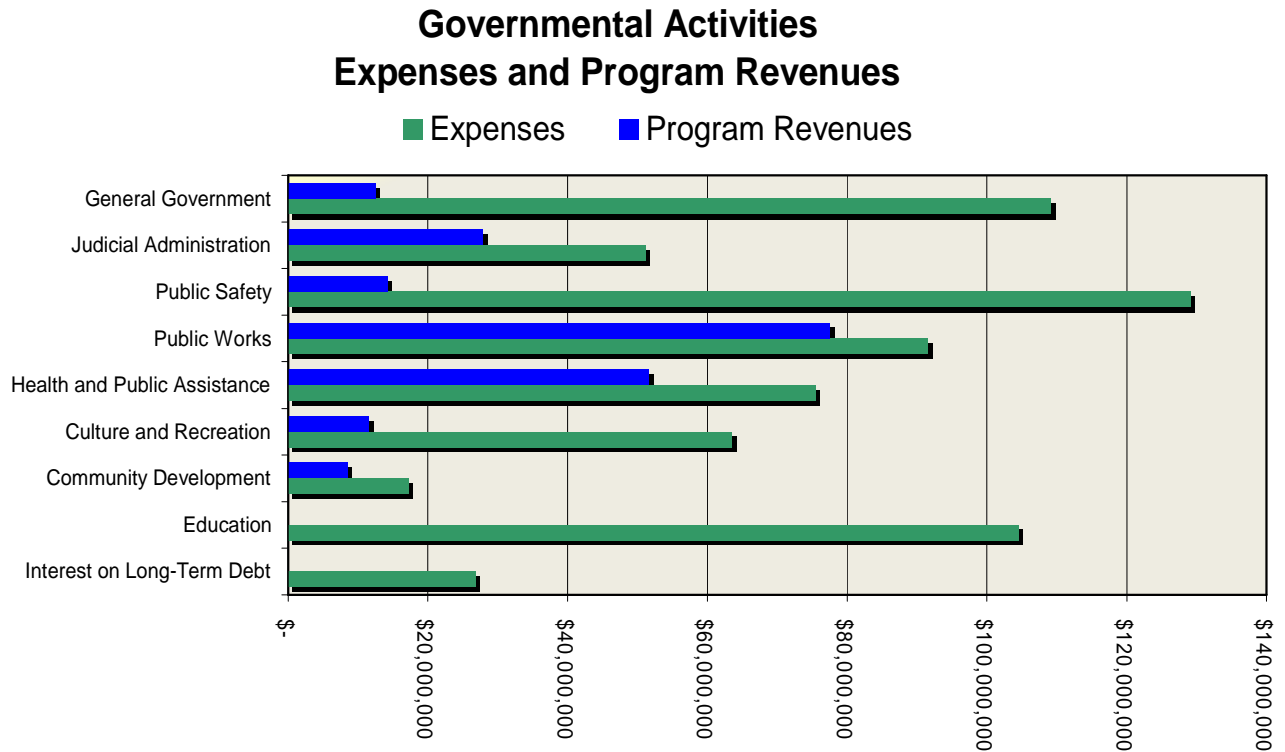
Operating grants and contributions for governmental activities ended the fiscal year at \$119,353,078 which represents an increase of approximately 2.3 percent from the prior year. Grants and contributions not restricted for specific programs represent intergovernmental grants and contributions from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

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

**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**For the Fiscal Year Ended June 30, 2012**

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

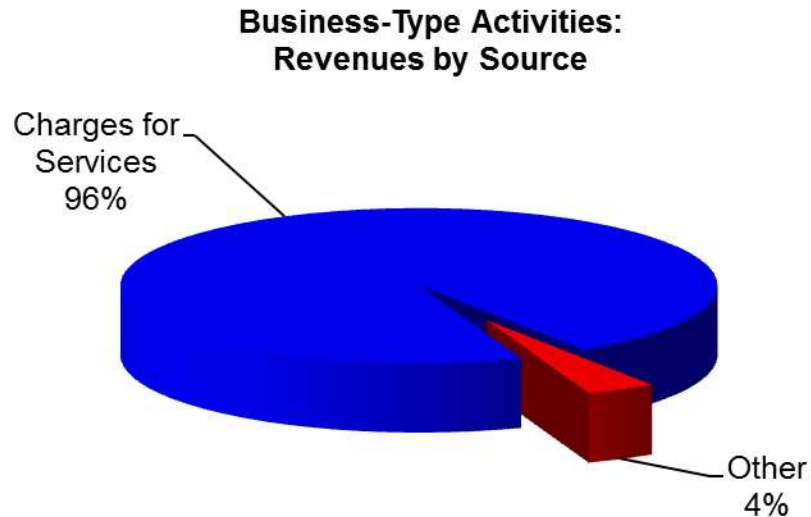
Depreciation expense for governmental activities of \$35,408,463 was recorded.



**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**For the Fiscal Year Ended June 30, 2012**

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

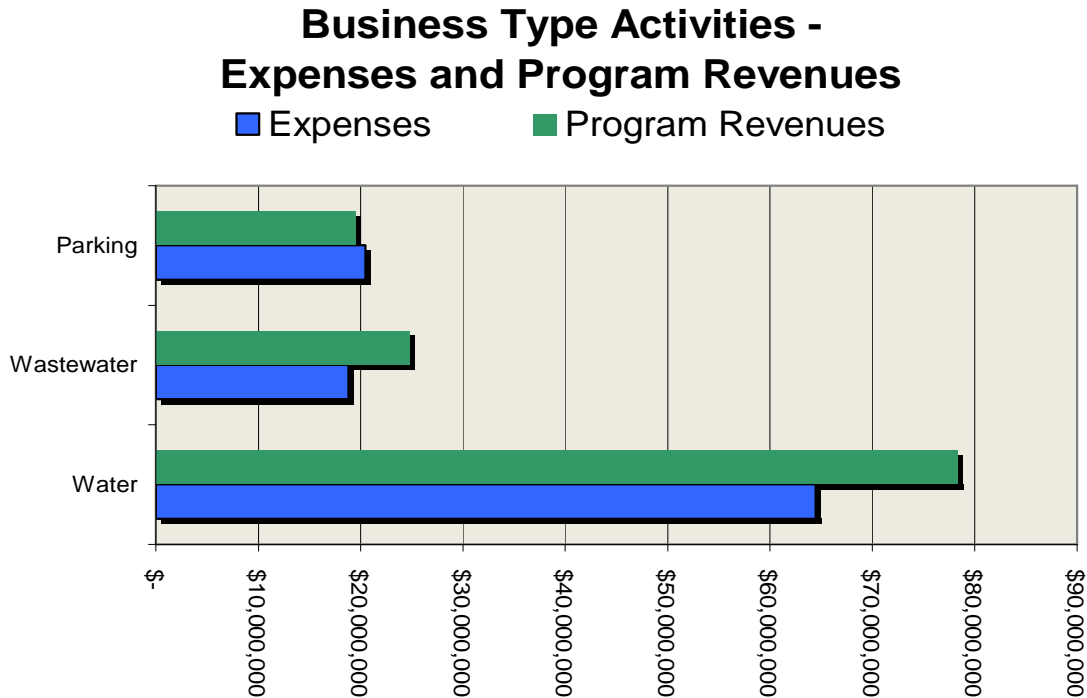
- Revenue from charges for services for business-type activities decreased by 1.78 percent. Water Utility charges for services decreased \$2,425,560. Wastewater Utility charges for services increased \$435,328 primarily as a result of rate increases. As part of the City's utility rate plan to improve utility infrastructure throughout the City, the Water and Wastewater Utility rates were increased by \$0.14/100 cubic feet and \$0.13/100 cubic feet, respectively.
- Parking facilities revenues remained relatively flat with a slight decrease of \$229,752 or 1.17 percent from the prior year.



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

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

**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**For the Fiscal Year Ended June 30, 2012**



### 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, 2012**

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

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

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

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

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

**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**For the Fiscal Year Ended June 30, 2012**

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

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

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

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

**Capital Asset and Debt Administration**

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

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

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



**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**For the Fiscal Year Ended June 30, 2012**

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

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

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

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

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

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

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

**City of Norfolk's Bonded Debt**

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

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

**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**For the Fiscal Year Ended June 30, 2012**

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

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

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

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

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

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

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

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

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

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

**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**For the Fiscal Year Ended June 30, 2012**

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

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

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

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

### **Requests for Information**

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

# **BASIC FINANCIAL STATEMENTS**



## CITY OF NORFOLK, VIRGINIA

Exhibit 1

Statement of Net Assets  
June 30, 2012

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

**CITY OF NORFOLK, VIRGINIA**

**Exhibit 2**

**Statement of Activities  
For the Year Ended June 30, 2012**

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

**CITY OF NORFOLK, VIRGINIA**  
**Balance Sheet - Governmental Funds**  
**June 30, 2012**

**Exhibit A-1**

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

**CITY OF NORFOLK, VIRGINIA**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**to the Statement of Net Assets**  
**June 30, 2012**

Exhibit A-2

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Fund balances - total governmental funds	\$	243,593,795
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Amounts reported for governmental activities in the Statement of  
Net Assets are different because:

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

	Cost of capital assets	2,270,296,099	
	Accumulated depreciation	<u>(1,388,053,956)</u>	
			882,242,143

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

	Adjustment for deferred revenue	28,459,304
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Long-term liabilities, including bonds payable, are not  
due and payable in the current period and therefore  
are not reported in the funds:

	Bonds and notes payable	(687,875,882)	
	Unamortized bond premium	(29,531,510)	
	Retirement contribution	(36,942,395)	
	Other post employment benefits	(22,870,641)	
	Compensated absences	(15,625,140)	
	Workers' compensation and claims liability	(31,400,391)	
	Other	(1,988,438)	
	Accrued interest payable	<u>(7,745,922)</u>	
			(833,980,319)

Internal service funds		6,386,489
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Receivable for Build America Bonds - interest rate subsidy		665,849
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GASB Statement 49 Pollution Remediation Obligation		(220,696)
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Net assets of governmental activities	\$	<u><u>327,146,565</u></u>
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**CITY OF NORFOLK, VIRGINIA**

**Exhibit A-3**

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

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

**CITY OF NORFOLK, VIRGINIA**

**Exhibit A-4**

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

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

**CITY OF NORFOLK, VIRGINIA**  
**Statement of Fund Net Assets - Proprietary Funds**  
**June 30, 2012**

**Exhibit B-1**

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

**CITY OF NORFOLK, VIRGINIA**

**Exhibit B-2**

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

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

## CITY OF NORFOLK, VIRGINIA

Exhibit B-3

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

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

**CITY OF NORFOLK, VIRGINIA**  
**Statement of Fiduciary Net Assets**  
**June 30, 2012**

Exhibit C-1

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

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

Exhibit C-2

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

**CITY OF NORFOLK, VIRGINIA**  
**Statement of Net Assets - Component Units**  
**June 30, 2012**

**Exhibit D-1**

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



**CITY OF NORFOLK, VIRGINIA**

**Exhibit D-2**

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

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

# **NOTES TO THE BASIC FINANCIAL STATEMENTS**



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

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

**I. Summary of Significant Accounting Policies**

**A. Financial Reporting Entity Information**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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, 2012**

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     | • Revenue from the Commonwealth |
| • Personal property taxes | ○ Shared expenses               |
| • Sales and use taxes     | ○ Categorical aid               |

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

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

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

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

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

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

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

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

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

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

**D. Budgets and Budgetary Accounting**

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

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

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

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

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

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

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

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

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

**E. Deposits and Investments**

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

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

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

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

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

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**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

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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):

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

**J. Compensated Absences**

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

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

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

**K. Net Assets/Fund Balances**

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

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

**L. Estimates**

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

**M. Bond Premiums, Discounts and Issuance Costs**

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

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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.



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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, 2012)**

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

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

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

**Credit Risk Related to Issuer**

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

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The Primary Government's Rated Debt Investment

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

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

### Concentration of Credit Risk

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

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

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**Foreign Currency Risk**

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

<u>Currency</u>	<u>Fixed-Income</u>
Australian Dollar	\$ (3,226,301)
Brazilian Real	1,613,151
Canadian Dollar	4,839,452
Japanese Yen	(50,007,667)
Mexican Peso	6,452,602
	<u>\$ (40,328,763)</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, 2012, the CSB had \$5,042,940 of cash and cash equivalents held in investments and \$787,639 of restricted cash. The investments are primarily in the LGIP.

**School Board**

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

**Waterside Associates**

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

**III. Property Taxes**

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

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The property tax calendar is as follows:

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

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

**IV. Accounts Receivable**

**A. Unbilled Accounts Receivable**

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

Water Utility fund	\$ 4,717,107
Wastewater Utility fund	1,095,674
Parking Facilities fund	220,440
	<u>\$ 6,033,221</u>

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

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**B. Allowances for Uncollectible Accounts Receivable**

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

**Primary Government:**

General Fund:	
Taxes	\$ 16,749,345
Accounts	19,183,000
Total - General Fund	<u>35,932,345</u>
Storm Water special revenue fund	374,700
Water Utility fund	2,959,418
Wastewater Utility fund	978,517
<b>Total - Primary Government</b>	<b><u>\$ 40,244,980</u></b>

**Component Units:**

Community Services Board	\$ 398,818
Waterside Associates	31,409
<b>Total - Component Units</b>	<b><u>\$ 430,227</u></b>

**V. Due From Other Governments**

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

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

**CITY OF NORFOLK, VIRGINIA**  
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**VI. Changes in Capital Assets**

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

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

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

**Governmental activities:**

General government	\$ 9,147,901
Judicial administration	1,110,893
Public safety	4,013,988
Public works, which includes the depreciation of infrastructure assets	12,055,858
Health and sanitation	245,714
Culture and recreation	7,657,696
Community development	880,410
In addition, depreciation on capital assets held by the City's Internal Service funds is charged to the various functions based on their usage of the assets.	296,003
Total depreciation expense	<u>\$ 35,408,463</u>

**Business-type activities:**

Water Utility fund	\$ 11,902,145
Wastewater Utility fund	4,952,310
Parking Facilities fund	5,473,362
Total depreciation expense	<u>\$ 22,327,817</u>

**Component unit activities**

Community Services Board	\$ 198,275
School Board	2,810,515
Waterside Associates	277,616
Total depreciation expense	<u>\$ 3,286,406</u>



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

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

**VII. Short-Term Obligations**

**A. Bond Anticipation Notes**

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

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

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

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

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

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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, 2012, \$30,265,000 remains outstanding and included in the City's long-term debt. The Series 2007 Bonds are general obligations of the City and the City's full faith and credit are irrevocably pledged to the repayment of principal and interest.

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

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

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

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

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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, 2012, all the Series 2007 Bonds have been successfully remarketed by the remarketing agent.

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

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

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

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

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

## **VIII. Long-Term Obligations**

### **A. General Obligation and Revenue Bonds**

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

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

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

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

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

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

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

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

## B. General Obligation Bonds

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

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

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

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

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

**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.



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

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

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

**D. Mortgage Payable**

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

**E. Other Notes and Loans**

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

**F. Current and Advanced Refundings**

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

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

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

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

**General Obligation**

<b>Defeased In</b>	<b>Original Issue</b>	<b>Amount</b>	<b>Redemption</b>
2006	2002B	\$ 6,920,000	7/1/2012
2011	2002B	10,380,000	7/1/2012
2011	2003	28,550,000	12/1/2013
2011	2005	20,950,000	3/1/2015
2011	2006	7,650,000	10/1/2014
2011	2008C	23,135,000	4/1/2017
2012	2004	200,000	8/1/2012
2012	2004	505,000	8/1/2013
2012	2004	12,030,000	8/1/2014
2012	2005	5,580,000	3/1/2015
2012	2006	55,745,000	10/1/2014
		<u>\$ 171,645,000</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 \$3,808,764 for the fiscal year ended June 30, 2012.

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

Future year lease obligations are listed below:

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

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

#### **H. Landfill Liability**

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

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

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

**I. Compensated Absences**

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

Primary Government:

Governmental activities:

General fund	\$ 14,781,412
Non-major governmental and internal service funds	<u>1,133,959</u>
Total governmental	<u><u>\$ 15,915,371</u></u>

Enterprise funds:

Water Utility fund	\$ 1,044,689
Wastewater Utility fund	374,331
Parking Facilities fund	<u>311,959</u>
Total enterprise funds	<u><u>\$ 1,730,979</u></u>

Component Unit - School Board	<u><u>\$ 8,967,984</u></u>
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Component Unit - CSB	<u><u>\$ 877,171</u></u>
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**J. Debt Limit**

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

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

**K. Bonds Authorized and Unissued**

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

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

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

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

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

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

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**IX. Pension Plans**

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

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

**Plan Description**

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

**Funding Policy**

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

**Annual Pension Cost**

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

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

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

**Three-Year Trend Information**

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

**Funding Status and Funding Progress**

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

**CITY - EMPLOYEES' RETIREMENT SYSTEM**

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

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



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

**B. School Board – Retirement Plan**

**Plan Description – Virginia Retirement System (VRS)**

The School Board contributes to the Virginia Retirement System (VRS), an agent, which administers both a multiple-employer (for non-professionals) and a cost-sharing multiple-employer (for professionals) defined benefit pension plan for the School Board. All full-time, salaried permanent employees of the School Board must participate in the VRS. Benefits vest after five years of service. Effective June 30, 2010, all new members on and after that date participate in Plan 2. Plan 1 employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service and at 50 with 30 years of service for participating employers payable monthly for life in an amount equal to 1.7% of their average final compensation (AFC) for each year of credited service. Plan 2 employees are eligible for an unreduced retirement benefit after reaching Social Security normal retirement age with 5 years of service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living adjustments (COLA) beginning in their second year of retirement. The COLA is limited to 5% per year. AFC is defined as the highest consecutive 36 months of reported compensation. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provision to the General Assembly of Virginia.

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

**Funding Policy**

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

**CITY OF NORFOLK, VIRGINIA**  
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**Annual Pension Cost – Agent Multiple-Employer Plan**

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

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

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

**Funding Status and Funding Progress**

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

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

**SCHOOL BOARD COMPONENT UNIT - VRS NON-PROFESSIONAL EMPLOYEES**

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

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

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

**Plan Description**

The City of Norfolk contributes to the Virginia Retirement System (VRS), an agent, which administers a multiple-employer defined benefit pension plan for the City of Norfolk. All full-time, salaried permanent state employees in the City's five constitutional offices must participate in the VRS. These offices include: Commissioner of the Revenue, City Treasurer, Circuit Courts, Commonwealth's Attorney, and Sheriff and Jail. Benefits vest after 5 years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 with 5 years of service for participating law enforcement officers and firefighters) and age 50 with 30 years of service for participating employers (age 50 with 25 years of service for participating law enforcement officers and firefighters) payable monthly for life in an amount equal to 1.7% of their average final salary (AFS) for each year of credited service. In addition, retirees qualify for annual cost-of-living increases limited to 5% per year in their second year of retirement. AFS is defined as the highest consecutive 36 months of salary. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. Participating law enforcement officers may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the State legislature. The VRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be downloaded from their website at <http://www.varetire.org/> or obtained by writing to VRS at P.O. Box 2500, Richmond, VA 23218-2500.

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**Funding Policy**

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual salary to the VRS. The 5% member contribution has been assumed by the City. In addition, the City is required to contribute the remaining amounts necessary to fund its participation in the VRS using an actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The City's contribution rate (including the assumed 5%) for the fiscal year ended June 30, 2011 was 13.70% of annual covered payroll.

**Annual Pension Cost**

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

Trend information for the City VRS plan is as follows:

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

**Funding Status and Funding Progress**

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

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**CITY - VRS EMPLOYEES**

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

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

**X. Deferred Compensation Plan**

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferral may be up to 25% of gross income up to a maximum of \$17,000 per year. The benefits from the deferred compensation plan are not available to employees until termination, retirement, death or unforeseeable emergency.

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

**XI. Other Post-employment Benefits (OPEB)**

**Plan Description**

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

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

**Funding Policy**

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

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

**Annual OPEB Cost and Net OPEB Obligation**

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

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

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

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

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

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

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

**Funded Status and Funding Progress**

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



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

**Actuarial Methods and Assumptions**

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

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

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

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**XII. Interfund Receivable and Payable Balances**

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Capital Projects fund	\$ 7,948,191
	Community Development fund	52,368
	Internal Service funds	184,266
	Water Utility fund	1,453,556
	Total General fund	<u>\$ 9,638,381</u>
Capital Projects fund	Wastewater Utility fund	\$ 821
	Water Utility fund	34,475
	Stormwater fund	1,500,000
	Total Capital Projects fund	<u>\$ 1,535,296</u>
Non-major governmental funds	General fund	\$ 34,375
	Capital Projects fund	3,422,912
	Stormwater fund	92,672
	Total Non-major governmental funds	<u>\$ 3,549,959</u>
	<b>Total Governmental funds</b>	<u><b>\$ 14,723,636</b></u>
<u>Payable Fund</u>	<u>Receivable Fund</u>	
General fund	Grants fund	\$ 34,375
	Internal Service funds	849,859
	Total General fund	<u>\$ 884,234</u>
Capital Projects fund	General fund	\$ 7,948,191
	Stormwater fund	434,372
	Grants fund	1,749,169
	EOC/911 fund	27,377
	Internal Service funds	46,024
	Public Amenities fund	1,070,980
	Cemeteries fund	58,417
	Golf fund	10,689
	Towing and Recovery fund	71,908
	Total Capital Projects fund	<u>\$ 11,417,127</u>
Nonmajor governmental funds	General fund	\$ 52,368
	Capital Projects fund	1,500,000
	Towing and Recovery fund	92,672
	Total Nonmajor governmental funds	<u>\$ 1,645,040</u>
	<b>Total Governmental funds</b>	<u><b>\$ 13,946,401</b></u>
<u>Payable Fund</u>	<u>Receivable Fund</u>	
Water Utility fund	General fund	\$ 1,453,556
	Capital Projects fund	34,475
	Total Water Utility fund	<u>\$ 1,488,031</u>
Wastewater Utility fund	Capital Projects fund	\$ 821
	Total Wastewater Utility fund	<u>\$ 821</u>
	<b>Total Enterprise funds</b>	<u><b>\$ 1,488,852</b></u>

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<b><u>Receivable Fund</u></b>		
Internal Service funds		
<b><u>Payable Fund</u></b>		
General fund	\$	849,859
Capital Projects fund		<u>46,024</u>
<b>Total Internal Service funds</b>	<b>\$</b>	<b><u><u>895,883</u></u></b>
<b><u>Payable Fund</u></b>		
Internal Service funds		
<b><u>Receivable Fund</u></b>		
General fund	\$	184,266
<b>Total Internal Service funds</b>	<b>\$</b>	<b><u><u>184,266</u></u></b>

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

**XIII. Interfund Transfers**

The following interfund transfers occurred during fiscal year 2012:

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

The purpose of the transfer balances are as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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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:

	<u>General fund</u>	<u>Projects fund</u>	<u>Governmental funds</u>	<u>Governmental funds</u>
<b>FUND BALANCES</b>				
Nonspendable				
- Prepaids	\$ -	\$ -	\$ 23,091	\$ 23,091
Restricted				-
- General government	330,000	41,995,404	-	42,325,404
- Judicial administration	-	-	791,719	791,719
- Public safety	-	83,294	227,642	310,936
- Public works	-	21,700,723	78,451	21,779,174
- Health and public assistance	-	-	532,618	532,618
- Culture and recreation	-	10,672,735	6,320,665	16,993,400
- Community development	-	1,960,496	1,523,184	3,483,680
- Education	-	3,015,397	-	3,015,397
- Other purposes	-	15,624,931	-	15,624,931
Committed				
- General government	-	5,496	-	5,496
- Public works	-	-	3,184,988	3,184,988
- Health and public assistance	-	-	-	-
- Culture and recreation	-	521,617	60,872	582,489
- General services	3,000,000	-	-	3,000,000
- Other purposes capital	-	13,849,289	-	13,849,289
Assigned				
- General government	4,665,150	618,601	270,079	5,553,830
- Judicial administration	796,691	-	716,138	1,512,829
- Public safety	296,225	-	142,955	439,180
- Public works	2,606,066	2,084,450	752,846	5,443,362
- Health and public assistance	676,096	-	1,097,076	1,773,172
- Culture and recreation	1,154,227	40,739,623	10,483,525	52,377,375
- Community development	3,530,648	4,753,444	7,095	8,291,187
- General services	1,584,501	-	-	1,584,501
- Education	-	8,413,352	99,216	8,512,568
- Debt Service	257,638	-	-	257,638
- Other purposes (FY-12 Budget appropriation)	19,271,473	(41,264,408)	-	(21,992,935)
Unassigned	54,338,476	-	-	54,338,476
Total fund balances	<u>\$ 92,507,191</u>	<u>\$ 124,774,444</u>	<u>\$ 26,312,160</u>	<u>\$ 243,593,795</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	\$ 2,194,171
Retirement System	411,971
Information Systems recoveries	1,717,531
Other	2,961,797
Administrative cost recoveries from Enterprise funds	<u>3,026,520</u>
Total recovered costs in the General fund	<u><u>\$ 10,311,990</u></u>

**XVI. Other Liabilities**

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

**Governmental Funds:**

General fund - miscellaneous	\$ 1,628,199
General fund - accrued expenditures	2,269,348
Nonmajor funds - miscellaneous	<u>141,752</u>
	<u><u>\$ 4,039,299</u></u>

**Internal Service Funds:**

Fleet Management fund - miscellaneous	\$ 4,085
	<u><u>\$ 4,085</u></u>

**Enterprise Funds:**

Water Utility fund - miscellaneous	\$ 211,312
Wastewater Utility fund - miscellaneous	27,500
Parking Facilities fund - miscellaneous	<u>162,329</u>
	<u><u>\$ 401,141</u></u>

**Fiduciary Funds:**

Other Agency fund	\$ 3,938,083
Commonwealth of Virginia	<u>17,709</u>
	<u><u>\$ 3,955,792</u></u>

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**XVII. Supplemental Appropriations**

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

**XVIII. Deferred Revenue**

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

**A. Non-major Governmental Funds**

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

**B. Deferred Property Tax Revenue**

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

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**XIX. Commitments and Contingencies**

**A. Capital Projects**

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

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

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

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

**B. Contingent Liabilities**

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

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

**C. Litigation**

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



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**D. Pollution Remediation Obligation**

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

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

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

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

**E. Encumbrances**

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

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**F. Lambert's Point Landfill**

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

**XX. Surety Bonds and Insurance**

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

**XXI. Self and Purchased Insurance Programs**

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

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

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

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

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

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

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

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

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

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**XXII. Jointly Governed Organizations**

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

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

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

**B. Hampton Roads Planning District Commission (the Commission)**

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

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

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

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

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

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

**XXIII. Joint Venture**

**Southeastern Public Service Authority (SPSA)**

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

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

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

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

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

**XXIV. Related Organizations**

**A. Norfolk Redevelopment and Housing Authority (NRHA)**

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

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

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**B. Norfolk Airport Authority**

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

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

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

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

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

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

**E. The Hospital Authority of Norfolk (HAN)**

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

**F. The Slover Library Foundation (the Foundation)**

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

**XXV. Subsequent Events**

**Parking System Revenue Refunding Bond, Series 2012**

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

**Wastewater System Revenue Bond, Series 2012**

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



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**General Obligation Wastewater Bond Rate Reduction**

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

**Community Services Board**

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

**XXVI. Accounting Pronouncements Issued But Not Yet Implemented**

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

- GASB Statement 60: *Accounting and Reporting for Service Concession Arrangements*. GASB 60 addresses issues related to accounting for, financial reporting and disclosure requirements of certain service concession arrangements, which are a type of public-private partnership. The provisions of GASB 60 are effective for fiscal years beginning after December 15, 2011.
- GASB Statement 61: *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*. The objectives of GASB 61 are to improve financial reporting for governmental entities. The statement modifies certain requirements for inclusion of component units, by clarifying the manner in which the determination should be made and the type of relationships that should be considered when making that determination. The statement also amends the criteria for reporting blended component units. The provisions of GASB 61 are effective for fiscal years beginning after June 15, 2012.
- GASB Statement 62: *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 62 incorporates into GASB's authoritative literature certain accounting and financial reporting guidance issued on or before November 30, 1989 from the following sources: FASB statements and interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA, so long as it does not contradict or conflict with GASB pronouncements. This statement also supersedes Statement No. 20: *Accounting and Financial Reporting for Proprietary Funds and*

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

- GASB Statement 63: *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position.* GASB 63 provides financial reporting guidance for deferred outflows and inflows of resources. These terms are defined as the consumption or acquisition of net assets by the government that is applicable to a future reporting period respectively. The provisions of GASB 62 are effective for fiscal years beginning after December 15, 2011.
- GASB Statement No. 65: *Items Previously Reported as Assets and Liabilities.* The objective of this Statement is to clarify GASB's conceptual definitions of deferred outflows of resources and deferred inflows of resources elements to a broader range of items to enhance consistency in state and local government financial statements. The statement reclassifies or recognizes certain items currently reported as assets and liabilities as one of four financial statement elements — deferred outflows of resources, outflows of resources, deferred inflows of resources or inflows of resources. Before this guidance, many items that appeared to meet the definition of deferred outflows of resources and deferred inflows of resources in Concepts Statement No. 4, *Elements of Financial Statements*, were not specifically identified as such in the GASB's authoritative literature, because the Concepts Statement limits recognition of deferred outflows and deferred inflows to those instances identified in authoritative GASB pronouncement. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.
- GASB Statement 66: *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62.* The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement also amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement 54 and Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.
- GASB Statement 67: *Financial Reporting for Pension Plans—an amendment of GASB Statement No.25 and No.50.* This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and Statement 50 for pension plans that are administered through trusts or similar arrangements meeting certain criteria. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. Statement 67 enhances note disclosures and required

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

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

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

**(Unaudited)**



**CITY OF NORFOLK, VIRGINIA**  
**REQUIRED SUPPLEMENTARY INFORMATION**

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

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

**CITY OF NORFOLK, VIRGINIA**

**Exhibit E-1**

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

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

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

**CITY OF NORFOLK, VIRGINIA**

**Exhibit E-2**

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

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

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, 2012**

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Sources/inflows of resources:

Actual amounts (budgetary basis) "available for appropriation" from Exhibit E-1

Differences--budget to GAAP:

The effects of accounting for school revenue as a component unit

The effects of accounting for transfer from fund balance

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

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

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

Uses/outflows of resources:

Actual amounts (budgetary basis) "Total charges to appropriations" from Exhibit E-2

Differences--budget to GAAP:

The effects of accounting for school expenditures as a component unit

Equipment purchased with bond proceeds

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

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

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

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

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



# **OTHER SUPPLEMENTARY INFORMATION**

## **COMBINING FINANCIAL STATEMENTS**

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

## **OTHER SCHEDULES**

**~ Schedule of Expenditures of Federal Awards ~**

**~ Notes to Schedule of Expenditures of Federal Awards ~**

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

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

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



# Nonmajor Governmental Funds

## Special Revenue Funds

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

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

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

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

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

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

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

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

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

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



# **Nonmajor Governmental Funds (Con't.)**

## **Permanent Fund**

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



**CITY OF NORFOLK, VIRGINIA**

**Exhibit F-1**

**Combining Balance Sheet - Nonmajor Governmental Funds  
June 30, 2012**

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

**CITY OF NORFOLK, VIRGINIA**

**Exhibit F-1**

**Combining Balance Sheet - Nonmajor Governmental Funds  
June 30, 2012**

<b>Special Revenue Funds</b>					<b>Permanent Funds</b>	<b>Nonmajor Governmental Funds</b>
<b>Golf</b>	<b>Public Amenities</b>	<b>EOC/ 911</b>	<b>Tax Increment</b>	<b>Total Special Revenue</b>	<b>Non- Expendable trust</b>	
\$ 88,140	\$ 7,026,069	\$ 179,607	\$ 2,506	\$ 14,759,603	\$ 6,178,090	\$ 20,937,693
21,194	559,100	110,754	-	4,540,196	16,065	4,556,261
10,689	1,070,980	27,377	-	3,549,959	-	3,549,959
-	-	-	-	9,307,094	-	9,307,094
-	-	-	-	23,091	-	23,091
-	-	-	-	-	8	8
<u>\$ 120,023</u>	<u>\$ 8,656,149</u>	<u>\$ 317,738</u>	<u>\$ 2,506</u>	<u>\$ 32,179,943</u>	<u>\$ 6,194,163</u>	<u>\$ 38,374,106</u>
\$ 29,883	\$ 60,032	\$ 37,718	\$ -	\$ 2,107,363	\$ -	\$ 2,107,363
-	-	-	-	73,860	-	73,860
-	-	73,113	-	215,423	-	215,423
-	-	5,284	-	5,284	-	5,284
-	-	-	-	1,645,040	-	1,645,040
-	-	-	-	6,775,241	-	6,775,241
-	-	-	-	1,097,983	-	1,097,983
-	-	-	-	141,752	-	141,752
<u>29,883</u>	<u>60,032</u>	<u>116,115</u>	<u>-</u>	<u>12,061,946</u>	<u>-</u>	<u>12,061,946</u>
-	-	-	-	23,091	-	23,091
84,532	-	-	-	3,280,116	6,194,163	9,474,279
-	-	-	-	3,245,860	-	3,245,860
5,608	8,596,117	201,623	2,506	13,568,930	-	13,568,930
-	-	-	-	-	-	-
<u>90,140</u>	<u>8,596,117</u>	<u>201,623</u>	<u>2,506</u>	<u>20,117,997</u>	<u>6,194,163</u>	<u>26,312,160</u>
<u>\$ 120,023</u>	<u>\$ 8,656,149</u>	<u>\$ 317,738</u>	<u>\$ 2,506</u>	<u>\$ 32,179,943</u>	<u>\$ 6,194,163</u>	<u>\$ 38,374,106</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, 2012**

	<b>Special Revenue Funds</b>					
	Storm Water	Towing	Grants	Community Development	Cemeteries	Golf
<b>REVENUES</b>						
General property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other local taxes	-	-	-	-	-	-
Fines and forfeitures	-	-	700	-	-	-
Use of money and property	11,348	1,450	2,856	-	-	101,487
Charges for services	12,147,735	1,268,248	56,863	-	1,162,855	1,063,022
Miscellaneous	45,330	79,866	2,793,187	95,513	-	-
Intergovernmental:						
Commonwealth of Virginia	-	-	12,235,203	-	-	-
Federal government	94,933	4,804	15,599,306	5,694,666	-	-
Total revenue	<u>12,299,346</u>	<u>1,354,368</u>	<u>30,688,115</u>	<u>5,790,179</u>	<u>1,162,855</u>	<u>1,164,509</u>
<b>EXPENDITURES</b>						
General government	-	-	130,444	-	-	-
Judicial administration	-	-	3,120,316	-	-	-
Public safety	-	-	4,009,418	-	-	-
Public works	9,013,577	1,445,389	5,498,393	-	-	-
Health and public assistance	-	-	18,474,745	881,812	-	-
Cultural and recreation	-	-	585,092	-	1,885,415	1,419,103
Community development	-	-	1,475,054	3,710,995	-	-
General services	-	-	-	-	-	-
Education	-	-	784	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest and other charges	-	-	-	-	-	-
Total expenditures	<u>9,013,577</u>	<u>1,445,389</u>	<u>33,294,246</u>	<u>4,592,807</u>	<u>1,885,415</u>	<u>1,419,103</u>
Excess (deficiency) of revenue over (under) expenditures	<u>3,285,769</u>	<u>(91,021)</u>	<u>(2,606,131)</u>	<u>1,197,372</u>	<u>(722,560)</u>	<u>(254,594)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	-	-	4,322,944	-	622,694	250,000
Transfers out	<u>(4,258,289)</u>	<u>(35,189)</u>	<u>-</u>	<u>(1,197,372)</u>	<u>-</u>	<u>-</u>
Total other financing sources and uses	<u>(4,258,289)</u>	<u>(35,189)</u>	<u>4,322,944</u>	<u>(1,197,372)</u>	<u>622,694</u>	<u>250,000</u>
Net change in fund balances	(972,520)	(126,210)	1,716,813	-	(99,866)	(4,594)
Fund balances--beginning	4,157,508	773,385	5,315,648	-	462,853	94,734
Adjustment to beginning balance						
Fund balances--ending	<u>\$ 3,184,988</u>	<u>\$ 647,175</u>	<u>\$ 7,032,461</u>	<u>\$ -</u>	<u>\$ 362,987</u>	<u>\$ 90,140</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, 2012**

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

# Agency Funds

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

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

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





**CITY OF NORFOLK, VIRGINIA**  
**Combining Balance Sheet - Agency Funds**  
**June 30, 2012**

Exhibit G-1

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

**CITY OF NORFOLK, VIRGINIA**

Exhibit G-2

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

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

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

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

# Internal Service Funds

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

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

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



**CITY OF NORFOLK, VIRGINIA**

**Exhibit H-1**

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

	Storehouse	Fleet Management	Total
<b>ASSETS</b>			
Current assets:			
Cash and short term investments	\$ 301,935	\$ 1,722	\$ 303,657
Receivables, net	-	484,551	484,551
Due from other funds	46,024	849,859	895,883
Inventories	<u>1,895,099</u>	<u>360,100</u>	<u>2,255,199</u>
Total current assets	<u>2,243,058</u>	<u>1,696,232</u>	<u>3,939,290</u>
Noncurrent assets:			
Capital assets:			
Land	-	-	-
Buildings and equipment, net	<u>15,246</u>	<u>4,585,259</u>	<u>4,600,505</u>
Total noncurrent assets	<u>15,246</u>	<u>4,585,259</u>	<u>4,600,505</u>
Total assets	<u>\$ 2,258,304</u>	<u>\$ 6,281,491</u>	<u>\$ 8,539,795</u>
<b>LIABILITIES</b>			
Current liabilities:			
Vouchers payable	\$ 25,928	\$ 1,038,994	\$ 1,064,922
Due to other funds	-	184,266	184,266
Compensated absences	29,672	178,138	207,810
Accrued payroll	6,324	47,226	53,550
Obligations for employees' retirement	67,811	488,440	556,251
Other liabilities	<u>-</u>	<u>4,085</u>	<u>4,085</u>
Total current liabilities	<u>129,735</u>	<u>1,941,149</u>	<u>2,070,884</u>
Noncurrent liabilities:			
Compensated absences	<u>6,077</u>	<u>76,345</u>	<u>82,422</u>
Total noncurrent liabilities	<u>6,077</u>	<u>76,345</u>	<u>82,422</u>
Total liabilities	<u>135,812</u>	<u>2,017,494</u>	<u>2,153,306</u>
<b>NET ASSETS</b>			
Invested in capital assets, net			
of related debt	15,246	4,585,259	4,600,505
Unrestricted	<u>2,107,246</u>	<u>(321,262)</u>	<u>1,785,984</u>
Total net assets	<u>2,122,492</u>	<u>4,263,997</u>	<u>6,386,489</u>
Total liabilities and net assets	<u>\$ 2,258,304</u>	<u>\$ 6,281,491</u>	<u>\$ 8,539,795</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, 2012**

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

**CITY OF NORFOLK, VIRGINIA**

**Exhibit H-3**

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

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

# **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**



**CITY OF NORFOLK, VIRGINIA**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2012**

**Exhibit I**

**Schedule I**

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



**CITY OF NORFOLK, VIRGINIA**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2012**

**Exhibit I**

**Schedule I**

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

**CITY OF NORFOLK, VIRGINIA**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2012**

**Exhibit I**

**Schedule I**

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

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

**1. General**

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

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

**2. Basis of Accounting**

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

**3. Relationship to the Basic Financial Statements**

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

Major governmental funds	\$ 22,048,281
Non-major governmental funds	21,393,709
Total revenues from federal government	<u>43,441,990</u>

**Component Unit - School Board**

Total Federal Grants Awarded	66,414,134	
Direct Payments:		
Navy Junior ROTC	382,245	
Erate - Universal Service Funds	431,465	
Medicaid	<u>811,490</u>	
Total - Norfolk Public Schools		68,039,334

Component Unit - Community Services Board	3,020,127
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<b>Total federal financial assistance reported in basic financial statements</b>	<u><u>\$ 114,501,451</u></u>
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Federal awards not reported as federal revenue in basic financial statements

Enterprise - VRA Loan - Wastewater Fund	12,202,529
Noreaster Disaster Assistance reimbursement to be received in fiscal year 2013; reported on SEFA in fiscal year 2012	85,260
CSA Pool - Medicaid Adjustment	53,270
Build America Bond Interest Rate Subsidy	(99,737)
<b>Total federal awards</b>	<u><u>\$ 126,742,773</u></u>

**Reconciliation to Exhibit A-3**

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

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

**4. Clusters**

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

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

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

**Clusters (continued):**

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

**5. Sub-recipients**

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

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

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

**~Special Revenue Funds~**

**~Internal Service Funds~**

**~Capital Projects Fund~**



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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

	<u>Budget</u>	<u>Actual Budgetary Basis*</u>	<u>Positive (Negative) Variance</u>
Revenues:			
Charges for services	<u>\$ 622,000</u>	<u>\$ 693,343</u>	<u>\$ 71,343</u>
Expenditures:			
Storehouse	<u>\$ 622,000</u>	<u>\$ 517,896</u>	<u>\$ 104,104</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, VA**  
**Schedule of Expenditures - Budget and Actual - Capital Projects Fund**  
**From Inception and for the Year Ended June 30, 2012**

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

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

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

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

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## **APPENDIX B**

### **FORMS OF BOND COUNSEL OPINIONS**

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*Set forth below is the proposed form of the opinion of McGuireWoods LLP, Bond Counsel. It is preliminary and subject to change prior to the delivery of the 2013A Bonds.*

[Letterhead of McGuireWoods LLP]

November 7, 2013

Mayor and Council of the  
City of Norfolk, Virginia  
Norfolk, Virginia

**\$130,990,000**  
**City of Norfolk, Virginia**  
**General Obligation Capital Improvement and Refunding Bonds,**  
**Series 2013A (Tax-Exempt)**

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 \$130,990,000 General Obligation Capital Improvement and Refunding Bonds, Series 2013A (Tax-Exempt) (the "2013A 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 2013A 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 2013A 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.

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 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 2013A 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 2013A Bonds to the extent other funds of the City are not lawfully available and appropriated for such purpose.

3. Interest on the 2013A Bonds, including any accrued "original issue discount" properly allocable to the owners of the 2013A 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 2013A Bonds must be included in computing adjusted current earnings. The "original issue discount" on any 2013A 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 2013A 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 2013A 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 2013A 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 2013A Bonds in order for interest on the 2013A 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 2013A Bonds and the use of the property financed or refinanced by the 2013A Bonds, limitations on the source of the payment of and the security for the 2013A Bonds, and the obligation to rebate certain excess earnings on the gross proceeds of the 2013A Bonds to the United States Treasury. The tax certificates and related documents for the 2013A 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 2013A 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 2013A 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 2013A 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 2013A 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 2013A 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 2013A Bonds under the laws of the Commonwealth, or (ii) any consequences arising with respect to the 2013A 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 2013A 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 2013A Bonds in making a decision to purchase the 2013A Bonds.

Very truly yours,

To be signed: McGuireWoods LLP

*Set forth below is the proposed form of the opinion of McGuireWoods LLP, Bond Counsel. It is preliminary and subject to change prior to the delivery of the 2013B Bonds.*

[Letterhead of McGuireWoods LLP]

November 7, 2013

Mayor and Council of the  
City of Norfolk, Virginia  
Norfolk, Virginia

**\$81,715,000**  
**City of Norfolk, Virginia**  
**General Obligation Capital Improvement and Refunding Bonds,**  
**Series 2013B (Taxable)**

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 \$81,715,000 General Obligation Capital Improvement and Refunding Bonds, Series 2013B (Taxable) (the "2013B 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 2013B 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 2013B 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.

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 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 2013B 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 2013B Bonds to the extent other funds of the City are not lawfully available and appropriated for such purpose.

3. Interest on the 2013B Bonds is includible in the gross income of the owners of the 2013B Bonds for federal income tax purposes. We express no opinion regarding any other federal tax consequences with respect to the 2013B Bonds.

4. Interest on the 2013B 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 2013B Bonds under the laws of the Commonwealth, or (ii) any consequences arising with respect to the 2013B Bonds under the tax laws of any state or local jurisdiction other than the Commonwealth.

**IRS Circular 230 Disclosure: To comply with certain U.S. Treasury regulations, we inform you that, unless expressly stated otherwise, any U.S. federal tax advice contained in this communication, including attachments was not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding any penalties that may be imposed on such taxpayer by the Internal Revenue Service. In addition, if any such tax advice is used or referred to by other parties in promoting, marketing or recommending any partnership or other entity, investment plan or arrangement, then (i) the advice should be construed as written in connection with the promotion or marketing by others of the transaction(s) or matter(s) addressed in this communication and (ii) the taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.**

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 2013B 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 2013B Bonds in making a decision to purchase the 2013B Bonds.

Very truly yours,

To be signed: McGuireWoods LLP

*Set forth below is the proposed form of the opinion of McGuireWoods LLP, Bond Counsel. It is preliminary and subject to change prior to the delivery of the 2013C Bonds.*

[Letterhead of McGuireWoods LLP]

November 7, 2013

Mayor and Council of the  
City of Norfolk, Virginia  
Norfolk, Virginia

**\$2,470,000**  
**City of Norfolk, Virginia**  
**General Obligation Qualified Energy Conservation Bonds,**  
**Series 2013C (Taxable)**

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 \$2,470,000 General Obligation Qualified Energy Conservation Bonds, Series 2013C (Taxable) (the "2013C 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 2013C 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 2013C 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.

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 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 2013C 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 2013C Bonds to the extent other funds of the City are not lawfully available and appropriated for such purpose.

3. Interest on the 2013C Bonds is includible in the gross income of the owners of the 2013C Bonds for federal income tax purposes as required under Section 6431(f)(1)(D) of the Code. We express no opinion regarding any other federal tax consequences with respect to the 2013C Bonds.

4. Interest on the 2013C 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 2013C Bonds under the laws of the Commonwealth, or (ii) any consequences arising with respect to the 2013C Bonds under the tax laws of any state or local jurisdiction other than the Commonwealth.

**IRS Circular 230 Disclosure: To comply with certain U.S. Treasury regulations, we inform you that, unless expressly stated otherwise, any U.S. federal tax advice contained in this communication, including attachments was not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding any penalties that may be imposed on such taxpayer by the Internal Revenue Service. In addition, if any such tax advice is used or referred to by other parties in promoting, marketing or recommending any partnership or other entity, investment plan or arrangement, then (i) the advice should be construed as written in connection with the promotion or marketing by others of the transaction(s) or matter(s) addressed in this communication and (ii) the taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.**

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 2013C 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 2013C Bonds in making a decision to purchase the 2013C Bonds.

Very truly yours,

To be signed: McGuireWoods LLP

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## **APPENDIX C**

### **FORM OF CONTINUING DISCLOSURE AGREEMENT**

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## CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered as of November 7, 2013 (the "Closing Date") by the City of Norfolk, Virginia (the "City"), in connection with the issuance by the City of its \$130,990,000 General Obligation Capital Improvement and Refunding Bonds, Series 2013A (Tax-Exempt) (the "2013A Bonds"), \$81,715,000 General Obligation Capital Improvement and Refunding Bonds, Series 2013B (Taxable) (the "2013B Bonds") and \$2,470,000 General Obligation Qualified Energy Conservation Bonds, Series 2013C (Taxable) (the "2013C Bonds" and together with the 2013A Bonds and the 2013B Bonds, the "Bonds"), pursuant to Ordinance No. 45,247 and Ordinance No. 45,262, adopted by the City Council of the City on September 10, 2013, and October 8, 2013, respectively (collectively, the "Ordinance"). The proceeds of the Bonds are being used by the City, together with other available funds, to (i) finance capital projects, (ii) refund certain outstanding bond anticipation notes, parking revenue bonds and general obligation bonds 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 October 17, 2013 (the "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. Definitions.** In addition to the definitions set forth elsewhere in this Disclosure Agreement, 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 Disclosure Agreement will prohibit the City after the date of the 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 the 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 a Bond.

**"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 2. Purpose of the Disclosure Agreement; Representation.** This Disclosure Agreement is being executed and delivered by the City for the benefit of the Holders and in order to assist the Participating Underwriters in complying with the Rule. The City acknowledges that it is undertaking primary responsibility for any reports, notices or disclosures that may be required under this Disclosure Agreement.

**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 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 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 Make Public or cause to be Made Public by the Dissemination Agent (if other than the City), in a timely manner, notice of a failure of the City to

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\* 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.

provide the Annual Financial Information, on or before the date specified in this Disclosure Agreement.

(e) 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.

**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 not 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 any other debt authorization of the City, or any Bond 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 the Holders 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.

[Signature Page Follows]

**IN WITNESS WHEREOF**, the undersigned have executed this Continuing Disclosure Agreement on behalf of the City of Norfolk, Virginia, as of the Closing Date.

**CITY OF NORFOLK, VIRGINIA**

By: \_\_\_\_\_  
Marcus D. Jones  
City Manager, City of Norfolk, Virginia

By: \_\_\_\_\_  
Alice M. Kelly  
Director of Finance, City of Norfolk, Virginia

Approved as to Form and Correctness:

\_\_\_\_\_  
Office of the City Attorney  
City of Norfolk, Virginia

[Signature Page to Continuing Disclosure Agreement]



## **APPENDIX D**

### **BOOK-ENTRY ONLY SYSTEM**

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## **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 hereinafter defined, or Beneficial Owners, as hereinafter defined, 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](http://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 (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.

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