

NEW ISSUE
Book-Entry-Only

2009A Bonds and 2009B Bonds Ratings:	Fitch	AA
(See "Ratings" herein)	Moody's	A1
	S&P	AA
2009C Note Ratings:	Moody's	MIG-1
(See "Ratings" herein)	S&P	SP1+

CITY OF NORFOLK, VIRGINIA

\$55,280,000	\$21,895,000	\$44,710,000
General Obligation Capital	General Obligation Refunding	General Obligation Bond
Improvement Bonds, Series 2009A	Bonds, Series 2009B	Anticipation Note, Series 2009C

Dated: Date of delivery

2009A Bonds Due: November 1, as shown on the inside cover

2009B Bonds Due: July 1, as shown on the inside cover

2009C Note Due: March 1, as shown on the inside cover

The City of Norfolk, Virginia (the "City") prepared this Official Statement to provide information on the 2009A Bonds, the 2009B Bonds and the 2009C Note (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, you should read this Official Statement 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 "Tax Matters" on page 7, interest on the Bonds (a) is excludable from the gross income of the owners of the Bonds for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and (b) is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. Bond Counsel is also of the opinion that interest on the 2009B Bonds is includable in the adjusted current earnings of certain corporations for purposes of computing the federal alternative minimum tax imposed on such corporations but interest on the 2009A Bonds and the 2009C Note is excludable from adjusted current earnings.

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

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

See "Tax Matters" on page 7 regarding other tax considerations.

Security

The Bonds are general obligations of the City. See page 6.

Redemption

See inside cover.

Authority for Issuance

Ordinance No. 43,428, adopted by the City Council of the City on May 5, 2009, authorizes the issuance of the Bonds.

Purpose

The City will use these proceeds to (i) finance capital projects, (ii) current refund a portion of the City's General Obligation Capital Improvement and Refunding Bonds, Series 1998, (iii) advance refund a portion of the City's General Obligation Capital Improvement and Refunding Bonds, Series 2002 and (iv) pay costs of issuance of the Bonds. See page 4.

Interest Payment Dates

Interest on the 2009A Bonds will be payable semi-annually on November 1 and May 1, commencing November 1, 2009. Interest on the 2009B Bonds will be payable on January 1 and July 1, commencing January 1, 2010. Interest on the 2009C Note will be payable on March 1, 2010.

Registration

Book-Entry-Only; The Depository Trust Company. See page 2.

Closing/Delivery Date

On or about May 21, 2009.

Bond Counsel

McGuireWoods LLP, Richmond, Virginia.

Financial Advisor

Public Financial Management, Inc., Arlington, Virginia.

Registrar/Paying Agent

Acting Director of Finance of the City.

Issuer Contact

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

Dated: May 13, 2009

CITY OF NORFOLK, VIRGINIA
\$55,280,000
General Obligation Capital Improvement Bonds, Series 2009A
(Base CUSIP Number 655867)

Maturities, Amounts, Interest Rates, Yields and Prices

Year of Maturity (November 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP Suffix
2010	\$4,520,000	2.000%	0.850%	101.647%	FP9
2011	4,565,000	2.000	1.100	102.164	FQ7
2012	4,615,000	2.000	1.400	102.010	FR5
2013	3,360,000	2.250	1.650	102.560	FS3
2014	3,385,000	2.500	2.000	102.566	FT1
2015	2,960,000	3.000	2.270	104.352	FU8
2016	2,985,000	3.250	2.500	105.064	FV6
2017	2,225,000	4.000	2.700	109.756	FW4
2018	2,225,000	4.000	2.900	109.029	FX2
2019	2,225,000	4.000	3.100	107.976	FY0
2020	2,225,000	4.000	3.300	106.140*	FZ7
2021	2,225,000	4.000	3.450	104.787*	GA1
2022	2,225,000	4.000	3.600	103.454*	GB9
2023	2,220,000	4.000	3.700	102.577*	GC7
2024	2,220,000	4.000	3.850	101.278*	GD5
2025	2,220,000	4.000	4.000	100.000	GE3
2026	2,220,000	4.000	4.100	98.760	GF0
2027	2,220,000	4.125	4.200	99.041	GG8
2028	2,220,000	4.250	4.300	99.343	GH6
2029	2,220,000	4.375	4.400	99.662	GJ2

* Priced to the first optional redemption date of November 1, 2019.

Optional Redemption

The 2009A Bonds maturing on or before November 1, 2019 are not subject to optional redemption prior to maturity. The 2009A Bonds maturing after November 1, 2019 are subject to optional redemption prior to their respective maturities on or after November 1, 2019 at the option of the City, in whole or in part (in increments of \$5,000) at any time, at par plus the interest accrued on the principal amount to be redeemed to the date fixed for redemption.

CITY OF NORFOLK, VIRGINIA
\$21,895,000
General Obligation Refunding Bonds, Series 2009B
(Base CUSIP Number 655867)

Year of Maturity (July 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP Suffix
2010	\$6,095,000	4.000%	0.650%	103.702%	GK9
2011	5,950,000	3.000	1.250	103.634	GL7
2013	2,440,000	3.000	1.760	104.895	GN3
2014	2,395,000	5.000	2.130	113.826	GP8
2015	1,255,000	5.000	2.390	114.755	GU7
2016	1,255,000	5.000	2.600	115.487	GQ6
2017	1,255,000	5.000	2.800	115.861	GR4
2018	1,250,000	5.000	3.000	115.837	GS2

Optional Redemption

The 2009B Bonds are not subject to optional redemption or prepayment, respectively, prior to maturity.

CITY OF NORFOLK, VIRGINIA
\$44,710,000
General Obligation Bond Anticipation Note, Series 2009C
(Base CUSIP Number 655867)

\$44,710,000 due March 1, 2010, Priced at 100.662% to Yield 0.395%, CUSIP Suffix GT0

Optional Redemption

The 2009C Note is not subject to optional redemption or prepayment, respectively, prior to maturity.

CITY OF NORFOLK, VIRGINIA

CITY COUNCIL

Paul D. Fraim, Mayor

Anthony L. Burfoot, Vice Mayor
Daun S. Hester
Paul R. Riddick

Dr. Theresa W. Whibley
Donald L. Williams
Barclay C. Winn
W. Randy Wright

MUNICIPAL OFFICIALS

Regina V.K. Williams, City Manager
Alice M. Kelly, Acting Director of Finance
Bernard A. Pishko, City Attorney

BOND COUNSEL

McGuireWoods LLP
Richmond, Virginia

FINANCIAL ADVISOR

Public Financial Management, Inc.
Arlington, Virginia

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. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implications that there has been no change in the affairs of the City since the respective dates as of which information is given herein.

No dealer, broker, salesman or any other person has been authorized by the City or the successful bidders to give any information or to make any representations with respect to the City or Bonds issued thereby, 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 or the successful bidders.

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OFFICIAL STATEMENT

Relating to the Issuance of CITY OF NORFOLK, VIRGINIA

\$55,280,000	\$21,895,000	\$44,710,000
General Obligation Capital Improvement Bonds, Series 2009A	General Obligation Refunding Bonds, Series 2009B	General Obligation Bond Anticipation Note, Series 2009C

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 \$55,280,000 General Obligation Capital Improvement Bonds, Series 2009A (the “2009A Bonds”), its \$21,895,000 General Obligation Refunding Bonds, Series 2009B (the “2009B Bonds”) and its \$44,710,000 General Obligation Bond Anticipation Note, Series 2009C (the “2009C Note”), (the 2009A Bonds, the 2009B Bonds and the 2009C Note are collectively referred to herein as the “Bonds”). The Bonds will be general obligations of the City to the payment of which the full faith and credit of the City are pledged. This Official Statement has been authorized by the City for use in connection with the sale of the Bonds.

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

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

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

DESCRIPTION OF THE BONDS

General

The Bonds shall be dated the date of delivery, and shall be payable in annual installments, subject to prior redemption, as applicable, in the principal amounts and at the rates set forth on the inside cover page of this Official Statement. Interest on the 2009A Bonds will be payable semi-annually on November 1 and May 1, commencing November 1, 2009. Interest on the 2009B Bonds will be payable semi-annually on January 1 and July 1, commencing January 1, 2010. Interest on the 2009C Note will be payable on March 1, 2010.

Optional Redemption

The 2009A Bonds maturing on or before November 1, 2019 are not subject to optional redemption prior to maturity. The 2009A Bonds maturing after November 1, 2019 are subject to optional redemption prior to their respective maturities on or after November 1, 2019 at the option of the City, in whole or in part (in increments of \$5,000) at any time, at par plus the interest accrued on the principal amount to be redeemed to the date fixed for redemption.

The 2009B Bonds and the 2009C Note are not subject to optional redemption or prepayment, respectively, prior to maturity.

If less than all of the 2009A Bonds maturing after November 1, 2019 are called for redemption, the maturities of such 2009A 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 2009A Bonds, if less than all of the 2009A Bonds within a maturity are to be redeemed, The Depository Trust Company, New York, New York (“DTC”) and its participants shall determine which of the Bonds within a maturity are to be redeemed.

Any notice of optional redemption of the 2009A Bonds may state that it is conditioned upon there being available on the redemption date an amount of money sufficient to pay the redemption price plus interest accrued and unpaid to the redemption date, and any conditional notice so given may be rescinded at any time before the payment of the redemption price of any such condition so specified is not satisfied. If a redemption does not occur after a conditional notice is given due to an insufficient amount of funds on deposit by the City, the corresponding notice of redemption shall be deemed to be revoked.

Notice of redemption shall be given by certified or registered mail to DTC or its nominee as the registered owner of the 2009A 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 2009A Bonds.

BOOK-ENTRY-ONLY SYSTEM

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee), or such other name as may be requested by an authorized representative of DTC. One fully registered certificate will be issued for each maturity of the Bonds 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 or from over 100 countries that DTC’s participants (the “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 Standard & Poor's highest rating: AAA. 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 and www.dtc.org.

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 the actual purchaser of each Bond (the "Beneficial Owner") is in turn recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmations from DTC of their purchases. 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 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 or 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, all 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 identities of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct or 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 the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of 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 the 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 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its

usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions and dividend payments 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 payable date in accordance with their respective holdings shown on DTC's records. Payments by 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 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, distributions and dividend payments 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 and Indirect Participants.

DTC may discontinue providing its services as securities 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 securities depository is not obtained, the Bonds 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 or Indirect Participants or the Beneficial Owners with respect to (a) the accuracy of any records maintained by DTC or any Direct or Indirect Participant; (b) the payment by any Direct or Indirect Participant of any amount due to any Beneficial Owner in respect of the principal of and interest on the Bonds; (c) 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 Holders; or (d) 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 Holders 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 Holders.

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.

AUTHORITY FOR 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"), and Ordinance

No. 43,428 adopted by the City Council of the City (the “City Council”) on May 5, 2009 (the “Ordinance”). The Ordinance authorized the issuance and sale of up to \$115,000,000 in general obligation bonds and/or general obligation bond anticipation notes. The Ordinance also authorized the issuance of up to \$35,000,000 in general obligation refunding bonds.

Proceeds of the 2009A Bonds will be used to finance various capital projects and to pay or provide for the underwriters and original issue discount(s) related to the issuance and sale of the Bonds.

Proceeds of the 2009C Note will be used to finance parking projects on an interim basis during construction. The City intends to refinance the 2009C Note on a long-term basis in 2010 with general obligation bonds or parking revenue bonds.

PLAN OF REFUNDING

Proceeds of the 2009B Bonds will be used to provide funds (i) to current refund a portion of the outstanding principal balance of the City’s General Obligation Capital Improvement and Refunding Bonds, Series 1998 (the “Refunded 1998 Bonds”) issued on June 30, 1998 and maturing July 1, 2010 through July 1, 2014, inclusive, (ii) to advance a portion of the outstanding principal balance of the City’s General Obligation Capital Improvement and Refunding Bonds, Series 2002 (the “Refunded 2002 Bonds” and, together with the 1998 Bonds, the “Refunded Bonds”) issued on February 1, 2002 and maturing on January 1, 2016 through January 1, 2019, inclusive and (iii) pay or provide for the underwriters and original issue discount(s) related to the issuance and sale of the Bonds. The Refunded 1998 Bonds will be redeemed at par on or about July 1, 2009. The Refunded 2002 Bonds will be redeemed at par on or about January 1, 2012.

The Refunded 1998 Bonds were issued (i) to finance a portion of the City’s Capital Improvement Program, as the Council may amend it from time to time, (ii) to advance refund the entire \$42,000,000 outstanding principal amount of the City’s General Obligation Capital Improvement and Refunding Bonds, Series 1992A, maturing from February 1, 2006 to February 1, 2012, inclusive, (iii) to advance refund the entire \$5,000,000 outstanding principal amount of the City’s General Obligation Capital Improvement Bonds, Series 1995, maturing on June 1, 2014 and June 1, 2015, and (iv) to pay or provide for the underwriter’s discount related to the issuance and sale of the Refunded Bonds.

The Refunded 2002 Bonds were issued (i) to finance capital projects, (ii) to current refund all of the City’s General Obligation Capital Improvement and Refunding Bonds, Series 1992A, (iii) to advance refund a portion of the City’s General Obligation Capital Improvement and Refunding Bonds, Series 1993, (iv) to advance refund a portion of the City’s General Obligation Capital Improvement Bonds, Series 1995, and (v) to pay costs of issuance of the Bonds.

A portion of the proceeds of the Bonds in the amount of \$23,492,809.65 will be deposited with Wells Fargo Bank, N.A. (“Escrow Agent”), pursuant to an Escrow Agreement, dated May 21, 2009, 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 United States Treasury (the “Escrow Securities”) that will mature and bear interest at times and in amounts sufficient to pay the principal of, premium and interest on the Refunded Bonds through their respective redemption dates. The sufficiency of the Escrow Securities deposited with the Escrow Agent was verified by Robert Thomas, CPA, LLC out of Shawnee Mission, Kansas.

SOURCES AND USES

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

The Bonds

	Series 2009A	Series 2009B	Series 2009C	Total Issuance
Sources of Funds:	\$ 55,280,000.00	\$ 21,895,000.00	\$ 44,710,000.00	\$ 121,885,000.00
Plus: Net Original Issue Premium	\$ 1,648,930.90	\$ 1,668,985.75	\$ 295,980.20	\$ 3,613,896.85
Total Sources	<u>\$ 56,928,930.90</u>	<u>\$ 23,563,985.75</u>	<u>\$ 45,005,980.20</u>	<u>\$ 125,498,896.85</u>
Uses of Funds:				
General Capital Fund	\$ 56,100,020.07	\$ 5,029.58	n/a	\$ 56,105,049.65
Parking Facilities Fund	n/a	n/a	\$ 45,003,297.60	\$ 45,003,297.60
Deposit to Escrow	n/a	\$ 23,492,809.65	n/a	\$ 23,492,809.65
Issuance Expenses ¹	\$ 828,910.83	\$ 66,146.52	\$ 2,682.60	\$ 897,739.95
Total Uses	<u>\$ 56,928,930.90</u>	<u>\$ 23,563,985.75</u>	<u>\$ 45,005,980.20</u>	<u>\$ 125,498,896.85</u>

¹ Includes Underwriter's discount, legal fees and other costs of issuance.

SECURITY FOR AND SOURCES OF PAYMENT OF THE BONDS

General

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

The City 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 in default as to payment of principal or interest, the Governor of the Commonwealth of Virginia (the "Commonwealth") 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 predecessors, Section 15.1-225. In

the fiscal year ended June 30, 2008, the Commonwealth provided \$95,528,786 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 (1) delay in the enforcement of their remedies, (2) 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 (3) 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 holders 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

The Bonds

Opinion of Bond Counsel. Bond Counsel's opinion will state that, under current law and assuming the compliance with the Covenants (as defined below) by and assuming the accuracy of certain representations and certifications of the City and certain other persons and entities, interest on the Bonds (including any accrued "original issue discount" properly allocable to the owners of the Bonds), (a) is excludable from the gross income of the owners of the Bonds for purposes of federal income taxation under Section 103 of the Code and (b) is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. Bond Counsel observes that interest on the 2009B Bonds is includable in the adjusted current earnings of certain corporations for purposes of computing the federal alternative minimum tax imposed on such corporations but interest on the 2009A Bonds and the 2009C Note is excluded from adjusted current earnings. See Appendix B for the form of the opinion of Bond Counsel.

Bond Counsel will express no opinion regarding other federal tax consequences arising with respect to the 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 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 Internal Revenue Service (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 Bonds, Bond Counsel is relying upon and assuming the accuracy of certifications and representations of representatives of the City, the Underwriters and other 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 (as hereinafter defined) by the City. The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied after the issuance of the Bonds in order for interest on the Bonds to be and remain 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 Bonds and the use of the property financed or refinanced by the Bonds, limitations on the source of the payment of and the security for the Bonds, and the obligation to rebate certain excess earnings on the gross proceeds of the Bonds to the United States Treasury. The tax certificate for the

Bonds (the “Tax Certificate”) contains covenants (the “Covenants”) under which the City has agreed to comply with such requirements. Failure by the City to comply with the Covenants could cause interest on the Bonds to become includable in gross income for federal income tax purposes retroactively to their date of issue. In the event of noncompliance with the Covenants, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Bonds from becoming includable in gross income for federal income tax purposes.

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

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

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

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

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

Original Issue Discount. The “original issue discount” (“OID”) on any Bond is the excess of such bond’s stated redemption price at maturity (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates) over the issue price of such bond. The “issue price” of a Bond is the initial offering price to the public at which price a substantial amount of such bonds of the same maturity was sold. The “public” does not include bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers. The issue price for each maturity of the Bonds is expected to be the initial public offering price set forth on the inside cover page of this Official Statement, but is subject to change based on actual sales. OID on the Bonds with OID (the “OID Bonds”) represents interest that 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 2009B 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.

Interest in the form of 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 interest 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 Bonds 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 Premium Bonds.

Possible Legislative or Regulatory Action. Legislation and regulations affecting tax-exempt bonds are continually being considered by the United States Congress, the U.S. Department of the Treasury ("Treasury") and the IRS. In addition, the IRS has established an expanded audit and enforcement program for tax-exempt bonds. There can be no assurance that legislation enacted or proposed after the date of issue of the Bonds or an audit initiated or other enforcement or regulatory action taken by the Treasury or the IRS involving either the Bonds or other tax-exempt bonds will not have an adverse effect on the tax status or the market price of the Bonds or on the economic value of the tax-exempt status of the interest thereon.

Virginia Tax Matters

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

PENDING LITIGATION

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

These suits are being defended by the City Attorney and associated independent counsel retained by the City Attorney, and it is the opinion of the City Attorney that any possible losses in connection with the above pending litigation will not materially and adversely affect the City's financial condition. The City Attorney is also of the opinion that the above pending litigation will not affect the validity of the Bonds or the ability of the City to levy and collect ad valorem taxes for the payment of the Bonds or the interest thereon. There is no pending litigation with respect to the Bonds or the ability of the City to levy and collect ad valorem taxes for the payment of such Bonds or the premium, if any, 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 2009A Bonds and the 2009B have been rated 'A1' by Moody's Investors Service, Inc. ("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"). The 2009C Note has been rated 'MIG-1' by Moody's and 'SP1+' by Standard & Poor's.

The ratings reflect only the views of the respective rating agency. Any explanation of the significance of the ratings may be obtained only from the respective rating agency. Generally, rating agencies base their ratings upon information and materials provided to them and upon investigations, studies and assumptions by the rating agencies. There is no assurance that such ratings will not be withdrawn or revised downward by Moody's, Standard & Poor's or Fitch. 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 ended June 30, 2008, 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 (1) 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 are issued and (2) a certificate dated the date of delivery of the Bonds signed by the appropriate City officials and stating that the descriptions and statements in this Official Statement including the Appendices hereto (except in the

section entitled “Pending Litigation” or relating to DTC) at the time of acceptance of the proposal for the Bonds and at the date of delivery were and are true and correct in all material respects and do not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

The City Attorney will furnish, concurrently with the delivery of the Bonds, a certificate dated the date of delivery of the Bonds stating that no litigation is pending or, to the best of his knowledge, threatened against the City either (1) to restrain or enjoin the issuance or delivery of the Bonds, (2) 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 (3) 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 Preliminary 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.

SALE AT COMPETITIVE BIDDING

The 2009A Bonds and the 2009C Note were sold at competitive biddings on May 12, 2009, to Morgan Stanley & Co. Incorporated and J.P. Morgan Securities Inc., respectively. The 2009B Bonds were sold at competitive bidding on May 13, 2009, to BB&T Capital Markets, a division of Scott & Stringfellow, Inc. The underwriters have supplied the information as to the interest rates and offering prices or yield of the Bonds as set forth on the inside cover of this Official Statement. If all of the Bonds are resold to the public at such offering prices or yields, the underwriters have informed the City that they anticipate a total underwriting compensation of \$828,910.83 for the 2009A Bonds, \$66,146.52 for the 2009B bonds and \$2,682.60 for the 2009C Note.

CONTINUING DISCLOSURE

The City will execute and deliver to the purchasers of the Bonds a Continuing Disclosure Agreement, the form of which is set forth as Appendix C to this Official Statement, pursuant to which the City will covenant and agree, for the benefit of the Holders of the Bonds to provide certain annual financial information and material event notices required by Rule 15c2-12 of the Securities and Exchange Commission (the “Rule”). As described in Appendix C, such undertaking requires 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 the Bonds are no longer outstanding. Any failure by the City to comply with the foregoing will not constitute a default with respect to the Bonds. The City has been in compliance with the requirements of the Rule over the past five years.

MISCELLANEOUS

This Official Statement and any advertisement of the Bonds are 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 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 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 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 Acting Director of Finance, 810 Union Street Suite 600 City Hall Building, Norfolk, Virginia 23510, (757) 664-4346. The distribution of this Preliminary Official Statement has been duly authorized by the City which has deemed this Preliminary Official Statement final within the meaning of the Rule, except for the omission of certain pricing and other information permitted to be omitted by the Rule.

CITY OF NORFOLK, VIRGINIA

/s/ Regina V.K. Williams

City Manager

/s/ Alice M. Kelly

Acting Director of Finance

PART II CITY INDEBTEDNESS

Limitation on Incurrence of Debt

Pursuant to the Constitution of Virginia (the “Constitution”), the City is authorized to issue bonds and notes secured by a pledge of its full faith and credit and unlimited taxing power. There is no requirement in the Constitution, the Virginia Code or the City Charter that the issuance of general obligation bonds of the City be subject to approval of the electors 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 June 30, 2008, the total assessed value of taxable real property in the City was \$18,401,541,069. Based on Virginia’s constitutional debt limitation formula, this resulted in a debt limit of \$1,840,185,107. As presented in Table II-1 below, the City’s outstanding general obligation bonds and other tax-secured indebtedness as of June 30, 2008, is \$697,450,234 representing 37.90% of the constitutional debt limit.

**Table II-1
City of Norfolk, Virginia
Computation of Legal Debt Margin
June 30, 2008**

Total assessed value of taxable real property	\$ 18,401,541,069
Debt Limit-10 percent of total assessed value	1,840,185,107
Outstanding General Obligation Debt ^{(1) (2) (3) (4) (5) (6)}	697,450,234
Legal Debt Margin	<u>\$ 1,142,734,873</u>
Amount of debt as a percent of debt limit	<u>37.90%</u>

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

Notes:

- (1) Defeased bonds are not included in gross debt. Funds to redeem these bonds have been irrevocably deposited with an escrow agent.
- (2) Reflects only bonded debt and does not include the City’s capital lease obligations. See Table II-8 for information about the City’s capital lease obligations.
- (3) The amount of general obligation bonds authorized by ordinance for Capital Improvement Projects, but not yet issued is \$111,234,258.
- (4) Water Revenue Bonds and Parking System Revenue Bonds are excluded from gross debt, since these bonds are payable solely from the revenue of their respective enterprise activities.
- (5) Includes the remaining balance of \$2,220,000 on a general obligation guaranty of \$3,300,000 of bonds issued by Norfolk Redevelopment and Housing Authority in August 1998. The bonds mature on August 15, 2015.
- (6) Includes the 20-year \$13,000,000 Section 108 Loan with HUD supported by the Broad Creek Renaissance TIF District, which matures on August 1, 2023.

Debt Outstanding

The tables that follow detail the City’s current general obligation debt outstanding. Table II-2 presents the City’s gross and net outstanding tax-supported and self-supporting general obligation bonded indebtedness as of June 30, 2008. Table II-3 provides a comparative statement of key debt ratios for the past ten fiscal years and Table II-4 presents the rate of retirement for all general obligation bonds as of June 30, 2008. Table II-5 presents the recent historical relationship between debt service on bonds paid

from actual general governmental expenditures for the past ten fiscal years. Table II-6 presents the historical relationship of the City's net bonded debt to assessed value of taxable real property and net bonded debt per capita. Table II-7 provides a statement of future annual debt service requirements on the City's existing general obligation bonds.

Table II-2
City of Norfolk, Virginia
General Obligation Debt Statement ^{(1) (2) (3)}

	Projected as of June 30, 2008
A. General Fund Bonds Outstanding Debt ^{(4) (5) (6) (7) (8)}	\$ 552,091,918
B. Enterprise Fund Bonds Outstanding Debt ⁽²⁾	145,250,375
C. Total General Obligation Bond Indebtedness Outstanding Debt (A+B)	<u>\$ 697,342,293</u>

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

Notes:

- (1) The amount of general obligation bonds authorized by ordinance, but not yet issued, for Capital Improvement Projects is \$111,234,258.
- (2) Water Revenue Bonds and Parking System Revenue Bonds are excluded from enterprise fund debt, since these bonds are payable solely from the revenue of their respective enterprise activities.
- (3) Reflects only bonded debt and does not include the City's capital lease obligations. See Table II-8 for information about the City's capital lease obligations.
- (4) Defeased bonds are not included in gross debt. Funds to redeem these bonds have been irrevocably deposited with an escrow agent.
- (5) Includes the bonded debt of the Environmental Storm Water Fund and the Towing and Recovery Fund, which are both special revenue funds.
- (6) Includes the remaining balance of \$2,220,000 on a general obligation guaranty of \$3,300,000 of bonds issued by Norfolk Redevelopment and Housing Authority in August 1998. The bonds mature on August 15, 2015.
- (7) There are no overlapping or underlying taxing jurisdictions in the City.
- (8) Includes the 20-year \$13,000,000 Section 108 Loan with HUD supported by the Broad Creek Renaissance TIF District, which matures on August 1, 2023.

Table II-3
City of Norfolk, Virginia
Key Debt Trends
Fiscal Years Ended June 30, 1999 – 2008

Fiscal Year Ended June 30	Gross Bonded Debt (in thousands) ^{(1) (2)} ⁽³⁾	Gross Bonded Principal Outstanding Per Capita ⁽⁴⁾	Percent of Gross Bonded Debt to Real Property Assessed Value ⁽⁵⁾
1999	\$ 508,805	\$ 2,170	6.41%
2000	\$ 488,352	\$ 2,083	6.03%
2001	\$ 468,445	\$ 2,002	5.54%
2002	\$ 460,346	\$ 1,971	5.18%
2003	\$ 460,876	\$ 1,970	4.93%
2004	\$ 486,242	\$ 2,067	4.85%
2005	\$ 512,528	\$ 2,180	4.68%
2006	\$ 475,872	\$ 2,032	3.75%
2007	\$ 576,809	\$ 2,444	3.70%
2008	\$ 695,230	n/a	3.28%

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2008.

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

Table II-4
City of Norfolk, Virginia
Principal Retirement
All General Obligation Bonds
As of June 30, 2008

Maturing By Fiscal Year End	Cumulative Amount Matured	Percent of Principal Retired
2013	\$ 269,189,709	38.60%
2018	\$ 446,914,062	64.09%
2023	\$ 588,738,122	84.43%
2033	\$ 677,692,293	97.13%
2038	\$ 688,227,293	98.69%
2028	\$ 697,342,293	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 Ended June 30, 1999 – 2008

Fiscal Year Ended June 30	Total Debt Service ⁽¹⁾	Total General Expenditures ⁽²⁾	Percent of Debt Service To Total General Expenditures
1999	\$ 49,744,700	\$ 519,198,080	9.58%
2000	\$ 52,627,625	\$ 558,439,186	9.42%
2001	\$ 55,926,535	\$ 578,776,772	9.66%
2002	\$ 53,484,013	\$ 431,283,578	12.40%
2003	\$ 53,258,272	\$ 451,633,988	11.79%
2004	\$ 55,000,425	\$ 490,944,275	11.20%
2005	\$ 58,971,773	\$ 490,923,834	12.01%
2006	\$ 62,750,385	\$ 510,999,836	12.28%
2007	\$ 58,045,527	\$ 539,491,519	10.76%
2008	\$ 64,167,472	\$ 574,581,092	11.17%

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2008.

Notes: (1) Includes debt service on general obligation bonds and capital leases payments 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 Ended June 30, 1999 - 2008

Fiscal Year Ended June 30	Estimated Population	Assessed Value of Taxable Property (In Thousands)	Gross Bonded Debt	Debt Payable from Enterprise Revenue	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt Per Capita
1999	234,500	\$ 9,054,436	\$ 508,805,001	\$ 141,668,034	\$ 367,136,967	4.05%	\$ 1,566
2000	234,403	\$ 9,325,039	\$ 488,351,541	\$ 128,007,237	\$ 360,344,303	3.86%	\$ 1,537
2001	234,000	\$ 9,728,084	\$ 468,445,246	\$ 114,528,097	\$ 353,917,150	3.64%	\$ 1,512
2002	233,600	\$ 10,204,892	\$ 460,345,861	\$ 112,049,824	\$ 348,296,037	3.41%	\$ 1,491
2003	233,900	\$ 10,742,268	\$ 460,876,270	\$ 99,220,319	\$ 361,655,951	3.37%	\$ 1,546
2004	235,200	\$ 11,483,300	\$ 486,241,680	\$ 87,635,923	\$ 398,605,757	3.47%	\$ 1,695
2005	235,071	\$ 12,439,004	\$ 512,528,634	\$ 91,085,187	\$ 421,008,476	3.38%	\$ 1,791
2006	234,219	\$ 14,332,318	\$ 475,872,461	\$ 93,099,000	\$ 382,773,000	2.67%	\$ 1,634
2007	235,915	\$ 17,306,281	\$ 576,809,191	\$ 107,310,741	\$ 469,498,450	2.71%	\$ 1,990
2008	235,092	\$ 21,227,708	\$ 695,230,236	\$ 124,092,071	\$ 571,138,165	2.69%	\$ 2,429

Source: The source of calendar year population estimates for 1999 and 2001 through 2008 is the Weldon Cooper Center for Public Service, University of Virginia. The source for the population figure for 2000 is the United States Census.

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

Fiscal Year Ended June 30	Existing General Obligation Debt Service ^{(2) (3) (4)}			Plus the Bonds ⁽⁴⁾			Total Debt ^{(2) (3)}		
	Principal	Interest	Total Debt Service	Principal	Interest	Total Debt Service	Principal	Interest	Total Debt Service
2009	\$ 59,710,614	\$ 29,199,627	\$ 88,910,241	\$ -	\$ -	\$ -	\$ 59,710,614	\$ 29,199,627	\$ 88,910,241
2010	56,577,813	27,200,170	83,777,983	44,710,000	2,656,619	47,366,619	101,287,813	29,856,789	131,144,602
2011	50,311,808	25,023,506	75,335,314	10,615,000	2,491,188	13,106,188	60,926,808	27,514,694	88,441,502
2012	46,027,449	22,676,995	68,704,444	10,515,000	2,189,188	12,704,188	56,542,449	24,866,183	81,408,632
2013	44,557,025	20,439,155	64,996,180	4,615,000	2,008,138	6,623,138	49,172,025	22,447,293	71,619,318
2014	35,866,894	18,505,877	54,372,771	5,800,000	1,887,588	7,687,588	41,666,894	20,393,465	62,060,359
2015	38,529,115	14,316,158	52,845,273	5,780,000	1,711,000	7,491,000	44,309,115	16,027,158	60,336,273
2016	34,812,229	15,175,623	49,987,852	4,215,000	1,533,038	5,748,038	39,027,229	16,708,661	55,735,890
2017	31,848,557	13,626,830	45,475,387	4,240,000	1,377,381	5,617,381	36,088,557	15,004,211	51,092,768
2018	30,082,558	12,204,116	42,286,674	3,480,000	1,221,625	4,701,625	33,562,558	13,425,741	46,988,299
2019	29,764,109	10,842,145	40,606,254	3,475,000	1,070,000	4,545,000	33,239,109	11,912,145	45,151,254
2020	29,908,227	9,507,232	39,415,459	2,225,000	949,750	3,174,750	32,133,227	10,456,982	42,590,209
2021	27,913,886	8,167,726	36,081,612	2,225,000	860,750	3,085,750	30,138,886	9,028,476	39,167,362
2022	27,173,269	6,947,132	34,120,401	2,225,000	771,750	2,996,750	29,398,269	7,718,882	37,117,151
2023	25,714,570	5,759,765	31,474,335	2,225,000	682,750	2,907,750	27,939,570	6,442,515	34,382,085
2024	24,398,852	4,651,181	29,050,033	2,220,000	593,850	2,813,850	26,618,852	5,245,031	31,863,883
2025	19,919,395	3,686,152	23,605,547	2,220,000	505,050	2,725,050	22,139,395	4,191,202	26,330,597
2026	16,890,424	2,833,507	19,723,931	2,220,000	416,250	2,636,250	19,110,424	3,249,757	22,360,181
2027	16,417,159	2,112,847	18,530,006	2,220,000	327,450	2,547,450	18,637,159	2,440,297	21,077,456
2028	11,328,341	1,499,484	12,827,825	2,220,000	237,263	2,457,263	13,548,341	1,736,747	15,285,088
2029	1,290,000	974,695	2,264,695	2,220,000	144,300	2,364,300	3,510,000	1,118,995	4,628,995
2030	1,355,000	906,196	2,261,196	2,220,000	48,563	2,268,563	3,575,000	954,759	4,529,759
2031	1,425,000	832,875	2,257,875	-	-	-	1,425,000	832,875	2,257,875
2032	1,495,000	756,820	2,251,820	-	-	-	1,495,000	756,820	2,251,820
2033	4,970,000	522,061	5,492,061	-	-	-	4,970,000	522,061	5,492,061
2034	1,650,000	407,466	2,057,466	-	-	-	1,650,000	407,466	2,057,466
2035	1,730,000	318,409	2,048,409	-	-	-	1,730,000	318,409	2,048,409
2036	1,820,000	225,098	2,045,098	-	-	-	1,820,000	225,098	2,045,098
2037	1,910,000	126,255	2,036,255	-	-	-	1,910,000	126,255	2,036,255
2038	2,005,000	23,474	2,028,474	-	-	-	2,005,000	23,474	2,028,474
Totals	\$ 677,402,294	\$ 259,468,577	\$ 936,870,871	\$ 121,885,000	\$ 23,683,488	\$ 145,568,488	\$ 799,287,294	\$ 381,353,577	\$ 1,082,439,359

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

Notes: (1) Figures may not sum due to rounding.

(2) Includes principal payable from the City's enterprise funds.

(3) Existing General Obligation Debt Service includes self-supporting principal payable from the City's Environmental Storm Water Fund, a special revenue fund.

(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%.

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 leases certain computer, automotive, solid waste automation and other heavy equipment, which are recorded at a cost of \$3,419,866. No additions to Capital Leases were recorded in the fiscal year ended June 30, 2008. The remaining debt service requirements will be retired by funds from the General Fund on the aforementioned contracts as summarized in Table II-8.

Table II - 8
City of Norfolk
Capital Lease Obligations

Fiscal Year Ending June 30	Capital Lease Obligations
2009	\$ 1,845,478
2010	1,175,523
2011	<u>398,865</u>
Total minimum lease payments	\$ 3,419,866
Less interest	<u>(126,723)</u>
	3,546,589
Less current portion	<u>(1,758,251)</u>
	<u><u>\$ 1,534,893</u></u>

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2008.

Water Revenue Bonds

Since 1993, and for all future financings, capital improvements of the Water Utility System 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. Fiscal year ended June 30, 2008 results reflect compliance with this requirement.

Parking System Revenue Bonds

Since 1997, capital improvements of the Parking Facilities Fund have been 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 parking facilities, 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 1.25 times senior debt service and 1.0 times subordinated debt service for the fiscal year and (ii) 1.0 times the funding requirements for transfers from the revenue fund to the bond fund, the parity debt service fund, the debt service reserve fund, the MacArthur Garage reserve fund, the repair and replacement reserve fund, the surety bond interest fund and the subordinate debt service fund. Fiscal year ended June 30, 2008 results reflect compliance with this requirement.

Debt History

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

Capital Improvement Program Budget

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

The City approved its fiscal year ended June 30, 2009 CIP Budget on May 22, 2008. The total of the CIP Budget for fiscal year ended June 30, 2009 is \$176,049,310. This includes a \$16,803,863 transfer from the fiscal year ended June 30, 2009 Operating Budget, which reduces the City's reliance on bond financing. Five years of CIP activities have been planned in the approved fiscal years ended June 30, 2009 – 2013 CIP. 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 fiscal year ended June 30, 2009 CIP Budget is summarized in Table II-9. Table II-10 summarizes the CIP for fiscal years ended June 30, 2009 – 2013.

On April 7, 2009, the City Manager presented a proposed CIP Budget for the fiscal year ended June 30, 2010. City Council adopted this budget, which totals \$160,393,568 on May 19, 2009.

Table II-9
City of Norfolk, Virginia
Capital Improvement Program for Fiscal Year Ended June 30, 2009

Uses	Approved Budget FY-2009
General Capital Projects	\$ 124,189,310
Parking Fund Projects	1,010,000
Storm Water Fund Projects	3,500,000
Water Fund Projects	30,350,000
Wastewater Fund Projects	16,500,000
Towing and Recovery Fund Projects	500,000
Total Capital Program	<u>\$ 176,049,310</u>

Appropriation Source

General Capital Projects	
From Bond Issue	\$ 108,445,447
From Cash	15,743,863
Parking Fund Projects	
From Bond Issue	600,000
From Parking Facilities Cash	410,000
Storm Water Fund Projects	
From Bond Issue	3,500,000
Water Fund Projects	
From Bond Issue	29,700,000
From Water Fund Cash	650,000
Wastewater Fund Projects	
From Bond Issue	16,500,000
Towing and Recovery Fund Projects	
From Bond Issue	500,000
Total Capital Program	<u>\$ 176,049,310</u>

Source: Capital Improvement Program Budget, Fiscal Year Ended June 30, 2009.

Table II-10
City of Norfolk, Virginia
Capital Improvement Program
Fiscal Years Ended June 30, 2009 through 2013

Description	FY 2009 – 2013					
	FY-2009 Budget	FY-2010 Plan	FY-2011 Plan	FY-2012 Plan	FY-2013 Plan	Total
General Capital						
Schools	\$ 500,000	\$ 15,200,000	\$ 15,200,000	\$ 2,500,000	\$ 2,500,000	\$ 35,900,000
Non-Schools	123,689,310	144,561,844	95,818,370	36,211,470	31,262,470	431,543,464
Total General Capital	124,189,310	159,761,844	111,018,370	38,711,470	33,762,470	467,443,464
Storm Water Fund	3,500,000	3,500,000	3,500,000	3,500,000	3,500,000	17,500,000
Parking Facilities Fund	1,010,000	960,000	600,000	600,000	600,000	3,770,000
Wastewater Fund	16,500,000	16,500,000	16,500,000	16,500,000	16,500,000	82,500,000
Water Fund	30,350,000	6,450,000	12,500,000	7,930,000	4,352,000	61,582,000
Towing and Recovery Fund	500,000	-	-	-	-	500,000
Total Capital Program	\$ 176,049,310	\$ 187,171,844	\$ 144,118,370	\$ 67,241,470	\$ 58,714,470	\$ 633,295,464

Source: Capital Improvement Program Budget, Fiscal Year Ended June 30, 2009.

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 its component units.

- The School Board of the City of Norfolk
- The Employees' Retirement System of the City of Norfolk (ERS)
- The Norfolk Community Services Board (NCSB)

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

BASIS OF ACCOUNTING AND ACCOUNTING STRUCTURE

The City's financial statements include the following sections:

- Management's Discussion and Analysis (MD&A).
 - The MD&A introduces the basic financial statements and provides an analytical overview of the government's financial activities.
- Basic Financial Statements. The Basic Financial Statements include:
 - Government-wide financial statements, consisting of a statement of net assets and a statement of activities;
 - Fund financial statements consisting of a series of statements that focus on information of the government's major governmental, enterprise 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 Standard 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.

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 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 60 days of the end of the fiscal year. Property taxes due and collected within 45 days after year-end are recognized as revenue; those not collected within 45 days after year-end are reported as deferred revenue when received. Expenditures generally are recorded when a liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded when payment is 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 served as the City’s independent auditors. The audited general purpose financial statements for the fiscal year ended June 30, 2008, are published in Appendix A with accompanying notes.

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.

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. This, therefore, provides the opportunity to proactively evaluate policies with the goal of maximizing opportunities or, in the worst case, minimizing the negative impact of economic downturns.

GENERAL GOVERNMENTAL REVENUE

Overview

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

Property Tax Rates, Levies and Collections

An annual ad valorem tax is levied by the City on the assessed value of real property located within the City as of July 1, and on tangible personal property located within the City as of January 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 fiscal year ended June 30, 2009 budget, on each \$100 of assessed value, which remain unchanged from the previous fiscal year, are: \$1.50 for recreational vehicles; \$2.40 for airplanes; \$1.11 for real property; \$4.25 for personal property; \$4.25 for machinery and tools; and \$1.11 for mobile homes. The rate on personal recreational boats consists of a decal fee of \$10 or \$25, depending on the length of the boat plus a tax of fifty cents per \$100 on the assessed value of the boat. The tax rate for commercial boats is \$1.50 per \$100 of the assessed value of the boat and a boat decal is not required. The tax rate for real property located in the City's Business Improvement District is an additional \$0.18 on the real property rate of \$1.11 per \$100 of assessed value.

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

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

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

Other Revenue Sources

The City levies various other local taxes: (1) a 1% local sales tax (collected by the Commonwealth and remitted to the City); (2) a tax on water, electric and gas utility bills; (3) a cigarette tax of 65 cents per packet; (4) property transfer recordation taxes; (5) an automobile license tax; (6) various business license/franchise taxes; (7) a hotel and motel tax of 8% and a \$1 per room, per night surcharge of which 1% is dedicated to tourism and economic development; (8) an admissions tax of 10%; and (9) a restaurant food tax of 6.5%, which includes alcoholic beverages of which 1% is dedicated to tourism and economic development.

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

Revenue from the Commonwealth of Virginia - The City receives payments for highway maintenance, a share of the net profits from the State Alcoholic Beverage Control Board liquor sales, a share of state sales taxes allocated for education and, in addition, reimbursement for a portion of certain shared expenses relating to 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 ten fiscal years.

Table III-1A
City of Norfolk, Virginia
Total Revenue by Source, Governmental Funds
Fiscal Years Ended June 30, 1999 – 2008
(Amounts in Thousands)

Fiscal Year Ended June 30	General Property Taxes	Other Local Taxes	Permits and Licenses	Fines and Forfeitures	Use of Money and Property	Charges for Services	Miscellaneous	Recovered Costs	Inter- Governmental
1999	\$ 147,831	\$ 111,212	\$ 2,505	\$ 1,920	\$ 8,785	\$ 19,658	\$ 18,621	\$ 11,139	\$ 107,896
2000	\$ 152,062	\$ 119,107	\$ 2,943	\$ 1,661	\$ 10,275	\$ 18,836	\$ 13,990	\$ 12,338	\$ 133,526
2001	\$ 153,366	\$ 126,537	\$ 2,601	\$ 1,684	\$ 11,361	\$ 18,745	\$ 13,681	\$ 14,135	\$ 122,677
2002	\$ 159,512	\$ 127,262	\$ 2,700	\$ 1,541	\$ 11,247	\$ 18,312	\$ 12,337	\$ 10,008	\$ 133,332
2003	\$ 168,893	\$ 132,847	\$ 2,973	\$ 1,569	\$ 8,791	\$ 29,390	\$ 24,785	\$ 9,556	\$ 131,071
2004	\$ 178,361	\$ 140,675	\$ 3,204	\$ 1,627	\$ 8,333	\$ 31,342	\$ 17,339	\$ 12,297	\$ 160,118
2005	\$ 193,293	\$ 150,477	\$ 3,542	\$ 1,763	\$ 10,232	\$ 29,129	\$ 18,951	\$ 14,188	\$ 147,045
2006	\$ 211,788	\$ 157,616	\$ 4,088	\$ 1,461	\$ 10,498	\$ 32,772	\$ 33,494	\$ 12,667	\$ 149,757
2007	\$ 235,399	\$ 159,119	\$ 4,071	\$ 1,605	\$ 11,105	\$ 37,071	\$ 11,691	\$ 8,408	\$ 156,637
2008	\$ 241,290	\$ 162,573	\$ 4,055	\$ 1,317	\$ 10,651	\$ 40,070	\$ 17,923	\$ 8,622	\$ 156,862

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2008.

Table III-1B
City of Norfolk, Virginia
Other Local Tax Revenues by Source, Governmental Funds
Fiscal Years Ended June 30, 1999 – 2008
(Amounts in Thousands)

Fiscal Year Ended June 30	Sales and Use Taxes	Consumer's Utility Taxes	Business License Taxes	Motor Vehicle Licenses	Cigarette Taxes	Restaurant Food Taxes	Other	Total
1999	\$ 22,602	\$ 33,189	\$ 15,932	\$ 3,308	\$ 4,918	\$ 15,677	\$ 15,586	\$ 111,212
2000	\$ 24,321	\$ 34,224	\$ 18,095	\$ 3,391	\$ 3,940	\$ 17,066	\$ 18,070	\$ 119,107
2001	\$ 25,496	\$ 38,988	\$ 18,352	\$ 3,479	\$ 4,122	\$ 18,759	\$ 17,341	\$ 126,537
2002	\$ 25,267	\$ 37,922	\$ 18,644	\$ 3,554	\$ 4,280	\$ 19,288	\$ 18,307	\$ 127,262
2003	\$ 25,854	\$ 37,930	\$ 18,472	\$ 3,462	\$ 4,220	\$ 21,680	\$ 21,229	\$ 132,847
2004	\$ 27,867	\$ 39,231	\$ 20,279	\$ 3,456	\$ 7,639	\$ 21,808	\$ 20,395	\$ 140,675
2005	\$ 29,497	\$ 39,371	\$ 22,015	\$ 2,605	\$ 6,948	\$ 22,550	\$ 27,491	\$ 150,477
2006	\$ 30,652	\$ 43,337	\$ 24,412	\$ 3,576	\$ 6,819	\$ 27,277	\$ 21,543	\$ 157,616
2007	\$ 32,402	\$ 42,586	\$ 25,268	\$ 3,529	\$ 6,957	\$ 28,578	\$ 19,799	\$ 159,119
2008	\$ 31,791	\$ 46,582	\$ 26,343	\$ 3,498	\$ 7,577	\$ 28,758	\$ 18,024	\$ 162,573

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2008.

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, 2008, was approximately \$21.2 billion. The estimated assessed value of tax-exempt properties owned by federal and Commonwealth governments, churches and schools, among others, was approximately \$10.0 billion for fiscal year 2008, 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 Ended June 30, 1999 – 2008
(Amount In Thousands)

Fiscal Year Ended June 30	Real Property (⁽¹⁾)	Personal Property (⁽¹⁾)	Other Property (⁽²⁾)	Total Taxable Assessed Value	Estimated Actual Value (⁽³⁾)
1999	\$ 7,934,397	\$ 900,076	\$ 219,963	\$ 9,054,436	\$ 15,145,054
2000	\$ 8,098,113	\$ 1,023,626	\$ 203,300	\$ 9,325,039	\$ 15,668,692
2001	\$ 8,458,281	\$ 1,040,929	\$ 228,874	\$ 9,728,084	\$ 16,119,540
2002	\$ 8,882,064	\$ 1,102,983	\$ 219,845	\$ 10,204,892	\$ 16,794,801
2003	\$ 9,356,760	\$ 1,085,027	\$ 300,481	\$ 10,742,268	\$ 17,864,127
2004	\$ 10,029,639	\$ 1,170,117	\$ 283,544	\$ 11,483,300	\$ 19,424,095
2005	\$ 10,960,812	\$ 1,167,673	\$ 310,519	\$ 12,439,004	\$ 21,576,347
2006	\$ 12,691,527	\$ 1,324,320	\$ 316,471	\$ 14,332,318	\$ 25,196,622
2007	\$ 15,607,512	\$ 1,375,798	\$ 322,971	\$ 17,306,281	\$ 27,820,206
2008	\$ 18,401,851	\$ 2,503,662	\$ 322,195	\$ 21,227,708	\$ 28,427,502

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2008.

Note: (1) Real property and personal property includes both general and public service corporations.
(2) Other property includes machinery and tools, mobile homes, airplanes and boats.
(3) Estimated actual taxable property values are based on data supplied by the City's Commissioner of Revenue and the City Assessor. Property value information does not include property of public service corporations or vacant land.

Table III-3
City of Norfolk, Virginia
Estimated Value of Nontaxable Real Property ⁽¹⁾
Fiscal Years Ended June 30, 2004 - 2008
(Amounts In Thousands)

Fiscal Year Ended June 30	Property Owned By:											
	Federal Government		City of Norfolk		Norfolk Redevelopment and Housing Authority		Commonwealth of Virginia		All Other Organizations (2)		Total	
	Assessed Value	Estimated Tax Value	Assessed Value	Estimated Tax Value	Assessed Value	Estimated Tax Value	Assessed Value	Estimated Tax Value	Assessed Value	Estimated Tax Value	Assessed Value	Estimated Tax Value
2004	\$ 4,116,089	\$ 57,625	\$ 1,494,691	\$ 20,926	\$ 382,610	\$ 5,357	\$ 689,933	\$ 9,659	\$ 1,241,480	\$ 17,381	\$ 7,924,803	\$ 110,948
2005	\$ 4,138,358	\$ 57,937	\$ 1,706,337	\$ 23,889	\$ 392,982	\$ 5,502	\$ 711,361	\$ 9,957	\$ 1,350,116	\$ 18,902	\$ 8,299,155	\$ 116,188
2006	\$ 4,581,576	\$ 61,851	\$ 1,718,375	\$ 23,198	\$ 465,660	\$ 6,286	\$ 769,584	\$ 10,389	\$ 1,439,067	\$ 19,427	\$ 8,974,261	\$ 121,153
2007	\$ 4,672,997	\$ 59,347	\$ 1,837,974	\$ 23,342	\$ 513,373	\$ 6,520	\$ 814,505	\$ 10,344	\$ 1,539,360	\$ 19,550	\$ 9,378,209	\$ 119,103
2008	\$ 5,001,343	\$ 55,515	\$ 1,970,451	\$ 21,872	\$ 546,112	\$ 6,062	\$ 875,238	\$ 9,715	\$ 1,651,053	\$ 18,327	\$ 10,044,197	\$ 111,491

Sources: Annual Reports of the City Assessor 2004 - 2008.

- Notes: (1) The assessed value was 100% of fair market value. The fiscal year ended June 30, 2008, estimated tax value is at a rate of \$1.11 per \$100 of estimated assessed value.
- (2) All other organizations include religious organizations, charitable organizations, private universities, Virginia Port Authority, Elizabeth River Tunnel Commission, Hampton Roads Sanitation District and Eastern Virginia Medical Authority.

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 the past five fiscal years.

Table III-4
City of Norfolk, Virginia
Tax Rates and Equalization Factors
Fiscal Years Ended June 30, 2004 – 2008

	Fiscal Year Ended June 30				
	2004	2005	2006	2007	2008
Property tax rate per \$100 assessed value:					
Business Improvement District	\$ 0.18	\$ 0.18	\$ 0.18	\$ 0.18	\$ 0.18
Personal property	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.25
Machinery and tools	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.25
Mobile homes	\$ 1.40	\$ 1.40	\$ 1.35	\$ 1.27	\$ 1.11
Airplanes	\$ 2.40	\$ 2.40	\$ 2.40	\$ 2.40	\$ 2.40
Boats (business)	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.50
Boats (pleasure)	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01	\$ 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	100.00%	100.00%	100.00%	100.00%	100.00%
As determined by the Commonwealth's Department of Taxation ^{(1) (2)}	86.00%	65.00%	76.00%	76.00%	--

Source: City of Norfolk, Virginia

- Notes: (1) The most recent Virginia Assessment/Sales Ratio Study is for 2004.
(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 2004 through 2007.

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 each of the past five fiscal years.

Table III-5
City of Norfolk, Virginia
Assessed Valuation and Change in Property Tax Levy
Fiscal Years Ended June 30, 2004 – 2008
(Amounts In Thousands)

Assessed Valuation					
Fiscal Year Ended			Personal		Percentage
June 30	Real Property		Property & Other	Property Tax Levy	Increase in Property Tax Levy
2004	\$ 10,029,639	\$	1,453,661	\$ 191,397	6.79%
2005	\$ 10,960,812	\$	1,478,192	\$ 209,202	9.30%
2006	\$ 12,691,527	\$	1,640,791	\$ 227,796	8.89%
2007	\$ 15,607,512	\$	1,698,769	\$ 254,703	11.81%
2008	\$ 18,401,851	\$	2,825,857	\$ 258,016	13.00%

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2008.

Table III-6 sets forth information concerning the City's real and personal property tax collection rate for fiscal years ended June 30, 1999 through 2008.

Table III-6
City of Norfolk, Virginia
Real and Personal Property Tax Levies and Collections ⁽¹⁾
Fiscal Years Ended June 30, 1999 – 2008
(In Thousands)

Fiscal Year Ended June 30	Total Tax Levy	Current Collections	Percent of Current Collections to Tax Levy	Delinquent Collections	Total Collections	Percentage of Total Tax Collections to Tax Levy
1999	\$ 150,747	\$ 136,668	90.66%	\$ 11,068	\$ 147,736	98.00%
2000	\$ 158,268	\$ 145,772	92.10%	\$ 14,865	\$ 160,637	101.50%
2001	\$ 164,289	\$ 151,921	92.47%	\$ 13,501	\$ 165,422	100.69%
2002	\$ 171,755	\$ 158,914	92.52%	\$ 12,883	\$ 171,797	100.02%
2003	\$ 179,220	\$ 164,482	91.78%	\$ 18,724	\$ 183,206	102.22%
2004	\$ 191,397	\$ 178,200	93.10%	\$ 15,821	\$ 194,021	101.37%
2005	\$ 209,202	\$ 191,254	91.42%	\$ 8,549	\$ 199,803	95.51%
2006	\$ 227,796	\$ 203,804	89.47%	\$ 8,526	\$ 212,330	93.21%
2007	\$ 254,703	\$ 239,288	93.95%	\$ 10,097	\$ 249,385	97.91%
2008	\$ 258,016	\$ 238,728	92.52%	\$ 14,905	\$ 253,633	98.30%

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2008.

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

Table III-7 sets forth the City's ten largest taxpayers and the assessed value of real property owned by each such taxpayer during fiscal year ended June 30, 2008. The aggregate assessed value of the ten largest taxpayers represented 5.35% of the City's total assessable base at June 30, 2008.

Table III-7
City of Norfolk, Virginia
Ten Principal Real Property Taxpayers ⁽¹⁾
June 30, 2008

Taxpayer	Type of Business	Real Property Assessed Value	Percentage of Total Real Property Assessed Value
MacArthur Shopping Center LLC (Taubman Co.)	Retail	\$ 178,290,528	0.97%
Dominion Virginia Power	Public Service Utility	\$ 173,032,800	94.00%
Verizon Virginia, Inc.	Public Service Utility	\$ 131,127,740	71.00%
Bank of America	Bank	\$ 94,561,445	51.00%
Ford Motor Company ⁽²⁾	Truck Manufacturer	\$ 87,462,500	48.00%
Norfolk Southern Corporation	Railroad	\$ 81,588,900	44.00%
Military Circle Ltd. Partnership	Shopping Center	\$ 65,187,525	35.00%
Dominion Tower Ltd. Partnership	Real Estate	\$ 58,001,800	32.00%
Cox Virginia Telecom	Public Service Utility	\$ 57,438,600	31.00%
Norfolk Hotel Association (Marriott)	Service	\$ 57,040,100	31.00%
Total Principal Taxpayers		\$ 983,731,938	5.35%

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2008.

Notes: (1) Total assessed value of taxable real property including public service corporations at June 30, 2008 was \$18,401,851,069.

(2) The Ford Motor Company, Inc. closed its Norfolk assembly plant in June 2007.

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 Ended June 30, 2005 – 2009

Fiscal Year Ended June 30	Number of Budgeted Positions ⁽¹⁾
2005	3,934
2006	3,969
2007	4,079
2008	4,111
2009	4,115

Sources: Approved Operating Budgets, Fiscal Years Ended June 30, 2005 through 2009.

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 of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. On July 11, 1978, the City established a protected Self-Insurance Program Fund, pursuant to an ordinance adopted by 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 ended June 30, 2008 was \$14,148,283.

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, 2008, these liabilities were \$25,059,306 of which \$4,909,342 represents the current portion anticipated to be paid within a year. Estimated liabilities, as determined by an actuary, are reported at their present value, using the expected future investment yield assumption of five percent.

Changes in the City's claims liability amount in the fiscal years ended June 30, 2004 and 2008 are as follows:

Fiscal Year Ended June 30	Unpaid Claims Beginning Balance	Claims Incurred Estimated	Claims Paid	Ending Balance
2004	\$ 18,189,936	\$ 6,188,209	\$ 7,357,365	\$ 17,020,780
2005	\$ 17,020,780	\$ 5,464,863	\$ 5,544,508	\$ 16,941,135
2006	\$ 16,941,135	\$ 8,248,731	\$ 5,267,508	\$ 19,922,358
2007	\$ 19,922,358	\$ 10,659,920	\$ 5,515,618	\$ 25,066,660
2008	\$ 25,066,660	\$ 12,313,224	\$ 12,305,870	\$ 25,059,306

During fiscal year ended June 30, 2008, the City paid a large automobile liability claim in the amount of \$7.5 million. The obligation was partially met with a \$4.9 million payment from the City's Risk Management Reserve. At the present time, this particular claim is viewed as a statistical anomaly when compared to the City's recent years and long-term loss experience, is not anticipated as being indicative of the City's change in trends, and is not representative of anticipated loss events that would threaten the City's financial sustainment in the foreseeable future. Until fiscal year 2008, aggregate automobile liability claims costs, included in the total liability claims paid figures above, had been less than \$1 million annually, with singular incidents paid at significantly lesser amounts. The City continues to self-insure most of its automobile liability risks since a formal plan was adopted in 1985.

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.

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

Table III-9
City of Norfolk, Virginia
Schedule of Annual Pension Contributions
Fiscal Years Ended June 30, 2006 - 2008 ⁽¹⁾

Fiscal Year Ended June 30	Annual Pension Contribution
2006	\$ 25,728,228
2007	\$ 25,135,944
2008	\$ 25,728,228

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2008.

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 ended June 30, 2008. GASB 45 establishes 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.

The following steps have been taken to date, in preparation for the implementation of GASB 45:

- The City and Schools have completed an actuarial valuation of the benefits;

- The City's Retirement Board of Trustees have 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;
- In fiscal year ended June 30, 2008 the City allocated \$1,898,253 in excess of the existing pay as you go contributions toward addressing the liability; and
- Over time, the City and the Schools plan to gradually increase funding until the annual actuarial required contribution is fully funded.

As of June 30, 2008 the following is projected:

	City	Schools	Total
Actuarial Accrued Liability as of 6/30/2007 ⁽¹⁾	\$ 43,600,000	\$ 59,700,000	\$ 103,300,000
Actuarial Required Contribution for FY 2008	\$ 6,004,000	\$ 4,800,000	\$ 10,860,000
Estimated Pay Go Contribution and Explicit Subsidies	(2,260,000)	(2,560,000)	(4,820,000)
FY 2008 Reserve in Excess of Pay Go	(1,898,253)	-	(1,898,253)
Difference	\$ 3,780,000	\$ 2,260,000	\$ 6,040,000

Source: Actuarial Valuation Report by Cheiron, Inc. measures as of July 1, 2007, for fiscal year ended June 30, 2008.

Note: (1) Estimates as shown assume the City and Schools establish a trust. Schools assumes a PayGo 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 (CIP) Budget. These documents are available via the internet at www.norfolk.gov. In addition, the City will undertake to provide or cause to be provided certain Annual Financial Information described in the section "CONTINUING DISCLOSURE" to fulfill the requirements of the Rule promulgated by the SEC.

GENERAL FUND OPERATING BUDGET RESULTS FOR FISCAL YEAR ENDED JUNE 30, 2008

On the budgetary basis of accounting, General Fund revenues were \$806,725,956 representing 99.51% of budgeted revenue. General Fund expenditures were \$805,237,762 representing 99.32% of budgeted expenditures. Table III-10 summarizes key financial results.

Table III-10
City of Norfolk, Virginia
General Fund Operating Budget Summary Results
for the Fiscal Year Ended June 30, 2008

	Fiscal Year 2008 Final Budget	Fiscal Year 2008 Results	Percent of Budget	Variance Positive (Negative)
Total Revenue and non-revenue receipts	\$ 810,722,221	\$ 806,725,956	99.51%	\$ 3,996,265
Total Expenditures	\$ 810,722,221	\$ 805,237,762	99.32%	\$ 5,484,459
Revenue greater (less) than expenditures	\$ -	\$ 1,488,194		\$ 9,480,724

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2008.

General Fund Operating Budget

The Fiscal Year Ended June 30, 2009 General Fund Operating Budget was adopted on May 22, 2008, and totals \$827,280,300 reflecting a 4.0% increase over the adopted Fiscal Year Ended June 30, 2008 General Fund Operating Budget of \$795,835,700. Real estate tax revenues, the largest general property tax source, are estimated to grow by approximately 7.1% in fiscal year ended June 30, 2009 over the previous year. The real estate tax rate remained at \$1.11 per \$100 of assessed value. Hotel tax revenues are expected to be approximately \$6.85 million and admission taxes are projected to grow 6% over the previous fiscal year to \$4,450,000. Revenues from the Commonwealth of Virginia, mostly for education are anticipated to grow 3.1% or \$10 million. The budget anticipates carrying over \$3 million of the General Fund balance from fiscal year ended June 30, 2008 to fiscal year ended June 30, 2009 as part of the operating budget.

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

Utilizing data through the first 10 months of the fiscal year ending June 30, 2009, unaudited general fund revenues are projected to be \$8.5 million or 1.0% less than projected in the fiscal year ending June 30, 2009 Operating Budget due to lower than budgeted revenues that are economically sensitive (e.g., sales, meals, hotel, admissions, recordation tax collections) and lower than budgeted transfers from the Commonwealth. Additionally, unaudited general fund expenditures were projected to be \$0.9 million or 0.1% more than projected. To compensate for the projected disparity, City management enacted targeted and across-the-board budgetary adjustments throughout the fiscal year. As a result, the City is not projecting a budgetary shortfall in FY 2009.

Table III-11
City of Norfolk, Virginia
General Fund Budget
Fiscal Year Ended June 30, 2009

Anticipated Revenue Receipts	Approved Budget	Appropriations For Expenditures	Approved Budget
General Property Taxes	\$ 250,017,800	Legislative	\$ 4,653,800
Other Local Taxes	\$ 158,925,500	Executive	\$ 6,117,700
Permits and Fees	\$ 4,124,300	Department of Law	\$ 3,930,200
Fines and Forfeitures	\$ 1,635,000	Constitutional Officers	\$ 5,139,100
Use of Money and Property	\$ 10,958,000	General Management	\$ 33,239,100
Charges for Services	\$ 24,032,700	Judicial	\$ 45,614,200
Miscellaneous Revenue	\$ 4,036,600	Office of Elections	\$ 612,300
Non-Categorical Aid - Virginia	\$ 33,861,800	Community Development	\$ 7,049,400
Shared Expenses	\$ 22,000,000	Parks, Recreation and Cultural	\$ 42,605,300
Categorical Aid - Virginia	\$ 282,037,300	Public Health and Assistance	\$ 66,727,100
Federal Aid	\$ 6,291,500	Public Safety	\$ 99,697,200
Recovered Costs	\$ 9,648,300	Public Works	\$ 42,906,400
Other Sources and Transfers in	\$ 19,711,500	Debt Service	\$ 77,829,200
		Education	\$ 330,190,900
		Non-Departmental Appropriations	\$ 60,968,400
Total	\$ 827,280,300	Total	\$ 827,280,300

Source: Approved Operating Budget for fiscal year ended June 30, 2009.

On April 7, 2009, the City Manager presented a proposed CIP Budget for the fiscal year ended June 30, 2010. City Council adopted this budget, which totals \$160,393,568 on May 19, 2009.

Table III-12
City of Norfolk, Virginia
General Governmental Expenditures by Function
Fiscal Years Ended June 30, 1999 - 2008
(Amounts In Thousands)

Fiscal Year Ended June 30	General Government Administration	Judicial Administration	Public Safety	Public Works	Health and Public Assistance	Education	Culture and Recreation	Community Development	Debt Service	Inter- Governmental	Capital Outlay	Total
1999	\$ 42,499	\$ 8,046	\$ 94,113	\$ 34,153	\$ 64,993	\$ 82,039	\$ 46,186	\$ 19,627	\$ 45,685	\$ 6,923	\$ 35,263	\$ 479,527
2000	\$ 50,770	\$ 8,969	\$ 96,542	\$ 36,792	\$ 72,609	\$ 79,033	\$ 45,088	\$ 22,970	\$ 48,399	\$ 5,950	\$ 17,912	\$ 485,034
2001	\$ 50,671	\$ 7,987	\$ 101,523	\$ 36,817	\$ 56,967	\$ 80,883	\$ 46,032	\$ 22,549	\$ 51,121	\$ 7,807	\$ 27,488	\$ 489,845
2002	\$ 44,126	\$ 8,790	\$ 115,912	\$ 56,124	\$ 61,601	\$ 83,883	\$ 40,849	\$ 16,945	\$ 48,637	\$ 7,932	\$ 30,516	\$ 515,315
2003	\$ 64,639	\$ 9,280	\$ 123,202	\$ 57,162	\$ 68,140	\$ 88,854	\$ 40,149	\$ 17,673	\$ 48,448	\$ 8,061	\$ 37,770	\$ 563,378
2004 ⁽¹⁾	\$ 76,127	\$ 35,603	\$ 94,979	\$ 80,613	\$ 76,221	\$ 90,020	\$ 40,081	\$ 8,048	\$ 49,551	\$ 6,140	\$ 45,026	\$ 602,409
2005	\$ 67,434	\$ 38,110	\$ 102,278	\$ 64,497	\$ 83,451	\$ 91,865	\$ 40,290	\$ 12,716	\$ 65,468	\$ -	\$ 85,144	\$ 651,253
2006	\$ 92,062	\$ 41,795	\$ 105,634	\$ 46,959	\$ 91,535	\$ 92,595	\$ 42,995	\$ 13,552	\$ 56,462	\$ -	\$ 91,632	\$ 675,221
2007	\$ 102,031	\$ 45,173	\$ 108,565	\$ 49,161	\$ 93,397	\$ 97,595	\$ 46,397	\$ 11,158	\$ 54,789	\$ -	\$ 94,595	\$ 702,861
2008	\$ 110,974	\$ 47,331	\$ 116,208	\$ 60,370	\$ 95,159	\$ 101,095	\$ 51,071	\$ 10,745	\$ 60,728	\$ -	\$ 114,007	\$ 767,688

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2008.

Note: (1) Sheriff and Jail expenditures were reclassified in Fiscal Year Ended June 30, 2004, from Public Safety to Judicial Administration.

RESULTS OF FINANCIAL OPERATIONS

A comparative balance sheet at June 30, 2008 and 2007 extracted from the June 30, 2008 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, 2008 with comparative totals for 2007

	2007	2008
ASSETS		
Cash and cash equivalents	\$ 64,939,509	\$ 51,735,145
Receivables, net:		
Taxes	\$ 60,097,267	\$ 45,118,526
Accounts	\$ 1,751,147	\$ 2,531,218
Notes	\$ 70,039	\$ 47,276
Accrued investment income	\$ 578,138	\$ 9,811
Due from other funds	\$ 4,078,974	\$ 4,113,067
Receivable from other governments	\$ 6,247,095	\$ 22,159,547
Deposit Contractors	\$ 200,000	\$ 125,714,590
Total assets	\$ 137,962,169	\$ 124,960,478
LIABILITIES		
Vouchers/Accounts Payable	\$ 9,055,225	\$ 9,405,462
Employee withholdings	\$ 702,930	\$ 870,818
Accrued payroll	\$ 3,918,780	\$ 4,641,025
Due to other funds	\$ 1,663,068	\$ 6,648,265
Due to component units	\$ 28	\$ -
Deferred revenue	\$ 30,750,087	\$ 29,948,443
Other liabilities	\$ 3,592,630	\$ 6,229,389
Total liabilities	\$ 49,682,748	\$ 57,743,402
FUND BALANCES		
Reserved for:		
Encumbrances	\$ 16,602,919	\$ 11,109,234
Retirees, life insurance	\$ 620,000	\$ 560,000
Unreserved, reported in:		
General Fund – Designated future expenditures	\$ 32,305,011	\$ 15,765,842
General Fund - Undesignated	\$ 38,751,491	\$ 40,536,112
Total fund balances	\$ 88,279,421	\$ 67,971,188
TOTAL LIABILITIES AND FUND BALANCES	\$ 137,962,169	\$ 125,714,590

Source: Comprehensive Annual Financial Report for the Fiscal Years Ended June 30, 2008 and 2007.

Table III-14
City of Norfolk, Virginia
Comparative Statement of Revenue and Expenditures, General Fund ⁽¹⁾
Fiscal Years Ended June 30, 2004 – 2008

	Fiscal Year Ended June 30				
	2004	2005	2006	2007	2008
REVENUE:					
General property taxes	\$ 178,360,554	\$ 192,894,904	\$ 210,595,835	\$ 233,112,175	\$ 238,739,614
Other local taxes	135,913,691	141,510,674	148,336,907	149,792,683	153,068,673
Permits and licenses	3,204,071	3,541,516	4,088,238	4,071,084	4,055,323
Fines and forfeitures	1,626,731	1,763,078	1,461,418	1,568,816	1,307,680
Use of money and property	6,314,660	7,154,235	7,069,758	7,220,387	7,208,529
Charges for services	12,449,529	14,829,244	16,877,536	18,083,478	19,937,632
Miscellaneous	4,505,314	5,196,567	5,925,598	4,100,316	4,792,166
Recovered costs	12,296,915	14,187,852	12,666,645	8,337,397	8,620,136
Intergovernmental	129,148,556	113,534,988	117,797,242	125,574,811	122,498,492
Total Revenue	<u>\$ 483,820,021</u>	<u>\$ 494,613,058</u>	<u>\$ 524,819,177</u>	<u>\$ 551,861,147</u>	<u>\$ 560,228,245</u>
EXPENDITURES:					
General government	\$ 64,390,732	\$ 65,578,006	\$ 88,834,205	\$ 101,191,123	\$ 107,878,689
Judicial administration	35,260,950	37,456,654	40,889,147	44,115,143	46,015,225
Public safety	86,236,346	91,464,166	93,709,757	96,884,619	103,792,189
Public works	67,255,473	50,256,206	34,276,568	36,775,654	42,909,508
Health and public assistance	58,326,033	61,696,267	65,666,065	65,364,955	66,221,236
Culture and Recreation	31,858,823	32,108,630	32,833,720	37,332,038	41,205,827
Education	90,020,000	91,864,910	92,594,910	97,594,910	6,542,288
Community development	8,048,376	7,125,756	6,468,840	6,182,579	101,094,910
Total Expenditures	<u>\$ 441,396,733</u>	<u>\$ 437,550,595</u>	<u>\$ 455,273,212</u>	<u>\$ 485,441,021</u>	<u>\$ 515,659,872</u>
Excess of (deficiency) revenue over expenditures	<u>42,423,288</u>	<u>57,062,463</u>	<u>69,545,965</u>	<u>66,420,126</u>	<u>44,568,373</u>
Other financing sources (uses):					
Proceeds from sale of land	\$ 342,076	\$ -	\$ -	\$ -	\$ 11,320,660
Proceeds of capital leases	4,430,252	4,701,516	4,828,468	-	-
Capital contributions	-	-	-	-	-
Transfers in	10,449,842	11,103,036	11,835,850	11,824,628	10,000,000
Transfers out	(58,553,596)	(63,365,438)	(71,712,560)	(72,641,665)	(86,197,266)
Total Other Financing Sources (Uses)	<u>(43,331,426)</u>	<u>(47,560,886)</u>	<u>(55,048,242)</u>	<u>(60,817,037)</u>	<u>(64,876,606)</u>
Special Items:					
Write off of uncollectible FEMA Grant	-	(3,113,624)	-	-	-
Total Other Financing Sources (Uses) and Special Items	<u>(43,331,426)</u>	<u>(50,674,510)</u>	<u>(55,048,242)</u>	<u>(60,817,037)</u>	<u>(64,876,606)</u>
Net Change in Fund Balance	<u>\$ (908,138)</u>	<u>\$ 6,387,953</u>	<u>\$ 14,497,723</u>	<u>\$ 5,603,089</u>	<u>\$ (20,308,233)</u>

Sources: Comprehensive Annual Financial Reports for the Fiscal Years Ended June 30, 2004 through 2008.

Table III-15
City of Norfolk, Virginia
Comparative Statement of Changes in Fund Balance, General Fund
Fiscal Years Ended June 30, 2004 – 2008

	Fiscal Year Ended June 30				
	2004	2005	2006	2007	2008
Net Change in Fund Balance	\$ -	\$ -	\$ -	\$ -	\$ -
Fund balance at beginning of year	58,106,522	63,008,083	62,698,764 ⁽¹⁾	62,698,764	62,698,794
Adjustment to beginning balance	4,901,561	-	-	30	-
Fund Balance at end of year	<u>\$ 63,008,083</u>	<u>\$ 63,008,083</u>	<u>\$ 62,698,764</u>	<u>\$ 62,698,794</u>	<u>\$ 62,698,794</u>

Sources: Comprehensive Annual Financial Reports for the Fiscal Years Ended June 30, 2004 through 2008.

Note: (1) This figure excludes the Tax Increment Fund in the amount of \$309,319, which was reclassified as a special revenue fund beginning in fiscal year ended June 30, 2005.

**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. The more than 820,000 people served by the Water System are distributed throughout the City, the Naval bases in the Cities of Norfolk, Virginia Beach (“Virginia Beach”) and Chesapeake (“Chesapeake”), and the U.S. Naval bases located in the City and Virginia Beach. A Naval base in the City of Portsmouth (“Portsmouth”) is provided raw water service. The distribution of average metered consumption in the fiscal year ended June 30, 2008, is shown in Table IV-1.

**Table IV-1
City of Norfolk, Virginia
Water System
Average Metered Water Delivered by Customer
Fiscal Year Ended June 30, 2008**

Metered Water Delivered		
Customer	(MGD)	Percent of Total
Norfolk	18.35	26.67%
Virginia Beach	35.62	51.77%
U.S. Navy	4.45	6.47%
Chesapeake	10.38	15.09%
	68.80	100.00%

Source: Department of Utilities.

As June 30, 2008, the Water System had approximately 66,300 active accounts. The average annual daily amount of finished water pumped for fiscal year ended June 30, 2008 was 66 million gallons per day (“MGD”). Average day production includes approximately 4.49 MGD of unaccounted for water due to losses, water used for fire protection and the flushing of water mains. For fiscal year ended June 30, 2008, the System’s unaccounted for water level was approximately 6.8% which is well within the levels typically reported by well run water utilities according to the American Water Works Association.

Prior to fiscal year ended June 30, 1998, Virginia Beach’s water use was restricted due to concerns about exceeding the safe yield of the Water System’s sources. Due to its rapid population growth since the 1950s, combined with recurring water shortages, Virginia Beach constructed a 76 mile pipeline from Lake Gaston in Brunswick County, Virginia (“Lake Gaston”) to the Water System through which raw water from Lake Gaston is conveyed, treated by Norfolk and then delivered to Virginia Beach. With the completion of the Lake Gaston Pipeline in fiscal year ended June 30, 2008, the conservation restrictions on Virginia Beach’s water use have been lifted, except in times of drought.

Wholesale Contracts

A significant portion of the Water System’s revenue is derived from wholesaling water to the U.S. Navy, Chesapeake, Portsmouth and Virginia Beach. 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 \$3.84 per 100 cubic feet. If a wholesale contract between Chesapeake and the City is executed, the City anticipates the 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 fiscal year ended June 30, 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.

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 ended June 30, 2004, the City Council established a long-term retail rate plan and starting in fiscal year ended June 30, 2007, water rates increase 3.5% annually and produces the following rates:

Fiscal Year	
Ended June 30,	Retail Rate
2009	\$3.61 per 100 cubic feet
2010	\$3.74 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

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 65,900 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.

As of June 30, 2008:

Approximate population served	65,900 accounts
Total wastewater pumping stations	129 pump stations
Miles of gravity wastewater mains	816 miles
Miles of wastewater force mains	63 miles

City general obligation debt issued to finance wastewater utility projects 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 ended June 30, 2005, the City Council established a long-term retail rate plan and starting in fiscal year ended June 30, 2006, wastewater rates increase annually by 4.0% and produces the following rates:

Fiscal Year	Retail Rate
Ended June 30,	
2009	\$2.89 per 100 cubic feet
2010	\$3.01 per 100 cubic feet
Thereafter	4% annual increases each July 1

PARKING FACILITIES FUND

The City presently owns and operates 13 multi-level parking garages, 14 surface lots and 600 on-street spaces. These facilities provide a total inventory of over 19,000 downtown parking spaces.

The Parking Facilities Fund was established in fiscal year 1991. City general obligation debt issued to finance Parking Facilities Fund projects is carried as a liability on the Parking Facilities Fund's balance sheet. The Division of Parking provides the funds for debt service on such bonds. The Parking Facilities Fund balance sheet on June 30, 2008, presents total assets of \$162,273,630, which includes restricted investments of over \$5.1 million, to be utilized for garage construction and required master indenture reserves. In addition, fixed assets, including parking structures, consist of over \$138 million of the total \$162.2 million in assets. The Parking Facilities Fund also manages parking enforcement operations and collects fines and delinquent fees. The annual volume of parking tickets is approximately 76,788. In fiscal year 2007, 82,070 tickets were issued resulting in 77% collection rate and revenue of \$2,244,356.

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.

In March 2008, the City executed a Master Development Agreement with a developer for the development of the Wells Fargo Center (formally the Wachovia Center). The Wells Fargo Center is a mixed-use privately financed project composed of a high rise Class A office tower and residential units, as well as an adjacent retail development. The Wells Fargo Center project represents a combined investment and expansion of the downtown area of \$170 million. Construction on the project is underway and the Wells Fargo Center is expected to open in Spring 2010. The Master Development Agreement requires the City to finance the design, construction and equipping of a parking garage under the office tower and a central public parking garage to serve the entire Wells Fargo Center project. The City has estimated that the design, construction and equipping of the parking garages will cost \$53,438,000.

The City also entered into a Master Development Agreement (the "Conference Center MDA") with RLJ-Fulco Norfolk, LLC for the construction of a privately financed hotel adjoining a parking garage and conference center. The Conference Center MDA requires the City to finance the design, construction and equipping of the parking garage (among other things). The projected budget for the parking garage is approximately \$22 million. Construction on the project is expected to begin in Spring of 2010.

City management plans to ask City Council to adopt increases in various parking rates and fines to become effective in late 2009 or early 2010.

PART V THE CITY OF NORFOLK

INTRODUCTION

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

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

Year	Square Miles
1950	37.19
1960	61.85
1970	61.85
1980	65.75
1990	65.98
2000	65.98
2008	65.98

CITY GOVERNMENT

Norfolk is an independent, full-service City with sole local government taxing power within its boundaries. It derives its governing authority from a charter (the “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 20-year incumbent on City Council, and was first elected Mayor by his peers in 1994. He is the president of the law firm Fraim & Fiorella, P.C., and was first elected to City Council in 1986. He has a Bachelor of Arts degree from Virginia Military Institute, Lexington, Virginia, and a Masters in Education degree from the University of Virginia, Charlottesville, Virginia. He received his law degree from the University of Richmond, Richmond, Virginia. Mayor Fraim is an active member of the Virginia State Bar, the Virginia Bar Association and the Norfolk-Portsmouth Bar Association and has held a number of leadership positions in these organizations.

Anthony L. Burfoot, Vice Mayor

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

Daun S. Hester, Council Member

Mrs. Hester, representing Super Ward 7, was first elected to City Council in July 1996. Mrs. Hester is currently a consultant with Hester, Hester & Associates, Ltd. She received a Bachelor of Science degree from Virginia State University, Petersburg, Virginia, and a Master of Arts degree in Education and Human Development from The George Washington University, Washington, D.C. Mrs. Hester is active in many local professional organizations.

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. 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.

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 Care Centers, 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.

Donald L. Williams, Council Member

Mr. Williams, representing Ward 1, was first elected to City Council in July 2002. Prior to running for Council, Mr. Williams served as a delegate in the Virginia House of Delegates from 1998 through 2001. He is currently president of the Hampton Roads Housing Center. He attended Old Dominion University, Norfolk, Virginia and obtained a real estate broker's license in 1983. Mr. Williams is active in many civic and business activities.

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. 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.

W. Randy Wright, Council Member

Mr. Wright, representing Ward 5, was first elected to City Council in July 1992. He is the owner of Randy Wright Printing and Publishing. He is involved in many civic and business activities, including serving as the chairman of the Mayor's Ocean View Task Force and Economic and Community Business Development Committee.

Certain Appointed Officials

Regina V.K. Williams, City Manager

Regina V.K. Williams assumed the post of Norfolk City Manager in January 1999. Her responsibilities include the supervision of the administrative operations of the City and the preparation of its annual budget. She served as City Manager for the City of San Jose, California for five years and previously served as Assistant City Manager for five years. Prior to serving in San Jose, Mrs. Williams was Deputy City Manager and Chief of Staff for the City of Richmond, Virginia. In 1982, Mrs. Williams was appointed by then Virginia Governor Charles Robb as the first female and first African American to be State Director of Personnel and Training. In 1991, she was inducted as a fellow into the National Academy of Public Administration (NAPA). In 1988, Mrs. Williams was elected as Vice-President of the Board of Directors for the International City-County Management Association (ICMA). She was awarded the designation of manager of the year in September 2002 by ICMA. Mrs. Williams also served as the President of the National Forum of Black Public Administrators in 1995-96 and is a founder and former President of the Richmond, Virginia Chapter of the Conference of Minority Public Administrators. She earned her Bachelor of Science degree from Eastern Michigan University, Ypsilanti, Michigan, and a Masters degree in Public Administration from Virginia Commonwealth University, Richmond, Virginia.

Alice M. Kelly, Acting Director of Finance and Business Services

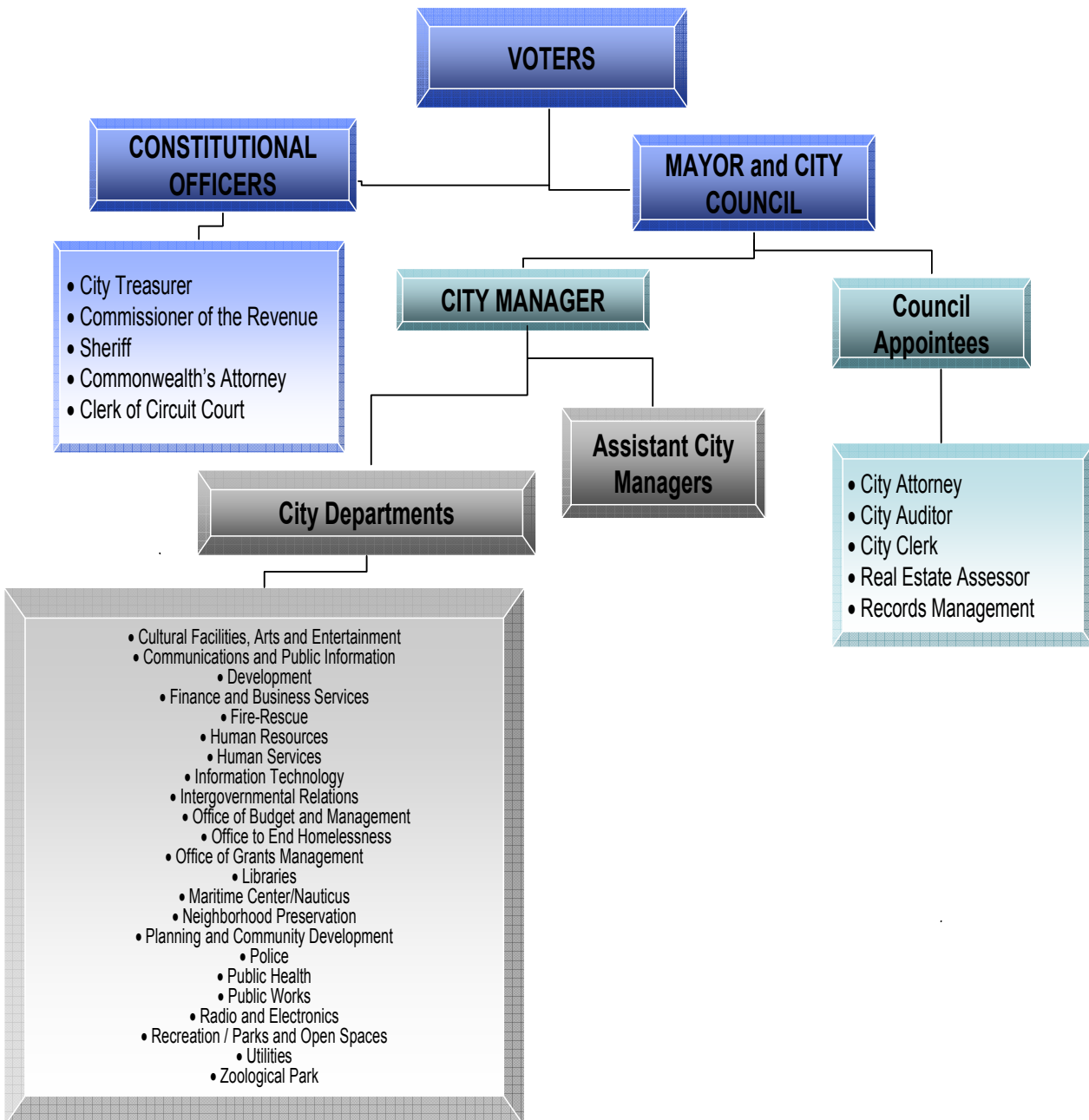
Alice M. Kelly commenced her tenure as Acting Director of Finance on June 23, 2008. At the direction of the City Manager, she is responsible for identifying strategic opportunities for the City in the policy areas of taxation, financial management and fiscal policy development. In addition, she is responsible 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. Her most recent position with the City has been Assistant Director of Public Works, a position she held from November 2002 to June 2008. 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. Ms. Kelly has served as Chairman of the Board of the Norfolk Municipal Employee Federal Credit Union since April 2008 and, prior to being elected to that position, served as Treasurer on the Board since 1998.

Bernard A. Pishko, City Attorney

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

Governmental Services and Facilities

In Virginia, cities and counties are not overlapping units of government. Each city or county is a distinct political entity providing services for the population within its respective jurisdiction. The City of Norfolk provides a comprehensive range of public services characteristic of its form of government under Virginia law. These services are designed to provide an environment within which the educational, physical, social and cultural needs of its citizens are met. These general governmental services include police protection, fire and paramedical services, public health and social services, planning and zoning management, code enforcement, storm water management, street maintenance, traffic control, parks and cemeteries operation and maintenance, recreation and library services, economic development, solid waste disposal and general administrative services. In addition, water and wastewater utilities and parking facilities services are provided under an enterprise fund concept with user-charges set by City Council.



In Virginia, cities and counties are not overlapping units of government. Each city or county is a distinct political entity providing services for the population within its respective jurisdiction. The City of Norfolk provides a comprehensive range of public services characteristic of its form of government under Virginia law. These services are designed to provide an environment within which the educational, physical, social and cultural needs of its citizens are met. These general governmental services include police protection, fire and paramedical services, public health and social services, planning and zoning management, code enforcement, storm water management, street maintenance, traffic control, parks and cemeteries operation and maintenance, recreation and library services, economic development, solid waste disposal and general administrative services. In addition, water and wastewater utilities and parking facilities services are provided under an enterprise fund concept with user-charges set by City Council.

Other Governmental Entities

School Board of the City of Norfolk

The seven members of the School Board of the City of Norfolk (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 of Virginia 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 ended June 30, 2008, the School Board’s expenditures for education totaled \$379,570,982.

Norfolk Airport Authority

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

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

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

Hampton Roads Regional Jail Authority

The Hampton Roads Regional Jail Authority (“HRRJA”) is a regional organization which includes the cities of Hampton, Newport News, Norfolk and Portsmouth, created for the purpose of providing, operating and maintaining a regional jail facility for the correctional overflow from each community. HRRJA is a primary government, with no component units, that is a body politic and corporate created pursuant to Article 3.1, Chapter 3, Title 53.1 of the Virginia Code and is governed by a 12 member Board of Directors, consisting of three representatives appointed by each of the member cities. The budgeting and financing of HRRJA are subject to the approval of the Board of Directors, with each individual having a single vote. HRRJA is responsible for its own financial matters, maintains its own books of account and is audited annually by independent accountants that it engages.

The regional jail facility (the “Jail”), which opened in March 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 of which, 250 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 a refuse-derived fuel plant and a fuel delivery system, located on federally-owned land in Portsmouth, as well as solid waste transfer stations in each of the member jurisdictions, a landfill, rolling stock and ancillary facilities, and an extensive recycling program which collects recyclable waste products from single-family homes and at drop-off centers.

Transportation District Commission

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 of Virginia, 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 Hampton Roads (formerly Tidewater) Transportation District Commission, a political subdivision of the Commonwealth of Virginia, was formed on May 9, 1973, as a joint exercise of governmental power in accordance with provisions of Chapter 32 of Title 15.1 of the Virginia Code.

Table V-2
City Of Norfolk, Virginia
Contributions To Hampton Roads Transportation District Commission
Fiscal Years Ended June 30, 2005-2009

Fiscal Year	Contributions
2005	\$ 3,021,200
2006	4,559,463
2007	5,960,949
2008	7,047,624
2009	7,666,622

Sources: Approved Operating Budgets, Fiscal Years Ended June 30, 2005 through 2009.

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 created pursuant to an Agreement of Transfer dated July 1, 1988. The HAN operates Lake Taylor Hospital as a long-term care facility licensed by the Virginia State Health Department to provide a continuum of patient care ranging from sub-acute hospital services to skilled nursing care.

Norfolk Redevelopment and Housing Authority

The Norfolk Redevelopment and Housing Authority (“NRHA”), a political subdivision of the Commonwealth, was created by the City on July 30, 1940, under the provisions of the United States Housing Act of 1937. The NRHA provides subsidized public housing and administers redevelopment and conservation efforts within the City in accordance with state and federal legislation. The seven members of the Board of Commissioners are appointed by City Council. The NRHA is responsible, through a contract with the City, for the administration of such activities as community development and urban renewal. The NRHA develops its operating budget without approval from the City Council and executes contracts on its own behalf. The City does not exercise a significant degree of oversight responsibility for the NRHA, as it is responsible for designating its own management, developing its own operating budget and executing major contracts on its own behalf. The NRHA is responsible for its own financial matters as it maintains its own books of account, is audited annually by independent accountants it engages, and has authority over earnings, deficits and monies other than City contract funds. The City contracts with NRHA to complete specific projects, generally capital improvement projects.

ECONOMIC AND DEMOGRAPHIC FACTORS

Population

As reflected in Table V-3 below, from 1999 to 2008 recently published population statistics suggest the City's population has now stabilized. The City is the second most populous city in Virginia, as shown in Table V-4.

Table V-3
Population Trend Comparisons
1999-2008

Year	Hampton Roads			
	Norfolk ⁽¹⁾	MSA ⁽¹⁾	Virginia ⁽²⁾	U.S. ⁽²⁾
1999				
2000	234,403	1,533,739	7,078,515	281,421,906
2001	234,000	1,567,300	7,188,251	285,039,803
2002	233,600	1,574,500	7,276,785	287,726,647
2003	233,900	1,583,900	7,363,300	290,210,914
2004	235,200	1,605,900	7,454,688	292,892,127
2005	235,071	1,615,415	7,546,725	295,560,549
2006	234,219	1,619,600	7,628,347	298,362,973
2007	235,915	1,623,624	7,698,775	301,290,332
2008	235,092	1,626,767	7,769,089	304,059,724

Sources: Various Reports of the Bureau of the Census and the Weldon Cooper Center for Public Service, University of Virginia.

Notes: (1) For years 1999-2008, population estimates are from the Weldon Cooper Center for Public Service, University of Virginia.
(2) For years 1999-2008, U.S. and Virginia population estimates are from the U.S. Census Bureau.

Table V-4
Five Most Populous Cities in Virginia

City	2000 Census Population	2008 Population Estimate
Virginia Beach	425,257	431,451
Norfolk	234,403	235,092
Chesapeake	199,184	216,622
Richmond	197,790	195,463
Newport News	180,697	180,978

Source: Bureau of the Census and the Weldon Cooper Center for Public Service, University of Virginia.

Table V-5 provides an annual comparison of per capita personal income since 1997.

Table V-5
City of Norfolk, Virginia
Per Capita Personal Income Comparisons
1997-2006

Year	City	Hampton Roads MSA	State	U.S.
1997	20,361	22,838	26,307	25,334
1998	21,406	24,026	27,780	26,883
1999	22,131	24,912	29,226	27,939
2000	23,523	26,360	31,083	29,845
2001	24,767	27,767	32,511	30,574
2002	25,346	28,784	33,033	30,821
2003	26,672	30,057	34,001	31,504
2004	28,114	31,540	35,841	33,123
2005	30,162	33,259	37,968	34,757
2006	31,459	34,858	39,540	36,714

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System, 2008.

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

Table V-6
City of Norfolk, Virginia
City Population Distribution by Age
1960-2000

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

Source: Various Reports of the Bureau of the Census.

Housing and Construction Availability

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

Table V-7
City of Norfolk, Virginia
Residential Construction
Fiscal Years Ended June 30, 1999 - 2008

Fiscal Year	Building Permits	Number of Units	Value (in thousands)
1999	174	241	\$ 21,872
2000	189	310	\$ 38,739
2001	185	401	\$ 35,109
2002	290	462	\$ 44,498
2003	287	609	\$ 61,790
2004	506	766	\$ 83,525
2005	560	1,191	\$ 204,391
2006	531	1,058	\$ 133,053
2007	389	491	\$ 68,476
2008	277	815	\$ 101,212

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

Table V-8 presents annual nonresidential construction, which includes commercial buildings, public buildings, schools, public utility buildings and miscellaneous structures.

Table V-8
City of Norfolk, Virginia
Nonresidential Construction
Fiscal Years Ended June 30, 1999 – 2008

Fiscal Year	Building Permits	Value (in thousands)
1999	46	\$ 52,932
2000	45	\$ 138,472
2001	35	\$ 62,046
2002	53	\$ 51,451
2003	35	\$ 24,084
2004	59	\$ 134,197
2005	70	\$ 70,677
2006	60	\$ 165,989
2007	55	\$ 81,396
2008	35	\$ 102,714

Source:

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

Employment

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

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

Table V-9
City of Norfolk, Virginia
Unemployment Rates
1999 – 2008

Year	Norfolk	Hampton Roads MSA	Virginia	U.S.
1999	5.0%	3.2%	2.7%	4.2%
2000	3.3%	2.5%	2.3%	4.0%
2001	4.3%	3.3%	3.2%	4.7%
2002	5.5%	4.2%	4.2%	5.8%
2003	5.7%	4.3%	4.1%	6.0%
2004	5.5%	4.1%	3.7%	5.5%
2005	5.4%	4.0%	3.5%	5.1%
2006	4.2%	3.3%	3.0%	4.6%
2007	4.1%	3.2%	3.0%	4.6%
2008 ⁽¹⁾	6.6%	5.3%	5.2%	7.1%

Source: Virginia Employment Commission.

Notes: (1) For year 2008, unemployment rates are for the month of December 2008.

Table V-10
City of Norfolk, Virginia
Civilian Employment and Average Weekly Gross Wages
3rd Quarter, 2008

	Number of	Number of	Average	Percentage of
	Establishments	Employees	Weekly Gross Wage	Employment
Construction	468	6,036	\$ 820	4.20%
Manufacturing	169	7,221	\$ 903	5.03%
Trade, Transportation & Utilities	1,390	29,112	\$ 3,439	20.27%
Information	122	3,516	\$ 1,325	2.45%
Financial Activities	643	9,430	\$ 1,711	6.57%
Professional & Business Services	1,050	21,723	\$ 3,117	15.13%
Education and Health Services	660	35,862	\$ 1,477	24.97%
Leisure and Hospitality	609	12,975	\$ 655	9.04%
Other Services	609	3,879	\$ 531	2.70%
Public Administration	78	13,825	\$ 1,128	9.63%
Natural Resources & Mining	4	17	\$ 554	0.01%
Total	5,802	143,596		100.00%

Source: U.S. Bureau of Labor Statistics. Virginia Employment Commission, Quarterly Census of Employment & Wages Program.

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-lead initiatives to stimulate commercial revitalization include: Tax Abatement Program; Federal Empowerment and HUB Zones; State Enterprise Zones; Small Area Aesthetic Matching Grant Program; Aesthetic Improvement Grant Pool; Pedestrian Commercial Overlay Zones; Tax and Grant Benefits; Concentrated Development Zone Incentives; public infrastructures; and amenities.

Downtown Development

Downtown offers a mix of cultural attractions and entertainment for its citizens and tourists. Resulting from the coordinated efforts of the City, downtown property assessed value increased 69.43% from fiscal year ended June 30, 2000 through 2007.

The current average vacancy rate for Downtown Class A office space is below 10%, as shown in Table V-11 below.

Table V-11
City of Norfolk, Virginia
Downtown Norfolk Vacancy
January 2008

Class A	Rentable SF	Vacant SF	% Vacant
150 West Main Street	226,183	23,568	10.42%
Crown Center	62,000	-	0.00%
Dominion Tower	403,276	23,485	5.82%
Main Street Tower	200,000	17,151	8.58%
Norfolk Southern Tower	301,463	-	0.00%
Town Point Center	130,266	21,828	16.76%
World Trade Center	366,941	39,794	10.84%
Total	1,690,129	125,826	7.44%

Source: CoStar, March 2009.

Bank presence along Main Street includes Bank of America, BB&T, Monarch, Old Point National, RBC Centura, SunTrust, TowneBank and Wachovia. Bank of Hampton Roads, Heritage, Bank of the Commonwealth and several credit unions are also located downtown.

The Wells Fargo Center, a \$170 million dollar office, retail and residential development broke ground in May 2008 on Monticello Avenue adjacent to MacArthur Center, Scope and Chrysler Hall. This city block development features a 22-story Class A office tower, which is 70% leased. The project will also include 50,000 square feet of retail shops, 162 apartments and 1,850 parking spaces in two garages to be built by the City.

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. Several mixed-use offerings now being occupied Downtown include: Harbor Heights, a \$57 million investment, 99 lofts, with a first floor retail grocery, integral parking and two floors of administrative space for Tidewater Community College; St. Paul's Place is complete with 90 condos alongside the MacArthur Center bringing a mix of historic façade to traditional condos (The Flats) and industrial lofts along St. Paul's Boulevard (The Lofts); and The Rotunda, a signature round building adjacent to St. Paul's Place into 66 condominiums ranging in price from \$250,000 to \$1.2 million. In addition to these buildings, there are 94 condominium units at 388 Boush Street, an upscale community representing a \$26 million project wrapping a City parking garage. The 20-unit, \$25 million, Franklin Condominiums are also now available. This project further moved downtown redevelopment across Brambleton Avenue. The Belmont at Freemason, will contain 241 apartments in two buildings and a garage with 531 parking spaces at Brambleton and Bute Streets with an estimated value of \$45 million.

Residential development also continues to grow in areas beyond Downtown Norfolk. In Larchmont, located on the west side of Norfolk, The Landings at Bolling Square, a 184 condominium unit development estimated at \$60 million, has recently been completed. Other residential development includes 12 new brick town homes on Church Street. These three to four bedroom units are priced between \$165,000 and \$225,000. The River House, a \$32 million, 194-unit luxury apartment community on Haven Creek at the Granby Street Bridge is currently being constructed. When completed, it will strengthen the Riverview commercial corridor and boost prospects for development of adjoining property in this vital area situated between two desirable and historic neighborhoods. Site work has begun on the SouthWind Apartments, a \$15 million development in Denby Park on a former trailer park. Additional investment along Newport Avenue includes Westport Commons, an \$80 million townhouse/condominium project.

The seven-mile stretch of beaches on the Chesapeake Bay known as Ocean View experienced redevelopment over the past decade. More than 200 new homes have been built in Ocean View with an average value of \$250,000. The East Beach section of Ocean View will have 700 housing units with prices ranging from \$200,000 to over \$1.5 million. A portion of the homes are currently occupied with the remainder of the development on track for completion by 2010. Lot sales total over \$37 million dollars, and the developers' final payment on the \$8.5 million land purchase was made in 2008 – two years ahead of schedule. Another project moving forward on East Ocean View Avenue is the Bay Village Senior Condominiums, a \$15 million development and the first housing exclusively for seniors in Ocean View.

Broad Creek is a \$200 million new 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 Harbour's Edge, opened in September 2006 and the second phase is currently being planned. 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 that broke ground in February 2009. The project,

which broke ground in February 2009, is expected to also include a jazz club/restaurant, retail shops and a parking garage.

Arts and Culture

Norfolk offers a mix of cultural attractions and entertainment for its citizens and tourists. Recently, investments in this segment include restoration of three live performance theatres, the construction of a cruise terminal building and upgrades to civic venues. Norfolk is home to the Chrysler Museum of Art, Virginia Arts Festival, Virginia Ballet, Virginia Opera, Virginia Stage Company and Virginia Symphony. 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.

Cruise Norfolk

The 80,000 square foot Half Moone Cruise & Celebration Center opened in spring 2007. The cruise terminal is located in the harbor between Town Point Park and Nauticus/Battleship Wisconsin. Norfolk is a homeport for Royal Caribbean International and Carnival ships, which provide regular service to Bermuda, the Bahamas and the Caribbean. During the 2008 cruise season, 90,000 cruise ship passengers traveled from Norfolk. Norfolk was selected by Porthole Cruise Magazine with the "2008 Editor-in-Chief Award" naming Norfolk "Best Up-and-Coming U.S. Homeport" and was also selected as one of the American Public Works Association's Public Works Project of the Year for 2008.

Norfolk Airport Authority

The Norfolk International Airport (the "Airport") is served by American, Continental, Delta, Northwest, Southwest, United Express and US Airways. In 2008, 3.5 million passengers used the Norfolk, a 4.45% decrease from 2007. In addition, over 64 million pounds of cargo flowed through the airport. In Norfolk, service has remained stable over the past two years, with an average of 85 daily departures.

Hotel Development

The City continues to be a national leader in hotel performance with growth in hotel occupancy rates. Currently there are several hotels under construction or proposed in Downtown Norfolk. A \$73 million, 301 room, Westin hotel is planned to be built adjacent to a new city conference center at the corner of Granby and Main Streets. This 23-story building will include residential condos above the hotel as well as integrated parking. A nine-story, 160-room Residence Inn by Marriott located in Downtown Norfolk on Brambleton between Duke and Boush Streets is expected to open in April 2009.

Waterfront Recreation Investment

Over \$17 million of overall investment has been made recently along Norfolk's waterfronts. Town Point Park, located downtown along the Elizabeth River, brings thousands of visitors downtown annually and generates both tax and parking revenue for the City. In 2007, visitor spending in the Park exceeded \$27 million. Construction began in October 2008 on the first renovation in its 25 year history. In Ocean View, adjacent to the "Little Annapolis" retail portion of East Beach is Taylor's Landing Boatel Marina, a \$10 million private investment bringing 500 new recreational boat slips to the area. This marina complex is being expanded to include retail boat showrooms, a boat repair facility, condominiums and restaurant and retail offerings. East Beach, located on the Chesapeake Bay, was named one of the top restored beaches in America by the American Shore and Beach Preservation Association due in part to the investment of \$2.5 million dollars in beach erosion funds.

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. The golf courses are also located within the City.

Norfolk is home to the Norfolk Tides, (a AAA minor league baseball team), the Norfolk Admirals (a AHL hockey team) and hosts Arena Racing USA on an indoor track. Old Dominion University will begin a football program in the fall of 2009, adding to the long-established football program at Norfolk State University.

Norfolk's Educational Institutions

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

Public Schools

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

Approximately \$90 million has been recently invested in Norfolk public schools facilities including . 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 City is home to the Governor's Magnet School for the Arts, Virginia's only magnet school for the arts, which offers classes in performing or visual arts to approximately 300 students from six cities and two counties. The school system also has a program for gifted science students that enables them to study at Eastern Virginia Medical School.

Student population for the past five fiscal years is shown in Table V-12.

Table V-12
City of Norfolk, Virginia
Public Schools Student Population
Fiscal Years Ended June 30, 2004 – 2008

<u>Fiscal Year</u>	<u>September 30 Membership</u>	<u>Percent Change</u>
2004	34,030	-0.93
2005	34,445	1.28
2006	34,063	-1.12
2007	33,593	-1.38
2008	32,947	-1.92

Source: Virginia Department of Education. Superintendents Annual Report. Table 1, Membership.

Higher Education

Norfolk is home to five institutions of higher learning: Old Dominion University, Norfolk State University, Virginia Wesleyan College, Tidewater Community College and Eastern Virginia Medical School. Old Dominion University (“ODU”) is one of only 100 public research universities nationwide, with a full and part-time enrollment of over 22,000 students. Norfolk State University is Virginia’s largest public, historically black university and the seventh largest in the nation.

Institutional Technology Parks

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

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

Norfolk’s Medical Institutions

Within the City, there are five general, acute care and specialized hospitals including Sentara Norfolk General Hospital (“Sentara Norfolk General”), Sentara Leigh Hospital, Bon Secours DePaul Medical Center, Children’s Hospital of The King’s Daughters (“CHKD”) and Lake Taylor Transitional Care Hospital (“Lake Taylor Transitional”). Sentara Norfolk General opened its new \$100 million heart hospital in February 2006, a 112-bed, 254,000 square feet center. The heart hospital is leading the way for Sentara’s 2010 expansion plan for the medical complex. Lake Taylor Transitional rehabilitation department was recently awarded with the “Better Health Award of 2008” by Old Dominion University’s College of Health Science department for their innovation of being the first rehabilitation department in the area to “Wiihabilitate.” CHKD, the site of Virginia’s only free-standing, full-service pediatric

hospital, has received permission to add 26 beds, bringing the hospital's capacity to 212. The expansion is expected to be completed by November 2010.

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, one of the world's largest natural deep-water harbors, is an integral part of Norfolk's economy.

The Virginia Port Authority is one of the top three ports on the east coast in terms of total value of port trade. Over 17.8 million tons of cargo shipped from the region's three main marine cargo terminals in 2008. The cargo volume shipped in 2008 increased by 20.02% over the past five years. As a result of the events of September 11th, concern for security risk has increased. The Port of Virginia is one of the few U.S. Customs ports utilizing a computerized, truck-mounted gamma-ray machine to check containers' density. This technology allows monitors to ensure that the cargo being tested is what it is supposed to be and takes only six seconds per container.

Table V-13
Virginia Port Authority Terminals
General Cargo Tonnage
Calendar Years 2004 – 2008

Calendar Year	Total General Cargo Tonnage (000's)	Percent Change over Previous Year
2004	14,858	6.25%
2005	15,964	7.44%
2006	16,583	3.88%
2007	17,726	6.89%
2008	17,833	0.60%

Source: Virginia Port Authority.

Port-related business increases at the Virginia International Terminals drive new capital investment into the region. By 2012, a 300-acre expansion of Norfolk International Terminal will be completed making 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 (America), Inc., one of the world's largest container transportation and shipping company;
- Portfolio Recovery Associates, a firm whose primary business is the purchase, collection and management of defaulted customer receivables; and
- BlackHawk Products Group, which provides tactical gear such as holsters, body armor, and backpacks to the U.S. Defense Department and law enforcement agencies throughout the world.

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

Table V-14
City of Norfolk, Virginia
Major Non-Government Employers in 3rd Quarter 2008

Company	Number of Employees	Product/Service
	1,000+	
Sentara Healthcare		Health Care Network
Children's Hospital of the King's Daughter		Health Care Facilities
Old Dominion University		Education
Norfolk State University		Education
Medical College of Hampton Roads		Private College
Norshipco		Shipbuilders and Repairers
Bon Secours DePaul Medical Center		Health Care Facility
Bank of America Card Services Corp.		Banking and Credit Card Service Center
Portfolio Recovery Association		Financial Recovery Services
	500 – 999	
United Services Automobile Association		Insurance Support Center
Wal-Mart		Retail
Bank of America		Banking
Maersk Line Limited		Shipping Company
Virginia International Terminal		Ports
Landmark Communications, Inc.		Newspaper and Media
Sentara Health Management		Healthcare Network
The Titan Corporation		Communication System
Farm Fresh		Retail
ODU Research Foundation		Research
American Funds Service Company		Financial Services
Tidewater Community College		Education
Electronic Data Systems Corp		Systems Analysis and Design
Dominion Enterprises		Electronic Media
7-Eleven		Retail
Tidewater Wholesale Grocery		Retail
CooperVision Inc.		Contact Lens Manufacturing
Virginia Wesleyan College		Education
CP&O LLC		Port Services
McDonald's		Retail
CMA-CGM (America), Inc.		Shipping Company
	250 - 499	
Food Lion		Retail
Personal-Touch Home Care, Inc.		Comprehensive Home Care Services
Colonna's Shipyard		Ship Builders and Repairers
General Foam Plastics Corporation		Plastic Extractions
Lake Taylor Transitional, Inc.		Health Services
Office Team		Office Staffing Services
Amer-Force Craft Services, Inc.		Craft Labor to the Marine and Industrial Sectors
Metro Machine Corporation		Ship Builders and Repairers
Transit Management Company		Transportation

Source: Virginia Employment Commission.

Table V-15 is a representation of selected business and residential growth or expansion for the period 2008 - 2009.

Table V-15
City of Norfolk, Virginia
Business Growth
A Sampling of Business Activity in 2008-2009

Company	Type	E/N	C/D/A	Investment (mil)
201 Twenty-One	Mixed-use residential apartments & retail	N	D	\$ 40.00
Bay Village Condominiums	Senior only residences	N	A	\$ 15.00
Belmont at Freemason	Apartments	N	D	\$ 45.00
Capital Group/American Funds	Financial	E	D	\$ 8.00
CMA CGM	Americas Headquarters, shipping line	E	A	\$ 1.10
Commander Corporate Center	Second office building for spec	N	A	\$ 12.00
Compass Youth Services	9,000 sf office/flex space	E	C	\$ 0.75
Dominion Enterprises	Headquarters – Class A office space	E	C	\$ 51.00
East Beach Villas	Mixed-use retail / residential	N	C	n/a
EVMS	New education and research building	N	D	\$ 59.00
Fort Norfolk Plaza	Mixed-use medical office, retail	N	D	\$ 70.00
Ghent Station	Mixed-use Class A office, retail	N	D	\$ 30.00
Gold's Gym	Building rehabilitation and reuse	N	C	\$ 8.00
Grandy Village	Renovation and market rate waterfront residential	E	D	\$ 35.00
Hampton Inn	Hotel	N	A	\$ 20.00
Harbor Heights	Mixed-use residential, grocery and TCC offices	N	C	\$ 38.00
Harris Teeter Expansion	Demolition of existing and construction of new grocery store	E	A	n/a
Kroc Center	Community center	N	A	\$ 84.00
Lamberts Point	Recreation facility	N	C	\$ 7.60
La Quinta	Hotel	N	C	\$ 8.00
Midtown Office Tower	New office tower	N	A	\$ 27.00
New Cranes at NIT	Arrived May 08 (3)	N	C	\$ 24.00
Norfolk State University (NSU)	Library and student center	N	A	\$ 75.00
Old Dominion University (ODU)	Innovations Research Park II	N	D	\$ 22.50
Old Dominion University (ODU)	Allocated from Governor's budget request	N	A	\$ 86.00
Old Dominion University (ODU)	Bookstore	N	C	\$ 8.50
Old Dominion University (ODU)	Art galleries and parking deck	N	C	\$ 11.00
Old Dominion University (ODU)	Student fitness center	N	C	\$ 28.00
Old Dominion University (ODU)	Football stadium renovation and new parking garage	E	D	\$ 24.80
Old Point National Bank	New branch office in Ghent	E	C	\$ 2.80
P & P, LLC	Office/flex (4th building on site)	E	D	\$ 1.00
Residence Inn by Marriott	Extended-stay hotel	N	C	\$ 35.00
Riverside Terrace / Westport	Phasing townhouses and condominiums	N	D	\$ 80.00
Sentara Offices	48,000 sq ft office Poplar Halls	N	C	\$ 9.00
Sheraton Hotel	Renovation	E	C	\$ 32.00
SouthWind Apartment Community	120 apartments	N	C	\$ 15.00
SpringHill Suites by Marriott	Hotel	N	C	\$ 11.00
TCC	Student center	N	A	\$ 17.60
The Franklin	Mixed-use upscale condominiums and professional offices	N	C	\$ 15.00
The Market at Ghent	Expansion to existing Farm Fresh store	E	C	\$ 3.00
The River House Apartments	197 apartments	N	D	\$ 36.00
The Tide	Light Rail starter system	N	D	\$ 288.00
U.S. Gypsum	Manufactures building materials	E	C	\$ 132.00
Villages at Broad Creek	Residential/retail	N	A	\$ 82.00
Virginia Arts Festival Headquarters	Offices and rehearsal studios	N	A	\$ 3.50
Virginia Zoo	Trail of the Tiger	E	D	\$ 12.00
Wells Fargo Center	Mixed-use Class A office, retail and residential	N	D	\$ 170.00
Wal-Mart Neighborhood Grocery	Renovation to old grocery store	N	C	\$ 30.00
Westin Hotel & Conference Center	Hotel and conference center	N	D	\$ 150.00

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

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

Military

The presence of the military in Norfolk has a significant impact on the local economy. The City is the home of the world's largest naval complex, with headquarters for Commander in Chief of U.S. Atlantic Command, NATO's Supreme Allied Command Atlantic, Commander in Chief U.S. Atlantic Fleet and other major naval commands. Hampton Roads is the largest center of Coast Guard units in the world with the Atlantic Area Command and Maritime Defense Zone Atlantic in Portsmouth and its Maintenance & Logistic Command Atlantic headquarters in downtown Norfolk.

The U.S. Navy's direct economic impact on the region was \$13.9 billion in 2007, comprised of a total annual payroll of \$7.8 billion and the balance consumed on goods and services and procurement contracts. The City expects to continue as a center of activity for the U.S. Navy with current total personnel (military and civilian) in excess of 69,000. There were 80,389 active-duty U.S. Navy military personnel in Hampton Roads in 2007, of which 68% were assigned to Norfolk.

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

Although the military remains a key part of Hampton Roads' economy, the region has successfully diversified its economy in recent years.

APPENDIX A

CITY OF NORFOLK, VIRGINIA
GENERAL PURPOSE FINANCIAL
STATEMENTS FOR THE FISCAL YEAR
ENDED JUNE 30, 2008

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KPMG LLP
Suite 2100
999 Waterside Drive
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, 2008, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 opinion.

In our opinion, based on our audit, 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 as of June 30, 2008, 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.

The Management's Discussion and Analysis and the other required supplementary information are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

January 16, 2009

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**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

(Unaudited)



CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2008

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, 2008. 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.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of fiscal year 2008 by \$739,075,748 (net assets). Of this amount, \$163,303,320 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors. Although total net assets decreased by \$33,524,698, unrestricted net assets increased \$1,451,232.
- As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$234,364,237, an increase of \$37,432,904 in comparison with the prior year. This increase was primarily attributable to the Capital Project's fund receiving over \$134 million from the sale of capital improvement bonds during the fiscal year. Approximately \$134,793,000 is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, the total unreserved fund balance for the general fund was \$56,301,954 or 6.94 percent of the general fund budget.
- The City's total outstanding bonded indebtedness increased by \$174,405,878 during the current fiscal year.

Overview of the Financial Statements

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

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,

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2008

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") and the Norfolk Community Services Board ("CSB"). Financial information for these component units is reported separately from the financial information presented for the primary government and can be found on pages 28 - 29 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

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2008

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 16 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 its various 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 19-22 of this report.

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

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

Internal service funds are an accounting mechanism to accumulate and allocate costs internally among the City's functions. The City has two internal service funds, Fleet Maintenance 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 23-25 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

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2008

Commonwealth of Virginia agency fund and another 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 26-27 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 30.

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 83-86 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented on pages 87-90 of this report.

Government-wide Financial Analysis

Over time, net assets may serve as a useful indicator of the City's financial position. In the case of the City, assets exceeded liabilities by \$739,075,748.

By far, the largest portion of the City's net assets, \$566,376,338 is its investment in capital assets (e.g., land, buildings, machinery, and equipment) less any outstanding debt related to acquiring the 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 1.3 percent represent resources that are subject to external restrictions on how they may be used. The remaining balance of \$163,303,320 of unrestricted net assets may be used to meet the City's ongoing obligations to citizens and creditors.

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2008

Summary of the City of Norfolk's Net Assets

	Governmental Activities		Business-Type Activities		Totals	
	2008	2007	2008	2007	2008	2007
Current and Other Assets	\$ 332,622,875	\$ 271,839,863	\$ 139,159,421	\$ 84,433,802	\$ 471,782,296	\$ 356,273,665
Capital Assets	827,222,677	797,437,136	737,541,174	708,201,560	1,564,763,851	\$ 1,505,638,696
Total Assets	<u>1,159,845,552</u>	<u>1,069,276,999</u>	<u>876,700,595</u>	<u>792,635,362</u>	<u>2,036,546,147</u>	<u>1,861,912,361</u>
Long-Term Liabilities	668,105,265	557,590,347	546,309,678	467,437,702	\$ 1,214,414,943	\$ 1,025,028,049
Other Liabilities	68,760,430	44,488,570	14,295,026	19,795,296	83,055,456	\$ 64,283,866
Total Liabilities	<u>736,865,695</u>	<u>602,078,917</u>	<u>560,604,704</u>	<u>487,232,998</u>	<u>1,297,470,399</u>	<u>1,089,311,915</u>
Net Assets:						
Invested in Capital Assets						
Net of Related Debt	325,172,979	332,987,759	241,203,359	268,503,204	566,376,338	\$ 601,490,963
Restricted	6,890,090	6,731,395	2,506,000	2,526,000	9,396,090	\$ 9,257,395
Unrestricted	90,916,788	127,478,928	72,386,532	34,373,160	163,303,320	\$ 161,852,088
Total Net Assets	<u>\$ 422,979,857</u>	<u>\$ 467,198,082</u>	<u>\$ 316,095,891</u>	<u>\$ 305,402,364</u>	<u>\$ 739,075,748</u>	<u>\$ 772,600,446</u>

For governmental activities, total net assets decreased by \$44,218,225 or 9.5 percent overall during the current fiscal year. Factors that contributed to a change in total governmental net assets include: an increase in governmental fund balances of \$37,432,904 (19.0 percent), an increase in internal service fund net assets of \$548,711 (5.0 percent) and an increase in capital assets net of accumulated depreciation of \$29,902,725 (3.8 percent). The overall decrease in total government net assets was driven by increased liabilities of \$112,102,565 (21.1 percent). These liabilities primarily reflect the increase in bonds payable for the governmental funds of \$107,702,962 (18.2 percent) as the City issued bonds during the year based on cash flow requirements for capital projects.

For business-type activities, net assets increased by \$10,693,527 or 3.5 percent during the fiscal year. Of this amount, \$5,528,958, \$5,444,499 and \$(279,930) are changes attributed to the Water Utility, the Wastewater Utility and the Parking Facilities funds, respectively.

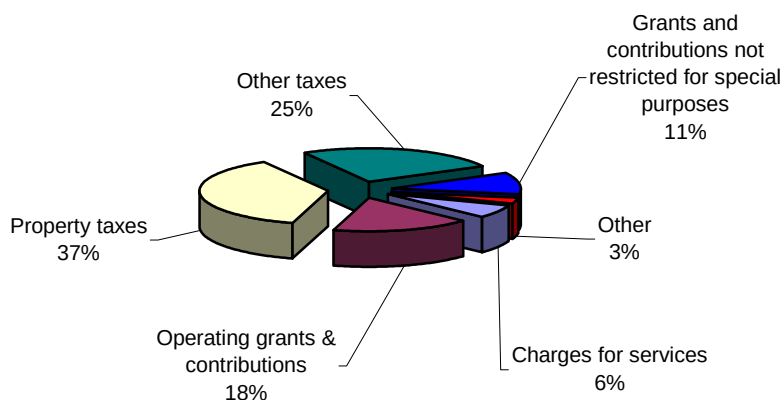
Key programmatic and functional elements of these changes in government wide net assets are demonstrated on the following page:

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2008

Changes in the City of Norfolk's Net Assets

	Governmental Activities		Business-Type Activities		Totals	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program Revenues:						
Charges for Services	\$ 40,198,559	\$ 37,250,718	\$ 119,582,149	\$ 113,729,454	\$ 159,780,708	\$ 150,980,172
Operating Grants & Contributions	112,960,555	115,779,248	-	-	112,960,555	115,779,248
Capital Grants & Contributions	-	-	219,018	730,636	219,018	730,636
General Revenues:						
Property Taxes	240,488,270	241,314,836	-	-	240,488,270	241,314,836
Other Taxes	162,573,293	159,119,198	-	-	162,573,293	159,119,198
Grants and Contributions not restricted for specific purposes	69,352,075	66,524,258	-	-	69,352,075	66,524,258
Other	17,250,107	11,447,155	6,134,674	6,620,027	23,384,781	18,067,182
Total Revenues	642,822,859	631,435,413	125,935,841	121,080,117	768,758,700	752,515,530
Expenses:						
General Government	113,141,978	113,279,140	-	-	113,141,978	113,279,140
Judicial Administration	48,593,034	46,943,748	-	-	48,593,034	46,943,748
Public Safety	126,608,878	111,803,398	-	-	126,608,878	111,803,398
Public Works	118,887,770	119,176,252	-	-	118,887,770	119,176,252
Health and Public Assistance	95,233,711	93,774,433	-	-	95,233,711	93,774,433
Culture and Recreation	56,889,946	52,965,158	-	-	56,889,946	52,965,158
Community Development	15,345,403	14,771,583	-	-	15,345,403	14,771,583
Education	101,094,910	97,594,910	-	-	101,094,910	97,594,910
Interest on Long-Term Debt	21,457,483	19,618,419	-	-	21,457,483	19,618,419
Water Utility	-	-	64,876,844	60,510,576	64,876,844	60,510,576
Wastewater Utility	-	-	18,614,267	17,377,348	18,614,267	17,377,348
Parking	-	-	21,539,174	18,861,388	21,539,174	18,861,388
Total Expenses	697,253,113	669,927,041	105,030,285	96,749,312	802,283,398	766,676,353
Increase (decrease) in Net Assets before Transfers	(54,430,254)	(38,491,628)	20,905,556	24,330,805	(33,524,698)	(14,160,823)
Transfers	10,212,029	10,988,120	(10,212,029)	(10,988,120)	-	-
Increase (decrease) in Net Assets	(44,218,225)	(27,503,508)	10,693,527	13,342,685	(33,524,698)	(14,160,823)
Net Assets Beginning of Year	467,198,082	494,701,590	305,402,364	292,059,679	772,600,446	786,761,269
Net Assets End of Year	\$ 422,979,857	\$ 467,198,082	\$ 316,095,891	\$ 305,402,364	\$ 739,075,748	\$ 772,600,446

Governmental Activities: Revenues by Source



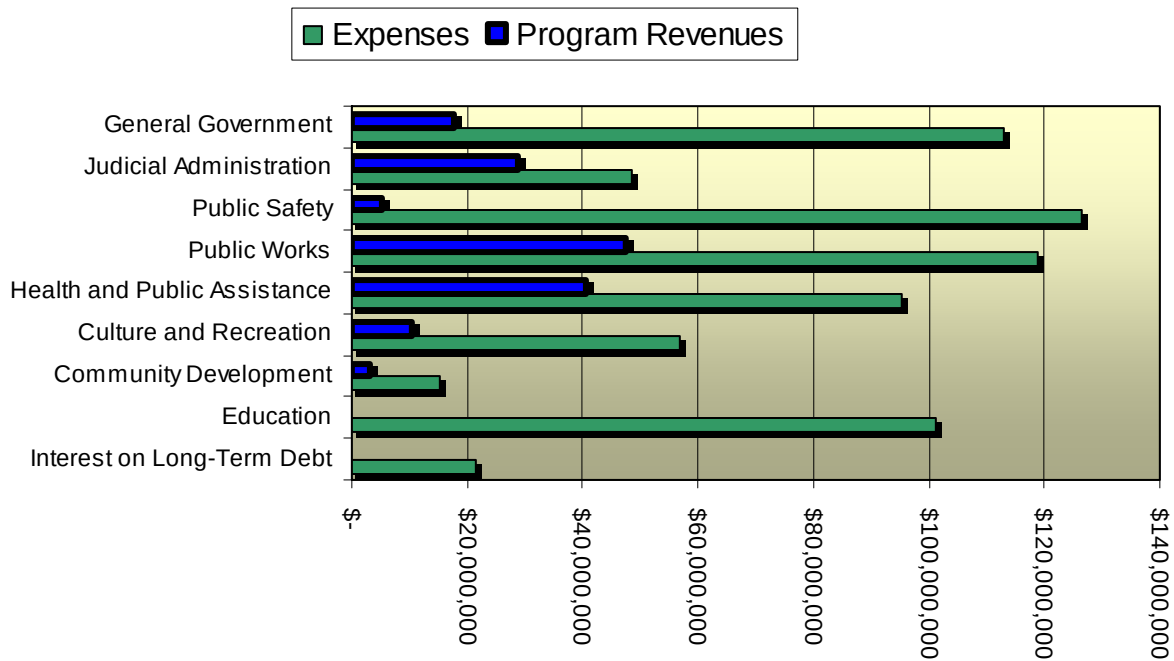
CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2008

Governmental Activities – Property taxes and other tax revenues increased 0.66 percent to \$403,061,563 and comprise 62.70 percent of total governmental revenues.

Operating grants and contributions for governmental activities ended the fiscal year at \$112,960,555 a decrease of \$2,818,693 over the prior year. Grants and contributions not restricted for specific programs represent intergovernmental grants and contributions from State and federal agencies. For the 2008 fiscal year, the City reported \$69,352,075 in grants and contributions not restricted for specific programs.

Depreciation expense for governmental activities of \$72,808,342 was recorded.

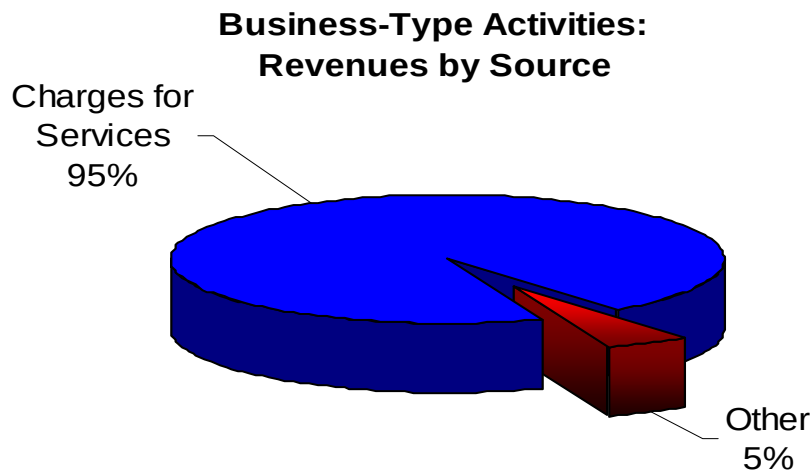
Governmental Activities
Expenses and Program Revenues



CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2008

Business-type Activities – Business-type activities increased the City's net assets by \$10,693,527. Key elements of this change are as follows:

- Revenue from charges for services for business-type activities increased by 5.15 percent. The Water and Wastewater Utility funds account for this increase.
- Water utility and wastewater utility charges for services increased \$4,424,056 and \$2,602,927, respectively, due to rate increases and an additional water wholesale customer. 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 \$0.12/100 cubic feet and \$0.11/100 cubic feet, respectively. Water consumption and wastewater volumes did not increase appreciably during the fiscal year.
- Parking revenues decreased \$1,174,288 or 5.44 percent from the prior year, primarily as a result of closure of certain locations during construction of two new parking garages that will add additional capacity to the system in future years.



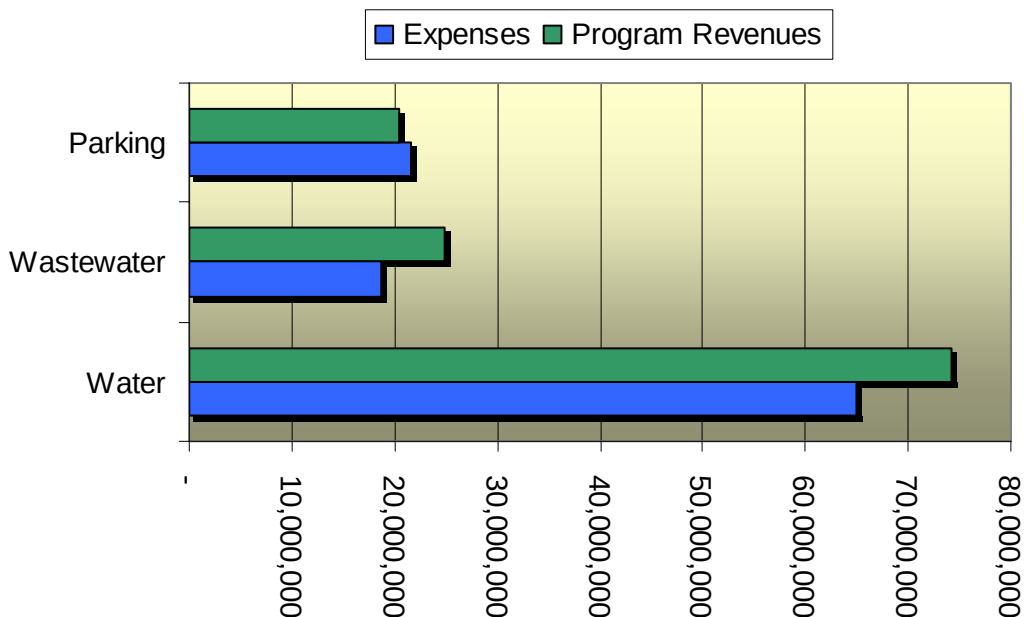
Operating expenses for Business type activities increased overall by \$5,465,319 or 7.20 percent.

The Water Utility fund increased operating expenses \$4,205,191 primarily a result of increase of energy and chemical costs. Energy increased 22 percent while chemicals increased 3 percent from the previous year. Management increased the allowance for bad debt in both the Water and the Wastewater utility funds to reflect the potential impact of the rate increases noted above and challenging economic environment facing many customers.

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2008

Overall, operating expenses in the Wastewater Utility fund were level from the prior year after a \$1,315,831 reduction in plant operations due to a decrease in major emergency repairs to pipes and pumps and other one-time expenses in the prior fiscal year. The reduction in plant operation expenses was offset by an increase of \$1,256,613 in noncash expenses, provision for bad debts, depreciation, and other reserves, related to the increase in net capital assets reflecting the fund's continued improvement of the wastewater system.

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



Financial Analysis of the Government's Funds

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

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

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2008

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$234,364,237, an increase of \$37,432,904 or 19.0 percent. Of the total ending fund balance, \$99,571,442 or 42.5 percent is reserved. The reserved fund balance is that portion of the fund balance that is not available for new spending because it has already been committed to 1) liquidate contracts and purchase orders (\$92,681,352), 2) to generate income to pay for the perpetual care of the municipal cemetery (\$6,293,375) and 3) for a variety of other restricted purposes (\$596,715). The remaining \$134,792,795 or 57.5 percent of ending fund balance in the City's governmental funds is available for spending at the government's discretion.

The City's primary governmental fund is its general fund. As a matter of fiscal policy, the City undesignated, unreserved fund balance is equal to five percent of the general government's and School Board's annual operating budgets, or \$40,536,112. The City designated \$15,765,842 of its fund balance for future expenditures related to a potential general economic downturn and for its self-insured workers' compensation and general liability programs.

For the general fund, on the budgetary basis of accounting, the City ended the fiscal year with revenues below projections by \$3,996,265. Total expenditures were less than appropriations by \$5,484,459.

General fund financial and budgetary highlights of the 2008 fiscal year include:

- As a result of strong housing and commercial property markets, current and delinquent real property tax revenues exceeded budgetary projections by \$3,421,450;
- Other local tax collections were less than budgetary projections by \$3,165,827. A significant portion of this shortfall was created from weaker collections from sales and business license taxes. Communications taxes were greater than anticipated by \$1,619,360 primarily as a result of improvements in collections from telecommunications companies at the state level;
- Aid from the Commonwealth for local law enforcement, Virginia Juvenile Community Crime Control Act, maintenance of roads affected by Virginia Port activities, and shared expenses for the constitutional officers were less than budgetary projections by \$1,012,183 as a result of the Governor's October budget reduction plan to address a \$641 million state budget shortfall in the current biennium;
- Aid from the Commonwealth for education was less than budgetary projections by \$1,616,890 as a result of lower growth in sales tax collections for education at the statewide level. The state had the weakest annual increase in sales tax collections since 2003 fiscal year; and
- Federal categorical aid in support of the school system was \$1,179,159 less than budgetary projections due to fewer enrolled students.

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2008

- Expenditure savings included savings from refuse disposal costs due to lower tonnage and savings that occurred in the debt service budget due to timing of bond payments. Expenditure increases were slightly offset by increases in Police and Fire and Rescue overtime costs. Planned expenditure savings of \$3.0 million will be used to supplement the Fiscal Year 2009 budget.

Supplemental appropriations or amendments of the total 2008 general fund budget were:

General Fund:

Approved Fiscal Year 2007-2008 budget	\$ 795,835,700
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Supplemental appropriations from additional revenue:

Anticipated revenue from Norfolk Redevelopment and Housing Authority for rent	300,000
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Supplemental appropriations from general fund fund balance:

Additional funds appropriated from fund balance for various programs	9,186,521
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Additional funds appropriated to cover costs associated with capital improvement increases	5,400,000
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Total supplemental appropriations	14,886,521
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Final budget	\$ 810,722,221
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The Capital Projects fund, another major governmental fund, expended \$111,425,875 on major capital improvements during the fiscal year. The fund had a total fund balance of \$121,690,475. In the 2008 fiscal year, the City sold \$134,342,471 in general obligation bonds to fund these expenditures.

The Debt Service fund does not have any assets, liabilities or net assets at fiscal year end. During the year \$58,921,220 were transferred in from various funds to pay for an equal amount of debt service requirements.

Proprietary Funds – The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

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, amounted to \$566,376,338. The investment in capital assets includes land, buildings, improvements, infrastructure (streets, roads, bridges, highways, etc) machinery, and equipment. Infrastructure assets represent 31.18 percent of total general governmental assets.

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2008

Some of the major capital asset events during the current fiscal year include:

- Commencement of construction on the City's 7.4 mile light rail project;
- Acquisition of property to support strategic development projects for over \$10 million to include Southside initiatives and rights-of-way for light rail development;
- Acquisition of the historic Seaboard building and preparing it to become the site of the new downtown main library, investing over \$7 million;
- Expending over \$3 million to complete the new Pretlow Anchor Branch Library, which opened during the fiscal year;
- Investment of well over \$4 million in upgraded Police Training Facilities;
- Nearly \$2 million in continued Atlantic City / Fort Norfolk infrastructure improvements;
- Investment of nearly \$6 million during the year for the Norview Recreation Center;
- Expenditures of \$3 million toward the replacement of Coleman Place Elementary and nearly \$8 million overall in total school-related capital projects;
- \$6 million of various neighborhood conservation efforts continued in the City;
- \$3 million of infrastructure improvements were continued at the City's Broad Creek Renaissance neighborhood revitalization area and another \$3 million towards the Kroc Center development;
- Investment of \$6 million in maintenance and repairs to various bridges throughout the City; and
- Infrastructure improvements related to the downtown conference center continued. During the year, the City spent nearly \$3 million on such improvements.

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

	Governmental Activities		Business-Type Activities		Totals	
	2008	2007	2008	2007	2008	2007
Land	\$ 40,351,264	\$ 37,896,651	\$ 48,287,029	\$ 43,099,824	\$ 88,638,293	\$ 80,996,475
Buildings & equipment	398,558,052	351,956,487	632,012,058	617,086,005	\$1,030,570,110	\$ 969,042,492
Improvements other than buildings	16,418,778	14,779,778	4,203,933	4,338,874	\$ 20,622,711	\$ 19,118,652
Construction in progress	114,761,897	99,768,040	53,038,154	43,676,857	\$ 167,800,051	\$ 143,444,897
Infrastructure	257,132,686	293,036,180	-	-	\$ 257,132,686	\$ 293,036,180
Total	<u>\$ 827,222,677</u>	<u>\$ 797,437,136</u>	<u>\$ 737,541,174</u>	<u>\$ 708,201,560</u>	<u>\$1,564,763,851</u>	<u>\$1,505,638,696</u>

Additional information on the City's capital assets can be found in Note VII on pages 49-50 of this report.

Long-term Debt – At June 30, 2008 the City (including the enterprise funds) had total bonded debt outstanding of \$1,116,049,069. Of this amount, \$695,230,236 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).

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2008

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

City of Norfolk's Bonded Debt

	Governmental Activities		Business-Type Activities		Totals	
	2008	2007	2008	2007	2008	2007
General obligation bonds	\$ 571,138,165	\$ 469,498,450	\$ 124,092,071	\$ 107,310,741	\$ 695,230,236	\$ 576,809,191
Revenue bonds		-	420,818,833	364,834,000	420,818,833	364,834,000
Total	<u>\$ 571,138,165</u>	<u>\$ 469,498,450</u>	<u>\$ 544,910,904</u>	<u>\$ 472,144,741</u>	<u>\$1,116,049,069</u>	<u>\$ 941,643,191</u>

The City's total debt outstanding increased by \$174,405,876 (18.52 percent) during the current fiscal year. The City issues debt, in part, based on its cash flow capital needs which is the primary factor for this increase.

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

- Bonded debt service requirements will not exceed ten 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:

Bonding Program	Fitch Ratings	Standard and Poor's	Moody's Investors Service
General Obligation	AA	AA	A1
Water Revenue	AA	AA+	A1

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

State statutes limit the amount of general obligation debt the City may issue to ten percent of its total assessed valuation. The current debt limitation for the City is \$1,840,185,107 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 51-61 of this report.

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2008

Economic Factors and Next Year's Budgets and Rates

- Taxable assessments for commercial and housing property markets are projected to continue to expand in the 2009 fiscal year by 5.5 percent;
- Other local taxes have not experienced a significant downturn and some are predicted to slightly increase. The following reflects major other tax change projections:
 - o Sales taxes – 0.3 percent decrease;
 - o Business license taxes – no change;
 - o Restaurant food taxes – 3.1 percent increase;
 - o Hotel and motel tax – 8.4 percent increase; and
- Rate increases for both the Water and Wastewater utility funds continue to provide necessary funding to finance capital improvements.

All of these factors were considered in preparing the City's budget for fiscal year 2009.

The City appropriated \$6,895,800 of its General Fund balance for use in the fiscal year 2009 budget for non-recurring types of expenditures.

There were no changes in tax rates for the 2009 fiscal year. The following represents changes in fees implemented with the budget for the 2009 fiscal year:

Description	FY 2009 Approved	FY 2008 Approved
Wastewater Fees	\$2.89/100 cubic feet	\$2.78/100 cubic feet
Water Fees	\$3.61/100 cubic feet	\$3.49/100 cubic feet
Stormwater Fees – Residential	\$8.09/month	\$7.83/month
Stormwater Fees – Commercial	\$5.54/month per 2,000 sq. ft.	\$5.39/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 and Business Services, 810 Union Street, Suite 600, Norfolk, Virginia, 23510.

BASIC FINANCIAL STATEMENTS



CITY OF NORFOLK, VIRGINIA

Exhibit 1

Statement of Net Assets

June 30, 2008

	Primary Government			
	Governmental	Business-Type		Component
	Activities	Activities	Total	Units
ASSETS				
Cash and short term investments	\$ 93,847,216	\$ 44,852,932	\$ 138,700,148	\$ 16,227,468
Restricted cash held with fiscal agent	-	10,437,283	10,437,283	-
Investments	131,209,629	-	131,209,629	4,229,827
Receivables, net				
Taxes	45,118,526	-	45,118,526	-
Accounts	7,967,148	18,127,086	26,094,234	1,697,413
Notes	47,276	-	47,276	-
Accrued investment income	9,811	122,377	132,188	28,848
Other	-	232,754	232,754	489,544
Internal balances	13,828,083	(13,828,083)	-	18,740,077
Due from other governments	31,227,329	-	31,227,329	28,597,518
Prepaid expenses	15,500	-	15,500	-
Inventories	2,259,838	2,193,762	4,453,600	971,548
Restricted cash and investments	92,519	76,677,594	76,770,113	-
Other assets	7,000,000	343,716	7,343,716	76,917
Non-depreciable capital assets	155,113,161	101,325,183	256,438,344	487,500
Depreciable capital assets, net	672,109,516	636,215,991	1,308,325,507	72,481,817
Total assets	1,159,845,552	876,700,595	2,036,546,147	144,028,477
LIABILITIES				
Vouchers payable	20,290,390	5,181,391	25,471,781	11,846,993
Employees withholdings	870,818	-	870,818	-
Contract retainage	1,592,317	1,360,149	2,952,466	86,243
Accrued interest	6,918,429	3,057,650	9,976,079	-
Accrued payroll	4,999,890	443,382	5,443,272	25,969,489
Accrued expenses	5,959	-	5,959	-
Due to other agencies	-	-	-	2,342,465
Due to other governments	8,336,364	-	8,336,364	-
Due to other primary gov/component units	18,740,077	-	18,740,077	-
Other current liabilities	6,413,208	1,474,289	7,887,497	45,718
Unearned revenue	592,978	-	592,978	274,322
Liabilities payable from restricted assets	-	2,778,165	2,778,165	-
Long-term liabilities				
Due within one year	97,255,214	27,350,757	124,605,971	4,883,405
Due in more than one year	570,850,051	518,958,921	1,089,808,972	10,738,496
Total liabilities	736,865,695	560,604,704	1,297,470,399	56,187,131
NET ASSETS				
Invested in capital assets, net of related debt	325,172,979	241,203,359	566,376,338	72,969,317
Restricted for:				
Perpetual care - nonexpendable	6,293,375	-	6,293,375	-
Capital projects	36,715	2,506,000	2,542,715	960,653
Retirees' life insurance-future expenditures	560,000	-	560,000	-
Other programs	-	-	-	157,132
Unrestricted	90,916,788	72,386,532	163,303,320	13,754,244
Total net assets	\$ 422,979,857	\$ 316,095,891	\$ 739,075,748	\$ 87,841,346

CITY OF NORFOLK, VIRGINIA

Exhibit 2

**Statement of Activities
For the Year Ended June 30, 2008**

Program Revenues					Net (Expense) Revenue and Changes in Net Assets			
Functions/Programs	Expenses	Charges for Services	Operating	Capital Grant	Governmental Activities	Primary Government		Component Units
			Grant Contributions	Contributions		Business-Type Activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 113,141,978	\$ 2,169,244	\$ 15,537,696	\$ -	\$ (95,435,038)	\$ -	\$ (95,435,038)	\$ -
Judicial administration	48,593,034	931,061	27,776,138	-	(19,885,835)	-	(19,885,835)	-
Public safety	126,608,878	2,306,858	2,936,690	-	(121,365,330)	-	(121,365,330)	-
Public works	118,887,770	27,156,019	20,250,555	-	(71,481,196)	-	(71,481,196)	-
Health and public assistance	95,233,711	165,891	40,401,273	-	(54,666,547)	-	(54,666,547)	-
Culture and recreation	56,889,946	6,709,869	3,649,255	-	(46,530,822)	-	(46,530,822)	-
Community development	15,345,403	759,617	2,408,948	-	(12,176,838)	-	(12,176,838)	-
Education	101,094,910	-	-	-	(101,094,910)	-	(101,094,910)	-
Interest on long-term debt	21,457,483	-	-	-	(21,457,483)	-	(21,457,483)	-
Total governmental activities	697,253,113	40,198,559	112,960,555	-	(544,093,999)	-	(544,093,999)	-
Business-type activities:								
Water	64,876,844	74,239,988	-	175,778	-	9,538,922	9,538,922	-
Wastewater	18,614,267	24,917,036	-	43,240	-	6,346,009	6,346,009	-
Parking facilities	21,539,174	20,425,125	-	-	-	(1,114,049)	(1,114,049)	-
Total business-type activities	105,030,285	119,582,149	-	219,018	-	14,770,882	14,770,882	-
Total primary government	802,283,398	159,780,708	112,960,555	219,018	(544,093,999)	14,770,882	(529,323,117)	-
Component units:								
Norfolk Public Schools	379,570,982	6,250,202	224,042,387	8,940,943				\$ (140,337,450)
Community Services Board	23,944,721	7,240,138	12,953,441	-				(3,751,142)
Total component units	\$ 403,515,703	\$ 13,490,340	\$ 236,995,828	\$ 8,940,943				(144,088,592)
General revenues:								
Taxes:								
General property taxes - real estate and personal property					240,488,270	-	240,488,270	-
Consumers' utility taxes					46,582,343	-	46,582,343	-
Sales and use taxes					31,791,070	-	31,791,070	-
Restaurant food taxes					28,757,646	-	28,757,646	-
Business license taxes					26,343,065	-	26,343,065	-
Hotel/Motel taxes					8,369,738	-	8,369,738	-
Cigarette taxes					7,576,528	-	7,576,528	-
Admissions taxes					3,904,592	-	3,904,592	-
Motor vehicle licenses					3,498,262	-	3,498,262	-
Franchise, recordation and other miscellaneous local taxes					5,750,049	-	5,750,049	-
Interest and investment earnings					5,307,113	3,046,304	8,353,417	2,837,167
Grants and contributions not restricted to specific programs					69,352,075	-	69,352,075	-
Miscellaneous					11,880,653	3,088,370	14,969,023	90,870
Gain (loss) from sale of assets					62,341	-	62,341	(16,189)
Commonwealth of Virginia					-	-	-	32,292,231
Payment from primary government					-	-	-	104,795,910
Transfers					10,212,029	(10,212,029)	-	-
Total general revenues and transfers					499,875,774	(4,077,355)	495,798,419	139,999,989
Changes in net assets					(44,218,225)	10,693,527	(33,524,698)	(4,088,603)
Net assets - beginning					467,198,082	305,402,364	772,600,446	91,929,949
Net assets - ending					\$ 422,979,857	\$ 316,095,891	\$ 739,075,748	\$ 87,841,346

CITY OF NORFOLK, VIRGINIA
Balance Sheet - Governmental Funds
June 30, 2008

Exhibit A-1

	Major Funds			Non-major	Total
	General	Capital	Debt	Governmental	Governmental
	Fund	Projects	Service	Funds	Funds
ASSETS					
Cash and short term investments	\$ 51,735,145	\$ -	\$ -	\$ 37,717,075	\$ 89,452,220
Investments	-	131,137,629	-	72,000	131,209,629
Receivables, net					
Taxes	45,118,526	-	-	-	45,118,526
Accounts	2,531,218	-	-	5,019,830	7,551,048
Notes	47,276	-	-	-	47,276
Accrued investment income	9,811	-	-	-	9,811
Due from other funds	4,113,067	12,120,834	-	6,826,381	23,060,282
Due from other governments	22,159,547	-	-	9,067,782	31,227,329
Prepaid expenses	-	-	-	15,500	15,500
Deposit with contractors	-	89,435	-	3,084	92,519
Other assets	-	7,000,000	-	-	7,000,000
Total assets	<u>\$ 125,714,590</u>	<u>\$ 150,347,898</u>	<u>\$ -</u>	<u>\$ 58,721,652</u>	<u>\$ 334,784,140</u>
LIABILITIES					
Vouchers payable	\$ 9,405,462	\$ 7,857,289	\$ -	\$ 2,463,593	\$ 19,726,344
Employee withholdings	870,818	-	-	-	870,818
Contract retainage	-	1,400,597	-	191,720	1,592,317
Accrued payroll	4,641,025	1,090	-	286,874	4,928,989
Accrued expenses	-	-	-	5,959	5,959
Due to other funds	6,648,265	678,703	-	1,717,796	9,044,764
Due to other governments	-	-	-	8,336,364	8,336,364
Due to component units	-	18,716,372	-	23,705	18,740,077
Unearned revenue	29,948,443	-	-	812,620	30,761,063
Other liabilities	6,229,389	3,372	-	180,447	6,413,208
Total liabilities	<u>57,743,402</u>	<u>28,657,423</u>	<u>-</u>	<u>14,019,078</u>	<u>100,419,903</u>
FUND BALANCES					
Reserved for:					
Encumbrances	11,109,234	57,185,721	-	24,386,397	92,681,352
Perpetual care	-	-	-	6,293,375	6,293,375
Capital projects	-	-	-	36,715	36,715
Retirees' life insurance - future expenditures	560,000	-	-	-	560,000
Unreserved, reported in:					
General Fund-Designated future expenditures	15,765,842	-	-	-	15,765,842
Capital Projects fund-Designated future expenditures	-	64,504,754	-	-	64,504,754
General Fund - Undesignated	40,536,112	-	-	-	40,536,112
Special Revenue Funds	-	-	-	13,986,087	13,986,087
Total fund balances	<u>67,971,188</u>	<u>121,690,475</u>	<u>-</u>	<u>44,702,574</u>	<u>234,364,237</u>
Total liabilities and fund balances	<u>\$ 125,714,590</u>	<u>\$ 150,347,898</u>	<u>\$ -</u>	<u>\$ 58,721,652</u>	<u>\$ 334,784,140</u>

CITY OF NORFOLK, VIRGINIA
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2008

Exhibit A-2

Fund balances--total governmental funds	\$	234,364,237
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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	2,028,006,435
	Depreciation expense to date	<u>(1,206,610,587)</u>
		821,395,848

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

	Adjustment for deferred revenue	30,168,085
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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	(573,138,165)
	Unamortized Bond premium	(19,573,547)
	Capital leases	(3,285,441)
	Retirement contribution	(23,585,256)
	Other post employment benefits	(5,439,766)
	Compensated absences	(15,570,842)
	Workers' compensation and claims liability	(25,059,306)
	Other	(1,803,692)
	Accrued interest payable	<u>(6,918,429)</u>
		(674,374,444)

Internal service funds		11,426,131
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Net assets of governmental activities	\$	<u><u>422,979,857</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, 2008

	Major Funds			Non-major	Total
	General	Capital	Debt	Governmental	Governmental
	Fund	Projects	Service	Funds	Funds
REVENUES					
General property taxes	\$ 238,739,614	\$ -	\$ -	\$ 2,550,300	\$ 241,289,914
Other local taxes	153,068,673	-	-	9,504,620	162,573,293
Permits and licenses	4,055,323	-	-	-	4,055,323
Fines and forfeitures	1,307,680	-	-	9,580	1,317,260
Use of money and property	7,208,529	973,784	-	2,379,763	10,562,076
Charges for services	19,937,632	-	-	20,221,028	40,158,660
Miscellaneous	4,792,166	7,130,254	-	6,000,862	17,923,282
Recovered costs	8,620,136	-	-	1,460	8,621,596
Intergovernmental	122,498,492	-	-	34,363,270	156,861,762
Total revenues	560,228,245	8,104,038	-	75,030,883	643,363,166
EXPENDITURES					
Current operating:					
General government	107,878,689	-	-	3,095,511	110,974,200
Judicial administration	46,015,225	-	-	1,316,062	47,331,287
Public safety	103,792,189	-	-	12,415,341	116,207,530
Public works	42,909,508	-	-	17,460,844	60,370,352
Health and public assistance	66,221,236	-	-	28,938,292	95,159,528
Culture and recreation	41,205,827	-	-	9,865,084	51,070,911
Community development	6,542,288	-	-	4,202,520	10,744,808
Education	101,094,910	-	-	-	101,094,910
Debt service:					
Principal	-	-	40,259,954	-	40,259,954
Interest and other charges	-	-	18,661,266	1,806,442	20,467,708
Capital outlay	-	111,425,875	-	2,580,980	114,006,855
Total expenditures	515,659,872	111,425,875	58,921,220	81,681,076	767,688,043
Excess (deficiency) of revenues over expenditures	44,568,373	(103,321,837)	(58,921,220)	(6,650,193)	(124,324,877)
OTHER FINANCING SOURCES (USES)					
Issuance of debt	11,320,660	134,342,471	-	-	145,663,131
Premium on bonds	-	5,785,280	-	-	5,785,280
Net appreciation	-	62,341	-	-	62,341
Transfers in	10,000,000	20,504,313	58,921,220	20,475,092	109,900,625
Transfers out	(86,197,266)	-	-	(13,456,330)	(99,653,596)
Total other financing sources and uses	(64,876,606)	160,694,405	58,921,220	7,018,762	161,757,781
Net changes in fund balances	(20,308,233)	57,372,568	-	368,569	37,432,904
Fund balances--beginning	88,279,421	64,317,907	-	44,334,005	196,931,333
Fund balances--ending	\$ 67,971,188	\$ 121,690,475	\$ -	\$ 44,702,574	\$ 234,364,237

CITY OF NORFOLK, VIRGINIA

Exhibit A-4

**Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balance to the Statement of Activities
For the Year Ended June 30, 2008**

Net change in fund balances--total governmental funds		\$ 37,432,904
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	102,666,692
	Subtract depreciation	(72,505,836)
		30,160,856
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the fund.		(761,745)
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 Asset.		
	Add debt repayment	40,341,765
	Transfer general obligation bonds to parking fund	3,423,520
	Premium on bond sale	5,785,280
	Principal increase in notes payable	(2,000,000)
	Accrued interest payable	(741,493)
	General obligation bond proceeds	<u>(151,448,411)</u>
		(104,639,339)
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)	(12,197,296)
	Principal paydown on capital leases	5,011,098
	Principal paydown on note payables	<u>226,586</u>
		(6,959,612)
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.		548,711
Change in net assets of governmental activities		<u><u>\$ (44,218,225)</u></u>

CITY OF NORFOLK, VIRGINIA
Statement of Fund Net Assets - Proprietary Funds
June 30, 2008

Exhibit B-1

	Business-Type Activities				Governmental Activities- Internal Service Funds
	Water	Waste- Water	Parking Facilities	Totals	
ASSETS					
Current assets:					
Cash and short term investments	\$ 27,469,306	\$ 2,836,730	\$ 14,546,896	\$ 44,852,932	\$ 4,394,996
Restricted cash held with fiscal agent	8,229,234	156,538	2,051,511	10,437,283	-
Receivables, net					
Accounts	7,875,823	3,095,876	1,023,534	11,995,233	416,100
Unbilled accounts	4,561,975	1,235,700	334,178	6,131,853	-
Accrued investment income	120,798	-	1,579	122,377	-
Other	230,000	2,754	-	232,754	-
Internal balances	-	-	-	-	88,400
Inventories	1,716,213	46,488	431,061	2,193,762	2,259,838
Other assets	-	-	343,716	343,716	-
Restricted cash and investments	43,468,734	28,041,294	5,167,566	76,677,594	-
Total current assets	93,672,083	35,415,380	23,900,041	152,987,504	7,159,334
Noncurrent assets:					
Capital assets:					
Land and improvements	36,480,589	22,335,760	42,508,834	101,325,183	415,000
Buildings and equipment	534,594,175	182,510,287	135,850,322	852,954,784	10,645,739
Accumulated depreciation	(135,042,141)	(41,711,085)	(39,985,567)	(216,738,793)	(5,233,910)
Capital assets, net	436,032,623	163,134,962	138,373,589	737,541,174	5,826,829
Total noncurrent assets	436,032,623	163,134,962	138,373,589	737,541,174	5,826,829
Total assets	529,704,706	198,550,342	162,273,630	890,528,678	12,986,163
LIABILITIES					
Current liabilities:					
Vouchers payable	2,053,695	1,425,964	1,701,732	5,181,391	564,046
Contract retainage	651,101	487,270	221,778	1,360,149	-
Accrued interest	265,200	772,900	2,019,550	3,057,650	-
Accrued payroll	265,440	107,073	70,869	443,382	70,901
Internal balances	2,097,679	6,697,093	5,033,311	13,828,083	275,835
Obligations for employees retirement system	1,496,116	479,392	400,866	2,376,374	308,160
Current portion of bonds payable	11,807,731	6,150,117	3,482,958	21,440,806	-
Liabilities payable from restricted assets	2,778,165	-	-	2,778,165	-
Compensated absences	657,900	218,163	119,899	995,962	237,649
Claims and judgments liability	2,537,615	-	-	2,537,615	-
Other current liabilities	550,571	341,059	582,659	1,474,289	-
Total current liabilities	25,161,213	16,679,031	13,633,622	55,473,866	1,456,591
Noncurrent liabilities:					
General obligations payable	10,539,072	96,702,854	6,960,191	114,202,117	-
Revenue bonds payable	309,969,201	7,359,833	85,604,396	402,933,430	-
Compensated absences	272,300	112,137	158,937	543,374	95,738
Other long-term liabilities	1,280,000	-	-	1,280,000	7,703
Total noncurrent liabilities	322,060,573	104,174,824	92,723,524	518,958,921	103,441
Total liabilities	347,221,786	120,853,855	106,357,146	574,432,787	1,560,032
NET ASSETS					
Invested in capital assets, net of related debt	115,739,567	80,476,182	44,987,610	241,203,359	5,819,126
Restricted - capital projects	-	-	2,506,000	2,506,000	-
Unrestricted	66,743,353	(2,779,695)	8,422,874	72,386,532	5,607,005
Total net assets	\$ 182,482,920	\$ 77,696,487	\$ 55,916,484	\$ 316,095,891	\$ 11,426,131

CITY OF NORFOLK, VIRGINIA

Exhibit B-2

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For Year Ended June 30, 2008

	Business-Type Activities				Governmental Activities Internal Service Funds
	Water	Waste- Water	Parking Facilities	Totals	
Operating revenues:					
Charges for services	\$ 74,239,988	\$ 24,917,036	\$ 20,425,125	\$ 119,582,149	\$ 16,036,060
Miscellaneous	2,915,980	172,390	-	3,088,370	115,675
Total operating revenues	77,155,968	25,089,426	20,425,125	122,670,519	16,151,735
Operating expenses:					
Personal services	13,120,146	4,479,932	7,769,824	25,369,902	3,486,882
Cost of goods sold	-	-	-	-	10,094,890
Plant operations	6,625,810	2,059,011	916,813	9,601,634	251,869
Chemicals	3,446,908	96,869	-	3,543,777	-
Provision for bad debts	710,185	577,686	-	1,287,871	15,672
Depreciation	11,096,511	3,702,273	3,873,999	18,672,783	302,506
Retirement and OPEB contribution	1,496,116	479,392	276,732	2,252,240	308,160
Administrative expenses	1,809,616	1,568,756	376,946	3,755,318	-
Other	12,350,421	3,290,566	1,214,656	16,855,643	1,267,142
Total operating expenses	50,655,713	16,254,485	14,428,970	81,339,168	15,727,121
Operating income, net	26,500,255	8,834,941	5,996,155	41,331,351	424,614
Nonoperating revenues (expenses):					
Interest income, net of interest capitalized	1,574,056	558,712	913,536	3,046,304	159,097
Interest expense and fiscal charges	(14,199,647)	(2,359,248)	(4,997,032)	(21,555,927)	-
Loss on sale or disposal of capital assets, net	(21,484)	(534)	(2,113,172)	(2,135,190)	-
Total nonoperating revenues (expenses)	(12,647,075)	(1,801,070)	(6,196,668)	(20,644,813)	159,097
Net income (loss) before contributions and transfers	13,853,180	7,033,871	(200,513)	20,686,538	583,711
Capital contribution	175,778	43,240	-	219,018	-
Transfers out	(8,500,000)	(1,632,612)	(79,417)	(10,212,029)	(35,000)
Changes in net assets	5,528,958	5,444,499	(279,930)	10,693,527	548,711
Total net assets - beginning	176,953,962	72,251,988	56,196,414	305,402,364	10,877,420
Total net assets - ending	\$ 182,482,920	\$ 77,696,487	\$ 55,916,484	\$ 316,095,891	\$ 11,426,131

CITY OF NORFOLK, VIRGINIA

Exhibit B-3

Statement of Cash Flows - Proprietary Funds
Year Ended June 30, 2008

	Business-Type Activities				Governmental Activities-- Internal Service Funds
	Water	Waste- Water	Parking Facilities	Total	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers	\$ 76,414,860	\$ 23,340,373	\$ 20,213,559	\$ 119,968,792	\$ 15,878,152
Payments to suppliers	(12,277,358)	(3,702,264)	(1,096,391)	(17,076,013)	(10,152,242)
Payments to employees	(14,612,069)	(4,920,109)	(7,977,273)	(27,509,451)	(3,870,043)
Other receipts (payments)	(12,238,464)	(4,889,340)	(1,068,358)	(18,196,162)	(1,163,242)
Net cash and short term investments provided by operating activities	37,286,969	9,828,660	10,071,537	57,187,166	692,625
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Internal activity	(11,745,048)	(3,507,605)	5,419,689	(9,832,964)	15,795
Operating subsidies and transfers to other funds	(8,500,000)	(1,632,612)	(79,417)	(10,212,029)	(35,000)
Net cash provided by (used in) noncapital financing activities	(20,245,048)	(5,140,217)	5,340,272	(20,044,993)	(19,205)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Proceeds from capital debt	59,226,015	43,515,845	3,857,692	106,599,552	-
Capital contributions	175,778	43,240	-	219,018	-
Purchases of capital assets	(15,732,538)	(21,242,014)	(13,428,092)	(50,402,644)	(289,222)
Purchases of other assets held for sale	(17,493)	-	-	(17,493)	-
Principal paid on capital debt	(11,577,746)	(5,031,831)	(3,554,453)	(20,164,030)	(2,510)
Interest paid on capital debt	(13,840,582)	(2,460,021)	(5,529,985)	(21,830,588)	-
Net cash provided by (used in) capital and related financing activities	18,233,434	14,825,219	(18,654,838)	14,403,815	(291,732)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Proceeds from sales and maturities of investments	28,810,994	17,435,798	5,401,977	51,648,769	-
Purchase of investments	(63,279,728)	(43,841,836)	(5,035,160)	(112,156,724)	-
Interest and dividends	1,541,345	558,712	919,629	3,019,686	159,097
Net cash provided by (used in) investing activities	(32,927,389)	(25,847,326)	1,286,446	(57,488,269)	159,097
Net increase (decrease) in Cash and short term investments	2,347,966	(6,333,664)	(1,956,583)	(5,942,281)	540,785
Cash and short term investments - beginning of the year	33,350,574	9,326,932	18,554,990	61,232,496	3,854,211
Cash and short term investments - end of the year	\$ 35,698,540	\$ 2,993,268	\$ 16,598,407	\$ 55,290,215	\$ 4,394,996
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:					
Operating income	\$ 26,500,255	\$ 8,834,941	\$ 5,996,155	\$ 41,331,351	\$ 424,614
Adjustments to reconcile operating income to net cash and short term investments provided by operating activities:					
Depreciation expense	11,096,511	3,702,273	3,873,999	18,672,783	302,506
Provision for bad debt	710,185	577,686	-	1,287,871	15,672
Loss on disposal of assets	-	-	-	-	103,900
Change in assets and liabilities:					
Receivables, net	(856,108)	(1,898,275)	(211,566)	(2,965,949)	(273,583)
Other receivables	115,000	149,222	-	264,222	-
Inventories	(215,037)	496	(64,814)	(279,355)	2,306
Other assets	-	-	(59,415)	(59,415)	-
Vouchers payable	(1,989,603)	(1,546,880)	(114,764)	(3,651,247)	192,211
Accrued payroll	(347,315)	(87,377)	(54,851)	(489,543)	21,124
Other liabilities	2,273,081	96,574	706,793	3,076,448	(96,125)
Net cash and short term investments provided by operating activities	\$ 37,286,969	\$ 9,828,660	\$ 10,071,537	\$ 57,187,166	\$ 692,625
Reconciliation of Cash and short term investments to the statement of net assets:					
Cash and short term investments	\$ 27,469,306	\$ 2,836,730	\$ 14,546,896	\$ 44,852,932	\$ 4,394,996
Restricted cash with fiscal agent	8,229,234	156,538	2,051,511	10,437,283	-
Total cash and short term investments per statement of net assets	\$ 35,698,540	\$ 2,993,268	\$ 16,598,407	\$ 55,290,215	\$ 4,394,996
Noncash investing, capital, and financing activities:					
Loss on sale or disposal of capital assets	\$ (3,991)	\$ (534)	\$ (2,113,172)	\$ (2,117,697)	\$ (103,900)
Acquisition of capital assets through change in contract retainage	\$ 186,023	\$ (248,815)	\$ 172,552	\$ 109,760	\$ -
Acquisition of capital assets through vouchers payable	\$ (440,122)	\$ (1,175,176)	\$ (1,232,988)	\$ (2,848,286)	\$ -
Capitalized interest, less interest earned on certain long-term construction contracts	\$ 564,336	\$ 684,368	\$ -	\$ 1,248,704	\$ -
Transfer of land and related debt from Capital projects fund	\$ -	\$ -	\$ 3,500,000	\$ 3,500,000	\$ -

CITY OF NORFOLK, VIRGINIA
Statement of Fiduciary Net Assets
June 30, 2008

Exhibit C-1

	Pension Trust Employees' Retirement System	Agency Funds
ASSETS		
Cash and short term investments	\$ 47,950,535	\$ 9,257,848
Investments, fair value		
Fixed income	340,821,012	-
Balanced commingled funds	95,672,865	-
Common stocks	79,512,677	-
Domestic equity funds	172,259,882	-
International equity funds	160,883,020	-
Receivables:		
Accounts, net of allowance for uncollectible accounts	-	1,045
Retirement contribution	25,667,556	-
Accrued investment income	2,496,290	-
Due from broker for securities sold	28,144,336	
Other	-	523,305
Total assets	<u>953,408,173</u>	<u>9,782,198</u>
LIABILITIES		
Vouchers payable	1,024,195	26,215
Due to brokers for securities purchased	72,186,529	-
Other liabilities	-	9,755,983
Total liabilities	<u>73,210,724</u>	<u>9,782,198</u>
NET ASSETS		
Reserved for:		
Assets held in trust for pension benefits	880,197,449	-
Total net assets	<u>\$ 880,197,449</u>	<u>\$ -</u>

CITY OF NORFOLK, VIRGINIA
Statement of Changes in Fiduciary Net Assets
Pension Trust Fund - Employees' Retirement System
For the Year Ended June 30, 2008

Exhibit C-2

	<u>2008</u>
Investment income (loss):	
Net appreciation (depreciation) in fair value	
of investments	\$ (76,409,412)
Interest	22,195,793
Dividends	10,013,324
Other	(117,841)
	<u>(44,318,136)</u>
Employer contributions	25,667,556
Less investment expense	(4,110,319)
Net investment loss	<u>(22,760,899)</u>
Benefits paid to plan members and beneficiaries	55,033,789
Refunds of contributions	26,228
Beneficiary payments	3,230,228
Administrative expenses	600,065
Total	<u>58,890,310</u>
Net decrease	(81,651,209)
Net assets held in trust for pension benefits:	
Beginning of year	961,848,658
End of year	<u><u>\$ 880,197,449</u></u>

CITY OF NORFOLK, VIRGINIA
Statement of Net Assets - Component Units
June 30, 2008

Exhibit D-1

	Norfolk Public Schools	Norfolk Community Services Board	Total
ASSETS			
Cash and short term investments	\$ 10,710,798	\$ 5,516,670	\$ 16,227,468
Cash held in escrow with fiscal agent	-	4,229,827	4,229,827
Receivables:			
Accounts, net of allowance for uncollectible accounts	942,278	755,135	1,697,413
Interest	-	28,848	28,848
Other	-	489,544	489,544
Due from primary government	18,716,372	23,705	18,740,077
Due from other governments	28,597,518	-	28,597,518
Inventories	971,548	-	971,548
Prepaid expenses	-	76,917	76,917
Capital assets, net	71,813,300	1,156,017	72,969,317
Total assets	<u>131,751,814</u>	<u>12,276,663</u>	<u>144,028,477</u>
LIABILITIES			
Vouchers payable	11,166,808	680,185	11,846,993
Contract retainage	86,243	-	86,243
Accrued payroll	25,532,796	436,693	25,969,489
Unearned revenue	274,322	-	274,322
Due to other agencies	2,342,465	-	2,342,465
Other deposits/liabilities	-	45,718	45,718
Other post employment benefits	2,255,000	-	2,255,000
Current vested compensated absences	585,754	882,311	1,468,065
Other current liabilities	199,723	960,617	1,160,340
Long-term vested compensated absences	9,007,465	259,230	9,266,695
Claims and judgments liability long-term	1,471,801	-	1,471,801
Total liabilities	<u>52,922,377</u>	<u>3,264,754</u>	<u>56,187,131</u>
NET ASSETS			
Invested in capital assets, net of related debt	71,813,300	1,156,017	72,969,317
Restricted for:			
Capital projects	960,653	-	960,653
Other programs	90,651	66,481	157,132
Unrestricted	5,964,833	7,789,411	13,754,244
Total net assets	<u>\$ 78,829,437</u>	<u>\$ 9,011,909</u>	<u>\$ 87,841,346</u>

CITY OF NORFOLK, VIRGINIA
Statement of Activities - Component Units
For the Year Ended June 30, 2008

Exhibit D-2

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grant Contributions	Capital Grant Contributions	Norfolk Public Schools	Community Services Board	Totals
Norfolk Public Schools:	Expenses						
Instructional	\$ 279,281,789	\$ 3,190,484	\$ 212,930,459	\$ -	\$ (63,160,846)		\$ (63,160,846)
Administration, attendance and health	13,312,438	-	-	-	(13,312,438)		(13,312,438)
Pupil transportation	11,136,674	-	-	-	(11,136,674)		(11,136,674)
Operation and maintenance	36,257,779	-	-	-	(36,257,779)		(36,257,779)
Information technology	8,949,687	-	-	-	(8,949,687)		(8,949,687)
School facilities	16,099,522	-	-	8,940,943	(7,158,579)		(7,158,579)
Food services	14,533,093	3,059,718	11,111,928	-	(361,447)		(361,447)
Total Norfolk Public Schools	<u>379,570,982</u>	<u>6,250,202</u>	<u>224,042,387</u>	<u>8,940,943</u>	<u>(140,337,450)</u>		<u>(140,337,450)</u>
Community Services Board:							
Health and public assistance	23,944,721	7,240,138	12,953,441	-		\$ (3,751,142)	(3,751,142)
Total component units	<u>\$ 403,515,703</u>	<u>\$ 13,490,340</u>	<u>\$ 236,995,828</u>	<u>\$ 8,940,943</u>			<u>(144,088,592)</u>
General revenues:							
	Loss from sale of capital assets				-	(16,189)	(16,189)
	Interest and investment earnings				2,325,495	511,672	2,837,167
	Commonwealth of Virginia				32,292,231	-	32,292,231
	Local government				101,094,910	3,701,000	104,795,910
	Miscellaneous				79,370	11,500	90,870
	Total general revenues				<u>135,792,006</u>	<u>4,207,983</u>	<u>139,999,989</u>
	Changes in net assets				(4,545,444)	456,841	(4,088,603)
	Net assets--beginning				83,374,881	8,555,068	91,929,949
	Net assets--ending				<u>\$ 78,829,437</u>	<u>\$ 9,011,909</u>	<u>\$ 87,841,346</u>

NOTES TO THE BASIC FINANCIAL STATEMENTS



CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

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CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

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 242,000 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 the City Council. The City Manager and Director of Finance are ex-officio members. The ERS is the administrator of a single-employer noncontributory defined benefit plan that covers substantially all employees of the City of Norfolk, excluding School Board employees and certain employees of the Constitutional Officers covered by the Virginia Supplemental 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 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 for the City of Norfolk is comprised of the School Operating fund, Capital Projects fund, Child Nutrition fund, Grants Fund and agency funds.

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.

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

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 Room 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 not properly included among program revenues are reported instead as general revenues.

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

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

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 the resources accumulated and payments made for principal and interest on long-term debt obligations of governmental funds and proprietary funds.

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

Additionally, the City reports the following other fund types:

- *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 legally restricted to the extent that only the interest may be used to support the City's cemetery operations.
- The *Agency Funds* are used to account for the assets held by a governmental unit as an agent for individuals, private organizations, other governmental units and or other funds. Agency funds do not involve the measurement of results of operations as they are custodial in nature (assets = liabilities).

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund 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. In compliance with Section 2.9, Uniform Financial Reporting Manual for Virginia Counties and Municipalities, property taxes due and collected within 45 days after June 30 are recognized as revenue; those not collected within 45 days after year-end are reported as deferred revenue. Items such as license fees, permit fees and fines are recorded as revenue when received. Intergovernmental revenue, consisting primarily of federal, state and other grants for the purpose of funding specific expenditures, is recognized at the time the specific expenditures expected to be financed by this revenue are made. Revenue from general purpose grants is recognized during the entitlement period.

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

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

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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

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.

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.

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.

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, Wastewater 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 government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Budgets and Budgetary Accounting

An operating budget is adopted each fiscal year for the General fund, Water Utility fund, Wastewater Utility fund, Parking Facilities fund, Storm Water special revenue fund, Nauticus special revenue fund, Maritime Facility special revenue fund, Public Amenities special revenue fund, Cemeteries special revenue fund, emergency Operations center/E911 special revenue fund, Golf special revenue fund, Towing special revenue fund and internal service funds. Project length budgets are appropriated for the Capital Projects and Grants funds. 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 financing them. A public hearing is conducted. Then, on or before July 1,

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

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 Exhibit E 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 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.

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

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

Investments of the City as well as its component units are stated at fair value. Short-term investments are recorded at cost, which approximates fair value. Securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the fiscal year. 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 statement of cash flows, all highly liquid debt instruments 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.

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. Notes Receivable

Notes receivable reported in the governmental funds represent assets that are offset by deferred revenue in the fund financial statements since funds do not meet the availability criteria. Payments on these balances will be recognized as revenue as they are received.

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H. Interfund Transactions

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

Internal service funds record charges for services to all City departments and funds as operating revenue. All City funds record these payments to the internal service funds as operating expenditures or expenses. Since internal service funds generally support governmental activities rather than business-type activities, they are consolidated 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.

I. 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." Reported inventories in the governmental funds are offset by a fund balance reserve, indicating they are not currently available expendable resources. Proprietary funds expense inventories when consumed.

J. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported at historical cost 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 with an initial, individual cost of more than \$2,000 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 governmental activities. Where historical cost records are not available, assets are recorded at estimated historical cost. Gifts or donated fixed assets are recorded at their estimated fair value on the date received. In the enterprise and internal service funds, interest costs incurred on funds borrowed for construction projects are capitalized net of interest earned on the temporary investment of the unexpended portion of those funds. When an asset is retired or otherwise disposed of, the related cost and accumulated depreciation are

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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 are not capitalized.

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

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:

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

K. Compensated Absences

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

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leave toward their pension benefit. There is no liability for unpaid accrued sick leave service since the City does not pay when the employee separates from service. 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 food service employees have ten-month employment contracts and are not entitled to vacation.

L. Net Assets/Fund Balances

Net assets in government-wide and proprietary fund financial statements are 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.

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

M. 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.

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 are held separately from the pooled City funds.

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In accordance with its investment policy, all deposits of the City and its component units are held in City Council designated official depositories and 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, banks holding public deposits in excess of the amounts insured by the FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. If any member financial institution whose public deposits are collateralized in accordance with the requirements of the Act fails, the entire market value of the collateral pool becomes available to satisfy the claims of 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. 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.

Custodial Credit Risk - Investments

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

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

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Segmented Time Distribution (as of June 30, 2008)

Primary Government

Investment Type	Fair Value	Investment Maturities (in years)			
		Less than 1 year	1-5 years	6-10 years	10 years +
Corporate Debt	\$ 177,472,608	\$ 21,774,143	\$ 30,085,515	\$ 8,494,291	\$ 117,118,659
Floater	289,884	289,884	-	-	-
Mortgages	163,058,520	2,557,504	7,447,575	3,388,336	149,665,105
Certificates of Deposit	18,334,000	-	-	-	-
U.S. Agency	4,323,845	-	4,323,845	-	-
Domestic Equity Funds	172,259,882	N/A	N/A	N/A	N/A
Balanced Income Funds	95,672,865	N/A	N/A	N/A	N/A
Common Stock	79,512,677	N/A	N/A	N/A	N/A
International Equity Funds	160,883,020	N/A	N/A	N/A	N/A
Money Market Investments included in Cash and short-term investments	275,115,240	N/A	N/A	N/A	N/A
Total	<u>\$ 1,146,922,541</u>	<u>\$ 24,621,531</u>	<u>\$ 41,856,935</u>	<u>\$ 11,882,627</u>	<u>\$ 266,783,764</u>

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 Statement of Fiduciary Net Assets for the City is as follows:

Per Exhibit 1 (Primary Government):	
Cash and short term investments	\$ 138,700,148
Restricted cash held with fiscal agents	10,437,283
Investments	131,209,629
Restricted cash and investments	<u>76,770,113</u>
Total	<u>\$ 357,117,173</u>
Per Exhibit C-1 (Fiduciary):	
Cash and short term investments	57,208,383
Investments	<u>849,149,456</u>
Total	<u>\$ 906,357,839</u>
Total Primary Government and Fiduciary	<u>\$ 1,263,475,012</u>
Less: Actual cash	116,552,471
Deposits and investments reported above	<u><u>\$ 1,146,922,541</u></u>

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Community Services Board

Investment Type	Investment Maturities (in years)				
	Fair Value	Less than 1 year	1-5 years	6-10 years	10 years +
Certificates of deposit	\$ 1,098,615	\$ 758,949	\$ 196,361	\$ 48,571	\$ 94,734
Auction rate securities	1,028,580	1,028,580	-	-	-
Government-sponsored enterprise securities	2,043,445	-	1,868,898	49,852	124,695
Other	59,187	59,187	-	-	-
Total	<u>\$ 4,229,827</u>	<u>\$ 1,846,716</u>	<u>\$ 2,065,259</u>	<u>\$ 98,423</u>	<u>\$ 219,429</u>

School Board

At June 30, 2008, the School Board has investments of \$3,936,115 in an AAA rated money market mutual fund and \$4,180,245 invested in an unrated repurchase agreement.

Credit Risk Related to Issuer

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's Pension Trust Fund's formal policy governing credit risk is that securities rated below investment grade by two of the three primary rating agencies, Moody's, Fitch Ratings, and Standard and Poor's (S&P), are not permitted. The City's Pension Trust Fund invests in certain derivatives including real estate mortgage investment conduits and collateralized mortgage obligations. Those securities are included in reported investments in the Retirement System financial statements. Investments in derivatives with a cost of \$71,776,976 and a market value of \$66,934,640 were held at June 30, 2008. The City's rated debt investments as of June 30, 2008 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						
Fair Quality Ratings (S&P)	Corporate Debt	Floating	Mortgages	Certificates of Deposit	U. S. Agency	Money Market Mutual Funds
AAA	\$ 45,319,185	\$ -	\$ 163,058,520	\$ -	\$ 4,323,845	\$ 28,026,596
AAAm	-	-	-	-	-	40,147,229
AA+	15,438,139	-	-	-	-	4,997,075
AA	15,915,055	-	-	-	-	384,390
AA-	32,009,684	-	-	-	-	4,036,099
A	24,319,718	-	-	-	-	-
A+	13,709,526	-	-	-	-	-
A-	5,911,086	289,884	-	-	-	-
A-1+	-	-	-	-	-	156,639,071
A-1	-	-	-	-	-	-
BA	1,693,436	-	-	-	-	-
BBB	4,345,952	-	-	-	-	-
BBB+	8,592,619	-	-	-	-	-
BBB-	5,147,176	-	-	-	-	-
BB	100,500	-	-	-	-	-
B	1,696,230	-	-	-	-	-
Not Rated	3,180,481	-	-	18,334,000	-	40,884,780
Total	\$ 177,472,608	\$ 289,884	\$ 163,058,520	\$ 18,334,000	\$ 4,323,845	\$ 275,115,240

The City held \$267,932,747 and \$160,883,020 in domestic and international equity funds, respectively, and an additional \$79,512,677 in common stock which are unrated securities.

The CSB's investments in government-sponsored enterprise securities were rated AAA by S&P. Its mutual funds, auction rate securities and other investments were unrated.

Concentration of Credit Risk

Concentration risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. Mutual funds are excluded from this disclosure requirement. For the City's Pension Trust funds, no more than 20% of each account's fixed income portfolio, including cash equivalents, shall be invested in bonds rated Baa (1,2,& 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-. More than 5% of the Retirement System's investments are in the FNMA investment pools, SSGA, S&P 500 Flagship Fund and Wellington Opportunistic Fund. These investments represent 14.5%, 19.2% and 5.7%, respectively, of the Retirement System's total investments.

The CSB has more than 5 percent of their investments in Cohen & Strees Advantage (5.79%), Easton Vance Senior Income (5.79%), ING Prime Rate Trust (5.79%),

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Pioneer High Income Trust (5.79%), FLHB Call Bond 10/16/09 (7.13%), FHLB Call Bond 4/29/10 (7.67%) and FHLMC Call Bond (12.35%). These investments represent 50.3% of the CSB's total investments.

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

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:

Currency	Short-Term	Fixed-Income	Equity	Total
Austrialian Dollar	\$ 1,224	\$ (17,204)	\$ -	\$ (15,980)
Brazilian Real	-	(79,750)	-	(79,750)
Canadian Dollar	2,281	-	-	2,281
Euro	92,296	-	-	92,296
Pound Sterling	2,951,530	75,787	26,865,677	29,892,994
Japanese Yen	28,503	-	-	28,503
	<u>\$ 3,075,834</u>	<u>\$ (21,167)</u>	<u>\$ 26,865,677</u>	<u>\$ 29,920,344</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.

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, 2008, on each \$100 of assessed value, were \$1.11 for real property, an additional \$.18 for the Downtown Service District, \$4.25 for personal property, \$1.50 for recreational vehicles, \$4.25 for machinery and tools, \$1.11 for mobile homes, \$2.40 for airplanes, \$.50 for pleasure boats and \$1.50 for business boats. Disabled veterans pay a discount rate of \$3.00 for personal property.

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The property tax calendar is as follows:

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

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

IV. Accounts Receivable

A. Unbilled Accounts Receivable

Following is a summary by fund of unbilled accounts receivable recognized at June 30, 2008:

Water utility fund	\$ 4,561,975
Wastewater utility fund	1,235,700
Parking facilities fund	334,178
	<u>\$ 6,131,853</u>

The associated revenue is included in charges for services.

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, 2008 are as follows:

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Primary Government:

General Fund:	
Taxes	\$ 15,150,888
Accounts	9,892,304
	<u>25,043,192</u>
Storm Water special revenue fund	334,400
Water Utility fund	2,846,661
Wastewater Utility fund	1,028,892
Total - Primary Government	<u>\$ 29,253,145</u>

Component Units:

Norfolk Public Schools	\$ 340,958
Community Services Board	35,598
Total - Component Units	<u>\$ 376,556</u>

V. Notes Receivable

Notes receivable, at June 30, 2008 are as follows:

Primary Government: General Fund

WHRO (Hampton Roads Educational Telecommunications Association, Inc.)	<u>\$47,276</u>
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VI. Due From Other Governments

Amounts due from other governments, at June 30, 2008 are as follows:

	General Fund	Total Primary Government	Component Unit School Board
Commonwealth of Virginia:			
Shared expenses	\$ 5,000,317	\$ 5,000,317	-
Categorical aid	138,131	138,131	-
Noncategorical aid	17,021,099	17,021,099	-
Special revenue grants	-	5,513,388	\$ 19,021,808
Total - Commonwealth	<u>22,159,547</u>	<u>27,672,935</u>	<u>19,021,808</u>
Federal Government:			
Special revenue grants	-	3,554,394	9,575,710
Total - Federal	<u>-</u>	<u>3,554,394</u>	<u>9,575,710</u>
Total - Due from other governments	<u>\$ 22,159,547</u>	<u>\$ 31,227,329</u>	<u>\$ 28,597,518</u>

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

VII. Changes in Capital Assets

A summary of changes in capital assets, at June 30, 2008 follows:

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental activities:				
Non-depreciable capital assets:				
Land	\$ 37,896,651	\$ 6,267,500	\$ (3,812,887)	\$ 40,351,264
Construction in progress	99,768,040	47,713,239	(32,719,382)	114,761,897
Total non-depreciable assets	137,664,691	53,980,739	(36,532,269)	155,113,161
Depreciable assets:				
Buildings	528,671,409	48,614,867	(75,537)	577,210,739
Improvements other than buildings	26,598,727	2,391,612	(347,844)	28,642,495
Equipment	112,607,344	18,377,928	(7,199,458)	123,785,814
Infrastructure	1,146,378,163	17,482,229	(9,545,427)	1,154,314,965
Total depreciable assets	1,814,255,643	86,866,636	(17,168,266)	1,883,954,013
Less accumulated depreciation:				
Buildings	(221,156,245)	(12,272,467)	76,150	(233,352,562)
Improvements other than buildings	(11,818,949)	(661,307)	256,539	(12,223,717)
Equipment	(68,166,021)	(7,559,682)	6,639,764	(69,085,939)
Infrastructure	(853,341,983)	(52,314,886)	8,474,590	(897,182,279)
Total accumulated depreciation	(1,154,483,198)	(72,808,342)	15,447,043	(1,211,844,497)
Depreciable assets, net	659,772,445	14,058,294	(1,721,223)	672,109,516
Total governmental activities capital assets, net	\$ 797,437,136	\$ 68,039,033	\$ (38,253,492)	\$ 827,222,677
Business-Type activities:				
Non-depreciable capital assets:				
Land	\$ 43,099,824	\$ 5,187,205	\$ -	\$ 48,287,029
Construction in progress	43,676,857	9,410,523	(49,226)	53,038,154
Total non-depreciable assets	86,776,681	14,597,728	(49,226)	101,325,183
Depreciable assets:				
Land improvements	7,101,351	-	-	7,101,351
Buildings	319,760,428	3,303,619	(5,487,320)	317,576,727
Equipment	496,455,478	32,277,971	(456,743)	528,276,706
Totals depreciable assets	823,317,257	35,581,590	(5,944,063)	852,954,784
Less accumulated depreciation:				
Land improvements	(2,762,477)	(134,941)	-	(2,897,418)
Buildings	(69,744,896)	(6,824,581)	3,380,393	(73,189,084)
Equipment	(129,385,005)	(11,713,261)	445,975	(140,652,291)
Total accumulated depreciation	(201,892,378)	(18,672,783)	3,826,368	(216,738,793)
Depreciable assets, net	621,424,879	16,908,807	(2,117,695)	636,215,991
Business-Type activities capital assets, net	\$ 708,201,560	\$ 31,506,535	\$ (2,166,921)	\$ 737,541,174
Component units activities:				
Non-depreciable capital assets:				
Land	\$ 487,500	\$ -	\$ -	\$ 487,500
Construction in progress	31,521,421	10,196,067	(41,717,488)	-
Total non-depreciable assets	32,008,921	10,196,067	(41,717,488)	487,500
Depreciable assets:				
Buildings	5,194,094	-	-	5,194,094
Improvements other than buildings	144,603	610,963	-	755,566
Building improvements	41,977,036	41,035,778	(983,440)	82,029,374
Equipment	30,950,718	3,277,203	(1,140,012)	33,087,909
Total depreciable assets	78,266,451	44,923,944	(2,123,452)	121,066,943
Less accumulated depreciation:				
Buildings	(1,804,580)	(259,705)	-	(2,064,285)
Building improvements	(21,037,599)	(4,137,408)	863,389	(24,311,618)
Equipment and other	(20,661,271)	(2,414,866)	866,914	(22,209,223)
Total accumulated depreciation	(43,503,450)	(6,811,979)	1,730,303	(48,585,126)
Depreciable assets, net	34,763,001	38,111,965	(393,149)	72,481,817
Component units activities capital assets, net	\$ 66,771,922	\$ 48,308,032	\$ (42,110,637)	\$ 72,969,317

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

General government	\$ 5,254,789
Judicial administration	1,150,921
Public safety	2,898,523
Public works, which includes the depreciation of infrastructure assets	54,879,277
Health and sanitation	289,106
Culture and recreation	5,692,967
Community development	2,340,253
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.	302,506
Total depreciation expense	<u>\$ 72,808,342</u>
Business-type activities:	
Water utility fund	\$ 11,096,511
Wastewater utility fund	3,702,273
Parking fund	3,873,999
Total depreciation expense	<u>\$ 18,672,783</u>
Component unit activities	
Community Services Board	\$ 183,988
Schools	6,627,991
Total depreciation expense	<u>\$ 6,811,979</u>

The following is a summary by fund of interest expense/revenue capitalized during the fiscal year ended June 30, 2008:

	Interest Expense	Interest Revenue	Net Capitalized
Water utility fund	\$ 1,011,255	\$ (446,919)	\$ 564,336
Wastewater utility fund	684,368	-	684,368
	<u>\$ 1,695,623</u>	<u>\$ (446,919)</u>	<u>\$ 1,248,704</u>

CITY OF NORFOLK, VIRGINIA
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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 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, 2008 follows:

	General Obligation Bonds	Enterprise Funds			
		Water Utility Bonds	Wastewater Utility Bonds	Parking Facilities Bonds	Total
General obligation bonds outstanding at July 1, 2007	\$ 469,498,450 *	\$ 17,210,346	\$ 84,483,354	\$ 5,617,041	\$ 107,310,741
Bonds retired	(40,341,765)	(3,912,746)	(6,736,471)	(1,352,973)	(12,002,190)
Bonds transferred	(3,423,520)	-	-	3,423,520	3,423,520
Bonds issued	145,405,000	-	25,360,000	-	25,360,000
Bonds outstanding at June 30, 2008	571,138,165	13,297,600	103,106,883	7,687,588	124,092,071
Unamortized (discount) premium	19,573,547	999,204	(253,912)	525,561	1,270,853
General obligation bonds outstanding at June 30, 2008, adjusted for unamortized (discount) premium	<u>\$ 590,711,712</u>	<u>\$ 14,296,804</u>	<u>\$ 102,852,971</u>	<u>\$ 8,213,149</u>	<u>\$ 125,362,924</u>
Revenue bonds outstanding at July 1, 2007		\$ 270,075,000	\$ -	\$ 94,759,000	\$ 364,834,000
Bonds retired		(7,665,000)	-	(2,125,000)	(9,790,000)
Bonds issued		58,415,000	7,359,833	-	65,774,833
Bonds outstanding at June 30, 2008		320,825,000	7,359,833	92,634,000	420,818,833
Less: Unamortized (discount) premium		(2,805,800)	-	(4,799,604)	(7,605,404)
Revenue bonds outstanding at June 30, 2008, adjusted for unamortized (discount) premium		<u>\$ 318,019,200</u>	<u>\$ 7,359,833</u>	<u>\$ 87,834,396</u>	<u>\$ 413,213,429</u>

* Includes a Section 108 loan with the Department of Housing and Urban Development (HUD) in the amount of \$13,000,000. Revenues from the Broad Creek Tax Increment Financing (TIF) District are the primary revenue pledge to support the bonds' debt device. In Virginia, this TIF pledge constitutes a general obligation when determining the City's legal debt margin.

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General obligation and revenue bonds outstanding at June 30, 2008 are composed of the following individual issues:

General Obligation Bonds Dated	Issue Amount	Interest Rate	Governmental Activities		Business-Type Activities			Balance Outstanding
			Public Improvement Allocation	Water Utility Allocation	Wastewater Utility Allocation	Parking Facilities Allocation		
7/11/1989	1,500,000	6.76%	\$ 1,500,000	\$ -	\$ -	\$ -	\$ 1,500,000	
4/15/1997	4,000,000	5.25 - 5.75%	1,800,000	-	-	-	1,800,000	
6/15/1998	44,330,000	4.25 - 5.00%	3,921,128	-	998,872	-	4,920,000	
6/15/1998	49,190,000	4.25 - 5.00%	18,908,196	6,361,491	1,884,076	2,111,238	29,265,000	
9/15/1998	2,560,000	4.70 - 5.10%	1,425,000	-	-	-	1,425,000	
7/1/1999	11,700,000	4.50 - 5.00%	1,170,000	-	-	-	1,170,000	
7/1/1999	4,000,000	4.55 - 5.30%	2,400,000	-	-	-	2,400,000	
8/19/1999	7,000,000	none	2,153,842	-	-	-	2,153,842	
7/15/2000	18,025,000	5.00 - 5.25%	2,700,000	-	-	-	2,700,000	
7/15/2000	3,995,000	5.125 - 5.65%	2,595,000	-	-	-	2,595,000	
11/22/2000	3,637,170	none	1,678,694	-	-	-	1,678,694	
12/27/2001	1,062,830	none	490,777	-	-	-	490,777	
2/1/2002	27,000,000	2.00 - 5.00%	9,955,760	-	844,240	-	10,800,000	
2/1/2002	7,955,000	3.00 - 5.50%	5,555,000	-	-	-	5,555,000	
2/1/2002	47,200,000	2.00 - 5.00%	16,886,470	2,964,699	4,653,955	374,876	24,880,000	
8/14/2002	3,400,000	5.38%	3,400,000	-	-	-	3,400,000	
11/1/2002	34,600,000	3.00 - 5.25%	19,030,000	-	-	-	19,030,000	
11/1/2002	39,890,000	5.00 - 5.25%	15,851,243	874,899	1,804,821	909,037	19,440,000	
4/8/2003	9,423,794	3.50%	-	-	8,125,599	-	8,125,599	
11/15/2003	57,110,000	2.00 - 5.00%	44,800,154	-	879,846	-	45,680,000	
11/15/2003	12,265,000	3.00 - 4.00%	5,527,500	-	502,500	-	6,030,000	
3/1/2004	96,395,000	2.00 - 5.00%	42,669,109	3,096,511	6,464,288	1,040,093	53,270,000	
3/3/2004	13,000,000	4.32 - 6.01%	13,000,000	-	-	-	13,000,000	
7/29/2004	1,775,000	5.38%	1,482,894	-	-	-	1,482,894	
9/17/2004	11,100,000	3.10%	-	-	10,462,196	-	10,462,196	
3/16/2005	59,320,000	2.50 - 5.00%	48,785,000	-	1,720,000	-	50,505,000	
3/16/2005	35,035,000	2.50 - 5.00%	29,272,644	-	5,652,356	-	34,925,000	
3/14/2006	11,500,000	3.00%	-	-	10,387,393	-	10,387,393	
9/28/2006	14,250,000	none	-	-	13,438,839	-	13,438,840	
11/15/2006	99,225,000	4.00 - 5.00%	80,983,156	-	9,579,500	3,252,344	93,815,000	
11/15/2006	15,830,000	4.00 - 5.00%	15,426,598	-	348,402	-	15,775,000	
		variable with interest rate cap of 5% (expires 4/1/2010)						
3/29/2007	32,365,000		32,365,000	-	-	-	32,365,000	
2/13/2008	17,160,000	3.00 - 4.625%	17,160,000	-	-	-	17,160,000	
6/30/2008	153,605,000	4.00 - 5.00%	128,245,000	-	25,360,000	-	153,605,000	
			\$ 571,138,165	\$ 13,297,600	\$ 103,106,883	\$ 7,687,588	\$ 695,230,236	

Revenue Bonds Dated	Interest Rate	Business-Type Activities			Balance Outstanding
		Water Utility	Parking Facilities	Wastewater Utility	
11/1/1993	2.80 - 5.375%	\$ 48,650,000	\$ -	\$ -	\$ 48,650,000
8/15/1995	4.75 - 7.00%	90,480,000	-	-	90,480,000.00
11/1/1998	4.00 - 5.125%	70,115,000	-	-	70,115,000.00
2/15/1999	4.00 - 5.00%	-	14,220,000	-	14,220,000.00
10/15/2001	4.00 - 5.00%	31,160,000	-	-	31,160,000.00
10/26/2000	Variable	-	185,000	-	185,000.00
10/1/2000	5.50 - 5.50%	-	15,155,000	-	15,155,000.00
7/11/2003	4.50%	-	761,500	-	761,500.00
7/11/2003	4.50%	-	197,500	-	197,500.00
10/28/2004	Variable	-	6,410,000	-	6,410,000.00
10/28/2004	2.50 - 5.00%	-	29,815,000	-	29,815,000.00
3/23/2005	3.50 - 5.00%	22,005,000	-	-	22,005,000.00
6/15/2005	4.00 - 5.00%	-	25,890,000	-	25,890,000.00
11/9/2007	0.00%	-	-	7,359,833	7,359,832.71
4/23/2008	3.00 - 5.00%	58,415,000	-	-	58,415,000.00
		<u>\$ 320,825,000</u>	<u>\$ 92,634,000</u>	<u>\$ 7,359,833</u>	<u>\$ 420,818,833</u>

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The Parking System's Series 2004 Variable Rate Demand Bonds are remarketed weekly and have averaged 0.06% 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 0.10% 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
2009	\$ 48,142,389	\$ 24,675,788	\$ 11,160,807	\$ 4,457,913
2010	45,992,487	23,973,539	10,585,326	4,271,151
2011	45,642,965	22,074,553	10,683,842	3,844,107
2012	42,477,249	19,904,699	9,505,200	3,369,125
2013	37,040,792	17,916,052	7,551,233	2,971,412
2014-2018	149,034,260	66,319,300	28,690,092	11,085,568
2019-2023	116,746,217	34,656,821	25,077,843	6,379,581
2024-2028	66,411,806	12,532,652	20,837,726	2,044,498
2029-2033	10,535,000	3,847,192	-	-
2034-2038	9,115,000	1,032,276	-	-
Total	\$ 571,138,165	\$ 226,932,871	\$ 124,092,071	\$ 38,423,354

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

Year Ending June 30,	Water Utility Fund		Wastewater Utility Fund		Parking Facilities Fund	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 3,757,731	\$ 625,238	\$ 6,150,118	\$ 3,484,732	\$ 1,252,958	\$ 347,943
2010	2,812,578	437,701	6,585,615	3,548,029	1,187,133	285,421
2011	2,822,993	304,804	6,666,060	3,312,330	1,194,790	226,972
2012	2,058,267	163,900	6,592,873	3,038,319	854,061	166,907
2013	747,197	74,546	6,366,531	2,765,087	437,504	131,779
2014-2018	1,098,833	54,860	26,370,701	10,600,395	1,220,558	430,313
2019-2023	-	-	24,221,963	6,144,000	855,880	235,581
2024-2028	-	-	20,153,022	1,986,299	684,704	58,200
2029-2033	-	-	-	-	-	-
2034-2038	-	-	-	-	-	-
	<u>\$ 13,297,600</u>	<u>\$ 1,661,049</u>	<u>\$ 103,106,883</u>	<u>\$ 34,879,190</u>	<u>\$ 7,687,588</u>	<u>\$ 1,883,116</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 balance sheet 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 balance sheet 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

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generally accepted accounting principles, but excluding any general obligation bonds issued to finance wastewater system property.

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

<u>Water Revenue</u>		<u>Parking Revenue</u>		<u>Wastewater Revenue</u>	
Principal	Interest	Principal	Interest	Principal	Interest
\$ 8,050,000	\$ 16,411,343	\$ 2,230,000	\$ 4,529,987	\$ -	\$ -
9,420,000	15,929,680	2,560,000	4,437,658	183,996	-
9,875,000	15,467,723	2,635,000	4,349,049	367,992	-
10,375,000	14,973,521	2,755,000	4,220,647	367,992	-
10,900,000	14,446,373	2,840,000	4,086,138	367,992	-
63,680,000	63,047,766	15,564,000	18,355,157	1,839,958	-
83,090,000	43,640,474	19,740,000	14,388,158	1,839,958	-
71,455,000	20,897,512	24,475,000	8,996,391	1,839,958	-
30,965,000	8,550,791	17,710,000	2,643,468	551,987	-
19,440,000	3,040,597	2,125,000	146,059	-	-
3,575,000	84,906	-	-	-	-
\$ 320,825,000	\$ 216,490,685	\$ 92,634,000	\$ 66,152,712	\$ 7,359,833	\$ -

D. Other Notes and Loans

The City issued a \$2,000,000 note for the acquisition of land from The Catholic Diocese of Richmond on December 18, 2007. The balance of the note will be paid according to the following schedule:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 1,000,000	-
2010	1,000,000	-
Total	\$ 2,000,000	\$ -

E. Advanced Refundings

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.

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At June 30, 2008 the following defeased bonds from advance refunding are still outstanding:

Defeased In	Original Issue	General Obligation Bonds
2005	1998	\$ 20,630,000
2005	1999	4,680,000
2005	2000	6,300,000
2005	2002	4,050,000
2006	1999	1,170,000
2006	2000	2,700,000
2006	2002	4,050,000
2006	2002B	6,920,000
		<u>\$ 50,500,000</u>

Defeased In	Original Issue	Parking Revenue Bonds
2000	1999	\$ 420,000
2002	2000B	2,705,000
		<u>\$ 3,125,000</u>

F. Lease Obligations

Capital Leases:

The City leases certain computer, automotive, solid waste automation and other heavy equipment. The remaining debt service requirements, including interest at rates varying from 2.46% to 4.09%, will be retired by funds from the general fund on the aforementioned contracts.

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 \$2,608,088 for the year ended June 30, 2008.

CITY OF NORFOLK, VIRGINIA
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Future year lease obligations are listed below:

Year Ending June 30,	Capital Lease Obligations	Operating Lease Obligations
2009	\$ 1,845,478	\$ 2,663,155
2010	1,175,523	1,963,392
2011	398,865	1,664,225
2012	-	1,222,686
2013	-	789,227
Total minimum lease payments	<u>3,419,867</u>	<u>8,302,685</u>
Less interest	<u>(126,723)</u>	
	3,293,144	
Less current portion	<u>█ (1,758,251)</u>	
	<u>\$ 1,534,893</u>	

G. Landfill Liability

The City closed its Campostella landfill site on June 30, 1992. State and federal laws require the City to perform certain maintenance and monitoring activities at the site for 30 years after closure. The \$1,243,692 reported as an obligation for landfill closure and post-closure costs at June 30, 2008 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
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For the Year Ended June 30, 2008

H. 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	\$ 14,678,991
Non-major governmental and internal service funds	<u>1,225,238</u>
Total governmental	<u>\$ 15,904,229</u>
Enterprise funds:	
Water utility fund	\$ 930,200
Wastewater utility fund	330,300
Parking fund	<u>278,836</u>
Total enterprise funds	<u>\$ 1,539,336</u>
Component Unit - School Board	<u>\$ 9,593,219</u>
Component Unit - CSB	<u>\$ 1,141,541</u>

I. 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, 2008 the City's debt limit is \$1,840,185,107 of which \$1,142,734,873 is available for creation of additional debt. There are no overlapping tax jurisdictions.

CITY OF NORFOLK, VIRGINIA
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J. Bonds Authorized and Unissued

A summary of bonds authorized and unissued as of June 30, 2008 are as follows:

<u>Project Categories</u>	<u>Total</u>
General Obligation Bonds Authorized and Unissued:	
Capital fund projects:	
General capital improvement projects	\$ 101,997,850
Towing and Recovery capital improvement projects	150,000
Storm Water capital improvement projects	3,550,660
Capital fund projects total	<u>105,698,510</u>
Wastewater Utility fund projects	5,535,748
General Obligation Bonds Authorized and Unissued	<u><u>111,234,258</u></u>
Revenue Bonds Authorized and Unissued:	
Water Utility fund projects	3,075,000
Parking Facilities fund projects	84,407,000
Revenue Bonds Authorized and Unissued	<u><u>87,482,000</u></u>
Total Bonds Authorized and Unissued	<u><u>\$ 198,716,258</u></u>

K. Changes in Long-Term Obligations

A summary of fiscal year 2008 changes in long-term obligations, net of unamortized discounts and premiums, are as follows:

CITY OF NORFOLK, VIRGINIA
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	Primary Government				Amounts Due
	Beginning Balance	Additions	Reductions	Ending Balance	Within One Year
<u>GOVERNMENTAL ACTIVITIES:</u>					
Bonds, Notes Payable and Capital Leases:					
General obligation debt	\$ 484,782,164	\$ 151,190,280	\$ 45,260,732	\$ 590,711,712	\$ 49,876,790
Notes	226,586	2,000,000	226,586	2,000,000	1,000,000
Capital leases	8,296,539	-	5,011,098	3,285,441	1,755,630
Total Bonds, Notes and Capital Leases	<u>\$ 493,305,289</u>	<u>\$ 153,190,280</u>	<u>\$ 50,498,416</u>	<u>\$ 595,997,153</u>	<u>\$ 52,632,420</u>
Other Liabilities:					
Vested compensated absences	\$ 14,235,750	\$ 11,291,951	\$ 9,956,859	\$ 15,570,842	\$ 10,000,000
Retirement system contribution	22,307,851	23,585,256	22,307,851	23,585,256	23,585,256
Other post-employment benefits	-	5,634,896	195,130	5,439,766	5,439,766
Retiree's life insurance	620,000	-	60,000	560,000	60,000
Self-insurance	25,066,660	12,298,516	12,305,870	25,059,306	4,909,342
Landfill closure and post-closure costs	1,321,138	-	77,446	1,243,692	80,000
Total Other Liabilities	<u>\$ 63,551,399</u>	<u>\$ 52,810,619</u>	<u>\$ 44,903,156</u>	<u>\$ 71,458,862</u>	<u>\$ 44,074,364</u>
Governmental Activities					
Long-term liabilities	\$ 556,856,688	\$ 206,000,899	\$ 95,401,572	\$ 667,456,015	\$ 96,706,784
Internal Service Funds:					
Capital leases	\$ 10,213	\$ -	\$ 2,510	\$ 7,703	\$ 2,621
Retirement system contribution	404,285	308,160	404,285	308,160	308,160
Vested compensated absences	319,161	232,901	218,675	333,387	237,649
Total Internal Service Funds	<u>\$ 733,659</u>	<u>\$ 541,061</u>	<u>\$ 625,470</u>	<u>\$ 649,250</u>	<u>\$ 548,430</u>
Total Governmental Activities	<u><u>\$ 557,590,347</u></u>	<u><u>\$ 206,541,960</u></u>	<u><u>\$ 96,027,042</u></u>	<u><u>\$ 668,105,265</u></u>	<u><u>\$ 97,255,214</u></u>
<u>BUSINESS-TYPE ACTIVITIES:</u>					
Bonds and Notes Payable:					
Water	\$ 284,667,735	\$ 58,415,000	\$ 10,766,731	\$ 332,316,004	\$ 11,807,731
Wastewater	83,181,054	32,719,833	5,688,083	110,212,804	6,150,117
Parking facilities	95,744,306	3,857,692	3,554,453	96,047,545	3,482,958
Total Bonds and Notes Payable	<u>\$ 463,593,095</u>	<u>\$ 94,992,525</u>	<u>\$ 20,009,267</u>	<u>\$ 538,576,353</u>	<u>\$ 21,440,806</u>
Other Liabilities:					
Vested compensated absences	\$ 1,420,799	\$ 1,216,303	\$ 1,097,766	\$ 1,539,336	\$ 995,962
Retirement system contribution	2,423,808	1,774,140	2,423,808	1,774,140	1,774,140
Other post employment benefits	-	602,234	-	602,234	602,234
Claims and judgements	1,920,000	3,817,615	1,920,000	3,817,615	2,537,615
Total Other Liabilities	<u>5,764,607</u>	<u>7,410,292</u>	<u>5,441,574</u>	<u>7,733,325</u>	<u>5,909,951</u>
Total Business-Type Activities	<u><u>\$ 469,357,702</u></u>	<u><u>\$ 102,402,817</u></u>	<u><u>\$ 25,450,841</u></u>	<u><u>\$ 546,309,678</u></u>	<u><u>\$ 27,350,757</u></u>

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	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
COMPONENT UNIT ACTIVITIES:					
Other Liabilities:					
Vested Compensated Absences					
Community Services Board	\$ 1,009,242	\$ 833,184	\$ 700,885	\$ 1,141,541	\$ 882,311
Norfolk Public Schools	9,214,759	8,989,960	8,611,500	9,593,219	585,754
Pension Liability:					
Community Services Board	905,722	960,617	905,722	960,617	960,617
Other post employment benefits					
Norfolk Public Schools	-	2,255,000	-	2,255,000	2,255,000
Workers' Compensation Claims					
Norfolk Public Schools	1,612,585	834,337	820,523	1,626,399	160,842
Claims Liability					
Norfolk Public Schools	100,000	134,283	189,158	45,125	38,881
	<u>100,000</u>	<u>134,283</u>	<u>189,158</u>	<u>45,125</u>	<u>38,881</u>
Total Component Unit-type Activities	<u>\$ 12,842,308</u>	<u>\$ 14,007,381</u>	<u>\$ 11,227,788</u>	<u>\$ 15,621,901</u>	<u>\$ 4,883,405</u>

IX. Other Liabilities

Pursuant to a water services contract between the City of Norfolk and two wholesale customers, the Water Utilities fund conducts a rate true-up every two years to bring the projected rates developed at the start of the two-year period to the actual cost incurred during the period. In fiscal year 2008 the Water Utilities fund recorded a liability of \$3,817,615 to reflect the true-up result. The amount due within one year is \$2,537,615 and the long term portion is \$1,280,000. The amount will be reimbursed to the wholesale customers by crediting each of their monthly billings during fiscal years 2009, 2010 and 2011.

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X. 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 (X.A); Virginia Retirement System (VRS) a plan administered by the Commonwealth of Virginia for the benefit of Norfolk School Board employees (X.B); and a VRS plan for the benefit of state employees in constitutional offices (X. C). In addition, the School Board has a defined contribution plan.

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

Plan Description

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

Funding Policy

Section 37 of the Code of the City of Norfolk, Virginia, established the authority under which the City's obligation to contribute to the plan is determined. Contribution requirements are actuarially determined at the end of each fiscal year and paid by the City in the ensuing year. The contribution requirement of \$25,667,556 for the year ended June 30, 2008 was based on 11.16 percent of covered payroll for general employees and 21.92% of covered payroll for public safety employees. This contribution requirement is recorded in the City's *Statement of Net Assets* as a liability payable to the pension fund and will be made in fiscal year 2009.

Annual Pension Cost

For 2008, the System's annual pension cost was equal to the City's required and actual (to be made in 2009) contribution. The required contribution was determined as part of the June 30, 2008 actuarial valuation using the projected unit credit cost method. The amortization method used is level dollar open. Significant actuarial assumptions included: (a) 7.5% investment rate of return (net of administrative expenses), (b) projected average salary increases of 5.46% and (c) assumed inflation rate of 3.5%. The actuarial value of assets was determined using

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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, 2008 was 19 years.

Three-Year Trend Information

Fiscal Year Ended	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
June 30, 2008	\$ 25,667,556	100%	\$ -
June 30, 2007	\$ 25,135,944	100%	\$ -
June 30, 2006	\$ 25,728,228	100%	\$ -

B. School Board – Retirement Plans

Plan Description – Virginia Retirement System (VRS)

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

VRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be downloaded from their website at <http://www.varetire.org/Pdf/2008AnnuRept.pdf> 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

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the VRS Board of Trustees. The School Board's professional and nonprofessional employees' contribution rates for the fiscal year ended June 30, 2008 were 10.3% and 8.62% of annual covered payroll, respectively (not including assumed 5%.) The School Board's contributions to the VRS for the years ended June 30, 2008, 2007, and 2006 for professional employees were \$37,858,170, \$32,978,467, and \$24,355,694, respectively, such amounts comprising 100% of the required contributions for three years.

Annual Pension Cost – Agent Multiple-Employer Plan

For 2008, the School Board's annual pension costs of \$2,454,422 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, 2005 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at June 30, 2007 included (a) 7.5% investment rate of return, (b) projected salary increases of 3.75% to 5.73% and (c) 2.5% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.5%. The actuarial value of the School Board's assets is equal to the modified market value of assets. This method was determined using techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The amortization method is open and the remaining amortization period is 20 years.

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

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2008	\$ 2,454,422	100%	\$ -
June 30, 2007	2,220,834	100%	\$ -
June 30, 2006	1,603,078	100%	\$ -

School Board – Superintendent Defined Contribution Plan

The School Board adopted a separate retirement plan for the Norfolk Superintendent of Schools in which the Superintendent could elect out of the defined benefit plan administered by VRS and opt into an Optional Retirement Plan for School Superintendents (ORPSS) under Virginia Code Section 51.1-126.6, also administered by VRS. The ORPSS is a defined contribution plan.

For any plan year commencing after June 30, 2008, that the participant remains an eligible employee, the School Board will set the amount for the plan contribution on behalf of the participant using the percentage of gross annual salary authorized under Virginia Statue. The current percentage is 10.4%. For the plan year, the School Board, in its discretion may contribute to another qualified or non-qualified plan an additional amount not to exceed the difference between the amount contributed to the ORPSS and \$25,000.

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The Virginia Retirement System is the administrator of the plan and Great West Retirement is the trustee. Contributions for the year ended June 30, 2008, were fixed contributions of \$21,372.

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

Plan Description

The City of Norfolk contributes to the Virginia Retirement System (VRS), an agent, which administers both multiple-employer and a cost-sharing 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 obtained by writing to VRS at P.O. Box 2500, Richmond, VA, 23218-2500.

Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual salary to the VRS. The 5% member contribution has been assumed by the City. In addition, the City is required to contribute the remaining amounts necessary to fund its participation in the VRS using an actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The City's contribution rate for the year ended June 30, 2007 was 4.85% of annual covered payroll. Contributions to the VRS for the year ended June 30, 2008 were \$2,375,759 equal to the required contribution.

Annual Pension Cost

For 2008, the City's annual pension cost of \$2,375,759 was equal to the City's required and actual contribution. The required contribution was determined as part of the June 30, 2007 actuarial valuations using the entry age normal actuarial cost

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method. The amortization method is level percent open. The actuarial assumptions included: (a) 7.5% investment rate of return; (b) projected salary increases that range between 3.75% to 5.60% per year, and (c) 2.5% per year cost-of-living adjustments. Both (a) and (b) include an inflation component of 2.5%. The actuarial value of the City's assets is equal to the modified market value of assets. This method was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The remaining amortization period is 20 years.

Trend information for the City VRS plan is as follows:

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2008	\$ 2,375,759	100%	\$ -
June 30, 2007	\$ 2,305,090	100%	\$ -
June 30, 2006	\$ 1,811,851	100%	\$ -

XI. Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferral may be up to 25% of gross income up to a maximum of \$15,500 per year. The deferred compensation plan is not available to employees until termination, retirement, death or unforeseeable emergency.

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

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

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

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

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

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Using the most recent OPEB plan valuation date of July 1, 2007, the following table shows the components of the City's and School's annual OPEB costs projected for the current fiscal year, the amounts contributed to the Plan and the changes in the net OPEB obligation (amounts in millions):

	City	Schools	Total
Actuarial liability:			
Active employees	\$23.2	42.8	\$ 66.0
Retirees	20.4	16.9	37.3
Total actuarial liability	43.6	59.7	103.3
Less: plan assets	0.0	0.0	0.0
Unfunded actuarial accrued liability (UAAL)	\$43.6	59.7	\$103.3

	City	Schools	Total
Annual required contribution:			
Normal cost	\$4.48	2.68	\$ 7.16
UAAL amortization	1.56	2.14	3.70
Total ARC	\$6.04	4.82	\$10.86
Less: contributions made	2.26	2.56	4.82
Increase in net OPEB obligation	\$3.78	2.26	\$ 6.04
Net OPEB obligation at beginning of the year	0.0	0.0	0.0
Net OPEB obligation end of year	\$3.78	2.26	\$ 6.04

Funded Status and Funding Progress

As of July 1, 2007, the most recent actuarial valuation date, the OPEB Plan was unfunded. The actuarial accrued liability for benefits was \$103.3 million and the actuarial value of assets was \$0 resulting in an unfunded actuarial accrued liability (UAAL) of \$103.3 million. The covered payroll of active City and School employees covered by the plan was \$403.4 million, and the ratio of the UAAL to the covered payroll was 25.6 percent. Additional details on the plan's funded status and funding progress are included as required supplementary information following these notes to the financial statements.

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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, 2007 with results projected for the fiscal year ended June 30, 2008. The entry age normal actuarial cost method was used with a level percent closed amortization method over 30 years. A discount rate, reflecting the value of future tax dollars, of 4.7% was used, which approximates the City's recent cost of borrowing. Annual rates of health care costs and salary costs used were 10% and 4.5% respectively.

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.

CITY OF NORFOLK, VIRGINIA
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XIII. Interfund Receivable and Payable Balances

The composition of interfund activity as of June 30, 2008 is as follows:
Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Capital Projects fund	\$ 678,703
	Water Utility fund	1,633,655
	Nauticus fund	412,508
	Grants fund	55,417
	Stormwater fund	390
	Fleet Management fund	113,362
	Storehouse fund	69,599
	Emergency Operation Center - 911 fund	939,012
	Community Development fund	210,421
	Total General fund	<u>\$ 4,113,067</u>
Capital Projects fund	Water Utility fund	\$ 465,085
	Wastewater fund	6,564,564
	Parking Facility fund	5,033,311
	Fleet Management fund	57,874
	Total Capital Projects fund	<u>\$ 12,120,834</u>
Nonmajor governmental funds	General fund	\$ 6,647,121
	Maritime Facility fund	11,648
	Fleet Management fund	35,000
	Wastewater Utility fund	132,612
	Total Nonmajor governmental funds	<u>\$ 6,826,381</u>
Water Utility fund	General fund	\$ 1,144
	Total Water Utility fund	<u>\$ 1,144</u>
Wastewater fund	Water Utility fund	\$ 83
	Total Wastewater fund	<u>\$ 83</u>
	Total enterprise funds	<u>\$ 1,227</u>
Internal service funds	Grants fund	<u>\$ 88,400</u>

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

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XIV. Interfund Transfers

The following interfund transfers occurred during fiscal year 2008:

<u>Fund</u>	<u>In</u>	<u>Out</u>
General fund	\$ 10,000,000	\$ 86,197,266
Debt Service fund	58,921,220	-
Capital Projects fund	20,504,313	-
Nonmajor governmental funds	20,475,092	13,456,330
Internal service funds:		
Fleet Management fund	-	35,000
Enterprise:		
Water Utility fund	-	8,500,000
Wastewater Utility fund	-	1,632,612
Parking Facilities fund	-	79,417
	<u>\$ 109,900,625</u>	<u>\$ 109,900,625</u>

The purpose of the transfer balances are as follows:

General fund transfers in of \$10,000,000 include \$1,500,000 from the wastewater fund and \$8,500,000 from the water utility fund and represent a return on investment back to the general fund.

The general fund transfers out of \$86,197,266 represents a transfer of \$56,960,118 to the debt service fund to fund general obligation debt; \$9,326,313 to the capital projects fund as a contribution for annual capital improvement plan budget; \$13,614,609 to the grants fund in support of grant projects; \$2,437,772 to the Nauticus fund, \$749,156 to the cemeteries fund, \$1,627,767, Emergency Operations/E-911 fund, and \$1,481,531 to the Maritime Facility fund.

Debt service transfers in include \$1,744,352 from the Storm Water fund, \$216,750 from the Public Amenities fund and \$56,960,118 from the General fund to fund the current year's debt service payments.

The Storm Water special revenue fund transferred \$1,744,352 to the Debt Service fund to cover its debt service cost and \$500,000 to the Capital Projects fund in support of related capital projects.

The Public Amenities special revenue fund transferred \$9,050,000 to the Capital Projects fund in support of the fund's capital related projects and \$216,750 to cover its debt service cost.

The Land Acquisition special revenue fund transferred \$1,228,000 to the Capital Projects fund in support of the fund's capital related projects.

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

The Maritime Facility special revenue fund transferred \$11,648 to the Grants special revenue type fund for support.

The Golf special revenue fund transferred \$400,000 to the Capital Projects fund in support of the fund's capital related projects.

The Fleet Management internal service fund transferred \$35,000 to the Grants special revenue type fund for re-encumbrances for purchase of goods and services.

The Water and Wastewater funds transferred \$8,500,000 and \$1,500,000 to the General fund as a return on investment, respectively.

The Wastewater fund transferred \$132,612 to the Grants Fund for pre-encumbrances for the purchase of goods and services.

The Parking Facilities fund transferred \$79,417 to the Maritime Facility fund to cover parking costs of cruise customers.

The general fund also transferred \$101,094,910 to the School Board component unit, and \$3,701,000 to the Community Service Board component unit during the fiscal year. These amounts are reported as expenses in the primary government's financial statements, and revenues in the component unit financial statements.

XV. Recovered Costs

Recovered cost in the General fund:	
Public Health Center	\$ 933,193
Information Systems recoveries	1,462,487
Retirement Bureau	477,015
Debt service recoveries	223,760
Administrative costs recoveries from enterprise funds	3,328,657
Other	2,195,024
Total recovered costs in the General fund	<u>\$ 8,620,136</u>
Recovered Cost in the non-major funds	
Public safety	\$ 1,460
Grand total	<u>\$ 8,621,596</u>

CITY OF NORFOLK, VIRGINIA
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XVI. Other Liabilities

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

Governmental Funds:

General fund - miscellaneous	\$ 3,552,339
General fund - accrued expenditures	2,677,050
Capital Projects fund - miscellaneous	3,372
Grants fund - miscellaneous	180,447
	<u>\$ 6,413,208</u>

Enterprise Funds:

Water Utility fund - miscellaneous	550,571
Wastewater Utility fund - miscellaneous	341,059
Parking Facilities fund - miscellaneous	582,659
	<u>\$ 1,474,289</u>

Fiduciary Funds:

Other funds	\$ 9,737,869
Commonwealth of Virginia	18,114
	<u>\$ 9,755,983</u>

XVII. Supplemental Appropriations

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

General Fund:

Approved fiscal year 2007-2008 budget	<u>\$ 795,835,700</u>
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Supplemental appropriations from additional revenue:

Anticipated revenue from Norfolk Redevelopment and Housing Authority for rent	300,000
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Supplemental appropriations from general fund fund balance:

Additional funds appropriated from fund balance for various programs	9,186,521
Additional funds appropriated to cover costs associated with capital improvement increases	5,400,000
	<u>14,886,521</u>
Total supplemental appropriations	<u>14,886,521</u>
Final budget	<u>\$ 810,722,221</u>

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XVIII. Unearned Revenue

Deferred revenue, as represented in the fund financial statements at June 30, 2008 totals \$30,761,063 and is comprised of the following:

A. Deferred grant funding

In the special revenue funds, unearned revenue of \$812,620 represents monies accepted from a grantor using an advancement method for payments. The amount is reduced and revenue is recorded when expenditures are incurred in accordance with the grantors' requirements. If expenditures are not incurred, the funds will revert back to the grantors. In the community development fund, the unearned revenue represents deferred payment rehabilitation loans of \$592,978 as of June 30, 2008.

B. Deferred property tax revenue

Unearned revenue in the general fund, representing uncollected tax billings not available for funding of current expenditures as of June 30, 2008 is \$29,901,167.

C. Other receivable

Unearned revenue in the storm water special revenue fund, representing deferred billings that have been earned but are not available for funding current expenditures at June 30, 2008, totals \$219,642.

CITY OF NORFOLK, VIRGINIA
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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, 2008 are as follows:

Water utility development projects	\$	13,000,000
Wastewater utility development projects		14,019,692
Parking facilities development projects		<u>47,798,360</u>
Total	\$	<u><u>74,818,052</u></u>

Commitments for completion of capital projects in the Governmental Activities, authorized at June 30, 2008 are \$57,185,721. See Exhibit J-3 Capital Improvement Program Schedule of Expenditures for listing of projects.

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 government expects such amounts, if any, to be immaterial.

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.

CITY OF NORFOLK, VIRGINIA
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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, Clerk of the Circuit Court	<u>2,235,000</u>
	Total Commonwealth of Virginia	<u>\$ 3,768,000</u>
Commonwealth of Virginia	All employees of the City Treasurer, Sheriff, Commissioner of the Revenue, Commonwealth's Attorney, and Clerk of the Circuit Court	
	Performance of Duty Bond	<u>\$ 500,000</u>
City of Norfolk	Travelers Insurance Co.	
	All City employees	<u>\$10,000,000</u>

XXI. Self and Purchased Insurance Programs

The City is exposed to various risks of losses related to torts; theft and destruction of assets; errors and omissions; injuries to employees; and, natural disasters. On July 11, 1978, the City established a protected self-insurance program fund, pursuant to an ordinance adopted by City Council, to cover itself from these risks of losses. The program provides for the payment of claims liabilities, property losses, and related expenses covered by a combination of purchased insurance policies and self-insurance plans. The total of insurance premiums, self-insurance claims, and related expense payments made during fiscal year 2008 was \$14,148,283.

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, these liabilities were \$25,059,306 of which \$4,909,342 represents the current portion anticipated to be paid within a year.

Changes in the City's claims liability amount in the fiscal years 2007 through 2008 are as follows:

	Unpaid Claims Beginning Balance	Claims Incurred Estimated	Claims Paid	Ending Balance
2007	19,922,358	10,659,920	5,515,618	25,066,660
2008	25,066,660	12,313,224	12,305,870	25,059,306

During fiscal year 2008, the City paid a large automobile liability claim in the amount of \$7.5 million. The obligation was met without decrementing the City's financial stability

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

and operational continuity. At the present time, this particular claim is viewed as a statistical anomaly when compared to the City's recent years and long-term loss experience, is not anticipated as being indicative of the City's change in trends, and is not representative of anticipated loss events that would threaten the City's financial sustainment in the foreseeable future. Until fiscal year 2008, aggregate annual automobile liability claims costs, included in the total liability claims paid figures above, had been less than \$1 million, with singular incidents paid at significantly lesser amounts. The City continues to self-insure most of its automobile liability risks since a formal plan was adopted in 1985.

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, 2008. 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

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
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statements at June 30, 2008. Complete financial statements of the Commission can be obtained from the Commission.

C. Tidewater Transportation District Commission (TTDC)

A political subdivision of the Commonwealth of Virginia formed on May 9, 1973, as a joint exercise of governmental power in accordance with provisions of Chapter 32 of Title 15.1 of the Code of Virginia. TTDC provides public transportation facilities and services within the cities of Norfolk, Portsmouth, Virginia Beach, Chesapeake and Suffolk, Virginia. Oversight responsibility is exercised by all of the participating localities through their designated representatives. Responsibility for the day-to-day operations of TTDC rests with professional management.

The participating governments do not have an equity interest in TTDC, and accordingly, no equity interest has been reflected in the City's financial statements at June 30, 2008. Complete financial statements of TTDC can be obtained from TTDC.

XXIII. Joint Venture

Southeastern Public Service Authority (SPSA)

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

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, 2008. Complete financial statements of the SPSA can be obtained from SPSA.

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

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. In prior years, primarily due to the financial relationship created by the loan, NRHA was considered to be a component unit of the City.

B. Norfolk Airport Authority

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

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

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, engages its own independent accountant, 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 at Norfolk. The main purpose of the Museum is the advancement, encouragement and promotion of the study and appreciation of art. The Museum designates its own management, which is self-sustaining, maintains its own books of account, engages its own independent accountant, and receives its revenue from administrative fees charged to visitors and from other independent grants.

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.

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

XXV. Subsequent Event

After the close of the fiscal year ended June 30, 2008, global economic conditions have changed and the City, like all other localities, is monitoring the conditions to determine and mitigate potential fiscal impacts. Recent market conditions have resulted in a high degree of volatility and increased the risks and short term liquidity associated with certain investments held by the City's retirement system which could impact the value of the investments after the date of these financial statements. While there has been a negative return on the systems assets through November 30 2008, the ultimate impact on the funded status will be determined based upon market conditions in effect when the retirement system's assets are measured on June 30, 2009.

XXVI. Accounting Pronouncements Issued But Not Yet Implemented

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

- 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:
 - o Pollution poses an imminent danger to the public or environment and the government has little or no discretion to avoid fixing the problem;
 - o A government has violated a pollution prevention related permit or license;
 - o 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;
 - o A government is named (or evidence indicates that it will be named) in a lawsuit to compel it to address the pollution; and
 - o A government begins or legally obligates itself to begin cleanup or post-cleanup activities (limited to amounts the government is legally required to complete).

Statement 49 requires governments to disclose information about their pollution obligations associated with clean up efforts in the notes to the financial statements. Statement 49 will be effective for financial statements for periods beginning after December 15, 2007, but liabilities should be measured at the beginning of that period so that the beginning net assets can be restated.

- GASB Statement 51, *Accounting and Financial Reporting for Intangible Assets*. GASB 51 requires that all intangible assets not specifically excluded by its scope

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. Additionally, GASB 51 establishes a specified-conditions approach to recognizing intangible assets that are internally generated and establishes criteria for when such expenditures should be capitalized. GASB 51 is effective for periods beginning after June 15, 2009, and generally requires its provisions to be applied retroactively.

- *GASB Statement 53, Accounting and Financial Reporting for Derivative Instruments.* GASB 53 addresses the recognition, measurement and disclosure of information regarding derivative instruments entered into by state and local governments to manage specific risks or to make investments. A key provision of this statement is that derivative instruments covered in its scope with limited exception, are reported at fair value. For many derivative instruments, historical prices are zero because their terms are developed so that the instruments may be entered into without a payment being received or made. The changes in fair value of derivative instruments used for investment purposes are reported within the investment revenue classification. Alternatively, changes in fair value of derivative instruments that are classified as hedging derivative instruments are reported in the statement of net assets as deferred inflows or outflows. Effectiveness of the instruments is to be analyzed. Objectives, terms and risks of hedging derivative instruments are required disclosures. Disclosures also will include a summary of derivative instrument activity that provides an indication of the fair value amounts reported on the financial statements. The improvements under GASB 53, which becomes effective for periods beginning after June 15, 2009, should allow users of a government's financial statements to more fully understand resources available to provide services.

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

(Unaudited)



CITY OF NORFOLK, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress (unaudited)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a percentage of covered payroll</u>
<u>Retirement Plans:</u>						
CITY - EMPLOYEES' RETIREMENT SYSTEM						
June 30, 2004	\$ 816,100,000	\$ 845,700,000	\$ 29,600,000	96.5%	\$ 157,700,000	18.8%
June 30, 2005	\$ 854,100,000	\$ 883,900,000	\$ 29,800,000	96.6%	\$ 160,200,000	18.6%
June 30, 2006	\$ 881,000,000	\$ 939,100,000	\$ 58,100,000	93.8%	\$ 159,300,000	36.5%
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%
CITY - VRS EMPLOYEES						
June 30, 2003	\$ 28,802,620	\$ 23,822,673	\$ (4,979,947)	120.9%	\$ 20,546,354	-24.2%
June 30, 2004	\$ 30,349,720	\$ 26,612,472	\$ (3,737,248)	114.0%	\$ 21,369,062	-17.5%
June 30, 2005	\$ 32,467,638	\$ 32,346,396	\$ (121,242)	100.4%	\$ 22,898,124	-0.5%
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%
SCHOOL BOARD COMPONENT UNIT - VRS NON-PROFESSIONAL EMPLOYEES						
June 30, 2003	\$ 53,170,951	\$ 51,919,382	\$ (1,251,569)	102.4%	\$ 13,052,011	-9.6%
June 30, 2004	\$ 52,765,749	\$ 54,345,074	\$ 1,579,325	97.1%	\$ 13,647,900	11.6%
June 30, 2005	\$ 52,906,114	\$ 61,150,786	\$ 8,244,672	86.5%	\$ 14,211,173	58.0%
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%
<u>Other Post-employment Benefits (OPEB):</u>						
CITY EMPLOYEES AND RETIREES						
July 1, 2007	\$ -	\$ 43,566,000	\$ 43,566,000	0.0%	\$ 170,956,000	25.5%
SCHOOL EMPLOYEES AND RETIREES						
July 1, 2007	\$ -	\$ 59,700,000	\$ 59,700,000	0.0%	\$ 232,465,000	25.7%
TOTAL						
July 1, 2007	\$ -	\$ 103,266,000	\$ 103,266,000	0.0%	\$ 403,421,000	25.6%

CITY OF NORFOLK, VIRGINIA

Exhibit E-1

Schedule of Revenue, Budget and Actual (Unaudited)
General Fund
For the Year Ended June 30, 2008

	Original Budget	Final Budget	Budget Basis Actual	Positive (negative) Variance with Final Budget
General property taxes	\$ 234,990,000	\$ 234,990,000	\$ 238,739,614	\$ 3,749,614
Other local taxes	156,234,500	156,234,500	153,068,673	(3,165,827)
Permits, privilege fees, licenses	4,012,700	4,012,700	4,055,323	42,623
Fines and forfeitures	1,525,000	1,525,000	1,307,680	(217,320)
Revenue from use of money and property	8,534,700	8,834,700	8,165,289	(669,411)
Charges for services	23,873,000	23,873,000	25,043,911	1,170,911
Miscellaneous revenue	4,295,000	4,295,000	4,809,869	514,869
Recovered costs	9,584,700	9,584,700	8,620,136	(964,564)
Non-categorical aid - Virginia	34,942,800	34,942,800	34,172,905	(769,895)
Shared expense - Virginia	21,465,800	21,465,800	21,233,397	(232,403)
Categorical aid - Virginia	271,419,100	271,419,100	269,132,997	(2,286,103)
Categorical aid - Federal	6,247,000	6,247,000	5,078,241	(1,168,759)
Interfund transfers	18,711,400	33,297,921	33,297,921	-
Total revenue budget	<u>\$ 795,835,700</u>	<u>\$ 810,722,221</u>	<u>\$ 806,725,956</u>	<u>\$ (3,996,265)</u>

CITY OF NORFOLK, VIRGINIA

Exhibit E-2

Schedule of Expenditures, Budget and Actual (Unaudited)

General Fund

For the Year Ended June 30, 2008

	Original Budget	Final Budget	Budget Basis Actual	Positive (negative) Variance with Final Budget
Legislative	\$ 4,232,700	\$ 4,292,716	\$ 4,269,963	\$ 22,753
Executive	1,925,500	1,952,185	1,953,192	(1,007)
Department of Law	3,788,100	3,886,814	3,899,152	(12,338)
Finance	24,677,700	24,897,909	24,848,857	49,052
Department of Human Resources	3,976,700	4,007,926	3,976,720	31,206
Courts, Sheriff and Detention	44,960,600	45,711,461	45,947,330	(235,869)
Department of Public Health	5,835,100	5,860,705	5,794,744	65,961
Department of Human Services	61,142,300	62,095,420	61,793,156	302,264
Department of Public Works	43,194,400	43,437,942	42,572,180	865,762
Neighborhood & Leisure Services	20,945,300	22,516,492	22,012,341	504,151
Education	314,707,700	316,907,700	316,471,478	436,222
Norfolk Public Libraries	7,956,400	8,019,600	8,045,366	(25,766)
Elections	581,800	648,298	641,143	7,155
Department of Planning	4,741,500	4,799,421	4,536,822	262,599
Department of Civic Facilities	6,477,300	6,526,427	6,612,705	(86,278)
Departmental support	27,020,200	28,703,589	28,883,245	(179,656)
Outside agencies	34,272,200	32,703,372	32,659,179	44,193
Department of Police	58,657,000	59,874,983	60,912,190	(1,037,207)
Department of Fire and Rescue	36,047,900	37,613,074	37,820,320	(207,246)
Public safety support	-	5,710	5,710	-
Debt service	71,333,000	76,683,000	72,254,631	4,428,369
Budget and Management	878,400	890,526	854,650	35,876
Economic Development	2,103,600	2,107,092	1,926,591	180,501
Intergovernmental Programs	573,300	576,328	566,928	9,400
Communications and Public Relations	1,576,300	1,636,596	1,665,451	(28,855)
Department of Information Technology	10,328,400	10,418,711	10,367,234	51,477
Office of Grants Management	222,600	235,576	244,577	(9,001)
Virginia Zoological Park	3,484,100	3,516,527	3,531,625	(15,098)
Office of Homelessness	195,600	196,121	170,282	25,839
Total General fund expenditure budget	\$ 795,835,700	\$ 810,722,221	\$ 805,237,762	\$ 5,484,459

CITY OF NORFOLK, VIRGINIA
Notes to Required Supplementary Information
Reconciliation of (non-GAAP) Budgetary Basis to GAAP (Unaudited)
June 30, 2008

	General Fund
<u>Sources/inflows of resources:</u>	
Actual amounts (budgetary basis) "available for appropriation" from Exhibit E-1	\$ 806,725,956
Differences--budget to GAAP:	
The effects of accounting for school revenue as a component unit	(213,199,790)
The effects of accounting for revenue on a modified accrual basis	(23,297,921)
General fund transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(10,000,000)
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	<u>\$ 560,228,245</u>
<u>Uses/outflows of resources:</u>	
Actual amounts (budgetary basis) "Total charges to appropriations" from Exhibit E-2	\$ 805,237,762
Differences--budget to GAAP:	
The effects of accounting for school expenditures as a component unit	(215,376,568)
Equipment purchased with bond proceeds	11,320,660
The effects of accounting for the FY-08 5% budget reserve	(1,162,121)
The effects of accounting for future year expenditures	(956,750)
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	2,794,155
General fund transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(86,197,266)
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances--Governmental Funds	<u>\$ 515,659,872</u>
There were no material violations of the annual appropriated budget for the General fund for the fiscal year	

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OTHER SUPPLEMENTARY INFORMATION

COMBINING FINANCIAL STATEMENTS

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

OTHER SCHEDULES

**~ Schedule of Expenditures of Federal Awards ~

~ Notes to Schedule of Expenditures of Federal Awards ~

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

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

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



Nonmajor Governmental Funds

Special Revenue Funds

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

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

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

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

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

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

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

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

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

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

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

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



Nonmajor Governmental Funds (Con't.)

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

Permanent Fund

The Permanent fund is used to report resources that are legally restricted 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.



CITY OF NORFOLK, VIRGINIA
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2008

	Special Revenue Funds						
	Storm Water	Towing	Grants	Community Development	Nauticus	Maritime Facility	Cemeteries
ASSETS							
Cash and short term investments	\$ 1,070,482	\$ 1,029,420	\$ 17,316,450	\$ 449,804	\$ 373,518	\$ 1,670,563	\$ 487,233
Investments	-	-	72,000	-	-	-	-
Receivables, net	1,798,220	14,511	528,084	1,064,427	230,738	273,930	135,790
Due from other funds	40	-	2,818,606	-	-	-	-
Due from other governments	-	-	9,067,782	-	-	-	-
Prepaid expenses	-	15,500	-	-	-	-	-
Deposit with contractors	-	-	3,084	-	-	-	-
Total assets	<u>\$ 2,868,742</u>	<u>\$ 1,059,431</u>	<u>\$ 29,806,006</u>	<u>\$ 1,514,231</u>	<u>\$ 604,256</u>	<u>\$ 1,944,493</u>	<u>\$ 623,023</u>
LIABILITIES							
Vouchers payable	\$ 107,265	\$ 57,989	\$ 1,609,574	\$ 409,292	\$ 113,385	\$ 30,302	\$ 77,039
Contract retainage	-	-	191,720	-	-	-	-
Accrued payroll	69,543	7,747	60,862	5,792	49,725	3,640	-
Accrued expenses	-	-	-	-	(693)	-	-
Due to other funds	390	-	143,817	210,421	412,508	11,648	-
Due to other governments	-	-	8,040,616	295,748	-	-	-
Due to component units	-	-	23,705	-	-	-	-
Unearned revenue	219,642	-	-	592,978	-	-	-
Other liabilities	-	38,948	25	-	33,443	-	108,031
Total liabilities	<u>396,840</u>	<u>104,684</u>	<u>10,070,319</u>	<u>1,514,231</u>	<u>608,368</u>	<u>45,590</u>	<u>185,070</u>
FUND BALANCES							
Reserved for:							
Encumbrances	939,780	91,682	19,733,572	2,489,087	68,204	25,811	126,556
Perpetual care	-	-	-	-	-	-	-
Capital projects	36,715	-	-	-	-	-	-
Unreserved:							
Undesignated	1,495,407	863,065	2,115	(2,489,087)	(72,316)	1,873,092	311,397
Total fund balances	<u>2,471,902</u>	<u>954,747</u>	<u>19,735,687</u>	<u>-</u>	<u>(4,112)</u>	<u>1,898,903</u>	<u>437,953</u>
Total liabilities and fund balances	<u>\$ 2,868,742</u>	<u>\$ 1,059,431</u>	<u>\$ 29,806,006</u>	<u>\$ 1,514,231</u>	<u>\$ 604,256</u>	<u>\$ 1,944,493</u>	<u>\$ 623,023</u>

CITY OF NORFOLK, VIRGINIA
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2008

Exhibit F-1

Special Revenue Funds						Permanent Funds	Nonmajor Governmental Funds
Golf	Public Amenities	Land Acquisition	EOC/ 911	Tax Increment	Total Special Revenue	Non- Expendable trust	
\$ 249,893	\$ 2,366,433	\$ 2,492,011	\$ -	\$ 4,054,792	\$ 31,560,599	\$ 6,156,476	\$ 37,717,075
-	-	-	-	-	72,000	-	72,000
-	522,672	-	213,428	-	4,781,800	238,030	5,019,830
-	-	-	4,007,735	-	6,826,381	-	6,826,381
-	-	-	-	-	9,067,782	-	9,067,782
-	-	-	-	-	15,500	-	15,500
-	-	-	-	-	3,084	-	3,084
<u>\$ 249,893</u>	<u>\$ 2,889,105</u>	<u>\$ 2,492,011</u>	<u>\$ 4,221,163</u>	<u>\$ 4,054,792</u>	<u>\$ 52,327,146</u>	<u>\$ 6,394,506</u>	<u>\$ 58,721,652</u>
\$ 17,820	\$ 3,000	\$ -	\$ 37,927	\$ -	\$ 2,463,593	\$ -	\$ 2,463,593
-	-	-	-	-	191,720	-	191,720
-	-	-	89,565	-	286,874	-	286,874
-	-	-	6,652	-	5,959	-	5,959
-	-	-	939,012	-	1,717,796	-	1,717,796
-	-	-	-	-	8,336,364	-	8,336,364
-	-	-	-	-	23,705	-	23,705
-	-	-	-	-	812,620	-	812,620
-	-	-	-	-	180,447	-	180,447
<u>17,820</u>	<u>3,000</u>	<u>-</u>	<u>1,073,156</u>	<u>-</u>	<u>14,019,078</u>	<u>-</u>	<u>14,019,078</u>
19,951	26,000	19,020	846,734	-	24,386,397	-	24,386,397
-	-	-	-	-	-	6,293,375	6,293,375
-	-	-	-	-	36,715	-	36,715
<u>212,122</u>	<u>2,860,105</u>	<u>2,472,991</u>	<u>2,301,273</u>	<u>4,054,792</u>	<u>13,884,956</u>	<u>101,131</u>	<u>13,986,087</u>
<u>232,073</u>	<u>2,886,105</u>	<u>2,492,011</u>	<u>3,148,007</u>	<u>4,054,792</u>	<u>38,308,068</u>	<u>6,394,506</u>	<u>44,702,574</u>
<u>\$ 249,893</u>	<u>\$ 2,889,105</u>	<u>\$ 2,492,011</u>	<u>\$ 4,221,163</u>	<u>\$ 4,054,792</u>	<u>\$ 52,327,146</u>	<u>\$ 6,394,506</u>	<u>\$ 58,721,652</u>

City of Norfolk, Virginia

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2008**

	Special Revenue Funds					
	Storm Water	Towing	Grants	Community Development	Nauticus	Maritime Facility
REVENUES						
General property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other local taxes	-	-	-	-	-	-
Fines and forfeitures	-	-	9,580	-	-	-
Use of money and property	21,072	29,210	177,048	-	-	-
Charges for services	10,722,810	1,861,125	1,489,439	758,822	1,517,255	1,188,629
Miscellaneous	-	91,196	3,879,069	507,366	43,947	-
Recovered costs	-	-	1,460	-	-	-
Intergovernmental:						
Commonwealth of Virginia	-	-	17,868,679	-	-	-
Federal government	-	-	10,852,347	5,209,749	368,878	-
Total revenue	10,743,882	1,981,531	34,277,622	6,475,937	1,930,080	1,188,629
EXPENDITURES						
General government	-	-	3,095,511	-	-	-
Judicial administration	-	-	1,316,062	-	-	-
Public safety	-	-	5,637,518	-	-	-
Public works	8,554,461	1,832,669	7,073,714	-	-	-
Health and public assistance	-	-	26,664,875	2,273,417	-	-
Cultural and recreation	-	-	718,972	-	4,295,216	589,979
Community development	-	-	-	4,202,520	-	-
Capital outlay	-	-	-	-	-	-
Debt service	-	-	-	-	-	-
Interest and other charges	-	-	-	-	-	1,068,756
Total expenditures	8,554,461	1,832,669	44,506,652	6,475,937	4,295,216	1,658,735
Excess (deficiency) of revenue over (under) expenditures	2,189,421	148,862	(10,229,030)	-	(2,365,136)	(470,106)
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	13,793,869	-	2,437,772	1,560,948
Transfers out	(2,244,352)	-	-	-	-	(11,648)
Total other financing sources and uses	(2,244,352)	-	13,793,869	-	2,437,772	1,549,300
Net change in fund balances	(54,931)	148,862	3,564,839	-	72,636	1,079,194
Fund balances--beginning	2,526,833	805,885	16,170,848	-	(76,748)	819,709
Fund balances--ending	\$ 2,471,902	\$ 954,747	\$ 19,735,687	\$ -	\$ (4,112)	\$ 1,898,903

City of Norfolk, Virginia

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2008**

Exhibit F-2

Special Revenue Funds							Permanent Funds	Total Nonmajor Governmental Funds
Cemeteries	Golf	Public Amenities	Land Acquisition	EOC/ 911	Tax Increment	Total Special Revenue	Non- Expendable Trust	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,550,300	\$ 2,550,300	\$ -	\$ 2,550,300
-	-	5,346,805	-	4,157,815	-	9,504,620	-	9,504,620
-	-	-	-	-	-	9,580	-	9,580
-	105,178	-	1,747,377	-	8,665	2,088,550	291,213	2,379,763
1,262,815	1,240,386	-	-	1,704	-	20,042,985	178,043	20,221,028
-	20,000	-	-	1,459,284	-	6,000,862	-	6,000,862
-	-	-	-	-	-	1,460	-	1,460
-	-	-	-	-	-	17,868,679	-	17,868,679
-	-	-	-	63,617	-	16,494,591	-	16,494,591
<u>1,262,815</u>	<u>1,365,564</u>	<u>5,346,805</u>	<u>1,747,377</u>	<u>5,682,420</u>	<u>2,558,965</u>	<u>74,561,627</u>	<u>469,256</u>	<u>75,030,883</u>
-	-	-	-	-	-	3,095,511	-	3,095,511
-	-	-	-	-	-	1,316,062	-	1,316,062
-	-	-	-	6,777,823	-	12,415,341	-	12,415,341
-	-	-	-	-	-	17,460,844	-	17,460,844
-	-	-	-	-	-	28,938,292	-	28,938,292
2,136,259	1,442,228	682,430	-	-	-	9,865,084	-	9,865,084
-	-	-	-	-	-	4,202,520	-	4,202,520
-	-	-	2,580,980	-	-	2,580,980	-	2,580,980
-	-	-	-	-	737,686	1,806,442	-	1,806,442
<u>2,136,259</u>	<u>1,442,228</u>	<u>682,430</u>	<u>2,580,980</u>	<u>6,777,823</u>	<u>737,686</u>	<u>81,681,076</u>	<u>-</u>	<u>81,681,076</u>
<u>(873,444)</u>	<u>(76,664)</u>	<u>4,664,375</u>	<u>(833,603)</u>	<u>(1,095,403)</u>	<u>1,821,279</u>	<u>(7,119,449)</u>	<u>469,256</u>	<u>(6,650,193)</u>
1,054,736	-	-	-	1,627,767	-	20,475,092	-	20,475,092
-	(400,000)	(9,266,750)	(1,228,000)	-	-	(13,150,750)	(305,580)	(13,456,330)
<u>1,054,736</u>	<u>(400,000)</u>	<u>(9,266,750)</u>	<u>(1,228,000)</u>	<u>1,627,767</u>	<u>-</u>	<u>7,324,342</u>	<u>(305,580)</u>	<u>7,018,762</u>
181,292	(476,664)	(4,602,375)	(2,061,603)	532,364	1,821,279	204,893	163,676	368,569
<u>256,661</u>	<u>708,737</u>	<u>7,488,480</u>	<u>4,553,614</u>	<u>2,615,643</u>	<u>2,233,513</u>	<u>38,103,175</u>	<u>6,230,830</u>	<u>44,334,005</u>
<u>\$ 437,953</u>	<u>\$ 232,073</u>	<u>\$ 2,886,105</u>	<u>\$ 2,492,011</u>	<u>\$ 3,148,007</u>	<u>\$ 4,054,792</u>	<u>\$ 38,308,068</u>	<u>\$ 6,394,506</u>	<u>\$ 44,702,574</u>

Agency Funds

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

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

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



**Combining Balance Sheet - Agency Funds
June 30, 2008**

	<u>Other</u>	<u>Commonwealth of Virginia</u>	<u>Total</u>
ASSETS			
Cash and short term investments	\$ 9,239,734	\$ 18,114	\$ 9,257,848
Receivables:			
Accounts, net of allowance for uncollectible accounts	1,045	-	1,045
Other	523,305	-	523,305
Total assets	<u>\$ 9,764,084</u>	<u>\$ 18,114</u>	<u>\$ 9,782,198</u>
LIABILITIES			
Vouchers payable	\$ 26,215	\$ -	\$ 26,215
Due to other agencies	9,737,869	18,114	9,755,983
Total liabilities	<u>\$ 9,764,084</u>	<u>\$ 18,114</u>	<u>\$ 9,782,198</u>

Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2008

	Other		
	Balance July, 1,2007	Additions	Deductions
ASSETS			
Cash and short term investments	\$ 4,996,411	\$ 18,922,716	\$ 14,679,393
Accounts receivable	784	1,521	1,260
Other receivables	-	628,552	105,247
Total assets	<u>\$ 4,997,195</u>	<u>\$ 19,552,789</u>	<u>\$ 14,785,900</u>
LIABILITIES			
Vouchers payable	\$ 176,469	\$ 2,643,609	\$ 2,793,863
Due to other agencies	4,820,726	23,448,643	18,531,500
Total liabilities	<u>\$ 4,997,195</u>	<u>\$ 26,092,252</u>	<u>\$ 21,325,363</u>

	Commonwealth of Virginia		
	Balance July, 1,2007	Additions	Deductions
ASSETS			
Cash and short term investments	\$ -	\$ 18,088,367	\$ 18,070,253
Total assets	<u>\$ -</u>	<u>\$ 18,088,367</u>	<u>\$ 18,070,253</u>
LIABILITIES			
Due to the Commonwealth of Virginia	\$ -	\$ 18,088,367	\$ 18,070,253
Total liabilities	<u>\$ -</u>	<u>\$ 18,088,367</u>	<u>\$ 18,070,253</u>

	Total		
	Balance July, 1,2007	Additions	Deductions
ASSETS			
Cash and short term investments	\$ 4,996,411	\$ 37,011,083	\$ 32,749,646
Accounts receivable	784	1,521	1,260
Other	-	628,552	105,247
Total assets	<u>\$ 4,997,195</u>	<u>\$ 37,641,156</u>	<u>\$ 32,856,153</u>
LIABILITIES			
Vouchers payable	\$ 176,469	\$ 2,643,609	\$ 2,793,863
Due to other agencies	4,820,726	41,537,010	36,601,753
Total liabilities	<u>\$ 4,997,195</u>	<u>\$ 44,180,619</u>	<u>\$ 39,395,616</u>

Internal Service Funds

Internal service funds are used to account for the financing of goods and services provided by one department or agency to other departments or agencies of the government and to other government units, on a cost reimbursement basis. The individual internal service funds are:

Storehouse Fund; to acquire and issue to the operating departments materials, parts, and supplies which are used in the same form as purchased.

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



CITY OF NORFOLK, VIRGINIA
Combining Statement of Net Assets - Internal Service Funds
June 30, 2008

Exhibit H-1

	Storehouse	Fleet Management	Total
ASSETS			
Current assets:			
Cash and short term investments	\$ 44	\$ 4,394,952	\$ 4,394,996
Receivables, net	3,353	412,747	416,100
Due from other funds	-	88,400	88,400
Inventories	1,870,184	389,654	2,259,838
Total current assets	1,873,581	5,285,753	7,159,334
Noncurrent assets:			
Capital assets:			
Land	-	415,000	415,000
Buildings and equipment, net	34,281	5,377,548	5,411,829
Total noncurrent assets	34,281	5,792,548	5,826,829
Total assets	1,907,862	11,078,301	12,986,163
LIABILITIES			
Current liabilities:			
Vouchers payable	48,277	515,769	564,046
Due to other funds	69,599	206,236	275,835
Compensated absences	34,225	203,424	237,649
Accrued payroll	9,581	61,320	70,901
Obligations for employees' retirement	42,552	265,608	308,160
Total current liabilities	204,234	1,252,357	1,456,591
Noncurrent liabilities:			
Compensated absences	8,556	87,182	95,738
Other long-term liabilities	-	7,703	7,703
Total noncurrent liabilities	8,556	94,885	103,441
Total liabilities	212,790	1,347,242	1,560,032
NET ASSETS			
Invested in capital assets, net			
of related debt	34,281	5,784,845	5,819,126
Unrestricted	1,660,791	3,946,214	5,607,005
Total net assets	\$ 1,695,072	\$ 9,731,059	\$ 11,426,131

CITY OF NORFOLK, VIRGINIA
Combining Statement of Revenues, Expenses, and
Changes in Fund Net Assets - Internal Service Funds
For the Year Ended June 30, 2008

Exhibit H-2

	Storehouse	Fleet Management	Total
OPERATING REVENUES;			
Charges for services	\$ 3,662,192	\$ 12,373,868	\$ 16,036,060
Miscellaneous	-	115,675	115,675
Total operating revenues	<u>3,662,192</u>	<u>12,489,543</u>	<u>16,151,735</u>
OPERATING EXPENSES;			
Personal services	470,523	3,016,359	3,486,882
Cost of goods sold	2,988,656	7,106,234	10,094,890
Plant operations	14,661	237,208	251,869
Depreciation	4,311	298,195	302,506
Retirement and OPEB contributions	42,552	265,608	308,160
Provision for bad debts	-	15,672	15,672
Other	44,238	1,222,904	1,267,142
Total operating expenses	<u>3,564,941</u>	<u>12,162,180</u>	<u>15,727,121</u>
Operating income	<u>97,251</u>	<u>327,363</u>	<u>424,614</u>
NONOPERATING REVENUE (EXPENSES)			
Interest and investment income	2,014	157,083	159,097
Total nonoperating revenue	<u>2,014</u>	<u>157,083</u>	<u>159,097</u>
Net income before transfers	<u>99,265</u>	<u>484,446</u>	<u>583,711</u>
Other financing sources (uses):			
Transfers out	<u>-</u>	<u>(35,000)</u>	<u>(35,000)</u>
Change in net assets	99,265	449,446	548,711
Net assets--beginning	1,595,807	9,281,613	10,877,420
Net assets--ending	<u>\$ 1,695,072</u>	<u>\$ 9,731,059</u>	<u>\$ 11,426,131</u>

CITY OF NORFOLK, VIRGINIA
Combining Statement of Cash Flows - Internal Service Funds
For the Year Ended June 30, 2008

Exhibit H-3

	Storehouse	Fleet Management	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	\$ 3,660,553	\$ 12,217,599	\$ 15,878,152
Payments to suppliers	(3,064,951)	(7,087,291)	(10,152,242)
Payments to employees	(522,219)	(3,347,824)	(3,870,043)
Other receipts (payments)	(44,238)	(1,119,004)	(1,163,242)
Net cash provided by operating activities	<u>29,145</u>	<u>663,480</u>	<u>692,625</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Internal activity	<u>(25,118)</u>	<u>5,913</u>	<u>(19,205)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition of capital assets	(16,264)	(272,958)	(289,222)
Principal paid on capital debt	-	(2,510)	(2,510)
Net cash used by capital and related financing activities	<u>(16,264)</u>	<u>(275,468)</u>	<u>(291,732)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest and dividends	<u>2,014</u>	<u>157,083</u>	<u>159,097</u>
Net cash provided by investing activities	<u>2,014</u>	<u>157,083</u>	<u>159,097</u>
Net increase in cash and short term investments	(10,223)	551,008	540,785
Cash and short term investments - beginning of the year	<u>10,267</u>	<u>3,843,944</u>	<u>3,854,211</u>
Cash and short term investments - end of the year	<u>\$ 44</u>	<u>\$ 4,394,952</u>	<u>\$ 4,394,996</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating income	\$ 97,251	\$ 327,363	\$ 424,614
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	4,311	298,195	302,506
Provision for bad debts	-	15,672	15,672
Loss on disposal of assets	-	103,900	103,900
Change in assets and liabilities:			
Receivables, net	(1,639)	(271,944)	(273,583)
Inventories	(13,469)	15,775	2,306
Vouchers payable	(48,165)	240,376	192,211
Accrued payroll	2,883	18,241	21,124
Other liabilities	(12,027)	(84,098)	(96,125)
Net cash provided by operating activities	<u>\$ 29,145</u>	<u>\$ 663,480</u>	<u>\$ 692,625</u>
Noncash investing, capital, and financing activities:			
Loss on sale or disposal of capital assets	<u>\$ -</u>	<u>\$ (103,900)</u>	<u>\$ (103,900)</u>

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS



CITY OF NORFOLK, VIRGINIA
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

Schedule I

Federal Granting Agency/Recipient Recipient State Agency/Grant program	CFDA Number	Federal Expenditures
<u>Department of Agriculture:</u>		
Direct Payments:		
USDA Summer Food Service Program (SFSP)	10.559	\$ 256,863
Food Stamp Program - Administration	10.561	4,195,728
Pass-through Payments:		
State Department of Agriculture:		
National School Breakfast Program	10.553	2,340,160
National School Lunch Program	10.555	7,359,544
National School Lunch Program (Commodities)	10.556	1,178,250
<u>Department of Housing and Urban Development:</u>		
Direct Payments:		
Community Development Block Grant	14.218	5,209,749
ESG Administration	14.231	378
For Kids, Inc. Haven Family Services	14.231	35,429
Ecumenical Family Shelter	14.231	20,252
St Columbia	14.231	27,410
The Planning Council	14.231	35,195
YWCA Women in Crisis	14.231	26,826
Special Needs Assistance (SPC Support)	14.235	71,531
Shelter Plus Care Program	14.238	363,836
CHDA Investment	14.239	150,972
Home Administration	14.239	204,863
Home Investment Partnership	14.239	411,119
NRHA - Homebuyer Assistance	14.239	1,178,814
Equity Secure - Rehabilitation	14.239	791,885
<u>Department of Justice:</u>		
Direct Payments:		
Community Oriented Policing Services:		
Bulletproof Vests Grant	16.607	21,865
Bureau of Justice Grant	16.710	59,434
COPS	16.710	545,910
Pass-Through Payments:		
Department of Criminal Justice Services:		
Juvenile Accountability Incentive	16.523	30,876
VSTOP Prosecutorial Project	16.540	32,084
Recruit and Retain Criminal Jus Prof	16.579	12,892
Crime and Delinquency Prevention	16.579	51,733
GOSAP - Prepare Until Success Happens	16.579	3,602
Project Safe Neighborhoods	16.609	39,440
<u>Department of Transportation:</u>		
Pass-Through Payments:		
Selective Enforcement	20.511	21,479
<u>Environmental Protection Agency:</u>		
Pass-Through Payments:		
Virginia Resources Authority - Revolving Loan	66.458	7,359,833
<u>Department of Homeland Security</u>		
Direct Payments:		
FEMA - Flood Mitigation	97.029	280,094
FEMA - Assistance to Firefighters	97.044	447,832
Port Security Grant	97.056	248,340
Pass-Through Payments:		
FEMA Flood Mitigation	97.029	356,483
Disaster Grants - Public Assistance	97.036	63,617
Terrorism Prevention	97.074	36,723
Law Enforcement Terrorism Prevention	97.074	8,272

continued

CITY OF NORFOLK, VIRGINIA
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

Schedule I

Department of Education:

Direct Payments:		
Department of Defense	84.010	\$ 404,818
School Assistance in Federally Affected Areas	84.041	4,391,958
Pass-Through Payments:		
Department of Education:		
Education Consolidation and Improvement Act of 1981:		
Adult Education	84.002	355,447
Title I:		
Educationally Deprived Children- Programs Operated by LEA's	84.010	17,806,934
School Improvement Grant	84.010	22,189
Program for Neglected Children	84.013	14,249
Chapter I:		
Evenstart Program	84.213	441,920
Title VI:		
Negligent Delinquent Children	84.010	244,372
Elementary and Secondary Education Act (ESEA):		
Title VI-B:		
Assistance to States for Education of Handicapped Children:		
Transition Incentive Grant	84.027	2,361
Special Education Flow Thru (Federal)	84.027	7,045,493
Handicapped Preschool Incentive Grant	84.173	238,184
Title IV-B:		
Vocational Education:		
Consumer and Homemaking	84.048	1,033,293
Substitute Teachers	84.048	230
9th Grade Transition	84.298	26,801
Special Projects:		
Drug Free Act	84.186	244,008
ESEA, Chapter II	84.298	107,013
McKinney Homeless Assistance	84.196	21,981
Enhancing Education with Tech Phase II	84.318	247,938
Enhancing Education with Tech	84.318	257,868
21st Century Community Learning Center	84.287	9,327
Comm Central Phase II	84.287	40,206
Reading First	84.357	871,735
Limited English	84.365	53,797
Teacher & Principal Training	84.367	1,953,042
Enhanced Reading Opportunity	84.215	974,518
Dept of Mental Health, Mental Retardation and Substance Abuse		
Mental Retardation Early Intervention	84.181	320,801

Department of the Navy:

Direct Payments:		
USS Wisconsin Grant	12.700	368,878

Department of Health and Human Services:

Direct Payments:		
HIV/AIDS Grant	93.914	5,464,997
NIC Pool Funds	99.000	40,960
Pass-Through Payments:		
Projects for Assistance in Transition to Homeless (PATH)	93.150	84,481
Mental Health VASIP / COSIG	93.243	1,875
Youth & Family Services Grant	93.556	626,747
Temporary Assistance to Needy Families	93.558	2,845,307
Refugee and Entrant Assistance State Administered Prog	93.566	17,988
Local-Income Home Energy Assistance	93.568	84,260
Payments to States for Child Care Assistance	93.575	4,137,775
Child Development Care	93.596	3,051,661
Independent Living Program - Education and Training	93.599	37,961
Family Preservation	93.645	24,625
Foster Care - Title IV - E	93.658	2,728,057
Adoptive Assistance	93.659	598,079
Social Services Block Grant	93.667	4,313,873
Independent Living Initiative Program	93.674	66,265
FAMIS Outreach Grants	93.767	151,504
Medical Assistance Program - Administrative	93.778	3,054,148
Mental Health Federal Block Grant	93.958	144,458
Substance Abuse Federal Block Grant	93.959	1,893,002

Total		<u>\$ 100,346,698</u>
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CITY OF NORFOLK, VIRGINIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2008

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 100% 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:

Governmental fund	\$ 25,933,981
Non-governmental funds	16,494,591
Total revenues from federal government	<u>42,428,572</u>

Component Unit - School Board

Total Federal Grants Awarded	48,659,166
Direct Payments:	
Navy Junior ROTC	259,064
Erate - Universal Service Funds	376,295
Medicaid	345,498
Total - Norfolk Public Schools	<u>47,678,309</u>

Component Unit - Community Services Board	2,879,984
Enterprise - VRA Loan - WasteWater Fund	7,359,833

Total federal financial assistance reported in basic financial statements	<u><u>\$ 100,346,698</u></u>
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Reconciliation to Exhibit A-3

Revenues from federal government	\$ 42,428,572
Sheriff - Social Security	\$ 22,400
Hurricane Isabelle disaster relief recovery	13,325
Total revenues from federal government	<u>42,464,297</u>

Revenues from Commonwealth of Virginia	114,397,465
Total intergovernmental revenue	<u><u>\$ 156,861,762</u></u>

4. Relationship to Federal Financial Reports

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

5. Subrecipients

Federal funds passed through to subrecipients for the year ended June 30, 2008 were as follows:

<u>Federal Granting Agency / Grant Program / Subrecipient</u>	<u>Amount</u>	
Department of Housing and Urban Development		
<u>Community Development Block Grant:</u>		
AIDS Care Center for Education and Support Services	56,691	
St Columbia Ecumenical Ministries	50,569	
Foodbank of Southeastern Virginia	35,730	
The Planning Council	58,930	
The Salvation Army	130,000	
Residential Options	4,175	
Park Place School	29,596	
YMCA of South Hampton Roads	42,122	
William A Hunton YMCA	37,000	
HomeNet	75,000	
Tidewater AIDS Community Task Force	33,900	
Community Mediation Center	5,996	
Excellence Girls Club	21,074	
Joy Ministries Evangelistic Association	20,000	
National Institute for Learning Development	19,000	
International Black Women's Congress	23,981	
Urban League of Hampton Roads	25,000	
Child and Family Services of Eastern Virginia	50,000	
Assertive Community Taskforce Team	46,583	
The STOP Organization	181,004	
Barrett Haven	17,780	
NRHA	2,554,290	
Total Community Development Block Grant		3,518,421.05
<u>NRHA - Homebuyer Assistance</u>		
NRHA	950,600	
Total NRHA - Homebuyer Assistance		950,600.00
<u>Equity Secure - Rehabilitation</u>		
NRHA	106,847	
Total Equity Secure - Rehabilitation		106,847.00
<u>Home Program Administration</u>		
NRHA	204,863	
Total Home Program Administration		204,863.00
<u>CHDA Investment</u>		
Beacon Light Community Housing Development Organization	19,556	
NRHA	56,661	
Total CHDA Investment		76,217
Total Department of Housing and Urban Development	\$	4,856,948
Department of Homeland Security		
<u>Port Security Grant</u>		
City of Portsmouth	36,056	
Total Port Security Grant		36,056
Total Department of Homeland Security	\$	36,056
Department of Health and Human Services		
<u>Temporary Assistance for Needy Families</u>		
Goodwill	143,751	
KRA	2,090,758	
Total Temporary Assistance for Needy Families		2,234,509
<u>Foster Care Title IV-E</u>		
Norfolk State University	387,971	
Total Foster Care - Title IV-E		387,971
<u>Payments to States for Child Care Assistance</u>		
The Planning Council	542,206	
Total Payments to States for Child Care Assistance		542,206
<u>HIV/AIDS Grant</u>		
EVMS - Center for Comprehensive Care Of Immune Deficiency	1,089,614	
Community Psychological Group	116,962	
ACCESS	588,158	
Health and Home Support Services	190,581	
Tidewater AIDS Community Task Force	789,822	
Virginia Beach Department of Health	71,487	
Williamsburg AIDS Network	30,092	
Total HIV/AIDS Grant		2,876,716
Total Department of Health and Human Services	\$	6,041,401
Total Payment to Sub-Recipients	\$	10,934,405

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 Recovery Operation's Fund
For the Year Ended June 30, 2008**

	Budget	Actual	Positive (Negative) Variance
Revenues:			
Use of money and property	\$ -	\$ 29,210	\$ 29,210
Charges for services	973,260	1,861,125	887,865
Miscellaneous	768,240	91,196	(677,044)
Recovered costs	206,000	-	(206,000)
Total revenue	<u>\$ 1,947,500</u>	<u>\$ 1,981,531</u>	<u>\$ 34,031</u>
Expenditures:			
Towing recovery	\$ 1,797,500	\$ 1,867,333	\$ (69,833)
Transfer out	150,000	-	150,000
Total expenditures	<u>\$ 1,947,500</u>	<u>\$ 1,867,333</u>	<u>\$ 80,167</u>

CITY OF NORFOLK, VIRGINIA
Schedule of Revenues and Expenditures - Budget and Actual
Storm Water Utility Fund
For the Year Ended June 30, 2008

Exhibit J-1

	Budget	Actual	Positive (Negative) Variance
Revenues:			
Use of money and property	\$ 10,000	\$ 21,072	\$ 11,072
Charges for services	10,506,100	10,722,810	216,710
Total revenue	<u>\$ 10,516,100</u>	<u>\$ 10,743,882</u>	<u>\$ 227,782</u>
Expenditures:			
Storm water	\$ 6,956,398	\$ 8,451,916	\$ (1,495,518)
Transfer out	3,559,702	2,244,352	1,315,350
Total expenditures	<u>\$ 10,516,100</u>	<u>\$ 10,696,268</u>	<u>\$ (180,168)</u>

CITY OF NORFOLK, VIRGINIA
Schedule of Revenues and Expenditures - Budget and Actual
Nauticus Fund
For the Year Ended June 30, 2008

Exhibit J-1

	Budget	Actual	Positive (Negative) Variance
Revenues:			
Charges for services	\$ 2,022,600	\$ 1,428,242	\$ (594,358)
Use of money and property	118,500	89,013	(29,487)
Intergovernmental - Federal	122,328	368,878	246,550
Miscellaneous	169,000	43,947	(125,053)
Transfer in	2,437,772	2,437,772	-
Total revenue	<u>\$ 4,870,200</u>	<u>\$ 4,367,852</u>	<u>\$ (502,348)</u>
Expenditures:			
Operations	<u>\$ 4,870,200</u>	<u>\$ 4,314,687</u>	<u>\$ 555,513</u>

Schedule of Revenues and Expenditures - Budget and Actual
Maritime Facility Fund
For the Year Ended June 30, 2008

	<u>Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
Revenues:			
Charges for services	\$ 1,150,969	\$ 1,188,629	\$ 37,660
Rollover from last year	302,500	302,500	-
Transfer in	<u>1,544,531</u>	<u>1,560,948</u>	<u>16,417</u>
Total revenue	<u><u>\$ 2,998,000</u></u>	<u><u>\$ 3,052,077</u></u>	<u><u>\$ 54,077</u></u>
Expenditures:			
Operations	\$ 826,003	\$ 562,500	\$ 263,503
Debt service	2,171,997	1,068,756	1,103,241
Transfer out	<u>-</u>	<u>11,648</u>	<u>(11,648)</u>
Total expenditures	<u><u>\$ 2,998,000</u></u>	<u><u>\$ 1,642,904</u></u>	<u><u>\$ 1,355,096</u></u>

CITY OF NORFOLK, VIRGINIA
Schedule of Revenues and Expenditures - Budget and Actual
Golf Fund
For the Year Ended June 30, 2008

Exhibit J-1

	Budget	Actual	Positive (Negative) Variance
Revenues:			
Charges for services	\$ 1,483,500	\$ 1,240,386	\$ (243,114)
Rollover from last year	562,045	562,045	-
Miscellaneous	-	125,178	125,178
Total revenue	<u>\$ 2,045,545</u>	<u>\$ 1,927,609</u>	<u>\$ (117,936)</u>
Expenditures:			
Operations	\$ 1,645,545	\$ 1,462,179	\$ 183,366
Transfer out	400,000	400,000	-
Total expenditures	<u>\$ 2,045,545</u>	<u>\$ 1,862,179</u>	<u>\$ 183,366</u>

CITY OF NORFOLK, VIRGINIA
Schedule of Revenues and Expenditures - Budget and Actual
Emergency Operations Fund (EOC 911)
For the Year Ended June 30, 2008

Exhibit J-1

	Budget	Actual	Positive (Negative) Variance
Revenues:			
Other local taxes	\$ 4,157,735	\$ 4,157,815	\$ 80
Fees	1,000	1,704	704
Recovered cost	1,223,085	1,459,284	236,199
Intergovernmental - federal	63,000	63,617	617
Transfers in	1,627,767	1,627,767	-
Rollover from Last Year	435,251	435,251	-
Total revenue	<u>\$ 7,507,838</u>	<u>\$ 7,745,438</u>	<u>\$ 237,600</u>
Expenditures:			
Operations	<u>\$ 7,507,838</u>	<u>\$ 7,321,508</u>	<u>\$ 186,330</u>

CITY OF NORFOLK, VIRGINIA
Schedule of Revenues and Expenditures - Budget and Actual
Cemeteries Fund
For the Year Ended June 30, 2008

Exhibit J-1

	<u>Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
Revenues:			
Charges for services	\$ 1,295,944	\$ 1,262,815	\$ (33,129)
Transfer in	<u>1,049,156</u>	<u>1,054,736</u>	<u>5,580</u>
Total revenue	<u><u>\$ 2,345,100</u></u>	<u><u>\$ 2,317,551</u></u>	<u><u>\$ (27,549)</u></u>
Expenditures:			
Operations	<u><u>\$ 2,345,100</u></u>	<u><u>\$ 2,228,908</u></u>	<u><u>\$ 116,192</u></u>

CITY OF NORFOLK, VIRGINIA
Schedule of Revenues and Expenditures - Budget and Actual
Public Amenities Fund
For the Year Ended June 30, 2008

Exhibit J-1

	Budget	Actual	Positive (Negative) Variance
Revenues:			
Taxes-Hotel & Restaurant	\$ 5,357,400	\$ 5,346,805	\$ (10,595)
Rollover from last year	7,000,000	7,000,000	-
Total revenue	<u>\$ 12,357,400</u>	<u>\$ 12,346,805</u>	<u>\$ (10,595)</u>
Expenditures:			
Transfer out	\$ 10,877,447	\$ 9,266,750	\$ 1,610,697
Challenge Grants	500,000	599,000	(99,000)
All purpose	979,953	-	979,953
Total expenditures	<u>\$ 12,357,400</u>	<u>\$ 9,865,750</u>	<u>\$ 2,491,650</u>

**Schedule of Revenues and Expenditures - Budget and Actual
Tax Increment Financing Fund
For the Year Ended June 30, 2008**

	Budget	Actual	Positive (Negative) Variance
Revenues:			
Taxes-real property	\$ 2,550,300	\$ 2,550,300	\$ -
Use of money and property	5,000	8,665	3,665
Total revenue	<u>\$ 2,555,300</u>	<u>\$ 2,558,965</u>	<u>\$ 3,665</u>
Expenditures:			
Debt service	\$ 2,555,300	\$ 737,686	\$ 1,817,614
Total expenditures	<u>\$ 2,555,300</u>	<u>\$ 737,686</u>	<u>\$ 1,817,614</u>

Schedule of Revenues and Expenditures - Budget and Actual
Fleet Internal Service Fund
For the Year Ended June 30, 2008

	<u>Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
Revenues:			
Use of money and property	\$ 95,000	157,083	\$ 62,083
Charges for services	11,773,000	12,373,868	600,868
Other-miscellaneous	70,000	115,675	45,675
Total revenue	<u>\$ 11,938,000</u>	<u>\$ 12,646,626</u>	<u>\$ 708,626</u>
Expenditures:			
Fleet	<u>\$ 11,938,000</u>	<u>\$ 12,697,430</u>	<u>\$ (759,430)</u>

Schedule of Revenues and Expenditures - Budget and Actual
Storehouse Internal Service Fund
For the Year Ended June 30, 2008

	Budget	Actual *	Positive (Negative) Variance
Revenues:			
Charges for services	\$ 587,700	\$ 673,536	\$ 85,836
Use of money and property	2,000	2,014	14
	<u>\$ 589,700</u>	<u>\$ 675,550</u>	<u>\$ 85,850</u>
Expenditures:			
Storehouse	<u>\$ 589,700</u>	<u>\$ 546,340</u>	<u>\$ 43,360</u>

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

CITY OF NORFOLK, VIRGINIA
Capital Improvement Program
Schedule of Expenditures - Budget and Actual
From Inception and for the Year Ended June 30, 2008

Capital Projects Description	Expenditures				
	Project Budget	Prior Years *	Current	Total	Available
Community Development					
Neighborhood Project Development	13,160,000	12,759,664	370,976	13,130,640	29,360
Neighborhood Conservation/Revitalization	54,971,000	34,813,895	6,356,702	41,170,597	13,800,403
Broad Creek Renaissance	11,793,000	7,435,491	2,672,107	10,107,598	1,685,402
Neighborhood Streets Improvements	5,293,000	4,530,362	2,244	4,532,606	760,394
Neighborhood Commercial Improvements	11,602,000	9,565,485	218,921	9,784,406	1,817,594
Other	876,000	404,999	200,007	605,006	270,994
Total Community Development	97,695,000	69,509,896	9,820,957	79,330,853	18,364,147
Cultural Facilities					
Attucks Theatre Renovations	2,485,000	2,429,040	2,260	2,431,300	53,700
Scope Chiller Replacements	2,760,000	2,758,381	1,013	2,759,394	606
Scope Improvements	11,940,000	8,851,751	844,884	9,696,635	2,243,365
Chrysler Museum Improvements	5,545,000	3,328,098	1,010,308	4,338,406	1,206,594
Civic Building Improvements	1,591,000	1,189,266	111,401	1,300,667	290,333
Conference Center	61,915,000	10,473,719	2,714,627	13,188,346	48,726,654
Harrison Opera House Improvements	405,000	394,515	7,994	402,509	2,491
Macarthur Memorial Improvements	697,000	530,169	4,394	534,563	162,437
Wells Theater Improvements	225,000	224,868	121	224,989	11
Nauticus/Maritime Center Improvements	2,095,000	1,000,000	975,959	1,975,959	119,041
USS Wisconsin Improvements	2,545,099	-	678,946	678,946	1,866,153
Other	4,374,500	203,387	1,930,322	2,133,709	2,240,791
Total Cultural Facilities	96,577,599	31,383,194	8,282,229	39,665,423	56,912,176
Economic Development					
Disposition/Upgrade City Property	32,402,198	17,697,880	10,600,524	28,298,404	4,103,794
Nauticus Cruise Development	41,095,870	40,064,221	248,704	40,312,925	782,945
Huntersville Redevelopment	1,000,000	6,900	44,132	51,032	948,968
Kroc Center Development	4,040,000	-	2,677,500	2,677,500	1,362,500
Wachovia Center Development	675,000	-	22,196	22,196	652,804
Other	4,174,237	991,721	117,122	1,108,843	3,065,394
Total Economic Development	83,387,305	58,760,722	13,710,178	72,470,900	10,916,405
General/Other					
Campostella Landfill Closure	900,000	752,073	-	752,073	147,927
Beach Erosion Control	17,793,500	13,503,978	598,431	14,102,409	3,691,091
Transfer to Debt Service	1,741,232	1,741,232	619,423	2,360,655	(619,423)
IFMS - Financial System Implementation	2,898,904	2,837,295	670	2,837,965	60,939
Waterway Dredging Projects	4,360,000	2,100,918	486,898	2,587,816	1,772,184
Other	4,922,700	2,726,523	17,933,565	20,660,088	(15,737,388)
Total General/Other	32,616,336	23,662,019	19,638,987	43,301,006	(10,684,670)
Public Buildings and Facilities					
Fire Station Emergency Generation Program	1,384,622	1,263,057	-	1,263,057	121,565
Infrastructure Improvements	2,786,500	2,407,892	97,626	2,505,518	280,982
Public Health Center - Bio Med Facility	2,233,537	2,371,579	-	2,371,579	(138,042)
Detention Home Project	7,428,681	7,424,110	-	7,424,110	4,571
Annual Roof Maintenance	4,201,000	2,690,202	1,276,993	3,967,195	233,805
Library Facilities - Anchor Branch	10,476,238	6,559,895	3,534,025	10,093,920	382,318
Library Facilities - Kirm Main Branch	7,228,000	-	7,215,000	7,215,000	13,000
Police Precinct Replacement	11,059,500	9,165,419	286,797	9,452,216	1,607,284
Courts Renovations	38,575,000	791,368	823,238	1,614,606	36,960,394
Jail Renovations	2,063,200	1,830,835	-	1,830,835	232,365
Seldan Arcade Renovations	9,631,883	7,090,802	77,865	7,168,667	2,463,216
City Hall Building Renovations	4,090,000	2,259,424	355,830	2,615,254	1,474,746
Chrysler Museum Renovations	1,075,000	1,075,000	-	1,075,000	-
Tow Yard Acquisition	1,300,000	-	-	-	1,300,000
Fire Facilities Replacement/Improvements	793,000	270,908	53,093	324,001	468,999
Police Training Facilities	5,106,000	-	4,624,373	4,624,373	481,627
Other	4,010,955	1,079,699	369,095	1,448,794	2,562,161
Total Public Buildings & Facilities	113,443,116	46,280,190	18,713,935	64,994,125	48,448,991
Parks/Recreational Facilities					
Zoo Master Plan	20,605,000	9,108,422	1,152,913	10,261,335	10,343,665
Titustown Recreation Center Improvements	3,550,000	3,000,000	208,961	3,208,961	341,039
Botanical Gardens	2,014,000	1,980,075	-	1,980,075	33,925
Existing Recreation Center Improvements	7,977,850	4,216,610	566,217	4,782,827	3,195,023
Norview Recreation Center	7,539,500	210,847	5,954,148	6,164,995	1,374,505
Lambert's Point Golf Course	9,588,300	9,187,758	-	9,187,758	400,542
Lambert's Point Community & Recreational Center	7,667,000	283,817	356,018	639,835	7,027,165
Harbor Park Improvements	800,000	698,567	1,433	700,000	100,000
Athletic Field Renovations	1,484,000	850,639	132,779	983,418	500,582
Norfolk Fitness & Wellness Center Renovations	673,670	637,950	24,038	661,988	11,682
Broadcreek & Westside Neighborhood Parks	2,616,000	885,571	580,988	1,466,559	1,149,441
Town Point Park Improvements	7,575,000	382,157	748,245	1,130,402	6,444,598
Martin Luther King Park	123,000	116,020	-	116,020	6,980
Waterside Waterfront Renovations	587,500	-	46,100	46,100	541,400
Other	7,172,550	288,641	657,990	946,631	6,225,919
Total Parks/Recreational Facilities	79,973,370	31,847,074	10,429,830	42,276,904	37,696,466

CITY OF NORFOLK, VIRGINIA
Capital Improvement Program
Schedule of Expenditures - Budget and Actual
From Inception and for the Year Ended June 30, 2008

Expenditures					
Capital Projects Description	Project Budget	Prior Years *	Current	Total	Available
Schools					
Norfolk Public School Allocation	1,596,813	1,596,813	-	1,596,813	-
Project Design Phase	5,757,830	5,757,830	-	5,757,830	-
Blair Middle School Replacement	7,071,710	6,601,482	-	6,601,482	470,228
Norfolk Public School Construction	5,698,631	3,009,431	165,594	3,175,025	2,523,606
Norfolk Public School Initiative	5,265,000	3,552,327	951,801	4,504,128	760,872
Norview Construction	26,679,400	21,987,312	1,298,980	23,286,292	3,393,108
Southside Middle School	2,250,000	-	-	-	2,250,000
High School Athletic Field	1,500,000	1,421,734	-	1,421,734	78,266
Coleman Place Elementary Replacement	21,567,641	9,636,493	2,968,443	12,604,936	8,962,705
Crossroads Elementary Replacement	4,648,525	-	-	-	4,648,525
Other	6,424,324	604,817	2,469,446	3,074,263	3,350,061
Total Schools	88,459,874	54,168,239	7,854,264	62,022,503	26,437,371
Storm Water					
Storm Water Quality Improvements	7,305,000	3,826,197	500,493	4,326,690	2,978,310
Storm Water Facility Improvements	1,650,000	644,522	178,583	823,105	826,895
Old Dominion University Master Plan	514,000	503,766	-	503,766	10,234
Drain Line Clean & Slip lining	2,812,267	2,734,321	-	2,734,321	77,946
Neighborhood Flood Reduction	4,416,000	1,555,534	1,221,222	2,776,756	1,639,244
Bulkheading Master Project	3,000,000	1,725,895	1,208,302	2,934,197	65,803
Pump Station Improvements	100,000	100,000	-	100,000	-
Other	500,000	2,000	2,000	4,000	496,000
Total Storm Water	20,297,267	11,092,235	3,110,600	14,202,835	6,094,432
Transportation					
Old Dominion University Master Plan	8,528,600	8,411,142	136,722	8,547,864	(19,264)
VDOT Urban Support Program	9,760,702	7,322,943	162,416	7,485,359	2,275,343
Bridge Maintenance & Repair Program	16,594,351	6,894,101	5,595,307	12,489,408	4,104,943
Signal & Intersection Enhancements	8,915,000	5,233,276	1,834,656	7,067,932	1,847,068
Citywide Soundwall Program	8,951,260	2,993,433	317,473	3,310,906	5,640,354
Neighborhood Streets Improvements	38,450,666	12,648,262	8,176,566	20,824,828	17,625,838
Atlantic City Development	12,739,200	6,338,069	1,643,780	7,981,849	4,757,351
Citywide Boat Ramp Improvements	1,944,250	841,577	745,542	1,587,119	357,131
Other	9,800,000	1,309,859	1,252,433	2,562,292	7,237,708
Total Transportation	115,684,029	51,992,662	19,864,895	71,857,557	43,826,472
Total Capital Projects	728,133,896	378,696,231	111,425,875	490,122,106	238,011,790

* Note: Some prior year amounts were reclassified to reflect proper classification.

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APPENDIX B

FORM OF LEGAL OPINION OF BOND COUNSEL

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Appendix B

Form of Bond Counsel Opinion

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 Bonds.

[Letterhead of McGuireWoods LLP]

May __, 2009

Mayor and Council of the
City of Norfolk, Virginia
Norfolk, Virginia

City of Norfolk, Virginia
\$ _____ General Obligation Capital Improvement Bonds, Series 2009A
\$ _____ General Obligation Refunding Bonds, Series 2009B and
\$ _____ General Obligation Bond Anticipation Note, Series 2009C

Ladies and Gentlemen:

We have served as Bond Counsel in connection with the issuance and sale by the City of Norfolk, Virginia (the "City") of its \$ _____ General Obligation Capital Improvement Bonds, Series 2009A (the "2009A Bonds"), \$ _____ General Obligation Refunding Bonds, Series 2009B (the "2009B Bonds") and \$ _____ General Obligation Bond Anticipation Note, Series 2009C, (the "2009C Note" and, together with the 2009A Bonds and 2009B Bonds, the "Bonds"), each dated the date of delivery.

In connection with this opinion, we have examined the Constitution of Virginia and the applicable laws of both the United States and the Commonwealth of Virginia, including without limitation the Internal Revenue Code of 1986, as amended (the "Code"), and the Public Finance Act of 1991, Chapter 26, Title 15.2, Code of Virginia of 1950, as amended, and copies of proceedings and other documents relating to the issuance and sale of the Bonds by the City as we have deemed necessary to render the opinions contained herein.

As to questions of fact material to our opinions, we have relied upon (a) representations of the City, including, without limitation, representations as to the use of proceeds of the Bonds,

(b) certifications of public officials furnished to us, and (c) certifications and representations contained in certificates of the City and others delivered at closing, without undertaking to verify them by independent investigation. In addition, without undertaking to verify the same by independent investigation, we have relied on computations provided to us by The Arbitrage Group, Inc., the mathematical accuracy of which was verified by them, relating to the yield on investments in the escrow fund established with a portion of the proceeds of the 2009B Bonds and the yield on the 2009B Bonds. We have assumed that all signatures on documents, certificates, and instruments examined by us are genuine, all documents, certificates, and instruments submitted to us as originals are authentic, and all documents, certificates, and instruments submitted to us as copies conform to the originals. In addition, we have assumed that all documents, certificates, and instruments relating to this financing have been duly authorized, executed, and delivered by all 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 Bonds have been authorized and issued in accordance with the Constitution and laws of the Commonwealth of Virginia 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 Bonds to the extent other funds of the City are not lawfully available and appropriated for such purpose.

3. Interest on the Bonds, including any accrued "original issue discount" properly allocable to the owners of the Bonds, is excludable from gross income for purposes of federal income taxation under Section 103 of the Code and is not a specific item of tax preference for purposes of the federal alternative minimum income tax imposed on individuals and corporations. In addition, 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 2009B Bonds must be included in computing adjusted current earnings but the interest on the 2009A Bonds and the 2009C Note is excluded from adjusted current earnings. The "original issue discount" on any 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 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 Bonds.

In delivering this opinion, we are (i) relying upon and assuming the accuracy of certifications and representations of representatives of the City 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 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 Bonds in order for interest on the 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 Bonds and the use of the property financed or refinanced by the Bonds, limitations on the source of the payment of and the security for the Bonds, and the obligation to rebate certain excess earnings on the gross proceeds of the Bonds to the United States Treasury. The City's tax certificate for the Bonds (the "Tax Certificate") contains covenants (the "Covenants") under which the City has agreed to comply with such requirements. Failure by the City to comply with the Covenants could cause interest on the Bonds to become includable in gross income for federal income tax purposes 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 Bonds from becoming includible 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 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.

4. Interest on the Bonds is excludable from gross income of the owners thereof for purposes of income taxation by the Commonwealth of Virginia. We express no opinion regarding (i) other Virginia tax consequences arising with respect to the Bonds or (ii) any consequences arising with respect to the Bonds under the tax laws of any state or local jurisdiction other than the Commonwealth of Virginia.

Our services as Bond Counsel 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 Bonds and the income tax status of the interest on them. We express no opinion as to the accuracy, completeness or sufficiency of the Official Statement for the Bonds or any other offering material or information that may have been relied upon by any owner of the Bonds in making a decision to purchase the Bonds.

Mayor and Council of the
City of Norfolk, Virginia
May ____, 2009
Page 4

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

Very truly yours,

APPENDIX C

FORM OF CONTINUING DISCLOSURE AGREEMENT

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Appendix C

Form of Continuing Disclosure Agreement

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the City of Norfolk, Virginia (the "City"), in connection with the issuance by the City of \$_____ original aggregate principal amount of its General Obligation Capital Improvement Bonds, Series 2009A (the "2009A Bonds"), \$_____ original aggregate principal amount of its General Obligation Refunding Bonds, Series 2009B (the "2009B Bonds") and \$_____ original aggregate principal amount of its General Obligation Bond Anticipation Note, Series 2009C (the "2009C Note" and, together with the 2009A Bonds and 2009B Bonds, the "Bonds") pursuant to a bond ordinance adopted by the Council of the City on May 5, 2009 (the "Ordinance"). The proceeds of the Bonds are being used by the City, along with other available funds, to (i) finance the City's Capital Improvement Program, as the Council may amend it from time to time hereafter; (ii) [current refund a portion of the City's \$93,520,000 General Obligation Capital Improvement and Refunding Bonds, Series 1998; (iii) advance refund a portion of the City's \$74,200,000 General Obligation Capital Improvement and Refunding Bonds, Series 2002]; (iv) fund parking projects, on an interim basis during construction; and (v) pay the costs incurred in connection with the issuance of the Bonds. Pursuant to the Ordinance, the City approved the offering and sale of the Bonds to the public pursuant to an Official Statement relating to the Bonds, dated May ___, 2009 (the "Final Official Statement"). The City has determined that it constitutes an "obligated person" within the meaning of the Rule (as hereinafter defined) with respect to the Bonds and, accordingly, hereby represents, covenants and agrees as follows:

Section 1. Purpose of the Disclosure Agreement; Representation. This Disclosure Agreement is being executed and delivered by the City for the benefit of the Holders (as defined below) and in order to assist the Participating Underwriters (as defined below) in complying with the Rule (as defined below). The City acknowledges that it is undertaking primary responsibility for any reports, notices or disclosures that may be required under this Disclosure Agreement.

Section 2. Definitions. In addition to the definitions set forth in the Ordinance, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Financial Information" with respect to any Fiscal Year of the City means the following:

(i) the financial statements (consisting of at least a statement of net assets, a statement of cash flows and a statement of revenues, expenses and changes in fund net assets for all governmental/enterprise funds) of the City, which (A) are prepared annually in accordance with generally accepted accounting principles in effect from time to time consistently applied (provided that nothing in this clause (A) will prohibit the City after the date of the Final Official Statement from changing such principles so as to comply with generally accepted accounting

principles as then in effect or to comply with a change in applicable Virginia law); and (B) are audited by an independent certified public accountant or firm of such accountants in accordance with generally accepted auditing standards as in effect from time to time; and

(ii) updates of the operating data contained in the sections in the Final Official Statement "Table II-3, Key Debt Trends," "Table II-6, Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita," "Table III-2, Assessed Valuations and Estimated Actual Values of Taxable Property," "Table III-4, Tax Rates and Equalization Factors," "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.

"EMMA" shall mean the Electronic Municipal Market Access System, described in Securities Exchange Act of 1934 Release No. 59062 and maintained by the MSRB for purposes of the Rule.

"Fiscal Year" shall mean the twelve-month period, at the end of which the financial position of the City and results of its operations for such period are determined. Currently, the City's Fiscal Year begins July 1 and continues through June 30 of the next year.

"Holder" shall mean, for purposes of this Disclosure Agreement, any person who is a record owner or beneficial owner of an Obligation.

"Make Public" or **"Made Public"** has the meaning set forth in Section 4 of this Disclosure Agreement.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"NRMSIR" shall mean each nationally recognized municipal securities information repository approved as such by the SEC from time to time.

"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.

"SID" shall mean any state-based information depository existing from time to time in the Commonwealth of Virginia for the purpose of receiving information concerning municipal securities and recognized as such by the SEC.

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 different from the City), the Annual Financial Information within 30 days after it is prepared.

(c) The City shall Make Public or cause to be Made Public by the Dissemination Agent (if different from the City), in a timely manner, notice of any of the following events that may from time to time occur with respect to the Bonds, but with respect to the items in (i) through (xi), only if material:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (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 or events affecting the tax-exempt status of interest on the Bonds;
- (vii) modifications to rights of Holders;
- (viii) bond calls;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the Bonds;
- (xi) rating changes; and
- (xii) the failure of the City on or before the date required by this Disclosure Agreement to provide Annual Financial Information to the persons and in the manner required by this Disclosure Agreement;

provided that nothing in this subsection (c) shall require the City to maintain any debt service reserve, credit enhancement or credit or liquidity providers with respect to the Bonds or to pledge any property as security for repayment of the Bonds.

(d) The City shall notify each NRMSIR (as defined below) of any change in its Fiscal Year not later than the date on which it first provides any information to the NRMSIRs 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 each of the following as herein required:

(i) each NRMSIR, at its then current address, including the following NRMSIRs existing as of the date hereof:

Bloomberg Municipal Repository

100 Business Park Drive
Skillman, NJ 08558
Phone: (609) 279-3225
Fax: (609) 279-5962
<http://www.bloomberg.com/markets/rates/municontacts.html>
Email: Munis@Bloomberg.com

DPC Data Inc.

One Executive Drive
Fort Lee, NJ 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
<http://www.MuniFILINGS.com>
Email: nrmsir@dpcdata.com

Interactive Data Pricing and Reference Data, Inc.

Attn: NRMSIR
100 William Street, 15th Floor
New York, NY 10038
Phone: (212) 771-6999; (800) 689-8466
Fax: (212) 771-7390
<http://www.interactivedata-prd.com>
Email: NRMSIR@interactivedata.com

Standard & Poor's Securities Evaluations, Inc.

55 Water Street
45th Floor
New York, NY 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
<http://www.disclosuredirectory.standardandpoors.com/>
Email: nrmsir_repository@sandp.com

(ii) at its then current address, the SID, if any; provided that in the case of any information Made Public under Section 3(c), such information may be provided to the MSRB at the following address (or such other address as may at the time be in effect), in lieu of providing it to the NRMSIRs as described in clause (i) above:

Municipal Securities Rulemaking Board
1900 Duke Street
Suite 600
Alexandria, Virginia 22314
Phone: (703) 797-6600
Fax: (703) 797-6704

Section 5. Incorporation by Reference. Any or all of the Annual Financial Information may be incorporated by reference from other documents, including official statements containing information with respect to the City, which have been filed with each of the NRMSIRs or the SEC. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The City shall clearly identify each such other document so incorporated by reference.

Section 6. CUSIP Numbers. The City shall reference, or cause the Dissemination Agent (if different from the City) to reference, the CUSIP prefix number for the Bonds in any notice provided to the NRMSIRs, the MSRB and/or the SID 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. 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 10. 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 11. Default. Any Holder, whether acting jointly or severally, may take such action as may be permitted by law against the appropriate public official to secure compliance

with the obligations of the City under this Disclosure Agreement. In addition, any Holder, whether acting jointly or severally, may take such action as may be permitted by law to challenge the adequacy of any information provided pursuant to this Disclosure Agreement, or to enforce any other obligation of the City hereunder. A default under this Disclosure Agreement shall not be deemed an event of default under the Ordinance or other debt authorization of the City, and the sole remedy under this Disclosure Agreement in the event of any failure of the City to comply herewith shall be an action to compel performance. Nothing in this provision shall be deemed to restrict the rights or remedies of any Holder pursuant to the Securities Exchange Act of 1934, the rules and regulations promulgated thereunder, or other applicable laws.

Section 12. Central Post Office. Any filing under this Disclosure Agreement may be made solely by transmitting such filing to the Texas Municipal Advisory Council (the "MAC") as provided at <http://www.disclosureusa.org> unless the SEC has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004.

Section 13. EMMA. Notwithstanding anything contained herein to the contrary, on or after July 1, 2009 (or such other date as may be announced by the SEC or the MSRB as the effective date for filing via EMMA), information shall be deemed to have been "Made Public" for purposes of this Disclosure Agreement if transmitted solely to the MSRB via EMMA, as described in Securities Exchange Act of 1934 Release No. 59062. Should the SEC approve any additional or subsequent internet-based electronic 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 14. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the City, the Participating Underwriters and Holders from time to time of the City's Bonds, and shall create no rights in any other person or entity.

Section 15. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

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Date: May ___, 2009

CITY OF NORFOLK, VIRGINIA

By: _____
City Manager,
City of Norfolk, Virginia

By: _____
Acting Director of Finance,
City of Norfolk, Virginia

Approved as to Form and Correctness:

Office of City Attorney
City of Norfolk, Virginia

[Signature Page to Continuing Disclosure Agreement]

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