



City of Norfolk, Virginia



2008 Comprehensive Annual Financial Report

For Fiscal Year Ended
June 30, 2008

A panoramic view of the Norfolk, Virginia skyline, featuring several high-rise buildings and a clear blue sky.

**City of Norfolk, Virginia
Comprehensive Annual
Financial Report
For the Fiscal Year Ended
June 30, 2008**

**Prepared by:
The Department of Finance and Business Services
Alice M. Kelly, CPA, Acting Director of Finance
Tina Weston, CPA, Accounting Manager
Larry Baker, Accountant V**



**CITY OF NORFOLK, VIRGINIA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 For the Fiscal Year Ended June 30, 2008
 TABLE OF CONTENTS**

INTRODUCTORY SECTION:

- Municipal Officials
- Organization Chart
- Transmittal Letter
- Certificate of Achievement for Excellence in Financial Reporting

<u>Exhibit</u>		<u>Page</u>
	FINANCIAL SECTION:	
	Independent Auditor’s Report	1
	Management’s Discussion and Analysis (Unaudited)	3
	Basic Financial Statements:	
	Government-wide Financial Statements:	
1	Statement of Net Assets	17
2	Statement of Activities	18
	Fund Financial Statements:	
	Governmental Funds:	
A-1	Balance Sheet – Governmental Funds	19
	Reconciliation of the Balance Sheet of Governmental Funds to	
A-2	the Statement of Net Assets	20
A-3	Statement of Revenues, Expenditures and Changes in Fund Balances.....	21
	Reconciliation of the Statement of Revenues, Expenditures and Changes	
A-4	in Fund Balance to the Statement of Activities	22
	Proprietary Funds:	
B-1	Statement of Net Assets	23
B-2	Statement of Revenues, Expenses and Changes in Net Assets.....	24
B-3	Statement of Cash Flows	25
	Fiduciary Funds:	
C-1	Statement of Fiduciary Net Assets.....	26
C-2	Statement of Changes in Fiduciary Net Assets – Pension Trust Fund.....	27
	Component Units:	
D-1	Statement of Net Assets	28
D-2	Statement of Activities	29
	Notes to the Basic Financial Statements	30



**CITY OF NORFOLK, VIRGINIA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 For the Fiscal Year Ended June 30, 2008
 TABLE OF CONTENTS**

<u>Exhibit</u>		<u>Page</u>
	Required Supplementary Information:	
	Schedule of Funding Progress for Pension and Other Post-Employment Benefit (OPEB) Plans (Unaudited)	84
E-1	Schedule of Revenue, Budget and Actual – General Fund (Unaudited)...	85
E-2	Schedule of Expenditures, Budget and Actual – General Fund (Unaudited).....	86
	Notes to Required Supplementary Information – Reconciliation of (non-GAAP) Budgetary Basis to GAAP (Unaudited).....	87
	Other Supplementary Information:	
F-1	Combining Balance Sheet – Nonmajor Governmental Funds.....	88
F-2	Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Governmental Funds.....	90
G-1	Combining Balance Sheet – Agency Funds.....	92
G-2	Combining Statement of Changes in Assets and Liabilities – Agency Funds.....	93
H-1	Combining Statement of Net Assets – Internal Service Funds.....	94
H-2	Combining Statement of Revenues, Expenses and Changes in Fund Net Assets – Internal Service Funds.....	95
H-3	Combining Statement of Cash Flows – Internal Service Funds.....	96
I	Schedule of Expenditures of Federal Awards	97
	Notes to Schedule of Expenditures of Federal Awards.....	99
J-1	Schedule of Revenues and Expenditures – Budget and Actual - Special Revenue Funds.....	101
J-2	Schedule of Revenues and Expenditures – Budget and Actual - Internal Service Funds.....	110
J-3	Schedule of Expenditures – Budget and Actual – Capital Projects Fund....	112



**CITY OF NORFOLK, VIRGINIA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 For the Fiscal Year Ended June 30, 2008
 TABLE OF CONTENTS**

<u>Table</u>		<u>Page</u>
	STATISTICAL SECTION (Unaudited)	
I	Financial Trends Information.....	114
	Schedule 1 – Net Assets by Category	
	Schedule 2 – Changes in Net Assets	
	Schedule 3 – Fund Balances – Governmental Funds	
	Schedule 4 – Changes in Fund Balances, Governmental Funds	
	Schedule 5 – Program Revenues by Function	
	Schedule 6 – Total Revenue by Source, Governmental Funds	
II	Revenue Capacity Information.....	121
	Schedule 1 – Assessed Valuations and Estimated Actual Values of Taxable Property	
	Schedule 2 – Direct Property Rates	
	Schedule 3 – Principal Property Taxpayers	
	Schedule 4 – Property Tax Levy and Collections	
III	Debt Capacity Information.....	124
	Schedule 1 – Ratios of Outstanding Debt by Type	
	Schedule 2 – Ratios of Net General Bonded Debt, Total Assessed Values and Net Bonded Debt per Capita	
	Schedule 3 – Computation of Direct Bonded Debt	
	Schedule 4 – Legal Debt Margin	
	Schedule 5 – Revenue Bonds Debt Service Coverage, Water Utility Fund	
	Schedule 6 – Revenue Bonds Debt Service Coverage, Parking Facilities Fund	
	Schedule 7 – Ratio of Annual Debt Service Expenditures for General Bonded Debt and Other Debt	
IV	Demographic and Economic Information.....	129
	Schedule 1 – Population Statistics	
	Schedule 2 – Ten Largest Employers	
	Schedule 3 – New Construction and Property Values	
	Schedule 4 – Annual Employment Average by Industry	
V	Operating Information.....	133
	Schedule 1 – Full-Time Equivalent Positions by Function/Program	
	Schedule 2 – Operating Indicators by Function/Program	
	Schedule 3 – Capital Assets and Infrastructure Statistics by Function/Program	
	OTHER REPORTS OF INDEPENDENT AUDITORS	
	Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	136
	Independent Auditor’s Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with Circular OMB A-133.....	138
	Schedule of Findings and Questioned Costs.....	140



CITY OF NORFOLK, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2008
Municipal Officials

Honorable City Council

President and Mayor
Vice Mayor
Member
Member
Member
Member
Member
Member

Paul D. Fraim
Anthony L. Burfoot
Daun S. Hester
Paul R. Riddick
Theresa W. Whibley
Donald L. Williams
Barclay C. Winn
W. Randy Wright

City Manager
Regina V.K. Williams

Assistant City Manager
Assistant City Manager
Assistant City Manager

Marcus D. Jones
Anne Odell
Stanley A. Stein

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

City Assessor
City Attorney
City Auditor
City Clerk
City Treasurer
Commissioner of the Revenue
Acting Director of Budget & Management
Acting Director of Civic Facilities
Director of Communications & Public Relations
Director of Economic Development
Director of Fire-Rescue
Director of Grants Management
Director of Human Resources
Acting Director of Human Services
Director of Information Technology
Office of Intergovernmental Relations
Director of Libraries
Acting Director of Maritime Center (Nauticus)
Director of Neighborhood Preservation
Director of Planning & Community Development
Director of Public Health
Director of Public Works
Director of Recreation, Parks and Open Spaces
Director of Utilities
Police Chief
Registrar of Voters

Deborah K. Bunn
Bernard A. Pishko
John H. Sanderlin, Jr., C.P.A.
Breckenridge R. Daughtrey
Thomas W. Moss, Jr.
Sharon M. McDonald
Marcus D. Jones
Steve Harper
Terry L. Bishirjian
Roderick S. Woolard
Chief Edward L. Senter
Ronald H. Williams, Jr.
Nancy N. Olivo
Sharon Goode Laisure
Hap M. Cluff
William Bryan Pennington, Jr.
Norman L. Maas
John S. Rhamstine
David S. Freeman
Frank Duke
Valerie A. Stallings, M.D.
John M. Keifer P.E.
Darrel R. Crittendon
Kristen M. Lentz. P.E.
Bruce P. Marquis
Elisa J. Long



CITY OF NORFOLK, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2008
Municipal Officials

JUDICIAL

Fourth Judicial Circuit Court

Chief Judge
Judge
Judge
Judge
Judge
Judge
Judge
Judge
Judge
Clerk

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

Norfolk General District Courts

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

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

Norfolk Juvenile and Domestic Relations District Court

Chief Judge
Judge
Judge
Judge
Clerk

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

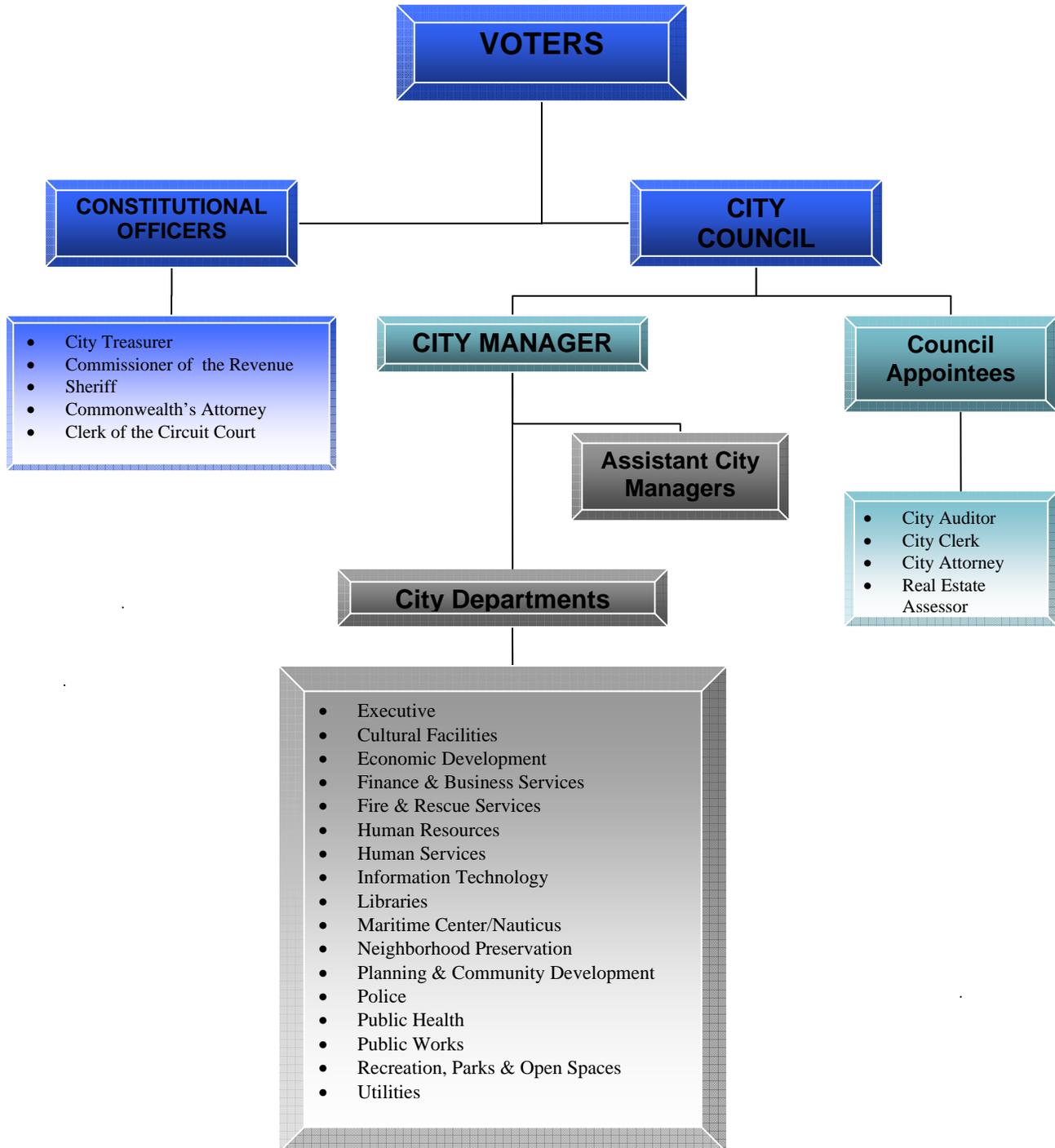
Other Judicial Officials

Sheriff
Commonwealth's Attorney

Robert J. McCabe
Robert C. Slaughter, III

**CITY OF NORFOLK, VIRGINIA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 For the Year Ended June 30, 2008**

**ORGANIZATIONAL
 CHART**





City of **Norfolk**

Office of the City Manager

January 16, 2009

To the Honorable Council and
Citizens of Norfolk, Virginia:

The Comprehensive Annual Financial Report (“CAFR”) of the City of Norfolk (the “City”) for the fiscal year ended June 30, 2008, is hereby submitted. At the close of each fiscal year, State law and the City’s charter require the City to publish a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States of America (“GAAP”). This report fulfills that requirement.

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

KPMG, a firm of licensed certified public accountants, has issued an unqualified opinion on the City’s financial statements for the fiscal year ended June 30, 2008. The independent auditor’s report is located in the financial section of the CAFR..

Management’s Discussion and Analysis (“MD&A”) immediately follows the independent auditor’s report and provides a narrative introduction, overview and analysis of the basic financial statements. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The independent audit of the financial statements of the City was also part of a broader, federally mandated “Single Audit” designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government’s internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the Other Reports of Independent Auditors section of this report.

Profile of the City

Norfolk is the business, financial, medical, cultural and educational center of southeast Virginia and home to an estimated 236,000 residents. Its 66 square miles lie at the



mouths of the James, Elizabeth and Nansemond Rivers and the Chesapeake Bay, and are adjacent to the cities of Chesapeake, Portsmouth and Virginia Beach. The waterways have been central to Norfolk's identity and an on-going source of its financial stability, thanks to a growing international port, major military facilities and related businesses. Miles of

bay, lake and riverfront provide ample recreational opportunities and are the centerpiece of dozens of neighborhoods. Norfolk has tapped into the nationwide demand for waterfront property by revitalizing older neighborhoods and creating new ones.

Profile of the Government

Norfolk was officially incorporated as a city in 1845. It is organized under a Charter, granted by the General Assembly of Virginia in 1918, which authorizes a council-manager form of government. The City Council exercises all of the governmental powers conferred upon it. City Council members represent five wards, two super wards, and an at large elected Mayor. The Vice Mayor is elected by the City Council from among its members.

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



Transmittal Letter

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



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

The City is financially accountable for a legally separate school district and the Norfolk Community Services Board (but appoints the board members). Additional information on these legally separate entities can be found in Note I of the notes to the basic financial statements contained within this document.

Budget Process

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

Local Economy

While all economies are feeling the effects of the global credit crisis, many areas of the local economy remained healthy, supported in part by a strong and consistent military



Transmittal Letter

presence. The region is still experiencing fairly broad based job growth, but the rate is slowing and unemployment is rising. Unemployment for the region remained at 4.3 percent in October while the local unemployment rate fell 0.2 percentage points to 5.4 percent which is well below the national rate of 6.1 percent.



The presence and role of the military in Norfolk remains a positive force and continues to have a significant and stabilizing impact on the local economy. The City is home to the world's largest naval complex, with headquarters for Commander in Chief of U.S. Atlantic Command, NATO Supreme Allied Command Atlantic, Commander in Chief U.S. Atlantic Fleet and other major naval commands. According to information released by the U.S. Navy in October, 2008, the Navy's direct economic impact on the region rose by more than \$1.3 billion, from approximately \$12.6 billion in fiscal year 2006 to almost \$13.9 billion in fiscal year 2007.

Approximately 80,000 active-duty Navy military personnel were in Hampton Roads in 2007, of which approximately 68 percent were assigned to Norfolk. In addition, there were approximately 31,000 Navy civilian employees in Hampton Roads, of which 46 percent were located in Norfolk in fiscal year 2007.

The City also serves as a gateway between world commerce centers and the industrial heartland of the United States. With one of the world's largest natural deep-water harbors and a temperate climate, the City hosts the Norfolk International Terminals (NIT), one of the largest general cargo ports on the east coast. Over 17.7 million tons of cargo were shipped from the region's three main marine cargo terminals in 2007, an increase of 6.9 percent. The port will become even more attractive to shippers when Norfolk Southern, a major Fortune 500 company headquartered in Norfolk, completes its \$313 million Heartland Corridor project which will reduce more than 200 miles off existing routes to the Midwest. A 2008 study by the College of William and Mary's Mason School of Business estimated the port's economic impact in Hampton Roads to be \$12.3 billion in business revenue plus \$4.8 billion in compensation paid to approximately 100,000 workers. With containerized cargo expected to triple in the next 20 years, a 300-acre expansion scheduled for 2012 will make the port the largest intermodal center in the country. The port's economic impact comes from port operations and companies that utilize the port.

The City's major healthcare complexes provide premier services to all of southeastern Virginia and northeastern North Carolina. A new \$114 million Sentara Heart Hospital



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was completed in 2006 and was ranked 38th in the nation in 2008 by U.S. News and World Report.

Two university research parks are under development and both include applied research space for collaborative projects with the private sector. The City hosts several institutions of higher education including Old Dominion University, Norfolk State University, Eastern Virginia Medical School, Virginia Wesleyan College and Tidewater Community College. All are currently expanding.

Other industries located in Norfolk include financial and insurance institutions; professional and technical services; shipping companies (including the North American headquarters of two international firms); ship builders and repairers, and retail operations. Some of the major expansions include the \$132 million expansion of the U.S. Gypsum plant, the \$31 million development of a new Wal-Mart Super Center (which is helping to revitalize a distressed neighborhood in the northern part of the city), the \$51 million development of the Dominion Enterprises office tower, the \$107 million Harbor's Edge Continuing Care Retirement Community, the \$24 million investment at the new Commander Corporate Center, the \$170 million Wachovia Center, a high rise office tower complex with retail, luxury apartments and a 1,800-space parking garage, the \$150 million Westin Norfolk Hotel and Conference Center with residential condominiums and parking garage, the \$66 million Fort Norfolk Plaza Medical Office building and garage, the \$45 million Belmont at Freemason Harbor rental residential development and the \$35 million Residence Inn, the first extended-stay hotel product in downtown.

East Beach, Norfolk's new urbanist community on the Chesapeake Bay, was recently named one of the top five most visionary sustainable land developments in the United States by Sustainable Land Development International. Norfolk is expanding the downtown to the west to meet the medical/research complex and has developed plans and is guiding private development of Fort Norfolk, a former waterfront warehouse district.

Broad Creek is blending 12 communities into an urban village with an eclectic mix of subsidized, modestly priced homes and more expensive market-rate ones with existing homes. Once the site of a public housing project, Broad Creek today is a national model for mixed-use, mixed-income communities with 400 rental units and 70 homes completed. Construction begins this year on the \$6.1 million Villas at Broad Creek, a mixed-use residential and retail development designed in accord with the New Urbanism and consisting of 5,000 square feet of retail space and 19 for sale residential



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units. To complement the neighborhood a five acre park is under construction and will contain a fountain, landscaping and multi-use trail.

Nearby, the Midtown Office Building, an 180,500 square foot Class A office building with 350 parking spaces was just approved by the City Council. This \$25 million project will consolidate the STOP Organization's offices in 100,000 square feet and TIVEST, the developer, will locate its headquarters there as well.

Norfolk's downtown harbor is accessible to pedestrians and features a mix of tourism, business and residential uses. Town Point Park, located downtown on the harbor, has been a destination for the region and has hosted dozens of festivals, concerts and other events for more than 25 years. The park is undergoing an \$11.5 million make over and will reopen for Harborfest in July 2009. The mix of residential, cultural, recreational and entertainment options has also helped Norfolk attract and retain businesses. Class A Office space is at a premium with vacancy rates below 5.9 percent and several companies have relocated their headquarters to Norfolk from other parts of the country.

Economic development initiatives are focused on the attraction, expansion and retention of businesses that play to the city's strengths, maritime, higher education, medical and research facilities, neighborhood and community revitalization and commercial corridor development. Under the City's plan to promote the highest and best use for scarce land downtown, property assessed values increased 153 percent and the residential base expanded substantially in the past decade. The impact was felt throughout the City, with a citywide increase in property valuations of 95.4 percent. In July, 2008, the assessed value of 56,396 residential parcels was \$13 billion, an increase of 3.86 percent over July 2007.

Norfolk offers a mix of cultural attractions and entertainment for residents, workers and tourists. Home to the Virginia Symphony, the Virginia Opera, the internationally acclaimed Virginia Arts Festival, and the Chrysler Museum, described by The New York Times as a collection "...any museum in the world would kill for..." Norfolk is the cultural capital of Virginia and reinforces Norfolk's stature as the regional hub. Recent investments to the City's cultural attractions include restoration of three live performance theaters, the construction of a cruise terminal building, upgrades to civic venues, improvements to the Virginia Zoological Park, Botanical Garden and the Norfolk International Airport.



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Long-Term Financial Planning

The General Fund's unreserved, undesignated fund balance at June 30, 2008, was 5.0 percent of budgeted expenditures. Total unreserved fund balance was 6.9 percent of budgeted expenditures. Part of the City's strategic planning process involves the development of a five-year operating budgetary forecast that projects growth of major tax and fee revenues as well as major expenditures. That forecast serves as a planning tool when the City Manager presents the annual budget request to City Council. In conjunction with the five-year operating budget forecast, the City's debt affordability policies guide the development of the five-year Capital Improvement Plan.

Major Initiatives

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

Light rail - Norfolk is one of the smallest cities in the country to gain funding for a 7.5 mile starter light rail system connecting major downtown business centers to the edge of town. The route will travel through some of the areas with highest traffic congestion and bring riders within walking distance of most major downtown attractions. The \$288 million system is fully funded through a combination of federal, state and local sources and will be operated by the Hampton Roads Transit – which now operates the region's buses and ferries.

Public Amenities

- Upgraded Attractions - Using public funds to leverage private donations, the City is expanding the Virginia Zoo, the Botanical Garden, Town Point Park and General Douglas MacArthur Memorial.
- Recreation Centers - Two new recreation centers in the Norview and Lamberts Point communities are under construction with an aquatic center and a therapeutic center in the planning stages.

Ending Homelessness - Since launching a plan to end homelessness in 2005, the City has increased permanent supportive housing units for the homeless by 65 percent,



Transmittal Letter

including units dedicated to men and women with long-standing mental health problems; connected hundreds of homeless men and women to City, non-profit and business resources; partnered with the faith community to mentor individuals trying to make the transition from homelessness to self-sufficiency. In 2007, the U.S. Interagency Council on Homelessness recognized Norfolk Mayor Paul Fraim with the Home for Every American award for his leadership in promoting a city and regional effort to end homelessness and for establishing a national challenge to other localities to end homelessness in ten years.

Downtown - Recognizing that a thriving downtown requires not only buildings but residents, Norfolk uses a variety of tools to encourage private developers to expand residential offerings – ranging from townhomes to lofts and apartments in stand alone and mixed-use developments. Since 2001 nearly 1,100 housing units have been under construction in the downtown area. The City's first downtown grocery store opened as part of a residential condominium/office/parking garage development. Other businesses to support a residential population are following suit. The City's newest projects include the \$170 million Wachovia Center, the \$150 million Westin Norfolk Hotel and Conference Center, the \$66 million Fort Norfolk Plaza Medical Office building and garage, the \$45 million Belmont at Freemason Harbor rental residential development and the \$35 million Residence Inn.

Project Focus and Neighborhood Revitalization - In addition to codes and citywide neighborhood preservation programs, Norfolk launched a pilot program, Project Focus, to combat long-standing and deteriorating conditions in three neighborhoods. The program brings public safety, waste management, code enforcement, social services, health and other city resources together to work with residents to identify and provide solutions for issues such as crime, code violations, parking issues and lack of recreational opportunities for young people. A recent success was a partnership with the KaBoom organization to build a playground in a day by using City and local residents for labor and equipment provided by KaBoom.

Going Green - The City has made a commitment to incorporate sustainable, "green", fiscally prudent practices in running city operations and in the design of new buildings. Currently under construction, Lamberts Point Community Center is the first City building designed to be a Leadership in Energy and Environmental Design (LEED) certified green building and the new third Police Precinct will also be using LEED practices. Other initiatives to reduce the carbon footprint include projects using geothermal heating and cooling, reflective roof membrane and coating for the Circuit court, Fleet Maintenance and City Hall buildings, developing pool covers to reduce energy costs at aquatics centers and changing to low energy traffic signals. In addition, the recycling



Transmittal Letter

rate set-out increased from 26 percent to 56 percent following the introduction of 90-gallon automated recycling containers.

Recent Awards

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

- The Department of Utilities received the Association of Metropolitan Water Agencies Platinum Award for Utility Excellence;
- Receipt of the American Public Works Association's Project of the Year Award for construction of the new Half Moone cruise ship terminal;
- The #5 Ranking for Top 10 Digital Cities;
- The U.S. Equal Opportunity Commissions awarded one of only five Freedom to Compete Awards to Norfolk's Pathways to Public Service Program that provides mentoring and real-world work experience in the public sector, removes barriers to employment and especially encourages participation of women, people of color and individuals with disabilities;
- The Norfolk Public Library was awarded the 2007 RADM Ben Hacker Literacy Leadership Award for a family-driven literacy effort; the City's cable news show (Norfolk News Now) and the citizen guide (Community Connection) won awards from 3CMA (city and county communications and marketing association) for its efforts to provide up-to-date information to residents; and
- Norfolk Festevents, which has brought quality entertainment and festivals to Norfolk for 25 years, won six awards for promoting its events from the International Festivals and Events Association.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada ("GFOA") awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Norfolk for its Comprehensive Annual Financial Report ("CAFR") for the fiscal year ended June 30, 2007. This was the 22nd consecutive year that the City received

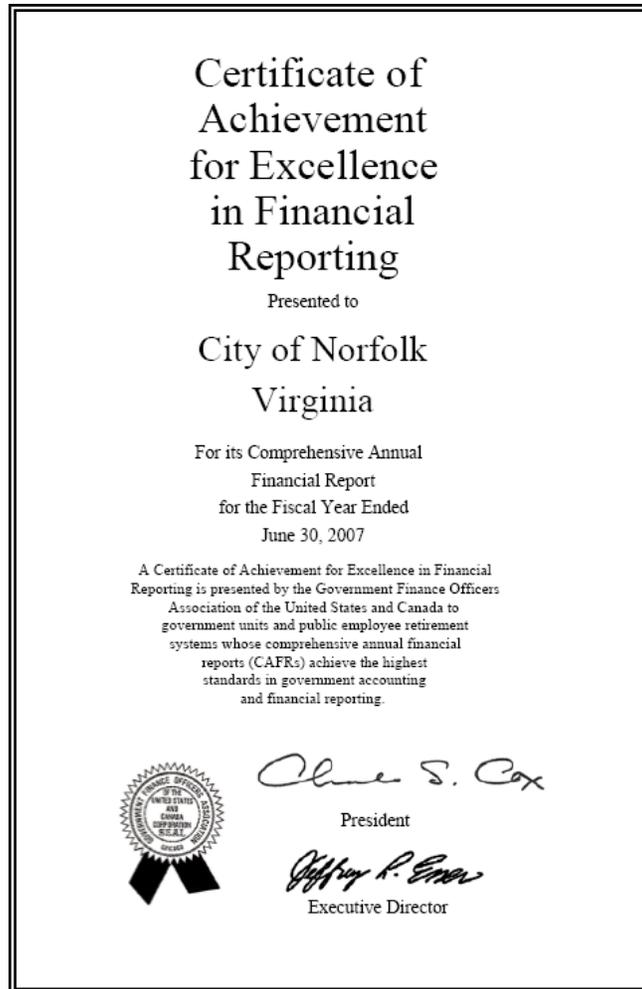


Transmittal Letter

Honorable City Council

this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

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



Transmittal Letter

Acknowledgements

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

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

Respectfully Submitted,


Regina V.K. Williams
City Manager


Alice M. Kelly, Acting Director
Department of Finance





**CITY OF NORFOLK, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2008**

FINANCIAL SECTION

~ Independent Auditor's Report ~

~ Management's Discussion and Analysis ~

~ Basic Financial Statements ~

Government-wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

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



Financial Section

INDEPENDENT AUDITOR'S REPORT





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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2009 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying Management's Discussion and Analysis and the other required supplementary information included at schedules E-1 through E-3 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



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

KPMG LLP

January 16, 2009

**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.

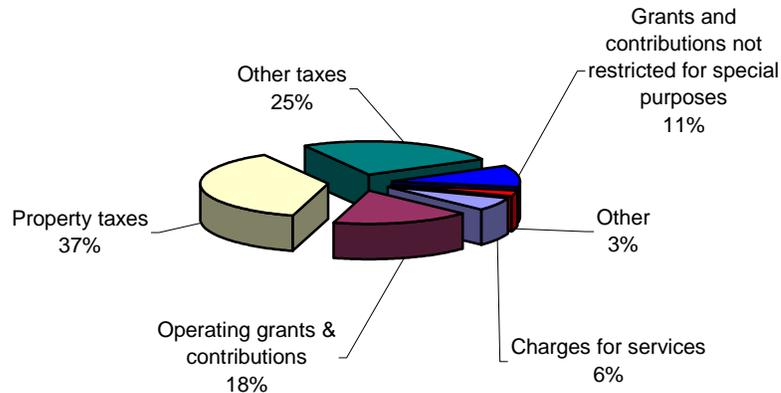
Key programmatic and functional elements of these changes in government wide net assets are demonstrated on the following page:

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



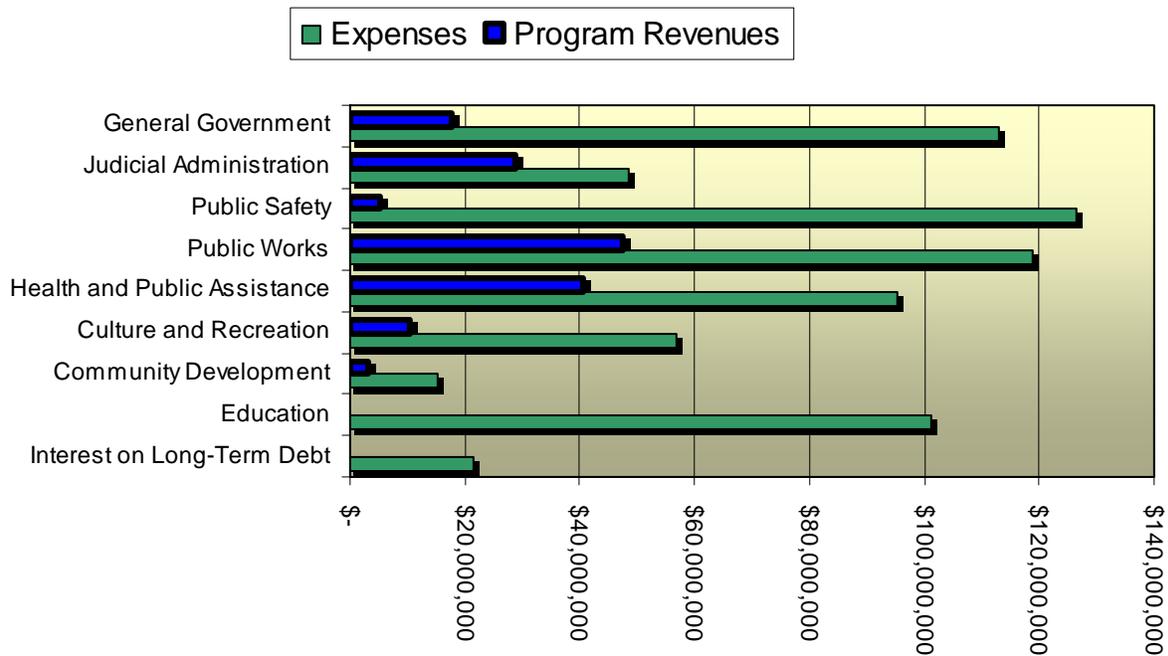
**CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2008**

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.

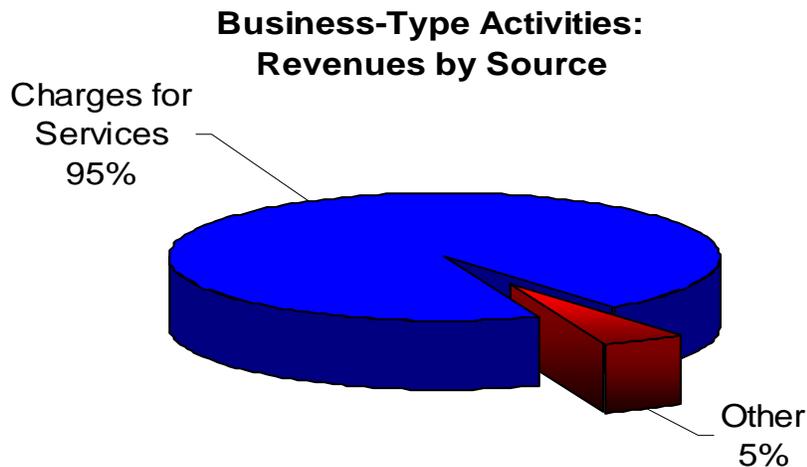
**Governmental Activities
Expenses and Program Revenues**



**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.



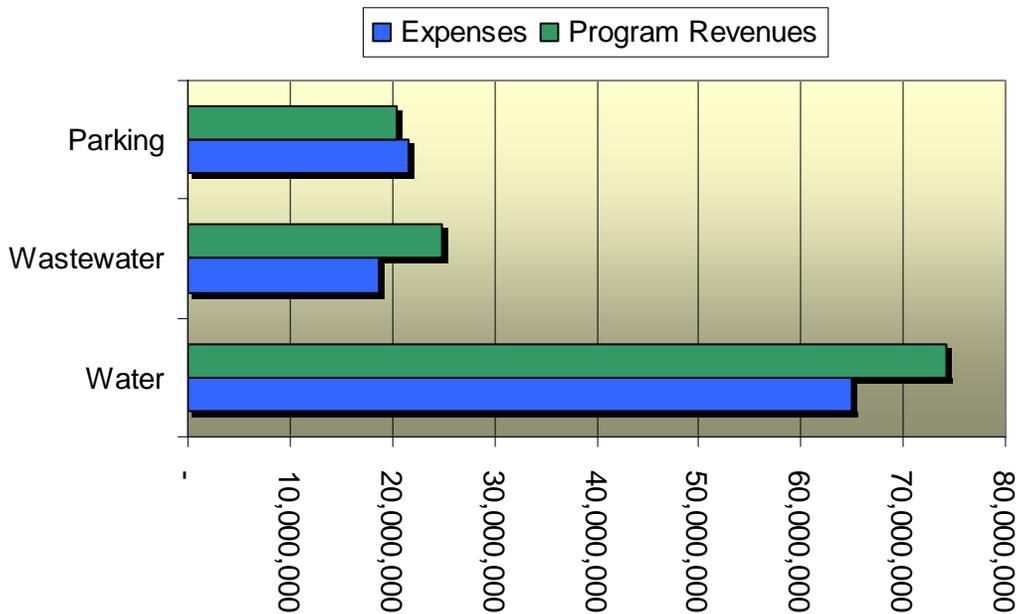
Operating expenses for Business type activities increased overall by \$5,465,319 or 7.20 percent.

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
Supplemental appropriations from additional revenue:	
Anticipated revenue from Norfolk Redevelopment and Housing Authority for rent	300,000
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
Total supplemental appropriations	14,886,521
Final budget	\$ 810,722,221

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	\$ 571,138,165	\$ 469,498,450	\$ 544,910,904	\$ 472,144,741	\$1,116,049,069	\$ 941,643,191

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:
 - Sales taxes – 0.3 percent decrease;
 - Business license taxes – no change;
 - Restaurant food taxes – 3.1 percent increase;
 - 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



Statement of Net Assets
June 30, 2008

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
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	<u>1,159,845,552</u>	<u>876,700,595</u>	<u>2,036,546,147</u>	<u>144,028,477</u>
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	<u>736,865,695</u>	<u>560,604,704</u>	<u>1,297,470,399</u>	<u>56,187,131</u>
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	<u>\$ 422,979,857</u>	<u>\$ 316,095,891</u>	<u>\$ 739,075,748</u>	<u>\$ 87,841,346</u>

CITY OF NORFOLK, VIRGINIA

Exhibit 2

Statement of Activities
For the Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Services	Operating		Primary Government			
			Grant Contributions	Capital Grant Contributions	Governmental Activities	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	<u>697,253,113</u>	<u>40,198,559</u>	<u>112,960,555</u>	<u>-</u>	<u>(544,093,999)</u>	<u>-</u>	<u>(544,093,999)</u>	<u>-</u>
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	<u>105,030,285</u>	<u>119,582,149</u>	<u>-</u>	<u>219,018</u>	<u>-</u>	<u>14,770,882</u>	<u>14,770,882</u>	<u>-</u>
Total primary government	<u>802,283,398</u>	<u>159,780,708</u>	<u>112,960,555</u>	<u>219,018</u>	<u>(544,093,999)</u>	<u>14,770,882</u>	<u>(529,323,117)</u>	<u>-</u>
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	<u>\$ 403,515,703</u>	<u>\$ 13,490,340</u>	<u>\$ 236,995,828</u>	<u>\$ 8,940,943</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(144,088,592)</u>
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					<u>499,875,774</u>	<u>(4,077,355)</u>	<u>495,798,419</u>	<u>139,999,989</u>
Changes in net assets					<u>(44,218,225)</u>	<u>10,693,527</u>	<u>(33,524,698)</u>	<u>(4,088,603)</u>
Net assets - beginning					<u>467,198,082</u>	<u>305,402,364</u>	<u>772,600,446</u>	<u>91,929,949</u>
Net assets - ending					<u>\$ 422,979,857</u>	<u>\$ 316,095,891</u>	<u>\$ 739,075,748</u>	<u>\$ 87,841,346</u>

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

Exhibit A-1

	Major Funds			Non-major Governmental Funds	Total Governmental Funds
	General Fund	Capital Projects	Debt Service		
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>	<u>422,979,857</u>
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**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For Fiscal Year Ended June 30, 2008**

	Major Funds			Non-major Governmental Funds	Total Governmental Funds
	General Fund	Capital Projects	Debt Service		
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	<u>560,228,245</u>	<u>8,104,038</u>	<u>-</u>	<u>75,030,883</u>	<u>643,363,166</u>
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	<u>515,659,872</u>	<u>111,425,875</u>	<u>58,921,220</u>	<u>81,681,076</u>	<u>767,688,043</u>
Excess (deficiency) of revenues over expenditures	<u>44,568,373</u>	<u>(103,321,837)</u>	<u>(58,921,220)</u>	<u>(6,650,193)</u>	<u>(124,324,877)</u>
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	<u>(64,876,606)</u>	<u>160,694,405</u>	<u>58,921,220</u>	<u>7,018,762</u>	<u>161,757,781</u>
Net changes in fund balances	<u>(20,308,233)</u>	<u>57,372,568</u>	<u>-</u>	<u>368,569</u>	<u>37,432,904</u>
Fund balances--beginning	88,279,421	64,317,907	-	44,334,005	196,931,333
Fund balances--ending	<u>\$ 67,971,188</u>	<u>\$ 121,690,475</u>	<u>\$ -</u>	<u>\$ 44,702,574</u>	<u>\$ 234,364,237</u>

**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

Exhibit B-1

Statement of Fund Net Assets - Proprietary Funds
June 30, 2008

	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	<u>93,672,083</u>	<u>35,415,380</u>	<u>23,900,041</u>	<u>152,987,504</u>	<u>7,159,334</u>
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	<u>436,032,623</u>	<u>163,134,962</u>	<u>138,373,589</u>	<u>737,541,174</u>	<u>5,826,829</u>
Total noncurrent assets	<u>436,032,623</u>	<u>163,134,962</u>	<u>138,373,589</u>	<u>737,541,174</u>	<u>5,826,829</u>
Total assets	<u>529,704,706</u>	<u>198,550,342</u>	<u>162,273,630</u>	<u>890,528,678</u>	<u>12,986,163</u>
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	<u>25,161,213</u>	<u>16,679,031</u>	<u>13,633,622</u>	<u>55,473,866</u>	<u>1,456,591</u>
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	<u>322,060,573</u>	<u>104,174,824</u>	<u>92,723,524</u>	<u>518,958,921</u>	<u>103,441</u>
Total liabilities	<u>347,221,786</u>	<u>120,853,855</u>	<u>106,357,146</u>	<u>574,432,787</u>	<u>1,560,032</u>
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	<u>\$ 182,482,920</u>	<u>\$ 77,696,487</u>	<u>\$ 55,916,484</u>	<u>\$ 316,095,891</u>	<u>\$ 11,426,131</u>

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			Totals	Governmental
	Water	Waste- Water	Parking Facilities		Activities Internal Service Funds
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	<u>77,155,968</u>	<u>25,089,426</u>	<u>20,425,125</u>	<u>122,670,519</u>	<u>16,151,735</u>
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	<u>50,655,713</u>	<u>16,254,485</u>	<u>14,428,970</u>	<u>81,339,168</u>	<u>15,727,121</u>
Operating income, net	<u>26,500,255</u>	<u>8,834,941</u>	<u>5,996,155</u>	<u>41,331,351</u>	<u>424,614</u>
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)	<u>(12,647,075)</u>	<u>(1,801,070)</u>	<u>(6,196,668)</u>	<u>(20,644,813)</u>	<u>159,097</u>
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	<u>\$ 182,482,920</u>	<u>\$ 77,696,487</u>	<u>\$ 55,916,484</u>	<u>\$ 316,095,891</u>	<u>\$ 11,426,131</u>

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

	Business-Type Activities				Governmental
	Water	Waste- Water	Parking Facilities	Total	Activities-- Internal Service Funds
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	<u>37,286,969</u>	<u>9,828,660</u>	<u>10,071,537</u>	<u>57,187,166</u>	<u>692,625</u>
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	<u>(20,245,048)</u>	<u>(5,140,217)</u>	<u>5,340,272</u>	<u>(20,044,993)</u>	<u>(19,205)</u>
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	<u>18,233,434</u>	<u>14,825,219</u>	<u>(18,654,838)</u>	<u>14,403,815</u>	<u>(291,732)</u>
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	<u>(32,927,389)</u>	<u>(25,847,326)</u>	<u>1,286,446</u>	<u>(57,488,269)</u>	<u>159,097</u>
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	<u>33,350,574</u>	<u>9,326,932</u>	<u>18,554,990</u>	<u>61,232,496</u>	<u>3,854,211</u>
Cash and short term investments - end of the year	<u>\$ 35,698,540</u>	<u>\$ 2,993,268</u>	<u>\$ 16,598,407</u>	<u>\$ 55,290,215</u>	<u>\$ 4,394,996</u>
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	<u>\$ 37,286,969</u>	<u>\$ 9,828,660</u>	<u>\$ 10,071,537</u>	<u>\$ 57,187,166</u>	<u>\$ 692,625</u>
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	<u>\$ 35,698,540</u>	<u>\$ 2,993,268</u>	<u>\$ 16,598,407</u>	<u>\$ 55,290,215</u>	<u>\$ 4,394,996</u>
Noncash investing, capital, and financing activities:					
Loss on sale or disposal of capital assets	<u>\$ (3,991)</u>	<u>\$ (534)</u>	<u>\$ (2,113,172)</u>	<u>\$ (2,117,697)</u>	<u>\$ (103,900)</u>
Acquisition of capital assets through change in contract retainage	<u>\$ 186,023</u>	<u>\$ (248,815)</u>	<u>\$ 172,552</u>	<u>\$ 109,760</u>	<u>\$ -</u>
Acquisition of capital assets through vouchers payable	<u>\$ (440,122)</u>	<u>\$ (1,175,176)</u>	<u>\$ (1,232,988)</u>	<u>\$ (2,848,286)</u>	<u>\$ -</u>
Capitalized interest, less interest earned on certain long-term construction contracts	<u>\$ 564,336</u>	<u>\$ 684,368</u>	<u>\$ -</u>	<u>\$ 1,248,704</u>	<u>\$ -</u>
Transfer of land and related debt from Capital projects fund	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,500,000</u>	<u>\$ 3,500,000</u>	<u>\$ -</u>

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

	2008
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)
	(44,318,136)
Employer contributions	25,667,556
Less investment expense	(4,110,319)
Net investment loss	(22,760,899)
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	58,890,310
Net decrease	(81,651,209)
Net assets held in trust for pension benefits:	
Beginning of year	961,848,658
End of year	\$ 880,197,449

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

	Expenses	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:							
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

		<u>Page</u>
I	Summary of Significant Accounting Policies	33
A	Financial Reporting Entity Information.....	33
B	Government-wide and Fund Financial Statements.....	34
C	Measurement Focus, Basis of Accounting and Financial Statement Presentation.....	36
D	Budgets and Budgetary Accounting	37
E	Deposits and Investments.....	38
F	Restricted Assets.....	39
G	Notes Receivable.....	39
H	Interfund Transactions.....	39
I	Inventories.....	40
J	Capital Assets.....	40
K	Compensated Absences.....	41
L	Net Assets/Fund Balances.....	42
M	Estimates.....	42
II	Deposits and Investments	42
III	Property Taxes	47
IV	Accounts Receivable	48
A	Unbilled Accounts Receivable	48
B	Allowances for Uncollectible Accounts Receivable	48
V	Notes Receivable	49
VI	Due From Other Governments	49
VII	Changes in Capital Assets	50
VIII	Long-Term Obligations	52
A	General Obligation and Revenue Bonds	52
B	General Obligation Bonds.....	54
C	Revenue Bonds.....	55

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

VIII	Long-Term Obligations (continued)	
D	Other Notes and Loans.....	56
E	Advance Refundings.....	56
F	Lease Obligations.....	57
G	Landfill Liability.....	58
H	Compensated Absences.....	59
I	Debt Limit.....	59
J	Bonds Authorized and Unissued.....	60
K	Changes in Long-Term Obligations.....	60
IX	Other Liabilities	62
X	Pension Plans	63
A	Employees' Retirement System of the City of Norfolk (System)	63
B	School Board – Retirement Plans	64
C	State Employees – Virginia Retirement System (VRS)	66
XI	Deferred Compensation Plan	67
XII	Other Post-employment Benefits (OPEB)	67
XIII	Interfund Receivable and Payable Balances	71
XIV	Interfund Transfers	72
XV	Recovered Costs	73
XVI	Other Liabilities	74
XVII	Supplemental Appropriations	74
XVIII	Deferred Revenue	75
A	Deferred grant funding	75
B	Deferred property tax revenue.....	75
C	Other Receivable	75

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

XIX	Commitments and Contingencies	76
A	Capital Projects	76
B	Contingent Liabilities	76
C	Litigation.....	76
XX	Surety Bonds and Insurance	77
XXI	Self and Purchased Insurance Programs	77
XXII	Jointly Governed Organizations	77
A	Hampton Roads Regional Jail Authority (HRRJA)	78
B	Hampton Roads Planning District Commission (the Commission)	78
C	Tidewater Transportation District Commission (TTDC)	79
XXIII	Joint Venture	79
	Southeastern Public Service Authority (SPSA)	79
XXIV	Related Organizations	80
A	Norfolk Redevelopment and Housing Authority (NRHA).....	80
B	Norfolk Airport Authority	80
C	The Economic Development Authority of the City of Norfolk (EDA).....	81
D	The Chrysler Museum, Inc. (The Museum).....	81
E	The Hospital Authority of Norfolk (HAN).....	81
XXV	Subsequent Event	82
XXVI	Accounting Pronouncements Issued But Not Yet Implemented	82

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
 - Shared expenses
 - 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.

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

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

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

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

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

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.

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

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.

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

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	\$ 1,146,922,541	\$ 24,621,531	\$ 41,856,935	\$ 11,882,627	\$ 266,783,764

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>

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

Community Services Board

Investment Type	Fair Value	Investment Maturities (in years)			
		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.

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

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%),

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

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
Australian 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.

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

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
	\$ 6,131,853

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:

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

Primary Government:

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

Component Units:

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

V. Notes Receivable

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

Primary Government: General Fund

WHRO (Hampton Roads Educational Telecommunications Association, Inc.) \$47,276

VI. Due From Other Governments

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

	General Fund	Total Primary Government	<u>Component Unit</u> 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	22,159,547	27,672,935	19,021,808
Federal Government:			
Special revenue grants	-	3,554,394	9,575,710
Total - Federal	-	3,554,394	9,575,710
Total - Due from other governments	\$ 22,159,547	\$ 31,227,329	\$ 28,597,518

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	<u>137,664,691</u>	<u>53,980,739</u>	<u>(36,532,269)</u>	<u>155,113,161</u>
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	<u>1,814,255,643</u>	<u>86,866,636</u>	<u>(17,168,266)</u>	<u>1,883,954,013</u>
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	<u>(1,154,483,198)</u>	<u>(72,808,342)</u>	<u>15,447,043</u>	<u>(1,211,844,497)</u>
Depreciable assets, net	<u>659,772,445</u>	<u>14,058,294</u>	<u>(1,721,223)</u>	<u>672,109,516</u>
Total governmental activities capital assets, net	<u>\$ 797,437,136</u>	<u>\$ 68,039,033</u>	<u>\$ (38,253,492)</u>	<u>\$ 827,222,677</u>
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	<u>86,776,681</u>	<u>14,597,728</u>	<u>(49,226)</u>	<u>101,325,183</u>
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	<u>823,317,257</u>	<u>35,581,590</u>	<u>(5,944,063)</u>	<u>852,954,784</u>
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	<u>(201,892,378)</u>	<u>(18,672,783)</u>	<u>3,826,368</u>	<u>(216,738,793)</u>
Depreciable assets, net	<u>621,424,879</u>	<u>16,908,807</u>	<u>(2,117,695)</u>	<u>636,215,991</u>
Business-Type activities capital assets, net	<u>\$ 708,201,560</u>	<u>\$ 31,506,535</u>	<u>\$ (2,166,921)</u>	<u>\$ 737,541,174</u>
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	<u>32,008,921</u>	<u>10,196,067</u>	<u>(41,717,488)</u>	<u>487,500</u>
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	<u>78,266,451</u>	<u>44,923,944</u>	<u>(2,123,452)</u>	<u>121,066,943</u>
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	<u>(43,503,450)</u>	<u>(6,811,979)</u>	<u>1,730,303</u>	<u>(48,585,126)</u>
Depreciable assets, net	<u>34,763,001</u>	<u>38,111,965</u>	<u>(393,149)</u>	<u>72,481,817</u>
Component units activities capital assets, net	<u>\$ 66,771,922</u>	<u>\$ 48,308,032</u>	<u>\$ (42,110,637)</u>	<u>\$ 72,969,317</u>

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

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
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

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				Total
		Water Utility Bonds	Wastewater Utility Bonds	Parking Facilities Bonds		
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.

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

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
		\$ 320,825,000	\$ 92,634,000	\$ 7,359,833	\$ 420,818,833

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

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:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
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

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

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

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

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.

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

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

<u>Defeased In</u>	<u>Original Issue</u>	<u>General Obligation Bonds</u>
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>

<u>Defeased In</u>	<u>Original Issue</u>	<u>Parking Revenue Bonds</u>
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
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

Future year lease obligations are listed below:

<u>Year Ending June 30,</u>	<u>Capital Lease Obligations</u>	<u>Operating Lease Obligations</u>
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	(126,723)	
	<u>3,293,144</u>	
Less current portion	(1,758,251)	
	<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
NOTES TO THE BASIC FINANCIAL STATEMENTS
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
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

J. Bonds Authorized and Unissued

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

Project Categories	Total
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	105,698,510
Wastewater Utility fund projects	5,535,748
General Obligation Bonds Authorized and Unissued	111,234,258
Revenue Bonds Authorized and Unissued:	
Water Utility fund projects	3,075,000
Parking Facilities fund projects	84,407,000
Revenue Bonds Authorized and Unissued	87,482,000
Total Bonds Authorized and Unissued	\$ 198,716,258

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
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

	Primary Government				Amounts Due Within One Year
	Beginning Balance	Additions	Reductions	Ending Balance	
<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>

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

	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
Total Component Unit-type Activities	\$ 12,842,308	\$ 14,007,381	\$ 11,227,788	\$ 15,621,901	\$ 4,883,405

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.

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

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

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

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

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

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 Statute. 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.

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

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

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

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</u> <u>Ended</u>	<u>Annual</u> <u>Pension Cost</u>	<u>Percentage of</u> <u>APC Contributed</u>	<u>Net Pension</u> <u>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

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

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.

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

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.

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

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
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

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.

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

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.

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

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	<u>\$ 1,460</u>
Grand total	<u>\$ 8,621,596</u>

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

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>

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

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
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

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>\$ 74,818,052</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
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

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
For the Year Ended June 30, 2008

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

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)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a percentage of covered payroll
<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	\$ 795,835,700	\$ 810,722,221	\$ 806,725,956	\$ (3,996,265)

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	\$ 560,228,245
<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	\$ 515,659,872

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

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	\$ 2,868,742	\$ 1,059,431	\$ 29,806,006	\$ 1,514,231	\$ 604,256	\$ 1,944,493	\$ 623,023
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	396,840	104,684	10,070,319	1,514,231	608,368	45,590	185,070
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	2,471,902	954,747	19,735,687	-	(4,112)	1,898,903	437,953
Total liabilities and fund balances	\$ 2,868,742	\$ 1,059,431	\$ 29,806,006	\$ 1,514,231	\$ 604,256	\$ 1,944,493	\$ 623,023

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 June, 30,2008
	Balance July, 1,2007	Additions	Deductions	
ASSETS				
Cash and short term investments	\$ 4,996,411	\$ 18,922,716	\$ 14,679,393	\$ 9,239,734
Accounts receivable	784	1,521	1,260	1,045
Other receivables	-	628,552	105,247	523,305
Total assets	<u>\$ 4,997,195</u>	<u>\$ 19,552,789</u>	<u>\$ 14,785,900</u>	<u>\$ 9,764,084</u>
LIABILITIES				
Vouchers payable	\$ 176,469	\$ 2,643,609	\$ 2,793,863	\$ 26,215
Due to other agencies	4,820,726	23,448,643	18,531,500	9,737,869
Total liabilities	<u>\$ 4,997,195</u>	<u>\$ 26,092,252</u>	<u>\$ 21,325,363</u>	<u>\$ 9,764,084</u>
	Commonwealth of Virginia			Balance June, 30,2008
	Balance July, 1,2007	Additions	Deductions	
ASSETS				
Cash and short term investments	\$ -	\$ 18,088,367	\$ 18,070,253	\$ 18,114
Total assets	<u>\$ -</u>	<u>\$ 18,088,367</u>	<u>\$ 18,070,253</u>	<u>\$ 18,114</u>
LIABILITIES				
Due to the Commonwealth of Virginia	\$ -	\$ 18,088,367	\$ 18,070,253	\$ 18,114
Total liabilities	<u>\$ -</u>	<u>\$ 18,088,367</u>	<u>\$ 18,070,253</u>	<u>\$ 18,114</u>
	Total			Balance June, 30,2008
	Balance July, 1,2007	Additions	Deductions	
ASSETS				
Cash and short term investments	\$ 4,996,411	\$ 37,011,083	\$ 32,749,646	\$ 9,257,848
Accounts receivable	784	1,521	1,260	1,045
Other	-	628,552	105,247	523,305
Total assets	<u>\$ 4,997,195</u>	<u>\$ 37,641,156</u>	<u>\$ 32,856,153</u>	<u>\$ 9,782,198</u>
LIABILITIES				
Vouchers payable	\$ 176,469	\$ 2,643,609	\$ 2,793,863	\$ 26,215
Due to other agencies	4,820,726	41,537,010	36,601,753	9,755,983
Total liabilities	<u>\$ 4,997,195</u>	<u>\$ 44,180,619</u>	<u>\$ 39,395,616</u>	<u>\$ 9,782,198</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	<u>1,873,581</u>	<u>5,285,753</u>	<u>7,159,334</u>
Noncurrent assets:			
Capital assets:			
Land	-	415,000	415,000
Buildings and equipment, net	34,281	5,377,548	5,411,829
Total noncurrent assets	<u>34,281</u>	<u>5,792,548</u>	<u>5,826,829</u>
Total assets	<u>1,907,862</u>	<u>11,078,301</u>	<u>12,986,163</u>
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	<u>204,234</u>	<u>1,252,357</u>	<u>1,456,591</u>
Noncurrent liabilities:			
Compensated absences	8,556	87,182	95,738
Other long-term liabilities	-	7,703	7,703
Total noncurrent liabilities	<u>8,556</u>	<u>94,885</u>	<u>103,441</u>
Total liabilities	<u>212,790</u>	<u>1,347,242</u>	<u>1,560,032</u>
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	<u>\$ 1,695,072</u>	<u>\$ 9,731,059</u>	<u>\$ 11,426,131</u>

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	-	(35,000)	(35,000)
Change in net assets	<u>99,265</u>	<u>449,446</u>	<u>548,711</u>
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	CFDA Number	Federal Expenditures
Recipient State Agency/Grant program		
<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		42,428,572
 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		47,678,309
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		\$ 100,346,698
 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		42,464,297
Revenues from Commonwealth of Virginia		114,397,465
Total intergovernmental revenue	\$	156,861,762

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

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

Exhibit J-1

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

	<u>Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
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

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

	Budget	Actual	Positive (Negative) Variance
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/Martime 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	Expenditures				
	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.

**STATISTICAL
SECTION
(Unaudited)**



CITY OF NORFOLK, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2008

STASTICAL SECTION

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

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

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

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

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

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

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



(UNAUDITED)

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

	Fiscal Year						
	2002	2003	2004	2005	2006	2007	2008
Governmental activities:							
Invested in capital assets, net of related debt	\$ 537,356	\$ 470,451	\$ 411,993	\$ 403,577	\$ 391,392	\$ 332,988	\$ 325,173
Restricted	72,938	35,753	55,786	6,788	6,605	6,731	6,890
Unrestricted	<u>34,968</u>	<u>72,904</u>	<u>86,959</u>	<u>91,869</u>	<u>96,705</u>	<u>127,479</u>	<u>90,917</u>
Subtotal governmental activities net assets	<u>645,262</u>	<u>579,108</u>	<u>554,738</u>	<u>502,234</u>	<u>494,702</u>	<u>467,198</u>	<u>422,980</u>
Business-Type activities:							
Invested in capital assets, net of related debt	128,521	195,799	223,018	237,044	259,198	268,503	241,203
Restricted	46,861	37,216	36,041	-	-	2,526	2,506
Unrestricted	<u>85,619</u>	<u>39,277</u>	<u>20,293</u>	<u>48,563</u>	<u>43,383</u>	<u>34,373</u>	<u>72,387</u>
Subtotal business-type activities net assets	<u>261,001</u>	<u>272,292</u>	<u>279,352</u>	<u>285,607</u>	<u>302,581</u>	<u>305,402</u>	<u>316,096</u>
Primary government:							
Invested in capital assets, net of related debt	665,877	666,250	635,011	640,621	650,590	601,491	566,376
Restricted	119,799	72,969	91,827	6,788	6,605	9,257	9,396
Unrestricted	<u>120,587</u>	<u>112,181</u>	<u>107,252</u>	<u>140,432</u>	<u>140,088</u>	<u>161,852</u>	<u>163,304</u>
Total primary government net assets	<u>\$ 906,263</u>	<u>\$ 851,400</u>	<u>\$ 834,090</u>	<u>\$ 787,841</u>	<u>\$ 797,283</u>	<u>\$ 772,600</u>	<u>\$ 739,076</u>

Note:

1. The earliest data available for this schedule is as of June 30, 2002, the year in which the City adopted GASB 34.

(UNAUDITED)

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

	Fiscal Year						
	2002	2003	2004	2005	2006	2007	2008
Program Revenues							
Governmental activities:							
Charges for services							
General government	\$ 108	\$ 449	\$ 551	\$ 775	\$ 1,230	\$ 2,450	\$ 2,169
Judicial administration	10	191	402	498	200	778	931
Public safety	2,410	6,282	6,727	11,608	13,041	2,708	2,307
Public works	13,896	16,394	16,829	9,081	10,121	24,181	27,156
Health and public assistance	119	159	154	130	134	101	166
Culture and recreation	1,763	5,907	6,668	7,034	6,198	6,126	6,710
Community development	6	7	11	5	1,063	907	760
Operating grants and contributions	93,270	123,596	105,466	116,399	116,827	115,779	112,960
Total governmental activities program revenue	111,582	152,985	136,808	145,530	148,814	153,030	153,159
Business-type activities:							
Charges for Services							
Water	59,318	63,785	60,964	61,002	74,218	69,816	74,240
Wastewater	13,389	14,615	18,633	21,329	22,375	22,314	24,917
Parking facilities	18,355	18,574	21,354	21,059	20,911	21,599	20,425
Capital grants and contributions	355	254	205	-	78	731	219
Total business-type activities program revenues	91,417	97,228	101,156	103,390	117,582	114,460	119,801
Total primary government program revenues	202,999	250,213	237,964	248,920	266,396	267,490	272,960
Expenses							
Governmental activities:							
General government	48,062	83,311	86,081	74,344	94,763	113,279	113,142
Judicial administration	8,987	10,856	36,635	40,319	42,494	46,944	48,593
Public safety	122,252	117,488	99,975	107,531	106,705	111,803	126,609
Public works	96,894	103,319	124,833	144,438	109,907	119,176	118,888
Health and public assistance	62,062	70,665	77,668	84,173	91,443	93,775	95,234
Culture and recreation	46,945	44,758	42,495	46,267	44,933	52,965	56,890
Community development	17,218	19,806	10,471	16,974	14,930	14,772	15,345
Education	83,883	88,854	90,020	91,865	92,595	97,595	101,095
Interest on long-term debt	18,536	18,088	17,461	18,516	19,565	19,618	21,457
Intergovernmental	7,932	8,061	6,140	-	-	-	-
Total government activities expenses:	512,771	565,206	591,779	624,427	617,335	669,927	697,253
Business-type activities:							
Water	53,712	54,382	60,069	60,207	62,009	60,511	64,877
Wastewater	11,379	10,963	11,754	11,957	15,448	17,377	18,614
Parking facilities	14,298	15,834	16,869	18,640	18,356	18,861	21,539
Total business-type activities expenses	79,389	81,179	88,692	90,804	95,813	96,749	105,030
Total primary government expenses	592,160	646,385	680,471	715,231	713,148	766,676	802,283
Net (Expense) Revenue							
Governmental activities	(401,189)	(412,221)	(454,971)	(478,897)	(468,521)	(516,897)	(544,094)
Business-type activities	12,028	16,049	12,464	12,586	21,769	17,711	14,771
Total primary government net expense	\$ (389,161)	\$ (396,172)	\$ (442,507)	\$ (466,311)	\$ (446,752)	\$ (499,186)	\$ (529,323)

Note:

1. The earliest data available for this schedule is as of June 30, 2002, the year in which the City adopted GASB 34.

(UNAUDITED)

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

	Fiscal Year						
	2002	2003	2004	2005	2006	2007	2008
General Revenues and Other Changes in Net Assets							
Governmental Activities:							
Taxes:							
Real Estate and personal property	\$ 158,871	\$ 168,731	\$ 181,446	\$ 193,156	\$ 217,787	\$ 241,315	\$ 240,488
Consumption utility	-	-	-	43,387	43,337	42,586	46,582
Sales and use	-	-	-	29,497	30,652	32,402	31,791
Restaurant food	-	-	-	26,669	27,277	28,578	28,758
Business licenses	-	-	-	22,015	24,412	25,268	26,343
Cigarette	-	-	-	6,948	6,819	6,957	7,577
Motor vehicle licenses	-	-	-	2,605	3,576	3,529	3,498
Franchise, admission, recordation and other miscellaneous local	-	-	-	19,356	21,544	19,800	18,025
Other *	127,262	132,847	140,675	-	-	-	-
Interest and investment earnings	5,566	3,018	2,377	4,916	7,306	6,536	5,307
Grants and contributions not restricted to specific programs	60,367	60,472	77,601	68,219	68,133	66,524	69,352
Miscellaneous	12,003	7,986	18,504	8,496	15,851	4,845	11,881
Gain on disposal of assets	625	4,025	-	-	3,249	65	62
Transfers between governmental and business-type activities	8,000	8,500	10,000	10,000	11,868	10,988	10,212
Total governmental activities	372,694	385,579	430,603	435,264	481,811	489,393	499,876
Business-type activities:							
Interest and investment earnings	941	816	609	864	3,161	2,739	3,046
Grants and contributions not restricted to specific programs	-	-	-	-	-	333	-
Unrealized Gain (Loss) on investments	-	25	(640)	-	-	-	-
Miscellaneous	3,660	2,780	4,624	3,657	3,911	3,554	3,088
Gain (Loss) on disposal of assets	415	121	-	(852)	-	(6)	-
Transfers between governmental and business-type activities	(8,000)	(8,500)	(10,000)	(10,000)	(11,868)	(10,988)	(10,212)
Total business-type activities	(2,984)	(4,758)	(5,407)	(6,331)	(4,796)	(4,368)	(4,078)
Total primary governmental activities	369,710	380,821	425,196	428,933	477,015	485,025	495,798
Change in Net Assets							
Governmental activities	(28,495)	(26,642)	(24,368)	(43,633)	13,290	(27,504)	(44,218)
Business-type activities	9,044	11,291	7,057	6,255	16,973	13,343	10,693
Total Primary Government changes in net assets	\$ (19,451)	\$ (15,351)	\$ (17,311)	\$ (37,378)	\$ 30,263	\$ (14,161)	\$ (33,525)

Note:

1. The earliest data available for this schedule is as of June 30, 2002, the year in which the City adopted GASB 34.
2. *All taxes listed except real estate taxes were reported as "other" on the CAFR prior to fiscal year 2005.

(UNAUDITED)

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

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General fund:										
Reserved	\$ 13,625	\$ 12,309	\$ 12,142	\$ 14,913	\$ 8,317	\$ 8,152	\$ 14,172	\$ 16,057	\$ 17,223	\$ 11,669
Unreserved	<u>30,548</u>	<u>39,836</u>	<u>60,569</u>	<u>53,053</u>	<u>49,789</u>	<u>53,948</u>	<u>54,007</u>	<u>66,619</u>	<u>71,056</u>	<u>56,302</u>
Total general fund	<u>44,173</u>	<u>52,145</u>	<u>72,711</u>	<u>67,966</u>	<u>58,106</u>	<u>62,100</u>	<u>68,179</u>	<u>82,676</u>	<u>88,279</u>	<u>67,971</u>
Capital projects fund:										
Reserved	12,672	22,685	23,294	40,849	51,259	80,034	82,373	20,885	48,894	57,186
Unreserved	<u>2,748</u>	<u>2,616</u>	<u>11,755</u>	<u>1,009</u>	<u>7,200</u>	<u>14,132</u>	<u>3,394</u>	<u>-</u>	<u>15,424</u>	<u>64,504</u>
Total capital projects fund	<u>15,420</u>	<u>25,301</u>	<u>35,049</u>	<u>41,858</u>	<u>58,459</u>	<u>94,166</u>	<u>85,767</u>	<u>20,885</u>	<u>64,318</u>	<u>121,690</u>
All Other governmental funds:										
Reserved	14,412	17,877	19,577	17,177	8,089	10,509	27,161	19,075	20,123	30,716
Unreserved	<u>(12,824)</u>	<u>(16,669)</u>	<u>(17,230)</u>	<u>1,254</u>	<u>14,833</u>	<u>14,058</u>	<u>3,992</u>	<u>17,131</u>	<u>24,211</u>	<u>13,987</u>
Total Other governmental funds	<u>1,588</u>	<u>1,208</u>	<u>2,347</u>	<u>18,431</u>	<u>22,922</u>	<u>24,567</u>	<u>31,153</u>	<u>36,206</u>	<u>44,334</u>	<u>44,703</u>
Total fund balance, governmental fund	<u>\$ 61,181</u>	<u>\$ 78,654</u>	<u>\$ 110,107</u>	<u>\$ 128,255</u>	<u>\$ 139,487</u>	<u>\$ 180,833</u>	<u>\$ 185,099</u>	<u>\$ 139,767</u>	<u>\$ 196,931</u>	<u>\$ 234,364</u>

(UNAUDITED)

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

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Revenues:										
General property taxes	\$ 147,831	\$ 152,062	\$ 153,366	\$ 159,512	\$ 168,893	\$ 178,361	\$ 193,293	\$ 211,788	\$ 235,399	\$ 241,290
Other local taxes	111,212	119,107	126,537	127,262	132,847	140,675	150,477	157,616	159,119	162,573
Licenses and permits	2,505	2,943	2,601	2,700	2,973	3,204	3,542	4,088	4,071	4,055
Fines and forfeitures	1,920	1,661	1,684	1,541	1,569	1,627	1,763	1,461	1,605	1,317
Use of money and property	8,785	10,275	11,361	11,247	8,791	8,333	10,232	10,498	11,105	10,560
Charges for services	19,658	18,836	18,745	18,312	29,390	31,342	29,129	32,772	37,071	40,159
Miscellaneous	18,621	13,990	13,681	12,337	24,785	17,339	18,951	33,494	11,691	17,923
Recovered costs	11,139	12,338	14,135	10,008	9,556	12,297	14,188	12,667	8,408	8,622
Intergovernmental	107,896	133,526	122,677	133,332	131,071	160,118	147,045	149,757	156,637	156,862
Total Revenue	429,567	464,738	464,787	476,251	509,875	553,296	568,620	614,141	625,106	643,361
Expenditures:										
Current										
General government	42,499	50,770	50,671	44,126	64,639	76,127	67,434	92,062	102,031	110,974
Judicial administration	8,046	8,969	7,987	8,790	9,280	35,603	38,110	41,795	45,173	47,331
Public safety	94,113	96,542	101,523	115,912	123,202	94,979	102,278	105,634	108,565	116,208
Public works	34,153	36,792	36,817	56,124	57,162	80,613	64,497	46,959	49,161	60,370
Health and public assistance	64,993	72,609	56,967	61,601	68,140	76,221	83,451	91,535	93,397	95,159
Culture and recreation	46,186	45,088	46,032	40,849	40,149	40,081	40,290	42,995	46,397	51,071
Education	82,039	79,033	80,883	83,883	88,854	90,020	91,865	92,595	97,595	101,095
Community development	19,627	22,970	22,549	16,945	17,673	8,048	12,716	13,552	11,158	10,745
Debt Services:										
Principal retirement	27,280	29,493	32,065	31,177	32,450	32,731	47,407	37,660	35,872	40,260
Interest and other charges	18,405	18,906	19,056	17,460	15,998	16,820	18,061	18,802	18,917	20,468
Intergovernmental	6,923	5,950	7,807	7,932	8,061	6,140	-	-	-	-
Capital outlay	35,263	17,912	27,488	30,516	37,770	45,026	85,144	91,632	94,595	114,007
Total Expenditures	479,527	485,034	489,845	515,315	563,378	602,409	651,253	675,221	702,861	767,688
(Deficiency) of revenues (under) expenditures	(49,960)	(20,296)	(25,058)	(39,064)	(53,503)	(49,113)	(82,633)	(61,080)	(77,755)	(124,327)
Other Financing Sources (Uses):										
Proceeds of refunding bonds	-	-	-	-	31,123	83,219	30,389	-	15,480	-
Proceeds of capital leases	2,938	4,975	6,667	2,184	7,503	4,430	4,702	4,828	-	-
Proceeds of debt (general obligation bonds and notes)	2,573	22,544	25,470	56,179	47,695	69,685	70,840	-	121,705	145,663
Payment to refunded bonds escrow agent	-	-	-	(30,452)	(31,123)	(83,219)	(30,389)	-	(15,480)	-
Premium on bonds issued	-	-	-	-	-	389	2,259	-	2,070	5,785
Miscellaneous	193	-	-	-	(2,989)	(7)	-	(122)	66	62
Proceeds from sale or disposal of fixed assets	564	1,207	12,968	-	4,025	1,062	-	-	-	-
Operating transfers in	70,208	69,276	76,514	72,913	78,637	75,587	82,354	97,185	89,254	109,901
Operating transfers (out)	(60,759)	(59,826)	(64,718)	(64,913)	(70,137)	(65,587)	(72,354)	(86,142)	(78,176)	(99,653)
Total other financing sources (uses)	15,717	38,176	56,901	35,911	64,734	85,559	87,801	15,749	134,919	161,758
Net change in fund balances	\$ (34,243)	\$ 17,880	\$ 31,843	\$ (3,153)	\$ 11,231	\$ 36,446	\$ 5,168	\$ (45,331)	\$ 57,164	\$ 37,431
Debt service as a percentage of noncapital expenditures	10.28%	10.36%	11.06%	10.03%	9.22%	8.89%	11.56%	9.67%	9.01%	9.29%

(UNAUDITED)

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

Function/Program	Fiscal Year						
	2002	2003	2004	2005	2006	2007	2008
Governmental Activities:							
General government	\$ 11,272	\$ 43,823	\$ 15,945	\$ 25,544	\$ 24,802	\$ 16,614	\$ 17,707
Judicial administration	4,466	4,482	17,960	19,423	19,605	27,904	28,707
Public safety	22,128	23,941	12,832	19,822	20,674	8,137	5,244
Public works	31,670	34,082	40,783	28,440	30,438	44,769	47,407
Health and public assistance	34,127	34,453	36,733	39,064	39,930	42,261	40,567
Culture and recreation	6,097	10,225	10,221	9,956	9,603	9,655	10,359
Education	1,822	1,979	2,334	3,281	3,762	3,690	3,168
Subtotal governmental activities program revenue	111,582	152,985	136,808	145,530	148,814	153,030	153,159
Business-type activities:							
Water	59,389	64,039	61,126	61,002	74,277	70,411	74,416
Wastewater	13,673	14,615	18,676	21,329	22,394	22,450	24,960
Parking facilities	18,355	18,574	21,354	21,059	20,911	21,599	20,425
Subtotal business-type activities program revenues	91,417	97,228	101,156	103,390	117,582	114,460	119,801
Total primary government program revenues	\$ 202,999	\$ 250,213	\$ 237,964	\$ 248,920	\$ 266,396	\$ 267,490	\$ 272,960

Note:

1. The earliest data available for this schedule is as of June 30, 2002, the year in which the City adopted GASB 34.

(UNAUDITED)

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

Fiscal Year	General Property Taxes	Other Local Taxes	Licenses and Permits	Fines and Forfeitures	Use of Money and Property	Charges for Services	Misc	Recovered Costs	Inter-Governmental Revenues	Total
1999	147,831	111,212	2,505	1,920	8,785	19,658	18,621	11,139	107,896	429,567
2000	152,062	119,107	2,943	1,661	10,275	18,836	13,990	12,338	133,526	464,738
2001	153,366	126,537	2,601	1,684	11,361	18,745	13,681	14,135	122,677	464,787
2002	159,512	127,262	2,700	1,541	11,247	18,312	12,337	10,008	133,332	476,251
2003	168,893	132,847	2,973	1,569	8,791	29,390	24,785	9,556	131,071	509,875
2004	178,361	140,675	3,204	1,627	8,333	31,342	17,339	12,297	160,118	553,296
2005	193,293	150,477	3,542	1,763	10,232	29,129	18,951	14,188	147,045	568,620
2006	211,788	157,616	4,088	1,461	10,498	32,772	33,494	12,667	149,757	614,141
2007	235,399	159,119	4,071	1,605	11,105	37,071	11,692	8,408	156,636	625,106
2008	241,290	162,573	4,055	1,317	10,651	40,070	17,923	8,622	156,862	643,363
Change 1999-2008	63.2%	46.2%	61.9%	-31.4%	21.2%	103.8%	-3.7%	-22.6%	45.4%	49.8%

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

Fiscal Year	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	
Change 1999-2008		40.7%	40.4%	65.3%	5.7%	54.1%	83.4%	15.6%	46.2%

Note:

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

(UNAUDITED)

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

Year	Real Property	Personal Property	Other Property	Total Taxable Assessed Value	Estimate Actual Taxable Value
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	19,406,095
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	29,424,339
2008	18,401,851	2,503,662	322,195	21,227,708	20,945,106

Notes:

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

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

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Property tax rate per \$100 of assessed value:										
Real property	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.35	\$ 1.27	\$ 1.11
Business improvement District	0.24	0.20	0.18	0.18	0.18	0.18	0.18	0.18	0.18	0.18
Personal property	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.25
Machinery and tools	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.25
Mobile homes	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.35	1.27	1.11
Airplanes	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
Boats (pleasure)	1.50	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.50
Boats (business)	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Recreational vehicles	2.00	2.00	2.00	2.00	1.50	1.50	1.50	1.50	1.50	1.50
Disabled veterans	N/A	N/A	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Assessed value of real property as a percent of fair market value:										
As determined by the City Assessor	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
As determined by the Commonwealth's Department of Taxation	93%	90%	90%	88%	88%	86%	65%	76%	76%	N/A

Notes:

1. Cities in Virginia have jurisdiction over the entire area within their boundaries and operate independently of a county government since they are located outside of any county boundaries.
2. The real property and personal property assessments for public service corporations are based on information furnished to the Commissioner of the Revenue by the State Corporation Commission and the Commonwealth's Department of Taxation for calendar years 1998 through 2007.
3. The most recent Virginia Assessment/Sales ratio study is for 2004.

N/A - Not available

(UNAUDITED)

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

Taxpayer	1999			2008		
	Real Property Taxable Assessed Value	Rank	Percentage of Total Assessed Value	Real Property Taxable Assessed Value	Rank	Percentage of Total Assessed Value
Virginia Power Co.	\$ 165,733,572	2	2.09%	\$ 178,290,528	1	0.97%
MacArthur Shopping Center LLC (Taubman Co.)	124,585,630	3	1.57%	173,032,800	2	0.94%
Verizon Virginia, Inc.				131,127,740	3	0.71%
Norfolk Southern Corporation	70,812,803	4	0.89%	94,561,445	4	0.51%
Bank of America				87,462,500	5	0.48%
Ford Motor Company	45,611,640	7	0.57%	81,588,900	6	0.44%
Cox Virginia Telecom				65,187,525	7	0.35%
Military Circle Ltd. Partnership	64,944,900	5	0.82%	58,001,800	8	0.32%
Dominion Tower Ltd. Partnership	41,928,760	8	0.53%	57,438,600	9	0.31%
Trader Publishing Company				57,040,100	10	0.31%
Bell Atlantic Virginia, Inc.	193,580,871	1	2.44%			
Nationsbank	62,997,420	6	0.79%			
Norfolk Southern Tower, LLC	30,977,980	9	0.39%			
World Trade Center	29,368,430	10	0.37%			
Total	<u>\$ 830,542,006</u>		<u>10.47%</u>	<u>\$983,731,938</u>		<u>5.35%</u>
Total Assessed Value	\$ 7,934,397,295			\$ 18,401,851,069		

Note:

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

(UNAUDITED)

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

Year	Total Tax Levy	Current Collections	Percentage of Current Collections to Tax Levy	Delinquent Collections	Total Collections	Percentage of Total 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%

Notes:

1. Delinquent tax collections are reported in the year collected.

(UNAUDITED)

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

Fiscal Year	General Obligation Bonds *	General Obligation Notes	Revenue Bonds	Total Outstanding Debt	Outstanding Debt per Capita (Actual)	% of Personal Income	Debt to Net Asset Ratio
Governmental Activities							
1999	367,137	3,234	-	370,371	1,579	5.98%	N/A
2000	360,345	3,157	-	363,502	1,551	6.48%	N/A
2001	353,917	2,755	-	356,672	1,524	6.98%	N/A
2002	348,296	2,297	-	350,593	1,501	7.30%	1.84
2003	361,656	1,726	-	363,382	1,554	7.45%	1.59
2004	398,606	1,110	-	399,716	1,699	7.18%	1.39
2005	421,008	250	-	421,258	1,792	7.25%	1.19
2006	382,773	239	-	383,012	1,604	8.21%	1.29
2007	469,498	227	-	469,725	1,992	N/A	0.99
2008	571,138	2,000	-	573,138	N/A	N/A	0.74
Business Type Activities							
1999	141,668	-	330,030	471,698	2,012	4.69%	N/A
2000	128,007	-	347,620	475,627	2,029	4.95%	N/A
2001	114,528	-	357,240	471,768	2,016	5.27%	N/A
2002	112,050	-	360,635	472,685	2,023	5.42%	0.55
2003	99,220	-	370,855	470,075	2,010	5.76%	0.58
2004	87,636	-	365,464	453,100	1,926	6.33%	0.62
2005	91,520	-	382,689	474,209	2,017	6.44%	0.60
2006	93,099	-	374,159	467,258	1,956	6.73%	0.65
2007	107,311	-	364,834	472,145	2,003	N/A	0.65
2008	124,092	-	420,819	544,911	N/A	N/A	0.58
Total Primary Governmental Activities							
1999	508,805	3,234	330,030	842,069	3,591	10.67%	N/A
2000	488,353	3,157	347,620	839,129	3,580	11.43%	N/A
2001	468,445	2,755	357,240	828,440	3,540	12.25%	N/A
2002	460,346	2,297	360,635	823,278	3,524	12.72%	1.10
2003	460,876	1,726	370,855	833,457	3,563	13.22%	1.02
2004	486,242	1,110	365,464	852,816	3,626	13.51%	0.98
2005	512,528	250	382,689	895,467	3,809	13.68%	0.88
2006	475,872	239	374,159	850,270	3,560	14.94%	0.94
2007	576,809	227	364,834	941,870	3,995	N/A	0.82
2008	695,230	2,000	420,819	1,118,049	N/A	N/A	0.66

Notes:

* 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 revenues pledged to support the bond's debt service. In Virginia, this TIF pledge constitutes a general obligation when determining the City's legal debt margin.

N/A - not available

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

(UNAUDITED)

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

Year	Gross Bonded Debt (in thousands)	Debt Payable from Enterprise Revenue (in thousands)	Net Bonded Debt (in thousands)	Assessed Value of Taxable Property (in thousands)	Population	Ratio of Net Bonded Debt To Assessed Value	Net Bonded Debt per Capita
1999	508,805	141,668	367,137	9,054,436	234,500	4.05%	1,566
2000	488,353	128,007	360,346	9,325,039	234,403	3.86%	1,537
2001	468,445	114,528	353,917	9,728,084	234,000	3.64%	1,512
2002	460,346	112,050	348,296	10,204,892	233,600	3.41%	1,491
2003	460,876	99,220	361,656	10,742,268	233,900	3.37%	1,546
2004	486,242	87,636	398,606	11,483,300	235,200	3.47%	1,695
2005	512,528	91,520	421,008	12,439,004	235,071	3.38%	1,791
2006	475,872	93,099	382,773	14,332,318	238,832	2.67%	1,603
2007	576,809	107,311	469,498	17,306,281	235,747	2.71%	1,992
2008	695,230	124,092	571,138	21,227,708	N/A	2.69%	N/A

Notes:

1. Assessed value of taxable property is detailed in Revenue Capacity Schedule 1.
2. Population from Weldon & Cooper Center for Public Services & U.S. Census Bureau. Population data was not available for 2008.

N/A - not available

City of Norfolk, Virginia
Debt Capacity Information
Schedule 3
Computation of Direct Bonded Debt
June 30, 2008

Jurisdiction	Net Bonded Debt Outstanding	% Applicable to Government	\$ Applicable to Government
Direct: City of Norfolk	\$ 571,138	100%	\$ 571,138

Notes:

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

(UNAUDITED)

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

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Total assessed value of real property	\$ 7,934,397,295	\$ 8,098,113,173	\$ 8,458,280,938	\$ 8,882,063,788	\$ 9,356,759,552	\$ 10,029,638,801	\$ 10,960,812,421	\$ 12,691,527,668	\$ 15,496,207,804	\$ 18,401,851,069
Overall debt limitation - 10% of assessed valuation	793,439,730	809,811,317	845,828,094	888,206,379	935,675,955	1,002,963,880	1,096,081,242	1,269,152,767	1,549,620,780	1,840,185,107
Net debt applicable to debt limitation	512,105,001	491,197,246	471,745,246	463,645,861	464,176,270	489,541,678	514,905,063	478,467,462	579,224,191	697,450,234
Legal Debt Margin Within 10% Limitation	\$ 281,334,729	\$ 318,614,071	\$ 374,082,848	\$ 424,560,518	\$ 471,499,685	\$ 513,422,202	\$ 581,176,179	\$ 790,685,305	\$ 970,396,589	\$ 1,142,734,873
Net debt percentage of 10% limitation	64.54%	60.66%	55.77%	52.20%	49.61%	48.81%	46.98%	37.70%	37.38%	37.90%

(UNAUDITED)

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

Fiscal Year	Revenue Available for Debt Service (1)	Operating Expenses Less Depreciation & Amortization (2)	Income Available for Debt Service	Debt Service			Coverage
				Principal	Interest	Total	
1999	73,326,682	26,067,025	47,259,657	3,113,577	11,325,353	14,438,930	3.27
2000	64,456,322	28,198,244	36,258,078	4,475,000	13,616,718	18,091,718	2.00
2001	64,459,300	29,732,203	34,727,097	4,680,000	13,411,636	18,091,636	1.92
2002	63,681,665	29,021,459	34,660,206	4,890,000	14,090,180	18,980,180	1.83
2003	67,760,029	30,867,286	36,892,743	5,700,000	14,600,283	20,300,283	1.82
2004	64,366,942	36,623,654	27,743,288	5,955,000	14,336,043	20,291,043	1.37
2005	69,183,154	37,584,692	31,598,462	6,250,000	14,041,059	20,291,059	1.56
2006	78,788,158	37,086,776	41,701,382	6,580,000	14,827,960	21,407,960	1.95
2007	76,013,563	35,050,694	40,962,869	7,310,000	14,379,821	21,689,821	1.89
2008	78,730,024	39,559,202	39,170,822	7,665,000	14,022,200	21,687,200	1.81

Notes:

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

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

Fiscal Year	Revenue Available for Debt Service (1)	Operating Expenses Less Depreciation & Amortization (2)	Income Available for Debt Service	Debt Service		Coverage
				Total	Coverage	
1999	12,632,071	4,190,415	8,441,656	2,888,783	2.92	
2000	15,820,975	5,495,665	10,325,310	4,621,053	2.23	
2001	17,246,291	5,706,458	11,539,833	4,964,744	2.32	
2002	18,427,725	7,309,883	11,117,842	5,683,455	1.96	
2003	18,879,428	7,481,301	11,398,127	5,404,816	2.11	
2004	21,614,695	8,503,800	13,110,895	5,429,056	2.41	
2005	21,329,936	9,984,289	11,345,647	5,444,772	2.08	
2006	21,823,360	9,493,391	12,329,969	6,012,397	2.05	
2007	22,348,513	9,359,808	12,988,705	6,478,189	2.00	
2008	21,338,661	10,554,971	10,783,690	6,527,680	1.65	

Notes:

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

The City of Norfolk's Wastewater Utility Fund issued revenue bonds in FY2008. Debt service and coverage calculations begin in FY2010.

(UNAUDITED)

City of Norfolk, Virginia
Debt Capacity
Schedule 7
Ratio of Annual Debt Service Expenditures for General Bonded Debt and Other Debt
Last Ten Years
to Total General Expenditures

Fiscal Year	Principal on Serial Bonds	Redemption of Other Long-Term Debt	Interest on Serial Bonds	Interest on Other Debt	Total Debt Service	Total General Expenditures	Ratio of Debt Service to Total General Expenditures
1999	27,280,120	3,603,355	18,403,652	457,573	49,744,700	519,198,080	9.58%
2000	29,492,664	3,772,213	18,905,175	457,573	52,627,625	558,439,186	9.42%
2001	32,064,594	4,138,633	19,055,944	667,364	55,926,535	578,776,772	9.66%
2002	31,177,249	4,221,984	17,459,383	625,397	53,484,013	431,283,578	12.40%
2003	32,449,555	4,270,903	15,993,552	544,262	53,258,272	451,633,988	11.79%
2004	32,735,609	4,988,796	16,781,410	494,610	55,000,425	490,944,275	11.20%
2005	35,752,761	5,157,895	17,623,223	437,894	58,971,773	490,923,834	12.01%
2006	37,659,547	5,886,597	18,824,743	379,498	62,750,385	510,999,836	12.28%
2007	35,871,841	3,666,990	18,168,611	338,085	58,045,527	539,491,519	10.76%
2008	40,259,954	5,011,098	18,661,266	235,154	64,167,472	574,581,092	11.17%

Notes:

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

(UNAUDITED)

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

<u>Year</u>	<u>Population</u>	<u>Personal Income (000's)</u>	<u>Per Capita Personal Income</u>	<u>Civilian Labor Force Estimates</u>	<u>% Unemployed</u>
1999	234,500	5,167,514	22,131	83,419	5.0
2000	234,403	5,510,786	23,547	92,428	3.3
2001	234,000	5,804,141	24,885	94,606	4.3
2002	233,600	6,090,818	25,597	98,883	5.5
2003	233,900	6,419,772	27,088	98,939	5.7
2004	235,200	6,786,186	28,684	99,029	5.5
2005	235,071	7,044,989	30,528	100,614	5.4
2006	238,832	7,513,420	31,459	97,533	4.1
2007	235,747	N/A	N/A	97,380	4.1
2008	N/A	N/A	N/A	N/A	N/A

Note:

1. Population from Weldon & Cooper Center for Public Services & U.S. Census Bureau. Population data was not available for 2008.
2. Unemployment rate from the Bureau of Labor Statistics 2008.
3. Personal income, per capita personal income and civilian labor force estimates from U.S. census bureau via the Virginia Employment Commission.
4. All data on an average annual calendar year.

N/A - Not available

(UNAUDITED)

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

Employer	Rank	
	2008	1999
U.S. Department of Defense	1	1
Norfolk City School Board	2	3
Sentara Healthcare	3	2
City of Norfolk	4	4
Old Dominion University, Norfolk	5	5
Children's Hospital of the King's Daughters	6	9
Norfolk State University	7	
United States Postal Service	8	8
Medical College of Hampton Roads	9	
Bank of America	10	
Ford Motor Company		7
Nationsbank		6
Norshipco		10
Total Employment	93,343	80,154

Note:

1. The source of the City's top ten employers is the Virginia Employment Commission.
2. The data for 2008 is as the 1st quarter ended March 31, 2008 as the June 30, 2008 data was not available.
3. The source of the City's total employment is the Bureau of Labor Statistics. The 2008 total employment data was not available therefore 2007 data was used.
4. Each of the top 10 employers has 1000+ employees. The actual number of employees data for each employer was not available.

(UNAUDITED)

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

Year	Residential Construction			Non-Residential Construction		Commercial Personal Property	Commercial Real Property	Individual Personal Property	Residential Personal Property	Nontaxable Property
	Building Permits	Number of Units	Estimated Value (in thousands)	Building Permits	Estimated Value (in thousands)					
1999	175	242	22,032	46	52,932	583,808	2,024,750	533,220	5,459,381	6,543,895
2000	187	307	32,609	45	138,473	625,137	2,159,299	599,471	5,477,479	6,807,306
2001	186	400	35,069	35	62,046	643,383	2,259,787	624,162	5,730,471	6,861,737
2002	290	462	44,498	53	51,451	678,095	2,337,440	642,454	6,121,946	7,014,866
2003	277	324	39,979	41	32,262	721,087	2,447,330	661,972	6,648,174	7,385,564
2004	506	601	75,801	71	14,658	727,413	2,620,673	722,212	7,428,994	7,924,803
2005	560	1,191	204,391	80	80,316	785,970	2,784,658	790,489	8,916,075	8,299,155
2006	531	1,058	133,053	60	165,989	805,696	3,050,029	833,858	11,532,778	8,974,261
2007	389	491	688,476	55	81,396	840,696	3,016,693	856,817	13,727,791	9,378,209
2008	277	815	101,212	35	102,714	1,016,218	3,391,457	760,331	13,215,299	10,044,197

Notes:

1. The source of nonresidential and residential construction is the City's planning department. Nonresidential construction includes commercial buildings, Public buildings, schools, public utility buildings and miscellaneous structures.
2. Property values are based on data supplied by the the City's Commissioner of the Revenue and the City Assessor. Real property is assessed at fair market value.
3. Property value information does not include property of public service corporations. Real property assessments shown do not include assessments for vacant land.

(UNAUDITED)

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

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Goods-Producing Industries:										
Agriculture, forestry, fishing & hunting	***	***	***	***	***	***	***	***	***	***
Mining	***	***	***	***	***	***	***	***	***	***
Construction	6.0	6.0	6.1	6.3	6.2	5.7	6.1	6.1	6.1	6.2
Manufacturing	10.1	10.0	10.0	9.8	9.8	9.8	9.8	9.6	8.7	7.9
Service-Providing Industries:										
Wholesale trade	6.4	6.5	6.0	5.8	5.3	5.2	5.0	5.0	5.0	5.1
Retail trade	12.9	14.4	14.8	14.7	14.3	14.0	14.2	14.0	14.3	14.6
Transportation and warehousing	11.2	11.5	12.0	11.6	11.0	10.1	9.7	9.9	9.3	9.4
Utilities	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Information	4.8	4.3	4.0	4.1	4.2	4.0	4.2	4.0	3.5	3.7
Finance and insurance	7.2	7.5	7.5	7.4	6.9	6.9	7.1	6.7	6.0	6.6
Real estate and rental and leasing	2.9	2.9	2.9	2.8	2.7	2.8	2.7	2.8	2.9	2.9
Professional and technical services	7.4	7.2	7.1	7.3	8.2	8.1	10.2	10.1	10.2	10.7
Management of companies and enterprises	3.8	4.3	4.0	4.1	4.0	3.8	3.6	3.7	2.7	2.4
Administrative, support, and waste services	9.0	7.4	7.1	7.6	7.7	7.8	7.5	7.5	7.4	7.4
Educational services	13.5	13.2	13.7	14.1	14.4	14.5	14.7	15.2	15.5	15.6
Health care and social assistance	18.1	17.3	17.1	17.8	18.3	18.9	19.2	19.6	20.1	20.6
Arts, entertainment and recreation	2.0	1.9	2.0	2.1	2.1	2.2	2.2	2.3	2.4	2.4
Accommodation and food services	9.7	9.7	10.1	10.3	10.4	10.7	11.1	10.9	11.1	10.6
Public administration	15.9	15.5	15.4	15.5	15.7	15.1	12.3	12.1	12.2	12.1
Other services	4.5	4.6	4.7	4.5	4.1	4.1	4.2	4.3	4.1	4.0
Total (adjusted for rounding)	146.2	144.8	145.4	146.6	146.2	144.4	144.6	144.6	142.4	143.0

Note:

1. Labor Market Statistics, Virginia Employment Commission is the source of annual employment averages by industry.
2. All information on an average annual calendar year.
3. Asterisks indicate non-disclosable data.
4. This schedule includes data for the ten year period 1998 - 2007 as calendar year 2008 data was not available.

(UNAUDITED)

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

Function/Program	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Governmental activities:										
General government	467	480	488	494	438	396	457	450	477	264
Judicial administration	39	30	30	28	27	25	20	16	17	18
Public safety										
Police	768	794	837	858	857	875	858	839	1,031	887
Fire	490	483	478	485	490	491	507	499	508	508
Other	79	79	81	86	85	84	84	84	-	-
Public works	307	393	367	380	393	389	389	392	379	346
Health and public assistance	582	591	581	579	557	604	513	562	469	598
Culture and recreational	595	313	412	428	479	484	483	406	478	569
Community development	82	100	67	64	64	72	74	70	59	95
Business-type activities:										
Water	247	233	224	235	245	251	279	264	261	290
Wastewater	76	71	70	74	79	84	91	95	96	103
Parking facility	47	50	57	65	68	72	77	78	90	88
Total full-time equivalent positions	3,779	3,617	3,692	3,776	3,782	3,827	3,832	3,755	3,865	3,766

Notes:

1. Fiscal years 1999 through 2007's average FTE data obtained from City's human resources information system.
2. Fiscal year 2008's average FTE data obtained from City of Norfolk's Fiscal Year 2009 Approved Budget Book.

(UNAUDITED)

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

<u>Function/Program</u>	Fiscal Year						
	2002	2003	2004	2005	2006	2007	2008
Police:							
Service calls	288,004	274,245	206,644	206,378	191,037	237,451	258,254
Arrests	27,199	24,909	25,923	22,799	22,235	22,222	24,050
Reports filed	34,587	35,116	34,087	34,167	29,600	31,986	31,220
Fire:							
Incidences (fires, EMS)	39,621	41,484	38,509	39,605	40,337	31,266	41,212
Highways and Streets:							
Streets resurfacing (miles)	120	115	131	83	77	70	80
Sanitation:							
Total solid waste collected and disposed (tons)	97,749	101,604	105,079	104,247	99,131	97,143	93,799
Water Utilities:							
Water delivered to water mains (gallons in thousands)	24,960,000	24,818,000	24,822,000	24,723,000	21,721,000	24,326,000	24,150,000
Total water consumption (gallons in thousands)	22,323,287	23,128,234	23,217,169	22,991,359	23,012,112	22,474,000	24,455,000
Percent of unmetered water	8.33%	8.81%	6.51%	7.95%	7.13%	7.30%	6.95%
Average daily delivery (gallons in thousands)	68,230	68,000	67,820	67,740	68,090	66,650	66,200
Maximum daily pumpage (gallons in thousands)	84,730	81,820	77,960	81,470	83,640	83,600	82,000
Minimum daily pumpage (gallons in thousands)	56,800	58,190	59,340	58,410	57,200	56,200	52,200

(UNAUDITED)

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

Function/Program	Fiscal Year						
	2002	2003	2004	2005	2006	2007	2008
Public Safety:							
Police							
Stations	2	2	2	2	3	3	3
Fire							
Fire stations	15	15	15	15	14	14	14
Paramedic units	10	10	10	11	11	11	11
Transportation and Engineering:							
Streets (lane miles)	2,011	2,006	2,013	2,015	2,183	2,193	2,210
Sidewalks (miles)	968	968	968	968	968	968	968
Bridges	50	50	50	50	50	49	49
Public Recreation:							
Parks:							
Acreage	587	588	589	590	591	587	586
Regional parks	1	1	1	1	1	1	1
Neighborhood parks	121	121	121	121	121	85	85
Preserves and nature areas	1	1	1	1	1	1	1
Nature education centers	3	3	3	3	3	1	1
Playgrounds	45	45	45	45	45	79	123
Hiking trails (miles)	7	8	9	10	11	1	2
Recreation:							
Acreage	243	243	243	243	231	860	868
Recreational and senior centers	24	23	26	22	22	18	19
Play areas	129	126	126	124	124	129	129
Swimming pools	4	4	4	6	6	6	8
Tennis Courts	143	143	146	152	152	101	134
Baseball/softball diamonds	36	36	36	36	36	63	99
Football/soccer fields	18	18	18	18	18	47	65
Field hockey	4	4	4	4	4	5	5
Basketball courts	42	42	42	42	42	229	179
Municipal beaches	3	3	3	3	3	3	3
Public Services:							
Traffic Engineering:							
Traffic signals	289	291	294	299	299	283	287
Traffic signs	9,376	9,825	10,021	6,044	7,936	7,363	6,752
Street lights	31,594	31,502	31,694	31,721	29,888	30,200	30,583
Water Utilities:							
Water fund capital assets (in thousands)	\$ 429,567	\$ 428,801	\$ 429,714	\$ 424,948	\$ 425,289	\$ 431,655	\$ 436,488
Wastewater fund capital assets (in thousands)	96,175	103,208	110,360	120,685	134,152	147,020	163,068
Total water utilities assets (in thousands)	\$ 525,742	\$ 532,009	\$ 540,074	\$ 545,633	\$ 559,441	\$ 578,675	\$ 599,556
Water customer accounts	63,633	63,885	63,343	64,905	65,548	65,000	65,549
Miles of water main in the system	815	817	817	817	825	827	829
Municipal Golf:							
Golf courses	1	1	1	1	2	3	3
Convention Center:							
Meeting rooms	4	4	4	7	7	8	8
Exhibit space (square feet)	58,430	58,430	58,430	58,430	58,430	58,430	58,430
Meeting/ballroom space (square feet)	5,230	5,230	5,230	9,700	9,700	9,700	9,700
Parking Facilities:							
Parking lots/garages	30	30	28	28	28	21	23
Parking meters	301	482	579	600	660	718	669
Stormwater Management:							
Miles of storm sewers	351	351	351	351	351	357	357
Education:							
High schools	5	5	5	5	5	5	5
Middle schools	8	8	8	9	9	9	9
Elementary schools	35	35	35	35	35	35	35
Other educational facilities	13	13	13	11	11	11	11

OTHER REPORTS OF INDEPENDENT AUDITORS



COMPLIANCE SECTION





KPMG LLP
Suite 2100
999 Waterside Drive
Norfolk, VA 23510

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Norfolk (the City) as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 16, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Norfolk Community Services Board were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financing Reporting

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

Our consideration of internal control over financial reporting was for the purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified one deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying schedule of findings and responses (finding 08-1) to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies, and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.



Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Also, The Auditor of Public Accounts of the Commonwealth of Virginia requires us to test the City's compliance with certain matters specified in the Code of Virginia, including budget and appropriations laws; cash and investments; conflicts of interest; debt provisions; procurement; local retirement systems; unclaimed property; the Personal Property Tax Relief Act; intragovernmental revenue and agreements; state agency requirements of education; Comprehensive Services Act Funds; and Social Services. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

KPMG LLP

January 16, 2009



KPMG LLP
Suite 2100
999 Waterside Drive
Norfolk, VA 23510

**Report on Compliance with Requirements Applicable to
Each Major Program and on Internal Control Over Compliance
in Accordance with OMB Circular A-133**

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

Compliance

We have audited the compliance of the City of Norfolk, Virginia (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 08-2 and 08-5.

Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below,



we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 08-2 and 08-5 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

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

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

KPMG LLP

January 16, 2009

CITY OF NORFOLK

Schedule of Findings, Questioned Costs, and Management's Response Year Ended June 30, 2008

(1) Summary of Auditor's Results

- (a) The type of report issued on the financial statements: **Unqualified opinion**
- (b) Significant deficiencies in internal control were disclosed by the audit of the financial statements: **2008-1**
- (c) Material weaknesses: **None**
- (d) Noncompliance which is material to the financial statements: **None**
- (e) Significant deficiencies in internal control over major programs: **Yes - 2008-2, 2008-3, 2008-4 and 2008-5**
Material weaknesses: **None**
- (f) The type of report issued on compliance for major programs: **Unqualified opinion**
- (g) Any audit findings which are required to be reported under section .510(a) of OMB Circular A-133: **Yes - 2008-2, 2008-3, 2008-4 and 2008-5**
- (h) Major programs:
 - Child Nutrition Cluster: CFDA Nos. 10.553, 10.555 and 10.559**
 - Special Education Cluster: CFDA Nos. 84.027 and 84.173**
 - Title I Grants to Local Educational Agencies, CFDA No. 84.010**
 - Impact Aid: CFDA No. 84.041**
 - Improving Teacher Quality: CFDA No. 84.367**
 - Social Services Block Grant: CFDA No. 93.667**
 - Medical Assistance Program (Medicaid): CFDA No. 93.778**
 - Foster Care – Title IV-E: CFDA No. 93.658**
 - Temporary Assistance for Needy Families: CFDA No. 93.558**
 - State Administrative Matching Grants for Food Stamp Program: CFDA No. 10.561**
 - Child Care Cluster: CFDA Nos. 93.575 and 93.596**
 - Community Development Block Program: CFDA No. 14.218**
 - HIV Emergency Relief Project Grants: CFDA No. 93.914**
 - Capitalization Grants for Clean Water State Revolving Funds: CFDA No. 66.458**
 - Block Grants for Prevention and Treatment of Substance Abuse: CFDA No. 93.959**
- (i) Dollar threshold used to determine Type A programs: **\$3,010,401**
- (j) Auditee qualified as low-risk auditee under section 530 of OMB Circular A-133: **No**

CITY OF NORFOLK

Schedule of Findings, Questioned Costs, and Management's Response
Year Ended June 30, 2008

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

Finding #2008-1 Completeness of Schedule of Expenditures of Federal Awards

Criteria

In accordance with OMB Circular A-133, Section .205 (b) Basis for Determining Federal Awards Expended - Loans and Loan Guarantees, a schedule of expenditures of federal awards must include federal awards expended under loan programs.

Condition Found

The Capitalization Grants for Clean Water State Revolving Funds loan program expenditures were not included on the schedule of expenditures of federal awards.

Perspective and Questioned Costs

The federal award in question was a loan from a pass-through agency, the Virginia Resources Authority, and was overlooked in compiling the total expenditures for the schedule of expenditures of federal awards. This program was audited as a major program for the year ended June 30, 2008 and there were no findings associated with this program.

Cause and Effect

The controls in place over ensuring completeness of the schedule of expenditures of federal awards did not include procedures to capture expenditures for federal loan programs.

Recommendation

We recommend that the City revise their procedures to ensure the completeness of the schedule of expenditures of federal awards to include all federal awards, including federal loan programs.

Views of Responsible Officials

Management agrees with this finding and will review all loan programs to determine if they need to be included in the schedule of federal awards.

(3) Findings and Questioned Costs Related to Federal Awards

Finding #2008-2 Time and Effort Certification

CITY OF NORFOLK

Schedule of Findings, Questioned Costs, and Management's Response
Year Ended June 30, 2008

- **Title I Grants to Local Educational Agencies, CFDA No. 84.010, Program Year 2008, U.S. Department of Education**
- **Improving Teacher Quality: CFDA No. 84.367, Program Year 2008, U.S. Department of Education**
- **Special Education Cluster: CFDA Nos. 84.027 and 84.173, Program Year 2008, U.S. Department of Education**
- **Child Nutrition Cluster: CFDA Nos. 10.553, 10.555 and 10.559, Program Year 2008, U.S. Department of Agriculture**
- **HIV Emergency Relief Project Grants: CFDA No. 93.914, Program Year 2008, U.S. Department of Health and Human Services**
- **Community Development Block Program: CFDA No. 14.218, Program Year 2008, U.S. Department of Housing and Urban Development**

Criteria

In accordance with OMB A-87 Attachment B paragraph 8.h.(3), when employees work on a single Federal award, charges for their salaries and wages must be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications must be prepared at least semi-annually and must be signed by the employee or a supervisory official with first hand knowledge of the work performed by the employee. In accordance with OMB A-87 Attachment B paragraph 8.h.(4), when employees work on multiple activities or cost objectives (i.e., more than one Federal award or a Federal award and a non-Federal award), a distribution of their salaries or wages must be supported by personnel activity reports or equivalent documentation unless a statistical sampling system or other substitute system has been approved by the Federal agency.

Condition Found

The City of Norfolk and Norfolk Public Schools were unaware of the requirements to certify time and effort.

Perspective and Questioned Costs

Title I: The Schools were able to retroactively certify all Federal grant employees' time and effort for this program, therefore, there are no questioned costs associated with this program.

Improving Teacher Quality: The Schools were able to retroactively certify all Federal grant employees' time and effort for this program, therefore, there are no questioned costs associated with this program.

Special Education: The Schools were able to retroactively certify all Federal grant employees' time and effort for this program, therefore, there are no questioned costs associated with this program.

Child Nutrition Cluster: The Schools were able to retroactively certify all Federal grant employees' time and effort for this program, therefore, there are no questioned costs associated with this program.

CITY OF NORFOLK

Schedule of Findings, Questioned Costs, and Management's Response Year Ended June 30, 2008

HIV Emergency Relief Project Grants: The City was able to retroactively certify all Federal grant employees' time and effort for this program, therefore, there are no questioned costs associated with this program.

Community Development Block Grant: The City was able to retroactively certify all Federal grant employees' time and effort for this program, therefore, there are no questioned costs associated with this program.

Cause and Effect

The City and Schools were unaware of the requirement.

Recommendation

We recommend that the City and Schools develop procedures and policies to ensure time and effort certifications are performed as required. KPMG further recommends that a management review control be implemented to oversee this process.

Views of Responsible Officials

School Officials:

Management concurs with the finding. Federal grant employees' time and effort for identified programs have been certified and corrective actions are in place to include management review of on-going allocations of salary cost and supporting time and effort documentation

City Officials:

Management concurs with the finding. Federal grant employees' time and effort for identified programs have been certified and corrective actions are in place to include management review of on-going allocations of salary cost and supporting time and effort documentation

Finding #2008-3 Subrecipient Monitoring

Child Care Cluster: CFDA Nos. 93.575 and 93.596, Program Year 2008, U.S. Department of Health and Human Services

Criteria

In accordance with USC 7502(f)(2)(B), the City is required to monitor subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

CITY OF NORFOLK

Schedule of Findings, Questioned Costs, and Management's Response Year Ended June 30, 2008

Condition Found

In our sample of one subrecipient tested, the City was not performing during-the-award monitoring procedures. Note that one subrecipient is 100% of the population. The only subrecipient of this Federal award is the Planning Council, who performs administrative and eligibility services for the Child Care program.

Perspective and Questioned Costs

As there is only one subrecipient for this grant, this finding occurred in 100% of the population. The subrecipient did obtain an audit of Federal funds and the City obtained a copy of this audit report. The Child Care program was tested as a major program, and no findings were noted.

Cause and Effect

The Child Care Division of the Department of Health and Human Services was not aware of this requirement.

Recommendation

KPMG recommends that the City implement a process to ensure that regular monitoring procedures are performed. KPMG further recommends that a management review control be implemented to oversee this process.

Views of responsible officials

Management agrees with this finding and will implement a process to ensure regular monitoring procedures are performed and management review controls are implemented.

Finding#2008-4: Subrecipient Monitoring

- **Temporary Assistance for Needy Families: CFDA No. 93.558, Program Year 2008, U.S. Department of Health and Human Services**
- **State Administrative Matching Grants for Food Stamp Program: CFDA No. 10.561, Program Year 2008, U.S. Department of Agriculture**

Criteria

In accordance with the compliance requirements for subrecipient monitoring, the City is required to obtain audit reports from subrecipients required to have an audit in accordance with OMB Circular A-133.

Condition

The Temporary Assistance for Needy Families Division and Food Stamps Division of the Department of Health and Human Services were not aware of the requirement to obtain A-133 reports for Federal grant subrecipients.

CITY OF NORFOLK

Schedule of Findings, Questioned Costs, and Management's Response Year Ended June 30, 2008

Perspective and Questioned Costs

KPMG inquired of management and determined that the City did not obtain A-133 reports for any of the subrecipients in the population. The Temporary Assistance for Needy Families program had six subrecipients with total subrecipient expenses of \$1.9 million. The Food Stamps program had one subrecipient with total subrecipient expenses of \$285,000. There are no known questioned costs associated with the finding.

Cause and Effect

The Temporary Assistance for Needy Families Division and Food Stamps Division of the Department of Health and Human Services were not aware of the requirement to obtain A-133 reports for Federal grant subrecipients.

Recommendation

KPMG recommends that the City implement a process to regularly obtain the required A-133 reports from the subrecipients. KPMG further recommends that a management review control be implemented to oversee this process.

Views of responsible officials

Management concurs with the finding. The Department of Human Services has obtained A-133 reports from noted subrecipients and is developing a process to ensure requirements related to federal programs and audit reports are clearly established with awards to subrecipients and adequately monitored during and subsequent to the performance periods.

Finding#2008-5: Special Tests and Provisions – Child Support Non-Cooperation

Temporary Assistance for Needy Families: CFDA No. 93.558, Program Year 2008, U.S. Department of Health and Human Services

Criteria

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

Condition Found

In our sample of 30 families tested for child non-cooperation, KPMG noted that 5 families received additional payments after the City was notified of the individual's non-cooperation with DCSE.

Perspective and Questioned Costs

CITY OF NORFOLK

Schedule of Findings, Questioned Costs, and Management's Response Year Ended June 30, 2008

Five families of thirty selected for testwork received additional payments, totaling \$2,062. Therefore, known questioned costs associated with this finding are \$2,062.

Cause and Effect

The requirement to stop benefit payments based on a DCSE referral was not clearly communicated to staff by Department of Health and Human Services management. Therefore, all staff were not aware of this requirement or how to handle the DCSE referrals, which led to inconsistencies in the process.

Recommendation

KPMG recommends that the City implement a process to ensure that all cases referred by DCSE are processed for benefits to be stopped in a timely manner and to ensure that all staff are aware of this requirement and how to handle these referrals. KPMG further recommends that a management review control be implemented to oversee this process.

Views of responsible officials

Management concurs with the finding. The City plans to implement a process to monitor and manage benefit processing and benefit terminations for all cases referred by DCSE in a timely manner. The city will train staff on the proper process to handle the DCSE referrals. The city plans to implement a management review to oversee this process.

(4) Schedule of Commonwealth of Virginia Findings and Questioned Costs

State Finding 2008-1: Conflicts of Interest

In accordance with the Auditor of Public Accounts Audit Specifications for Counties, Cities and Towns, Chapter 3 Section 5, local government officials are required to file a statement of economic interests with the clerk of the governing body annually. In our testwork, one official did not file the required statement of economic interest. Per discussion with Mary Cowart, the City followed up with the official but the form was still not returned. There are no known questioned costs associated with this finding. We recommend that the City implement a management control to oversee this process to ensure that statements of economic interest are filed for all required officials.

State Finding 2008-2: Terminated Users

Virginia Department of Social Services

In accordance with the Auditor of Public Accounts Audit Specifications for Counties, Cities and Towns, Chapter 3, Section 15, local governments are required to immediately remove access

CITY OF NORFOLK

Schedule of Findings, Questioned Costs, and Management's Response Year Ended June 30, 2008

privileges from all systems when a user leaves the local social services department. In our testwork of seventeen terminated employees, three employees were not terminated from the system in a timely manner. Per discussion with Melania Small in Information Technology (IT), IT is notified by the department supervisor when an employee leaves the department, and IT then removes access. In these three cases, IT was not notified for an extended period of time. There are no known questioned costs associated with this finding. We recommend that the City implement a management review control over the access termination process to ensure that access is terminated in a timely manner.

State Finding 2008-3: Legality of Investments

Community Services Board

The Community Services Board (CSB) does not have a control in place to review investments to ensure compliance with their investment policy and the Code of Virginia. At June 30, 2008, the CSB was not in compliance with the Code of Virginia regulations regarding the investment of public funds. Approximately \$1.15 million in investments was held at June 30, 2008 in auction rate securities and an equity based mutual fund, which are not allowable investments for public funds under the Code of Virginia. At June 30, 2008, the CSB also had investments in certificates of deposits, which were fully within FDIC limits and are allowable investments; however, the broker used to place these investments, UBS Paine Webber, is not a qualified public depository as defined by the Code of Virginia. While there are no questioned costs related to this finding, it does represent a significant deficiency in the CSB's internal control over ensuring their investments are in compliance with laws and regulations. We recommend that the CSB implement a management review control over the investment process to ensure compliance with their investment policy and the Code of Virginia.

CITY OF NORFOLK, VIRGINIA

Schedule of Prior Audit Findings Year Ended June 30, 2008

Financial Statement Findings

Finding 07-1:

Summary: The City failed to reclassify certain assets in the Water and Wastewater funds from construction in progress to capitalized assets in a timely manner. Additionally, in the Water and Wastewater funds, the City capitalized certain assets that did not meet the criteria for capitalization.

Status of Corrective Action: Each quarter departments are provided a list of capital assets to inventory and determine appropriateness. As part of this review, departments also evaluate their construction work in progress reports to determine appropriate classification.

Finding 07-02:

Summary: Certain land acquisitions from prior fiscal years were not properly recorded on the fixed assets records

Status of Corrective Action: This finding has been corrected. All land acquisitions and capital transactions are reviewed quarterly for proper recording.

Finding 07-03:

Summary: Governmental accounting standards required that bond premiums or discounts in enterprise funds be amortized over the life of the bond. The amortization of a discount from one revenue bond issue was not correctly calculated.

Status of Corrective Action: This related to the amortization of a discount from one bond issue and has been corrected.

Finding 07-04 (component unit – the School Board for the City of Norfolk):

Summary: The schools failed to record a construction payable of \$832,000 at June 30, 2007.

Status of Corrective Action: This related to a misunderstanding between the school's accounting department and facilities staff as to when the obligation was incurred and the School's management has improved communications with operating departments to help ensure proper recording of accounts payable.

Finding 07-05 (former component unit – the Norfolk Redevelopment and Housing Authority):

Summary: NRHA capitalized certain infrastructure improvements that it transferred to the City.

Status of Corrective Action: No longer a component unit, NRHA policies address their capital assets.
Federal Award Findings and Questioned Costs

Finding 07-06:

CITY OF NORFOLK, VIRGINIA

Schedule of Prior Audit Findings Year Ended June 30, 2008

Summary: Recurring fixed rate payments for mandated entitlements should have proper supporting documentation and approvals.

Status of Corrective Action: In January 2007, Management initiated electronic signatures for individual annual authorizations for adoption assistance and subsequently implemented procedures to assure manually or electronic approval is applied to the automatically generated recurring payments as well.

Finding 07-07:

Summary: An accurate schedule of federal awards is required under federal audit guidelines.

Status of Corrective Action: For all federal revenue, the schedule of federal awards is updated quarterly and reconciled against the general ledger and for federal revenue resulting from Human Services activities, the schedule of federal awards is being updated monthly and reconciled against State records and the general ledger.

Finding 07-08:

Summary: The City did not have a procedure to ensure that vendors used by the City have not been excluded or disqualified by the federal government from participating in federally funded programs.

Status of Corrective Action: No transactions involving federal programs occurred with de-barred vendors and the City has instituted procedures to quarterly compare its vendor files with the federal list of de-barred vendors. In addition, as part of future bid and contract files a statement from a vendor certifying that they have not been de-barred during the contract period will be required.

Finding 07-09:

Summary: Adoption Assistance case files tested did not contain all of the required documentation.

Status of Corrective Action: Management obtained clarification from the State concerning the appropriate information that is to be maintained in post adoption files and has updated existing files and procedures accordingly. Adoption regulations require maintenance of separate pre and post adoption case files. The file checklist has been updated and will be reviewed annually to assure current compliance.

Finding 07-10:

Summary: Sampled adoption agreements were not signed and in effect before the Final Order of Adoption was signed by the judge.

Status of Corrective Action: Management has taken measures necessary to assure all subsequent adoption assistance agreements are signed before the Final Order of Adoption is signed by the Judge. Prior cases could not be corrected.

Finding 07-11:

CITY OF NORFOLK, VIRGINIA

Schedule of Prior Audit Findings Year Ended June 30, 2008

Summary: Sampled adoption assistance case files were not signed by a case worker or signed on a timely basis.

Status of Corrective Action: Management concurs has reviewed and updated all case files to assure all proper signatures exist on the adoption assistance agreements.

Finding 07-12:

Summary: Sampled child care payments were charged to a federal rather than a state grant.

Status of Corrective Action: Management has implemented system internal controls and reviews to assure proper coding of all subsidy payments to the appropriate federal or state grant.

Finding 07-13:

Summary: One sampled TANF recipient remained on the TANF program longer than the program's maximum 24 month period.

Status of Corrective Action: Management has implemented system internal controls and provides refresher training and monitoring to assure compliance with TANF eligibility regulations.

Finding 07-14:

Summary: One sampled TANF recipient was not properly notified of the need to enter into the VIEW program in a timely manner.

Status of Corrective Action: Management has provided refresher training to appropriate staff regarding proper tracking of changes in VIEW eligibility.

Finding 07-15:

Summary: One sampled TANF recipient's file did not contain an interim report completed and signed by the recipient.

Status of Corrective Action: Management requested that the State change the default field in the State system that generates an interim report from the current default of NO to a default of BLANK to mandate that staff enter a choice in this field which will be set to YES if an interim report is required during regular eligibility re-determinations. Management has trained staff on the proper use of this field until a programmatic solution can be implemented.

Finding 07-16:

Summary: One Medicaid file tested did not have yearly evaluations for eligibility.

Status of Corrective Actions: Management has implemented system internal controls and enhanced review to assure annual Medicaid renewals are conducted at 12 month intervals.

CITY OF NORFOLK, VIRGINIA

Schedule of Prior Audit Findings
Year Ended June 30, 2008

Finding 07-17:

Summary: One Medicaid file tested did not have adequate documentation necessary for interim and annual benefit renewals.

Status of Corrective Actions: Management provided refresher training to appropriate staff concerning appropriate procedures and synchronization of TANF and Food Stamp eligibility renewal periods. Management reviewed case records to ensure proper procedures are being followed.

Finding 07-18:

Summary: Sampled case files indicated that recipients were issued an incorrect number of food stamps based on their respective qualifications, questioning about \$873 in federal costs.

Summary of Corrective Actions: Management provided refresher training and implemented additional internal controls to assure on-going changes in food stamp eligibility are promptly and accurately identified to assure appropriate increases and decreases in benefits as warranted. The appropriate restoration of Food Stamp allotments was completed.