City of Norfolk, Virginia

2010

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

City of Norfolk, Virginia Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2010

Prepared by:
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CITY OF NORFOLK, VIRGINIA

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June 30, 2010

Municipal Officials

Honorable City Council

President and Mayor	Paul D. Fraim
Vice Mayor	Anthony L. Burfoot
Member	Angelia M. Williams
Member	Paul R. Riddick
Member	Theresa W. Whibley
Member	Andrew A. Protogyrou
Member	Barclay C. Winn
Member	Thomas R. Smigiel

City Manager

Regina V.K. Williams

Assistant City Manager	Anne Odell
Assistant City Manager	Stanley A. Stein
Acting Assistant City Manager	Roderick S. Woolard

Director of Finance and Business Services

Darrell V. Hill

City Assessor	Deborah K. Bunn, CAE
City Attorney	Bernard A. Pishko, Esquire
City Auditor	John H. Sanderlin, Jr., CPA
City Clerk	Breckenridge R. Daughtrey
City Treasurer	Thomas W. Moss, Jr.
Commissioner of the Revenue	Sharon M. McDonald
Acting Director of Budget & Management	Darrell V. Hill
Director of Civic Facilities	John S. Rhamstine
Director of Communications & Public Relations	Terry L. Bishirjian
Director of Economic Development	Roderick S. Woolard
Acting Director of Fire & Paramedical Services	Jeffrey Wise
Director of Human Resources	Nancy N. Olivo
Director of Human Services	Thomas Pristow
Director of Information Technology	Hap M. Cluff
Office of Intergovernmental Relations	William Bryan Pennington, Jr.
Director of Libraries	Norman L. Maas
Director of Maritime Center (Nauticus)	Hank Lynch
Director of Planning & Community Development	Frank Duke, AICP
Director of Public Health	Demetria Lindsay, M.D.
Director of Public Works	John M. Keifer, P.E.
Director of Utilities	Kristen M. Lentz, P.E.
Police Chief	Bruce P. Marquis
Registrar of Voters	Elisa J. Long

CITY OF NORFOLK, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
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Municipal Officials

JUDICIAL

Fourth Judicial Circuit Court

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

Norfolk General District Courts

Chief Judge, Civil Division	Bruce A. Wilcox
Judge, Civil Division	Gwendolyn J. Jackson
Judge, Criminal Division	Ray W. Dezern, Jr.
Judge, Traffic Division	James S. Mathews
Judge, Traffic Division	S. Clark Daugherty
Judge,	Joseph A. Migliozzi
Clerk	Thomas E. Baldwin

Norfolk Juvenile and Domestic Relations District Court

Chief Judge	Lauri D. Hogge
Judge	M. Randolph Carlson, II
Judge	Joseph P. Massey
Judge	William P. Williams
Judge	Michelle J. Atkins
Clerk	Debra A. Hill

Other Judicial Officials

Sheriff	Robert J. McCabe
Commonwealth Attorney	Gregory D. Underwood

CITY OF NORFOLK, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
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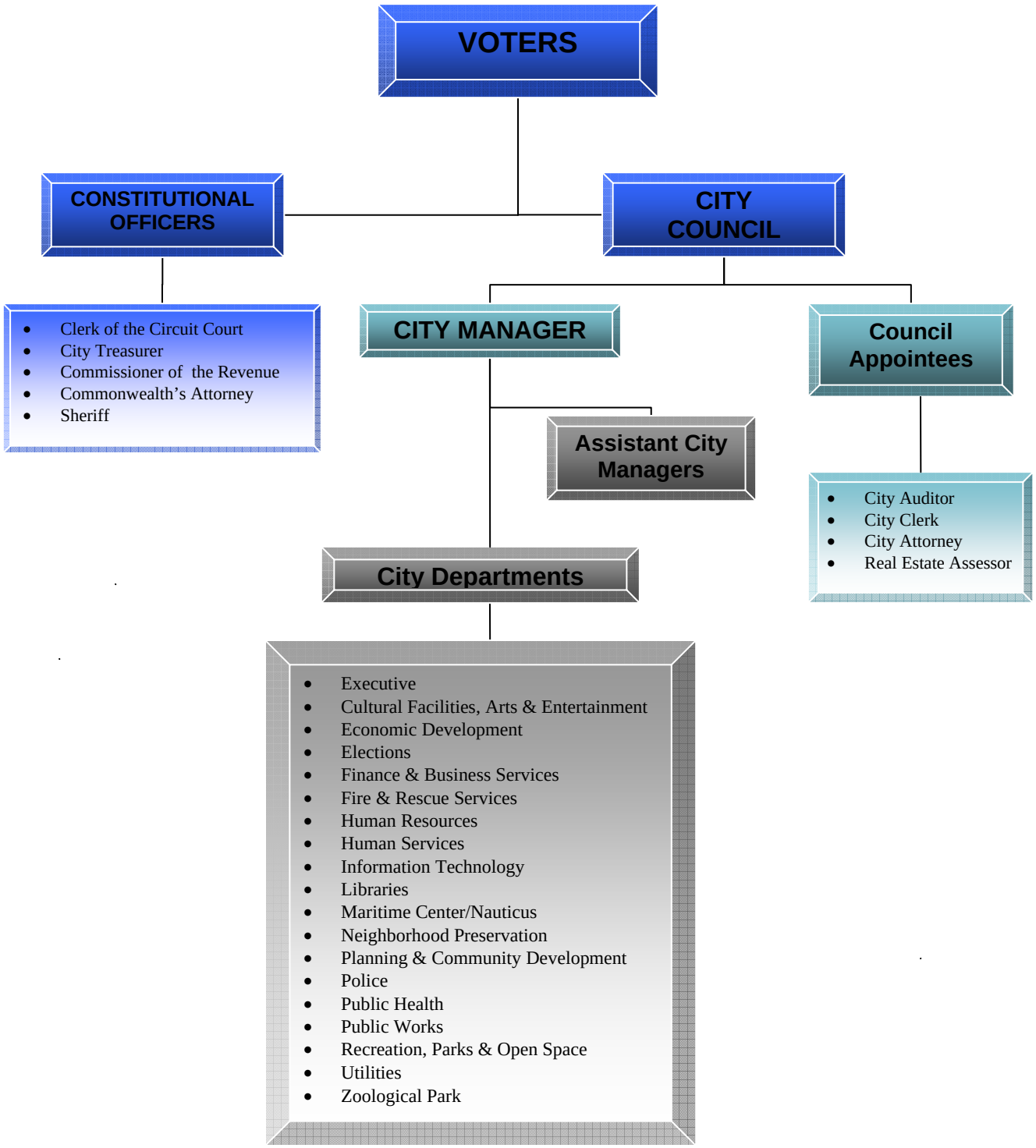
ORGANIZATIONAL CHART



City of Norfolk

Office of the City Manager

January 14, 2011

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, 2010, 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, 2010. 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 238,000 residents. Its 66 square miles lie at the mouths of the James, Elizabeth and Nansemond Rivers and the southern shores of the Chesapeake Bay, and are adjacent to the cities of Chesapeake, Hampton, 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 major international port, significant international military facilities and related businesses. Miles of bay, riverfront and lake provide ample recreational opportunities and are the centerpiece of dozens of historic 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.

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 (City Council 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 & Grants Management. The City Manager is authorized to transfer excess resources between any fund, department, or activity without further approval by City Council. The State mandates a balanced budget and the budget is regularly reviewed and periodically operational adjustments are made as needed.

Local Economy

While all economies continue to feel the effects of the global recession, many areas of the local economy remained healthy, supported in part by a strong and consistent military presence. However, the effects of the on-going recession presents financial challenges to provide funding for the wide variety of functions and services the City provides its citizens, business community and visitors. The region is still experiencing fairly broad based job growth, but the rate has slowed and unemployment has risen. Unemployment for the region rose to 7.2 percent in November while the local unemployment rate rose to 8.9 percent which is below the national rate of 9.3 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 January, 2011, the Navy's direct economic impact on the region rose by more than $165 million, from approximately $14.6 billion in fiscal year 2008 to more than $14.8 billion in fiscal year 2009. Approximately 86,000 active-duty Navy military personnel were in Hampton Roads in 2009, of which approximately 63 percent were assigned to Norfolk. In addition, there were approximately 36,000 Navy civilian employees in Hampton Roads, of which 48 percent were located in Norfolk in fiscal year 2009.

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 14.9 million tons of cargo were shipped from the region's three main marine cargo terminals in 2009, a decrease of 16.4 percent. The port will continue to be attractive to shippers in 2011 as Norfolk Southern, a major Fortune 500 company headquartered in Norfolk, has completed its $313 million Heartland Corridor project which reduced more than 225 miles off (approximately one day) 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.

Two university research parks' efforts support the advancement of a multitude of innovative initiatives including simulation, materials, spaceport, coastal & physical oceanography as well as applied 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 continuing their campus expansions. The City's

major healthcare complexes provide premier services to all of southeastern Virginia and northeastern North Carolina. The regions first and only dedicated heart hospital, Sentara Heart Hospital, has been in operation for five years and is ranked nationally by U.S. News and World Report. 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. East Beach, Norfolk's visionary urban community on the Chesapeake Bay, continues to progress despite the on-going recession. Norfolk continues to expand the downtown to the west to meet the medical/research complex and has developed plans and is guiding continued private development of Fort Norfolk, a former waterfront warehouse district. Nearby, the Midtown Office Building, an 180,500 square foot Class A office building with 350 parking spaces continues to progress. This $35 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. In addition, the Wells Fargo Center completion has introduced 249,000 square feet of Class A office space to downtown, which has increased our Class A – vacancy rate from the 8.7 percent reported last year to 12.36 percent.

Norfolk's downtown harbor is accessible to pedestrians and features a mix of tourism, business and residential uses. The recently renovated 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 mix of downtown residential, cultural, recreational and entertainment options has also helped Norfolk attract and retain businesses. 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, property assessed values increased 179 percent in the past decade with commercial growth of 20.2% since 2009. However, for the period ended June 30, 2010, citywide property valuations decreased 3.45 percent. In July 2010, the assessed value of 56,717 residential parcels was $12.553 billion, a decrease of $571,540,400 over July 2009.

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 the recently completed Virginia Arts Festival headquarters and significant improvements to the Virginia Zoological Park for the soon to be completed Trail of the Tiger exhibit.

Long-Term Financial Planning

The General Fund's unreserved, undesignated fund balance at June 30, 2010, was 5.0 percent of budgeted expenditures. Total unreserved fund balance was 6.48 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 proposed annual budget 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 eastern most city limit. 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 approximate $340 million system is 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 continues with the development of the Slover Library Complex, which is being designed to be the most technologically advanced library in the country. The City is also renovating the Seaboard Library; opened a new 21,000 square foot Skateboard Park; renovated the Northside Park; and continues to make available to the public additional portions of the USS Wisconsin.

- Recreation Centers - Construction of the new Lambert's Point recreation center is complete and the development of the Southside Aquatic Facility is progressing.

Ending Homelessness - Since launching a plan to end homelessness in 2005, the City has increased permanent supportive housing units for the homeless, 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; and partnered with the faith community to mentor individuals trying to make the transition from homelessness to self-sufficiency. These deliberate actions have allowed the City to better protect our most vulnerable citizens.

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. The City's most recently completed projects include the $170 million Wells Fargo Center, a high rise office tower complex with retail, luxury apartments and a 1,800-space parking garage; and the $70 million Fort Norfolk Plaza Medical Office building and garage, which includes 200,000 square feet of medical offices space, 19,000 square feet of retail space and 800 parking spaces.

Project Focus and Neighborhood Revitalization - In addition to codes and citywide neighborhood preservation programs, Norfolk's pilot program, Project Focus, to combat long-standing and deteriorating conditions in three neighborhoods is achieving success with the removal of blight and an improved sense of inclusion by residents. 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.

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, the new Third Police Precinct will be a Leadership in Energy and Environmental Design (LEED) certified green building. 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, utilizing pool covers to reduce energy costs at aquatics centers and changing to low energy traffic signals. In addition, the City continues to enhance its recycling efforts through a competitive process to expand this environmentally beneficial business function.

Recent Awards

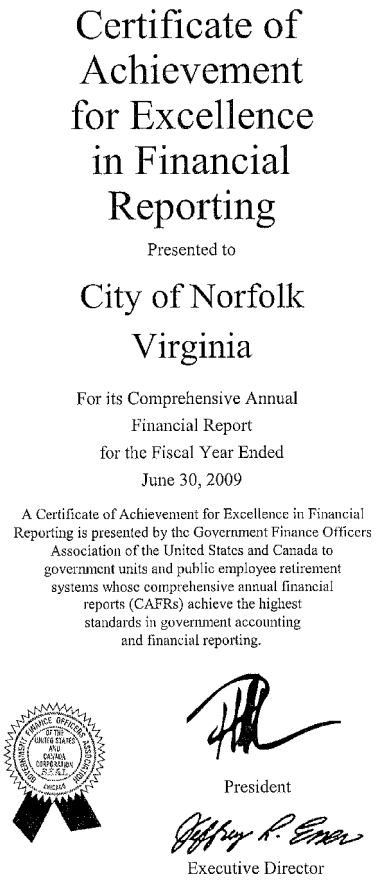
The City of Norfolk has been recognized and has received awards from a variety of national and regional organizations. Some of these awards include:

- The Arbor Day Foundation named Norfolk "Tree City USA" for 2009. This is the 23rd year that Norfolk has received this national recognition. The City's ongoing forestry efforts assist in providing our citizens with a high quality of life while furthering our environmental stewardship.
- Non-Profit KaBOOM named Norfolk a 2010 "Playful City USA" community. KaBOOM, dedicated to bringing play back into children's lives, selected Norfolk for creating and implementing programs that positively impact childhood wellness, public safety and quality of life;
- Ranked #3 for Top 10 Digital Cities across the country; and
- The City received the Government Finance Officers Association of the United States and Canada's Distinguished Budget Presentation Award for its FY2011 Budget.

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, 2009. This was the 24th consecutive year that the City received 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.


Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Norfolk Virginia

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

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

Darrell V. Hill
Director of Finance & Business Services

CITY OF NORFOLK, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2010

FINANCIAL SECTION

~ Independent Auditors' 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)

INDEPENDENT AUDITORS' REPORT

KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Norfolk, Virginia (the City) as of and for the year ended June 30, 2010, 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, 2010, 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 14, 2011 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying Management's Discussion and Analysis and the other required supplementary information included at schedules E-1 through E-2 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

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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 14, 2011

MANAGEMENT'S DISCUSSION

AND ANALYSIS

(Unaudited)

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, 2010. As readers, you are encouraged to read this discussion and analysis in conjunction with the transmittal letter and City's financial statement information included in this report. The intent of this discussion and analysis is to provide a summarized view of the City's financial performance as a whole; readers should also review the basic financial statements and supporting notes to enhance their understanding of the City's financial performance.

Financial Highlights

- The assets of the City, on a government-wide basis excluding component units, exceeded its liabilities at the close of fiscal year 2010 by $686,357,547 (net assets). Of this amount, $139,681,337 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors. Total net assets decreased by $15,564,111 and unrestricted net assets increased by $32,747,058.

- As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of $257,733,802, an increase of $82,598,474 in comparison with the prior year. This increase was primarily attributable to the Capital Project's fund receiving $153,322,791 from the sale of capital improvement bonds during the fiscal year offset by capital outlays of $99,210,188. Approximately 59.8 percent or $154,108,180 is unreserved.

- The General Fund, on a current financial resources basis, reported an excess of revenues and other financing sources over expenditures and other financing uses of $3,510,529, primarily due to a concerted effort to control costs through hiring freezes and suspending travel due to the expected decrease in revenue as a result of current economic conditions.

- At the end of the current fiscal year, the total unreserved fund balance for the general fund was $53,840,161 or 6.48 percent of the general fund budget.

- The City's total outstanding bonded indebtedness increased by $144,020,206 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. These statements include all of the government's assets and liabilities using the accrual basis of accounting.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension and other post-employment benefits to its employees. Required supplementary information can be found on pages 90 - 93 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented on pages 94 - 97 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 $686,357,547 at the close of fiscal year 2010.

By far, the largest portion of the City's net assets, $385,646,319 is its investment in capital assets (e.g., land, buildings, equipment, intangibles and infrastructure) less accumulated depreciation and amortization and less any related outstanding debt used to acquire those assets. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to

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

An additional portion of the City's net assets, approximately 23.46 percent represent resources that are subject to external restrictions on how they may be used. The remaining balance of $139,681,337 of unrestricted net assets may be used to meet the City's ongoing obligations to citizens and creditors.

Summary of the City of Norfolk's Net Assets

	Governmental Activities		Business-Type Activities		Totals	
	2010	2009*	2010	2009	2010	2009*
Current and Other Assets	$ 344,519,287	$ 265,480,338	$ 152,186,058	$ 129,092,498	$ 496,705,345	$ 394,572,836
Capital Assets	857,514,502	844,254,965	807,722,067	787,317,481	1,665,236,569	$ 1,631,572,446
Total Assets	1,202,033,789	1,109,735,303	959,908,125	916,409,979	2,161,941,914	2,026,145,282
Long-Term Liabilities	795,682,918	675,899,591	612,299,892	576,632,016	$ 1,407,982,810	$ 1,252,531,607
Other Liabilities	53,057,531	52,448,203	14,544,026	19,243,814	67,601,557	$ 71,692,017
Total Liabilities	848,740,449	728,347,794	626,843,918	595,875,830	1,475,584,367	1,324,223,624
Net Assets:						
Invested in Capital Assets Net of Related Debt	155,953,608	253,977,059	229,692,711	237,307,229	385,646,319	$ 491,284,288
Restricted	120,974,389	64,397,008	40,055,502	39,306,083	161,029,891	$ 103,703,091
Unrestricted	76,365,343	63,013,442	63,315,994	43,920,837	139,681,337	$ 106,934,279
Total Net Assets	$ 353,293,340	$ 381,387,509	$ 333,064,207	$ 320,534,149	$ 686,357,547	$ 701,921,658

* 2009 balances for Governmental Activities have been restated to reflect the adoption of GASB 51 as of July 1, 2009.

For governmental activities, total net assets decreased by $28,094,169 or 7.4 percent overall during the current fiscal year. Factors that contributed to a change in total governmental net assets include: a reduction in revenue as a result of current economic conditions, increases in expenses in certain functional areas (primarily public safety, culture & recreation and community development), and increased liabilities. These liabilities primarily reflect the increase in bonds payable for the governmental funds as the City issued bonds during the year based on cash flow requirements for capital projects.

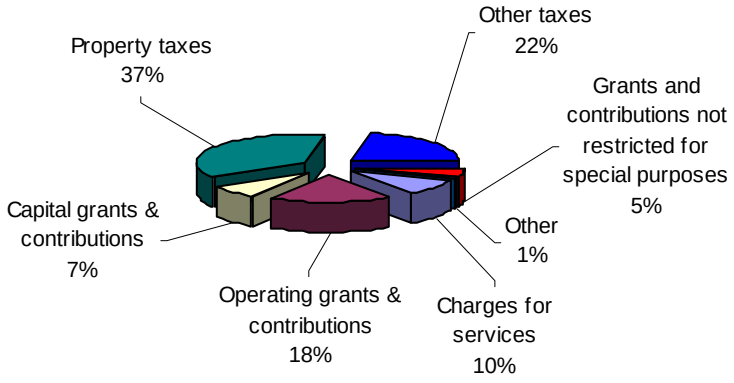
For business-type activities, net assets increased by $12,530,058 or 3.9 percent during the fiscal year. Of this amount, $10,002,857, $3,655,937 and $(1,128,736) are changes attributed to the Water Utility, Wastewater Utility and Parking Facilities funds, respectively. Overall revenues increased 5.73 percent for business-type activities largely due to the increase in rates for the Water Utility and Wastewater Utility funds.

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

Changes in the City of Norfolk's Net Assets

	Governmental Activities		Business-Type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program Revenues:						
Charges for Services	$ 69,300,499	$ 40,435,148	$ 121,582,120	$ 117,627,453	$ 190,882,619	$ 158,062,601
Operating Grants & Contributions	127,665,377	112,419,343	-	-	127,665,377	112,419,343
Capital Grants & Contributions	7,175,380	16,933,100	366,363	503,658	7,541,743	17,436,758
General Revenues:						
Property Taxes	256,339,199	260,640,532	-	-	256,339,199	260,640,532
Other Taxes	153,615,005	157,926,664	-	-	153,615,005	157,926,664
Grants and Contributions not restricted for specific purposes	32,892,521	60,512,536	147,752	-	33,040,273	60,512,536
Capital Contributions from Norfolk Public Schools	40,387,140	-	-	-	40,387,140	-
Other	6,528,503	12,388,927	6,794,339	3,775,841	13,322,842	16,164,768
Total Revenues	693,903,624	661,256,250	128,890,574	121,906,952	822,794,198	783,163,202
Expenses:						
General Government	112,874,315	111,628,653	-	-	112,874,315	111,628,653
Judicial Administration	52,019,797	52,209,177	-	-	52,019,797	52,209,177
Public Safety	130,262,485	120,703,126	-	-	130,262,485	120,703,126
Public Works	132,176,401	134,273,985	-	-	132,176,401	134,273,985
Health and Public Assistance	91,923,045	93,494,792	-	-	91,923,045	93,494,792
Culture and Recreation	73,342,471	63,437,272	-	-	73,342,471	63,437,272
Community Development	15,428,530	10,866,691	-	-	15,428,530	10,866,691
Education	101,011,131	104,511,131	-	-	101,011,131	104,511,131
Interest on Long-Term Debt	26,013,627	23,788,236	-	-	26,013,627	23,788,236
Water Utility	-	-	64,316,142	66,990,131	64,316,142	66,990,131
Wastewater Utility	-	-	18,982,468	21,227,261	18,982,468	21,227,261
Parking	-	-	20,007,897	19,036,111	20,007,897	19,036,111
Total Expenses	735,051,802	714,913,063	103,306,507	107,253,503	838,358,309	822,166,566
Increase (decrease) in Net Assets before Transfers	(41,148,178)	(53,656,813)	25,584,067	14,653,449	(15,564,111)	(39,003,364)
Transfers	13,054,009	10,215,191	(13,054,009)	(10,215,191)	-	-
Increase (decrease) in Net Assets	(28,094,169)	(43,441,622)	12,530,058	4,438,258	(15,564,111)	(39,003,364)
Adj to beginning net assets (GASB 51)	1,849,274	-	-	-	1,849,274	-
Net Assets Beginning of Year	379,538,235	422,979,857	320,534,149	316,095,891	700,072,384	739,075,748
Net Assets End of Year	$ 353,293,340	$ 379,538,235	$ 333,064,207	$ 320,534,149	$ 686,357,547	$ 700,072,384

Governmental Activities: Revenues by Source



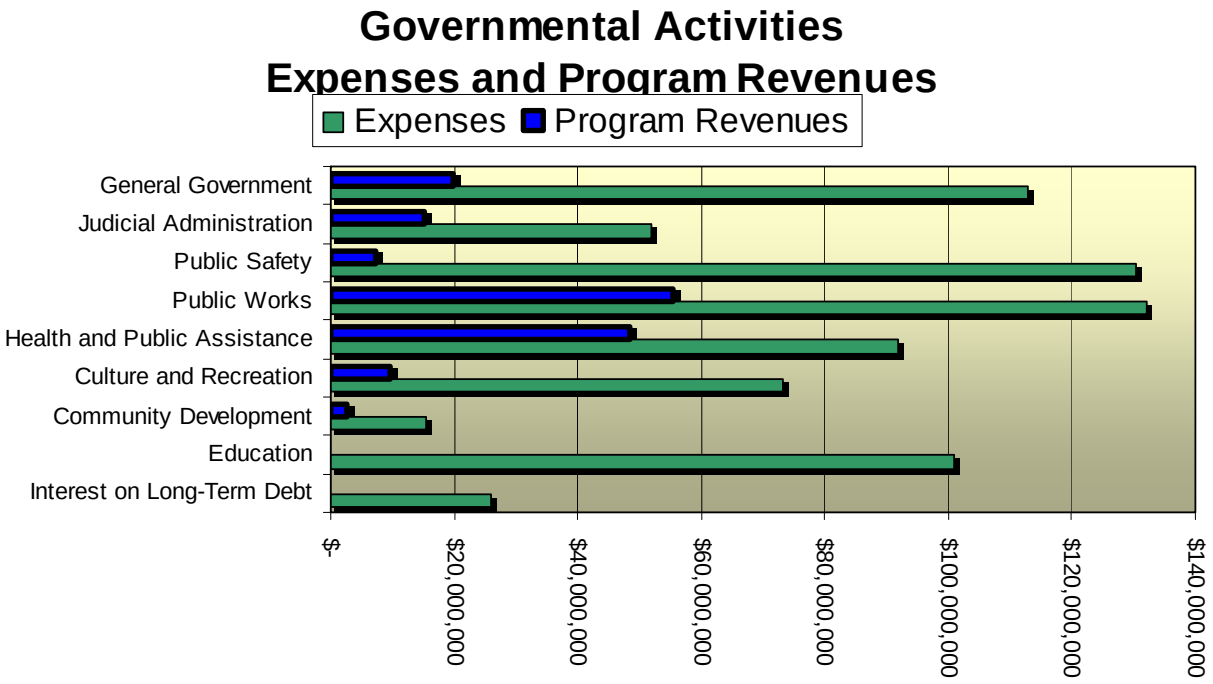
Governmental Activities – The City's total revenues from governmental activities were $693,903,624 for the fiscal year ended June 30, 2010. The largest sources of revenue for the City at 37 percent are property taxes (which are comprised of real estate and personal property taxes) and other taxes. Revenues from property taxes experienced a 1.7 percent decrease over the prior year. The real estate (general tax) tax rate for 2009-2010 was $1.11 per $100 of assessed value which has remained unchanged for the past few years. The real estate (downtown improvement district) tax rate for 2009-2010 was $1.27 per $100 of assessed value which represents a $.02 decrease from the prior year. Revenues from other taxes experienced a 2.7 percent decrease over the prior year primarily as a result of the economic downturn. Other taxes are comprised of sales & use, consumers' utility, restaurant food, business license and hotel/motel taxes, just to name a few. This group of taxes represented 22 percent of total revenues for the fiscal year ended June 30, 2010.

Operating grants and contributions for governmental activities ended the fiscal year at $127,665,377, an increase of $15,246,034 over the prior year. Grants and contributions not restricted for specific programs represent intergovernmental grants and contributions from State and Federal agencies. For the 2010 fiscal year, the City reported $32,892,521 in grants and contributions not restricted for specific programs which represents a decrease of $27,620,015 or 45.6 percent over the prior year.

The City's expenses for governmental activities cover a wide array of services, with $130,262,485 or 17.7 percent for fiscal year 2010 related to public safety and $101,011,131 or 13.7 percent for fiscal year 2010 for education (including payments to the School Board, a component unit). Overall, expenses for governmental activities increased by 2.8 percent which was primarily driven by a $9,559,359 or 7.9 percent increase in expenses for public safety as well as a $9,905,199 or 15.6 percent increase

in expenses for culture and recreation. The increase in culture and recreation expenses is partially attributable to the opening of a new community center. During FY10, the Lamberts Point Community Center was completed and opened. This community center is the City's first official "green" building with many environmentally friendly elements.

Depreciation expense for governmental activities of $49,532,660 was recorded.

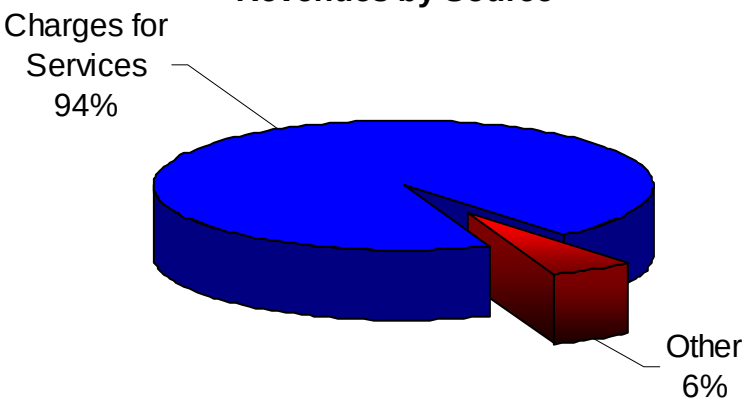


Business-type Activities – Business-type activities increased the City's net assets by $12,530,058. Key elements of this change are as follows:

- Revenue from charges for services for business-type activities increased by 3.36 percent. Water utility charges for services increased $4,529,084 and Wastewater utility charges for services increased $689,062 primarily as a result of rate increases. As part of the City's utility rate plan to improve utility infrastructure throughout the City, the Water and Wastewater utility rates were increased by $0.13/100 cubic feet and $0.12/100 cubic feet, respectively.

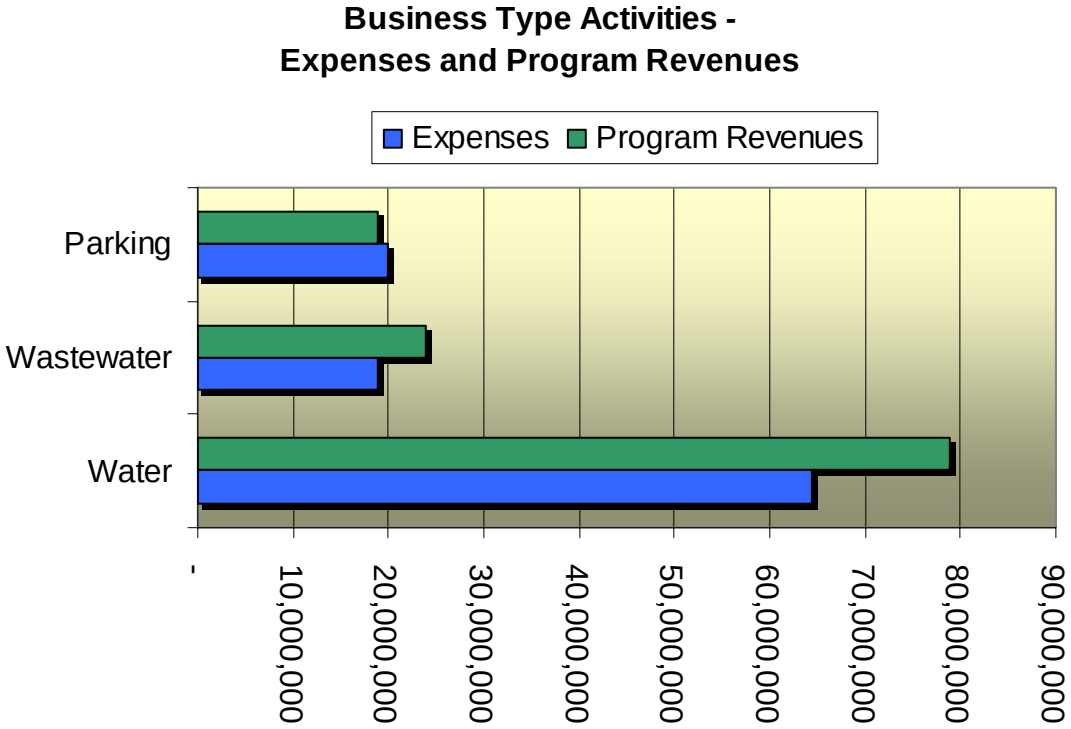
- Parking revenues decreased $1,263,479 or 6.30 percent from the prior year. The decrease can be attributed to the following: a decrease in monthly parkers, parkers parking in less expensive facilities as a result of the decline in the economy, and a decrease in attendance at major events and festivals which resulted in a decrease in parking garage usage.

Business-Type Activities:
Revenues by Source



Operating expenses for Business-type activities decreased overall by $3,674,133 or 4.41 percent. The Water fund decreased operating expenses $3,370,387 primarily due to lower electricity costs as a result of the drop in the price in oil during fiscal year 2010 as compared to fiscal year 2009 as well as an overall focus on spending reductions in fiscal year 2010.

Overall, operating expenses in the Wastewater and Parking Facilities funds were level from the prior year with an overall focus on reductions in spending offset slightly by increases in depreciation.



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.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $257,733,802, an increase of $82,598,474 or 47.2 percent over the prior year. Of the total ending fund balance, $103,625,622 or 40.2 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 ($96,715,791), 2) to generate income to pay for the perpetual care of the municipal cemetery ($6,455,272) and 3) for a variety of other restricted purposes ($454,559). The remaining $154,108,180 or 59.8 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 $41,559,263. The City designated $12,280,898 of its fund balance for future expenditures 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 $29,032,129. Total expenditures were less than appropriations by $34,814,579.

The general fund experienced an overall decrease in revenue of $1,190,484 or 0.2 percent over the prior year. Overall expenditures decreased by $15,604,541 or 3.0 percent from fiscal year 2009. General fund financial and budgetary highlights of the 2010 fiscal year include:

- General property taxes revenue increased by $4,689,626 in comparison to fiscal year 2009. This was mainly attributable to increased collection of both current and delinquent taxes. The increased collections are attributable to a number of programs and enhanced collection mechanisms put in place such as the Virginia Department of Motor Vehicles (DMV) stops program that allows the DMV to withhold registration if a vehicle has delinquent personal property tax.
- Charges for services increased by $9,020,502 or 44 percent in comparison to the prior fiscal year primarily due to increased collection of paramedical rescue service fees of $1,866,334 and an increase in refuse disposal fees for residential and commercial customers which accounted for $7,117,439 of the increase. The increase in paramedical service fees is a result of process improvements put in place by the City's third party vendor that assists in collection of these fees.
- Other local tax collections were less than budgetary projections by $11,588,307. A majority of this shortfall was due to lower collections as well as a decline in home sales which are all a direct result of the economic downturn.;
- As a result of the decline in interest rates, interest earned on investments (which is a component of use of money and property revenue) was less than budgetary projections by $2,196,901;
- Aid from the Commonwealth was less than budgetary projections by $12,760,549. This was attributable to several factors. Aid from the Commonwealth for public assistance declined by $2,536,221 due to lower utilization of day care and adult services. Additionally, $1,277,240 of public assistance was funded via federal stimulus funds and as such, that has been reported as aid from the Federal government although it was budgeted as aid from the Commonwealth. This is also the reason that aid from the Federal government exceeded budgetary projections. Aid from the Commonwealth for

education was less than budgetary projections by $6,365,363. Contributing factors to this reduction were the reduction in the collection of sales and use tax in the State of Virginia (of which a portion is allocated to help fund education in the State) as a result of the economic downturn which caused a decrease in discretionary spending as well as a mid-year revenue reduction by the State.

- During fiscal year 2010, the City continuously monitored revenue levels so that it could adjust spending accordingly, if necessary. During the latter half of the year, it was determined that revenue would be less than anticipated. The City implemented a city-wide cost savings strategy whereby it placed projects on hold, eliminated travel where possible, instituted a hiring freeze as well as took other measures to reduce spending. This is the primary reason for $34,814,579 in expenditure savings experienced in fiscal year 2010. Of this amount, $12,248,448 is specifically attributable to debt service due to timing of bond payments as well as bonds that were authorized but not issued.

Supplemental appropriations or amendments of the total 2010 general fund budget were:

General Fund:	
Approved FY 2009-2010 budget	$ 824,914,500
Supplemental appropriations from general fund fund balance:	
Additional funds appropriated from fund balance for demolition and revitalization of blighted property	270,756
Additional funds appropriated for the School Board	6,000,000
Total supplemental appropriations	6,270,756
Final budget	$ 831,185,256

The City spent $99,210,188 in the Capital Projects fund to fund major capital projects, including construction of the light rail system, critical repairs to City and School Board buildings, City infrastructure improvements and various improvements for neighborhood revitalization. The fund had a total fund balance of $146,955,756. In fiscal year 2010, the City sold $153,322,791 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, $68,395,448 were transferred in from various funds to pay for an equal amount of debt service requirements.

Proprietary Funds – The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Generally, the City can only use the net assets of these funds to finance continuing operations of the enterprise operations.

Factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

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, 2010, amounted to $385,646,319 (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements, infrastructure (streets, roads, bridges, highways, water/sewer systems, etc…), machinery, equipment, intangibles and construction in progress. Infrastructure assets represent 22.68 percent of total general governmental assets.

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

- Continued construction on the City's 7.4 mile light rail project which is scheduled for completion in the spring of 2011 of which $29.8 million was spent during the fiscal year. This project is not capitalized by the City and as such is not included in the City's capital assets;
- $2.8 million overall in total school-related capital projects which includes repairs to school buildings;
- $8.7 million in various neighborhood conservation and revitalization efforts throughout in the City;
- Investment of $5 million in improvements to neighborhood streets throughout the city;
- Investment of over $6 million during the year for renovations to the courts;
- $5.2 million for the Zoo Master Plan which mainly includes the creation of new exhibits with a focus on the new "Trail of the Tiger" exhibit.
- Continued construction on the new downtown main library, of which over $11 million has been invested to date with $4 million being spent in fiscal year 2010; and
- Acquisition of and upgrade to property to support strategic development projects for $6 million.

Additionally, the City adopted GASB Statement 51, Accounting and Financial Reporting for Intangible Assets which required certain intangible assets to be recorded as capital assets. The City retroactively recorded $1.8 million of intangible capital assets as of July 1, 2009 in accordance with the provisions of this standard.

Construction in progress totaled $92.0 million for governmental activities at the end of the fiscal year. Construction in progress totaled $36.5 million for business-type activities, which includes Water, Wastewater and Parking Facilities projects.

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

	Governmental Activities		Business-Type Activities		Totals	
	2010	2009*	2010	2009	2010	2009*
Land	$ 71,715,935	$ 60,663,365	$ 46,276,852	$ 46,148,337	$ 117,992,787	$ 106,811,702
Buildings & equipment	450,150,100	414,380,257	715,228,925	648,825,675	1,165,379,025	1,063,205,932
Improvements other than buildings	47,878,205	17,205,426	3,943,044	4,073,488	51,821,249	21,278,914
Construction in progress	91,960,126	140,855,973	36,512,238	82,589,986	128,472,364	223,445,959
Intangible assets	1,364,909	1,849,274	5,761,008	5,679,995	7,125,917	7,529,269
Infrastructure	194,445,227	209,300,671	-	-	194,445,227	209,300,671
Total	$ 857,514,502	$ 844,254,966	$ 807,722,067	$ 787,317,481	$ 1,665,236,569	$ 1,631,572,447

* 2009 balances for Governmental Activities have been restated to reflect the adoption of GASB 51 as of July 1, 2009.

Additional information on the City's capital assets can be found in Note VII on pages 52 - 53 of this report.

Long-term Debt – At June 30, 2010 the City (including the enterprise funds) had total bonded debt outstanding of $1,296,929,844. Of this amount, $887,771,677 comprises debt backed by the full faith and credit of the City. The remainder of the City's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

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

City of Norfolk's Bonded Debt

	Governmental Activities		Business-Type Activities		Totals	
	2010	2009	2010	2009	2010	2009
General obligation bonds	$ 688,151,830	$ 577,936,007	$ 199,619,847	$ 158,227,193	$ 887,771,677	$ 736,163,200
Revenue bonds	-	-	409,158,167	416,746,438	409,158,167	416,746,438
Total	$ 688,151,830	$ 577,936,007	$ 608,778,014	$ 574,973,631	$ 1,296,929,844	$ 1,152,909,638

The City's total debt outstanding increased by $144,020,206 (12.5 percent) during the fiscal year. The City issues debt, in part, based on its cash flow capital needs which is the primary factor for this increase.

During the year, the City issued $177,525,000 of general obligation capital improvement bonds. Additionally, the City issued a total of $74,790,000 of general obligation bond anticipation notes of which a portion of the proceeds were used to repay the outstanding principal amount on a previously issued general obligation bond anticipation note and the remainder of the proceeds were used to finance the taxable cashflow needs of the Parking Facilities fund.

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	Aa2
Water Revenue	AA+	AA+	Aa2

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

State statutes limit the amount of general obligation debt the City may issue to ten percent of its total assessed valuation. The current debt limitation for the City is $1,994,027,345 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 52- 61 of this report.

Economic Factors and Next Year's Budgets and Rates

- The economic recession continues to have a negative impact on the City as well as the State. The State's fiscal condition is of consequence to the City, since nearly 40 percent of general fund resources come from the State. Considering the effects of the national, state and local economic conditions, the City focused on core service delivery in developing the fiscal year 2011 budget;
- Taxable real estate assessments are projected to decline overall in the 2011 fiscal year by 3.6 percent. Residential and commercial assessments are projected to decline by 4.6 percent and 1.1 percent, respectively;
- Personal property tax is projected to increase by 4 percent over the 2010 budget mainly due to an increase in the personal property tax rate from $4.25 to $4.33 per $100 of assessed value;
- Other local taxes have experienced a downturn in comparison to fiscal year 2010 initial budget projections; however, many are expected to slightly increase in

comparison to the fiscal year 2010 end of year estimates due to a modest recovery of the economy. The following reflects major other tax change projections:
  - Sales taxes – 1.8 percent increase;
  - Business license taxes – 3.1 percent increase;
  - Restaurant food taxes – 2.5 percent increase;
  - Hotel and motel tax – 8.7 percent increase; and
- Rate increases for both the Water and Wastewater funds continue to provide necessary funding to finance capital improvements.
- The City anticipates continued increases in retirement contributions as a result of the economic downturn and its impact on investments. Additionally the City anticipates increases in required pension contributions in future years as it relates to participation in any Virginia Retirement System (VRS) sponsored retirement plans, mainly through participation by the School Board and the constitutional offices of the City, as a result of actions taken by the Commonwealth of Virginia to defer increases in pension contributions for fiscal years 2010 and 2011.

All of these factors were considered in preparing the City's budget for fiscal year 2011. The fiscal year 2011 operating budget includes transfers in from non-General funds of approximately $14.9 million, which includes: carrying forward $1.7 million savings from the local match for the Comprehensive Services Act, carrying forward unspent appropriations from prior years, fiscal year 2010 savings realized from the mid-year reduction of $3.8 million, and a $2 million withdrawal from the economic downturn reserve for one-time uses.

There were no changes in tax rates for the 2011 fiscal year with the exception of an $.08 increase in personal property taxes on motor vehicles and business furniture, fixtures and equipment. The following represents changes in fees implemented with the budget for the 2011 fiscal year:

Description	FY 2011 Approved	FY 2010 Approved
Wastewater Fees	$3.13/100 cubic feet	$3.01/100 cubic feet
Water Fees	$3.87/100 cubic feet	$3.74/100 cubic feet
Stormwater Fees – Residential	$8.146/month	$8.19/month
Stormwater Fees – Commercial	$5.79/month per 2,000 sq. ft.	$5.61/month per 2,000 sq. ft.

Requests for Information

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

BASIC FINANCIAL

STATEMENTS

CITY OF NORFOLK, VIRGINIA

Exhibit 1

Statement of Net Assets
June 30, 2010

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
Cash and short term investments	$ 249,827,095	$ 62,864,840	$ 312,691,935	$ 39,862,206
Restricted cash held with fiscal agent	-	30,002,369	30,002,369	-
Receivables, net				
Taxes	51,172,410	-	51,172,410	-
Accounts	8,053,720	19,042,853	27,096,573	1,469,578
Accrued investment income	5,596	3,242	8,838	-
Other	-	65,450	65,450	-
Internal balances	(1,046,891)	1,046,891	-	
Due from other governments	33,997,810	-	33,997,810	24,368,681
Due from primary government	-	-	-	313,707
Due from other agencies	-	-	-	1,197,522
Inventories	2,318,570	1,949,757	4,268,327	576,237
Prepaid items	37,840	-	37,840	-
Restricted cash and investments	83,485	37,210,656	37,294,141	757,483
Other assets	69,652	-	69,652	219,292
Non-depreciable capital assets	163,676,061	85,093,327	248,769,388	487,500
Depreciable capital assets, net	693,838,441	722,628,740	1,416,467,181	24,079,717
Total assets	$ 1,202,033,789	$ 959,908,125	$ 2,161,941,914	$ 93,331,923
LIABILITIES				
Vouchers payable	$ 22,676,767	$ 5,213,742	$ 27,890,509	$ 6,764,842
Employees withholdings	883,770	-	883,770	-
Contract retainage	1,025,964	1,829,032	2,854,996	98,584
Accrued interest	9,178,995	3,757,190	12,936,185	-
Accrued payroll	4,643,549	440,663	5,084,212	27,783,128
Accrued expenses	5,933	-	5,933	-
Due to other governments	7,283,887	-	7,283,887	230,000
Due to component units	313,707	-	313,707	-
Other current liabilities	6,501,874	704,704	7,206,578	37,375
Unearned revenue	543,085	-	543,085	181,511
Other payables	-	-	-	1,256,395
Liabilities payable from restricted assets	-	2,598,695	2,598,695	-
Long-term liabilities				
Due within one year	99,230,554	103,733,036	202,963,590	9,695,617
Due in more than one year	696,452,364	508,566,856	1,205,019,220	8,953,298
Total liabilities	848,740,449	626,843,918	1,475,584,367	55,000,750
NET ASSETS				
Invested in capital assets, net of related debt	155,953,608	229,692,711	385,646,319	24,567,217
Restricted for:				
Perpetual care - nonexpendable	6,455,272	-	6,455,272	-
Capital projects	114,099,117	40,055,502	154,154,619	577,601
Retirees' life insurance-future expenditures	420,000	-	420,000	-
Other programs	-	-	-	935,775
Unrestricted	76,365,343	63,315,994	139,681,337	12,250,580
Total net assets	353,293,340	333,064,207	686,357,547	38,331,173
Total liabilities and net assets	$ 1,202,033,789	$ 959,908,125	$ 2,161,941,914	$ 93,331,923

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

CITY OF NORFOLK, VIRGINIA

Statement of Activities
For the Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Governmental Activities	Primary Government: Business-Type Activities	Primary Government: Total	Component Units
Primary government:								
Governmental activities:								
General government	$ 112,874,315	$ 13,155,962	$ 6,580,053	$ -	$ (93,138,300)	$ -	$ (93,138,300)	$ -
Judicial administration	52,019,797	3,500,834	22,960,103	-	(25,558,860)	-	(25,558,860)	-
Public safety	130,262,485	5,627,308	1,831,663	-	(122,803,514)	-	(122,803,514)	-
Public works	132,176,401	35,450,847	20,091,376	-	(76,634,178)	-	(76,634,178)	-
Health and public assistance	91,923,045	82,454	62,503,308	-	(29,337,283)	-	(29,337,283)	-
Culture and recreation	73,342,471	9,223,644	7,577,333	7,175,380	(49,366,114)	-	(49,366,114)	-
Community development	15,428,530	2,259,450	5,272,588	-	(7,896,492)	-	(7,896,492)	-
Education	101,011,131	-	-	-	(101,011,131)	-	(101,011,131)	-
Interest on long-term debt	26,013,627	-	848,953	-	(25,164,674)	-	(25,164,674)	-
Total governmental activities	735,051,802	69,300,499	127,665,377	7,175,380	(530,910,546)	-	(530,910,546)	-
Business-type activities:								
Water	64,316,142	78,982,990	-	366,363	-	15,033,211	15,033,211	-
Wastewater	18,982,468	23,814,509	-	-	-	4,832,041	4,832,041	-
Parking facilities	20,007,897	18,784,621	-	-	-	(1,223,276)	(1,223,276)	-
Total business-type activities	103,306,507	121,582,120	-	366,363	-	18,641,976	18,641,976	-
Total primary government	$ 838,358,309	$ 190,882,619	$ 127,665,377	$ 7,541,743	$ (530,910,546)	$ 18,641,976	$ (512,268,570)	$ -
Component units:								
Norfolk Public Schools	$ 418,727,171	$ 5,526,447	$ 238,021,190	$ 2,877,379				$ (172,302,155)
Community Services Board	26,690,268	7,636,651	13,542,032	-				(5,511,585)
Total component units	$ 445,417,439	$ 13,163,098	$ 251,563,222	$ 2,877,379				(177,813,740)
General revenues:								
Taxes:								
General property taxes - real estate and personal property					256,339,199	-	256,339,199	-
Consumers' utility taxes					44,053,413	-	44,053,413	-
Sales and use taxes					28,248,772	-	28,248,772	-
Restaurant food taxes					27,292,471	-	27,292,471	-
Business license taxes					26,008,918	-	26,008,918	-
Hotel/Motel taxes					7,129,679	-	7,129,679	-
Cigarette taxes					7,175,660	-	7,175,660	-
Admissions taxes					3,711,668	-	3,711,668	-
Motor vehicle licenses					4,307,875	-	4,307,875	-
Franchise, recordation and other miscellaneous local taxes					5,686,549	-	5,686,549	-
Use of money and property					891,898	618,180	1,510,078	817,187
Grants and contributions not restricted to specific programs					32,892,521	147,752	33,040,273	-
Miscellaneous					5,636,605	3,431,713	9,068,318	102,927
Commonwealth of Virginia					-	-	-	30,267,308
Gain (loss) from sale of assets					-	2,744,446	2,744,446	(4,295)
Local government					-	-	-	104,862,131
Capital contributions - Norfolk Public Schools					40,387,140	-	40,387,140	-
Transfers					13,054,009	(13,054,009)	-	-
Total general revenues and transfers					502,816,377	(6,111,918)	496,704,459	136,045,258
Changes in net assets					(28,094,169)	12,530,058	(15,564,111)	(41,768,482)
Net assets - beginning					379,538,235	320,534,149	700,072,384	80,099,655
Adjustment to beginning net assets - implementation of GASB 51					1,849,274	-	1,849,274	-
Net assets - ending					$ 353,293,340	$ 333,064,207	$ 686,357,547	$ 38,331,173

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

CITY OF NORFOLK, VIRGINIA

Exhibit A-1

Balance Sheet - Governmental Funds
June 30, 2010

	Major Funds			Non-major	Total
	General Fund	Capital Projects	Debt Service	Governmental Funds	Governmental Funds
ASSETS					
Cash and short term investments	$ 55,198,615	$ 155,306,473	$ -	$ 37,883,685	$ 248,388,773
Receivables, net					
Taxes	51,172,410	-	-	-	51,172,410
Accounts	1,585,551	-	-	6,193,187	7,778,738
Accrued investment income	5,596	-	-	-	5,596
Due from other funds	1,905,420	2,639,794	-	7,190,344	11,735,558
Due from other governments	21,957,460	-	-	11,191,397	33,148,857
Prepaids	16,075	-	-	21,765	37,840
Deposit with contractors	-	83,485	-	-	83,485
Other assets	-	-	-	69,652	69,652
Total assets	$ 131,841,127	$ 158,029,752	$ -	$ 62,550,030	$ 352,420,909
LIABILITIES					
Vouchers payable	$ 7,552,528	$ 9,939,196	$ -	$ 4,842,305	$ 22,334,029
Employee withholdings	883,770	-	-	-	883,770
Contract retainage	-	545,858	-	480,106	1,025,964
Accrued payroll	4,284,722	-	-	290,945	4,575,667
Accrued expenses	-	-	-	5,933	5,933
Due to other funds	12,805,299	271,863	-	6,721	13,083,883
Due to other governments	-	-	-	7,283,887	7,283,887
Due to component units	-	313,707	-	-	313,707
Deferred revenue	37,869,110	-	-	811,030	38,680,140
Other liabilities	6,309,199	3,372	-	187,556	6,500,127
Total liabilities	69,704,628	11,073,996	-	13,908,483	94,687,107
FUND BALANCES					
Reserved for:					
Encumbrances	7,876,338	60,695,391	-	28,144,062	96,715,791
Perpetual care	-	-	-	6,455,272	6,455,272
Capital projects	-	-	-	34,559	34,559
Retirees' life insurance - future expenditures	420,000	-	-	-	420,000
Unreserved, reported in:					
Designated for future expenditures	12,280,898	86,260,365	-	-	98,541,263
General Fund - Undesignated	41,559,263	-	-	-	41,559,263
Special Revenue Funds	-	-	-	14,007,654	14,007,654
Total fund balances	62,136,499	146,955,756	-	48,641,547	257,733,802
Total liabilities and fund balances	$ 131,841,127	$ 158,029,752	$ -	$ 62,550,030	$ 352,420,909

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

CITY OF NORFOLK, VIRGINIA

Exhibit A-2

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets
June 30, 2010

Fund balances--total governmental funds		$	257,733,802
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	2,176,747,189		
Accumulated depreciation	(1,324,427,004)		
			852,320,185
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds :			
Adjustment for deferred revenue			38,137,055
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	(689,964,223)		
Unamortized Bond premium	(11,596,671)		
Retirement contribution	(31,703,987)		
Other post employment benefits	(12,741,679)		
Compensated absences	(16,333,336)		
Workers' compensation and claims liability	(30,270,187)		
Other	(2,199,660)		
Accrued interest payable	(9,178,995)		
			(803,988,738)
Internal service funds			8,242,083
Receivable for Build America Bonds - interest rate subsidy			848,953
Net assets of governmental activities		$	353,293,340

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

CITY OF NORFOLK, VIRGINIA

Exhibit A-3

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For Fiscal Year Ended June 30, 2010

	Major Funds			Non-major	Total
	General Fund	Capital Projects	Debt Service	Governmental Funds	Governmental Funds
REVENUES					
General property taxes	$ 253,711,095	$ -	$ -	$ 3,344,300	$ 257,055,395
Other local taxes	145,065,893	-	-	8,549,112	153,615,005
Permits and licenses	3,526,260	-	-	-	3,526,260
Fines and forfeitures	1,163,491	-	-	-	1,163,491
Use of money and property	6,044,924	199,082	-	501,767	6,745,773
Charges for services	29,402,549	-	-	21,137,380	50,539,929
Miscellaneous	5,113,199	7,175,380	-	5,791,255	18,079,834
Recovered costs	8,205,934	-	-	1,297,417	9,503,351
Intergovernmental	116,028,629	-	-	36,590,299	152,618,928
Total revenues	568,261,974	7,374,462	-	77,211,530	652,847,966
EXPENDITURES					
Current operating:					
General government	95,385,671	-	-	1,675,435	97,061,106
Judicial administration	45,150,197	-	-	3,576,194	48,726,391
Public safety	105,006,515	-	-	10,481,814	115,488,329
Public works	44,664,401	-	-	14,909,751	59,574,152
Health and public assistance	61,463,322	-	-	28,218,401	89,681,723
Culture and recreation	39,370,680	-	-	12,337,151	51,707,831
Community development	6,924,553			3,926,289	10,850,842
Education	101,011,131	-	-	-	101,011,131
Debt service:					
Principal	-	-	45,496,455	555,000	46,051,455
Interest and other charges	-	-	22,898,993	883,048	23,782,041
Capital outlay	-	99,210,188	-	-	99,210,188
Total expenditures	498,976,470	99,210,188	68,395,448	76,563,083	743,145,189
Excess (deficiency) of revenues over expenditures	69,285,504	(91,835,726)	(68,395,448)	648,447	(90,297,223)
OTHER FINANCING SOURCES (USES)					
Issuance of debt	2,885,518	153,322,791	-	-	156,208,309
Premium on bonds	-	3,633,379	-	-	3,633,379
Transfers in	12,566,907	4,909,666	68,395,448	18,135,196	104,007,217
Transfers out	(81,227,400)	-	-	(9,725,808)	(90,953,208)
Total other financing sources and uses	(65,774,975)	161,865,836	68,395,448	8,409,388	172,895,697
Net changes in fund balances	3,510,529	70,030,110	-	9,057,835	82,598,474
Fund balances--beginning	58,625,970	76,925,646	-	39,583,712	175,135,328
Fund balances--ending	$ 62,136,499	$ 146,955,756	$ -	$ 48,641,547	$ 257,733,802

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

CITY OF NORFOLK, VIRGINIA

Exhibit A-4

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities For the Year Ended June 30, 2010

Net change in fund balances--total governmental funds		$ 82,598,474
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	22,405,057	
Subtract depreciation expense	(49,221,845)	(26,816,788)
Add assets contributed from Norfolk Public Schools		40,387,140
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the fund.		(706,975)
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	45,992,486	
Notes payable proceeds	(1,812,393)	
General obligation bond proceeds including premium of $3,633,379	(159,841,688)	(115,661,595)
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)	(8,418,053)	
Principal pay down on capital leases	1,529,811	
Principal pay down on note payables	1,000,000	
Amortization of bond premium	1,843,714	
Accrued interest payable	(2,227,138)	(6,271,666)
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.		(2,471,712)
Adjustment for Build America Bonds interest rate subsidy		848,953
Change in net assets of Governmental activities		$ (28,094,169)

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

CITY OF NORFOLK, VIRGINIA

Exhibit B-1

Statement of Fund Net Assets - Proprietary Funds
June 30, 2010

	Business-Type Activities				Governmental Activities-
	Water Utility	Waste-water Utility	Parking Facilities	Totals	Internal Service Funds
ASSETS					
Current assets:					
Cash and short term investments	$ 32,855,827	$ 12,119,348	$ 17,889,665	$ 62,864,840	$ 1,438,322
Restricted cash held with fiscal agent	126,638	-	29,875,731	30,002,369	-
Receivables, net					
Accounts	8,680,574	2,111,897	946,760	11,739,231	274,982
Unbilled accounts	5,899,822	1,056,632	347,168	7,303,622	-
Accrued investment income	3,242	-	-	3,242	-
Other	-	65,450	-	65,450	-
Internal balances	-	1,978,166	-	1,978,166	339,440
Due from component unit	-	-	-	-	-
Inventories	1,539,030	52,362	358,365	1,949,757	2,318,570
Other assets	-	-	-	-	-
Restricted cash and investments	23,981,694	8,282,031	4,946,931	37,210,656	-
Total current assets	73,086,827	25,665,886	54,364,620	153,117,333	4,371,314
Noncurrent assets:					
Capital assets:					
Land and improvements	36,630,843	11,279,560	37,182,924	85,093,327	415,000
Buildings and equipment	561,637,712	222,366,908	191,118,763	975,123,383	10,641,159
Accumulated depreciation	(155,720,259)	(49,672,910)	(47,101,474)	(252,494,643)	(5,861,842)
Capital assets, net	442,548,296	183,973,558	181,200,213	807,722,067	5,194,317
Total assets	$ 515,635,123	$ 209,639,444	$ 235,564,833	$ 960,839,400	$ 9,565,631
LIABILITIES					
Current liabilities:					
Vouchers payable	$ 3,209,897	$ 1,748,058	$ 255,787	$ 5,213,742	342,738
Contract retainage	475,890	364,438	988,704	1,829,032	-
Accrued interest	161,252	1,277,145	2,318,793	3,757,190	-
Accrued payroll	280,507	89,849	70,307	440,663	67,882
Internal balances	534,574	-	396,701	931,275	38,006
Obligations for employees retirement system	2,170,730	613,351	499,452	3,283,533	527,952
Current portion of bonds payable	12,697,993	7,502,669	78,601,555	98,802,217	
Liabilities payable from restricted assets	2,598,695	-	-	2,598,695	-
Compensated absences	664,254	216,523	126,509	1,007,286	246,689
Claims and judgments liability	640,000	-	-	640,000	-
Other current liabilities	222,105	1,500	481,099	704,704	1,747
Total current liabilities	23,655,897	11,813,533	83,738,907	119,208,337	1,225,014
Noncurrent liabilities:					
General obligation bonds payable	3,759,419	98,382,026	14,117,699	116,259,144	-
Revenue bonds payable	291,435,604	17,059,873	81,630,041	390,125,518	-
Compensated absences	433,910	140,177	189,764	763,851	98,534
Other long-term liabilities	830,437	296,835	291,071	1,418,343	-
Total noncurrent liabilities	296,459,370	115,878,911	96,228,575	508,566,856	98,534
Total liabilities	320,115,267	127,692,444	179,967,482	627,775,193	1,323,548
NET ASSETS					
Invested in capital assets, net of related debt	134,655,280	61,028,990	34,008,441	229,692,711	5,194,317
Restricted - capital projects	24,108,332	8,282,031	7,665,139	40,055,502	-
Unrestricted	36,756,244	12,635,979	13,923,771	63,315,994	3,047,766
Total net assets	195,519,856	81,947,000	55,597,351	333,064,207	8,242,083
Total liabilities and net assets	$ 515,635,123	$ 209,639,444	$ 235,564,833	$ 960,839,400	$ 9,565,631

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

CITY OF NORFOLK, VIRGINIA

Exhibit B-2

Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
For Year Ended June 30, 2010

	Business-Type Activities				Governmental Activities
	Water Utility	Waste-water Utility	Parking Facilities	Totals	Internal Service Funds
Operating revenues:					
Charges for services	$ 78,982,990	$ 23,814,509	$ 18,784,621	$ 121,582,120	$ 13,473,596
Miscellaneous	3,161,097	270,616	-	3,431,713	153,105
Total operating revenues	82,144,087	24,085,125	18,784,621	125,013,833	13,626,701
Operating expenses:					
Personal services	14,284,882	4,626,925	8,334,732	27,246,539	3,412,672
Cost of goods sold	-	-	-	-	10,491,544
Plant operations	5,896,843	2,482,952	982,030	9,361,825	275,056
Chemicals	3,761,744	81,194	-	3,842,938	-
Provision for bad debts	301,294	113,541	-	414,835	-
Depreciation	11,494,781	4,633,079	4,291,541	20,419,401	310,815
Retirement and OPEB contribution	2,535,167	742,789	499,452	3,777,408	527,952
Administrative expenses	1,563,029	1,450,338	298,694	3,312,061	-
Other	8,935,390	1,785,126	626,435	11,346,951	1,082,164
Total operating expenses	48,773,130	15,915,944	15,032,884	79,721,958	16,100,203
Operating income (loss), net	33,370,957	8,169,181	3,751,737	45,291,875	(2,473,502)
Nonoperating revenues (expenses):					
Interest income, net of interest capitalized	325,933	37,305	254,942	618,180	1,790
Intergovernmental revenue	-	65,450	-	65,450	-
Interest expense and fiscal charges	(15,543,012)	(3,066,524)	(4,975,013)	(23,584,549)	-
Gain (loss) on sale or disposal of capital assets	2,842,616	(49,475)	(48,695)	2,744,446	-
Contributions	-	-	82,302	82,302	
Total nonoperating revenues (expenses)	(12,374,463)	(3,013,244)	(4,686,464)	(20,074,171)	1,790
Net income (loss) before contributions and transfers	20,996,494	5,155,937	(934,727)	25,217,704	(2,471,712)
Capital contribution	366,363	-	-	366,363	-
Transfers out	(11,360,000)	(1,500,000)	(194,009)	(13,054,009)	-
Changes in net assets	10,002,857	3,655,937	(1,128,736)	12,530,058	(2,471,712)
Total net assets - beginning	185,516,999	78,291,063	56,726,087	320,534,149	10,713,795
Total net assets - ending	$ 195,519,856	$ 81,947,000	$ 55,597,351	$ 333,064,207	$ 8,242,083

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

CITY OF NORFOLK, VIRGINIA

Exhibit B-3

Statement of Cash Flows - Proprietary Funds
Year Ended June 30, 2010

	Business-Type Activities				Governmental Activities--
	Water Utility	Waste-water Utility	Parking Facilities	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers	$ 80,761,692	$ 23,681,029	$ 19,208,777	$ 123,651,498	$ 13,385,279
Payments to suppliers	(9,563,472)	(2,640,719)	(914,344)	(13,118,535)	(10,704,877)
Payments to employees	(15,881,607)	(5,146,404)	(8,734,911)	(29,762,922)	(3,860,821)
Other payments	(11,437,058)	(3,438,268)	(805,176)	(15,680,502)	(1,036,534)
Net cash and short term investments provided by (used in) operating activities	43,879,555	12,455,638	8,754,346	65,089,539	(2,216,953)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Internal activity	(2,835,069)	(2,911,054)	130,645	(5,615,478)	1,444,018
Intergovernmental revenues	-	65,450	-	65,450	-
Operating subsidies and transfers to other funds	(11,360,000)	(1,500,000)	(194,009)	(13,054,009)	-
Net cash used in noncapital financing activities	(14,195,069)	(4,345,604)	(63,364)	(18,604,037)	1,444,018
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Proceeds from capital debt	-	17,388,434	84,843,480	102,231,914	-
Capital contributions	366,363	-	-	366,363	-
Purchases of capital assets	(16,278,575)	(12,225,057)	(16,962,809)	(45,466,441)	-
Proceeds from disposal of capital assets	2,860,000	-	-	2,860,000	-
Refunding/refinancing of debt principal	-	-	(44,710,000)	(44,710,000)	-
Principal paid on capital debt	(12,232,578)	(7,010,615)	(3,747,132)	(22,990,325)	(5,082)
Interest paid on capital debt	(15,149,860)	(3,048,446)	(4,521,656)	(22,719,962)	-
Net cash provided by (used in) capital and related financing activities	(40,434,650)	(4,895,684)	14,901,883	(30,428,451)	(5,082)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Proceeds from sales and maturities of investments	57,350,804	26,037,031	2,432,086	85,819,921	-
Purchase of investments	(30,278,737)	(17,383,963)	(2,458,665)	(50,121,365)	-
Purchase of certificate of deposits	(13,000,000)	-	-	(13,000,000)	-
Interest and dividends	328,799	37,305	254,942	621,046	1,790
Net cash provided by investing activities	14,400,866	8,690,373	228,363	23,319,602	1,790
Net increase (decrease) in cash and short term investments	3,650,702	11,904,723	23,821,228	39,376,653	(776,227)
Cash and short term investments - beginning of the year	29,331,763	214,625	23,944,168	53,490,556	2,214,549
Cash and short term investments - end of the year	$ 32,982,465	$ 12,119,348	$ 47,765,396	$ 92,867,209	$ 1,438,322
Reconciliation of Operating Income (Loss) to Net Cash Provided by (used in) Operating Activities:					
Operating income (loss)	$ 33,370,957	$ 8,169,181	$ 3,751,737	$ 45,291,875	$ (2,473,502)
Adjustments to reconcile operating income (loss) to net cash and short term investments provided by (used in) operating activities:					
Depreciation expense	11,494,781	4,633,079	4,291,541	20,419,401	310,815
Provision for bad debt	301,294	113,541	-	414,835	-
Change in assets and liabilities:					
Receivables, net	(1,497,395)	(404,096)	424,156	(1,477,335)	(241,422)
Other receivables	115,000	-	-	115,000	-
Inventories	88,164	(5,874)	62,359	144,649	70,307
Other assets	-	-	-	-	-
Vouchers payable	6,951	(70,699)	5,327	(58,421)	35,299
Accrued payroll	574,005	93,872	99,273	767,150	1,535
Other liabilities	(574,202)	(73,366)	119,953	(527,615)	80,015
Net cash and short term investments provided by (used in) operating activities	$ 43,879,555	$ 12,455,638	$ 8,754,346	$ 65,089,539	$ (2,216,953)
Reconciliation of Cash and Short Term Investments to the Statement of Net Assets:					
Cash and short term investments	$ 32,855,827	$ 12,119,348	$ 17,889,665	$ 62,864,840	$ 1,438,322
Restricted cash with fiscal agent	126,638	-	29,875,731	30,002,369	-
Total cash and short term investments per statement of net assets	$ 32,982,465	$ 12,119,348	$ 47,765,396	$ 92,867,209	1,438,322
Noncash investing, capital, and financing activities:					
Transfer of land	$ -	$ -	$ 89,206	$ 89,206	$ -
Unrealized gain / (loss) on investments	$ -	$ -	$ (6,904)	$ (6,904)	$ -
(Gain) loss on sale or disposal of capital assets	$ (2,842,616)	$ 49,475	$ 48,695	$ (2,744,446)	$ -
Acquisition of capital assets through change in in contract retainage	$ (318,182)	$ (315,758)	$ (937,353)	$ (1,571,293)	$ -
Acquisition of capital assets through vouchers payable	$ 127,530	$ (1,180,972)	$ (1,984,467)	$ (3,037,909)	$ -
Capitalized interest, less interest earned on certain long-term construction contracts	$ 1,195,740	$ 389,042	$ 228,437	$ 1,813,219	$ -

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

CITY OF NORFOLK, VIRGINIA

Exhibit C-1

Statement of Fiduciary Net Assets
June 30, 2010

	Pension Trust Employees' Retirement System	Agency Funds
ASSETS		
Cash and short term investments	$ 5,181,457	$ 3,360,239
Investments, fair value		
United States Treasury securities	23,895,431	-
Fixed income securities	104,434,295	-
Equity securities	5,028,797	-
Balanced commingled funds:		-
Equity	424,029,331	-
Fixed income	200,930,548	-
Total investments	758,318,402	-
Receivables:		
Accounts, net of allowance for uncollectible accounts	67,061	663
Retirement contribution	35,515,472	-
Accrued investment income	1,271,622	-
Due from broker for securities sold	5,167,617	
Other	-	279,124
Total assets	$ 805,521,631	$ 3,640,026
LIABILITIES		
Vouchers payable	$ 358,349	$ 13,634
Due to brokers for securities purchased	25,759,631	-
Other liabilities	-	3,626,392
Total liabilities	26,117,980	3,640,026
NET ASSETS		
Reserved for:		
Net assets held in trust for pension benefits	779,403,651	-
Total liabilities and net assets	$ 805,521,631	$ 3,640,026

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

CITY OF NORFOLK, VIRGINIA

Exhibit C-2

Statement of Changes in Fiduciary Net Assets
Pension Trust Fund - Employees' Retirement System
For the Year Ended June 30, 2010

		2010
Changes to net assets attributed to:		
Investment income (loss):		
Net appreciation in fair value of investments	$	81,355,841
Interest		9,518,384
Dividends		2,496,115
Other		64,733
		93,435,073
Less investment expense		(1,187,186)
Net investment income		92,247,887
Employer contributions		35,515,472
Total		127,763,359
Benefit payments and expenses:		
Refunds of contributions		26,271
Benefits paid to plan members and beneficiaries		63,280,585
Administrative costs		589,223
Total		63,896,079
Net increase		63,867,280
Net assets held in trust for pension benefits:		
Beginning of year		715,536,371
End of year	$	779,403,651

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

CITY OF NORFOLK, VIRGINIA

Exhibit D-1

Statement of Net Assets - Component Units
June 30, 2010

	Norfolk Public Schools	Norfolk Community Services Board	Total
ASSETS			
Cash and short term investments	$ 30,605,516	$ 9,256,690	$ 39,862,206
Receivables:			
Accounts, net of allowance for uncollectible accounts	93,964	1,375,614	1,469,578
Due from primary government	313,707	-	313,707
Due from other governments	24,368,681	-	24,368,681
Due from other agencies	1,197,522	-	1,197,522
Inventories	576,237	-	576,237
Restricted cash and investments	-	757,483	757,483
Other assets	-	219,292	219,292
Capital assets, net	23,589,071	978,146	24,567,217
Total assets	$ 80,744,698	$ 12,587,225	$ 93,331,923
LIABILITIES			
Vouchers payable	$ 6,268,327	$ 496,515	$ 6,764,842
Contract retainage	98,584	-	98,584
Accrued payroll	27,348,250	434,878	27,783,128
Unearned revenue	181,511	-	181,511
Other payables	1,256,395	-	1,256,395
Due to other government agencies	-	230,000	230,000
Current vested compensated absences	6,952,486	643,726	7,596,212
Other current liabilities	332,495	1,804,285	2,136,780
Long-term vested compensated absences	2,317,495	471,961	2,789,456
Long-term post employment benefits	3,946,940	-	3,946,940
Long-term claims and judgments liability	2,216,902	-	2,216,902
Total liabilities	50,919,385	4,081,365	55,000,750
NET ASSETS			
Invested in capital assets, net of related debt	23,589,071	978,146	24,567,217
Restricted for:			
Capital projects	577,601	-	577,601
Other programs	33,873	901,902	935,775
Unrestricted	5,624,768	6,625,812	12,250,580
Total net assets	29,825,313	8,505,860	38,331,173
Total liabilities and net assets	$ 80,744,698	$ 12,587,225	$ 93,331,923

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

CITY OF NORFOLK, VIRGINIA

Exhibit D-2

Statement of Activities - Component Units
For the Year Ended June 30, 2010

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grant Contributions	Capital Grant Contributions	Norfolk Public Schools	Community Services Board	Totals
Norfolk Public Schools:							
Instructional	$ 282,212,884	$ 2,947,233	$ 225,951,016	$ -	$ (53,314,635)	$ -	$ (53,314,635)
Administration, attendance and health	13,396,081	-	-	-	(13,396,081)	-	(13,396,081)
Pupil transportation	10,764,910	-	-	-	(10,764,910)	-	(10,764,910)
Operation and maintenance	33,659,588	-	-	-	(33,659,588)	-	(33,659,588)
Information technology	10,859,888	-	-	-	(10,859,888)	-	(10,859,888)
School facilities	52,851,373	-	-	2,877,379	(49,973,994)	-	(49,973,994)
Food services	14,676,269	2,579,214	12,070,174	-	(26,881)	-	(26,881)
Other	306,178	-	-	-	(306,178)	-	(306,178)
Total Norfolk Public Schools	418,727,171	5,526,447	238,021,190	2,877,379	(172,302,155)	-	(172,302,155)
Community Services Board:							
Health and public assistance	26,690,268	7,636,651	13,542,032	-	-	(5,511,585)	(5,511,585)
Total component units	$ 445,417,439	$ 13,163,098	$ 251,563,222	$ 2,877,379	(172,302,155)	-	(177,813,740)
General revenues:							
Loss on sale of assets					-	(4,295)	(4,295)
Use of money and property					798,664	18,523	817,187
Local government					101,011,131	3,851,000	104,862,131
Miscellaneous					74,114	28,813	102,927
Commonwealth of Virginia					30,267,308	-	30,267,308
Total general revenues					132,151,217	3,894,041	136,045,258
Changes in net assets					(40,150,938)	(1,617,544)	(41,768,482)
Net assets--beginning					69,976,251	10,123,404	80,099,655
Net assets--ending					$ 29,825,313	$ 8,505,860	$ 38,331,173

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

NOTES TO THE BASIC

FINANCIAL STATEMENTS

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2010

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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 238,000 residents, as authorized by its charter or code: public safety, highway and street maintenance, water production and quality, solid waste management, wastewater treatment, cultural and parking facilities, environmental storm water management, public health, social programs, parks and recreation, public education, public improvements, planning and zoning code enforcement, public libraries and general administration.

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

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

The School Board for the City of Norfolk (School Board) which has seven members is the operating body that establishes the educational and financial programs and policies for the City's public school system. School Board members are appointed by the City Council. The City levies taxes for its operation, issues bonds or enters into capital leases for its capital requirements and approves its annual operating budget. The School Board 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. It's purpose is to provide mental health, mental retardation, and substance abuse services to residents of the City of Norfolk. The CSB is composed of 15 members appointed by City Council. City Council approves the CSB's annual operating budget.

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

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

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

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

B. Government-wide and Fund Financial Statements

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

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

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

The City reports the following major governmental funds:

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

The *Debt Service Fund* accounts for 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 City-owned parking facilities.

Additionally, the City reports the following other fund types:

- *Special Revenue Funds* account for revenues and expenditures related to programs that are restricted in nature for specific purposes. Examples including services provided as part of mental health and substance abuse programs, juvenile detention services, emergency call center services, tax increment financing districts and individual grant programs.

- *Internal Service Funds* account for the City's storehouse operations and fleet management services provided to other departments or agencies of the City on a cost reimbursement basis.

- The *Pension Trust Fund* accounts for the activities of the Employee's Retirement System, which accumulates resources for pension benefit payments to qualified employees.

- The *Permanent Fund* is used to report resources that are 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).

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 funded by this revenue are made. Revenue from general purpose grants is recognized during the entitlement period.

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

- Real property taxes
- Personal property taxes
- Sales and use taxes
- 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 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 Utility, Wastewater Utility and Parking Facilities enterprise funds, and of the City's internal service funds are charges to customers for sales and services and administrative expenses, and depreciation on capital assets. Revenues and expenses not meeting this definition, including interest income or expense are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the 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 enterprise fund, Wastewater Utility enterprise fund, Parking Facilities enterprise 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/E-911 special revenue fund, Golf special revenue fund, Towing special revenue fund and internal service funds. Project length budgets are appropriated for the Capital Projects fund and Grants special revenue fund. All funds are under formal budgetary control.

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

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

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

Consistent with the enabling ordinance, the Schedules of Revenues and Expenditures – Budget and Actual of the General Fund presented in 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.

Investment statutes authorize the City and the School Board to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for

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

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

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

For purposes of the statements of cash flows, all highly liquid debt instruments 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. Interfund Transactions

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

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

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

H. Inventories

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

I. Capital Assets

Capital assets, which include property, plant, equipment, intangibles and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported at historical cost less accumulated depreciation in the applicable governmental or business-type activities column in the government-wide financial statements and in proprietary funds. Capital assets are defined by the City's capitalization policy as assets owned by the City with an initial, individual cost of more than $5,000 and an estimated useful life greater than one year. Capital outlays of governmental funds are recorded as expenditures at the time of purchase and are not capitalized in the governmental funds. However, they are capitalized in the government-wide statement of governmental activities if they meet the criteria for capitalization in the City's financial statements. Where historical cost records are not available, assets are recorded at estimated historical cost. Gifts or donated fixed assets are recorded at their estimated fair value on the date received. In the enterprise and internal service funds, interest costs incurred on funds borrowed for construction projects are capitalized net of interest earned on the temporary investment of the unexpended portion of those funds. When an asset is retired or otherwise disposed of, the related cost and accumulated depreciation are eliminated and any resulting gain or loss is reflected as non-operating revenue or expense.

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

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives 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 (in years):

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

During fiscal year 2010, the City implemented GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses how to identify, account for, and report various intangible assets. In accordance with GASB Statement No. 51, the City adjusted capital assets and net assets balances effective July 1, 2009 (see Note XXV).

J. Compensated Absences

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

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

K. Net Assets/Fund Balances

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

L. Estimates

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

II. Deposits and Investments

Custodial Credit Risk - Deposits

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

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 policy for the Pension Trust fund is that all securities purchased by or for the System be properly and clearly labeled as an asset of the System and held in safekeeping by a third party custodial bank or institution in compliance with Section 2.2-4515 of the Code of Virginia. The City and its other component units have no formal policy regarding custodial credit risk for investments.

Interest Rate Risk

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

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

Segmented Time Distribution (as of June 30, 2010)

Primary Government

		Investment Maturities				
Investment Type	**Fair Value**	**Less than 1 year**	**1-3 years**	**3-6 years**	**6-10 years**	**10 years +**
Corporate Debt	$ 51,480,908	$ 3,175,309	$ 25,628,967	$ 4,307,758	$ 10,426,122	$ 7,942,752
Futures and Swaps	204,290	(138,151)	92,483	246,288	(11,005)	14,675
ABS	11,127,511	-	457,397	1,853,206	-	8,816,908
Treasury and Agencies	40,247,342	5,387,401	5,414,495	9,192,953	13,415,820	6,836,673
Mortgages	23,328,646	-	5,142	122,749	126,448	23,074,307
Certificates of Deposit	74,159,338	74,159,338	-	-	-	-
Common Stock	1,397	-	-	-	-	1,397
Municipal Bonds	7,480,848	-	197,068	-	-	7,283,780
Convertible Preferred	5,027,400	-	-	-	-	5,027,400
Fixed Income Funds	200,930,548	-	-	-	-	-
Domestic Equity Funds	250,106,684	-	-	-	-	-
International Equity Funds	173,922,647	-	-	-	-	-
Money Market Investments in Cash & Cash Equivalents	242,520,992	242,520,992				
Total	$ 1,080,538,551	$ 325,104,889	$ 31,795,552	$ 15,722,954	$ 23,957,385	$ 58,997,892

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	$	312,691,935
Restricted cash held with fiscal agents		30,002,369
Restricted cash and investments		37,294,141
Total	$	379,988,445
Per Exhibit C-1 (Fiduciary):		
Cash and short-term investments		8,541,696
Investments		758,318,402
Total	$	766,860,098
Total Primary Government and Fiduciary	$	1,146,848,543
Less: Actual cash		66,309,992
Deposits and investments reported above	$	1,080,538,551

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. PIMCO has been given the authority by the board to invest 20% of the portfolio in below investment grade securities. The City's Pension Trust Fund invests in certain derivatives including real estate mortgage investment conduits, collateralized mortgage obligations, futures and swaps. Those securities are included in reported investments in the Retirement System's financial statements. Investments in derivatives with a cost of $19,283,129 and a market value of $18,143,070 were held at June 30, 2010. The City's rated debt investments as of June 30, 2010 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.

The Primary Government's Rated Debt Investment

Ratings (S&P)	Corporate Debt	Futures and Swaps	ABS	Treasury and Agencies	Mortgages	Certificates of Deposit	Municipal Bonds	Money Market Mutual Funds
AAA	$ 3,304,454	$ -	$ 5,867,529	$ 34,037,052	$ 10,356,179	$ -	$ 609,708	$ -
AAAm	-	-	-	5,539,818	-	-	-	242,520,992
AA+	392,240	-	-	-	881,340	-	-	-
AA	443,156	-	-	-	175,447	-	880,988	-
AA-	4,074,672	-	-	-	245,685	-	2,837,105	-
A+	6,797,077	-	-	-	2,101,831	-	416,458	-
A	14,371,458	-	100,183	-	30,180	-	-	-
A-	3,439,736	-	194,251	-	100,288	-	950,926	-
BBB+	4,479,363	-	-	-	101,560	480,000	-	-
BBB	217,538	-	-	105,500	-	-	-	-
BBB-	915,606	-	-	190,483	-	-	-	-
BB+	684,450	-	-	-	352,176	-	-	-
BB-	1,168,728	-	-	-	-	-	-	-
B and Below	8,435,302	-	263,228	-	225,234	-	-	-
Not Rated	2,757,128	204,290	4,702,320	374,489	8,758,726	73,679,338	1,785,663	-
Total	$ 51,480,908	$ 204,290	$ 11,127,511	$ 40,247,342	$ 23,328,646	$ 74,159,338	$ 7,480,848	$ 242,520,992

The City's Pension Trust fund held $250,106,684 and $173,922,647 in domestic and international equity funds, respectively, an additional $5,027,400 and $200,930,548 in Convertible Preferred securities and Fixed Income Funds and $1,397 in common stock which are unrated securities.

Concentration of Credit Risk

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

and the purchase of bonds rated below Baa3 or BBB-.

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

Foreign Currency Risk

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

Currency	Fixed-Income
Austrialian Dollar	$ 430,996
Brazilian Real	3,673,725
Canadian Dollar	307,854
China Yuan Renminbi	2,113,931
Euro	20,524
Indonesian Rupiah	677,279
Japanese Yen	(2,093,407)
Korean Won	410,472
Malaysian Ringgit	923,562
Mexican Peso	82,095
Great Britain Pound	41,047
	$ 6,588,078

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

Community Services Board (CSB)

At June 30, 2010, the CSB had $9,256,690 of cash and cash equivalents and $757,483 of restricted cash, invested primarily in the LGIP.

School Board

At June 30, 2010, the School Board has investments of $31,433,036 in a Aaa rated money market mutual fund and other cash and cash equivalents of $13,102,897 including $13,930,417 held in agency funds.

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, 2010, on each $100 of assessed value, were $1.11 for real property, an additional $.16 for the Downtown Improvement District, $4.25 for motor vehicles, $1.50 for recreational vehicles, $4.25 for machinery and tools, $1.11 for mobile homes, $2.40 for airplanes, $.50 for recreational boats and $1.50 for business boats. Disabled veterans pay a discounted rate of $3.00 on each $100 of assessed for personal property.

The property tax calendar is as follows:

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

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

IV. Accounts Receivable

A. Unbilled Accounts Receivable

Following is a summary by fund of unbilled accounts receivable recognized at June 30, 2010:

Water Utility fund	$	5,899,822
Wastewater Utility fund		1,056,632
Parking Facilities fund		347,168
	$	7,303,622

The associated revenue is included in charges for services. All amounts were billed in July 2010.

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, 2010 are as follows:

Primary Government:	
General Fund:	
Taxes	$ 15,770,114
Accounts	13,068,500
	28,838,614
Storm Water special revenue fund	363,800
Water Utility fund	2,840,307
Wastewater Utility fund	1,029,893
Total - Primary Government	$ 33,072,614
Component Units:	
Norfolk Public Schools	$ -
Community Services Board	85,059
Total - Component Units	$ 85,059

V. Due From Other Governments

Amounts due from other governments, at June 30, 2010 are as follows:

	General Fund	Total Primary Government	Component Unit School Board
Commonwealth of Virginia:			
Shared expenses	$ 4,688,696	$ 4,688,696	$ -
Non-categorical aid	17,257,374	17,257,374	14,939,805
Special revenue grants	-	6,647,336	2,422,963
Total - Commonwealth of Virginia	21,946,070	28,593,406	17,362,768
Federal Government:			
Special revenue grants	11,390	4,555,451	7,005,913
Build America Bonds interest subsidy	-	848,953	-
Total - Federal Government	11,390	5,404,404	7,005,913
Total - Due from other governments	$ 21,957,460	$ 33,997,810	$ 24,368,681

VI. Changes in Capital Assets

A summary of changes in capital assets, at June 30, 2010 follows:

	Primary Government			
	Beginning Balance *	Additions	Retirements	Ending Balance
Governmental activities:				
Non-depreciable capital assets:				
Land	$ 60,663,365	$ 11,052,570	$ -	$ 71,715,935
Construction in progress	140,855,973	33,683,299	(82,579,146)	91,960,126
Total non-depreciable assets	201,519,338	44,735,869	(82,579,146)	163,676,061
Depreciable assets:				
Buildings	607,254,525	69,028,872	(9,098,346)	667,185,051
Improvements other than buildings	30,187,036	31,482,753	(13,323)	61,656,466
Equipment and vehicles	128,116,346	8,279,179	(4,387,636)	132,007,889
Intangible assets	3,228,476	180,639	-	3,409,115
Infrastructure	1,153,813,736	9,786,462	(3,731,432)	1,159,868,766
Total depreciable assets	1,922,600,119	118,757,905	(17,230,737)	2,024,127,287
Less accumulated depreciation/amortization:				
Buildings	(246,602,802)	(25,543,535)	1,965,636	(270,180,701)
Improvements other than buildings	(12,981,610)	(809,974)	13,323	(13,778,261)
Equipment and vehicles	(74,387,812)	(8,679,723)	4,205,396	(78,862,139)
Intangible assets	(1,379,202)	(665,004)	-	(2,044,206)
Infrastructure	(944,513,065)	(24,515,900)	3,605,426	(965,423,539)
Total accumulated depreciation/amoritization	(1,279,864,491)	(60,214,136)	9,789,781	(1,330,288,846)
Depreciable assets, net	642,735,628	58,543,769	(7,440,956)	693,838,441
Total governmental activities capital assets, net	$ 844,254,966	$ 103,279,638	$ (90,020,102)	$ 857,514,502
Business-Type activities:				
Non-depreciable capital assets:				
Land	$ 46,148,337	$ 128,515	$ -	$ 46,276,852
Intangible assets	2,304,237	-	-	2,304,237
Construction in progress	82,589,986	26,791,650	(72,869,398)	36,512,238
Total non-depreciable assets	131,042,560	26,920,165	(72,869,398)	85,093,327
Depreciable assets:				
Land improvements	7,101,351	-	(61,261)	7,040,090
Buildings	318,141,146	52,437,080	(917,476)	369,660,750
Equipment	560,524,264	33,812,605	(1,276,973)	593,059,896
Intangible assets	4,678,260	684,387	-	5,362,647
Totals depreciable assets	890,445,021	86,934,072	(2,255,710)	975,123,383
Less accumulated depreciation/amortization:				
Land improvements	(3,027,863)	(130,445)	61,262	(3,097,046)
Buildings	(79,985,982)	(7,108,251)	878,015	(86,216,218)
Equipment	(149,853,753)	(12,577,331)	1,155,581	(161,275,503)
Intangible assets	(1,302,502)	(603,374)	-	(1,905,876)
Total accumulated depreciation/amortization	(234,170,100)	(20,419,401)	2,094,858	(252,494,643)
Depreciable assets, net	656,274,921	66,514,671	(160,852)	722,628,740
Business-Type activities capital assets, net	$ 787,317,481	$ 93,434,836	$ (73,030,250)	$ 807,722,067
Component units activities:				
Non-depreciable capital assets:				
Land	$ 487,500	$ -	$ -	$ 487,500
Construction in progress	4,944,606		(4,944,606)	-
Total non-depreciable assets	5,432,106	-	(4,944,606)	487,500
Depreciable assets:				
Mobile classrooms	5,194,094	229,168	-	5,423,262
Improvements other than buildings	772,197	-	-	772,197
Building improvements	85,409,543	6,219,957	(68,694,298)	22,935,202
Equipment and vehicles	31,636,561	2,431,654	(477,858)	33,590,357
Total depreciable assets	123,012,395	8,880,779	(69,172,156)	62,721,018
Less accumulated depreciation:				
Mobile classrooms	(2,323,990)	(269,743)	-	(2,593,733)
Building improvements	(32,968,355)	(2,164,359)	23,282,476	(11,850,238)
Equipment, vehicles and other improvements	(22,346,228)	(2,323,352)	472,250	(24,197,330)
Total accumulated depreciation	(57,638,573)	(4,757,454)	23,754,726	(38,641,301)
Depreciable assets, net	65,373,822	4,123,325	(45,417,430)	24,079,717
Component units activities capital assets, net	$ 70,805,928	$ 4,123,325	$ (50,362,036)	$ 24,567,217

* As restated - See Note XXV.

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

General government	$	7,418,835
Judicial administration		1,164,313
Public safety		3,774,666
Public works, which includes the depreciation of infrastructure assets		27,399,241
Health and sanitation		265,859
Culture and recreation		7,854,070
Community development		1,344,861
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.		310,815
Total depreciation expense	$	49,532,660
Business-type activities:		
Water Utility fund	$	11,494,781
Wastewater Utility fund		4,633,079
Parking Facilities fund		4,291,541
Total depreciation expense	$	20,419,401
Component unit activities		
Community Services Board	$	251,905
School Board		4,505,549
Total depreciation expense	$	4,757,454

Included in the capital asset additions for the governmental activities are two school buildings transferred to the City from one of its component units, the School Board. The net book value of these assets at June 30, 2010 was $40,387,140 which includes a historical cost of $51,068,616 and accumulated depreciation of $10,681,476. The transfer of these assets is also shown as capital asset retirements for the component unit's activities. The City retired approximately $27 million of similar assets in conjunction with the contribution.

During fiscal year 2010, the City implemented GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* (GASB 51), which addresses how to identify, account for, and report various intangible assets. The City applied the criteria of GASB Statement No. 51 and recorded intangible assets, net of accumulated amortization of $1,364,909 and $5,761,008 as of June 30, 2010 for governmental activities and business-type activities, respectively. In connection with the implementation of GASB Statement No. 51, beginning net assets – governmental activities as of June 30, 2009 was restated by $1,849,274.

The School Board also implemented GASB 51 effective July 1, 2009. The implementation did not have a material effect on the financial statements.

The Community Services Board did not have any intangibles assets to report under GASB 51 as of June 30, 2010.
The following is a summary by fund of interest expense/revenue capitalized during the

fiscal year ended June 30, 2010:

	Expense	Revenue	Capitalized
Water Utility fund	$ 1,209,737	$ (13,997)	$ 1,195,740
Wastewater Utility fund	399,742	(10,700)	389,042
Parking Facilities fund	228,437	-	228,437
	$ 1,837,916	$ (24,697)	$ 1,813,219

VII. Short-Term Obligations

A. Bond Anticipation Notes

On January 21, 2010, the City issued a $44,690,000 General Obligation Bond Anticipation Note (BAN), Series 2010C (Tax-Exempt) with an interest rate of 1.500% to yield 0.492%. The proceeds of the Series 2010C BAN were used to repay the outstanding principal amount of the $44,710,000 General Obligation BAN, Series 2009C originally issued to finance the tax-exempt cashflow needs of the Parking Facilities Fund capital improvement program (CIP). City Council has authorized that the Series 2010C BAN may be extended or refinanced from time to time by or at the direction of the City Manager provided that no extension or refinancing matures later than five years from the date of the original issuance of the BAN (May 21, 2009).

On January 21, 2010, the City issued a $30,100,000 General Obligation BAN, Series 2010D (Taxable) with an interest rate of 0.980% to yield 0.980%. The proceeds of the Series 2010D BAN were used to finance the taxable cashflow needs of the Parking Facilities Fund CIP. City Council has authorized that the Series 2010D BAN may be extended or refinanced from time to time by or at the direction of the City Manager provided that no extension or refinancing matures later than five years from the date of the original issuance of the BAN (January 21, 2010).

Moody's Investors Service, Inc. and Standard & Poor's Public Finance Ratings assigned short-term ratings of "MIG-1" and "SP1+", respectively, to both the Series 2010C and the Series 2010D BANs. The BANs are general obligations of the City and the City's full faith and credit are irrevocably pledged to the repayment of principal and interest. Principal, and interest accrued, on the Series 2010C and the Series 2010D BANs shall be payable at maturity on April 1, 2011. The 2010C and the 2010D BANs may be retired, at the discretion of the City Council, from the proceeds of future Capital Improvement Bonds, any revenue bonds of the City or by means of current revenues, special assessments or other funds.

Both the $44,690,000 General Obligation Bond Anticipation Note (BAN), Series 2010C (Tax-Exempt) and the $30,100,000 General Obligation BAN, Series 2010D (Taxable) are included in the City's Outstanding General Obligation Bonds.

B. Variable Rate Bonds

General Obligation Variable Rate Demand Bonds, Series 2007

The City issued $32,365,000 in General Obligation Variable Rate Demand Bonds, Series 2007 (AMT) on March 29, 2007, to finance the acquisition, construction and equipping of an approximately 80,000 square foot cruise ship center which includes docking areas and meeting space. This facility, which is owned and operated by the City, is known as the Half Moone Cruise & Celebration Center. As of June 30, 2010, $31,365,000 remains outstanding and included in the City's long-term debt. The Series 2007 Bonds are general obligations of the City and the City's full faith and credit are irrevocably pledged to the repayment of principal and interest.

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

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

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

Since delivery, the interest rate period on the Series 2007 Bonds has been at the Weekly Rate. Liquidity for the payment of the purchase price of Bonds tendered for purchase by the owners is provided pursuant to a Standby Bond Purchase Agreement (the "Liquidity Facility") between the City and Lloyds TSB Bank plc (the "Bank") at a liquidity fee of 12.5 basis points (0.125%). The interest rate on the

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

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

Through June 30, 2010, all the Series 2007 Bonds have been successfully remarketed by the remarketing agent.

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

The City issued $6,695,000 in Variable Rate Parking System Revenue Bonds, Series 2004A (Taxable) on October 28, 2004, to finance the costs of acquiring, constructing and equipping capital improvements to the Parking System. As of June 30, 2010, $6,185,000 remains outstanding and included in the City's long-term debt. The bonds mature February 1, 2035.

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

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

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

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

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

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

Through June 30, 2010, all the Series 2004A Bonds have been successfully remarketed by the remarketing agent.

VIII. Long-Term Obligations

A. General Obligation and Revenue Bonds

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

established in fiscal year 2008.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. Revenue bonds are limited liability obligations where revenues derived 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, 2010 follows:

		Enterprise Funds			
	General Obligation Bonds	Water Utility Bonds	Wastewater Utility Bonds	Parking Facilities Bonds	Total
General obligation bonds outstanding at July 1, 2009	$ 577,936,007 *	$ 9,532,260	$ 97,682,627	$ 51,012,306	$ 158,227,193
Bonds retired	(45,992,486)	(2,812,578)	(6,585,615)	(1,187,133)	(10,585,326)
Bonds refunded/repaid	-	-	-	(44,710,000)	(44,710,000)
Bonds reamortized	-	-	581,289	-	581,289
Bonds issued	156,208,309	-	11,790,682	84,316,009	96,106,691
Bonds outstanding at June 30, 2010	688,151,830	6,719,682	103,468,983	89,431,182	199,619,847
Unamortized (discount) premium	11,596,671	(137,270)	1,565,712	653,071	2,081,513
General obligation bonds outstanding at June 30, 2010, adjusted for unamortized (discount) premium	$ 699,748,501	$ 6,582,412	$ 105,034,695	$ 90,084,253	$ 201,701,360
Revenue bonds outstanding at July 1, 2009		$ 312,775,000	$ 13,567,438	$ 90,404,000	$ 416,746,438
Bonds retired		(9,420,000)	(425,000)	(2,560,000)	(12,405,000)
Bonds issued		-	4,816,729	-	4,816,729
Bonds outstanding at June 30, 2010		303,355,000	17,959,167	87,844,000	409,158,167
Less: Unamortized (discount) premium		(2,044,396)	(49,297)	(3,579,959)	(5,673,652)
Revenue bonds outstanding at June 30, 2010, adjusted for unamortized (discount) premium		$ 301,310,604	$ 17,909,870	$ 84,264,041	$ 403,484,515

* 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.

General obligation and revenue bonds outstanding at June 30, 2010 are composed of the following individual issues:

				Governmental Activities	Business-type Activities			
Bond Issue/Purpose	Dated	Issue Amount	Interest Rate	Public Improvement Allocation	Water Utility Allocation	Wastewater Utility Allocation	Parking Facilities Allocation	Balance Outstanding
Series 1989 Property Acquisition	7/11/1989	$ 1,500,000	6.76%	$ 1,500,000	$ -	$ -	$ -	$ 1,500,000
Series 1997 QRB	4/15/1997	$ 4,000,000	5.25 - 5.75%	1,400,000	-	-	-	1,400,000
Series 1998 Capital Improvement	6/15/1998	$ 44,330,000	4.25 - 5.00%	-	-	-	-	-
Series 1998 Refunding	6/15/1998	$ 49,190,000	4.25 - 5.00%	-	-	-	-	-
Series 1998 QRB	9/15/1998	$ 2,560,000	4.70 - 5.10%	1,165,000	-	-	-	1,165,000
Series 1999 Capital Improvement	7/1/1999	$ 11,700,000	4.50 - 5.00%	-	-	-	-	-
Series 1999 QRB	7/1/1999	$ 4,000,000	4.55 - 5.30%	2,000,000	-	-	-	2,000,000
Series 1999 QZAB	8/19/1999	$ 7,000,000	none	1,076,918	-	-	-	1,076,918
Series 2000 Capital Improvement	7/15/2000	$ 18,025,000	5.00 - 5.25%	900,000	-	-	-	900,000
Series 2000 QRB	7/15/2000	$ 3,995,000	5.125 - 5.65%	2,195,000	-	-	-	2,195,000
Series 2000 QZAB	11/22/2000	$ 3,637,170	none	1,119,129	-	-	-	1,119,129
Series 2001 QZAB	12/27/2001	$ 1,062,830	none	368,083	-	-	-	368,083
Series 2002 Capital Improvement	2/13/2002	$ 27,000,000	2.00 - 5.00%	2,488,940	-	211,060	-	2,700,000
Series 2002 QRB	2/13/2002	$ 7,955,000	3.00 - 5.50%	4,755,000	-	-	-	4,755,000
Series 2002 Refunding	2/13/2002	$ 47,200,000	2.00 - 5.00%	9,253,343	1,465,281	2,556,096	185,280	13,460,000
Series 2002 Property Acquisition	8/14/2002	$ 3,400,000	5.38%	3,400,000	-	-	-	3,400,000
Series 2002B Capital Improvement	11/1/2002	$ 34,600,000	3.00 - 5.25%	15,570,000	-	-	-	15,570,000
Series 2002B Refunding	11/1/2002	$ 39,890,000	5.00 - 5.25%	10,275,266	807,316	1,278,017	584,402	12,945,001
Series 2003 VRA	4/8/2003	$ 9,423,794	3.50%	-	-	7,540,723	-	7,540,723
Series 2003 Capital Improvement	11/15/2003	$ 57,110,000	2.00 - 5.00%	39,200,135	-	769,865	-	39,970,000
Series 2003 Refunding	11/15/2003	$ 12,265,000	3.00 - 4.00%	-	-	-	-	-
Series 2004 Refunding	3/16/2004	$ 96,395,000	2.00 - 5.00%	30,478,294	746,269	4,763,358	337,079	36,325,000
Series 2004 HUD	3/3/2004	$ 13,000,000	4.32 - 5.97%	12,960,000	-	-	-	12,960,000
Series 2004 Property Acquisition	7/29/2004	$ 1,775,000	7.00%	1,295,753	-	-	-	1,295,753
Series 2004 VRA	9/17/2004	$ 11,100,000	3.10%	-	-	9,564,693	-	9,564,693
Series 2005 Capital Improvement	3/16/2005	$ 59,320,000	2.50 - 5.00%	43,035,000	-	1,580,000	-	44,615,000
Series 2005 Refunding	3/16/2005	$ 35,035,000	2.50 - 5.00%	29,247,500	-	5,647,500	-	34,895,000
Series 2006 VRA	3/14/2006	$ 11,187,809	3.00%	-	-	10,291,377	-	10,291,377
Series 2006B VRA	9/28/2006	$ 14,250,000	none	-	-	12,825,000	-	12,825,000
Series 2006 Capital Improvement	11/15/2006	$ 99,225,000	4.00 - 5.00%	71,120,508	-	8,914,500	2,909,992	82,945,000
Series 2006 Refunding	11/15/2006	$ 15,830,000	4.00 - 5.00%	15,314,029	-	345,971	-	15,660,000
Series 2007 VRDB (AMT)	3/29/2007	$ 32,365,000	variable - June 30, 2010 rate of 0.29%	31,365,000	-	-	-	31,365,000
Series 2008A&B Refunding	2/13/2008	$ 17,160,000	3.00 - 4.625%	13,385,000	-	-	-	13,385,000
Series 2008C Capital Improvement	6/30/2008	$ 153,605,000	4.00 - 5.00%	116,135,000	-	23,955,000	-	140,090,000
Series 2009A Capital Improvement	5/21/2009	$ 55,280,000	2.00 - 4.375%	55,280,000	-	-	-	55,280,000
Series 2009B Refunding	5/21/2009	$ 21,895,000	3.00 - 5.00%	15,660,623	3,700,816	1,435,141	1,098,420	21,895,000
Series 2009C Bond Anticipation Note	5/21/2009	$ 44,710,000		-	-	-	-	-
Series 2010A Capital Improvement	1/21/2010	$ 49,875,000	1.75 - 5.00%	42,366,404	-	2,982,587	4,526,009	49,875,000
Series 2010B Capital Improvement	1/21/2010	$ 117,650,000	4.04 - 5.962%	108,841,905	-	8,808,095	-	117,650,000
Series 2010C Bond Anticipation Note	1/21/2010	$ 44,690,000	1.50%	-	-	-	44,690,000	44,690,000
Series 2010D Bond Anticipation Note	1/21/2010	$ 30,100,000	0.98%	-	-	-	30,100,000	30,100,000
Series 2010E Capital Improvement	2/25/2010	$ 5,000,000	2.00 - 4.00%	-	-	-	5,000,000	5,000,000
Series 2010F Capital Improvement	2/25/2010	$ 5,000,000	1.30 - 5.05%	5,000,000	-	-	-	5,000,000
Total General Obligation Bonds				$ 688,151,830	$ 6,719,682	$ 103,468,983	$ 89,431,182	$ 887,771,677

			Business-type Activities			
Bond Issue/Purpose	Dated	Interest Rate	Water Utility	Wastewater Utility	Parking Facilities	Balance Outstanding
Series 1993 Water Revenue	11/1/1993	2.80 - 5.375%	$ 44,575,000	$ -	$ -	$ 44,575,000
Series 1995 Water Revenue	8/15/1995	4.75 - 7.00%	84,425,000	-	-	84,425,000
Series 1998 Water Revenue and Refunding	11/1/1998	4.00 - 5.125%	66,095,000	-	-	66,095,000
Series 1999 Parking System Revenue	2/15/1999	4.00 - 5.00%	-	-	13,780,000	13,780,000
Series 2001 Water Revenue and Refunding	10/15/2001	4.00 - 5.00%	29,660,000	-	-	29,660,000
Series 2000B Parking System Revenue and Refunding	10/1/2000	5.50 - 5.50%	-	-	15,155,000	15,155,000
Series 2003I Subordinate Parking System Revenue	7/11/2003	4.50%	-	-	476,500	476,500
Series 2003II Subordinate Parking System Revenue	7/11/2003	4.50%	-	-	102,500	102,500
Series 2004A Variable Rate Parking System Revenue	10/28/2004	variable - June 30, 2010 rate of 0.39%	-	-	6,185,000	6,185,000
Series 2004B Parking System Revenue and Refunding	10/28/2004	2.50 - 5.00%	-	-	27,725,000	27,725,000
Series 2005 Water Revenue and Refunding	3/23/2005	3.50 - 5.00%	21,150,000	-	-	21,150,000
Series 2005 Parking System Revenue Refunding	6/15/2005	4.00 - 5.00%	-	-	24,420,000	24,420,000
Series 2007 Wastewater Revenue	11/9/2007	0.00%	-	16,575,000	-	16,575,000
Series 2008 Water Revenue	4/23/2008	3.00 - 5.00%	57,450,000	-	-	57,450,000
Series 2009 Wastewater Revenue	11/17/2009	0.00%	-	1,384,167	-	1,384,167
Total Revenue Bonds			$ 303,355,000	$ 17,959,167	$ 87,844,000	$ 409,158,167

The Parking System's Series 2004 Variable Rate Demand Bonds are remarketed weekly and have averaged 0.12% 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:

	Governmental Activities		Business-type Activities	
Year Ending June 30,	**Principal**	**Interest**	**Principal**	**Interest**
2011	$ 50,260,795	$ 30,524,059	$ 85,442,217	$ 5,967,036
2012	56,025,353	27,535,170	10,687,881	4,280,337
2013	50,732,457	25,121,967	8,774,924	3,815,939
2014	44,590,298	23,119,633	7,476,509	3,520,948
2015	43,589,525	21,279,777	7,594,047	3,243,277
2016-2020	186,171,073	79,783,618	30,984,555	12,277,234
2021-2025	147,532,038	41,716,405	30,639,227	6,832,114
2026-2030	82,667,434	13,904,606	17,018,344	1,749,335
2031-2035	20,847,857	1,100,927	1,002,143	52,017
2036-2038	5,735,000	19,954	-	-
Total	$ 688,151,830	$ 264,106,116	$ 199,619,847	$ 41,738,237

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

Year Ending	Water Utility Fund		Wastewater Utility Fund		Parking Facilities Fund	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2011	$ 2,822,993	$ 304,804	$ 6,652,669	$ 3,927,361	$ 75,966,554	$ 1,734,871
2012	2,058,267	163,900	7,165,509	3,604,063	1,464,104	512,374
2013	739,589	82,154	6,946,909	3,299,073	1,088,426	434,711
2014	551,047	41,165	5,951,437	3,049,875	974,025	429,907
2015	547,786	13,695	6,069,524	2,824,837	976,737	404,746
2016-2020	-	-	27,786,451	10,836,179	3,198,104	1,441,055
2021-2025	-	-	27,708,348	5,936,083	2,930,880	896,031
2026-2030	-	-	14,600,993	1,401,960	2,417,352	347,375
2031-2035	-	-	587,143	35,005	415,000	17,012
2036-2038	-	-	-	-	-	-
	$ 6,719,682	$ 605,718	$ 103,468,983	$ 34,914,435	$ 89,431,182	$ 6,218,082

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

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

Year Ending	Water Revenue		Wastewater Revenue		Parking Revenue	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2011	$ 9,875,000	$ 15,467,723	$ 850,000	$ -	$ 2,635,000	$ 4,034,398
2012	10,375,000	14,973,521	919,208	-	2,755,000	3,912,184
2013	10,900,000	14,446,373	919,208	-	2,840,000	3,784,199
2014	11,455,000	13,889,785	919,208	-	2,884,000	3,652,135
2015	12,055,000	13,295,473	919,208	-	2,970,000	3,517,649
2016-2020	70,745,000	55,977,634	4,596,040	-	17,010,000	15,595,020
2021-2025	87,940,000	34,273,502	4,596,040	-	21,775,000	11,347,295
2026-2030	51,700,000	14,421,786	4,171,040	-	25,435,000	5,754,982
2031-2035	23,610,000	6,067,831	69,215	-	9,540,000	687,311
2036-2039	14,700,000	1,336,034	-	-	-	-
Total	$ 303,355,000	$ 184,149,662	$ 17,959,167	$ -	$ 87,844,000	$ 52,285,173

D. Other Notes and Loans

The City purchased property in December 2009 and as a part of the purchase agreement the City assumed the outstanding balance of the Seller's existing loan with the Bank of the Commonwealth in the amount of $1,812,393. The balance of the note will be paid according to the following schedule:

Year Ending June 30,	Principal	Interest
2011	$ 604,131	$ 77,026
2012	604,131	51,351
2013	604,131	25,676
Total	$ 1,812,393	$ 154,053

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.

At June 30, 2010 the following defeased bonds from advance refunding are still outstanding:

General Obligation Bonds

Defeased In	Original Issue	Amount	Redemption
2005	2000	$ 6,300,000	7/1/2010
2005	2002	4,050,000	1/1/2012
2006	2000	2,700,000	7/1/2010
2006	2002	4,050,000	1/1/2012
2006	2002B	6,920,000	7/1/2012
2009	2002	5,400,000	1/1/2012
		$ 29,420,000	

Parking Revenue Bonds

Defeased In	Original Issue	Amount	Redemption
2002	2000B	$ 2,705,000	2/1/2011
		$ 2,705,000	

F. Lease Obligations

Capital Leases:

The City has no future year lease obligations.

Operating Leases:

The City leases various facilities for operational and office space from various lessors under operating leases. Total rental expenditures under these leases were $3,164,330 for the year ended June 30, 2010.

Future year lease obligations are listed below:

Year Ending June 30,	Operating Lease Obligations
2011	$ 3,544,001
2012	2,328,328
2013	1,756,020
2014	1,512,260
2015	1,320,880
Thereafter	1,162,474
Total minimum lease payments	$ 11,623,963

G. Landfill Liability

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

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	$ 15,356,772
Non-major governmental and internal service funds	1,321,787
Total governmental	$ 16,678,559
Enterprise funds:	
Water Utility fund	$ 1,098,164
Wastewater Utility fund	356,700
Parking Facilities fund	316,273
Total enterprise funds	$ 1,771,137
Component Unit - School Board	$ 9,269,981
Component Unit - CSB	$ 1,115,687

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, 2010, the City's debt limit is $1,994,027,345 of which $1,104,470,669 is available for creation of additional debt. There are no overlapping tax jurisdictions.

J. Bonds Authorized and Unissued

A summary of bonds authorized and unissued as of June 30, 2010 are as follows:

Projects	Total
General Obligation Bonds Authorized and Unissued:	
Capital Fund Projects	
General Capital Improvement Projects	$ 94,106,325
Storm Water Capital Improvement	6,550,660
Capital Fund Projects Total	100,656,985
Wastewater Utility Fund Projects	19,035,748
G.O. Bonds Authorized and Unissued	119,692,733
Revenue Bonds Authorized and Unissued:	
Water Utility Fund Projects	51,425,000
Parking Facilities Fund Projects	76,643,933
Revenue Bonds Authorized and Unissued	128,068,933
Total Bonds Authorized and Unissued	$ 247,761,666

K. Changes in Long-Term Obligations

A summary of fiscal year 2010 changes in long-term obligations, net of unamortized discounts and premiums, are as follows:

	Primary Government				
	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES:					
Bonds, Notes Payable and Capital Leases:					
General obligation debt	$ 587,743,013	$ 159,841,688	$ 47,836,200	$ 699,748,501	$ 51,302,970
Notes	1,000,000	1,812,393	1,000,000	1,812,393	604,131
Capital leases	1,529,811	-	1,529,811	-	-
Total Bonds, Notes and Capital Leases	590,272,824	161,654,081	50,366,011	701,560,894	51,907,101
Other Liabilities:					
Vested compensated absences	16,260,733	10,650,792	10,578,189	16,333,336	10,600,000
Retirement system contribution	25,196,244	31,703,987	25,196,244	31,703,987	31,703,987
Other post-employment benefits	7,203,494	8,719,710	3,181,525	12,741,679	-
Retiree's life insurance	485,000	-	65,000	420,000	65,000
Self-insurance	34,507,189	174,757	4,411,759	30,270,187	3,579,766
Landfill closure and post-closure costs	1,178,136	601,524	-	1,779,660	600,000
Total Other Liabilities	84,830,796	51,850,770	43,432,717	93,248,849	46,548,753
Governmental Activities					
Long-term liabilities	675,103,620	213,504,851	93,798,728	794,809,743	98,455,854
Internal Service Funds:					
Capital leases	5,082	-	5,082	-	-
Retirement system contribution	448,272	527,952	448,272	527,952	528,000
Vested compensated absences	342,617	201,102	198,496	345,223	246,700
Total Internal Service Funds	795,971	729,054	651,850	873,175	774,700
Total Governmental Activities	$ 675,899,591	$ 214,233,905	$ 94,450,578	$ 795,682,918	$ 99,230,554

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
BUSINESS-TYPE ACTIVITIES:					
Bonds and Notes Payable:					
Water Utility	$ 319,724,660	$ -	$ 11,831,644	$ 307,893,016	$ 12,697,993
Wastewater Utility	112,702,627	17,188,698	6,946,757	122,944,568	7,502,669
Parking Facilities	137,851,670	84,316,009	47,818,384	174,349,295	78,601,555
Total Bonds and Notes Payable	570,278,957	101,504,707	66,596,785	605,186,879	98,802,217
Other Liabilities:					
Vested compensated absences	1,641,047	1,165,061	1,034,971	1,771,137	1,007,286
Retirement system contribution	2,634,468	3,283,533	2,634,468	3,283,533	3,283,533
Other post employment benefits	797,544	977,430	356,631	1,418,343	-
Claims and judgements	1,280,000	640,000	1,280,000	640,000	640,000
Total Other Liabilities	6,353,059	6,066,024	5,306,070	7,113,013	4,930,819
Total Business-Type Activities	$ 576,632,016	$ 107,570,731	$ 71,902,855	$ 612,299,892	$ 103,733,036
COMPONENT UNIT ACTIVITIES:					
Other Liabilities:					
Vested Compensated Absences					
Community Services Board	$ 1,085,719	$ 613,538	$ 583,570	$ 1,115,687	$ 643,726
Norfolk Public Schools	10,039,837	8,667,591	9,437,447	9,269,981	6,952,486
Other post employment benefits					
Norfolk Public Schools	3,822,574	124,366	-	3,946,940	-
Pension Liability:					
Community Services Board	1,110,732	1,766,910	1,110,732	1,766,910	1,766,910
Pollution Remediation:					
Norfolk Public Schools	272,504	51,481	208,985	115,000	115,000
Workers' Compensation Claims					
Norfolk Public Schools	1,957,690	1,396,887	952,416	2,402,161	190,094
Claims Liability					
Norfolk Public Schools	31,542	144,548	143,854	32,236	27,401
Component Unit-type activities long-term liabilities	$ 18,320,598	$ 12,765,321	$ 12,437,004	$ 18,648,915	$ 9,695,617

IX. Other Liabilities

Pursuant to a water services contract between the City of Norfolk and two wholesale customers, the Water Utilities fund conducts a settlement 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 2010 the Water Utilities fund recorded a claim and judgment liability of $640,000. The amount due within one year is $640,000. The amount will be reimbursed to the wholesale customers by crediting each of their monthly billings during fiscal years 2011.

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); a Virginia Retirement System (VRS) 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 and Community Services Board have defined contribution plans.

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

Plan Description

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

Funding Policy

Section 37 of the Code of the City of Norfolk, Virginia, established the authority under which the City's obligation to contribute to the plan is determined. Contribution requirements are actuarially determined at the end of each fiscal year and paid by the City in the ensuing year. The contribution requirement of $35,515,472 for the year ended June 30, 2010 was based on 19.98% of covered payroll for general employees and for public safety employees. This contribution requirement is recorded in the City's *Statement of Net Assets* as a liability payable to the pension fund and will be made in fiscal year 2011.

Annual Pension Cost

For 2010, the System's annual pension cost was equal to the City's required and actual (to be made in 2011) contribution. The required contribution was determined as part of the June 30, 2010 actuarial valuation using the entry age normal method. The amortization method used is level dollar open except for public safety retirement enhancement program which is amortized over a 20-year period commencing July 1, 2005. Significant actuarial assumptions included: (a) 7.5% investment rate of return (net of administrative expenses), (b) projected average salary increases of 5.24% for general employees and 5.67% for public safety

employees and (c) an assumed inflation rate of 3.5%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period. The remaining amortization period at June 30, 2010 was 19.5 years.

Three-Year Trend Information

Fiscal Year Ended	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
June 30, 2010	$ 35,515,472	100%	$ -
June 30, 2009	$ 28,278,984	100%	$ -
June 30, 2008	$ 25,667,556	100%	$ -

Funding Status and Funding Progress

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

CITY - EMPLOYEES' RETIREMENT SYSTEM

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
June 30, 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%
June 30, 2009	$885,600,000	$1,029,600,000	$144,000,000	86.0%	$179,600,000	80.2%
June 30, 2010	$817,700,000	$1,046,800,000	$229,100,000	78.1%	$175,200,000	130.8%

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

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 a 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/2009AnnuRept.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 the VRS Board of Trustees. The School Board's professional employees' contribution rate for the fiscal year ended June 30, 2010 was 8.81% of covered payroll for the first nine months of the fiscal year and zero for the last three months of the fiscal year (not including assumed 5%). The School Board's contributions to the VRS for the fiscal years ended June 30, 2010, 2009, and 2008 for professional employees were $24,885,620, $30,638,660, and $35,441,832, respectively, such amounts comprising 100% of the required contributions for each of the three years. The School Board's nonprofessional employees' contribution rate for the fiscal year ended June 30, 2010 was 6.95% of annual covered payroll (not including assumed 5%).

Annual Pension Cost – Agent Multiple-Employer Plan

For 2010, the School Board's annual pension costs of $1,937,143 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, 2007 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 5.6% and (c) 2.5% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.5%. The actuarial value of the School Board's assets is equal to the modified market value of assets. This method was determined using techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The amortization method is level percentage of projected payroll on an open basis and the remaining amortization period is 20 years.

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

Fiscal Year Ended	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
June 30, 2010	$ 1,937,143	100%	$ -
June 30, 2009	$ 2,025,771	100%	$ -
June 30, 2008	$ 2,284,422	100%	$ -

Funding Status and Funding Progress

As of June 30, 2009, the most recent actuarial valuation date, the plan was 87.53% funded. The actuarial accrued liability for benefits was $74,800,079, and the actuarial value of assets was $65,474,071 resulting in an unfunded actuarial accrued liability (UAAL) of $9,326,008. The covered payroll (annual payroll of active employees covered by the plan) was $16,948,926 and the ratio of the UAAL to the covered payroll was 55.02%. The June 30, 2009 valuation reflects a change to the asset valuation method. The method used for the 2007 and 2008 valuations was a five-year smoothed market value of assets, but not less than 80% or more than 120% of the market value of the assets. VRS has elected to suspend this corridor for the June 30, 2009 valuation. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations. Additional details on the plan's funded status and funding progress are included as required supplementary information following these notes to the financial statements.

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

SCHOOL BOARD COMPONENT UNIT - VRS NON-PROFESSIONAL EMPLOYEES

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
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%
June 30, 2008	$ 66,558,849	$ 72,573,728	$ 6,014,880	91.7%	$ 17,520,165	34.3%
June 30, 2009	$ 65,474,071	$ 74,800,079	$ 9,326,008	87.5%	$ 16,948,926	55.0%

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, 2009, that the participant remains an eligible employee, the School Board will set the amount for the plan contribution on behalf of the participant using the percentage of gross annual salary authorized under Virginia Statue. The current percentage is 10.4%. For the plan year, the School Board, in its discretion may contribute to another qualified or non-qualified plan an additional amount not to exceed the difference between the amount contributed to the ORPSS and $25,000.

The Virginia Retirement System is the administrator of the plan and Great West Retirement Services and State Street Bank were the trustees during the fiscal year. Great West Retirement Services received $9,262 and State Street Bank received $12,966 in fixed plan contributions. Contributions for the fiscal year ended June 30, 2010, were fixed contributions of $22,227.

C. State Employees – Virginia Retirement System (VRS)

Plan Description

The City of Norfolk contributes to the Virginia Retirement System (VRS), an agent, which administers a multiple-employer defined benefit pension plan for the City of Norfolk. All full-time, salaried permanent state employees in the City's five constitutional offices must participate in the VRS. These offices include:

Commissioner of the Revenue, City Treasurer, Circuit Courts, Commonwealth's Attorney, and Sheriff and Jail. Benefits vest after 5 years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 with 5 years of service for participating law enforcement officers and firefighters) and age 50 with 30 years of service for participating employers (age 50 with 25 years of service for participating law enforcement officers and firefighters) payable monthly for life in an amount equal to 1.7% of their average final salary (AFS) for each year of credited service. In addition, retirees qualify for annual cost-of-living increases limited to 5% per year in their second year of retirement. AFS is defined as the highest consecutive 36 months of salary. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. Participating law enforcement officers may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the State legislature. The VRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing to VRS at P.O. Box 2500, Richmond, VA, 23218-2500.

Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual salary to the VRS. The 5% member contribution has been assumed by the City. In addition, the City is required to contribute the remaining amounts necessary to fund its participation in the VRS using an actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The City's contribution rate (including the assumed 5%) for the fiscal year ended June 30, 2010 was 9.16% of annual covered payroll.

Annual Pension Cost

For 2010, the City's annual pension cost of $3,371,413 was equal to the City's required and actual contribution. The required contribution was determined as part of the June 30, 2007 actuarial valuation using the entry age normal actuarial cost 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 3.5% to 5.6% per year, and (c) 2.5% per year cost-of-living adjustments. Both (a) and (b) include an inflation component of 2.5%. The actuarial value of the City's assets is equal to the modified market value of assets. This method was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The remaining amortization period is 20 years.

Trend information for the City VRS plan is as follows:

Fiscal Year Ended	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
June 30, 2010	$ 3,371,413	100%	$ -
June 30, 2009	$ 3,490,287	100%	$ -
June 30, 2008	$ 2,375,759	100%	$ -

Funding Status and Funding Progress

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

CITY - VRS EMPLOYEES

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
June 30, 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%
June 30, 2008	$ 47,154,626	$ 52,000,548	$ 4,845,922	90.7%	$ 25,854,549	18.7%
June 30, 2009	$51,470,652	$ 58,287,883	$ 6,817,230	88.3%	$ 25,997,389	26.2%

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

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 $16,500 per year. The benefits from the deferred compensation plan are not available to employees until termination, retirement, death or unforeseeable emergency.

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

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 adopted statutes, which require extending access to healthcare benefits to certain retirees. General City employees are eligible to participate at the earlier of age 55 and 15 years of creditable service or 25 years of creditable service. City firefighters and police officers, who have a mandatory retirement age of 62, are eligible to participate at the earlier of age 50 and 15 years of creditable service or 20 years of creditable service. Employees who retire on accidental disability are also eligible. Grandfathered school employees who are older than age 50 with at least 5 years of service are eligible as well as non-grandfathered school employees who are older than age 50 with 15 years of creditable service. Retirees that elect to participate may purchase health care coverage using the same health care plans and premium structures available to active employees. Retiree participation, plan/benefit elections and contributions, are administered by the City's Retirement Bureau and the City's and the Schools' benefits offices based on the participation guidelines established by the Norfolk City Council and Norfolk School Board. Benefits are currently managed on a pay-as-you-go basis rather than use of an irrevocable trust and a separate financial report of the OPEB Plan is not issued. The plan is considered a single-employer plan.

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

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

The actuarial liabilities of the Plans as of July 1, 2009 are shown below (amounts in millions):

	City	Schools	Total
Actuarial liability:			
Active employees	$30.7	$51.0	$81.6
Retirees	29.2	29.3	58.6
Total actuarial liability	59.9	80.3	140.2
Less: plan assets	0.0	0.0	0.0
Unfunded actuarial accrued liability (UAAL)	$59.9	$80.3	$140.2

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

	City	Schools	Total
Net OPEB obligation as of June 30, 2008	$ 3.78	$2.26	$ 6.04
Annual required contribution (ARC) for FY2009	6.79	3.99	10.78
Interest on net OPEB obligation	0.18	0.11	0.29
Adjustment to ARC	(0.14)	(0.08)	(0.22)
Annual OPEB cost	$6.83	$4.02	$10.85
Less: contributions made	2.61	2.46	5.07
Increase in net OPEB obligation	$4.22	$1.56	$5.78
Net OPEB obligation as of June 30, 2009	$8.00	$3.82	$11.82
ARC for FY2010			
Normal cost	$7.21	$2.85	$10.06
UAAL amortization	2.00	2.67	4.67
Interest	0.41	0.25	0.66
Total ARC for FY2010	$9.62	5.77	$15.39
Interest on net OPEB obligation	0.36	0.17	0.53
Adjustment to ARC	(0.28)	(0.13)	(0.41)
Annual OPEB cost	9.70	5.81	15.51
Less: contributions made	3.54	5.68	9.22
Increase in net OPEB obligation	$6.16	$0.13	$6.29
Net OPEB obligation as of June 30, 2010	$14.16	$3.95	$18.11

Funded Status and Funding Progress

As of July 1, 2009, the most recent actuarial valuation date, the combined OPEB Plans were unfunded. The combined actuarial accrued liability for benefits was $140.2 million and the actuarial value of assets was $0 resulting in an unfunded actuarial accrued liability (UAAL) of $140.2 million. The combined covered payroll of active City and School employees covered by the plan was $370.9 million, and the ratio of the UAAL to the covered payroll was 37.8%. Additional details on the plan's funded status and

funding progress are included as required supplementary information following these notes to the financial statements. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
CITY EMPLOYEES AND RETIREES						
July 1, 2007	$ 0	$ 43,566,000	$ 43,566,000	0.0%	$ 170,956,000	25.5%
July 1, 2008	$ 0	$ 44,572,743	$ 44,572,743	0.0%	$ 168,196,094	26.5%
July 1, 2009	$ 0	$ 59,910,937	$ 59,910,937	0.0%	$ 171,944,051	34.8%
SCHOOL EMPLOYEES AND RETIREES						
July 1, 2007	$ 0	$ 59,700,000	$ 59,700,000	0.0%	$ 232,465,000	25.7%
July 1, 2008	$ 0	$ 51,451,816	$ 51,451,816	0.0%	$ 194,139,309	26.5%
July 1, 2009	$ 0	$ 80,250,361	$ 80,250,361	0.0%	$ 198,943,586	40.3%
TOTAL						
July 1, 2007	$ 0	$ 103,266,000	$ 103,266,000	0.0%	$ 403,421,000	25.6%
July 1, 2008	$ 0	$ 96,024,559	$ 96,024,559	0.0%	$ 362,335,403	26.5%
July 1, 2009	$ 0	$ 140,161,298	$ 140,161,298	0.0%	$ 370,887,637	37.8%

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, 2009 with results projected for the fiscal year ended June 30, 2010. The entry age normal actuarial cost method was used with a level percent open amortization method over 30 years. A discount rate of 4.5% was used. Annual rates of health care inflation and salary increases 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.

XIII. Interfund Receivable and Payable Balances

The composition of interfund activity as of June 30, 2010 is as follows:

Receivable Fund	Payable Fund	Amount
General fund	Payroll Agency	$ 175,447
	Golf fund	6,721
	Storehouse fund	38,006
	Water Utility fund	1,463,784
	Parking Facilities fund	221,462
	Total General fund	$ 1,905,420
Capital Projects fund	General fund	$ 2,441,882
	Water Utility fund	22,673
	Parking Fund	175,239
	Total Capital Projects fund	$ 2,639,794
Non-major governmental funds	General fund	$ 7,190,344
	Total Non-major governmental funds	$ 7,190,344
	Total Governmental Funds	$ 11,735,558

Payable Fund	Receivable Fund	
General fund	Payroll Agency	$ 175,447
	Capital Projects fund	2,441,882
	Non-major governmental funds	7,190,344
	Wastewater Utility fund	1,807,810
	Internal Service funds	339,440
	Water Utility fund	850,376
	Total General fund	$ 12,805,299
Capital Projects fund	Water Utility fund	$ 101,507
	Wastewater Utility fund	170,356
	Total Capital Projects fund	$ 271,863
Non-major governmental funds	General fund	$ 6,721
	Total Non-major governmental funds	$ 6,721
	Total Governmental Funds	$ 13,083,883

Receivable Fund	Payable Fund	
Wastewater Utility fund	General fund	$ 1,807,810
	Capital Projects fund	170,356
	Total Wastewater Utility fund	$ 1,978,166
	Total Enterprise funds	$ 1,978,166

Payable Fund	Receivable Fund	
Water Utility fund	General fund	$ 613,408
	Capital Projects fund	(78,834)
	Total Water Utility fund	$ 534,574
Parking Facilities fund	General Fund	$ 221,462
	Capital Projects fund	175,239
	Total Parking Facilities fund	$ 396,701
	Total Enterprise funds	$ 931,275

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.

XIV. Interfund Transfers

The following interfund transfers occurred during fiscal year 2010:

Fund	In	Out
General fund	$ 12,566,907	$ 81,227,400
Debt Service fund	68,395,448	-
Capital Projects fund	4,909,666	-
Nonmajor governmental funds	18,135,196	9,725,808
Enterprise:		
Water Utility fund	-	11,360,000
Wastewater Utility fund	-	1,500,000
Parking Facilities fund	-	194,009
	$ 104,007,217	$ 104,007,217

The purpose of the transfer balances are as follows:

General fund transfers in of $12,566,907 include $8,500,000 from the Water Utility fund and $1,500,000 from the Wastewater Utility fund which represent a return on investment back to the General fund, and $2,566,907 from the Tax Increment special revenue fund which represents declaration of surplus real property taxes.

The General fund transfers out of $81,227,400 represent a transfer of $65,888,430 to the Debt Service fund to fund general obligation debt; $609,666 to the Capital Projects fund as a contribution for the annual capital improvement plan budget; $8,659,628 to the Grants special revenue fund in support of grant projects; $2,437,772 to the Nauticus special revenue fund, $1,083,131 to the Maritime Facility special revenue fund, $670,753 to the Cemeteries special revenue fund, $1,627,767 to the Emergency Operations Center/E-911 special revenue fund and $250,253 to the Golf special revenue fund.

Debt service transfers of $68,395,448 in include $2,301,268 from the Storm Water special revenue fund, $205,750 from the Public Amenities special revenue fund and $65,888,430 from the General fund to fund the current fiscal year's debt service payments.

The Storm Water special revenue fund transferred $2,301,268 to the Debt Service fund to cover its general obligation debt service cost.

The Public Amenities special revenue fund transferred $1,000,000 to the Capital Projects fund in support of the fund's capital related projects and $205,750 to cover its general obligation debt service cost.

The Maritime Facility fund transferred $46,303 to the Grants special revenue fund in support of grant projects.

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

The Tax Increment special revenue fund transferred $2,566,907 to the General fund which represents declaration of surplus real property taxes and $3,300,000 to the Capital Projects fund in support of related capital projects.

The Water Utility and Wastewater Utility funds transferred $8,500,000 and $1,500,000, respectively, to the General fund as a return on investment, respectively. The Parking Facilities fund transferred $194,009 to the Maritime Facility special revenue fund to cover parking costs of cruise customers. The Water Utility fund transferred $2,860,000 to the Land Acquisition special revenue fund to contribute the proceeds from the sale of the Lake Lawson property.

XV. Recovered Costs

Recovered cost in the General fund:		
Debt service recoveries	$	206,478
Retirement Bureau		453,438
HRT subsidy		898,884
Information Systems recoveries		1,558,139
Other		2,328,592
Administrative cost recoveries from enterprise funds		2,760,403
Total recovered costs in the General fund	$	8,205,934

XVI. Other Liabilities

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

Governmental Funds:	
General fund - miscellaneous	$ 930,842
General fund - accrued expenditures	5,378,357
Capital Projects fund - miscellaneous	3,372
Grants fund - miscellaneous	187,556
	$ 6,500,127
Internal Service Funds:	
Fleet Management fund - miscellaneous	1,747
	$ 1,747
Enterprise Funds:	
Water Utility fund - miscellaneous	222,105
Wastewater Utility fund - miscellaneous	1,500
Parking Facilities fund - miscellaneous	481,099
	$ 704,704
Fiduciary Funds:	
Other Agency fund	3,617,837
Commonwealth of Virginia	8,555
	$ 3,626,392

XVII. Supplemental Appropriations

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

General Fund:	
Approved fiscal year 2009-2010 budget	$ 824,914,500
Supplemental appropriations from General fund fund balance:	
Additional funds appropriated from fund balance for demolition and revitalization of blighted property	270,756
Additional funds appropriated for the School Board	6,000,000
Total supplemental appropriations	6,270,756
Final budget	$ 831,185,256

XVIII. Deferred Revenue

Deferred revenue, as represented in the fund financial statements at June 30, 2010 totals $38,680,140 and is comprised of the following:

A. Special Revenue funds

In the special revenue funds, unearned revenue totaled $811,030. In the community development fund, the unearned revenue represents deferred payment rehabilitation loans of $543,085 as of June 30, 2010. Unearned revenue in the storm water special revenue fund of $267,945 represents deferred billings that have been earned but are not available for funding current expenditures at June 30, 2010.

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, 2010 is $37,869,110.

XIX. Commitments and Contingencies

A. Capital projects

Commitments for completion of capital projects in the Business-Type Activities, authorized at June 30, 2010 are as follows:

Water Utility development projects	$	14,082,000
Wastewater Utility development projects		11,086,471
Parking Facilities development projects		2,040,747
Total	$	27,209,218

Commitments for completion of capital projects in the Governmental Activities, authorized at June 30, 2010 are $60,695,391. See Exhibit J-3 Capital Improvement Program Schedule of Expenditures for listing of projects.

The regional mass transit operator, Hampton Roads Transit (HRT), is in the process of constructing a starter light rail system in Norfolk. The light rail system is being funded by the Federal and State governments and the City of Norfolk under the terms of grant agreements. Under the terms of the Full Funding Grant Agreement with the Federal Transit Administration, the City is required to provide sufficient funding to complete the project to the extent the project requires funding not provided by the Federal and State governments or other funding sources. At this time, the estimated cost projected to complete the project is $338,284,250 of which

$247,364,371 is funded by Federal and State grants. Of the remaining $90,919,879; the City has authorized funding up to $50,707,086 through June 30, 2010. In addition, the Commonwealth Transportation Board has programmed $10,000,000 of funding to be provided in fiscal year 2012; and the City has allocated $1,925,000 of its Federal Congestion Mitigation & Air Quality funding. Therefore, the unfunded completion cost could be $28,287,793. The City is seeking additional funding from the Federal and State governments and other sources, as well as savings in the projected costs to complete the project.

B. Contingent liabilities

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

The City was a guarantor for $7,986,543 of VRA debt for the Southeastern Public Service Authority (SPSA) as of June 30, 2010. See Note XXIV for more information on this guarantee and the SPSA joint venture.

C. Litigation

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

D. Pollution remediation obligation

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

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

- A government begins or legally obligates itself to begin cleanup or post-cleanup activities (limited to amounts the government is legally required to complete).

During the fiscal year the City recognized a liability of $524,750 for pollution remediation obligations associated with the cleanup of the Battleship Wisconsin, in order to open it to the public for tours. The amount of the obligation is based on the contractor's experience in similar instances, taking into account sampling at the site, and applying usual and customary cost code rates. The potential for a change to the estimate is minimal.

During the fiscal year the School Board recognized a Liability for $115,000 for pollution remediation obligations associated with asbestos, removal of paint, and clean-up of drainage of oil and aerosol can/drum removal from Transportation, Risk Management, and School Facilities.

XX. Surety Bonds and Insurance

Surety	Official	Amount
Commonwealth of Virginia	Sharon McDonald, Commissioner of the Revenue	$ 3,000
	Thomas W. Moss, Jr., City Treasurer	1,500,000
	Robert J. McCabe, Sheriff	30,000
	George E. Schaefer, III Clerk of the Circuit Court	2,235,000
	Total Commonwealth of Virginia	$ 3,768,000
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	$ 500,000
City of Norfolk	Travelers Insurance Co. All City employees	$10,000,000

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 2010 was $6,735,643

The City currently reports all these activities as part of the risk management function in the general government section of the General fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. For actuarial purposes, estimated outstanding losses are the accrual cost of unpaid claims valued as of each accounting date. The estimated

outstanding losses include case reserves, the development on known claims and incurred but not reported (IBNR) claims. Allocated loss adjustment expenses (ALAE) are the direct expenses for settling specific claims. ALAE is included in the workers' compensation estimates, but excluded in the liability estimates. At June 30, 2010 these liabilities were $30,270,187 of which $3,579,766 represents the current portion anticipated to be paid within a year. Estimated liabilities for fiscal year 2010 were determined by an independent actuary.

Changes in the City's claims liability amount in the fiscal years 2009 through 2010 are as follows:

	Estimated Outstanding Losses Beginning of Fiscal Year	Additional Incurred Claims and/or Changes in Estimate	Claims Paid	Estimated Outstanding Losses End of Fiscal Year
2009	$ 25,059,306	$ 14,134,010	$ 4,686,127	$ 34,507,189
2010	$ 34,507,189	$ 174,757	$ 4,411,759	$ 30,270,187

The City in its General fund has designated $1,898,571 of fund balance to provide for risks of loss and claims payments that may not be fully covered by purchased insurance or annual budget appropriations. There have not been any significant reductions in insurance coverage, and settled claims have not exceeded coverage in any of the past three fiscal years.

The School Board also participates in a self-insurance program and its future expected self-insured losses as of June 30, 2010 were recorded at $2,402,161 of which $190,094 is the current portion and $2,212,067 is the long-term portion. The School Board also provides payments for its risks of loss through a combination of purchased insurance policies and self-insurance plans. These losses are funded through the Public Schools operating budgets and/or the City's fund balance designation.

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, 2010. Complete financial statements of HRRJA can be obtained from HRRJA.

B. Hampton Roads Planning District Commission (the Commission)

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

The participating governments do not have an equity interest in the Commission, and accordingly, no equity interest has been reflected in the City's financial statements at June 30, 2010. Complete financial statements of the Commission can be obtained from the Commission.

C. Transportation District Commission of Hampton Roads (TDC)

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

The participating governments do not have an equity interest in TDC, and accordingly, no equity interest has been reflected in the City's financial statements at June 30, 2010. Complete financial statements of TDC can be obtained from TDC.

XXIII. Joint Venture

Southeastern Public Service Authority (SPSA)

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

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

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

Member community	Guarantee percentage	Principal guarantee
Chesapeake	22.49%	$ 10,578,172
Franklin	0.97	456,240
Isle of Wight	3.98	1,871,993
Norfolk	16.98	7,986,543
Portsmouth	10.27	4,830,495
Southampton	2.10	987,735
Suffolk	12.87	6,053,405
Virginia Beach	30.34	14,270,417
	100.00%	$ 47,035,000

The participating governments do not have an equity interest in SPSA, and accordingly, no equity interest has been reflected in the City's financial statements at June 30, 2010. Complete financial statements of the SPSA can be obtained from SPSA.

XXIV. Related Organizations

A. Norfolk Redevelopment and Housing Authority (NRHA)

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

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

B. Norfolk Airport Authority

Norfolk Airport Authority, a political subdivision of the Commonwealth, was created to operate an airport and to promote industrial growth and consists of both an Airport fund and an Investment fund. The Airport fund was established by the Authority to account for the operations of the Norfolk International Airport (the Airport). Revenue generated by airport operations is used to meet all operating expenses and to provide for payment of all principal and interest on debt of the Authority related to the Airport. The Investment fund was established by the Authority to provide for certain airport capital improvements. The Authority finances individual capital projects by issuing bonds or obtaining loans and intergovernmental grants in its own name and concurrently entering into leases which provide for payment of all principal and interest on the related obligations as they become due. Revenue includes rental income on non-airport property owned by the Authority and interest on investments. The Authority's Commissioners are appointed by City Council but the Commission designates its own management and has oversight responsibility for its own fiscal matters. The City does not provide funds for the operations of the Authority and, pursuant to Section 144(q) of the City Charter; the Authority is required to submit its annual budget to the City

Council for the purposes of information only. The City has the option to reacquire, without consideration, title to all property and equipment after payment by the Authority of all obligations relating to the improvements at the Airport.

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

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

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

The Chrysler Museum, a Virginia non-stock, not-for-profit organization, was formed on January 1, 1980 by incorporating the Chrysler Museum in Norfolk. The main purpose of the Museum is the advancement, encouragement and promotion of the study and appreciation of art. The Museum designates its own management, which is self-sustaining, maintains its own books of account, engages its own independent accountant, and receives its revenue from administrative fees charged to visitors and from other independent grants.

E. The Hospital Authority of Norfolk (HAN)

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

XXV. Adjustments to Beginning Capital Assets and Net Assets

The City's beginning capital assets and net assets in the governmental-wide statements have been restated in compliance with GASB Statement No. 51 to adjust historical cost and accumulated depreciation for intangible assets. As a result, net assets and capital assets were increased by $1,849,274.

	Primary Government Governmental Activities
Net Assets, June 30, 2009, As Previously Reported	$ 379,538,235
Adjustments	1,849,274
Net Assets, June 30, 2009, As Restated	$ 381,387,509

XXVI. Subsequent Events

Water Revenue Bonds, Series 2010

On September 30, 2010, the City competitively issued $47,415,000 of Water Revenue Bonds to Hutchinson, Shockey, Erley & Co., at a true interest cost (TIC) of 3.70%. The water revenue bonds, which will be repaid solely by revenue generated by the water system, will fund the cashflow needs of the Water Utility Capital Improvement Program.

General Obligation Refunding Bonds, Series 2010G

On October 19, 2010, the City issued $90,165,000 of General Obligation Refunding Bonds, Series 2010G that refunded previously existing bonds from prior issuances. The City achieved a true interest cost (TIC) of 2.2996% via negotiated sale, utilizing a syndicate led by BB&T Capital Markets. The $3.32 million net present value savings ($4.20 million gross savings) represents 3.6623% of the original debt service requirements and provides fiscal year 2011 savings of approximately $900,000 and annual savings of approximately $245,000 in fiscal year 2012 through fiscal year 2024.

Wastewater System Revenue Bond, Series 2010

On October 19, 2010, the City issued a $10,000,000 Wastewater System Revenue Bond, with the Virginia Resources Authority (VRA). In conjunction with the State Water Control Board (the "Board"), the VRA administers and manages the Virginia Water Facilities Revolving Fund. The Bond was sold at a true interest cost of 0.00%. The Board additionally authorized a "principal forgiveness loan," ("the Transaction") whereby the City shall be reimbursed for the payment of qualified project costs, in an amount not to exceed $1,350,000. The Transaction shall not constitute a debt of the City, and the City is not required or obligated to repay the amount of the Transaction. The total funding package from the Virginia Water Facilities Revolving Fund was $11,350,000.

XXVII. Accounting Pronouncements Issued But Not Yet Implemented

The GASB has issued several pronouncements that may impact future financial presentations. Management has performed a preliminary assessment of the impact of implementation of the following statements on the City.

- GASB Statement 54: *Fund Balance Reporting and Governmental Fund type Definitions*. GASB 54 more clearly defines the classifications of fund balance for more consistent applications, and also clarifies the definition of existing governmental fund types. The new classifications of fund balance will comprise a hierarchy based on the extent to which the government is bound to observe constraints imposed upon the use of the financial resources of the funds. Fund balance will be reported in the following categories: nonspendable, restricted, committed, assigned and unassigned, depending on the relative strength of the constraints that control how the resources are spent. Disclosures are required about the process through which constraints are imposed on amounts in the committed and assigned categories. Disclosures must also include the government's policies that determine the type of fund balance categories spent. There is also guidance in the statement regarding classification of stabilization amounts on the financial statements and related note disclosures. The changes to fund balance required by GASB 54 are effective for periods beginning after June 15, 2010, with reclassifications of fund balance applied retroactively for all periods presented. The adoption of this standard will result in modification of the City's existing fund balance categories and related disclosure as well as changes to some governmental funds types to meet the provisions of GASB 54.

  Management has not currently determined what, if any, impact implementation of the following statement will have on the City.

- GASB Statement 59: *Financial Instruments Omnibus*. GASB 59 updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The provisions of GASB 59 are effective for periods beginning after June 15, 2010.

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
Retirement Plans:						
CITY - EMPLOYEES' RETIREMENT SYSTEM						
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%
June 30, 2009	$ 885,600,000	$ 1,029,600,000	$ 144,000,000	86.0%	$ 179,600,000	80.2%
June 30, 2010	$ 817,700,000	$ 1,046,800,000	$ 229,100,000	78.1%	$ 175,200,000	130.8%
CITY - VRS EMPLOYEES						
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%
June 30, 2008	$ 47,154,626	$ 52,000,548	$ 4,845,922	90.7%	$ 25,854,549	18.7%
June 30, 2009	$ 51,470,652	$ 58,287,883	$ 6,817,231	88.3%	$ 25,997,389	26.2%
SCHOOL BOARD COMPONENT UNIT - VRS NON-PROFESSIONAL EMPLOYEES						
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%
June 30, 2008	$ 66,558,849	$ 72,573,728	$ 6,014,880	91.7%	$ 17,520,165	34.3%
June 30, 2009	$ 65,474,071	$ 74,800,079	$ 9,326,008	87.5%	$ 16,948,926	55.0%
Other Post-employment Benefits (OPEB):						
CITY EMPLOYEES AND RETIREES						
July 1, 2007	$ -	$ 43,566,000	$ 43,566,000	0.0%	$ 170,956,000	25.5%
July 1, 2008	$ -	$ 44,572,743	$ 44,572,743	0.0%	$ 168,196,094	26.5%
July 1, 2009		$ 59,910,937	$ 59,910,937	0.0%	$ 171,944,051	34.8%
SCHOOL EMPLOYEES AND RETIREES						
July 1, 2007	$ -	$ 59,700,000	$ 59,700,000	0.0%	$ 232,465,000	25.7%
July 1, 2008	$ -	$ 51,451,816	$ 51,451,816	0.0%	$ 194,139,309	26.5%
July 1, 2009		$ 80,250,361	$ 80,250,361	0.0%	$ 198,943,586	40.3%
TOTAL						
July 1, 2007	$ -	$ 103,266,000	$ 103,266,000	0.0%	$ 403,421,000	25.6%
July 1, 2008	$ -	$ 96,024,559	$ 96,024,559	0.0%	$ 362,335,403	26.5%
July 1, 2009	$ -	$ 140,161,298	$ 140,161,298	0.0%	$ 370,887,637	37.8%

Exhibit E-1

CITY OF NORFOLK, VIRGINIA

Schedule of Revenue, Budget and Actual (Unaudited)
General Fund
For the Year Ended June 30, 2010

	Original Budget	Final Budget	Budget Basis Actual	Positive (negative) Variance with Final Budget
General property taxes	$ 256,581,700	$ 256,581,700	$ 256,561,095	$ (20,605)
Other local taxes	156,654,200	156,654,200	145,065,893	(11,588,307)
Permits, privilege fees, licenses	4,198,700	4,198,700	3,526,259	(672,441)
Fines and forfeitures	1,544,000	1,544,000	1,163,491	(380,509)
Use of money and property	8,574,300	8,574,300	6,044,924	(2,529,376)
Charges for services	31,829,700	31,829,700	33,071,699	1,241,999
Miscellaneous revenue	6,029,400	6,029,400	5,258,757	(770,643)
Recovered costs	7,978,300	7,978,300	8,207,635	229,335
Non-categorical aid - Virginia	33,467,900	33,467,900	32,164,855	(1,303,045)
Shared expense - Virginia	21,676,300	21,676,300	20,032,014	(1,644,286)
Categorical aid - Virginia	277,048,500	283,048,500	270,287,951	(12,760,549)
Categorical aid - Federal	6,291,500	6,291,500	7,460,892	1,169,392
Other sources and transfers	13,040,000	13,310,756	13,307,663	(3,093)
Total revenue budget	$ 824,914,500	$ 831,185,256	$ 802,153,127	$ (29,032,129)

CITY OF NORFOLK, VIRGINIA

Exhibit E-2

Schedule of Expenditures, Budget and Actual (Unaudited)
General Fund
For the Year Ended June 30, 2010

	Original Budget	Final Budget	Budget Basis Actual	Positive (negative) Variance with Final Budget
Legislative	$ 4,553,800	$ 4,553,800	$ 4,482,036	$ 71,764
Executive	2,344,600	2,347,357	1,895,181	452,176
Department of Law	3,995,000	3,995,000	3,823,499	171,501
Finance	24,004,600	24,279,687	24,016,652	263,035
Department of Human Resources	3,194,900	3,247,155	3,065,225	181,930
Courts, Sheriff and Detention	47,846,900	47,801,258	45,873,140	1,928,118
Department of Public Health	5,815,900	5,521,445	5,295,954	225,491
Department of Human Services	61,159,800	61,480,664	56,315,690	5,164,974
Department of Public Works	47,719,800	48,922,133	48,774,383	147,750
Neighborhood & Leisure Services	23,027,700	22,358,235	21,633,992	724,243
Education	321,186,400	327,186,400	318,739,191	8,447,209
Norfolk Public Libraries	8,587,700	8,379,038	8,387,198	(8,160)
Elections	631,000	657,604	642,354	15,250
Department of Planning	5,626,500	5,303,515	4,854,827	448,688
Department of Civic Facilities	6,222,700	6,033,280	6,135,361	(102,081)
Departmental support	19,231,100	19,840,474	18,372,779	1,467,695
Outside agencies	35,752,600	35,391,248	34,096,688	1,294,560
Department of Police	63,580,200	64,212,950	64,017,505	195,445
Department of Fire and Rescue	39,158,900	39,111,738	38,317,704	794,034
Debt service	80,686,600	80,515,037	68,266,589	12,248,448
Office of Community Empowerment	569,000	515,845	269,243	246,602
Budget and Management	772,859	717,788	658,262	59,526
Economic Development	2,178,600	2,080,213	2,038,208	42,005
Intergovernmental Programs	509,000	479,156	414,323	64,833
Communications and Public Relations	1,718,000	1,697,223	1,661,455	35,768
Department of Information Technology	10,658,200	10,162,757	10,044,187	118,570
Office of Grants Management	245,741	244,896	210,286	34,610
Virginia Zoological Park	3,705,500	3,900,169	3,829,594	70,575
Office of Homelessness	230,900	249,191	239,171	10,020
Total expenditure budget	$ 824,914,500	$ 831,185,256	$ 796,370,677	$ 34,814,579

CITY OF NORFOLK, VIRGINIA

Notes to Required Supplementary Information
Reconciliation of (non-GAAP) Budgetary Basis to GAAP (Unaudited)
June 30, 2010

	General Fund
Sources/inflows of resources:	
Actual amounts (budgetary basis) "available for appropriation" from Exhibit E-1	$ 802,153,127
Differences--budget to GAAP:	
The effects of accounting for school revenue as a component unit	(217,733,490)
The effects of accounting for transfer from fund balance	(740,756)
General fund transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(12,566,907)
Contingency liability settlement that is deducted from general tax revenues for financial reporting in FY-10 but not deducted from inflows of budgetary resources until FY-11	(2,850,000)
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 568,261,974
Uses/outflows of resources:	
Actual amounts (budgetary basis) "Total charges to appropriations" from Exhibit E-2	$ 796,370,677
Differences--budget to GAAP:	
The effects of accounting for school expenditures as a component unit	(217,728,060)
Equipment purchased with bond proceeds	2,885,518
The effects of accounting for the FY-08 5% budget reserve	(195,248)
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	(1,129,017)
General fund transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(81,227,400)
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances--Governmental Funds	$ 498,976,470

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.

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, 2010

	Special Revenue Funds						
	Storm Water	Towing	Grants	Community Development	Nauticus	Maritime Facility	Cemeteries
ASSETS							
Cash and short term investments	$ 1,815,919	$ 695,582	$ 16,158,295	$ 178,021	$ 98,976	$ 1,135,827	$ 554,985
Receivables, net	1,531,938	14,656	2,622,011	696,483	62,264	421,550	100,236
Due from other funds	334,235	48,757	3,617,058	-	8,311	286,588	140,877
Due from other governments	-	-	11,191,397	-	-	-	-
Prepaids	-	21,765	-	-	-	-	-
Other	-	-	-	-	-	-	-
Total assets	$ 3,682,092	$ 780,760	$ 33,588,761	$ 874,504	$ 169,551	$ 1,843,965	$ 796,098
LIABILITIES							
Vouchers payable	$ 138,622	$ 6,069	$ 4,291,430	$ 127,668	$ 180,139	$ 4,889	$ 51,705
Contract retainage	-	-	480,106	-	-	-	-
Accrued payroll	71,700	8,372	72,010	4,679	51,897	1,695	-
Accrued expenses	-	-	-	-	-	54	-
Due to other funds	-	-	-	-	-	-	-
Due to other governments	-	-	7,084,815	199,072	-	-	-
Unearned revenue	267,945	-	-	543,085	-	-	-
Other liabilities	-	11,520	-	-	-	-	115,804
Total liabilities	478,267	25,961	11,928,361	874,504	232,036	6,638	167,509
FUND BALANCES							
Reserved for:							
Encumbrances	973,056	37,049	21,660,400	5,001,153	209,575	33,663	30,723
Perpetual care	-	-	-	-	-	-	-
Capital projects	34,559	-	-	-	-	-	-
Unreserved:							
Undesignated	2,196,210	717,750	-	(5,001,153)	(272,060)	1,803,664	597,866
Total fund balances	3,203,825	754,799	21,660,400	-	(62,485)	1,837,327	628,589
Total liabilities and fund balances	$ 3,682,092	$ 780,760	$ 33,588,761	$ 874,504	$ 169,551	$ 1,843,965	$ 796,098

CITY OF NORFOLK, VIRGINIA

Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2010

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	
$ 30,718	$ 5,790,614	$ 3,899,009	$ 1,154,346	$ 2	$ 31,512,294	$ 6,371,391	$ 37,883,685
-	497,641	-	232,179	-	6,178,958	14,229	6,193,187
-	1,470,896	990,402	293,220	-	7,190,344	-	7,190,344
-	-	-	-	-	11,191,397	-	11,191,397
-	-	-	-	-	21,765	-	21,765
-	-	-	-	-	-	69,652	69,652
$ 30,718	$ 7,759,151	$ 4,889,411	$ 1,679,745	$ 2	$ 56,094,758	$ 6,455,272	$ 62,550,030
$ 11,072	$ -	$ -	$ 30,711	$ -	$ 4,842,305	$ -	$ 4,842,305
-	-	-	-	-	480,106	-	480,106
-	-	-	80,592	-	290,945	-	290,945
-	-	-	5,879	-	5,933	-	5,933
6,721	-	-	-	-	6,721	-	6,721
-	-	-	-	-	7,283,887	-	7,283,887
-	-	-	-	-	811,030	-	811,030
-	-	60,200	32	-	187,556	-	187,556
17,793	-	60,200	117,214	-	13,908,483	-	13,908,483
12,805	7,000	-	178,638	-	28,144,062	-	28,144,062
-	-	-	-	-	-	6,455,272	6,455,272
-	-	-	-	-	34,559	-	34,559
120	7,752,151	4,829,211	1,383,893	2	14,007,654	-	14,007,654
12,925	7,759,151	4,829,211	1,562,531	2	42,186,275	6,455,272	48,641,547
$ 30,718	$ 7,759,151	$ 4,889,411	$ 1,679,745	$ 2	$ 56,094,758	$ 6,455,272	$ 62,550,030

City of Norfolk, Virginia

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2010

	Special Revenue Funds					
	Storm Water	Towing	Grants	Community Development	Nauticus	Maritime Facility
REVENUES						
General property taxes	$ -	$ -	$ -	$ -	$ -	$ -
Other local taxes	-	-	-	-	-	-
Use of money and property	15,452	2,066	7,169	-	45,840	236,521
Charges for services	11,057,966	1,612,421	3,120,800	709,832	1,471,285	692,565
Miscellaneous	-	53,855	5,403,689	264,422	65,289	-
Recovered costs	-	-	-	-	-	-
Intergovernmental:						
Commonwealth of Virginia	-	-	18,178,225	-	-	-
Federal government	3,080	-	13,276,773	5,008,166	43,500	-
Total revenue	11,076,498	1,668,342	39,986,656	5,982,420	1,625,914	929,086
EXPENDITURES						
General government	-	-	1,675,435	-	-	-
Judicial administration	-	-	3,576,194	-	-	-
Public safety	-	-	2,860,339	-	-	-
Public works	7,896,193	1,663,403	5,350,155	-	-	-
Health and public assistance	-	-	26,162,270	2,056,131	-	-
Cultural and recreation	-	-	3,159,094	-	4,139,758	958,524
Community development	-	-	-	3,926,289	-	-
Debt service						
Principal	-	-	-	-	-	515,000
Interest and other charges	-	-	-	-	-	146,226
Total expenditures	7,896,193	1,663,403	42,783,487	5,982,420	4,139,758	1,619,750
Excess (deficiency) of revenue over (under) expenditures	3,180,305	4,939	(2,796,831)	-	(2,513,844)	(690,664)
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	8,705,931	-	2,437,772	1,277,140
Transfers out	(2,301,268)	-	-	-	-	(46,303)
Total other financing sources and uses	(2,301,268)	-	8,705,931	-	2,437,772	1,230,837
Net change in fund balances	879,037	4,939	5,909,100	-	(76,072)	540,173
Fund balances--beginning	2,324,788	749,860	15,751,300	-	13,587	1,297,154
Fund balances--ending	$ 3,203,825	$ 754,799	$ 21,660,400	$ -	$ (62,485)	$ 1,837,327

City of Norfolk, Virginia

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2010

Exhibit F-2

Special Revenue Funds							Permanent Funds	Total
Cemeteries	Golf	Public Amenities	Land Acquisition	EOC/ 911	Tax Increment	Total Special Revenue	Non-Expendable Trust	Nonmajor Governmental Funds
$ -	$ -	$ -	$ -	$ -	$ 3,344,300	$ 3,344,300	$ -	$ 3,344,300
-	-	4,977,516	-	3,571,596	-	8,549,112	-	8,549,112
-	102,183	-	-	-	2	409,233	92,534	501,767
1,204,367	1,067,626	-	-	2,848	-	20,939,710	197,670	21,137,380
-	-	4,000	-	-	-	5,791,255	-	5,791,255
-	-	-	-	1,297,417	-	1,297,417	-	1,297,417
-	-	-	-	-	-	18,178,225	-	18,178,225
16,938	-	-	-	63,617	-	18,412,074	-	18,412,074
1,221,305	1,169,809	4,981,516	-	4,935,478	3,344,302	76,921,326	290,204	77,211,530
-	-	-	-	-	-	1,675,435	-	1,675,435
-	-	-	-	-	-	3,576,194	-	3,576,194
-	-	-	-	7,621,475	-	10,481,814	-	10,481,814
-	-	-	-	-	-	14,909,751	-	14,909,751
-	-	-	-	-	-	28,218,401	-	28,218,401
2,055,638	1,407,137	617,000	-	-	-	12,337,151	-	12,337,151
-	-	-	-	-	-	3,926,289	-	3,926,289
-	-	-	-	-	40,000	555,000	-	555,000
-	-	-	-	-	736,822	883,048	-	883,048
2,055,638	1,407,137	617,000	-	7,621,475	776,822	76,563,083	-	76,563,083
(834,333)	(237,328)	4,364,516	-	(2,685,997)	2,567,480	358,243	290,204	648,447
976,333	250,253	-	2,860,000	1,627,767	-	18,135,196	-	18,135,196
-	-	(1,205,750)	-	-	(5,866,907)	(9,420,228)	(305,580)	(9,725,808)
976,333	250,253	(1,205,750)	2,860,000	1,627,767	(5,866,907)	8,714,968	(305,580)	8,409,388
142,000	12,925	3,158,766	2,860,000	(1,058,230)	(3,299,427)	9,073,211	(15,376)	9,057,835
486,589	-	4,600,385	1,969,211	2,620,761	3,299,429	33,113,064	6,470,648	39,583,712
$ 628,589	$ 12,925	$ 7,759,151	$ 4,829,211	$ 1,562,531	$ 2	$ 42,186,275	$ 6,455,272	$ 48,641,547

Agency Funds

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

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

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

CITY OF NORFOLK, VIRGINIA

Exhibit G-1

Combining Balance Sheet - Agency Funds
June 30, 2010

	Other	Commonwealth of Virginia	Total
ASSETS			
Cash and short term investments	$ 3,351,684	$ 8,555	$ 3,360,239
Receivables, net of allowance for uncollectible accounts	663	-	663
Other	279,124	-	279,124
Total assets	$ 3,631,471	$ 8,555	$ 3,640,026
LIABILITIES			
Vouchers payable	$ 13,634	$ -	$ 13,634
Due to other agencies	3,617,837	8,555	3,626,392
Total liabilities	$ 3,631,471	$ 8,555	$ 3,640,026

CITY OF NORFOLK, VIRGINIA

Exhibit G-2

Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2010

	Other			
	Balance July, 1,2009	Additions	Deductions	Balance June, 30,2010
ASSETS				
Cash and short term investments	$ 3,396,848	$ 7,934,202	$ 7,979,366	$ 3,351,684
Accounts receivable	13,795	-	13,132	663
Other receivables	129,846	742,778	593,500	279,124
Total assets	$ 3,540,489	$ 8,676,980	$ 8,585,998	$ 3,631,471
LIABILITIES				
Vouchers payable	$ 68,292	$ 1,483,223	$ 1,537,881	$ 13,634
Due to other agencies	3,472,197	8,262,870	8,117,230	3,617,837
Total liabilities	$ 3,540,489	$ 9,746,093	$ 9,655,111	$ 3,631,471

	Commonwealth of Virginia			
	Balance July, 1,2009	Additions	Deductions	Balance June, 30,2010
ASSETS				
Cash and short term investments	$ 8,670	$ 8,907,258	$ 8,907,373	$ 8,555
Total assets	$ 8,670	$ 8,907,258	$ 8,907,373	$ 8,555
LIABILITIES				
Due to the Commonwealth of Virginia	$ 8,670	$ 8,907,258	$ 8,907,373	$ 8,555
Total liabilities	$ 8,670	$ 8,907,258	$ 8,907,373	$ 8,555

	Total			
	Balance July, 1,2009	Additions	Deductions	Balance June, 30,2010
ASSETS				
Cash and short term investments	$ 3,405,518	$ 16,841,460	$ 16,886,739	$ 3,360,239
Accounts receivable	13,795	-	13,132	663
Other receivables	129,846	742,778	593,500	279,124
Total assets	$ 3,549,159	$ 17,584,238	$ 17,493,371	$ 3,640,026
LIABILITIES				
Vouchers payable	$ 68,292	$ 1,483,223	$ 1,537,881	$ 13,634
Due to other agencies	3,480,867	17,170,128	17,024,603	3,626,392
Total liabilities	$ 3,549,159	$ 18,653,351	$ 18,562,484	$ 3,640,026

Internal Service Funds

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

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

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

CITY OF NORFOLK, VIRGINIA

Exhibit H-1

Combining Statement of Net Assets - Internal Service Funds
June 30, 2010

	Storehouse	Fleet Management	Total
ASSETS			
Current assets:			
Cash and short term investments	$ -	$ 1,438,322	$ 1,438,322
Receivables, net	1,285	273,697	274,982
Due from other funds	-	339,440	339,440
Inventories	1,910,487	408,083	2,318,570
Total current assets	1,911,772	2,459,542	4,371,314
Noncurrent assets:			
Capital assets:			
Land	-	415,000	415,000
Buildings and equipment, net	24,519	4,754,798	4,779,317
Total noncurrent assets	24,519	5,169,798	5,194,317
Total assets	$ 1,936,291	$ 7,629,340	$ 9,565,631
LIABILITIES			
Current liabilities:			
Vouchers payable	$ 34,695	$ 308,043	$ 342,738
Due to other funds	38,006	-	38,006
Compensated absences	31,595	215,094	246,689
Accrued payroll	9,665	58,217	67,882
Obligations for employees' retirement	78,114	449,838	527,952
Other liabilities	-	1,747	1,747
Total current liabilities	192,075	1,032,939	1,225,014
Noncurrent liabilities:			
Compensated absences	6,351	92,183	98,534
Total noncurrent liabilities	6,351	92,183	98,534
Total liabilities	198,426	1,125,122	1,323,548
NET ASSETS			
Invested in capital assets, net of related debt	24,519	5,169,798	5,194,317
Unrestricted	1,713,346	1,334,420	3,047,766
Total net assets	$ 1,737,865	$ 6,504,218	$ 8,242,083

CITY OF NORFOLK, VIRGINIA

Exhibit H-2

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets - Internal Service Funds
For the Year Ended June 30, 2010

	Storehouse	Fleet Management	Total
OPERATING REVENUES			
Charges for services	$ 3,678,156	$ 9,795,440	$ 13,473,596
Miscellaneous	-	153,105	153,105
Total operating revenues	3,678,156	9,948,545	13,626,701
OPERATING EXPENSES			
Personal services	482,799	2,929,873	3,412,672
Cost of goods sold	3,083,076	7,408,468	10,491,544
Plant operations	15,305	259,751	275,056
Depreciation	4,891	305,924	310,815
Retirement and OPEB contributions	78,114	449,838	527,952
Other	43,883	1,038,281	1,082,164
Total operating expenses	3,708,068	12,392,135	16,100,203
Operating income (loss)	(29,912)	(2,443,590)	(2,473,502)
NONOPERATING REVENUE			
Interest and investment income	-	1,790	1,790
Total nonoperating revenue	-	1,790	1,790
Net loss	(29,912)	(2,441,800)	(2,471,712)
Change in net assets	(29,912)	(2,441,800)	(2,471,712)
Net assets--beginning	1,767,777	8,946,018	10,713,795
Net assets--ending	$ 1,737,865	$ 6,504,218	$ 8,242,083

CITY OF NORFOLK, VIRGINIA

Exhibit H-3

Combining Statement of Cash Flows - Internal Service Funds
For the Year Ended June 30, 2010

	Storehouse	Fleet Management	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	$ 3,679,194	$ 9,706,085	$ 13,385,279
Payments to suppliers	(3,073,192)	(7,631,685)	(10,704,877)
Payments to employees	(547,111)	(3,313,710)	(3,860,821)
Other payments	-	(1,036,534)	(1,036,534)
Net cash used in operating activities	58,891	(2,275,844)	(2,216,953)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Internal activity	(58,927)	1,502,945	1,444,018
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Principal paid on capital debt	-	(5,082)	(5,082)
Net cash used by capital and related financing activities	-	(5,082)	(5,082)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest and dividends	-	1,790	1,790
Net cash provided by investing activities	-	1,790	1,790
Net decrease in cash and short term investments	(36)	(776,191)	(776,227)
Cash and short term investments - beginning of the year	36	2,214,513	2,214,549
Cash and short term investments - end of the year	$ -	$ 1,438,322	$ 1,438,322
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating income	$ (29,912)	$ (2,443,590)	$ (2,473,502)
Adjustments to reconcile operating income to net cash used in operating activities:			
Depreciation expense	4,891	305,924	310,815
Change in assets and liabilities:			
Receivables, net	1,038	(242,460)	(241,422)
Inventories	34,379	35,928	70,307
Vouchers payable	34,693	606	35,299
Accrued payroll	(68)	1,603	1,535
Other liabilities	13,870	66,145	80,015
Net cash used in operating activities	$ 58,891	$ (2,275,844)	$ (2,216,953)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

CITY OF NORFOLK, VIRGINIA
Schedule of Expenditures of Federal Awards — Schedule I
For the Year Ended June 30, 2010

Federal Granting Agency/Recipient Recipient State Agency/Grant program	CFDA Number	Federal Expenditures	ARRA Expenditures
Department of Agriculture:			
Direct Payments:			
USDA Summer Food Service Program (SFSP)	10.559	289,621	
Food Stamp Program - Administration	10.561	4,834,783	
Pass-through Payments:			
State Department of Agriculture:			
National School Breakfast Program	10.553	2,642,075	
National School Lunch Program	10.555	8,314,567	
National School Lunch Program (Commodities)	10.556	871,024	
Department of Housing and Urban Development:			
Direct Payments:			
Community Development Block Grant	14.218	5,008,166	
ESG Administration	14.231	22,998	
For Kids, Inc. Haven Family Services	14.231	63,962	
ESG Planning Council	14.231	26,391	
Salvation Army	14.231	26,424	
Ecumenical Family Shelter	14.231	10,924	
St Columbia Ecumenical	14.231	29,692	
YWCA Shelter Program	14.231	36,977	
YWCA Women in Crisis	14.231	29,760	
Supportive Housing Program	14.235	406,016	
Shelter Plus Care Program	14.238	376,748	
HOME CHDO Investment Plan	14.239	100,046	
HOME CHDO Operating	14.239	16,697	
Home Investment Program	14.239	40,922	
Virginia Supportive Housing	14.239	360,000	
HOME - Homeowner's Rehab	14.239	100,419	
NRHA - Homebuyer Assistance	14.239	719,829	
HOME NRHA Administration	14.239	235,429	
Equity Secure - Rehabilitation	14.239	76,417	
ARRA - CDBG R	14.253		86,875
ARRA - Homeless Prevention	14.257		547,968
Pass-Through Payments:			
Neighborhood Stabilization	14.228	397,024	
Department of Justice:			
Direct Payments:			
Community Oriented Policing Services:			
Juvenile Accountability Block Grant	16.523	14,908	
Edward Byrne Memorial Grant	16.523	129,839	
Bulletproof Vests Grant	16.607	7,103	
Asset Forfeiture - Special Police Grant	16.700	203,695	
COPS	16.710	218,335	
ARRA - COPS Hiring Program	16.710		195,016
ARRA - Justice Assistance Grant	16.804		292,584
Pass-Through Payments:			
Department of Criminal Justice Services:			
Juvenile Accountability Block Grant	16.523	38,513	
VSTOP Prosecutorial Project	16.540	43,955	
Evening Reporting	16.540	8,845	
Recruit and Retain Criminal Jus Prof	16.579	14,269	
Crime and Delinquency Prevention	16.579	43,665	
Truancy Prevention	16.579	24,578	
Project Safe Neighborhoods	16.609	12,856	

CITY OF NORFOLK, VIRGINIA
Schedule of Expenditures of Federal Awards — Schedule I
For the Year Ended June 30, 2010

Federal Granting Agency/Recipient Recipient State Agency/Grant program	CFDA Number	Federal Expenditures	ARRA Expenditures
Department of Labor:			
Direct Payments:			
VETS - Homeless Veterans Program	17.805	5,072	
ARRA - Workforce Investment Act - Youth Activities	17.259		650,615
Department of Transportation:			
Direct Payments:			
ARRA - Norview Ave Bridge	20.205		889
ARRA - Citywide Repaving	20.205		2,705
Pass-Through Payments:			
Virginia Schooner	20.801	481,000	
Selective Enforcement	20.511	23,560	
Enviornmental Protection Agency:			
Pass-Through Payments:			
Virginia Resources Authority - Revolving Loan	66.458	1,089,635	
Department of Homeland Security			
Direct Payments:			
Bomb Squad Initiative	97.004	165,121	
FEMA - Assistance to Firefighters	97.044	151,117	
Port Security Grant	97.056	140,623	
Pass-Through Payments:			
Law Enforcement Terrorism Prevention	97.004	216,035	
FEMA Flood Mitigation	97.029	279	
Metropolitan Medical Response System	97.071	124,936	
Homeland Security Grant	97.073	17,004	
Buffer Zone	97.078	6,844	
Department of Education:			
Direct Payments:			
School Assistance in Federally Affected Areas	84.041	4,631,248	
Pass-Through Payments:			
Department of Education:			
Education Consolidation and Improvement Act of 1981:			
Adult Literacy	84.002	308,827	
Title I:			
Educationally Deprived Children- Programs Operated by LEA's	84.010	12,751,410	
ARRA - Title 1 Part A Entitlements	84.389		4,911,349
Title 1 Distinguished School - Ocean View	84.010	7,753	
Chapter I:			
Evenstart Program	84.213	328,783	
Title IV:			
Negligent Delinquent Children	84.010	174,698	
Program for Neglected Children	84.013	67,181	
ARRA - Neglected, Delinquent or At-Risk	84.389		34,937
Elementary and Secondary Education Act (ESEA):			
Title VI-B:			
Assistance to States for Education of Handicapped Children:			
Special Education Flow Thru (Federal)	84.027	7,486,943	
ARRA - IDEA Part B, Flow Through	84.391		2,149,300
Handicapped Preschool Incentive Grant	84.173	546,473	
ARRA - IDEA Part B Preschool	84.392		34,478
Title IV-B:			
Vocational Education:			
Consumer and Homemaking	84.048	935,050	
Substitute Teachers	84.048	80	
Innovative Educational Programs	84.298	19,626	

CITY OF NORFOLK, VIRGINIA
Schedule of Expenditures of Federal Awards — Schedule I
For the Year Ended June 30, 2010

Federal Granting Agency/Recipient Recipient State Agency/Grant program	CFDA Number	Federal Expenditures	ARRA Expenditures
Department of Education (continued):			
Special Projects:			
Drug Free Act	84.186	242,674	
McKinney Homeless Assistance	84.196	48,554	
Enhancing Education with Tech Phase II	84.318	254,111	
Enhancing Education with Tech	84.318	182,032	
ARRA - Enhancing Education through tech	84.386		313,073
21st Century Community Learning Center	84.287	211,316	
Reading First	84.357	336,787	
Early Reading First	84.359	421,106	
Limited English	84.365	47,436	
State Council of Higher Education	84.367	57,568	
Teacher & Principal Training	84.367	2,335,789	
Enhanced Reading Opportunity	84.215	1,053,603	
ARRA - Grants for Infants and Families	84.393		188,143
ARRA - State Fiscal Stabilization Fund (Sheriff's Office)	84.397		11,355,005
ARRA - State Fiscal Stabilization Fund (Norfolk Public Schools)	84.394		19,201,104
Dept of Mental Health, Mental Retardation and Substance Abuse			
Mental Retardation Early Intervention	84.181	370,316	
Special Projects:			
ARRA Equipment Assistance, Child Nutrition	10.579		35,393
Fruit and Vegetable Program	10.582	185,539	
Shoreline Restoration Project	11.457	68,803	
Istation Pilot Program	84.010	13,000	
Vmath Pilot Program	84.010	5,937	
Department of Energy			
Direct Payments:			
ARRA - Energy Efficiency and Conservation Block Grant	81.128		118,885
Department of the Navy:			
Direct Payments:			
USS Wisconsin Grant	12.700	43,500	
Pass-Through Payments:			
Navy Junior ROTC	12.000	347,306	
ERATE - Universal Service Funds	12.000	563,599	
Medicaid - Special Education	12.000	627,097	
Federal Emergency Management Agency			
Direct Payments:			
Disaster Grants - Public Assistance	97.036	63,617	
Noreaster Disaster Assisance	97.036	2,489,635	
Department of Health and Human Services:			
Direct Payments:			
HIV/AIDS Grant	93.914	6,119,174	
Minority AIDS Initiative	93.914	375,061	
NIC Pool Funds	99.000	354,124	
Pass-Through Payments:			
Projects for Assistance in Transition to Homeless (PATH)	93.150	89,793	
Mental Health VASIP / COSIG	93.243	875	
Youth & Family Services Grant	93.556	196,513	
Temporary Assistance to Needy Families	93.558	4,100,912	
Refugee and Entrant Assistance State Administered Prog	93.566	12,358	
Local-Income Home Energy Assistance	93.568	228,608	
Payments to States for Child Care Assistance	93.575	2,208,643	
Child Development Care	93.596	2,423,200	
Independent Living Program - Education and Training	93.599	22,431	
Adoption Incentive Program	93.603	8,317	
Family Preservation	93.645	13,326	

CITY OF NORFOLK, VIRGINIA
Schedule of Expenditures of Federal Awards — Schedule I
For the Year Ended June 30, 2010

Federal Granting Agency/Recipient Recipient State Agency/Grant program	CFDA Number	Federal Expenditures	ARRA Expenditures
Department of Health and Human Services (continued):			
Foster Care - Title IV - E	93.658	2,219,937	
ARRA - Foster Care Title IV-E	93.658		127,709
Adoptive Assistance	93.659	797,139	
ARRA - Adoptive Assistance	93.659		84,064
Social Services Block Grant	93.667	1,250,534	
Independent Living Initiative Program	93.674	73,945	
ARRA - Child Care and Development Block Grant	93.713		1,065,365
FAMIS Outreach Grants	93.767	211,259	
Medical Assistance Program - Administrative	93.778	2,737,126	
Mental Health Federal Block Grant	93.958	136,278	
Substance Abuse Federal Black Grant	93.959	1,837,667	
MHS Emergency Fund	93.889	875	
Other Federal Assistance:			
Sheriff Social Security	N/A	14,400	
Totals		90,878,590	41,395,457

CITY OF NORFOLK, VIRGINIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2010

1. General

The accompanying schedule of expenditures of federal awards presents the activity of all federal awards of the City. The City of Norfolk single audit reporting entity includes the primary government and the School Board and Community Services Board component units.

Federal awards not received through direct programs are passed through the departments and agencies of the Commonwealth of Virginia.

2. Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting. Expenditures are recorded when the liability is incurred or measurable. The related revenue is reported net of unexpended amounts returned to grantors.

3. Relationship to the Basic Financial Statements

Federal award revenue is reported in the City's basic financial statements as follows:

Major governmental funds		$ 34,133,477
Non-major governmental funds		18,412,074
Total revenues from federal government		52,545,551
Component Unit - School Board		
Total Federal Grants Awarded	71,018,311	
Direct Payments:		
Navy Junior ROTC	347,306	
Erate - Universal Service Funds	563,599	
Medicaid	627,097	
Total - Norfolk Public Schools		72,556,313
Component Unit - Community Services Board		3,406,711
Total federal financial assistance reported in basic financial statements		$ 128,508,575
Federal awards not reported as revenue in basic financial statements		
Enterprise - VRA Loan - WasteWater Fund		1,089,635
Noreaster Disaster Assistance estimated reimbursement due from federal government		2,324,059
CSA Pool - Medicaid Adjustment		354,124
Other reconciling items		(2,346)
Total federal awards		$ 132,274,047

Reconciliation to Exhibit A-3

Revenues from federal government	$ 52,545,551
Revenues from Commonwealth of Virginia	100,073,377
Total intergovernmental revenue	$ 152,618,928

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. Sub-recipients

Federal funds passed through to subrecipients for the year ended June 30, 2010 were as follows:

Federal Granting Agency / Grant Program / Subrecipient	Amount	
Department of Housing and Urban Development		
Community Development Block Grant:		
St Columbia Ecumenical Ministries	$ 50,979	
Foodbank of Southeastern Virginia	38,042	
The Planning Council	53,055	
The Salvation Army	82,416	
YMCA of South Hampton Roads	44,330	
William A Hunton YMCA	31,099	
Tidewater AIDS Community Task Force	22,950	
ACCESS	43,074	
Oakmont Community Development	20,000	
Ecumenical Family Shelter	18,000	
Virginia Supportive Housing	18,416	
For KIDS, Inc.	50,000	
Habitat for Humanity	2,088	
Second Chances	62,267	
American Red Cross	40,000	
National Institute for Learning Development	11,208	
International Black Women's Congress	41,818	
Urban League of Hampton Roads	22,822	
Child and Family Services of Eastern Virginia	30,578	
Community Mediation Center	5,283	
The STOP Organization	200,394	
Barrett Haven	29,889	
NRHA	3,590,705	
Total Community Development Block Grant		$ 4,509,413
ARRA - Homeless Prevention		
Access AIDS / Candii	29,247	
For KIDS, Inc	36,691	
The Planning Council	14,694	
Total ARRA - Homeless Prevention		80,632
Emergency Shelter Grant Program		
Ecumenical Family Shelter	10,924	
For KIDS, Inc	90,353	
Salvation Army	26,424	
St. Columbia	29,692	
The Planning Council	36,977	
YWCA of South Hampton Roads	29,760	
Total Emergency Shelter Grant Program		224,130
Total Department of Housing and Urban Development		**$ 4,814,175**
Department of Health and Human Services		
Temporary Assistance for Needy Families		
Goodwill	136,990	
Norfolk Community Services Board	71,826	
Total Temporary Assistance for Needy Families		208,816

Adoptive Assistance			
Catholic Charities	1,068		
Total Catholic Charities			1,068
Payments to States for Child Care Assistance			
The Planning Council	524,260		
Total Payments to States for Child Care Assistance			524,260
Child Care and Development Block Grant			
The Planning Council	29,369		
Total Child Care and Development Block Grant			29,369
Social Services Block Grant			
Community Personal Care Inc.	11,913		
Labor of Love Total Healthcare, Inc	29,196		
Senior Services of Southeastern Virginia	482,531		
Total Social Services Block Grant			523,640
HIV/AIDS Grant			
Bayview Pharmacy	184,733		
EVMS - Center for Comprehenive Care Of Immune Deficiency	1,047,988		
Community Psycological Group	118,547		
ACCESS	632,535		
Hampton / Newport News CSB	5,007		
Health and Home Support Services	141,904		
International Black Womens Congress	100,368		
Norfolk Community Health Center	263,462		
Norfolk Community Services Board	110,957		
Peninsula Institute of Community Health	432,183		
Portsmouth Community Health Center	275,427		
Tidewater AIDS Community Task Force	625,046		
Urban League of Hampton Roads	67,721		
Virginia Beach Department of Health	66,482		
Williamsburg AIDS Network	16,943		
Total HIV/AIDS Grant			4,089,303
Total Department of Health and Human Services		**$**	**5,376,456**
Total Payment to Sub-Recipients		**$**	**10,190,631**

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, 2010

	Budget	Actual	Positive (Negative) Variance
Revenues:			
Use of money and property	$ -	$ 2,066	$ 2,066
Charges for services	1,741,500	1,612,421	(129,079)
Miscellaneous	206,000	53,855	(152,145)
Total revenue	$ 1,947,500	$ 1,668,342	$ (279,158)
Expenditures:			
Towing recovery	$ 1,947,500	$ 1,670,190	$ 277,310
Total expenditures	$ 1,947,500	$ 1,670,190	$ 277,310

Schedule of Revenues and Expenditures - Budget and Actual
Storm Water Utility Fund
For the Year Ended June 30, 2010

	Budget	Actual	Positive (Negative) Variance
Revenues:			
Use of money and property	$ 10,000	$ 15,452	$ 5,452
Charges for services	11,150,300	$ 11,057,966	(92,334)
Intergovernmental - federal	-	$ 3,080	3,080
Total revenue	$ 11,160,300	$ 11,076,498	$ (83,802)
Expenditures:			
Storm water	$ 8,859,031	$ 8,317,976	$ 541,055
Transfer out	2,301,269	2,301,268	1
Total expenditures	$ 11,160,300	$ 10,619,244	$ 541,056

CITY OF NORFOLK, VIRGINIA

Exhibit J-1

Schedule of Revenues and Expenditures - Budget and Actual
Nauticus Fund
For the Year Ended June 30, 2010

	Budget	Actual	Positive (Negative) Variance
Revenues:			
Charges for services	$ 2,491,028	$ 1,471,285	$ (1,019,743)
Use of money and property	220,000	45,840	(174,160)
Intergovernmental - federal	-	43,500	43,500
Miscellaneous	30,000	65,289	35,289
Transfer in	2,437,772	2,437,772	-
Total revenue	$ 5,178,800	$ 4,063,686	$ (1,115,114)
Expenditures:			
Operations	$ 5,178,800	$ 4,260,990	$ 917,810

Schedule of Revenues and Expenditures - Budget and Actual
Maritime Facility Fund
For the Year Ended June 30, 2010

	Budget	Actual	Positive (Negative) Variance
Revenues:			
Charges for services	$ 750,800	$ 692,565	$ (58,235)
Use of money and property	610,200	236,521	(373,679)
Transfer in	1,752,100	1,277,140	(474,960)
Total revenue	$ 3,113,100	$ 2,206,226	$ (906,874)
Expenditures:			
Operations	$ 1,260,406	$ 945,958	$ 314,448
Transfer out	-	46,303	
Debt service	1,852,694	661,226	1,191,468
Total expenditures	$ 3,113,100	$ 1,653,487	$ 1,505,916

Exhibit J-1

CITY OF NORFOLK, VIRGINIA

Schedule of Revenues and Expenditures - Budget and Actual
Golf Fund
For the Year Ended June 30, 2010

	Budget	Actual	Positive (Negative) Variance
Revenues:			
Use of money and property	$ 80,000	$ 102,183	$ 22,183
Charges for services	1,417,600	1,067,626	(349,974)
Transfer in	-	250,253	250,253
Total revenue	$ 1,497,600	$ 1,420,062	$ (77,538)
Expenditures:			
Operations	$ 1,497,600	$ 1,395,428	$ 102,172
Total expenditures	$ 1,497,600	$ 1,395,428	$ 102,172

Schedule of Revenues and Expenditures - Budget and Actual
Emergency Operations Fund (EOC 911)
For the Year Ended June 30, 2010

	Budget	Actual	Positive (Negative) Variance
Revenues:			
Other local taxes	$ 3,571,596	$ 3,571,596	$ -
Charges for services	1,000	2,848	1,848
Recovered cost	1,401,849	1,297,417	(104,432)
Intergovernmental - federal	63,588	63,617	29
Rollover from last year	200,000	200,000	-
Transfer in	1,627,767	1,627,767	-
Total revenue	$ 6,865,800	$ 6,763,245	$ (102,555)
Expenditures:			
Operations	$ 6,855,800	$ 7,097,034	$ (241,234)

Exhibit J-1

CITY OF NORFOLK, VIRGINIA

Schedule of Revenues and Expenditures - Budget and Actual
Cemeteries Fund
For the Year Ended June 30, 2010

	Budget	Actual	Positive (Negative) Variance
Revenues:			
Charges for services	$ 1,417,847	$ 1,204,367	$ (213,480)
Intergovernmental - federal	-	16,938	(16,938)
Transfer in	970,753	976,333	5,580
Total revenue	$ 2,388,600	$ 2,197,638	$ (224,838)
Expenditures:			
Operations	$ 2,388,600	$ 2,025,546	$ 363,054

Schedule of Revenues and Expenditures - Budget and Actual
Public Amenities Fund
For the Year Ended June 30, 2010

	Budget	Actual	Positive (Negative) Variance
Revenues:			
Taxes-Hotel & Restaurant	$ 5,548,000	$ 4,977,516	$ (570,484)
Rollover from last year	4,000	4,000	-
Total revenue	$ 5,552,000	$ 4,981,516	$ (570,484)
Expenditures:			
Transfer out (CIP)	$ 1,000,000	$ 1,000,000	$ -
Transfer out (Debt Service)	575,814	205,750	370,064
Challenge Grants	504,000	504,000	-
All purpose	3,472,186	-	3,472,186
Total expenditures	$ 5,552,000	$ 1,709,750	$ 3,842,250

Exhibit J-1

CITY OF NORFOLK, VIRGINIA

Schedule of Revenues and Expenditures - Budget and Actual
Tax Increment Financing Fund
For the Year Ended June 30, 2010

	Budget	Actual	Positive (Negative) Variance
Revenues:			
Taxes-real property	$ 3,344,300	$ 3,344,300	$ -
Use of money and property	5,000	2	(4,998)
Rollover from last year	3,300,000	3,299,429	(571)
Total revenue	$ 6,649,300	$ 6,643,731	$ (5,569)
Expenditures:			
Debt service	$ 779,322	$ 776,822	$ 2,500
Transfer out	5,869,978	5,866,907	3,071
Total expenditures	$ 6,649,300	$ 6,643,729	$ 5,571

Schedule of Revenues and Expenditures - Budget and Actual
Fleet Internal Service Fund
For the Year Ended June 30, 2010

	Budget	Actual	Positive (Negative) Variance
Revenues:			
Use of money and property	$ 157,082	$ 1,790	$ (155,292)
Charges for services	10,441,967	9,795,440	(646,527)
Other-miscellaneous	116,351	153,105	36,754
Rollover from last year	3,700,000	3,000,000	(700,000)
Total revenue	$ 14,415,400	$ 12,950,335	$ (1,465,065)
Expenditures:			
Fleet	$ 14,415,400	$ 14,404,260	$ 11,140

Schedule of Revenues and Expenditures - Budget and Actual
Storehouse Internal Service Fund
For the Year Ended June 30, 2010

	Budget	Actual *	Positive (Negative) Variance
Revenues:			
Charges for services	$ 614,027	$ 612,425	$ (1,602)
Use of money and property	973	-	(973)
	$ 615,000	$ 612,425	$ (2,575)
Expenditures:			
Storehouse	$ 615,000	$ 691,782	$ (76,782)

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

CITY OF NORFOLK, VA
Capital Improvement Program
Schedule of Expenditures - Budget and Actual
From Inception and for the Year Ended June 30, 2010

	Expenditures				
	Project Budget	Prior Years	Current	Total	Available
Community Development					
Neighborhood Project Development	$ 12,825,000	$ 11,972,477	$ 117,250	$ 12,089,727	$ 735,273
Neighborhood Conservation/Revitalization	69,557,000	49,416,817	8,716,223	58,133,040	11,423,960
Broad Creek Renaissance	12,823,000	9,096,996	1,772,096	10,869,092	1,953,908
Neighborhood Streets Improvements	1,100,000	1,049,107	1,257	1,050,364	49,636
Neighborhood commercial Improvements	9,452,000	6,562,455	367,193	6,929,648	2,522,352
Create Special Service Areas	750,000	-	-	-	750,000
Other	195,000	41,892	29,408	71,300	123,700
Community Development Total	106,702,000	78,139,744	11,003,427	89,143,171	17,558,829
Cultural Facilities					
Attucks Theatre Renovations	190,000	34,011	59,650	93,661	96,339
Scope and Chrysler Hall Improvements	12,315,000	10,498,716	1,501,875	12,000,591	314,409
Chrysler Museum Improvements	3,095,000	1,215,228	375,426	1,590,654	1,504,346
Civic Building Improvements	749,000	80,802	1,203	82,005	666,995
Conference Center	61,720,000	14,565,932	168,601	14,734,533	46,985,467
Harrison Opera House Improvements	405,000	404,091	-	404,091	909
MacArthur Memorial Improvements	1,050,000	47,442	-	47,442	1,002,558
Nauticus/Maritime Center Improvements	2,770,000	2,250,000	500,000	2,750,000	20,000
USS Wisconsin Improvements	6,253,992	1,087,882	318,022	1,405,904	4,848,088
Other	2,438,000	1,935,893	250,841	2,186,734	251,266
Cultural Facilities Total	90,985,992	32,119,997	3,175,618	35,295,615	55,690,377
Economic Development					
Acquire/Dispose/Upgrade City Property	29,363,666	17,875,880	6,040,051	23,915,931	5,447,735
Nauticus/Cruise Terminal Development	38,350,370	38,050,511	-	38,050,511	299,859
Huntersville Redevelopment	1,000,000	70,882	-	70,882	929,118
Wachovia Center Development	5,375,000	22,196	134,864	157,060	5,217,940
Kroc Center Development	4,040,000	2,682,900	1,309,413	3,992,313	47,687
Other	439,630	427,283	-	427,283	12,347
Economic Development Total	78,568,666	59,129,652	7,484,328	66,613,980	11,954,686
General/Other					
Campostella Landfill Closure	1,200,000	1,200,000	(216,598)	983,402	216,598
Beach Erosion Control	11,767,500	9,119,583	911,193	10,030,776	1,736,724
Transfer to Debt Service	-	1,506,838	873,312	2,380,150	(2,380,150)
IFMS Implementation	5,916,804	5,710,010	142,811	5,852,821	63,983
Waterway Dredging Projects	3,935,000	2,005,146	242,809	2,247,955	1,687,045
Conservation and Green Vision Implementat	6,100,000	3,411,779	248,042	3,659,821	2,440,179
Other	1,500,000	136,831	980,185	1,117,016	382,984
General/Other Total	30,419,304	23,090,187	3,181,754	26,271,941	4,147,363
Public Buildings and Facilities					
Fire Station Emergency Generation Program	575,000	453,459	50,989	504,448	70,552
Infrastructure Improvements	1,786,500	1,680,343	20,543	1,700,886	85,614
Annual Roof Maintenance	5,058,000	3,622,242	1,243,288	4,865,530	192,470
Library Facilities - Anchor Branch	10,476,238	10,292,339	-	10,292,339	183,899
Police Precinct Replacement	21,186,984	9,890,474	2,545,100	12,435,574	8,751,410
Courts Replacement and Renovations	58,475,000	6,776,663	6,219,897	12,996,560	45,478,440
Jail Renovations	1,423,500	691,857	21,155	713,012	710,488
Selden Arcade Renovations	9,631,883	7,229,955	1,040,706	8,270,661	1,361,222
City Hall Building Renovations	4,855,000	2,507,796	639,485	3,147,281	1,707,719
Tow Yard Acquisition	1,300,000	-	-	-	1,300,000
Fire Facilities Replacement/Improvements	1,843,000	1,265,189	141,286	1,406,475	436,525
Police Training Facilities	5,350,000	5,182,481	158,271	5,340,752	9,248
Main Library Construction	18,136,000	7,215,368	4,164,178	11,379,546	6,756,454
Design /Construct Government Center Plaza	656,500	-	480,005	480,005	176,495
Other	6,742,000	2,816,755	769,105	3,585,860	3,156,140
Public Buildings and Facilities Total	147,495,605	59,624,921	17,494,008	77,118,929	70,376,676

CITY OF NORFOLK, VA
Capital Improvement Program
Schedule of Expenditures - Budget and Actual
From Inception and for the Year Ended June 30, 2010

	Expenditures				
	Project Budget	Prior Years	Current	Total	Available
Parks/Recreational Facilities					
Zoo Master Plan	24,440,000	18,731,794	5,208,566	23,940,360	499,640
Titustown Recreation Center Improvements	550,000	208,961	-	208,961	341,039
Botanical Gardens	1,514,000	1,480,414	-	1,480,414	33,586
Existing Recreation Center Improvements	9,236,141	6,051,722	1,481,858	7,533,580	1,702,561
Norview Recreation Center	7,949,500	7,446,113	103,309	7,549,422	400,078
Lambert's Point Golf Course	400,000	-	-	-	400,000
Lambert's Point Community & Recreational (	7,417,000	4,740,585	1,693,707	6,434,292	982,708
Harbor Park Improvements	475,000	140,127	47,132	187,259	287,741
Athletic Field Renovations	2,484,000	1,318,352	273,089	1,591,441	892,559
Norfolk Fitness & Wellness Center Renovati	1,673,670	1,578,320	80,571	1,658,891	14,779
Broadcreek & Westside Neighborhood Parks	2,625,709	2,085,960	77,271	2,163,231	462,478
Town Point Park Improvements	11,525,000	11,158,579	301,358	11,459,937	65,063
Martin Luther King Park	123,000	116,020	-	116,020	6,980
Waterside Waterfront Renovations	587,500	122,940	35,169	158,109	429,391
Ingleside Gymnasium	1,936,000	-	9,500	9,500	1,926,500
Other	12,138,038	1,276,374	986,825	2,263,199	9,874,839
Parks/Recreational Facilities Total	85,074,558	56,456,261	10,298,355	66,754,616	18,319,942
Schools					
Blair Middle School Replacement	22,834,000	22,827,704	-	22,827,704	6,296
Norfolk Public School Initiative	5,265,000	5,263,456	-	5,263,456	1,544
Norview Construction	26,878,031	26,876,228	-	26,876,228	1,803
Southside Middle School	2,250,000	-	-	-	2,250,000
High School Athletic Field	1,500,000	1,490,917	2,166	1,493,083	6,917
Coleman Place Elementary Replacement	19,217,641	17,756,341	90,950	17,847,291	1,370,350
Crossroads Elementary Replacement	6,668,525	41,060	360,720	401,780	6,266,745
Other	8,346,824	2,368,450	2,353,887	4,722,337	3,624,487
Schools Total	92,960,021	76,624,156	2,807,723	79,431,879	13,528,142
Storm Water					
Storm Water Quality Improvements	7,170,000	3,952,431	1,289,074	5,241,505	1,928,495
Storm Water Facility Improvements	1,650,000	1,278,373	138,663	1,417,036	232,964
Old Dominion University Master Plan	414,000	403,765	-	403,765	10,235
Drain Line Clean & Slip Lining	697,267	686,018	4,077	690,095	7,172
Neighborhood Flood Reduction	8,566,000	4,829,656	1,356,589	6,186,245	2,379,755
Bulkheading Master Project	2,100,000	1,067,426	124,037	1,191,463	908,537
Other	500,000	4,000	-	4,000	496,000
Storm Water Total	21,097,267	12,221,669	2,912,440	15,134,109	5,963,158
Transportation					
Old Dominion University Master Plan	8,463,600	8,482,864	-	8,482,864	(19,264)
VDOT Urban Support Program	10,250,702	7,536,908	225,800	7,762,708	2,487,994
Bridge Maintenance & Repair Program	16,214,208	9,004,892	1,402,183	10,407,075	5,807,133
Signal & Intersection Enhancements	8,227,500	4,087,310	965,693	5,053,003	3,174,497
Citywide Soundwall Program	5,020,260	2,711,367	1,182,134	3,893,501	1,126,759
Neighborhood Streets Improvements	46,056,286	21,378,137	5,047,701	26,425,838	19,630,448
Atlantic City Development	11,375,000	6,520,495	370,624	6,891,119	4,483,881
Citywide Boat Ramp Improvements	1,944,250	1,923,411	367	1,923,778	20,472
Construct Light Rail	50,707,086	14,330,462	29,750,762	44,081,224	6,625,862
Other	14,623,673	4,724,387	1,907,271	6,631,658	7,992,015
Transportation Total	172,882,565	80,700,233	40,852,535	121,552,768	51,329,797
Grand Total	$ 826,185,978	$ 478,106,820	$ 99,210,188	$ 577,317,008	$ 248,868,970

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

STATISTICAL

SECTION

(Unaudited)

CITY OF NORFOLK, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2010

STATISTICAL SECTION

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

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

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

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

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

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

Sources: Unless otherwise noted, the information in these statistical schedules is from the comprehensive annual financial reports for the relevant years. 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 Nine Fiscal Years
(Amounts in thousands)

	Fiscal Year								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
Governmental activities:									
Invested in capital assets, net of related debt	$ 537,356	$ 470,451	$ 411,993	$ 403,577	$ 391,392	$ 332,988	$ 325,173	$ 252,128	$ 155,954
Restricted	72,938	35,753	55,786	6,788	6,605	6,731	6,890	64,397	120,974
Unrestricted	34,968	72,904	86,959	91,869	96,705	127,479	90,917	63,013	76,365
Subtotal governmental activities net assets	645,262	579,108	554,738	502,234	494,702	467,198	422,980	379,538	353,293
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	237,307	229,693
Restricted	46,861	37,216	36,041	-	-	2,526	2,506	39,306	40,056
Unrestricted	85,619	39,277	20,293	48,563	43,383	34,373	72,387	43,921	63,316
Subtotal business-type activities net assets	261,001	272,292	279,352	285,607	302,581	305,402	316,096	320,534	333,065
Primary government:									
Invested in capital assets, net of related debt	665,877	666,250	635,011	640,621	650,590	601,491	566,376	489,435	385,647
Restricted	119,799	72,969	91,827	6,788	6,605	9,257	9,396	103,703	161,030
Unrestricted	120,587	112,181	107,252	140,432	140,088	161,852	163,304	106,934	139,681
Total primary government net assets	$ 906,263	$ 851,400	$ 834,090	$ 787,841	$ 797,283	$ 772,600	$ 739,076	$ 700,072	$ 686,358

Note:

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

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

	Fiscal Year								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
Program Revenues									
Governmental activities:									
Charges for services									
General government	$ 108	$ 449	$ 551	$ 775	$ 1,230	$ 2,450	$ 2,169	$ 1,800	$ 13,156
Judicial adminstration	10	191	402	498	200	778	931	935	3,501
Public safety	2,410	6,282	6,727	11,608	13,041	2,708	2,307	2,797	5,627
Public works	13,896	16,394	16,829	9,081	10,121	24,181	27,156	26,999	35,451
Health and public assistance	119	159	154	130	134	101	166	134	83
Culture and recreation	1,763	5,907	6,668	7,034	6,198	6,126	6,710	6,232	9,224
Community development	6	7	11	5	1,063	907	760	1,539	2,259
Capital grant contributions	-	-	-	-	-	-	-	16,933	7,175
Operating grants and contributions	93,270	123,596	105,466	116,399	116,827	115,779	112,960	112,419	127,665
Total governmental activities program revenue	111,582	152,985	136,808	145,530	148,814	153,030	153,159	169,788	204,141
Business-type activities:									
Charges for Services									
Water	59,318	63,785	60,964	61,002	74,218	69,816	74,240	74,454	78,983
Wastewater	13,389	14,615	18,633	21,329	22,375	22,314	24,917	23,125	23,815
Parking facilities	18,355	18,574	21,354	21,059	20,911	21,599	20,425	20,048	18,785
Capital grants and contributions	355	254	205	-	78	731	219	504	366
Total business-type activities program revenues	91,417	97,228	101,156	103,390	117,582	114,460	119,801	118,131	121,949
Total primary government program revenues	202,999	250,213	237,964	248,920	266,396	267,490	272,960	287,919	326,090
Expenses									
Governmental activities:									
General government	48,062	83,311	86,081	74,344	94,763	113,279	113,142	111,629	112,874
Judicial adminstration	8,987	10,856	36,635	40,319	42,494	46,944	48,593	52,209	52,020
Public safety	122,252	117,488	99,975	107,531	106,705	111,803	126,609	120,703	130,263
Public works	96,894	103,319	124,833	144,438	109,907	119,176	118,888	134,274	132,176
Health and public assistance	62,062	70,665	77,668	84,173	91,443	93,775	95,234	93,495	91,923
Culture and recreation	46,945	44,758	42,495	46,267	44,933	52,965	56,890	63,438	73,342
Community development	17,218	19,806	10,471	16,974	14,930	14,772	15,345	10,867	15,429
Education	83,883	88,854	90,020	91,865	92,595	97,595	101,095	104,511	101,011
Interest on long-term debt	18,536	18,088	17,461	18,516	19,565	19,618	21,457	23,788	26,014
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	714,914	735,052
Business-type activities:									
Water	53,712	54,382	60,069	60,207	62,009	60,511	64,877	66,990	64,316
Wastewater	11,379	10,963	11,754	11,957	15,448	17,377	18,614	21,227	18,983
Parking facilities	14,298	15,834	16,869	18,640	18,356	18,861	21,539	19,036	20,008
Total business-type activities expenses	79,389	81,179	88,692	90,804	95,813	96,749	105,030	107,253	103,307
Total primary government expenses	592,160	646,385	680,471	715,231	713,148	766,676	802,283	822,167	838,359
Net (Expense) Revenue									
Governmental activities	(401,189)	(412,221)	(454,971)	(478,897)	(468,521)	(516,897)	(544,094)	(545,126)	(530,911)
Business-type activities	12,028	16,049	12,464	12,586	21,769	17,711	14,771	10,878	18,642
Total primary government net expense	$ (389,161)	$ (396,172)	$ (442,507)	$ (466,311)	$ (446,752)	$ (499,186)	$ (529,323)	$ (534,248)	$ (512,269)

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

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

	Fiscal Year								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
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	$ 260,640	$ 256,339
Consumption utility	-	-	-	43,387	43,337	42,586	46,582	44,142	44,053
Sales and use	-	-	-	29,497	30,652	32,402	31,791	29,484	28,249
Restaurant food	-	-	-	26,669	27,277	28,578	28,758	28,079	27,292
Business licenses	-	-	-	22,015	24,412	25,268	26,343	27,692	26,009
Cigarette	-	-	-	6,948	6,819	6,957	7,577	7,333	7,176
Motor vehicle licenses	-	-	-	2,605	3,576	3,529	3,498	4,005	4,308
Franchise,admission, recordation and other miscellaneous local	-	-	-	19,356	21,544	19,800	18,025	17,192	16,528
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	2,789	892
Grants and contributions not restricted to specific programs	60,367	60,472	77,601	68,219	68,133	66,524	69,352	60,513	32,892
Miscellaneous	12,003	7,986	18,504	8,496	15,851	4,845	11,881	9,600	5,637
Gain on disposal of assets	625	4,025	-	-	3,249	65	62	-	-
Capital contributions Norfolk Public Schools	-	-	-	-	-	-	-	-	40,387
Transfers between govermental and business-type activities	8,000	8,500	10,000	10,000	11,868	10,988	10,212	10,215	13,054
Total governmental activities	372,694	385,579	430,603	435,264	481,811	489,393	499,876	501,684	502,816
Business-type activities:									
Interest and investment earnings	941	816	609	864	3,161	2,739	3,046	925	618
Grants and contributions not restricted to specific programs	-	-	-	-	-	333	-	-	148
Unrealized Gain (Loss) on investments	-	25	(640)	-	-	-	-	-	-
Miscellaneous	3,660	2,780	4,624	3,657	3,911	3,554	3,088	2,850	3,432
Gain (Loss) on disposal of assets	415	121	-	(852)	-	(6)	-	-	2,744
Transfers between governmental and business-type activities	(8,000)	(8,500)	(10,000)	(10,000)	(11,868)	(10,988)	(10,212)	(10,215)	(13,054)
Total business-type activities	(2,984)	(4,758)	(5,407)	(6,331)	(4,796)	(4,368)	(4,078)	(6,440)	(6,112)
Total primary governmental activities	369,710	380,821	425,196	428,933	477,015	485,025	495,798	495,244	496,704
Change in Net Assets									
Governmental activities	(28,495)	(26,642)	(24,368)	(43,633)	13,290	(27,504)	(44,218)	(43,442)	(28,095)
Business-type activities	9,044	11,291	7,057	6,255	16,973	13,343	10,693	4,438	12,530
Total Primary Government changes in net assets	$ (19,451)	$ (15,351)	$ (17,311)	$ (37,378)	$ 30,263	$ (14,161)	$ (33,525)	$ (39,004)	$ (15,565)

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)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General fund:										
Reserved	$ 12,142	$ 14,913	$ 8,317	$ 8,152	$ 14,172	$ 16,057	$ 17,223	$ 11,669	$ 7,842	$ 8,296
Unreserved	60,569	53,053	49,789	53,948	54,007	66,619	71,056	56,302	50,784	53,840
Total general fund	72,711	67,966	58,106	62,100	68,179	82,676	88,279	67,971	58,626	62,136
Capital projects fund:										
Reserved	23,294	40,849	51,259	80,034	82,373	20,885	48,894	57,186	50,987	60,696
Unreserved	11,755	1,009	7,200	14,132	3,394	-	15,424	64,504	25,939	86,260
Total capital projects fund	35,049	41,858	58,459	94,166	85,767	20,885	64,318	121,690	76,926	146,956
All Other governmental funds:										
Reserved	19,577	17,177	8,089	10,509	27,161	19,075	20,123	30,716	27,049	34,634
Unreserved	(17,230)	1,254	14,833	14,058	3,992	17,131	24,211	13,987	12,535	14,008
Total Other governmental funds	2,347	18,431	22,922	24,567	31,153	36,206	44,334	44,703	39,584	48,642
Total fund balance, governmental funds	$ 110,107	$ 128,255	$ 139,487	$ 180,833	$ 185,099	$ 139,767	$ 196,931	$ 234,364	$ 175,136	$ 257,734

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

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Revenues:										
General property taxes	$ 153,366	$ 159,512	$ 168,893	$ 178,361	$ 193,293	$ 211,788	$ 235,399	$ 241,290	$ 252,003	$ 257,055
Other local taxes	126,537	127,262	132,847	140,675	150,477	157,616	159,119	162,573	157,927	153,615
Licenses and permits	2,601	2,700	2,973	3,204	3,542	4,088	4,071	4,055	4,012	3,526
Fines and forfeitures	1,684	1,541	1,569	1,627	1,763	1,461	1,605	1,317	1,260	1,164
Use of money and property	11,361	11,247	8,791	8,333	10,232	10,498	11,105	10,560	8,332	6,746
Charges for services	18,745	18,312	29,390	31,342	29,129	32,772	37,071	40,159	40,345	50,540
Miscellaneous	13,681	12,337	24,785	17,339	18,951	33,494	11,691	17,923	12,911	18,080
Recovered costs	14,135	10,008	9,556	12,297	14,188	12,667	8,408	8,622	8,952	9,503
Intergovernmental	122,677	133,332	131,071	160,118	147,045	149,757	156,637	156,862	149,774	152,619
Total Revenue	464,787	476,251	509,875	553,296	568,620	614,141	625,106	643,361	635,516	652,848
Expenditures:										
Current										
General government	50,671	44,126	64,639	76,127	67,434	92,062	102,031	110,974	102,426	97,061
Judicial adminstration	7,987	8,790	9,280	35,603	38,110	41,795	45,173	47,331	50,347	48,726
Public safety	101,523	115,912	123,202	94,979	102,278	105,634	108,565	116,208	118,073	115,488
Public works	36,817	56,124	57,162	80,613	64,497	46,959	49,161	60,370	56,146	59,574
Health and public assistance	56,967	61,601	68,140	76,221	83,451	91,535	93,397	95,159	91,648	89,682
Culture and recreation	46,032	40,849	40,149	40,081	40,290	42,995	46,397	51,071	52,248	51,708
Community development	22,549	16,945	17,673	8,048	12,716	13,552	11,158	10,745	9,899	10,851
Education	80,883	83,883	88,854	90,020	91,865	92,595	97,595	101,095	104,511	101,011
Debt Services:										
Principal retirement	32,065	31,177	32,450	32,731	47,407	37,660	35,872	40,260	48,092	46,052
Interest and other charges	19,056	17,460	15,998	16,820	18,061	18,802	18,917	20,468	23,666	23,782
Intergovernmental	7,807	7,932	8,061	6,140	-	-	-	-	-	-
Capital outlay	27,488	30,516	37,770	45,026	85,144	91,632	94,595	114,007	104,892	99,210
Total Expenditures	489,845	515,315	563,378	602,409	651,253	675,221	702,861	767,688	761,948	743,145
(Deficiency) of revenues (under) expenditures	(25,058)	(39,064)	(53,503)	(49,113)	(82,633)	(61,080)	(77,755)	(124,327)	(126,432)	(90,297)
Other Financing Sources (Uses):										
Proceeds of refunding bonds	-	-	31,123	83,219	30,389	-	15,480	-	16,000	-
Proceeds of capital leases	6,667	2,184	7,503	4,430	4,702	4,828		-	-	-
Proceeds of debt (general obligation bonds and notes)	25,470	56,179	47,695	69,685	70,840	-	121,705	145,663	55,280	156,208
Payment to refunded bonds escrow agent	-	(30,452)	(31,123)	(83,219)	(30,389)	-	(15,480)	-	(16,000)	-
Premium on bonds issued	-	-	-	389	2,259	-	2,070	5,785	1,707	3,633
Miscellaneous	-	-	(2,989)	(7)	-	(122)	66	62	-	-
Proceeds from sale or disposal of fixed assets	12,968	-	4,025	1,062	-	-	-	-	-	-
Operating transfers in	76,514	72,913	78,637	75,587	82,354	97,185	89,254	109,901	105,641	104,007
Operating transfers (out)	(64,718)	(64,913)	(70,137)	(65,587)	(72,354)	(86,142)	(78,176)	(99,653)	(95,425)	(90,953)
Total other financing sources (uses)	56,901	35,911	64,734	85,559	87,801	15,749	134,919	161,758	67,203	172,895
Net change in fund balances	$ 31,843	$ (3,153)	$ 11,231	$ 36,446	$ 5,168	$ (45,331)	$ 57,164	$ 37,431	$ (59,229)	$ 82,598
Debt service as a percentage of noncapital expenditures	11.06%	10.03%	9.22%	8.89%	11.56%	9.67%	9.01%	9.13%	10.40%	9.69%

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

	Fiscal Year								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
Function/Program									
Governmental Activities:									
General government	$ 11,272	$ 43,823	$ 15,945	$ 25,544	$ 24,802	$ 16,614	$ 17,707	$ 16,042	$ 19,736
Judicial adminstration	4,466	4,482	17,960	19,423	19,605	27,904	28,707	23,173	26,461
Public safety	22,128	23,941	12,832	19,822	20,674	8,137	5,244	11,036	7,459
Public works	31,670	34,082	40,783	28,440	30,438	44,769	47,407	48,156	55,542
Health and public assistance	34,127	34,453	36,733	39,064	39,930	42,261	40,567	41,695	62,585
Culture and recreation	6,097	10,225	10,221	9,956	9,603	9,655	10,359	9,148	23,976
Community development	1,822	1,979	2,334	3,281	3,762	3,690	3,168	20,538	7,532
Interest on Long-term debt	-	-	-	-	-	-	-	-	849
Subtotal governmental activities program revenue	111,582	152,985	136,808	145,530	148,814	153,030	153,159	169,788	204,140
Business-type activities:									
Water	59,389	64,039	61,126	61,002	74,277	70,411	74,416	74,958	79,349
Wastewater	13,673	14,615	18,676	21,329	22,394	22,450	24,960	23,125	23,815
Parking facilities	18,355	18,574	21,354	21,059	20,911	21,599	20,425	20,048	18,785
Subtotal business-type activities program revenues	91,417	97,228	101,156	103,390	117,582	114,460	119,801	118,131	121,949
Total primary government program revenues	$ 202,999	$ 250,213	$ 237,964	$ 248,920	$ 266,396	$ 267,490	$ 272,960	$ 287,919	$ 326,089

Note:

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

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
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	11,691	8,408	156,637	625,106
2008	241,290	162,573	4,055	1,317	10,650	40,159	17,923	8,622	156,862	643,451
2009	252,004	157,926	4,012	1,260	8,332	40,345	12,911	8,952	149,774	635,516
2010	257,055	153,615	3,526	1,164	6,746	50,540	18,080	9,503	152,619	652,848
Change 2001-2010	67.6%	21.4%	35.6%	-30.9%	-40.6%	169.6%	32.2%	-32.8%	24.4%	40.5%

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
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
2009	29,484	44,142	27,692	4,005	7,333	28,078	17,192	157,926
2010	28,249	44,053	26,009	4,308	7,176	27,292	16,528	153,615
Change 2001-2010	10.8%	13.0%	41.7%	23.8%	74.1%	45.5%	-4.7%	21.4%

Note:

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

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
2001	8,458,281	1,232,852	232,377	9,923,510	9,923,510
2002	8,882,064	1,273,647	281,182	10,436,893	10,436,893
2003	9,356,760	1,311,951	271,046	10,939,757	10,939,757
2004	10,029,639	1,503,713	281,578	11,814,930	11,814,930
2005	10,960,812	1,569,991	305,154	12,835,957	12,835,957
2006	12,691,527	1,655,021	316,863	14,663,411	14,663,411
2007	15,607,512	1,687,318	324,387	17,619,217	17,619,217
2008	18,401,851	1,983,503	193,287	20,578,641	20,578,641
2009	19,397,795	1,676,811	233,703	21,308,309	21,308,309
2010	19,940,273	1,610,680	226,801	21,777,754	21,777,754

Notes:

1. Real property and personal property includes both general and public service corporations.

2. Other property includes machinery and tools, mobile homes, airplanes and boats.

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

4. 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

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Property tax rate per $100 of assessed value:										
Real property	$ 1.40	$ 1.40	$ 1.40	$ 1.40	$ 1.40	$ 1.35	$ 1.27	$ 1.11	$ 1.11	$ 1.11
Business improvement District	0.18	0.18	0.18	0.18	0.18	0.18	0.18	0.18	0.18	0.16
Personal property	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.25	4.25	4.25
Machinery and tools	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.25	4.25	4.25
Mobile homes	1.40	1.40	1.40	1.40	1.40	1.35	1.27	1.11	1.11	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)	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.50	0.50	0.50
Boats (business)	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Recreational vehicles	2.00	2.00	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Disabled veterans	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
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%	96%
As determined by the Commonwealth's Department of Taxation	90%	88%	88%	86%	65%	76%	76%	93%	N/A	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 2001 through 2010.

3. The most recent Virginia Assessment/Sales ratio study is for 2009

N/A - Not available

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

	2001			2010		
Taxpayer	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.	$ 168,029,700	2	1.99%	$ 250,544,353	1	1.26%
MacArthur Shopping Center LLC (Taubman Co.)	145,782,600	3	1.72%	164,302,700	2	0.82%
Old Dominion University Real Estate Foundation	-	-	-	146,219,200	3	0.73%
Verizon Virginia, Inc.	-	-	-	137,765,205	4	0.69%
Norfolk Southern Corporation	71,776,157	4	0.85%	114,940,468	5	0.58%
Bank of America	64,580,070	6	0.76%	88,003,700	6	0.44%
Ford Motor Company	47,082,850	8	0.56%	82,579,100	7	0.41%
Cox Virginia Telecom	-	-	-	72,055,257	8	0.36%
Military Circle Ltd. Partnership	69,832,800	5	0.83%	66,280,400	9	0.33%
Dominion Tower Ltd. Partnership	47,757,700	7	0.56%	-	-	-
Virginia Natural Gas, Inc.	40,061,470	9	0.47%	61,520,006	10	0.31%
Bell Atlantic Virginia, Inc.	199,879,386	1	2.36%	-	-	-
Norfolk Hotel Assoc. (Marriott)	33,370,600	10	0.39%	-	-	-
Total	$ 888,153,333		10.50%	$ 1,184,210,389		5.94%
Total Assessed Value	$ 8,458,280,938			$ 19,940,273,451		

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
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%
2009	261,535	244,947	93.66%	13,647	258,594	98.88%
2010	258,544	242,289	93.71%	14,429	256,718	99.29%

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							
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	7.10%	0.99
2008	571,138	2,000	-	573,138	2,438	6.29%	0.74
2009	577,936	1,000	-	578,936	2,435	N/A	0.66
2010	688,152	1,812	-	689,964	N/A	N/A	0.51
Business Type Activities							
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	7.07%	0.65
2008	124,092	-	420,819	544,911	2,318	6.62%	0.58
2009	158,227	-	416,746	574,973	2,418	N/A	0.56
2010	199,620	-	409,158	608,778	N/A	N/A	0.55
Total Primary Governmental Activities							
2001	468,445	2,755	357,240	828,440	3,540	3.00%	N/A
2002	460,346	2,297	360,635	823,278	3,524	3.11%	1.10
2003	460,876	1,726	370,855	833,457	3,563	3.25%	1.02
2004	486,242	1,110	365,464	852,816	3,626	3.36%	0.98
2005	512,528	250	382,689	895,467	3,809	3.41%	0.88
2006	475,872	239	374,159	850,270	3,560	3.70%	0.94
2007	576,809	227	364,834	941,870	3,995	3.54%	0.82
2008	695,230	2,000	420,819	1,118,049	4,756	3.23%	0.66
2009	736,163	1,000	416,746	1,153,909	4,853	N/A	0.61
2010	887,772	1,812	409,158	1,298,742	N/A	N/A	0.53

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
2001	468,445	114,528	353,917	9,923,510	234,000	3.57%	1,512
2002	460,346	112,050	348,296	10,436,893	233,600	3.34%	1,491
2003	460,876	99,220	361,656	10,939,757	233,900	3.31%	1,546
2004	486,242	87,636	398,606	11,814,930	235,200	3.37%	1,695
2005	512,528	91,520	421,008	12,835,957	235,071	3.28%	1,791
2006	475,872	93,099	382,773	14,663,411	238,832	2.61%	1,603
2007	576,809	107,311	469,498	17,619,217	235,747	2.66%	1,992
2008	695,230	124,092	571,138	20,578,641	235,092	2.78%	2,429
2009	736,163	158,227	577,936	21,308,309	237,764	2.71%	2,431
2010	887,772	199,620	688,152	21,777,754	N/A	3.16%	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 2010.

N/A - not available

City of Norfolk, Virginia
Debt Capacity Information
Schedule 3
Computation of Direct Bonded Debt
June 30, 2010

Jurisdiction	Net Bonded Debt Outstanding (in thousands)	% Applicable to Government	$ Applicable to Government (in thousands)
Direct:			
City of Norfolk	$ 688,152	100%	$ 688,152

Notes:

1. Enterprise Funds are excluded.

2. There is no overlapping debt because cities in Virginia have jurisdication 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

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total assessed value of real property	$ 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	$ 19,395,789,387	$ 19,940,273,451
Overall debt limitation - 10% of assessed valuation	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	1,939,578,939	1,994,027,345
Net debt applicable to debt limitation	471,745,246	463,645,861	464,176,270	489,541,678	514,905,063	478,467,462	579,224,191	697,450,234	738,173,200	889,556,676
Legal Debt Margin Within 10% Limitation	$ 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	$ 1,201,405,739	$ 1,104,470,669
Net debt percentage of 10% limitation	55.77%	52.20%	49.61%	48.81%	46.98%	37.70%	37.38%	37.90%	38.06%	44.61%

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 Principal	Debt Service Interest	Debt Service Total	Coverage
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
2009	78,020,552	40,807,627	37,212,925	8,050,000	16,411,343	24,461,343	1.52
2010	82,470,020	37,278,349	45,191,671	9,420,000	15,929,680	25,349,680	1.78

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 Principal (3)	Debt Service Interest (3)	Debt Service Total	Coverage
2001	$ 17,246,291	$ 5,706,458	$ 11,539,833	$ 1,285,000	$ 4,357,493	$ 5,642,493	2.05
2002	18,427,725	7,309,883	11,117,842	1,010,000	4,370,126	5,380,126	2.07
2003	18,879,428	7,481,301	11,398,127	1,080,000	4,305,825	5,385,825	2.12
2004	21,614,695	8,503,800	13,110,895	1,155,000	4,232,717	5,387,717	2.43
2005	21,329,936	9,984,289	11,345,647	1,225,000	4,540,463	5,765,463	1.97
2006	21,823,360	9,493,391	12,329,969	1,760,000	4,147,035	5,907,035	2.09
2007	22,348,513	9,359,808	12,988,705	1,825,000	4,628,423	6,453,423	2.01
2008	21,338,661	10,554,971	10,783,690	1,935,000	4,456,598	6,391,598	1.69
2009	20,060,905	10,762,214	9,298,691	2,040,000	4,254,117	6,294,117	1.48
2010	19,039,563	10,741,343	8,298,220	2,370,000	4,084,135	6,454,135	1.29

Notes:

1. Includes operating revenue, plus interest income not capitalized.

2. Includes operating expenses, less depreciation and amortization.

3. Excludes subordinate debt service.

City of Norfolk, Virginia
Debt Capacity Information
Schedule 7
Revenue Bonds Debt Service Coverage
Wastewater 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 Principal	Debt Service Interest	Debt Service Total	Coverage
2010	$ 24,122,430	$ 11,282,865	$ 12,839,565	$ 425,000	$ -	$ 425,000	30.21

Notes:

1. Includes operating revenue, plus interest income not capitalized.

2. Includes operating expenses, less depreciation and amortization.

(UNAUDITED)

City of Norfolk, Virginia
Debt Capacity
Schedule 8
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
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%
2009	47,607,092	1,755,630	22,345,114	86,970	71,794,806	584,533,217	12.28%
2010	45,496,455	1,529,811	22,898,993	4,448	69,929,707	567,371,918	12.33%

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

Year	Population	Personal Income (000's)	Per Capita Personal Income	Civilian Labor Force Estimates	% Unemployed
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	7,874,868	33,371	97,380	4.1
2008	235,092	8,462,734	36,065	101,457	5.3
2009	237,764	N/A	N/A	101,847	8.4
2010	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 2010.

2. Unemployment rate and civilian Labor Force from the Bureau of Labor Statistics 2009. Data not available for FY2010

3. Personal income, per capita personal income and civilian labor force estimates from U.S. Bureau of Economic Analysis. Data not available for 2009 or 2010

4. All data on an average annual calander 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

	Rank	
Employer	2010	2001
U.S. Department of Defense	1	1
Norfolk City School Board	2	2
Sentara Healthcare	3	3
City of Norfolk	4	4
Old Dominion University, Norfolk	5	7
Children's Hospital of the King's Daughters	6	8
Norshipco	7	
Norfok State University	8	10
Medical College of Hampton Roads	9	
Portfolio Recovery Association	10	
United States Postal Service		9
Bank of America		5
Ford Motor Company		6
Total Employment	93,314	89,413

Note:

1. The source of the City's top ten employers is the Virginia Employment Commission.

2. The data for 2010 is the quarter ended March 2010 as that is the most current data available.

3. The source of the City's total employment is the Bureau of Labor Statistics. The 2010 total employment data was not available therefore 2009 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

	Residential Construction			Non-Residential Construction	
Year	Building Permits	Number of Units	Estimated Value (in thousands)	Building Permits	Estimated Value (in thousands)
2001	186	400	35,069	35	62,046
2002	290	462	44,498	53	51,451
2003	277	324	39,979	41	32,262
2004	506	601	75,801	71	14,658
2005	560	1,191	204,391	80	80,316
2006	531	1,058	133,053	60	165,989
2007	389	491	688,476	55	81,396
2008	277	815	101,212	35	102,714
2009	217	543	36,458	38	138,131
2010	193	554	58,800	35	104,922

Notes:
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.

(UNAUDITED)

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

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Goods-Producing Industries:										
Agriculture, forestry, fishing & hunting	***	***	***	***	***	***	***	***	***	***
Mining	***	***	***	***	***	***	***	***	***	***
Construction	6.1	6.3	6.2	5.7	6.1	6.1	6.1	6.2	6.0	4.9
Manufacturing	10.0	9.8	9.8	9.8	9.8	9.6	8.7	7.9	7.3	7.3
Service-Providing Industries:										
Wholesale trade	6.0	5.8	5.3	5.2	5.0	5.0	5.0	5.1	4.6	4.2
Retail trade	14.8	14.7	14.3	14.0	14.2	14.0	14.3	14.6	13.8	13.0
Transportation and warehousing	12.0	11.6	11.0	10.1	9.7	9.9	9.3	9.4	9.5	8.6
Utilities	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	***
Information	4.0	4.1	4.2	4.0	4.2	4.0	3.5	3.7	3.4	2.8
Finance and insurance	7.5	7.4	6.9	6.9	7.1	6.7	6.0	6.6	6.6	5.7
Real estate and rental and leasing	2.9	2.8	2.7	2.8	2.7	2.8	2.9	2.9	2.7	2.7
Professional and technical services	7.1	7.3	8.2	8.1	10.2	10.1	10.2	10.7	11.3	11.6
Management of companies and enterprises	4.0	4.1	4.0	3.8	3.6	3.7	2.7	2.4	2.5	2.2
Administrative, support, and waste services	7.1	7.6	7.7	7.8	7.5	7.5	7.4	7.4	7.6	6.5
Educational services	13.7	14.1	14.4	14.5	14.7	15.2	15.5	15.6	16.4	16.6
Health care and social assistance	17.1	17.8	18.3	18.9	19.2	19.6	20.1	20.6	21.3	20.8
Arts, entertainment and recreation	2.0	2.1	2.1	2.2	2.2	2.3	2.4	2.4	2.4	2.2
Accommodation and food services	10.1	10.3	10.4	10.7	11.1	10.9	11.1	10.6	10.3	10.2
Public administration	15.4	15.5	15.7	15.1	12.3	12.1	12.2	12.1	13.7	14.1
Other services	4.7	4.5	4.1	4.1	4.2	4.3	4.1	4.0	3.9	3.7
Total (adjusted for rounding)	145.4	146.6	146.2	144.4	144.6	144.6	142.4	143.0	144.1	137.1

Note:

1. Labor Market Statistics, Virginia Employment Commission is the source of annual employment averages by industry.

2. All information on an average annual calander year.

3. Asterisks indicate non-disclosable data.

4. This schedule includes data for the ten year period 2000 - 2009 as calendar year 2010 data was not avaliable.

(UNAUDITED)

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

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Function/Program										
Governmental activities:										
General government	488	494	438	396	457	450	477	264	481	438
Judicial administration	30	28	27	25	20	16	17	18	16	14
Public safety										
Police	837	858	857	875	858	839	1,031	887	861	878
Fire	478	485	490	491	507	499	508	508	641	639
Other	81	86	85	84	84	84	-	-	84	83
Public works	367	380	393	389	389	392	379	346	414	440
Health and public assistance	581	579	557	604	513	562	469	598	487	485
Culture and recreational	412	428	479	484	483	406	478	569	558	509
Community development	67	64	64	72	74	70	59	95	75	113
Business-type activities:										
Water	224	235	245	251	279	264	261	290	268	269
Wastewater	70	74	79	84	91	95	96	103	99	95
Parking facility	57	65	68	72	77	78	90	88	89	87
Total full-time equivalent positions	3,692	3,776	3,782	3,827	3,832	3,755	3,865	3,766	4,073	4,050

Notes:

1. Fiscal years 2000 through 2009's average FTE data obtained from City's human resources information system.

(UNAUDITED)

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

	Fiscal Year								
Function/Program	2002	2003	2004	2005	2006	2007	2008	2009	2010
Police:									
Service calls	288,004	274,245	206,644	206,378	191,037	237,451	258,254	242,139	245,336
Arrests	27,199	24,909	25,923	22,799	22,235	22,222	24,050	26,583	28,069
Reports filed	34,587	35,116	34,087	34,167	29,600	31,986	31,220	32,477	31,487
Fire:									
Incidences (fires, EMS)	39,621	41,484	38,509	39,605	40,337	31,266	41,212	39,714	40,234
Highways and Streets:									
Streets resurfacing (miles)	120	115	131	83	77	70	80	66	69
Sanitation:									
Total solid waste collected and disposed (tons)	97,749	101,604	105,079	104,247	99,131	97,143	93,799	92,333	100,480
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	22,974,000	22,666,500
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	21,293,000	21,280,000
Percent of unmetered water	8.33%	8.81%	6.51%	7.95%	7.13%	7.30%	6.95%	7.31%	6.11%
Average daily delivery (gallons in thousands)	68,230	68,000	67,820	67,740	68,090	66,650	66,200	62,900	62,100
Maximum daily pumpage (gallons in thousands)	84,730	81,820	77,960	81,470	83,640	83,600	82,000	79,000	76,400
Minimum daily pumpage (gallons in thousands)	56,800	58,190	59,340	58,410	57,200	56,200	52,200	52,000	52,200

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

	Fiscal Year								
Function/Program	2002	2003	2004	2005	2006	2007	2008	2009	2010
Public Safety:									
Police									
Stations	2	2	2	2	3	3	3	3	3
Fire									
Fire stations	15	15	15	15	14	14	14	14	14
Paramedic units	10	10	10	11	11	11	11	12	12
Transportation and Engineering:									
Streets (lane miles)	2,011	2,006	2,013	2,015	2,183	2,193	2,210	2,193	2,188
Sidewalks (miles)	968	968	968	968	968	968	968	968	968
Bridges	50	50	50	50	50	49	49	49	50
Public Recreation:									
Parks:									
Acreage	587	588	589	590	591	587	586	587	587
Regional parks	1	1	1	1	1	1	1	2	2
Neighborhood parks	121	121	121	121	121	85	85	71	71
Preserves and nature areas	1	1	1	1	1	1	1	1	1
Nature education centers	3	3	3	3	3	1	1	1	1
Playgrounds	45	45	45	45	45	79	123	100	101
Hiking trails (miles)	7	8	9	10	11	1	2	2	2
Recreation:									
Acreage	243	243	243	243	231	860	868	954	957
Recreational and senior centers	24	23	26	22	22	18	19	25	30
Swimming pools	4	4	4	6	6	6	8	6	6
Tennis Courts	143	143	146	152	152	101	134	148	148
Baseball/softball diamonds	36	36	36	36	36	63	99	86	86
Football/soccer fields	18	18	18	18	18	47	65	49	49
Field hockey	4	4	4	4	4	5	5	3	3
Basketball courts	42	42	42	42	42	229	179	204	203
Municipal beaches	3	3	3	3	3	3	3	3	3
Public Services:									
Traffic Engineering:									
Traffic signals	289	291	294	299	299	283	287	284	301
Traffic signs	9,376	9,825	10,021	6,044	7,936	7,363	6,752	4,436	4,272
Street lights	31,594	31,502	31,694	31,721	29,888	30,200	30,583	30,653	30,717
Water Utilities:									
Water fund capital assets (in thousands)	$ 429,567	$ 428,801	$ 429,714	$ 424,948	$ 425,289	$ 431,655	$ 436,488	$ 437,973	$ 442,304
Wastewater fund capital assets (in thousands)	96,175	103,208	110,360	120,685	134,152	147,020	163,068	177,928	183,974
Total water utilities assets (in thousands)	$ 525,742	$ 532,009	$ 540,074	$ 545,633	$ 559,441	$ 578,675	$ 599,556	$ 615,901	$ 626,278
Water customer accounts	63,633	63,885	63,343	64,905	65,548	65,000	65,549	64,433	66,140
Miles of water main in the system	815	817	817	817	825	827	829	832	835
Municipal Golf:									
Golf courses	1	1	1	1	2	3	3	3	3
Convention Center:									
Meeting rooms	4	4	4	7	7	8	8	8	8
Exhibit space (square feet)	58,430	58,430	58,430	58,430	58,430	58,430	58,430	58,430	58,430
Meeting/ballroom space (square feet)	5,230	5,230	5,230	9,700	9,700	9,700	9,700	9,700	9,700
Parking Facilities:									
Parking lots/garages	30	30	28	28	28	21	23	23	26
Parking meters	301	482	579	600	660	718	669	614	584
Stormwater Management:									
Miles of storm sewers	351	351	351	351	351	357	357	357	357
Education:									
High schools	5	5	5	5	5	5	5	5	5
Middle schools	8	8	8	9	9	9	9	9	8
Elementary schools	35	35	35	35	35	35	35	35	35
Other educational facilities	13	13	13	11	11	11	11	9	5

OTHER REPORTS OF INDEPENDENT AUDITORS

COMPLIANCE SECTION

KPMG LLP
Suite 1900
440 Monticello Avenue
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, 2010, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 14, 2011. 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* (the Specifications), issued by the Auditors of Public Accounts of the Commonwealth of Virginia.

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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, 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. However, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency that is described in the accompanying schedule of findings and questioned costs at Finding 2010-1. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

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. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, as described as State Findings 2010-1, 2010-2, and 2010-3 in the accompanying Schedule of Findings and Questioned Costs, Relating to Commonwealth of Virginia, the City did not comply with certain State requirements.

The City's responses 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 14, 2011

KPMG LLP
Suite 1900
440 Monticello Avenue
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, 2010. 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.

As described in item 2010-4 in the accompanying schedule of findings and questioned costs, the City did not comply with the requirements regarding cash management that are applicable to its Safety Partnership and Community Policing (COPS) (CFDA No. 16.710) federal program. Compliance with such requirement is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

As described in items 2010-10, 2010-11, 2010-12 in the accompanying schedule of findings and questioned costs, the City did not comply with the requirements regarding allowable activities/costs, eligibility, and earmarking that are applicable to its Workforce Investment Act – Youth Activities (CFDA No. 17.259) federal program. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraphs, 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, 2010.

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Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the 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 the 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2010-4, 2010-10, 2010-11, and 2010-12 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2010-2, 2010-3, 2010-5, 2010-6, 2010-7, 2010-8, 2010-9, and 2010-13 to be significant deficiencies.

The City's responses 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 the responses.

This report is intended solely for the information and use of management, the City Council, others within the entity, the audit committee of the City Council, 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 14, 2011

CITY OF NORFOLK

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

(1) Summary of Auditors' 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: **2010-1**

(c) Material weaknesses: **None**

(d) Noncompliance, which is material to the financial statements: **None**

(e) Significant deficiencies in internal control over major programs: **Yes – 2010-2, 2010-3, 2010-5, 2010-6, 2010-7, 2010-8, 2010-9, 2010-13. Material weaknesses: Yes – 2010-4, 2010-10, 2010-11, 2010-12**

(f) The type of report issued on compliance for major programs: **Qualified opinion**

(g) Any audit findings, which are required to be reported under Section 510(a) of OMB Circular A-133: Yes – 2010-2 through 2010-13

(h) Major programs:

Special Education Cluster: CFDA Nos. 84.027 and 84.173
Title I Grants to Local Educational Agencies: CFDA Nos. 84.010 and 84.389
State Fiscal Stabilization Fund: CFDA Nos. 84.397 and 84.394
Enhancing Education through Technology Cluster: CFDA Nos. 84.318 and 84.386
Homelessness Prevention and Rapid Re-Housing (HPRP): CFDA No. 14.257
Public Safety Partnership and Community Policing (COPS): CFDA No. 16.710
Temporary Assistance for Needy Families: CFDA No. 93.558
Special Education – Grants for Infants and Families Cluster: CFDA Nos. 84.181 and 84.393
Workforce Investment Act – Youth Activities: CFDA No. 17.259
Community Development Block Program (CDBG): CFDA Nos. 14.218 and 14.253

(i) Dollar threshold used to determine Type A programs: **$3,000,000**

(j) Auditee qualified as low-risk auditee under Section 530 of OMB Circular A-133: **Yes**

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

Finding #2010-1 Fixed Assets

Condition Found

The City finances the majority of the major capital projects for Norfolk Public Schools (Schools). The Schools contract and manage the projects and maintain and use the assets financed in their operations. Historically, the City has recorded the original school buildings in its financial statements and the Schools have recorded renovations and building improvements on their financial statements. In FY 2010, the City and Schools determined that the above funding arrangement, as well as a lack of clarity regarding the

(Continued)

treatment of major renovations, had resulted in certain capital assets primarily associated with two school renovations being recorded by both the City and Schools. The two School renovations were completed over several years and placed in service in FY 2008.

Cause and Effect

Virginia law allows local governments to decide whether school buildings are recorded as capital assets by the school system or the related municipality, especially when school construction is financed with debt. Considering past practice, the City and Schools have agreed that major renovations should be treated similar to original buildings and recorded as capital assets by the City. As a result, the net book value of the 2 renovations were removed from the Schools' books and recorded by the City in FY 2010, eliminating the duplicate balances.

Recommendation

The City code currently in force related to the treatment of school buildings was adopted prior to significant changes to both generally accepted accounting principles and related Virginia law. We recommend that the City review the City code in light of the current accounting rules and state law.

Views of Responsible Officials

Management agrees with this finding. We will review and amend, as appropriate and necessary, current policies and procedures to ensure that the intent of the City code is fulfilled in a manner that is practical and sensible. In addition, we will ensure that any amendments to current policies and procedures will remain in accordance with current accounting rules and Virginia law to ensure the proper financial reporting of school buildings.

(3) Findings and Questioned Costs Related to Federal Awards

Finding# 2010-2: Special Tests and Provisions – Child Support Non-Cooperation

Program, CFDA No. Program Year, Federal Agency:

Temporary Assistance for Needy Families: CFDA No. 93.558, Program Year 2010, U.S. Department of Health and Human Services

Recipient

City of Norfolk.

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 a sample of 50 families tested for child noncooperation, 5 families received additional payments after the City was notified of the individual's noncooperation with DCSE.

(Continued)

Perspective and Questioned Costs

Five out of fifty families selected for testwork received additional payments totaling $1,487. Each family selected for testwork represented the last full monthly payment for assistance. The total amount sampled was $14,503. Because the City is the administrator of these local funds and the State provides payments directly to the individuals, there are no questioned costs to the City in relation to this finding.

Cause and Effect

The requirement to 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

The City should 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. We further recommend that a management review control be implemented to oversee this process.

Views of Responsible Officials

Management concurs with the finding. The Quality Assurance supervisor sends and monitors actions monthly and reviews cases quarterly. Refresher training will be provided in October by the Quality Assistance training team for the staff whose case received an audit finding. Standard Operating Procedures are established. During the year, the City will provide refresher training to ensure all cases referred for DCSE are acted upon in a timely manner. Staff from DCSE will meet with the Eligibility Supervisors in October to discuss operational procedures to ensure timely case actions. The City's management team and unit supervisors will oversee the process. Norfolk establishes claims for overpayments and issues benefits for underpayments when needed.

In the case that resulted in no overpayment, the Eligibility Worker contacted the Regional Consultant and was advised to make the 4/1/10 TANF payment, unless the customer signed a statement indicating she elected not to receive the payment because it would be considered an overpayment upon receipt and subject to repayment. On 9/14/10, the customer signed a statement indicating she did not want to receive the 4/1/10 payment. Therefore, there was no underpayment or overpayment for the case after all the required actions were taken.

Finding# 2010-3: Special Tests and Provisions – Refusal to Work (VIEW)

Program, CFDA No. Program Year, Federal Agency:

Temporary Assistance for Needy Families: CFDA No. 93.558, Program Year 2010, U.S. Department of Health and Human Services

Recipient

City of Norfolk

(Continued)

Criteria

In accordance with 45 CFR section 261.14, the City is required to reduce or terminate assistance to the individual once it has been determined that a recipient receiving assistance refuses to work, subject to any good cause or other exemptions established by the State.

Condition Found

In our sample of 65 Refusal to Work (VIEW) sanctions tested, two individuals received an additional TANF benefit payment after assistance should have been terminated.

Perspective and Questioned Costs

Two sanctions out of 65 in total selected for testwork resulted in an overpayment totaling $702. Each sanction selected for testwork represented the last full monthly payment for assistance. The total amount sampled was $18,714. Because the City is the administrator of these local funds and the State provides payments directly to the individuals, there are no questioned costs to the City in relation to this finding.

Cause and Effect

The requirement to stop benefit payments based on a sanction was not administered in a timely manner, which led to inconsistencies in the process.

Recommendation

The City should implement a process to ensure that all sanctions are stopped in a timely manner and to ensure that all staff are aware of this requirement and how to handle these referrals. We further recommends that a management review control be implemented to oversee this process.

Views of Responsible Officials

Management concurs with the finding. In July 2010, the process for implementing the sanction process was refined to assign notices to a dedicated staff member. The case worker will then process the action in the appropriate system. The City will provide refresher training for staff. Actions will be monitored by management and the unit supervisor.

Finding# 2010-4: Cash Management

Program, CFDA No. Program Year, Federal Agency, Grant Number:

Public Safety Partnership and Community Policing (COPS): CFDA No. 16.710, Program Year: July 1, 2009 through June 30, 2012, U.S. Department of Justice, award (2009RJWX0085)

Recipient

Norfolk Police Department

(Continued)

Criteria

In accordance with 2 CFR 215.22(a), cash advances to a recipient organization shall be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project.

Condition Found

During the program year, the City requested only one $500,000 cash advance, which was deposited on June 9, 2010.

Perspective and Questioned Costs

Total expenditures for this program amounted to $413,351 at June 30, 2009. The cash management provisions of the grant allow for advance payment, but effort should be made to ensure amounts are spent shortly after the advance is received. There are no questioned costs associated with this finding.

Cause and Effect

Management was not aware of this requirement.

Recommendation

We recommend the City implement procedures to ensure that the timing of cash advances are as close to actual disbursements as administratively feasible. In addition, the City is also required to remit any interest income over $250 on federal fund balances on a quarterly basis.

Views of Responsible Officials

Management concurs with the finding. The City subsequently returned the unspent portions of the grant and has made provisions to request future draws on a reimbursement basis. Additional corrective actions are in place to include a more detailed management review to oversee this process.

Finding# 2010-5: Reporting

Program, CFDA No. Program Year, Federal Agency, Grant Number:

Community Development Block Program (CDBG): CFDA Nos. 14.218 and 14.253, Program Year 2010, U.S. Department of Housing and Urban Development (HUD), award (B-09-MC-51-0016)

Recipient

City of Norfolk

Criteria

24 CFR 84.52 authorizes HUD recipients to use the SF-272, Report of Federal Cash Transactions, in order to submit adequate financial information to HUD.

(Continued)

Conditions Found

Of the two SF-272 reports tested, both reports were inaccurately submitted to HUD. Management had originally reported year-to-date gross disbursements as opposed to the required quarterly activity. In addition, the 4th quarter report ending cash on hand was not accurately reported.

Perspective and Questioned Costs

Management review failed to identify these administrative errors. There are no questioned costs associated with this finding as management subsequently resubmitted revised Federal Cash Transactions Reports to HUD for the last three quarters.

Cause and Effect

The errors were caused by data entry error and management oversight, which lead to inaccurate reporting to HUD.

Recommendation

City management should enhance their procedures to review all reporting submissions and ensure that all reports are complete and accurate.

Views of Responsible Officials

Management concurs with the finding. The City subsequently resubmitted revised quarterly financial reports to reflect the proper amounts and additional corrective actions are being put in place to ensure more thorough review and reconciliations are performed prior submission of the reports.

Finding# 2010-6: Reporting

Program, CFDA No. Program Year, Federal Agency, Grant Number:

Homelessness Prevention and Rapid Re-Housing (HPRP): CFDA No. 14.257, Program Year 2010, U.S. Department of Housing and Urban Development (HUD), award (S09-MY-51-002)

Recipient

City of Norfolk

Criteria

Section 1512 of the American Recovery and Reinvestment Act requires quarterly reporting by all grantees. HUD requires all HPRP grantees to report quarterly information in two systems: FederalReporting.gov and eSNAPS.

Conditions Found

We obtained the quarterly eSNAPS Report for 4/1/10 through 6/30/10 and verified that supporting documentation obtained from the subrecipient agencies did not agree to the expenditure amounts reported in the eSNAPS report.

(Continued)

Perspective and Questioned Costs

Payroll expenditures were underreported by approximately $7,000. In addition, the Planning Council's expenditure amounts were erroneously used to represent ForKids' expenditures, which resulted in ForKids' expenditures being underreported by approximately $6,000.

Cause and Effect

The errors were caused by data entry error and management oversight, which lead to inaccurate reporting to HUD.

Recommendation

City management should enhance their procedures to review all reporting submissions and ensure that all reports are complete and accurate.

Views of Responsible Officials

The purpose of the eSNAPS report is to provide actual information related to client events and numbers of persons served. The financial report section to which this audit refers is the section where the HPRP grantee projects costs incurred in the report quarter. It is clear that the actual financial report to HUD is the IDIS submission. However, moving forward, the eSnaps report will be based on only costs reported by subrecipients and not projections. Additionally, management did not historically review the back-up documentation for this section and only confirmed that the numbers were within a reasonable margin of our projected spend rate for these activities for the time period being reported. Management now reviews the supporting documentation for this section of the report.

Finding# 2010-7: Reporting

Program, CFDA No. Program Year, Federal Agency, Grant Number:

Special Education – Grants for Infants and Families Cluster: CFDA Nos. 84.181 and 84.393, Program Year: October 1, 2009 through June 30, 2010, U.S. Department of Education

Recipient

Norfolk Community Services Board, a component unit of the City of Norfolk.

Criteria

The local contract for continuing participation in Part C Contract number 720C-04244-10-20 between the Community Services Board (CSB) and the Virginia Department of Behavioral Health and Developmental Services (DBHDS) stated that the CSB was to complete Part C expenditure reports accurately and completely within specific dates as defined in the contract.

Conditions Found

Upon review of all quarterly expenditure reports submitted to the State, two reports were submitted after the deadline set forth in the Award Notice. In addition to the above, management also submitted a final version with updated expenditures on November 3, 2010.

(Continued)

Perspective and Questioned Costs

The original non-ARRA fourth quarter report as submitted by management was underreported by $19,895. The original fourth quarter ARRA report was over reported by $2,362. There are no questioned costs associated with this finding as management subsequently resubmitted the revised fourth quarter report to the State.

Cause and Effect

The errors were caused by data entry error and management oversight, which lead to inaccurate reporting to the State.

Recommendation

City management should enhance their procedures to review all reporting submissions and ensure that all reports are complete and accurate. In addition, the City should adopt a policy to ensure that all reports are submitted in a timely manner.

Views of Responsible Officials

The Part C Program Supervisor has taken over the reporting responsibilities. All submissions to the State will be copied to the Program Director and Enterprise Controller so that management can monitor reporting timeliness.

Finding# 2010-8: Allowable Activities and Allowable Costs (Non-Payroll)

Program, CFDA No. Program Year, Federal Agency, Grant Number:

Homelessness Prevention and Rapid Re-Housing (HPRP): CFDA No. 14.257, Program Year 2010, U.S. Department of Housing and Urban Development, award (S09-MY-51-002)

Recipients

City of Norfolk

Criteria

According to the Department of Housing and Urban Development (Docket No. Fr-5307-N-01), Federal funds are to be allocable to specific eligible activities as defined in part IV part A of the report. These activities are to be adequately supported.

Condition Found

In our sample of 65 nonpayroll disbursements tested, three disbursements did not initially agree to the supporting documentation for the expenditure. Grant personnel were able to provide appropriate support for the amounts paid upon request.

Perspective and Questioned Costs

The three discrepancies where the documentation did not initially agree amounted to $1,314. The 65 disbursements tested amounted to a total of $83,563. The total population was $476,778. There are no

(Continued)

known questioned costs associated with the finding as the expenses were determined to be allowable costs per subsequent detail obtained from the City. The additional documentation obtained indicated that the total payment received by the vendor was appropriate in each case.

Cause and Effect

These were instances of management oversight.

Recommendation

The City should provide additional training for personnel to ensure that disbursement policies are appropriately followed, which includes ensuring that the payment amount agrees to supporting documentation and that amounts charged to the grant are for allowable activities.

Views of Responsible Officials

We recognize the importance of accurate payments and documentation that aligns with the final payment issued. HPRP cases are fluid cases. Final payment amounts change as move-in dates change, late fees accrue, or utility bills accrue during the case development process.

Over the last few months, we have worked with the landlords, case managers, and internally to reinforce that changes in case assistance payment requests cannot be changed verbally or with documentation that is outstanding. Both case managers and landlords have been educated that although this may slow down the process and require redevelopment o resigning of requests, it is critical to the accuracy of this program.

Internally, we have changed the method we use for the processing of financial assistance files. We moved to a single file management system and increased the number of independent persons (the Administrative Technician and one of the Management Analysts) who review the file after the HPRP administrator has prepared it for payment entry. Also, all of the supporting documentation is double-checked to ensure that payment amounts are accurate and have no conflicts within the file.

Payment requests that have either a conflict in the entered amount and the documentation (typographical errors) or inconsistencies in the supporting documents are rejected and sent back to the HPRP administrator to either correct or send back to the case manager to resubmit.

Finding# 2010-9: Allowable Activities and Allowable Costs (Non-Payroll)

Program, CFDA No. Program Year, Federal Agency, Grant Number:

Special Education – Grants for Infants and Families Cluster: CFDA Nos. 84.181 and 84.393, Program Year: October 1, 2009 through June 30, 2010, U.S. Department of Education

Recipients

Norfolk Community Services Board, a component unit of the City of Norfolk.

Criteria

Federal funds are to be allocable to federal awards under the provisions of 2 CFR part 225.

(Continued)

Condition Found

Two out of the total of forty disbursements selected for testwork related to an event that was not allowable under the terms of the grant.

Perspective and Questioned Costs

The total known questioned costs associated with the two disbursements referenced above amounted to $53.95. In our sample of 40 disbursements, a total of $129,392 was tested. The total population was approximately $558,000.

Cause and Effect

These were instances of management oversight.

Recommendation

The City should provide additional training for personnel to ensure that disbursement policies are appropriately followed, which includes ensuring that the payment amount agrees to supporting documentation and that amounts charged to the grant are for allowable activities.

Views of Responsible Officials

A more comprehensive process for expense review has been instituted to catch any incorrectly posted expenditures before they are reported as grant expenses.

Finding# 2010-10: Allowable Activities and Allowable Costs (Payroll)

Program, CFDA No. Program Year, Federal Agency:

Workforce investment Act – Youth Activities: CFDA No. 17.259, Program Year: May 19, 2009 through March 31, 2010, U. S Department of Labor

Recipient

City of Norfolk

Criteria

Federal funds are to be allocable to federal awards under the provisions of 2 CFR part 225 and these related costs are to be adequately documented and supported.

Condition Found

In our sample of 65 payroll disbursements tested, six individuals received compensation charged against the grant that did not agree to the number of hours that the employee worked for the specified pay period.

Perspective and Questioned Costs

Five individuals of 65 selected for testwork received overpayments totaling $242. One individual selected received an underpayment of $58. Therefore, known questioned costs total $242 in overpayments and $58

(Continued)

in underpayments. The 65 individuals tested amounted to $33,090. Total amount of payroll charged to the grant during the period totaled approximately $647,000.

Cause and Effect

The errors identified were caused by not accurately tracking training hours and employee time worked, mathematically inaccurate timesheets, data entry errors, and subsequent payroll adjustments not being accurately recorded.

Recommendation

The City should strengthen the process and controls to help ensure that temporary employee payroll is processed accurately. The City should consider additional training for supervisors related to appropriately completing the timesheet each pay period.

Views of responsible officials

We agree with the proposed corrective actions. The City recognizes that in the first year of the grant many internal controls could have been enhanced in regards to the personnel that were in boarded in the organization during the Summer Earn and Learn program. To further strengthen the administrative and internal controls over the review of payroll timesheets, mandatory data review sheets on summer youth will be performed and maintained for each payroll run, documentation of this practice will also be available for review. Specifically, to mitigate the occurrences of errors in the future, the City will continue to institute the practice of requiring all department payroll representatives and the Payroll Manager the responsibility for monitoring and recording daily attendance, absences, late arrivals, and training hours to ensure leave records are completed in accordance with the City's payroll procedures.

Finding# 2010-11: Participant Eligibility

Program, CFDA Number, Program Year, Federal Agency:

Workforce investment Act – Youth Activities: CFDA No. 17.259, Program Year: May 19, 2009 through March 31, 2010, U. S Department of Labor

Recipient

City of Norfolk

Criteria

In accordance with 20 CFR section 664.200, a person is eligible to receive services under Youth Activities if they meet the following requirements:

- Is age 14 through 21
- Is a low income individual, as defined in the WIA Section 101(25); and is within one or more of the following categories:
- Deficient in basic literacy skills;
- School dropout;

(Continued)

- Homeless, runaway, or foster child;
- Pregnant or parenting;
- Offender; or
- Is an individual (including a youth with a disability) who required additional assistance to complete an educational program, or to secure and hold employment. (WIA Sec. 101(13).)

Condition Found

Eligibility documentation was not available for 17 out of 65 individuals selected for testwork. For two of these discrepancies, KPMG was able to obtain subsequent documentation, which supported that the individual was eligible for participation in the program at the time of application.

Perspective and Questioned Costs

Fifteen out of 65 participants tested resulted in known questioned costs of approximately $50,000. Our sample of 65 covered approximately $215,000 of payroll costs. The total population of payroll charged to the grant was $650,615.

Cause and Effect

The error is caused by program personnel not appropriately monitoring employee files to ensure that all key data is maintained on file, which can lead to inaccurate determination of eligibility.

Recommendation

The City should strengthen the process and controls to help ensure that employee eligibility files are appropriately maintained. The City should consider periodic file reviews to ensure that necessary data is maintained for program participants.

Views of Responsible Officials

We agree with the proposed corrective action. The City has been able to locate the documentation that supports the eligibility of the 15 individuals identified above by KPMG. The determination of eligibility for these individuals, and all program participants, was made at the beginning of the program in 2009. In order to ensure our compliance with Federal requirements, both Opportunity Inc. (the primary recipient) and the U.S. Department of Labor, reviewed our files during the summer of 2009. Neither agency found any deficiencies in our files. As evidence, the U.S. Department of Labor representative was impressed with our program, and included it in a presentation at “The Recovering America’s Youth Summit” in Chicago, Illinois. The deficiencies noted in this finding are problematic. However, during the period of this Program’s implementation, the Department of Human Resources was displaced from City Hall into another location. At the end of the summer of 2009, staff and all the Department’s files were relocated back to City Hall, after being out of the building for over a year. In the same time, the Department’s files were stored and re-appropriated between two buildings. This may account for the misplacement of some documentation. With the permanent placement of the Department’s files in a secure location, we believe the current internal controls are sufficient to mitigate the misplacement of required documentation.

(Continued)

Complete employee files are required to be maintained so as to ensure evidence of eligibility is readily available for review.

Finding# 2010-12: Earmarking

Program, CFDA Number, Program Year, Federal Agency:

Workforce investment Act – Youth Activities: CFDA No. 17.259, Program Year: May 19, 2009 through March 31, 2010, U. S Department of Labor

Recipient

City of Norfolk

Criteria

In accordance with Federal Regulation 20 CFR 664.320 as well as per the Memorandum of Understanding between the City of Norfolk and Opportunity Inc., 30% of the youth activity funds allocated to the local areas, except for the local area expenditures for administration, must be used to provide services to out-of-school youth.

Condition Found

We tested 25 individuals who participated in the WIA program and noted that the documentation in the personnel folder for three individuals did not support their classification as an out-of-school youth.

Perspective and Questioned Costs

We estimated the error rate of the entire population as 12% (3/25). There were approximately 266 youth participants in the program.

Cause and Effect

A youth participant's classification as an out-of-school youth is determined based on information provided by the youth on their Participant Reporting Form. This error is caused by a personnel data entry error in preparing information to be communicated to Opportunity Inc. The error could inaccurately calculate the earmarking compliance requirement.

Recommendation

The City should strengthen the process and controls to help ensure that participant data is properly tracked and reported to Opportunity Inc. The City should consider periodic file reviews to ensure that reports agree to data maintained in participant files.

Views of Responsible Officials

We agree with the proposed corrective actions. In regards to the classification of employees, these students were verified by the grantee of the funds, Opportunity Inc, and no errors were discovered. Further guidance was also requested, in cases, where a student is working on a GED, this student may have been classified in school, when they should have been classified as out of school.

(Continued)

The City will ensure that employee files referencing this issue will be maintained with a clear determination of this status, this data review and evidence of eligibility will be performed periodically. Policy changes regarding this internal controls and review will be included in the Standard Operating Procedures for the Program in 2011. To add further, periodic reviews of personnel records will be performed during the summer, and documentation of this practice will be available for review upon the completion of the program.

Finding# 2010-13: Allowable Activities and Allowable Costs (Payroll)

Program, CFDA Number, Federal Agency:

Substance Abuse Federal Block Grant: CFDA No. 93.959, U.S. Department of Health and Human Services

Recipient

Norfolk Community Services Board, a component unit of the City of Norfolk

Criteria

Payroll costs charged to the grant are allowed as direct costs as long as the individual provides services to the grant that are specifically allowed under OMB Circular A-87.

Condition Found

An employee of the Norfolk Community Services Board was placed on leave with pay 12 years ago and was not requested to return to work. Her salary and benefits were funded with a combination of federal, state, and local funds, primarily the Substance Abuse Block Grant.

Perspective and Questioned Costs

The total salary and benefits paid over this period amounted to approximately $320,000 with approximately $20,000 of this amount paid in fiscal 2010. The federally funded portion of the 2010 salary and benefits is estimated to be approximately $16,500. The federally funded portion of total salary and benefits is estimated to be approximately $185,000, out of over $11,500,000 of total federal funds over the twelve year period.

Cause and Effect

An investigation of the facts and circumstances surrounding this matter is ongoing. The final results of the investigation are not known. Five employees have been terminated to date as a result of this finding.

Recommendation

We recommend that the Norfolk Community Service Board strengthen the process and controls over the monitoring of payroll expense.

(Continued)

Views of Responsible Officials

In May 2010, the referenced employee's employment status was changed to inactive, payroll payments were ceased, and benefits were terminated. The case was turned over to the City Attorney.

A reporting mechanism for suspected fraud, waste, and abuse has been implemented through the use of a third-party toll-free telephone service that will take information on an anonymous or confidential basis. All current employees of the NSCB have participated in mandatory compliance training, and this has been incorporated into the employee orientation program for new hires.

(4) Findings and Questioned Costs Relating to Commonwealth of Virginia

State Finding 2010-1: 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 interest with the clerk of the governing body annually. In our testwork of 15 individuals selected for testwork, one official did not file the required statement timely and another official failed to file the statement at all. 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 are filed timely for all required officials.

State Finding 2010-2: Terminated Users

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 privileges from all systems when a user leaves the local social services department. In our testwork of five terminated employees, two employees were not terminated from the system immediately. 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 immediately.

State Finding 2010-3: Special Welfare Account

Local agencies are required to credit special welfare deposits accurately and timely to the special welfare account or the dedicated account of the appropriate individual. They are also required to reconcile the special welfare accounts to the treasurer's records on a monthly basis. We noted delays between the dates the City finance department received the deposits and the date the City Treasurer deposited the deposit to the special welfare trust account. We also noted that special welfare accounts are being reconciled every other month, rather than monthly, to the treasurer's records. We recommend that the City implement a control over the identification of the special welfare deposits so they can be timely deposited to the special welfare accounts and we recommend that the City change the frequency of its reconciliation process to a monthly basis.

Financial Statement Findings

Finding #2010-01: Fixed Assets

Name of Contact Person: Darrell Hill, Director of Finance

Corrective Action: Management will review and amend current policies and procedures to ensure that the intent of the City code is fullfilled in a manner that is practical and sensible, as well as ensure any amendments remain in accordance with current accounting rules and Virginial law to ensure proper financial reporting of school buildings.

Federal Award Findings

Finding #20010-02: Special Tests and Provisions – Child Support Non-Cooperation

Name of Contact Person: Anne Odell, Acting Director of Human Services

Corrective Action: The City will provide refresher training to ensure all cases referred for DCSE are acted upon in a timely manner as well as discuss operational procedures to ensure timely case actions. The City's management team and unit supervisors will oversee the process.

Proposed Completion Date: Immediately

Finding #2010-03: Special Tests and Provisions – Refusal to Work (VIEW)

Name of Contact Person: Anne Odell, Acting Director of Human Services

Corrective Action: The City will provide refresher training for staff and actions will be monitored by management.

Proposed Completion Date: Immediately

Finding #2010-04: Cash Management

Name of Contact Person: Bruce Marquis, Chief of Police

Corrective Action: The City has returned the unspent portion of the grant and will request future drawdowns on a reimbursement basis.

Proposed Completion Date: Immediately

Finding #2010-05: Reporting

Name of Contact Person: Darrell Hill, Director of Finance

Corrective Action: The City has resubmitted revised quarterly financial reports to reflect the proper amounts and has implemented an additional level of review and reconciliation before submission of the reports.

Proposed Completion Date: Immediately

Finding #2010-06: Reporting

Name of Contact Person: Sarah Paige Fuller, Director of Office to End Homelessness

Corrective Action: The eSnaps report will no longer include projections but only actual costs reported by subrecipients. The associated supporting documentation will be reviewed by management.

Proposed Completion Date: Immediately

Finding #2010-07: Reporting

Name of Contact Person: Maureen Womack, Community Services Board Director

Corrective Action: Management will begin monitoring the timeliness of report submissions.

Proposed Completion Date: Immediately

Finding #2010-08: Allowable Activities and Allowable Costs (Non-Payroll)

Name of Contact Person: Sarah Paige Fuller, Director of Office to End Homelessness

Corrective Action: Management has changed the method that is used for processing of financial assistance. Now, payment requests that have either a conflict or inconsistencies in comparison to supporting documentation are rejected and sent back to the administrator for correction before being processed.

Proposed Completion Date: Immediately

Finding #2010-09: Allowable Activities and Allowable Costs (Non-Payroll)

Name of Contact Person: Maureen Womack, Community Services Board Director

Corrective Action: A more comprehensive process for expense review has been instituted to identify any incorrectly posted expenditures before they are reported as grant expenses.

Proposed Completion Date: Immediately

Finding #2010-10: Allowable Activities and Allowable Costs (Payroll)

Name of Contact Person: Nancy Olivo, Director of Human Resources

Corrective Action: The City will continue to enforce the requirement by having responsible departments monitor and record daily attendance, absences, late arrivals and training hours to ensure leave records are completed in accordance with the City's policies and procedures. To further strengthen controls over the review of timesheets, mandatory data review sheets will be prepared and reviewed for summer youth workers.

Proposed Completion Date: June 2011

Finding #2010-11: Participant Eligibility

Name of Contact Person: Nancy Olivo, Director of Human Resources

Corrective Action: The City located the documentation that supports the eligiblity for those individuals' whose files were incomplete at the time of testing. The City's Department of Human Resources has returned to its permanent location, which will allow for permanent placement of files.

Proposed Completion Date: Immediately

Finding #2010-12: Earmarking

Name of Contact Person: Nancy Olivo, Director of Human Resources

Corrective Action: The City will ensure that student files include a clear determination of status, any data review being performed and evidence of eligibility will be periodicaly confirmed. Additionally, periodic reviews of personnel records will be performed during the summer.

Proposed Completion Date: June 2011

Finding #2010-13: Allowable Activities and Allowable Costs (Payroll)

Name of Contact Person: Maureen Womack, Community Services Board Director

Corrective Action: A reporting mechanism for suspected fraud, waste and abuse has been implemented through the use of a third-party toll-free telephone service that will allow information to be provided on an anonymous and confidential basis. All current employees of the Norfolk Community Services Board have participated in mandatory compliance training and it has been incorporated into the employee orientation program for new hires.

Proposed Completion Date: Immediately

State Findings

State Finding 2010-01: Conflicts of Interest

Name of Contact Person: Breckenridge R. Daughtrey, City Clerk

Corrective Action: The City will implement a management level control to oversee the process to ensure that statements of economic interest are filed timely.

Proposed Completion Date: Immediately

State Finding 2010-02: Terminated Users

Name of Contact Person: Hap M. Cluff, Director of Information Technology

Corrective Action: The City will implement a management level review control over the access termination process to ensure access is terminated in a timely manner.

Proposed Completion Date: Immediately

State Finding 2010-03: Special Welfare Accounts

Name of Contact Person: Darrell Hill, Director of Finance
Anne Odell, Acting Director of Human Services

Corrective Action: The City has implemented a control over the identification of special welfare deposits so that they can be deposited in a timely manner. The City has also changed the frequency of the reconciliation process from quarterly to monthly.

Proposed Completion Date: Immediately

Financial Statement Findings

Finding #2009-01: Depth of Resources in Finance

Summary of Finding: In the past two year, the City of Norfolk (City) did not complete the year-end financial reporting process within the orginally established time frame. This was partially due to the increase complexity in accounting and reporting standards and partially due to the lack of adequate staff accountants dedicated to ensure accurate and timely financial reporting for certain functional areas.

Corrective Action: Management continues to evaluate both our procedures and resources in all functional areas to ensure accurate and timely financial reporting. Further, we will continue to ensure that the appropriate training is provided and accounting staff is aligned to the functions deemed necessary and beneficial.

Finding #2009-02: Donated Capital Assets

Summary of Finding: The City did not capitalize certain donated land and buildings in the government-wide financial statements with an estimated fair value of approximately $14.7 prior to the audit request. In the past years, the volume and type of parcels conveyed by the housing authority did not have material fair market values; however, the properties conveyed during the recent years were significant and thus should have been recorded in the government-wide financial statements.

Corrective Action: Management has established and implemented procedures and controls to ensure that all donated capital assets are appropriately recorded in the City's financial statements.

Federal Award Findings

Finding #2009-03: Subrecipient Monitoring

Summary of Finding: The City did not perform adequate subrecepient monitoring to review the schedule of federal awards upon receipt of A-133 audit reports from subrecipients of the Community Development Block Grant Program. As a result 3 of 7 subrecepients did not include CDBG in their schedule of expenditures of federal awards.

Corrective Action: Management has implemented procedures to ensure that the financial statements for all Community Development Block Grant subrecipients are reviewed to verify that funding has been properly identified in the subrecipient organization's schedule of expenditures of federal awards.

Finding #2009-04: Subrecipient Monitoring

Summary of Finding: The City did not include the CFDA number in any of its subrecipient agreements for the Temporary Assistance for Needy Families Divison and Food Stamp Program subreciepients.

Corrective Action: The City notified all subrecipients of the associated Catalog of Federal Domestic Assistance number associated with their current agreement with the Department of Human Services. The City has implemented a process to include the CFDA number and percentage of federal funding in future contracts and agreements.

Finding #2009-05: Special Tests and Provisions – Child Support Non-Cooperation

Summary of Finding: The City did not reduce or terminate assistance to the individual after the City was notified of the individual's non-cooperation with the Division of Child Support Enforcement (DSCE). This resulted in known questioned cost of $728.

Corrective Action: The City implemented a process to monitor and manage benefit processing and terminations for all cases. The City has provided refresher training for staff on the proper process to handle referrals.