NORFOLK
Virginia

Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2014

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City of Norfolk, Virginia Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2014

Prepared by:

The Department of Finance

Alice M. Kelly, CPA
Director of Finance

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CITY OF NORFOLK, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2014

TABLE OF CONTENTS

Exhibit		Page
	INTRODUCTORY SECTION:	
	Municipal Officials	
	Organizational Chart	
	Transmittal Letter	
	Certificate of Achievement for Excellence in Financial Reporting	
	FINANCIAL SECTION:	
	Independent Auditors' Report ……..	1
	Management's Discussion and Analysis (Unaudited)……..	4
	Basic Financial Statements:	
	Government-wide Financial Statements:	
1	Statement of Net Position ……	21
2	Statement of Activities ……	22
	Fund Financial Statements:	
	Governmental Funds:	
A-1	Balance Sheet – Governmental Funds ……..	23
A-2	Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position ...……	24
A-3	Statement of Revenues, Expenditures and Changes in Fund Balances……	25
A-4	Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities ……	26
	Proprietary Funds:	
B-1	Statement of Fund Net Position ……	27
B-2	Statement of Revenues, Expenses and Changes in Net Position……	28
B-3	Statement of Cash Flows ……	29
	Fiduciary Funds:	
C-1	Statement of Fiduciary Net Position……	30
C-2	Statement of Changes in Fiduciary Net Position – Pension Trust Fund..……	31
	Component Units:	
D-1	Statement of Net Position……	32
D-2	Statement of Activities ……	33
	Notes to the Basic Financial Statements	34-95

CITY OF NORFOLK, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2014

TABLE OF CONTENTS

Exhibit		Page
	Required Supplementary Information:	
	Schedule of Funding Progress for Pension and Other Post-Employment Benefit (OPEB) Plans (Unaudited)	96
	Schedule of Changes in Net Pension Liability and Related Ratios	97
	Schedule of Contributions	98
	Schedule of Employer's Net Position Liability and Related Ratios	98
	Calculation of Money-Weighted Return	98
	Schedule of Investment Returns	98
E-1	Schedule of Revenue, Budget and Actual – General Fund (Unaudited).....	99
E-2	Schedule of Expenditures, Budget and Actual – General Fund (Unaudited)……	100
	Notes to Required Supplementary Information – Reconciliation of (non-GAAP) Budgetary Basis to GAAP (Unaudited)……..	101
	Other Supplementary Information:	
F-1	Combining Balance Sheet – Nonmajor Governmental Funds……..….....	102
F-2	Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Governmental Funds…….…….	103
G-1	Combining Balance Sheet – Agency Funds.……..……..…..……	104
G-2	Combining Statement of Changes in Assets and Liabilities – Agency Funds…….……..…..…….....	105
H-1	Combining Statement of Net Position – Internal Service Funds……..……	106
H-2	Combining Statement of Revenues, Expenses and Changes in Fund Net Position – Internal Service Funds…….……..…..…….....	107
H-3	Combining Statement of Cash Flows – Internal Service Funds…..…….....	108
I	Schedule of Expenditures of Federal Awards ……..….....	109-111
	Notes to Schedule of Expenditures of Federal Awards……	112-115
J-1	Schedule of Revenues and Expenditures – Budget and Actual - Special Revenue Funds……...……..	116-119
J-2	Schedule of Revenues and Expenditures – Budget and Actual - Internal Service Funds……..…..…..…….....	120
J-3	Schedule of Expenditures – Budget and Actual – Capital Projects Fund……	121-122

CITY OF NORFOLK, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2014

TABLE OF CONTENTS

Table		Page
	STATISTICAL SECTION (Unaudited)	
I	Financial Trends Information…….....	
	Schedule 1 – Net Position by Category	123
	Schedule 2, 2-1 – Changes in Net Position	124-125
	Schedule 3 – Fund Balances – Governmental Funds	126
	Schedule 4 – Changes in Fund Balances, Governmental Funds	127
	Schedule 5 – Program Revenues by Function	128
	Schedule 6 – Total Revenue by Source, Governmental Funds	129
	Schedule 7 – Other Local Tax Revenues by Source, Governmental Funds	129
II	Revenue Capacity Information…….…….….	
	Schedule 1 – Assessed Valuations and Estimated Actual Values of Taxable Property	130
	Schedule 2 – Direct Property Rates	130
	Schedule 3 – Principal Property Taxpayers	131
	Schedule 4 – Property Tax Levy and Collections by Tax Year	132
III	Debt Capacity Information……..…….…..	
	Schedule 1 – Ratios of Outstanding Debt by Type	133
	Schedule 2 – Ratios of General Bonded Debt, Total Assessed Values and Bonded Debt per Capita	134
	Schedule 3 – Computation of Direct Bonded Debt	134
	Schedule 4 – Legal Debt Margin	135
	Schedule 5 – Revenue Bonds Debt Service Coverage, Water Utility Fund	136
	Schedule 6 – Revenue Bonds Debt Service Coverage, Wastewater Utility Fund	136
	Schedule 7 – Ratio of Annual Debt Service Expenditures for General Bonded Debt and Other Debt	137
IV	Demographic and Economic Information…….…….……	
	Schedule 1 – Population Statistics	138
	Schedule 2 – Ten Largest Employers	139
	Schedule 3 – New Construction and Property Values	140
	Schedule 4 – Annual Employment Average by Industry	141
V	Operating Information…...…….……	
	Schedule 1 – Full-Time Equivalent Positions by Function/Program	142
	Schedule 2 – Operating Indicators by Function/Program	143
	Schedule 3 – Capital Assets and Infrastructure Statistics by Function/Program	144
	Schedule 4 – Water System Statistics	145
	Schedule 5 – Wastewater System Statistics	146
	Schedule 6 – Parking System Statistics	147
	OTHER REPORTS OF INDEPENDENT AUDITORS	
	Independent Auditors' 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 Auditing Standards*……..	148
	Independent Auditors' Report on Compliance for Each Major Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*…….	150
	Schedule of Findings and Questioned Costs…….	153

CITY OF NORFOLK, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
June 30, 2014

Municipal Officials

Honorable City Council

President and Mayor	Paul D. Fraim
Vice Mayor	Angelia M. Williams
Member	Alveta V. Green
Member	Andrew A. Protogyrou
Member	Paul R. Riddick
Member	Thomas R. Smigiel
Member	Theresa W. Whibley, M.D.
Member	Barclay C. Winn

City Manager
Marcus D. Jones

Deputy City Manager	Wynter C. Benda
Deputy City Manager	Sabrina Joy-Hogg
Deputy City Manager	Ronald H. Williams, Jr.
City Attorney	Bernard A. Pishko
City Auditor	John H. Sanderlin, Jr.
City Clerk	R. Breckenridge Daughtrey
City Real Estate Assessor	Deborah K. Bunn
City Treasurer	Anthony L. Burfoot
Commissioner of the Revenue	C. Evans Poston, Jr.
Acting Director of Budget & Grant Management	Sabrina Joy-Hogg
Director of Communications and Technology	David Sullivan
Director of Cultural Facilities, Arts & Entertainment	John S. Rhamstine
Director of Finance	Alice M. Kelly
Director of Economic Development	Steven Anderson
Director of Emergency Preparedness & Response	James Redick
Director of Fire & Paramedical Services	Jeffrey Wise
Director of General Services	David S. Freeman
Director of Human Resources	Capri Stanley
Director of Human Services	Stephen Hawks
Director of Libraries	Sonal Rastogi
Director of Maritime Center (Nauticus)	Stephen Kirkland
Director of Planning & Community Development	George Homewood
Director of Recreation, Parks & Open Space	Darrell Crittendon
Director of Public Health	Demetria Lindsay, M.D.
Director of Public Works	John M. Keifer
Director of Utilities	Kristen M. Lentz
Director of Zoological Park	Gregory Bockheim
Police Chief	Michael Goldsmith
Registrar of Voters	Elisa J. Long

CITY OF NORFOLK, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
June 30, 2014

Municipal Officials

JUDICIAL

Fourth Judicial Circuit Court

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

Norfolk General District Courts

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

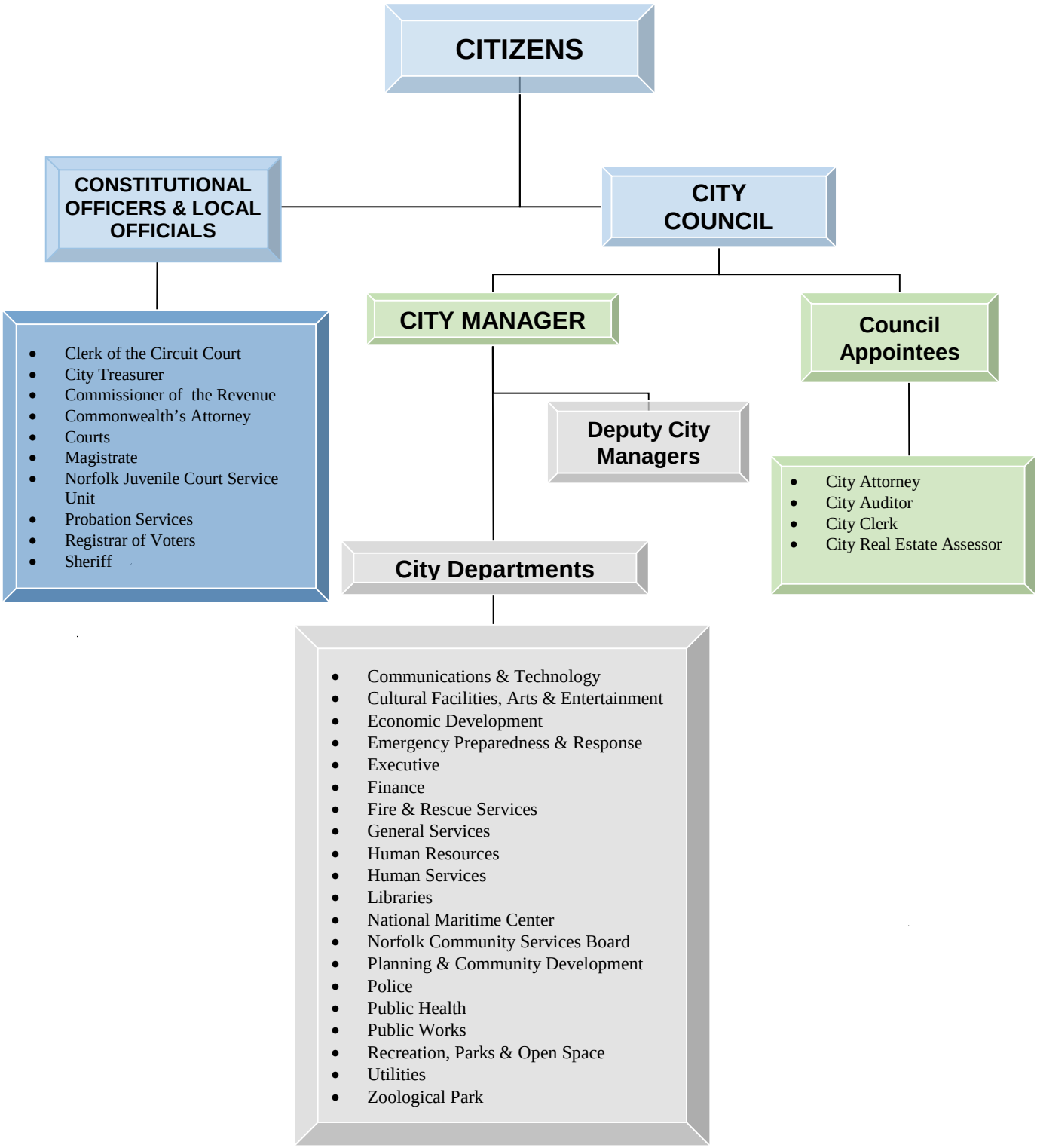
Norfolk Juvenile and Domestic Relations District Court

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

Other Judicial Officials

Commonwealth's Attorney	Gregory D. Underwood
Sheriff	Robert J. McCabe

ORGANIZATIONAL CHART



NORFOLK

Office of the City Manager

January 22, 2015

To the Honorable Council and
Citizens of Norfolk, Virginia:

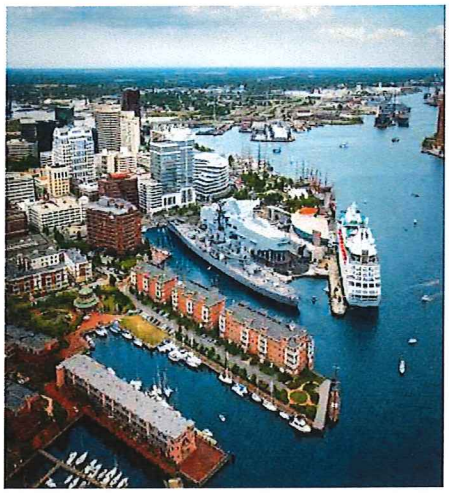
The Comprehensive Annual Financial Report ("CAFR") of the City of Norfolk (the "City") for the fiscal year that ended June 30, 2014, is hereby submitted. At the close of each fiscal year, state law and the City's Charter require the City to publish a complete set of financial statements presented in conformity with U.S. generally accepted accounting principles (GAAP). This report fulfills that requirement.

Management assumes full responsibility for the completeness and reliability of the information presented in this report. The report is based on a comprehensive internal control framework designed 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. The cost of internal controls should not outweigh their benefits; therefore the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement.

KPMG LLP, a firm of licensed certified public accountants, has issued an unmodified opinion on the City's financial statements for the fiscal year ended June 30, 2014. The independent auditors' report is located in the financial section of the CAFR.

Management's Discussion and Analysis ("MD&A") immediately follows the independent auditors' report and provides a narrative introduction, overview and analysis to accompany 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" to meet the special needs of federal grantor agencies. The Single Audit reports on compliance with requirements applicable to each major program and internal controls over compliance in accordance with OMB Circular A-133. 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, educational, and cultural center of southeast Virginia and home to approximately 246,000 residents. Its 66 square miles lie at the mouth of the James, Elizabeth and Nansemond Rivers and the southern shores of the Chesapeake Bay. Norfolk is adjacent to the cities of Chesapeake, Portsmouth and Virginia Beach. The waterways continue to be central to Norfolk's identity and its financial stability. Norfolk is home to a major international port and significant military facilities. The miles of bay, riverfront and lake shore provide ample recreational opportunities and are also the centerpiece of historic neighborhoods.

Norfolk offers a mix of cultural attractions, entertainment and recreational opportunities for residents, workers and visitors. Home to the Virginia Zoo, the Virginia Symphony, the Virginia Opera, the internationally acclaimed Virginia Arts Festival and the Chrysler Museum, Norfolk is the cultural capital of Virginia and the regional hub. Norfolk hosted over 160 diverse outdoor special events on City property in fiscal year 2014, including over 100 community events, 22 major festivals and parades and nearly 30 healthy events focused on running, walking and bike riding. It is estimated that over 400,000 patrons attended these citywide events, with the 38th Norfolk Harborfest and the 29th Grand Illumination Parade drawing the largest crowds.

Profile of the Government and Its Services

Norfolk was established in August 1682 after a 1680 British Act ordered the establishment of a port town of 50 acres in each Virginia county. Norfolk was granted borough status in 1736 and 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. It is authorized to exercise all powers conferred upon the City by the Commonwealth of Virginia in the state constitution, state laws and the charter. The City Council is comprised of eight members. Seven members are elected through a ward system and the Mayor is elected at-large. The Vice Mayor is elected by the City Council.

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 procedures and appoints, with the power to remove, the

heads of departments and other employees of the City except those otherwise specifically covered by statutory provisions. Cities in Virginia have jurisdiction over the entire area within their boundaries and operate independently from a county government. There are no overlapping jurisdictions and, consequently, citizens of Virginia cities are not subject to overlapping debt or taxation. Further, 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, construction and maintenance of public buildings and infrastructure; parks and cemeteries operations and maintenance; recreation and library services; solid waste disposal and recycling; water and wastewater utilities; construction and operation of parking facilities; arts, entertainment and cultural affairs; and general administrative services. The City budget appropriates city, state and federal pass-through funds for education, public health and other programs.

The City is financially accountable for a legally separate school division and the Norfolk City Council currently appoints the board members. The City also has a financial relationship with Waterside Associates Limited Partnership and began providing direct assistance during the fiscal year 2011. Additional information on these component units can be found in Note I of the Notes to the Basic Financial Statements contained within this document.

Budget Process

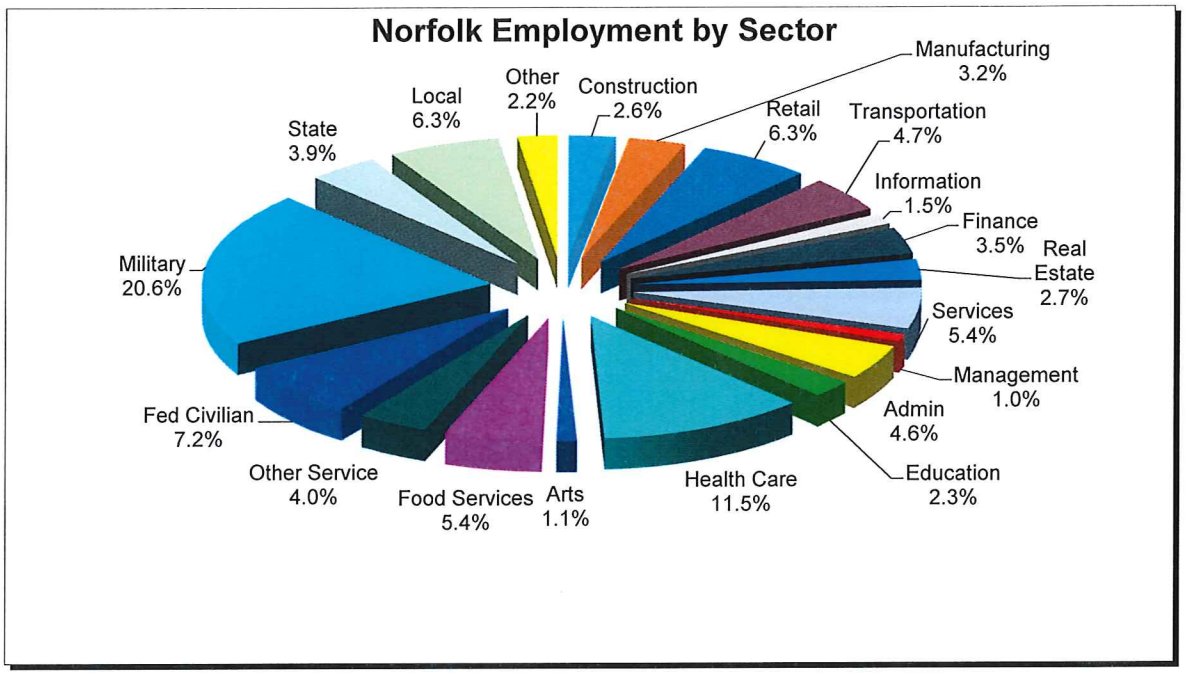
The Commonwealth of Virginia and City Charter mandate a balanced budget. The City's annual operating budget is proposed by the City Manager, in accordance with the City Charter, at least 60 days before the end of each fiscal year, and adopted by City Council at least 30 days before the close of the previous fiscal year. The budget is prepared by fund (e.g., general, special revenue, capital projects), function (e.g., public safety) and department (e.g., police). The City Manager or a designee is authorized to transfer resources between any fund, department or activity without further approval by City Council. The budget is regularly reviewed and operational adjustments are made as needed. The development of the fiscal year 2015 Budget analyzed each budget action through a two-year lens to better assist the City in future fiscal planning.

Local Economy

The economy is growing slowly five years after the Great Recession. The City of Norfolk's unemployment rate (not seasonally adjusted) was 7.1 percent in June 2014, which is below

the prior June rate of 7.5 percent. Through the first six months of calendar year 2014, the average sales price of homes sold in Norfolk fell 1.6 percent, from $190,465 last year to $187,350. Norfolk revenue from sales taxes in fiscal year 2014 increased 2.1 percent or $619,400. However, adjusting for an overpayment in prior years by the Virginia Department of Taxation revenue from sales taxes decreased by 0.9 percent.

The City has a diverse employment base and several core institutions and developments are powerful economic generators that are key to the foundation of the City's economy as described below:



Source: Bureau of Economic Analysis, total full-time and part-time employment by North American Industry Classification System industry, for 2013; Total employment – 205,150

Military

The presence of the military in Norfolk has a significant and stabilizing impact on the local economy. The City is home to the world's largest naval complex, with headquarters for U.S. Fleet Forces Command, Allied Command Transformation (ACT) – NATO, Navy Reserve Forces Command and other major naval commands. According to the most recent data available to the City, the U.S. Navy's direct economic impact on the region was $14.9 billion in fiscal year 2011, and the

region is home port to approximately 87 ships and home to 37 aircraft squadrons. The military assigns to and reassigns from its various locations within the region ships, squadrons and personnel on a regular basis, however the natural deep water harbors and existing infrastructure make future defense consolidation within Norfolk and the region a strong possibility. This is reflected in the November 2014 announcement to consolidate the Military Sealift Command headquarters in Norfolk, transferring over 500 civilian and active duty jobs from Washington, D.C. to Norfolk over the next five years.

Norfolk International Airport

The City hosts the region's international airport, Norfolk International, which was designated as Virginia's first green airport. Served by American, Delta, Southwest, United and US Airways airlines, it has an average of 65 daily departures. The airport generates more than 12,000 local jobs and $1.1 billion in economic activity annually. In calendar year 2013, the airport served nearly 3.1 million passengers, shipped over 58 million pounds of cargo and is presently ranked in the top 20 percent of the country's airports in terms of passengers served annually.

The Port of Virginia and Shipping

The City also serves as a gateway between world commerce centers and the Heartland Corridor of the United States. With one of the world's largest natural deep-water harbors and a temperate climate, the Port of Virginia is an integral part of Norfolk's economy. Located on 648 acres, Norfolk International Terminals (NIT), is the Port of Virginia's largest terminal and one of the largest general cargo ports on the east coast. Over 18.8 million tons of general cargo were shipped from the region's three main marine cargo terminals in 2013, an increase of 7.5 percent over 2012.

The port continues to be attractive to shippers. With containerized cargo expected to triple in the next 20 years, the 300-acre expansion of NIT's north berth doubled its cargo capacity, making it the largest intermodal center in the country and well-suited to meet increased volume demands.

Transportation

Public Transportation

The Tide, Virginia's first light rail system, began operation in August 2011 and has continued to exceed passenger count expectations through fiscal year 2014. The Tide runs from the Eastern Virginia Medical Complex near Fort Norfolk to Newtown Road at the Norfolk/Virginia Beach city line. The City is in the preliminary planning stages of expansion to connect the existing 7.4 mile light rail to the region's largest employer – Norfolk Naval Station.

Amtrak Station

Passenger Rail

The Amtrak Virginia passenger rail line began operation in December 2012 and connects Norfolk to Washington, D.C. via Petersburg and Richmond and continues north to Boston. Ridership for the federal fiscal year 2014 was over 150,000 passengers. This intercity passenger rail service is supported by a new $4 million, 3,500 square foot passenger rail station that opened in December 2013.

Education – pre-K to 12

The City is home to the Governor's Magnet School for the Arts, Virginia's only magnet school for the arts, which offers classes in performing or visual arts to approximately 300 students from six cities and two counties. Sponsored by the Virginia Department of Education and eight local public school divisions, the School consolidated its campus in downtown Norfolk. A $9 million renovation of the historic 52,000 square foot Monroe Building on Granby Street was completed in January 2014 and the consolidated campus now offers classes in performing or visual arts to approximately 360 students.

School construction remains a priority as the City has made a commitment to build or replace five schools. The first school replaced was Crossroads Elementary, which opened in September 2012. The first $0.02 of a $0.04 per $100 of assessed value increase in the real estate tax rate, effective for fiscal year 2014, is dedicated to fund the City's School Construction, Technology, and Infrastructure Program. The City's fiscal year 2014 Capital Improvement Plan includes $121.0 million in support of school capital projects. The other four elementary schools on the School Board's list for replacement are Campostella, Broad Creek, Larchmont, and Ocean View.

Higher Education

The City is home to five institutions of higher education including Old Dominion University, Norfolk State University, Eastern Virginia Medical School, Virginia Wesleyan College and Tidewater Community College. All of these institutions have recently expanded or are continuing their campus expansions. The two university institutional research parks are undergoing innovative initiatives including simulation, materials, spaceport, coastal and physical oceanography, as well as applied collaborative projects with the private sector.

Healthcare

The City's major healthcare complexes provide premier services to all of southeastern Virginia and northeastern North Carolina. Sentara Norfolk General is home to the area's heart hospital which has been in operation since 2005 and is ranked nationally by U.S. News and World Report. Work is well underway on a $126 million renovation of Sentara Leigh Hospital that includes two five-story towers for inpatient rooms, a 48-bed orthopedic and rehabilitation center and a new parking garage. The project, with expected completion in 2016, is designed to increase the hospital's size by 40 percent. A new medical office building is underway for the Bon Secours DePaul medical campus. The $25 million, 105,000 square foot, four-story medical office building will be home to specialists and primary care physician practices. At the core of the facility will be a comprehensive cancer center that will place state-of-the-art technology in the hands of cancer experts, enabling them to address the unique needs of those battling cancer.

New Business Investments

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. Described below are major investments of private investors, City sponsored or public-private projects.

Hotel Development

Norfolk has nearly 5,000 hotel rooms, including over 1,500 in the downtown area. Tourism and conventions employ over 6,700 workers in the City and generate $24.1 million in state taxes and $21.2 million in local tax revenue. Travelers to the City spend over $690 million annually. The Norfolk Waterside Marriott, a 397 room hotel, completed a $4.5 million renovation in October 2013. Construction of the new Hilton Norfolk at The Main and The Exchange conference center is underway. The $126 million public/private downtown project will include a 50,000 square foot conference center, a 23-story hotel with approximately 300 rooms, three restaurants, and a parking garage.

The project, anticipated to be completed in 2017, is expected to create approximately 500 construction jobs, 300 hotel jobs and generate approximately $2 million in annual tax revenue.

Virginia Renaissance Center ("VRC")
The $14 million VRC is being developed by Jacoby Development Group at the site of the former Ford Plant in Campostella. Of the 110 acre site, 40 acres have been sold to Katoen Natie for $12 million as a warehouse and distribution center to repackage and distribute plastic pellets. Katoen Natie exercised its option to develop an adjacent 25 acre site and will expand its operations. In February 2014, The Schaubach Cos. bought the VRC from VRC Ventures for $4.1 million. Three of five parcels comprising nearly 18 acres and a 30,000 square foot building at the property were sold. Currently about 50 acres with access to a 450 foot pier and a Norfolk Southern rail connection are still available.

Wards Corner
Several major retail projects are underway in the Wards Corner area, including an $18 million redevelopment of the 8-acre Suburban Park Shopping Center with a new Harris Teeter flagship store that opened in February 2014. Across the street at Midtown Shopping Center, a $1.2 million facelift includes new storefronts and the demolition of the shopping center overhang. Work was completed in March 2014 on a new $8.5 million performing arts center for Norfolk Collegiate School.

Lake Wright Executive Center
In 2014 WellPoint expanded into the USAA Concourse Building at Lake Wright Executive Center with a $20 million investment adding approximately 1,900 employees.

The Kroc Center
The Kroc Center, an $84 million state of the art community center located in the Broad Creek area opened in April 2014. Norfolk's center is the final of 22 Kroc Centers built across the nation by the Ray and Joan Kroc Foundation and the Salvation Army.

Chrysler Museum of Art ("The Museum")

The Museum, located in the Downtown Arts District, completed a $24 million, 10,000 square foot expansion and renovation in May 2014. To celebrate the grand reopening, the Museum hosted the 40-foot sculpture, "Rubber Duck" by Dutch artist Florentijn Hofman, which floated, in the Hague, in front of the Museum. Drawing an estimated 150,000 visitors, this public art installation was the most successful exhibit in the Museum's history.

The Virginia Zoo

The Virginia Zoological Park completed a new $4.3 million animal wellness center in February 2014. It consists of an 8,000 square foot Veterinary Hospital and 3,000 square foot Nutrition Center. The hospital provides state of the art surgical and treatment suites, and laboratory and pharmacy facilities for zoo animals.

Southside Aquatic Center

The Southside Aquatic Center, a $7.7 million facility, opened in October 2013. The 20,000 square foot facility, located in Campostella, features a 25-yard, six-lane competition pool, as well as two 1-meter diving boards, a two-story twisty tube slide, locker rooms, instructional areas and a handicap-accessible plunge area.

Long-Term Financial Planning

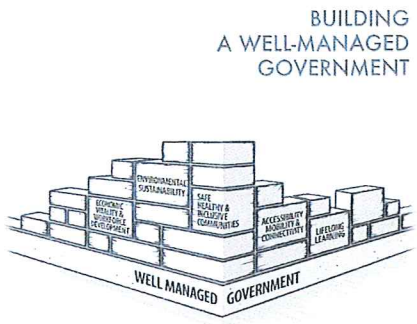
Part of the City's strategic planning process involves the development of a five-year operating budget forecast that projects growth of major tax and fee revenues, as well as major expenditures. That forecast serves as a planning tool for the proposed annual budget the City Manager presents to City Council. In conjunction with the five-year operating budget forecast, the City's self-imposed debt affordability policies guide the development of the five-year Capital Improvement Plan.

Adopted Financial Policies

City Council is committed to strengthening the City's long-term fiscal sustainability and supporting activities of a Well-Managed Government. In fiscal year 2013, City Council adopted financial policies to include achieving a structurally balanced budget within five years, formalizing a plan to fund reserves, adopting self-imposed debt affordability measures and formally adopting financial policies for the Parking Facilities Fund. Furthermore, City Council committed to monitoring the policies annually and revisiting them every two to three years.

In fiscal year 2014, the City was able to develop a structurally balanced budget for fiscal year 2015. The City achieved this goal four years ahead of schedule and will need to continue its five-pronged approach of raising revenue, reducing expenditures, becoming more efficient, growing the economy and sharing services to address budget challenges in the upcoming years.

Major Initiatives



The City of Norfolk's major initiatives support City Council's priorities of accessibility, mobility and connectivity; economic vitality and workforce development; environmental sustainability; lifelong learning; safe, healthy and inclusive communities; and Well-Managed Government.

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

Some of the key 2014 initiatives include:

Rockefeller Foundation Initiatives

The City has been invited to participate in two Rockefeller Foundation initiatives that provide opportunities for Norfolk to engage with stakeholders to envision a future for our city that incorporates both the challenges of living near water and the economic and community building opportunities that solving difficult issues can generate.

The Rockefeller Foundation launched the *100 Resilient Cities Centennial Challenge* in 2013 to enable 100 cities to better address the increasing shocks and stresses of the 21st century. Nearly 400 cities across six continents applied to be among the 100 cities selected to receive technical support and resources to improve their urban resilience over three years. The City was selected as one of the initial 32 cities. *100 Resilient Cities* is dedicated to helping cities become more resilient to the physical, social and economic challenges that are a growing part of the 21st century.

The *RE.invest Initiative* focuses on bridging the gap between planning and investment by bringing together public officials, leading engineering and technology firms, investors and communities to support structured project preparation processes in eight partner cities across the United States and to launch new public-private partnerships to deliver complete portfolios of resilient infrastructure.

Veteran Affairs

The City of Norfolk's veteran initiative is aimed at the 10,000 men and women in the region who transition from active military service to the private sector each year. The assistance effort has focused on workforce development, but also includes easing access to mental health services, collecting and providing information on educational opportunities and affordable housing, and providing financial education and training. Since the initiative began, the City has hired over 170 veterans and as a result is the only municipality in the Commonwealth of Virginia to receive a Virginia Values Veterans (V3) "Gold Level" certification for meeting its commitment to hire and retain veterans.

The Mayor's Commission on Poverty Reduction ("Commission")

Established in July 2013, the Commission's vision is for all individuals in Norfolk to have the opportunity to develop skills and earn a wage that allows them to thrive, sustain their families and access essential services. The Commission's report, delivered to City Council on July 9, 2014, focuses on four critical areas to reduce poverty: 1) supporting early childhood development and parents; 2) improving the education and the career pathways of young people; 3) strengthening opportunities for adults to thrive in the workforce; and 4) revitalizing the City's neighborhoods to create more engagement, economic opportunities and inclusive communities.

Better Block Initiative

Better Block is a community driven revitalization project that focuses on an underutilized, auto-oriented city block. For one weekend, neighborhood stakeholders temporarily transform the area into a walkable and bikeable district complete with pop-up businesses and

pedestrian friendly landscaping and furniture to test future zoning and infrastructure changes that could be a catalyst for revitalization.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to the City of Norfolk for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2013. This was the 28th consecutive year that the City received this prestigious award. In order to be awarded the Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both U.S. generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues our long history of meeting the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine our eligibility for another certificate.

The fiscal year 2013 CAFR for the City of Norfolk's Retirement System was also awarded the GFOA Certificate of Achievement for Excellence in Financial Reporting and the City's fiscal year 2015 Budget was awarded the Distinguished Budget Presentation Award.

Acknowledgements

We extend our appreciation to the dedicated staff in all City departments who have contributed to the financial operations of the City. Special commendation is deserved for the dedication, professionalism and significant hours devoted by the Department of Finance staff in preparing this report. We also thank the Office of the City Auditor and KPMG LLP for their coordination and support during the year.

In closing, credit 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,

Marcus D. Jones
City Manager

Alice M. Kelly
Director of Finance

Government Finance Officers Association

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, 2013

Executive Director/CEO

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CITY OF NORFOLK, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2014

FINANCIAL SECTION

~ Independent Auditors' Report ~

~ Management's Discussion and Analysis ~
(Unaudited)

~ Basic Financial Statements ~

Government-Wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

Required Supplementary Information
(Unaudited)

(Pension and OPEB Funding Progress and Budgetary Comparison Schedules)

CITY OF NORFOLK, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2014

Financial Section

INDEPENDENT AUDITORS' REPORT

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KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

Independent Auditors' Report

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

Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns* (Specifications), issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and Specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Norfolk, Virginia as of June 30, 2014, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters

As discussed in note XXIII to the financial statements, in fiscal year 2014, the City retrospectively adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, requiring the reclassification, as deferred out flows of resources or deferred inflows of resources, of certain items that were previously reported as assets and liabilities, and the recognition, as outflows of resources or inflows of resources, of certain items that were previously reported as assets and liabilities.

Also as discussed in note XXIII to the financial statements, in fiscal year 2014, the City retrospectively adopted the provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*.

Our opinions were not modified with respect to these matters.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 4 through 20, the schedules of revenue, and budgetary comparison schedules on pages 99 through 101, the schedule of funding progress on page 96, the schedule of changes in net pension liability and related ratios, on page 97, the schedule of employer's contributions on page 98, the calculation of a money-weighted rate of return on page 98, and the schedule of investment returns on page 98 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Other Supplementary Information, Introductory Section, and the Statistical Section as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Other Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such

information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, The Other Supplementary Information is fairly stated in all material respects in relation to the basic financial statements 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 do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2015, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

KPMG LLP

Norfolk, Virginia
January 22, 2015

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MANAGEMENT'S DISCUSSION

AND ANALYSIS

(Unaudited)

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CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2014

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, 2014. 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 2014 by $755,198,602 (net position). Of this amount, $103,333,302 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors. Total net position increased by $34,873,897 and unrestricted net position increased by $2,109,084.

- As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of $151,232,562, an increase of $4,985,729 in comparison with the prior year. This increase was primarily attributable to a reduction in capital outlays of $15,870,312 compared to prior year. Approximately 37.4 percent, or $56,543,384 is unassigned.

- The General fund, on a current financial resources basis, reported a decrease in fund balance of $6,007,949. A decrease in fund balance was planned and approved in the adoption of the fiscal year 2014 budget. The City budgeted to use approximately $19.6 million in reserves, but due to the implementation of City-wide cost saving measures during the fiscal year no reserve funds were required. These cost saving measures will continue and have a positive impact in fiscal year 2015.

- At the end of the current fiscal year, the total unassigned fund balance for the general fund was $58,099,913, or 7.11 percent of the General fund budget.

- The City's total outstanding bonded indebtedness increased by $14,331,427 during the current fiscal year.

- For the fiscal year ended June 30, 2014, the City implemented GASB 65 *Items Previously Reported as Assets and Liabilities,* which requires debt issuance costs to be treated as a period cost and expensed in the year incurred. The implementation of GASB 65 required a restatement of the beginning net position for this change in accounting treatment as follows:

	Governmental Activities	Water	Wastewater	Parking	Total Business-Type Activities
Beginning Net Position, July 1, 2013	$ 357,268,396	$ 223,786,829	$ 96,330,179	$ 51,346,202	$ 371,463,210
Adjustment for Debt Issuance Costs	(4,014,149)	(2,995,952)	(157,110)	(1,239,690)	(4,392,752)
Restated Beginning Net Position, July 1, 2013	$ 353,254,247	$ 220,790,877	$ 96,173,069	$ 50,106,512	$ 367,070,458

- Previously, the annual required contribution was accrued by the Employee Retirement System upon authorization of the actuary's recommendation near the end of each fiscal year and approval of the respective appropriation by the City. Because the City is not legally obligated to contribute this amount to the Plan, GASB 67 does not permit the recognition of the employee contribution as a receivable. Therefore, the prior year employee contribution receivable that was paid in cash during the 2014 fiscal year was reflected in the Statement of Changes in Plan Net Position in accordance with GASB 67. In addition, the beginning Plan net position at June 1, 2013 was adjusted to remove the respective prior year employee contribution receivable. This change results in an adjustment to the plan net position available for pension benefits as of the beginning of the plan year, July 1, 2013 in the amount of $42,330,492.

Plan net position, as previously reported	$ 954,693,667
Adjustment under GASB 67	(42,330,492)
Plan net position, as restated	$ 912,363,175

- Effective January 1, 2014 the Norfolk Healthcare Consortium (Consortium) began participating in a city-administered self-insured health arrangement. The Consortium is comprised of the City, Norfolk Public Schools and Norfolk Redevelopment and Housing Authority. The Healthcare arrangement is accounted for in an internal service fund with employer and employee premiums deposited into the fund. Medical claims, administrative costs, wellness programs costs, fees related to the Affordable Healthcare Act, and benefit consultant costs are expended from the fund.

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 and related notes 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 deferred outflows and liabilities and deferred inflows using the accrual basis of accounting. The *government-wide financial statements* are comprised of the Statement of Net Position and the Statement of Activities.

The Statement of Net Position presents information on all of the City's assets plus deferred outflows and liabilities plus deferred inflows, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 Waterside Associates Limited Partnership ("Waterside Associates"). Financial information for these component units is reported separately from the financial information presented for the primary government and can be found on pages 32-33 of this report.

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

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

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

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

The City adopts an annual budget for certain funds. To demonstrate compliance with this budget, budgetary comparison statements have been provided in this report. (Reference Exhibits E-1 and E-2.)

The basic governmental fund financial statements can be found in pages 23 - 26 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 had three internal service funds, Fleet Management, Storehouse and Healthcare Self-Insurance during 2014. The Storehouse fund, was closed at the end of fiscal year 2013 but had residual transactions that occurred in fiscal year 2014. The internal service funds are allocated to government activities at the entity wide level.

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 27 – 29 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 30 - 31 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 34.

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 96 – 101 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented on pages 102 – 103 and 106 – 108, respectively, of this report.

Government-Wide Financial Analysis

Over time, net position may serve as a useful indicator of the City's financial position. In the case of the City, assets exceeded liabilities by $755,198,602 at the close of fiscal year 2014.

By far, the largest portion of the City's net position, $597,308,429 or 79.1 percent is its investment in capital assets (e.g., land, buildings, equipment, intangibles and

infrastructure) less accumulated depreciation and amortization and less any related outstanding debt used to acquire those assets. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted 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 position, approximately 7.2 percent represent resources that are subject to external restrictions on how they may be used. The remaining balance of $103,333,302 of unrestricted net position may be used to meet the City's ongoing obligations to citizens and creditors.

	Governmental Activities		Business-Type Activities		Totals	
	2014	restated* 2013	2014	restated* 2013	2014	restated* 2013
Current and Other Assets	245,435,361	228,584,641	185,664,650	190,499,816	431,100,011	419,084,457
Capital Assets	1,011,130,051	963,746,458	889,627,701	878,692,986	1,900,757,752	1,842,439,444
Deferred Outflows of Resources	18,393,414	19,951,140	7,502,283	5,960,850	25,895,697	25,911,990
Total Assets and Deferred Outflows of Resources	1,274,958,826	1,212,282,239	1,082,794,634	1,075,153,652	2,357,753,460	2,287,435,891
Long-Term Liabilities	734,072,530	762,547,251	652,078,568	689,137,801	1,386,151,098	1,451,685,052
Other Liabilities	170,370,474	96,480,741	45,915,330	18,945,393	216,285,804	115,426,134
Deferred Inflows of Resources	100,617		17,339		117,956	-
Total Liabilities and Deferred Inflows	904,543,621	859,027,992	698,011,237	708,083,194	1,602,554,858	1,567,111,186
Net Position						
Net Investment in Capital Assets	337,937,410	319,550,085	259,371,019	275,194,694	597,308,429	594,744,779
Restricted	22,062,352	11,111,154	32,494,519	13,244,554	54,556,871	24,355,708
Unrestricted	10,415,443	22,593,008	92,917,859	78,631,210	103,333,302	101,224,218
Total Net Position	$ 370,415,205	$ 353,254,247	$ 384,783,397	$ 367,070,458	$ 755,198,602	$ 720,324,705

For governmental activities, total net position increased by $17,160,958 or 4.9 percent overall during the current fiscal year. Factors that contributed to the change in total governmental net position include: an increase in property tax collections as a result of current economic conditions and decreases in expenses in certain functional areas (primarily public works and community development).

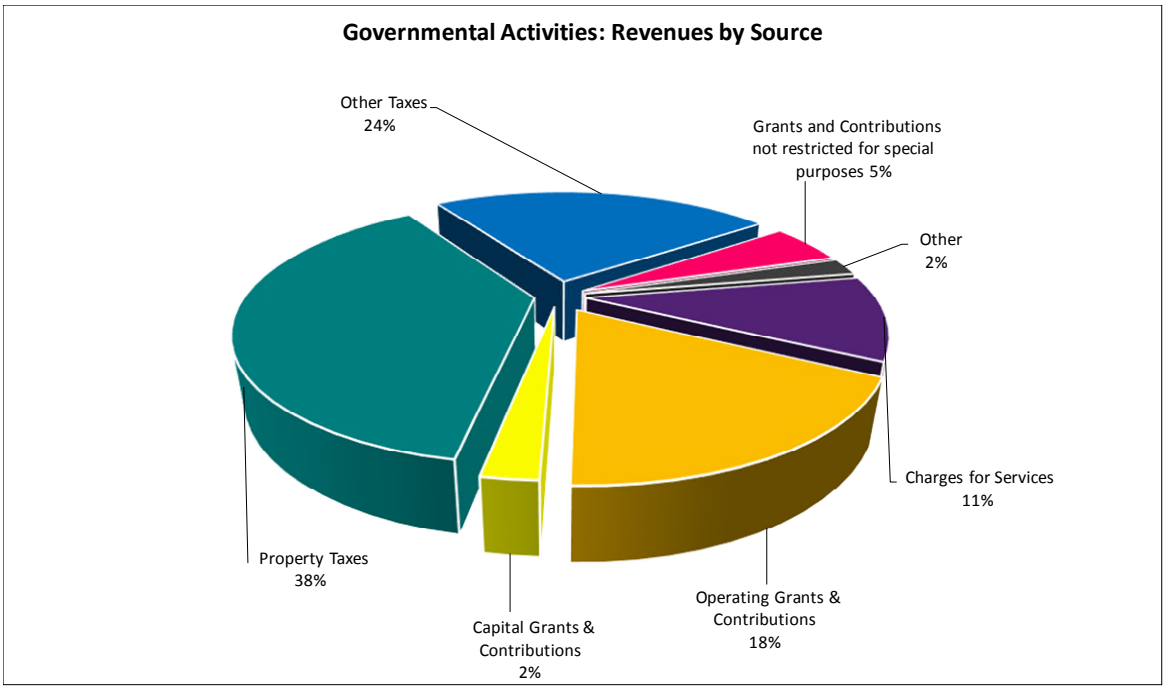
For business-type activities, net position increased by $17,712,939 or 4.8 percent during the fiscal year. Of this amount, $14,562,326, $6,089,859, and negative $2,939,246 are changes attributed to the Water Utility, Wastewater Utility and Parking Facilities funds, respectively. Overall revenues increased by $6,052,643 compared to prior year due to increases in billing rates for Water and Wastewater and an increase in the hourly parking rate for Parking Facilities.

The following presents key programmatic and functional elements of these changes in government-wide net position:

Changes in the City of Norfolk's Net Position

	Governmental Activities		Business-Type Activities		Totals	
	2014	restated* 2013	2014	restated* 2013	2014	restated* 2013
Revenues:						
Program Revenues:						
Charges for Services	$ 69,915,807	$ 79,693,402	$ 126,629,580	$ 121,024,011	$ 196,545,387	$ 200,717,413
Operating Grants & Contributions	120,713,320	131,719,130	-	-	120,713,320	131,719,130
Capital Grants & Contributions	15,932,623	15,000,000	2,760,836	191,592	18,693,459	15,191,592
General Revenues:					-	-
Property Taxes	254,357,446	246,345,296	-	-	254,357,446	246,345,296
Other Taxes	161,499,026	163,296,915	-	-	161,499,026	163,296,915
Grants and Contributions not					-	-
restricted for specific purposes	33,788,087	33,539,418	218,551	1,625,338	34,006,638	35,164,756
Other	15,346,710	13,797,348	3,570,498	4,285,881	18,917,208	18,083,229
Total Revenues	671,553,019	683,391,509	133,179,465	127,126,822	804,732,484	810,518,331
Expenses:						
General Government	122,656,635	119,763,612	-	-	122,656,635	119,763,612
Judicial Administration	55,062,139	51,654,033	-	-	55,062,139	51,654,033
Public Safety	125,121,896	125,270,290	-	-	125,121,896	125,270,290
Public Works	66,908,888	71,324,410	-	-	66,908,888	71,324,410
Health and Public Assistance	90,919,215	90,993,168	-	-	90,919,215	90,993,168
Culture and Recreation	56,498,810	56,039,167	-	-	56,498,810	56,039,167
Community Development	12,622,530	16,157,515	-	-	12,622,530	16,157,515
Education	109,466,754	109,286,600	-	-	109,466,754	109,286,600
Interest on Long-Term Debt	25,187,109	28,249,498	-	-	25,187,109	28,249,498
Water Utility	-	-	61,608,972	61,358,338	61,608,972	61,358,338
Wastewater Utility	-	-	20,128,611	19,982,566	20,128,611	19,982,566
Parking Facilities	-	-	23,677,028	20,960,866	23,677,028	20,960,866
Total Expenses	664,443,976	668,738,293	105,414,611	102,301,770	769,858,587	771,040,063
Increase (decrease) in Net Position						
before Transfers	7,109,043	14,653,216	27,764,854	24,825,052	34,873,897	39,478,268
Transfers	10,051,915	10,114,354	(10,051,915)	(10,114,354)	-	-
Increase (decrease) in Net Position	17,160,958	24,767,570	17,712,939	14,710,698	34,873,897	39,478,268
Net Position Beginning of Year, restated (Note XXV)	353,254,247	328,486,677	367,070,458	352,359,760	720,324,705	680,846,437
Net Position End of Year	$ 370,415,205	$ 353,254,247	$ 384,783,397	$ 367,070,458	$ 755,198,602	$ 720,324,705

*Restated as described in Note XXV

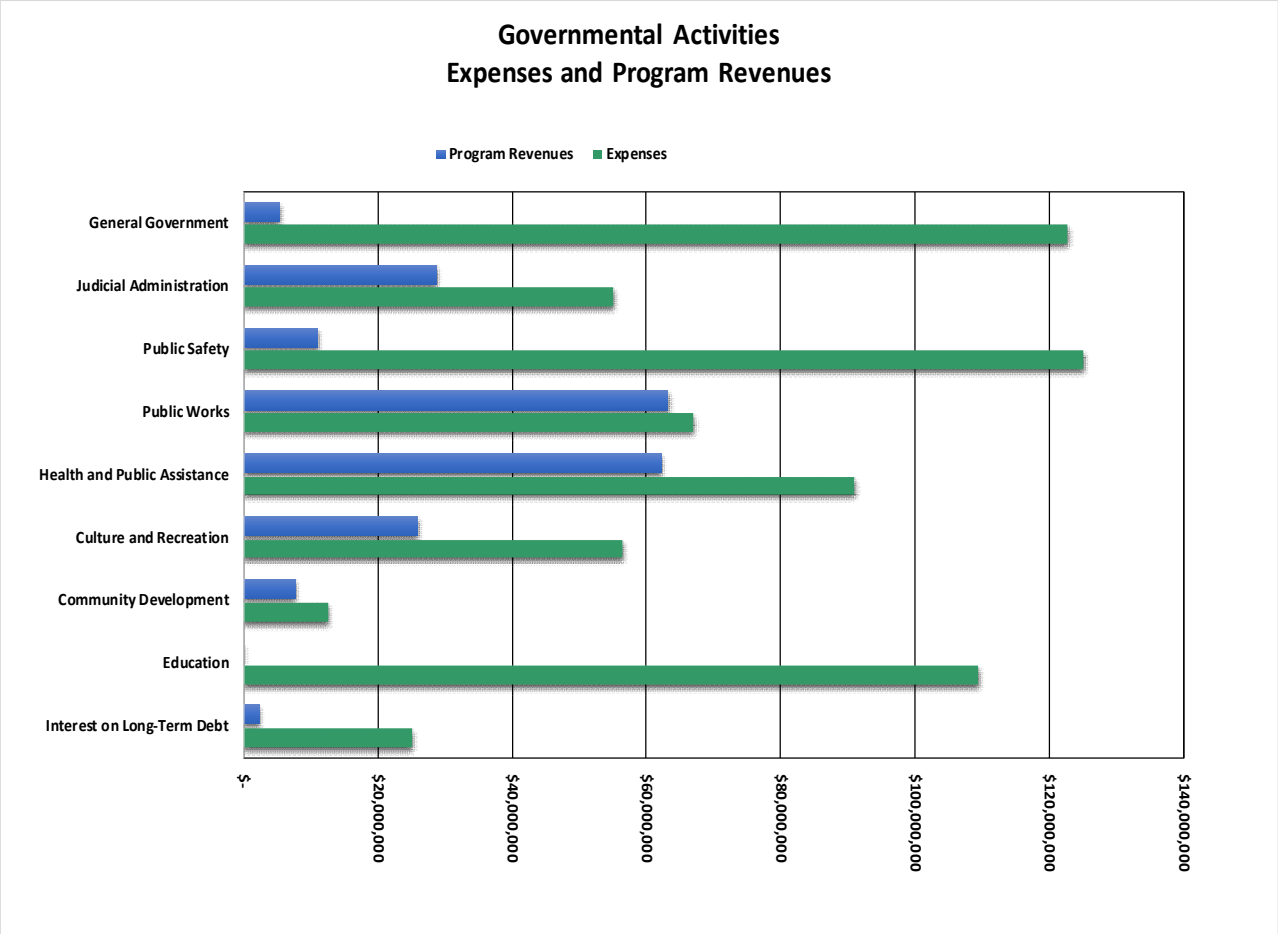


Governmental Activities – The City's total revenues from governmental activities were $671,553,019 for the fiscal year ended June 30, 2014. The largest sources of revenue for the City at 37.9 percent are property taxes (which are comprised of real estate and personal property taxes) and other taxes. Revenues from property taxes increased by $8,012,150 compared to prior year. The real estate (general tax) tax rate for fiscal year 2014 was $1.15 per $100 of assessed value which has changed to set aside $0.04 for school construction technology and infrastructure spending. The real estate (downtown improvement district) tax rate for fiscal year 2014 was $1.31 per $100 of assessed value an increase of $0.04 per $100 in fiscal year 2013, reflecting the general tax increase. Revenues from other taxes decreased by $1,797,889 or 1.1 percent in comparison to the prior year. 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 24.0 percent of total revenues for the fiscal year ended June 30, 2014.

Operating grants and contributions for governmental activities ended the fiscal year at $120,713,320 which represents a decrease of approximately 8.4 percent from the prior year. Grants and contributions not restricted for specific programs represent intergovernmental grants and contributions from state and federal agencies. For the 2014 fiscal year, the City reported $33,788,087 in grants and contributions not restricted for specific programs which represents an increase of approximately 0.7 percent from the prior year.

The City's expenses for governmental activities cover a wide array of services, with $125,121,896 or 18.8 percent for fiscal year 2014 related to public safety and $109,466,754 or 16.5 percent for fiscal year 2014 for education (including payments to the School Board, a component unit). Overall, expenses for governmental activities remained flat which was primarily driven by a $3,534,985 or 21.9 percent decrease in expenses for community development and a $4,415,522 or 6.2 percent decrease in public works offset by increases in judicial administration and general government. The decrease in community development reflects a decrease in operating grants and contributions revenue and the decrease in public works expenses can be mainly attributed to a reduction in spending for capital projects in this area.

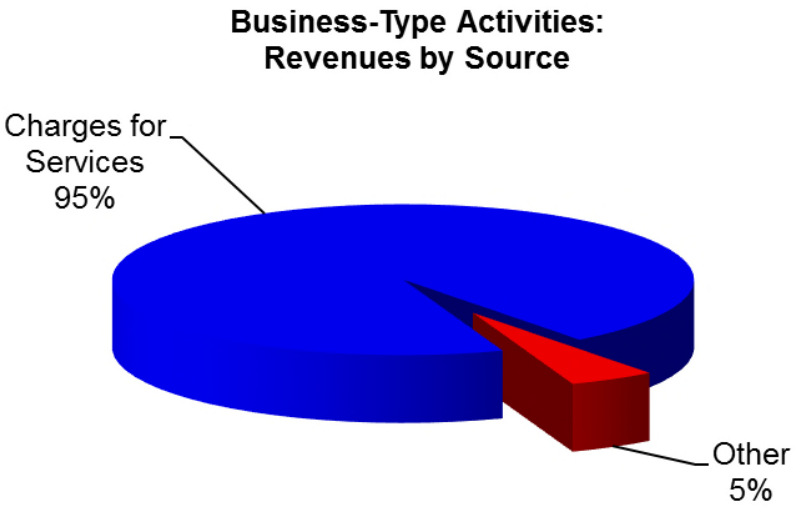
Depreciation expense for governmental activities of $35,641,556 was recorded.



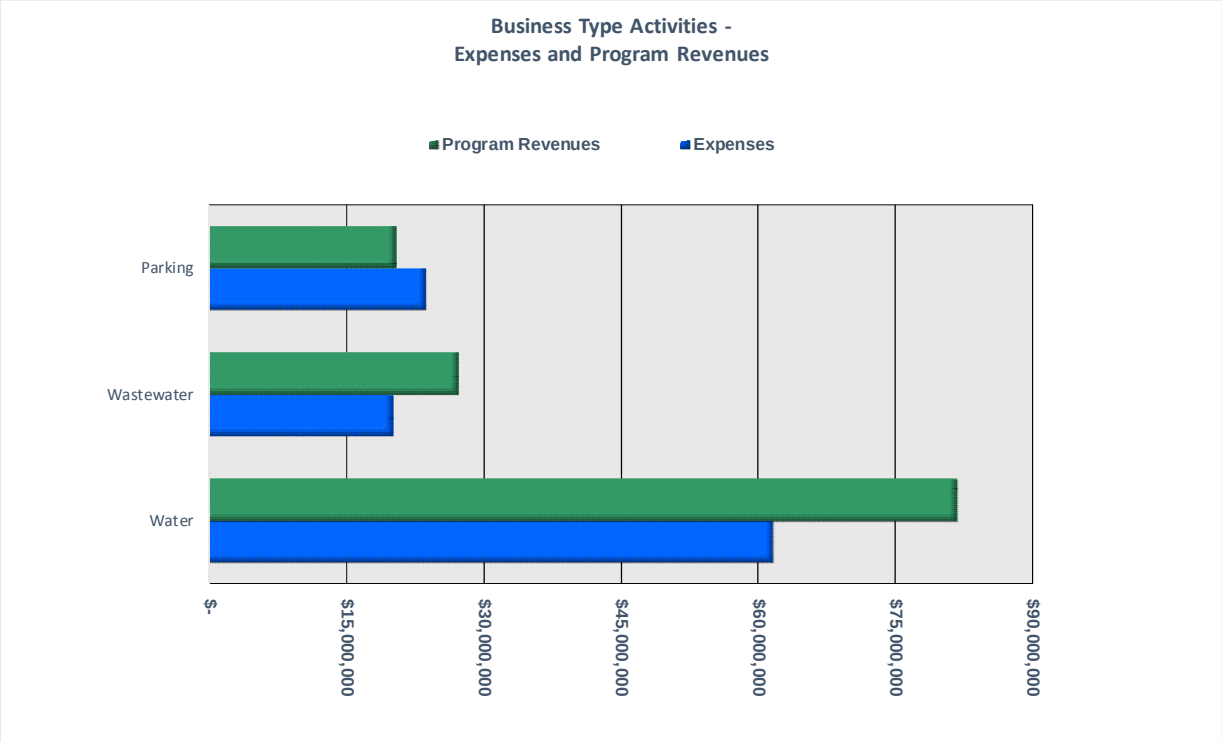
Business-type Activities – Business-type activities increased the City's net position by $17,712,939. Key elements of this change are as follows:

- Revenue from charges for services for business-type activities increased by 4.6 percent. Water Utility charges for services increased $2,704,023 and Wastewater Utility charges for services increased $1,650,029. Both increases primarily reflect the 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 $0.15/100 cubic feet and $0.14/100 cubic feet respectively.

- Parking facilities revenues increased $1,251,517 or 6.5 percent from the prior year. The increase in revenue reflects an increase in the hourly parking rate.



Total expenses for Business-type activities increased overall by $3,112,841, or 3.0 percent. The Water Utility fund's expenses increased slightly by $250,634. The Wastewater Utility fund's expenses increased slightly by $146,045. The Parking Facilities fund's expenses increased by $2,716,162.



Financial Analysis of the Government's Funds

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

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

The City's classifications of fund balance comprise a hierarchy based on the extent to which the City is bound to observe constraints imposed upon the use of the financial resources of the funds. Fund balance is reported in the following categories: nonspendable, restricted, committed, assigned and unassigned.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $151,232,562, an increase of $4,985,729 or 3.4 percent over the prior year. Of the total ending fund balance, $22,062,352 or 14.6 percent is

restricted. The restricted fund balance is that portion of fund balance that can only be spent for the specific purposes as stipulated by a third party or legislation. Funds that typically fall in this category are federal and state awards/grants, as well as certain tax dollars levied for specific purposes. Committed fund balance is $22,529,409 or 14.9 percent of total ending fund balance and represents amounts within fund balance that have been designated for a specific purpose by City Council. Included in this classification are amount designated by City Council for the City's self-insured workers; compensation and general liability programs. Assigned fund balance is $50,097,417 or 33.1 percent of total ending fund balance and represent funds intended to be used by the City for specific purposes. Encumbrances that are not considered committed are included in this classification. The remaining $56,543,384 or 37.4 percent of ending fund balance in the City's governmental funds is available for spending at the government's discretion and is classified as unassigned.

The City's primary governmental fund is its general fund. As a matter of fiscal policy, the City's unassigned fund balance is targeted to be no less than five percent of the general government's and School Board's annual operating budgets or $40,875,040.

For the general fund, on the budgetary basis of accounting, the City ended the fiscal year with revenues below projections by $1,226,784. Total expenditures were less than appropriations by $21,724,247.

The general fund experienced an overall increase in revenue of $1,899,174 or .33 percent over the prior year. Overall expenditures decreased by $4,530,588 or .88 percent from fiscal year 2013. General fund financial and budgetary highlights of the 2014 fiscal year include:

- General property taxes increased by $10,919,487 or 4.5 percent.
- General government expenditures decreased by $3,827,987 or 3.4 percent reflecting the savings strategy implemented in the prior year.

The City spent $100,709,475 in the Capital Projects fund to fund major capital projects, including construction of the downtown main library, the new courthouse, the Southside aquatic center, Harbor Park transfer station, critical repairs to City and School buildings, City infrastructure improvements and various improvements for neighborhood revitalization. The fund had a total fund balance of $29,464,969**.** In fiscal year 2014, the City used proceeds from bonds as well as cash on hand to fund these expenditures.

The Debt Service fund did not have any assets, liabilities or net position at fiscal year-end. During the year, $77,082,711 was transferred in from various funds to pay for an equal amount of debt service requirements.

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

City can only use the net position 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 net investment in capital assets for its governmental and business-type activities as of June 30, 2014, amounted to $597,308,429. 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, net of the debt outstanding that was used to finance the assets. Infrastructure assets represent 20 percent of total general governmental assets.

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

- Continued construction of the new courthouse complex with $29.0 million spent in fiscal year 2014;
- $6.9 million in various neighborhood conservation and revitalization efforts throughout in the City;
- $4.0 million for construction of a 3,500 passenger rail station that opened in December 2013;
- Investment of $3.3 million in improvements to neighborhood streets throughout the City;
- $2.7 million for the completion of the Raymond J. Kroc neighborhood center; and
- Continued construction on the new downtown main library, of which approximately $55 million has been invested to date with $18.4 million being spent in fiscal year 2014.

Construction in progress totaled $194.3 million for governmental activities at the end of the fiscal year. Construction in progress totaled $43.7 million for business-type activities, which includes Water Utility, Wastewater Utility and Parking Facilities projects. Additionally, the City opened and capitalized two new building projects: Southside Aquatic Facility at $7,862,757 and the Norfolk Zoo Animal Wellness Center at $2,990,615.

Summary of the City of Norfolk's Capital Assets

(net of accumulated depreciation)

	Governmental Activities		Business-Type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Land	87,821,231	87,194,729	48,122,255	48,111,635	135,943,486	135,306,364
Buildings, equipment and vehicles	475,187,666	476,988,315	777,308,440	769,448,649	1,252,496,106	1,246,436,964
Improvements other than buildings	51,101,814	48,082,451	16,269,870	16,626,522	67,371,684	64,708,973
Construction in progress	194,282,981	152,039,985	43,695,329	40,010,753	237,978,310	192,050,738
Intangible assets	1,230,183	1,496,677	4,231,807	4,495,427	5,461,990	5,992,104
Infrastructure	201,506,176	197,944,301	-	-	201,506,176	197,944,301
Total	$ 1,011,130,051	$ 963,746,458	$ 889,627,701	$ 878,692,986	$ 1,900,757,752	$ 1,842,439,444

Additional information on the City's capital assets can be found in Note VI on pages 54 - 55 of this report.

Long-term Debt – At June 30, 2014, the City (including the enterprise funds) had total bonded debt outstanding of $1,286,849,972. Of this amount, $912,700,344 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:

	Governmental Activities		Business-Type Activities		Totals	
	2014	2013	2014	2013	2014	2013
General Obligation Bonds	665,384,732	637,943,425	247,315,612	179,134,625	912,700,344	817,078,050
Revenue Bonds	-	-	374,149,628	455,440,495	374,149,628	455,440,495
Total	$ 665,384,732	$ 637,943,425	$ 621,465,240	$ 634,575,120	$ 1,286,849,972	$ 1,272,518,545

The City's total debt outstanding increased by $14,331,427 or 1.13 percent during the fiscal year. The City issues debt based on its cash flow capital needs.

The development of the Capital Improvement Plan for General Capital (bonds not supported by self-supporting user fees) is guided by two measures of affordability. The measures or debt limits is based on the approved Capital Improvement Plan are as follows:

- Debt service as a percent of the General Fund Budget will not exceed 10 percent; and
- Net debt as a percent of taxable property will not exceed 3.5 percent.

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

The latest credit ratings for the City's general obligation and water revenue bond programs as of the date of this report 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 Wastewater Revenue Bonds do not maintain an underlying or stand-alone unenhanced credit rating.

State statutes limit the amount of general obligation debt the City may issue up to 10 percent of its total assessed valuation. The City's general obligation debt outstanding is significantly below the City's current debt limitation of $1,842,141,212.

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

Economic Factors and Next Year's Budgets and Rates

- The slow economic recovery continues to have a negative impact. The City's locally generated revenues have not fully recovered. This is because, like other localities, the City is highly dependent on real property taxes that have not fully rebounded as a result of the weak housing market recovery. At the time the City's fiscal year 2015 budget was adopted, the Commonwealth had not yet passed the state budget. However, since the state budget was passed in June 2014, the Commonwealth announced in September 2014 that it was reducing aid to localities in fiscal year 2015 and 2016 to address its revenue shortfall in the current biennium. It is not yet known what the impact will be on Norfolk. Considering the effects of the national, state and local economic conditions, the City focused on centralizing and streamlining operations to increase efficiency without reducing core services that directly impact residents in developing the fiscal year 2015 budget.
- Taxable real estate assessments are projected to rise slightly in the 2015 fiscal year by 1.0 percent.

- The following reflects major other tax change projections in comparison to the fiscal year 2014 budget:
    - Business license taxes – 3.2 percent increase;
    - Restaurant food taxes – 3.1 percent increase; and
    - Cigarette tax – 4.2 percent increase
- Rate increases for both the Water Utility and Wastewater Utility funds continue to provide necessary funding to finance capital improvements.
- Waste management is established as a Special Revenue fund beginning in fiscal year 2015.
- Beginning in calendar year 2015, all members will be required to contribute five percent of their compensation to the Norfolk Employees' Retirement System.
- Beginning in fiscal year 2015, the Community Services Board will become part of the General Fund.

All of these factors were considered in preparing the City's budget for fiscal year 2015. The fiscal year 2015 operating budget includes transfers in from non-general funds of approximately $16.6 million, as well as $18.4 million from carrying forward unspent appropriations from prior years and closeout of account balances including the carry-forward balance of the Norfolk Community Services Board.

In October 2014, City Council approved an ordinance to increase the risk management reserve and the economic downturn reserve each by $1 million. City Council also amended the fiscal year 2015 budget by about $3.9 million to provide funds for Norfolk Public Schools, citywide improvements (recreation, schools, street lights and Chelsea neighborhood), Poverty Commission, crisis intervention training and community officers, and Norfolk State University.

The cigarette tax rate increased in fiscal year 2015 by $0.05 for a pack of 20 cigarettes. There were no changes in any other tax rates for the 2015 fiscal year. The following represents changes in fees implemented with the budget for the 2015 fiscal year. The following do not include the Virginia Stormwater Management Program permit fees.

Description	FY 2014 Approved	FY 2015 Approved
Wastewater Fees	$3.53/100 cubic feet	$3.67/100 cubic feet
Water Fees	$4.30/100 cubic feet	$4.45/100 cubic feet
Stormwater Fees – Residential	$10.24/month	$10.52/month
Stormwater Fees – Commercial	$7.36/month per 2,000 sq. ft.	$7.55/month per 2,000 sq. ft.
Refuse Disposal – Residential Single or Multiple Units (4 or less)	$27.01/unit/month	$28.01/unit/month
Refuse Disposal – Residential Multiple Units (5 or more)	$45.27/container/month	$46.94/container/month
Refuse Disposal – Commercial Business once per week	$59.00/unit/month	$61.18/unit/month
Refuse Disposal – Commercial Business 5 times per week	$146.24/unit/month	$151.64/unit/month
Refuse Disposal – Commercial Combined Commercial and Residential	$86.01/unit/month	$89.19/unit/month

Requests for Information

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

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BASIC FINANCIAL

STATEMENTS

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CITY OF NORFOLK, VIRGINIA

Statement of Net Position
June 30, 2014

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
Assets				
Cash and short term investments	$ 148,276,505	$ 84,406,620	$ 232,683,125	$ 25,540,539
Unrestricted short term investments	-	14,685,248	14,685,248	-
Receivables, net:				
Taxes	41,454,286	-	41,454,286	
Accounts	19,692,454	20,027,989	39,720,443	1,558,374
Accrued investment income	-	24,444	24,444	-
Internal balances	1,759,670	(1,759,670)	-	-
Due from other governments	33,410,080	-	33,410,080	31,705,805
Due from primary government	-	-	-	3,523,610
Inventories	-	3,397,854	3,397,854	996,070
Prepaid items	842,366	-	842,366	-
Restricted cash and investments	-	64,882,165	64,882,165	-
Non-depreciable capital assets	282,173,226	94,253,349	376,426,575	487,500
Depreciable capital assets, net	728,956,825	795,374,352	1,524,331,177	15,190,567
Total assets	$ 1,256,565,412	$ 1,075,292,351	$ 2,331,857,763	$ 79,002,465
Deferred Outflows of Resources				
Loss on Defeasance of bonds	$ 18,393,414	$ 7,502,283	$ 25,895,697	$ -
Total assets and deferred outflows of resources	$ 1,274,958,826	$ 1,082,794,634	$ 2,357,753,460	$ 79,002,465
Liabilities				
Vouchers payable	$ 23,078,207	$ 7,923,130	$ 31,001,337	$ 9,227,570
Employees withholdings	308,662	-	308,662	-
Contract retainage	3,856,367	1,333,863	5,190,230	66,719
Accrued interest	9,983,136	3,458,236	13,441,372	-
Accrued payroll	5,029,800	475,393	5,505,193	26,373,922
Due to other governments	7,556,160	-	7,556,160	3,774,788
Due to component unit	3,523,610	-	3,523,610	-
Other current liabilities	9,537,093	3,942,203	13,479,296	140,770
Unearned revenue	9,321,240	-	9,321,240	169,409
Retirement system contribution	34,834,721	3,428,779	38,263,500	-
Liabilities payable from restricted assets	-	2,591,186	2,591,186	-
Long-term liabilities:				
Due within one year	63,341,478	22,762,540	86,104,018	7,383,158
Due in more than one year	734,072,530	652,078,568	1,386,151,098	20,901,083
Total liabilities	$ 904,443,004	$ 697,993,898	$ 1,602,436,902	$ 68,037,419
Deferred Inflows of Resources				
Gain on Defeasance of bonds	$ 100,617	$ 17,339	$ 117,956	$ -
Total Liabilities and Deferred Inflows of Resources	$ 100,617	$ 17,339	$ 117,956	$ -
Total liabilities and deferred inflows of resources	$ 904,543,621	$ 698,011,237	$ 1,602,554,858	$ 68,037,419
Net Position				
Net investment in capital assets	$ 337,937,410	$ 259,371,019	$ 597,308,429	$ 12,874,245
Restricted for:				
Perpetual care - nonexpendable	5,933,508	-	5,933,508	-
Capital projects	10,933,152	-	10,933,152	1,127,561
Debt Service		16,331,981	16,331,981	
Retirees' life insurance - future expenditures	265,000	-	265,000	-
Other programs	4,930,692	16,162,538	21,093,230	1,210,809
Unrestricted	10,415,443	92,917,859	103,333,302	(4,247,569)
Total net position	$ 370,415,205	$ 384,783,397	$ 755,198,602	$ 10,965,046

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, 2014

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 Position: Primary Government: Governmental Activities	Primary Government: Business-Type Activities	Primary Government: Total	Component Units
Primary government:								
Governmental activities:								
General government	$ 122,656,635	$ 4,149,028	$ 927,679	$ -	$ (117,579,928)	$ -	$ (117,579,928)	$ -
Judicial administration	55,062,139	3,141,899	25,395,258	-	(26,524,982)	-	(26,524,982)	-
Public safety	125,121,896	7,612,842	3,502,876	-	(114,006,178)	-	(114,006,178)	-
Public works	66,908,888	37,769,422	25,355,098	-	(3,784,368)	-	(3,784,368)	-
Health and public assistance	90,919,215	5,596,762	56,626,939	-	(28,695,514)	-	(28,695,514)	-
Culture and recreation	56,498,810	9,685,280	219,135	15,932,623	(30,661,772)	-	(30,661,772)	-
Community development	12,622,530	1,960,574	5,665,537	-	(4,996,419)	-	(4,996,419)	-
Education	109,466,754	-	-	-	(109,466,754)	-	(109,466,754)	-
Interest on long-term debt	25,187,109	-	3,020,798	-	(22,166,311)	-	(22,166,311)	-
Total governmental activities	664,443,976	69,915,807	120,713,320	15,932,623	(457,882,226)	-	(457,882,226)	-
Business-type activities:								
Water	61,608,972	79,096,905	-	2,660,416	-	20,148,349	20,148,349	-
Wastewater	20,128,611	27,119,054	-	100,420	-	7,090,863	7,090,863	-
Parking facilities	23,677,028	20,413,621	-	-	-	(3,263,407)	(3,263,407)	-
Total business-type activities	105,414,611	126,629,580	-	2,760,836	-	23,975,805	23,975,805	-
Total primary government	$ 769,858,587	$ 196,545,387	$ 120,713,320	$ 18,693,459	$ (457,882,226)	$ 23,975,805	$ (433,906,421)	$ -
Component units:								
Norfolk Public Schools	$ 361,013,131	$ 3,562,371	$ 203,138,993	$ 3,699,610				$ (150,612,157)
Waterside Fund	1,366,436	156,395	-	-				(1,210,041)
Total component units	$ 362,379,567	$ 3,718,766	$ 203,138,993	$ 3,699,610				(151,822,198)
General revenues:								
Taxes:								
General property taxes - real estate and personal property					254,357,446	-	254,357,446	-
Consumers' utility taxes					43,054,695	-	43,054,695	-
Sales and use taxes					29,435,758	-	29,435,758	-
Restaurant food taxes					31,127,226	-	31,127,226	-
Business license taxes					29,888,853	-	29,888,853	-
Hotel/Motel taxes					7,804,510	-	7,804,510	-
Cigarette taxes					7,408,785	-	7,408,785	-
Admissions taxes					3,671,076	-	3,671,076	-
Motor vehicle licenses					3,965,738	-	3,965,738	-
Franchise, recordation and other miscellaneous local taxes					5,142,385	-	5,142,385	-
Use of money and property					783,290	495,643	1,278,933	988,111
Grants and contributions not restricted to specific programs					33,788,087	218,551	34,006,638	-
Miscellaneous					14,563,420	3,162,428	17,725,848	912,408
Commonwealth of Virginia					-	-	-	30,701,766
Loss from sale of assets					-	(87,573)	(87,573)	-
Payment from Primary Government					-	-	-	112,667,755
Transfers					10,051,915	(10,051,915)	-	-
Total general revenues and transfers					475,043,184	(6,262,866)	468,780,318	145,270,040
Changes in net position					17,160,958	17,712,939	34,873,897	(6,552,158)
Net position - restated					353,254,247	367,070,458	720,324,705	17,517,204
Net position - ending					$ 370,415,205	$ 384,783,397	$ 755,198,602	$ 10,965,046

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

CITY OF NORFOLK, VIRGINIA

Balance Sheet - Governmental Funds
June 30, 2014

	Major Funds			Nonmajor	Total
	General Fund	Capital Projects	Debt Service	Governmental Funds	Governmental Funds
ASSETS					
Cash and short term investments	$ 55,241,680	$ 48,747,763	$ -	$ 33,588,823	$ 137,578,266
Receivables, net:					
Taxes	41,454,286	-	-	-	41,454,286
Accounts	3,827,045	88,504	-	6,933,067	10,848,616
Due from other funds	7,438,229	234,758	-	18,836	7,691,823
Due from other governments	24,790,531	16,931	-	7,922,121	32,729,583
Prepaids	-	-	-	187,366	187,366
Total assets	$ 132,751,771	$ 49,087,956	$ -	$ 48,650,213	$ 230,489,940
LIABILITIES, DEFFERED INFLOWS					
Vouchers payable	$ 12,678,556	$ 6,440,222	$ -	$ 2,713,560	$ 21,832,338
Employee withholdings	308,662	-	-	-	308,662
Contract retainage	20,068	3,765,233	-	71,066	3,856,367
Accrued payroll	4,429,444	-	-	547,753	4,977,197
Due to other funds	30,356	5,893,922	-	8,790	5,933,068
Due to other governments	-	-	-	7,556,160	7,556,160
Due to component unit	-	3,523,610	-	-	3,523,610
Unearned revenue	-	-	-	1,141,325	1,141,325
Other liabilities	3,651,643	-	-	109,675	3,761,318
Total liabilities	21,118,729	19,622,987	-	12,148,329	52,890,045
Deferred Inflow of Resources					
Revenues' levied for the next year and unavailable revenue	26,367,333	-	-	-	26,367,333
FUND BALANCES					
Nonspendable	-	-	-	-	-
Restricted	265,000	10,933,152	-	10,864,200	22,062,352
Committed	3,000,000	14,479,691	-	5,049,718	22,529,409
Assigned	23,900,796	4,052,126	-	22,144,495	50,097,417
Unassigned	58,099,913	-	-	(1,556,529)	56,543,384
Total fund balances	85,265,709	29,464,969	-	36,501,884	151,232,562
Total liabilities and fund balances	$ 132,751,771	$ 49,087,956	-	$ 48,650,213	$ 230,489,940

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

CITY OF NORFOLK, VIRGINIA

Exhibit A-2

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2014

Fund balances - total governmental funds		$	151,232,562
Amounts reported for governmental activities in the Statement of Net Position are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:			
Gross capital assets at historical cost	2,448,703,456		
Accumulated depreciation	(1,441,587,998)		
			1,007,115,458
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:			
Deferred inflow for uncollected property taxes			26,367,333
Gain/Loss on refundings of Long Term Debt that are not reflected in the fund financial statements			
Loss on Defeasance			18,393,414
Gain on Defeasance			(100,617)
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	(665,384,732)		
Unamortized bond premium	(53,552,476)		
Retirement contribution	(34,465,973)		
Other post employment benefits	(29,981,928)		
Compensated absences	(16,515,364)		
Workers' compensation and claims liability	(29,055,228)		
Prepaid debt service	655,000		
Other	(2,683,002)		
Accrued interest payable	(9,983,136)		
			(840,966,839)
Internal service funds			7,762,082
Receivable for Build America Bonds - interest rate subsidy			680,497
GASB Statement 49 Pollution Remediation Obligation			(68,685)
Net position of governmental activities		$	370,415,205

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

CITY OF NORFOLK, VIRGINIA

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For Fiscal Year Ended June 30, 2014

	Major Funds			Nonmajor	Total
	General Fund	Capital Projects	Debt Service	Governmental Funds	Governmental Funds
REVENUES					
General property taxes	$ 254,523,678	$ -	$ -	$ 2,455,700	$ 256,979,378
Other local taxes	152,386,188	-	-	9,112,839	161,499,027
Permits and licenses	3,088,749	-	-	-	3,088,749
Fines and forfeitures	1,236,647	-	-	5,150	1,241,797
Use of money and property	5,556,052	675,758	-	97,153	6,328,963
Charges for services	36,457,826	-	-	23,581,760	60,039,586
Miscellaneous	10,711,008	15,947,744	-	2,474,327	29,133,079
Intergovernmental	115,159,212	-	-	38,623,016	153,782,228
Total revenues	579,119,360	16,623,502	-	76,349,945	672,092,807
EXPENDITURES					
Current operating:					
General government	108,749,257	-	265,745	276,739	109,291,741
Judicial administration	48,122,290	-	-	3,550,903	51,673,193
Public safety	104,831,842	-	-	8,562,449	113,394,291
Public works	41,765,600	-	-	13,501,438	55,267,038
Health and public assistance	45,574,863	-	-	43,095,779	88,670,642
Culture and recreation	42,280,060	-	-	4,424,519	46,704,579
Community development	8,244,984	-	-	4,236,716	12,481,700
Education	111,854,400	-	-	-	111,854,400
Debt service:					
Principal	-	-	48,134,552	-	48,134,552
Interest and other charges	-	-	28,682,414	-	28,682,414
Capital outlay	-	100,709,475		-	100,709,475
Total expenditures	511,423,296	100,709,475	77,082,711	77,648,543	766,864,025
Excess (deficiency) of revenues over expenditures	67,696,064	(84,085,973)	(77,082,711)	(1,298,598)	(94,771,218)
OTHER FINANCING SOURCES (USES)					
Proceeds of refunding bonds	-	-	73,427,645	-	73,427,645
Issuance of debt	-	77,930,000	-	-	77,930,000
Debt issuance costs	(344,423)	(782,620)	-	-	(1,127,043)
Proceeds sale of fixed assets	-	-	-	-	-
Payment to bond refunding escrow agent	-	-	(79,963,630)	-	(79,963,630)
Premium on bonds	-	9,313,314	7,767,825	-	17,081,139
Transfers in	12,408,836	6,156,706	77,082,711	11,985,030	107,633,283
Transfers out	(85,768,426)	(42,689)	(1,231,840)	(8,181,492)	(95,224,447)
Total other financing sources and uses	(73,704,013)	92,574,711	77,082,711	3,803,538	99,756,947
Net changes in fund balances	(6,007,949)	8,488,738	-	2,504,940	4,985,729
Fund balances - beginning	91,273,658	20,976,231	-	33,996,944	146,246,833
Fund balances - ending	$ 85,265,709	$ 29,464,969	$ -	$ 36,501,884	$ 151,232,562

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

CITY OF NORFOLK, VIRGINIA

Exhibit A-4

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2014

Net change in fund balances--total governmental funds		$ 4,985,729
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	83,368,570	
Subtract disposals	(343,418)	
Subtract depreciation expense and disposals	(35,358,542)	47,666,610
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the fund.		(2,078,227)
Bond and note proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. 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 Position.		
Less debt issued	(151,357,645)	
Add debt repayment	123,916,335	
Premium on bond sale	17,081,139	
Loss on defeasance of debt	(5,530,457)	
Gain on defeasance of debt	150,925	
Adjustments and amortization of premiums, gains and losses	(15,971,202)	(31,710,905)
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)		
Compensated Absences	(229,191)	
Retiree's Life Insurance	35,000	
Net OPEB Obligation	(5,390,963)	
Unpaid Claims Liability	1,782,011	
Retirement System Contribution	3,691,356	
Landfill Closure and Post Closure	(1,005,100)	(1,116,887)
Changes in other Liabilities and prepayments		
Prepaid Items	30,000	
Due from other Governments - BAB Subsidy	(151,122)	
Other Liabilities - GASB 49 Pollution Remediation	39,335	
Accrued interest payable	(2,039,102)	(2,120,889)
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.		1,535,527
Change in net position of governmental activities		$ 17,160,958

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

Statement of Fund Net Position - Proprietary Funds
June 30, 2014

	Business-Type Activities				Governmental Activities-
	Water Utility	Wastewater Utility	Parking Facilities	Totals	Internal Service Funds
ASSETS					
Current assets:					
Cash and short term investments	$ 57,194,861	$ 15,295,046	$ 11,916,713	$ 84,406,620	$ 10,698,239
Unrestricted short term investments	11,848,217	148,762	2,688,269	14,685,248	-
Receivables, net					
Accounts	8,986,820	2,926,702	1,742,298	13,655,820	8,843,838
Unbilled accounts	4,883,796	1,236,833	251,540	6,372,169	-
Accrued investment income	24,433	-	11	24,444	-
Internal balances	-	-	-	-	915
Inventories	3,038,795	36,639	322,420	3,397,854	-
Restricted cash and investments	41,127,443	8,605,292	15,149,430	64,882,165	-
Total current assets	127,104,365	28,249,274	32,070,681	187,424,320	19,542,992
Noncurrent assets:					
Capital assets:					
Land and improvements	45,680,822	12,168,140	36,404,387	94,253,349	415,000
Buildings and equipment	644,639,164	296,417,377	195,698,865	1,136,755,406	10,888,326
Accumulated depreciation	(202,742,766)	(69,654,114)	(68,984,174)	(341,381,054)	(7,288,733)
Capital assets, net	487,577,220	238,931,403	163,119,078	889,627,701	4,014,593
Total assets	$ 614,681,585	$ 267,180,677	$ 195,189,759	$ 1,077,052,021	$ 23,557,585
Deferred ouflows of Resources					
Loss on Defeasance of bonds	2,010,101	2,533,742	2,958,440	7,502,283	-
Total assets and deferred outflows of resources	$ 616,691,686	$ 269,714,419	$ 198,148,199	$ 1,084,554,304	$ 23,557,585
LIABILITIES					
Current liabilities:					
Vouchers payable	$ 5,099,071	$ 2,081,672	$ 742,387	$ 7,923,130	$ 1,245,866
Contract retainage	777,296	555,553	1,014	1,333,863	-
Accrued interest	13,695	1,231,742	2,212,799	3,458,236	-
Accrued payroll	312,152	101,224	62,017	475,393	52,603
Internal balances	1,740,789	18,881	-	1,759,670	-
Unearned Revenue	-	-	-	-	8,179,915
Obligations for employees retirement system	2,268,623	669,099	491,057	3,428,779	368,748
Current portion of bonds payable	8,352,786	10,251,982	3,235,566	21,840,334	-
Liabilities payable from restricted assets	2,591,186	-	-	2,591,186	-
Compensated absences	631,185	186,309	104,712	922,206	168,896
Other current liabilities	3,679,784	90,208	172,211	3,942,203	5,707,091
Total current liabilities	25,466,567	15,186,670	7,021,763	47,675,000	15,723,119
Noncurrent liabilities:					
General obligation bonds payable	-	104,968,261	143,203,319	248,171,580	-
Revenue bonds payable	353,641,492	46,464,629	-	400,106,121	-
Compensated absences	422,733	172,356	150,684	745,773	72,384
Other long-term liabilities	1,807,691	642,236	605,167	3,055,094	-
Total noncurrent liabilities	355,871,916	152,247,482	143,959,170	652,078,568	72,384
Total liabilities	$ 381,338,483	$ 167,434,152	$ 150,980,933	$ 699,753,568	$ 15,795,503
Deferred inflows of Resources					
Gain on bonds refunding	-	17,339	-	17,339	-
Total liabilities and deferred inflows of resources	$ 381,338,483	$ 167,451,491	$ 150,980,933	$ 699,770,907	$ 15,795,503
NET POSITION					
Net investment in capital assets	$ 143,231,180	$ 88,270,787	$ 27,869,052	$ 259,371,019	$ 4,014,593
Restricted	25,478,070	97,439	6,919,010	32,494,519	-
Unrestricted	66,643,953	13,894,702	12,379,204	92,917,859	3,747,489
Total net position	$ 235,353,203	$ 102,262,928	$ 47,167,266	384,783,397	$ 7,762,082

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

Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For Year Ended June 30, 2014

	Business-Type Activities				Governmental Activities -
	Water Utility	Wastewater Utility	Parking Facilities	Total	Internal Service Funds
Operating revenues:					
Charges for services	$ 79,096,905	$ 27,119,054	$ 20,413,621	$ 126,629,580	$ 55,677,941
Miscellaneous	2,872,023	290,184	-	3,162,207	9,580
Total operating revenues	81,968,928	27,409,238	20,413,621	129,791,787	55,687,521
Operating expenses:					
Personal services	14,844,295	4,958,468	7,130,975	26,933,738	2,469,009
Healthcare costs	-	-	-	-	34,878,683
Cost of goods sold	-	-	-	-	9,008,456
Plant operations	6,650,541	2,274,390	1,275,320	10,200,251	3,059,840
Chemicals	3,173,508	35,096	-	3,208,604	-
Depreciation and amortization	12,917,853	5,580,685	5,647,165	24,145,703	283,014
Retirement and OPEB contribution	2,440,979	730,277	491,057	3,662,313	368,748
Administrative expenses	1,376,142	1,348,202	370,050	3,094,394	-
Other	8,817,855	1,573,352	468,497	10,859,704	1,727,329
Total operating expenses	50,221,173	16,500,470	15,383,064	82,104,707	51,795,079
Operating income (loss), net	31,747,755	10,908,768	5,030,557	47,687,080	3,892,442
Nonoperating revenues (expenses):					
Interest income, net of interest capitalized	109,074	5,654	380,915	495,643	-
Intergovernmental revenue	-	218,551	-	218,551	-
Interest expense and fiscal charges	(11,328,582)	(3,628,141)	(8,293,964)	(23,250,687)	-
Gain (loss) on sale or disposal of capital assets	(67,120)	(15,393)	(5,060)	(87,573)	-
Unrealized loss on investments				-	-
Miscellaneous revenue (expense)	(59,217)	-	221	(58,996)	-
Total nonoperating revenues (expenses)	(11,345,845)	(3,419,329)	(7,917,888)	(22,683,062)	-
Net income (loss) before contributions and transfers	20,401,910	7,489,439	(2,887,331)	25,004,018	3,892,442
Capital contribution	2,660,416	100,420	-	2,760,836	-
Transfer in	-	-	-	-	-
Transfers out	(8,500,000)	(1,500,000)	(51,915)	(10,051,915)	(2,356,921)
Changes in net position	14,562,326	6,089,859	(2,939,246)	17,712,939	1,535,521
Total net position - beginning	223,786,829	96,330,179	51,346,202	371,463,210	6,226,561
Restatement of net position (Note XXIII)	(2,995,952)	(157,110)	(1,239,690)	(4,392,752)	-
Restated net position - beginning	220,790,877	96,173,069	50,106,512	367,070,458	6,226,561
Total net position - ending	$ 235,353,203	$ 102,262,928	$ 47,167,266	384,783,397	$ 7,762,082

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

Statement of Cash Flows - Proprietary Funds
Year Ended June 30, 2014

	Business-Type Activities				Governmental Activities -
	Water Utility	Wastewater Utility	Parking Facilities	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers	$ 82,304,104	$ 26,891,171	$ 19,984,461	$ 129,179,736	$ 56,011,717
Payments to suppliers	(11,080,792)	(2,258,509)	(657,867)	(13,997,168)	(39,402,493)
Payments to employees	(17,285,305)	(5,684,780)	(7,704,816)	(30,674,901)	(1,750,104)
Other payments	(10,075,731)	(2,896,054)	(737,588)	(13,709,373)	(1,728,166)
Net cash and short term investments provided by operating activities	43,862,276	16,051,828	10,884,190	70,798,294	13,130,954
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Internal activity	429,635	18,881	(10,003)	438,513	(632,776)
Intergovernmental revenues	-	218,551	-	218,551	-
Operating subsidies and transfers to other funds	(8,500,000)	(1,500,000)	(51,915)	(10,051,915)	-
Net cash provided by noncapital financing activities	(8,070,365)	(1,262,568)	(61,918)	(9,394,851)	(632,776)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Proceeds from capital/refunding debt	-	29,763,988	132,055,000	161,818,988	-
Capital contributions	2,660,416	100,420	-	2,760,836	-
Purchases of capital assets	(18,005,912)	(16,364,394)	(967,491)	(35,337,797)	
Refunding/refinancing of debt principal	-	(14,755,059)	(142,093,155)	(156,848,214)	-
Principal paid on capital debt	(7,801,047)	(9,148,484)	(1,131,124)	(18,080,655)	
Interest and bond issuance costs paid on capital debt	(14,461,710)	(2,372,513)	(5,877,516)	(22,711,739)	-
Net cash provided by capital and related financing activities	(37,608,253)	(12,776,042)	(18,014,286)	(68,398,581)	-
CASH FLOWS FROM INVESTING ACTIVITIES:					
Transfer out	-	-	-	-	(2,356,921)
Proceeds from sales and maturities of investments	48,819,413	20,321,174	7,569,889	76,710,476	-
Purchase of investments	(42,122,089)	(15,807,767)	(4,676,971)	(62,606,827)	-
Interest and dividends	109,074	5,654	386,911	501,639	-
Net cash provided by investing activities	6,806,398	4,519,061	3,279,829	14,605,288	(2,356,921)
Net increase in cash and short term investments	4,990,056	6,532,279	(3,912,185)	7,610,150	10,141,257
Cash and short term investments - beginning of the year	52,204,805	8,762,767	15,828,898	76,796,470	556,982
Cash and short term investments - end of the year	$ 57,194,861	$ 15,295,046	$ 11,916,713	$ 84,406,620	$ 10,698,239
Reconciliation of Operating Income (Loss) to Net Cash Provided by (used in) Operating Activities:					
Operating income	$ 31,747,755	$ 10,908,768	$ 5,030,557	$ 47,687,080	$ 3,892,442
Adjustments to reconcile operating income (loss) to net cash and short term investments provided by (used in) operating activities:					
Depreciation expense	12,917,853	5,580,685	5,647,165	24,145,703	283,014
Change in assets and liabilities:					
Receivables, net	335,176	(518,067)	(421,943)	(604,834)	(7,844,997)
Inventories	(1,613,901)	(5,626)	62,521	(1,557,006)	2,081,947
Vouchers payable	357,158	56,603	554,932	968,693	947,846
Accrued payroll	(172,387)	(57,213)	(82,784)	(312,384)	4,498
Other liabilities	290,622	86,678	93,742	471,042	13,766,204
Net cash and short term investments provided by operating activities	$ 43,862,276	16,051,828	10,884,190	$ 70,798,294	$ 13,130,954
Noncash investing, capital and financing activities:					
Transfer of land	$ -	$ -	$ -	$ -	$ -
Unrealized gain / (loss) on investments	$ (59,217)	$ -	$ -	$ (59,217)	$ -
Loss on sale or disposal of capital assets	$ -	$ -	$ -	$ -	$ -
Transfer of assets to other funds				-	-
Write-off of impaired fixed assets				-	-
Loss on sale or disposal of capital assets	$ (67,120)	$ (15,393)	$ (5,060)	$ (87,573)	$ -
Acquisition of capital assets through change in in contract retainage	$ 154,045	$ (106,533)	$ (823)	$ 46,689	$ -
Transfer multi-year VRA reimbursement to CP Fund				$ -	$ -
Acquisition of capital assets through vouchers payable	$ 1,403,326	$ (1,621,467)	$ (554,932)	$ (773,073)	$ -
Capitalized interest, less interest earned on certain long-term construction contracts	$ 1,083,073	$ 361,078	$ -	$ 1,444,151	$ -

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

CITY OF NORFOLK, VIRGINIA

Exhibit C-1

Statement of Fiduciary Net Position
June 30, 2014

	Pension Trust Employees' Retirement System	Agency Funds
ASSETS		
Cash and short term investments	$ 28,920,780	$ 4,351,099
Investments, fair value:		
United States Treasury securities	18,904,914	-
Fixed income securities	128,679,128	-
Equity securities	64,711,522	-
Balanced commingled funds:		
Equity	579,178,189	-
Fixed income	180,150,220	-
Real estate	50,977,415	-
Total investments	1,022,601,388	-
Receivables:		
Accounts, net of allowance for uncollectible accounts	198	-
Accrued investment income	1,340,328	-
Due from broker for securities sold	5,491,241	-
Other	-	71,724
Total assets	$ 1,058,353,935	$ 4,422,823
LIABILITIES		
Vouchers payable	$ 597,275	$ 977
Due to brokers for securities purchased	21,577,701	-
Other liabilities	-	4,421,846
Total liabilities	$ 22,174,976	$ 4,422,823
NET POSITION		
Reserved for:		
Net position held in trust for pension benefits	$ 1,036,178,959	$ -

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 Position
Pension Trust Fund - Employees' Retirement System
For the Year Ended June 30, 2014

		2014
Changes to net position attributed to:		
Investment income:		
Net appreciation in fair value of investments	$	148,150,904
Interest		7,579,027
Dividends		3,125,472
Other		338,365
		159,193,767
Less investment expense		(1,901,934)
Net investment income		157,291,833
Employer contributions		42,330,492
Employee contributions		1,671,644
Total		201,293,969
Benefit payments and expenses:		
Refunds of contributions		4,144
Benefits paid to plan members and beneficiaries		77,061,232
Administrative costs		412,809
Total		77,478,185
Net increase		123,815,784
Net position held in trust for pension benefits:		
Beginning of Year		954,693,667
Restatement of Beginning of year (See Note XXIII)		(42,330,492)
Restated Beginning of Year		912,363,175
End of year	$	1,036,178,959

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

CITY OF NORFOLK, VIRGINIA

Exhibit D-1

Statement of Net Position - Component Units
June 30, 2014

	Norfolk Public Schools	Waterside Associates	Totals
ASSETS			
Cash and short term investments	$ 25,380,914	$ 159,625	$ 25,540,539
Accounts receivable, net of allowance for uncollectible accounts	1,539,221	19,153	1,558,374
Due from primary government	3,523,610	-	3,523,610
Due from other governments	31,705,805	-	31,705,805
Inventories	996,070	-	996,070
Capital assets, net	12,874,245	2,803,822	15,678,067
Total assets	$ 76,019,865	$ 2,982,600	$ 79,002,465
LIABILITIES			
Vouchers payable	$ 9,031,328	$ 196,242	$ 9,227,570
Contract retainage	66,719	-	66,719
Accrued payroll	26,373,922	-	26,373,922
Unearned revenues	169,409	-	169,409
Other payables	140,770	-	140,770
Due to other government agencies	3,774,788	-	3,774,788
Current portion of long term labilities	7,383,158	-	7,383,158
Long-term vested compensated absences	2,400,000	-	2,400,000
Long-term post employment benefits	15,053,326	-	15,053,326
Long-term claims and judgments liability	3,447,757	-	3,447,757
Total liabilities	$ 67,841,177	$ 196,242	$ 68,037,419
NET POSITION			
Net investment in capital assets	$ 12,874,245	$ -	$ 12,874,245
Restricted for:			
Capital projects	1,127,561	-	1,127,561
Other programs	1,210,809	-	1,210,809
Unrestricted	(7,033,927)	2,786,358	(4,247,569)
Total net position	$ 8,178,688	$ 2,786,358	$ 10,965,046

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, 2014

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grant Contributions	Capital Grant Contributions	Norfolk Public Schools	Waterside Associates	Totals
Norfolk Public Schools:							
Instructional	$ 265,739,832	$ 2,054,557	$ 186,579,436	$ -	$ (77,105,839)	$ -	$ (77,105,839)
Administration, attendance and health	15,962,429	-	-	-	(15,962,429)	-	(15,962,429)
Pupil transportation	12,161,735	-	960,000	-	(11,201,735)	-	(11,201,735)
Operation and maintenance	34,703,345	-	-	-	(34,703,345)	-	(34,703,345)
Information technology	11,239,049	-	-	-	(11,239,049)	-	(11,239,049)
School facilities	3,735,672	-	-	3,699,610	(36,062)	-	(36,062)
Food services	17,227,258	1,507,814	15,599,557	-	(119,887)	-	(119,887)
Community services	243,811	-	-	-	(243,811)	-	(243,811)
Total Norfolk Public Schools	361,013,131	3,562,371	203,138,993	3,699,610	(150,612,157)	-	(150,612,157)
Waterside Associates:							
Cultural and recreational	1,366,436	156,395	-	-	-	(1,210,041)	(1,210,041)
Total component units	$ 362,379,567	$ 3,718,766	$ 203,138,993	$ 3,699,610	$ (150,612,157)	$ (1,210,041)	$ (151,822,198)
General revenues:							
Use of money and property					806,015	182,096	988,111
Payment from Primary Government					111,854,400	813,355	112,667,755
Miscellaneous					912,408	-	912,408
Commonwealth of Virginia					30,701,766	-	30,701,766
Total general revenues					144,274,589	995,451	145,270,040
Changes in net position					(6,337,568)	(214,590)	(6,552,158)
Net position - beginning					14,516,256	3,000,948	17,517,204
Net position - ending					$ 8,178,688	$ 2,786,358	$ 10,965,046

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

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NOTES TO THE BASIC

FINANCIAL STATEMENTS

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CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

		Page
I	**Summary of Significant Accounting Policies**	37
A	Financial Reporting Entity Information…….……..	37
B	Government-wide and Fund Financial Statements……..	38
C	Measurement Focus, Basis of Accounting and Financial Statement Presentation.....	40
D	Budgets and Budgetary Accounting ……...…….	42
E	Deposits and Investments……..……..	43
F	Restricted Assets……...……	44
G	Interfund Transactions……..	44
H	Inventories……..	44
I	Capital Assets…….……..…….	44
J	Compensated Absences……..	45
K	Net Position/Fund Balances……...	46
L	Estimates……..……..…….....	46
M	Bond Premiums, Discounts and Issuance Costs……..	47
N	Deferred Inflows and Outflows ……	47
II	**Deposits and Investments**	47
III	**Property Taxes**	51
IV	**Accounts Receivable**	52
A	Unbilled Accounts Receivable ……	52
B	Allowances for Uncollectible Accounts Receivable ……	53
V	**Due From Other Governments**	53
VI	**Capital Assets**	54
VII	**Short-Term Obligations**	55
A	Bond Anticipation Notes …….....	55
B	Variable Rate Bonds…….	56
VIII	**Long-Term Obligations**	57
A	General Obligation and Revenue Bonds …….....	57
B	General Obligation Bonds……...……	60
C	Revenue Bonds……..	61

VIII	**Long-Term Obligations (continued)**	
D	Current and Advanced Refundings…….	62
E	Forward General Obligation Refunds…….	63
F	Lease Obligations……..	64
G	Landfill Liability……...	64
H	Compensated Absences……..	65
I	Debt Limit……..	65
J	Bonds Authorized and Unissued……	65
K	Changes in Long-Term Obligations……	66
IX	**Pension Plans**	67
A	Employees' Retirement System of the City of Norfolk (System) ……...	67
B	School Board – Retirement Plan……...	71
C	State Employees – Virginia Retirement System (VRS) …….....	74
X	**Deferred Compensation Plan**	76
XI	**Other Post-employment Benefits (OPEB)**	76
XII	**Interfund Receivable and Payable Balances**	80
XIII	**Interfund Transfers**	81
XIV	**Fund Balance by Functional Category (GASB 54)**	83
XV	**Other Liabilities**	84
XVI	**Deferred Inflows and Outflows**	84
A	General Fund …….....……...	84
B	Deferred Inflows and Outflows From Refunding Transactions….....……...	84

XVII	**Commitments and Contingencies**	85
A	Capital Projects ……..	85
B	Contingent Liabilities ……..……..	85
C	Litigation ……..……..	85
D	Pollution Remediation Obligation……	86
E	Encumbrances……	86
XVIII	**Surety Bonds and Insurance**	87
XIX	**Self and Purchased Insurance Programs**	87
XX	**Jointly Governed Organizations**	89
A	Hampton Roads Regional Jail Authority (HRRJA) ……..	89
B	Hampton Roads Planning District Commission (the Commission) ……..	89
C	Transportation District Commission of Hampton Roads (TDC) ……	89
XXI	**Joint Ventures**	90
A	Southeastern Public Service Authority (SPSA)……	90
B	The Slover Library Foundation (The Foundation)……	91
XXII	**Related Organizations**	91
A	Norfolk Redevelopment and Housing Authority (NRHA)…….	91
B	Norfolk Airport Authority …….…….	91
C	The Economic Development Authority of the City of Norfolk (EDA)……..……	92
D	The Chrysler Museum, Inc. (the Museum)…….....	92
E	The Hospital Authority of Norfolk (HAN)…….....	92
XXIII	**Adoption of New Accounting Pronouncements**	92
XXIV	**Subsequent Events**	93
XXV	**Accounting Pronouncements Issued But Not Yet Implemented**	95

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 246,000 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 or the System)* has a ten-member Board of Trustees. Eight members are appointed by City Council. The City Manager and the Director of Finance are ex-officio members. The ERS is the administrator of a single-employer contributory 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 and certain employee contributions, to provide the funding for pension benefits and administrative costs.

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

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

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

same name. NRHA owns 14.5% of the Partnership and CDC owns 85.5%. Beginning July 1, 2010, the Waterside became fiscally dependent on the City to support as well as manage its operations with City Council appointing two of the three board members. Waterside is reported as a component unit of the City in the fiscal year 2014. Separate financial statements are not prepared for Waterside Associates.

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
www.norfolk.gov

The School Board for the City of Norfolk
800 East City Hall Avenue
P.O. Box 1357
Norfolk, Virginia 23501-1357
www.nps.k12.va.us

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position 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 financial resources that are restricted, committed or assigned to expenditures for principal and interest payments on long-term debt obligations of governmental funds and proprietary funds.

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

The City reports the following major proprietary funds:

- The *Water Utility Fund* accounts for the activities of the City's water system, treatment plant and distribution systems.

- The *Wastewater Utility Fund* accounts for the activities of the City's sewage pumping stations and collection systems.

- The *Parking Facilities Fund* accounts for the activities of City-owned parking facilities.

Additionally, the City reports the following other fund types:

- *Special Revenue Funds* account for proceeds of specific resources that are restricted, committed or assigned to expenditures for specific purposes other than debt service or capital projects. Examples including services provided as part of mental health and substance abuse programs, juvenile detention services, emergency call center services, tax increment financing districts, environmental stormwater, towing and recovery operations, and individual grant programs.

- *Internal Service Funds* account for the City's self-insured health care program, storehouse operations and fleet management services whose services are provided to other departments or agencies of the City on a cost reimbursement basis. The healthcare fund was established in fiscal year 2014 and is fully described in Note XIX. The storehouse fund was closed in fiscal year 2013. The closing and residual fund transfer entries are included in the fiscal year 2014 financial statements.

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

- The *Permanent Fund* is used to report resources that are restricted to the extent that only the interest may be used to support the City's cemetery operations.

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenue and related assets are recorded when they become susceptible to accrual, that is, when they become both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City generally considers revenues, except for grant revenues, to be available if they are collected within 45 days of the end of the fiscal year. Real and personal property taxes are recorded as receivables when levied and billed, which corresponds with the fiscal year for which the taxes have been levied, net of allowances for uncollectible accounts. Sales and utility taxes, which are collected by the state or utilities and subsequently remitted to the City, are recognized as revenues and receivables when the underlying exchange occurs and are remitted to the City by the state within two months of the transaction. In accordance with generally accepted accounting principles (GAAP) property taxes due and collected within 45 days after June 30 are recognized as revenue; those not collected within 45 days after year–end are reported as deferred inflows. 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
- Revenue from the Commonwealth
  - Shared expenses
  - Categorical aid
- Revenue from the federal government

- Environmental storm water billings

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

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

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

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

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

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

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

D. Budgets and Budgetary Accounting

An operating budget is adopted each fiscal year for the General fund, Water Utility enterprise fund, Wastewater Utility enterprise fund, Parking Facilities enterprise fund, Storm Water special revenue fund, Public Amenities special revenue fund, Cemeteries special revenue fund, Emergency Operations Center/E-911 special revenue fund, Golf special revenue fund, Towing & Recovery Operations special revenue fund, Tax Increment Financing special revenue fund, Community Services Board 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. Prior to the adoption of the budget, 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 approval by City Council.

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

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

A reconciliation of revenues and expenditures reported in accordance with U.S. generally accepted accounting principles (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 U.S. generally accepted accounting principles.

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 reported at fair value. Short-term investments are recorded at amortized cost, which approximates fair value. The United States Treasury Securities and fixed income securities traded on a national or international securities exchange are valued based on equivalent values of comparable securities with similar yield and risk. Investments that do not have an established market are reported at estimated fair value, primarily net asset value determined based on the fair value of the underlying securities. Purchases and sales of securities traded but not yet settled at year-end are recorded as due to broker for securities purchased and due from broker for securities sold, respectively.

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

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

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. The storehouse fund, the fleet services fund, and the healthcare fund primarily support governmental activities and are therefore consolidated with 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 and amortization 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 Net Position 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 is not capitalized.

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

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

J. Compensated Absences

It is the City and the School Board's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation leave is fully vested

when earned by City employees. Accumulated vacation leave cannot exceed certain limits as codified in section 2-49 in the City Code of Ordinances. 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 Position/Fund Balances

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

Fund balances in governmental fund financial statements are classified as nonspendable, restricted, committed, assigned and unassigned. Nonspendable fund balance includes amounts that are not in spendable form. Restricted fund balance includes amounts that can be spent only for specific purposes as stipulated by a third party or through enabling legislation. Committed fund balance includes amounts that can be used only for specific purposes as determined by City Council through formal action (ordinance). Committed amounts cannot be used for any other purpose unless approved by City Council by taking the same type of formal action. In the General Fund, assigned fund balance includes amounts that are intended to be used by the City for specific purposes, but do not meet the criteria to be classified as restricted or committed. In the governmental funds, except for the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. Assignment authority has been given to the City Manager by the City Council. The unassigned fund balance classification is for all amounts not included in other classifications.

L. Estimates

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

M. Bond Premiums, Discounts, Issuance Costs and Loss on Defeasance

In the government-wide and proprietary fund financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the period incurred. Refer to Note VIII for details on the amounts reported in Long-term debt.

Gains and losses on defeasance are reported in the government-wide and proprietary fund financial statements as deferred inflows and outflows of resources in accordance with GASB 65 and are amortized using the straight line method over the term of the debt.

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

N. Deferred Inflows and Outflows of Resources

The City reports deferred inflows and outflows on its fund level balance sheets and entity wide statement of net position. Deferred inflows are items that were previously reported as deferred revenues and certain items that were previously recorded as liabilities such as gains on defeasance of debt. Deferred inflows arise when potential revenue does not meet the “measureable” and “available” criteria for recognition in the current period. Certain intergovernmental receivables such as uncollected property tax not meeting the availability criteria have been deferred and will be realized in a subsequent period in governmental funds. Deferred outflows represent a consumption of net position in a future period. The City reports the loss on defeasance from debt refundings as a deferred outflow.

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 Position and respective fund balance sheets as cash and short term investments. The cash and investments of the Pension Trust and Permanent funds, as well as certain restricted assets of the enterprise funds, are held separately from the pooled City funds.

All deposits of the City and its component units are collateralized in accordance with the Virginia Security for Public Deposits Act (“the Act”), Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance. Under the Act, any

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

Custodial Credit Risk - Investments

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

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

Interest Rate Risk

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

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

Segmented Time Distribution as of June 30, 2014

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	$ 33,744,426	$ 7,475,922	$ 18,552,020	$ 3,988,922	$ 2,156,404	$ 1,571,158
Futures/Options/Swaps	837,853	96,044	(218,196)	799,721	(9,628)	169,912
Asset Backed Securities	8,449,388	134,266	1,939,608	1,284,108	1,003,347	4,088,059
US Government Securities	25,503,343	-	25,503,343	-	-	-
Mortgage Backed Securities	41,592,218	-	39,243	411,947	3,326,439	37,814,589
Repurchase Agreements	10,400,000	10,400,000	-	-	-	-
Certificates of Deposit	4,681,070	4,681,070	-	-	-	-
Common Stock	8,546,619	-	-	-	-	8,546,619
Master Limited Partnerships	56,419,474	-	-	-	-	56,419,474
Municipal Bonds	3,622,769	-	-	-	-	3,622,769
Foreign government securities	40,177,904	685,498	22,210,854	1,382,838	3,793,829	12,104,885
Fixed Income Funds	180,150,220	-	-	-	-	180,150,220
Domestic Equity Funds	579,178,189	-	-	-	-	579,178,189
Real Estate Funds	50,977,415	-	-	-	-	50,977,415
Money Market Funds	180,822,133	180,822,133	-	-	-	-
Total	$ 1,225,103,021	$ 204,294,933	$ 68,026,872	$ 7,867,536	$ 10,270,391	$ 934,643,289

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

Per Exhibit 1 (Primary Government):	
Cash and short term investments	$ 232,683,125
Investments	14,685,248
Restricted cash and investments	64,882,165
Total	$ 312,250,538
Per Exhibit C-1 (Fiduciary):	
Cash and short term investments	33,271,879
Investments	1,022,601,389
Total	$ 1,055,873,268
Total Primary Government and Fiduciary	$ 1,368,123,806
Less cash	143,020,785
Deposits and investments reported above	$ 1,225,103,021

Credit Risk Related to Issuer

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's Pension Trust fund's formal policy governing credit risk is that securities rated below investment grade by two of the three primary rating agencies, Moody's Investors Services ("Moody's"), Fitch Ratings ("Fitch"), and Standard and Poor's ("S&P"), are not permitted without the written permission of the

board. PIMCO, one of the pension fund's managers, has been given the authority by the board to invest 20% of the portfolio in below investment grade securities. The City's Pension Trust fund invests in certain derivatives including futures, swaps and options. Those securities are included in reported investments in the Retirement System's financial statements. Investments in derivatives with a fair value of $837,853 were held at June 30, 2014. For accounting purposes, all derivative instruments are considered to be investments and not hedges. The System primarily enters into derivative transactions in order to manage risks from exposure to foreign currency rate fluctuation and to shorten the duration of the fixed income investment portfolio. The City's rated debt investments as of June 30, 2014 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/Options/ Swaps	Asset Backed Securities	Foreign Government	US Government Securities	Mortgage Backed Securities	Repurchase Agreements	Certificates of Deposit	Common Stock	Master Limited Partnerships	Municipal Bonds	Fixed Income/ Equity/ Real Estate Funds	Money Market Mutual Funds
AAA	$ -	$ -	$ 53,572	$ -	$ -	$ 663,492	$ -	$ -	$ -	$ -	$ -	$ -	$ -
AAAm													160,488,482
AA+	201,722		4,227,063		6,598,429	14,096							
AA						1,923,250					594,100		
AA-	1,006,880			1,532,443							1,494,185		
AAm-													328,236
A+	3,302,931			214,038		47,130					225,862		
A	4,681,213					19,670					855,690		
A-	8,418,806												
BBB+	3,904,217							4,480,749			452,932		20,005,415
BBB													
BBB-	2,125,008					108,262							
BB+													
BB	5,544,572												
BB-	1,248,000												
B+ and Below	791,000		43,557			787,516							
Not Rated	2,520,077	837,853	4,125,196	38,431,423	18,904,914	38,028,802	10,400,000	200,321	8,546,619	56,419,474		810,305,824	
Total	$ 33,744,426	$ 837,853	$ 8,449,388	$ 40,177,904	$ 25,503,343	$ 41,592,218	$ 10,400,000	$ 4,681,070	$ 8,546,619	$ 56,419,474	$ 3,622,769	$ 810,305,824	$ 180,822,133

The City's Pension Trust fund held $579,178,189 and $50,977,415 in Domestic Equity and Real Estate Funds respectively, and an additional $180,150,220 in Fixed Income Funds which are unrated securities.

Concentration of Credit Risk

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

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

Foreign Currency Risk

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

Currency	Fixed-Income
Australian Dollar	$ 1
Brazilian Real	(8,228)
Canadian Dollar	3,271,769
Euro Currency	24,264,895
Japanese Yen	72
Mexican Peso	185,969
Pound Sterling	99,050
	$ 27,813,528

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.

School Board

At June 30, 2014, the School Board has investments of $13,253,000 in an Aaa rated money market mutual fund and other cash of $22,730,435 including $10,602,521 held in agency funds.

Waterside Associates

At June 30, 2014, Waterside had $159,625 of cash and short term investments.

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, 2014, on each $100 of assessed value, were $1.15 for real property, an additional $0.16 for the Downtown Improvement District, $4.33 for motor vehicles, $1.50 for recreational vehicles, $4.25 for machinery and tools, $1.11 for mobile homes, $2.40 for airplanes, $0.50 for recreational boats and $1.50 for business boats. The City has a Real Estate Tax Relief/ Tax Deferral Program for Norfolk homeowners who are 65 and older or completely disabled and meet certain eligibility requirements.

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 of Ordinances.

IV. Accounts Receivable

A. Unbilled Accounts Receivable

Following is a summary by fund of unbilled accounts receivable recognized at June 30, 2014:

Storm Water special revenue fund	$	838,908
Water Utility fund		4,883,796
Wastewater Utility fund		1,236,833
Parking Facilities fund		251,540
	$	7,211,077

The associated revenue is included in charges for services. All amounts were billed in July 2014.

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, 2014, are as follows:

Primary Government:		
General Fund:		
Taxes	$	12,576,757
Accounts		17,329,516
Total - General Fund		29,906,273
Community Service Board special revenue fund		416,627
Storm Water special revenue fund		490,100
Parking Facilities Fund		9,657,500
Water Utility fund		2,727,734
Wastewater Utility fund		850,000
Total - Primary Government	$	44,048,234
Component Units:		
Waterside Associates	$	66,700
Total - Component Units	$	66,700

V. Due From Other Governments

Amounts due from other governments, at June 30, 2014 are as follows:

	General Fund	Capital Projects Fund	Special Revenue Funds	Total Primary Government	Component Unit School Board
Commonwealth of Virginia:					
Shared expenses	$ 5,198,493	$ -	$ -	$ 5,198,493	$ -
Categorical aid	296,060	16,931	-	312,991	-
Non-categorical aid	18,305,636	-	-	18,305,636	17,717,051
Non-major governmental funds grants	-	-	164,299	164,299	-
Enterprise funds	-	-	-	-	-
Total - Commonwealth of Virginia	23,800,189	16,931	164,299	23,981,419	17,717,051
Federal Government:					
Major governmental funds	4,909	-	-	4,909	13,988,754
Non-major governmental funds grants	985,433	-	7,757,822	8,743,255	-
Enterprise funds	-	-	-	-	-
Total - Federal Government	990,342	-	7,757,822	8,748,164	13,988,754
Total - Due from other governments	$ 24,790,531	$ 16,931	$ 7,922,121	$ 32,729,583	$ 31,705,805

VI. Capital Assets

A summary of changes in capital assets, at June 30, 2014, follows:

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental activities:				
Non-depreciable capital assets:				
Land	$ 87,194,729	$ 661,882	$ (35,381)	$ 87,821,230
Intangible assets	69,014	-	-	69,014
Construction in progress	152,039,985	62,178,138	(19,935,142)	194,282,981
Total non-depreciable assets	239,303,728	62,840,020	(19,970,523)	282,173,226
Depreciable assets:				
Buildings	755,351,886	16,208,700	(86,189)	771,474,397
Improvements other than buildings	68,303,792	5,018,220	(34,710)	73,287,302
Equipment and vehicles	134,542,928	5,780,785	(2,285,424)	138,038,289
Intangible assets	5,037,057	-	(42,228)	4,994,829
Infrastructure	1,177,339,117	13,455,988	(786,847)	1,190,008,258
Total depreciable assets	2,140,574,780	40,463,693	(3,235,398)	2,177,803,075
Less accumulated depreciation/amortization:				
Buildings	(324,309,344)	(15,990,707)	83,358	(340,216,693)
Improvements other than buildings	(20,221,341)	(1,998,857)	34,710	(22,185,488)
Equipment and vehicles	(88,597,155)	(7,496,713)	1,985,542	(94,108,326)
Intangible assets	(3,609,394)	(261,165)	36,898	(3,833,661)
Infrastructure	(979,394,816)	(9,894,114)	786,848	(988,502,082)
Total accumulated depreciation/amoritization	(1,416,132,050)	(35,641,556)	2,927,356	(1,448,846,250)
Depreciable assets, net	724,442,730	4,822,137	(308,042)	728,956,825
Total governmental activities capital assets, net	$ 963,746,458	$ 67,662,157	$ (20,278,565)	$ 1,011,130,051
Business-Type activities:				
Non-depreciable capital assets:				
Land	$ 48,111,635	$ 10,620	$ -	$ 48,122,255
Intangible assets	2,398,465	37,300	-	2,435,765
Construction in progress	40,010,753	32,397,078	(28,712,502)	43,695,329
Total non-depreciable assets	90,520,853	32,444,998	(28,712,502)	94,253,349
Depreciable assets:				
Land improvements	20,738,946	48,499	-	20,787,445
Buildings	386,874,897	421,058	(11,541)	387,284,414
Equipment and vehicles	692,422,767	30,718,492	(1,039,416)	722,101,842
Intangible assets	6,257,685	324,020	-	6,581,705
Totals depreciable assets	1,106,294,295	31,512,069	(1,050,957)	1,136,755,406
Less accumulated depreciation/amortization:				
Land improvements	(4,112,424)	(405,151)	-	(4,517,575)
Buildings	(110,130,731)	(8,349,650)	6,481	(118,473,900)
Equipment and vehicles	(199,718,284)	(14,765,963)	880,330	(213,603,916)
Intangible assets	(4,160,723)	(624,940)	-	(4,785,663)
Total accumulated depreciation/amortization	(318,122,162)	(24,145,704)	886,811	(341,381,054)
Depreciable assets, net	788,172,133	7,366,365	(164,146)	795,374,352
Business-Type activities capital assets, net	$ 878,692,987	$ 39,811,363	$ (28,876,648)	$ 889,627,701
Component units activities:				
Non-depreciable capital assets:				
Land	$ 487,500	$ -	$ -	$ 487,500
Construction in progress	-	-	-	-
Total non-depreciable assets	487,500	-	-	487,500
Depreciable assets:				
Buildings and mobile classrooms	11,837,044	1,181,608	-	13,018,652
Improvements other than buildings	90,910	-	-	90,911
Building improvements	-	-	-	-
Equipment and vehicles	37,470,077	1,605,452	(3,391,361)	35,684,167
Intangible assets	981,770	-	-	981,770
Total depreciable assets	50,379,801	2,787,060	(3,391,361)	49,775,500
Less accumulated depreciation:				
Buildings and mobile classrooms	(6,624,976)	(545,147)	-	(7,170,123)
Improvements other than buildings	(90,910)	-	-	(90,910)
Building improvements	-	-	-	-
Equipment and vehicles	(26,474,184)	(2,341,486)	1,884,478	(26,931,192)
Intangible assets	(196,354)	(196,354)	-	(392,708)
Total accumulated depreciation	(33,386,424)	(3,082,987)	1,884,478	(34,584,933)
Depreciable assets, net	16,993,377	(295,927)	(1,506,883)	15,190,567
Component units activities capital assets, net	$ 17,480,877	$ (295,927)	$ (1,506,883)	$ 15,678,067

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

General government	9,817,402
Judicial administration	877,228
Public safety	4,345,859
Public works, which includes the	11,887,073
depreciation of infrastructure assets	-
Health and sanitation	483,804
Culture and recreation	7,933,483
Community development	13,694
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.	283,014
Total depreciation expense	$ 35,641,556
Business-type activities:	
Water Utility fund	$ 12,917,853
Wastewater Utility fund	5,580,685
Parking Facilities fund	5,647,165
Total depreciation expense	$ 24,145,703
Component unit activities	
Community Serives Board	$ -
Schools	2,811,904
Waterside Associates	271,083
Total depreciation expense	$ 3,082,987

The following is a summary by fund of interest expense/revenue capitalized during the fiscal year ended June 30, 2014:

	Expense	Revenue	Capitalized
Water Utility fund	$ 1,209,674	$ (126,601)	$ 1,083,073
Wastewater Utility fund	390,850	(29,772)	361,078
	$ 1,600,524	$ (156,373)	$ 1,444,151

VII. Short-Term Obligations

A. Bond Anticipation Notes

On November 7, 2013, the City refunded the $51,655,000 General Obligation BAN, Series 2011A (Tax-Exempt), the $23,650,000 General Obligation BAN, Series 2011B (Taxable) with a portion of the proceeds of its $130,990,000 General Obligation Capital Improvement and Refunding Bonds, Series 2013A (Tax-Exempt), its $81,715,000 General Obligation Capital Improvement and Refunding Bonds, series 2013B (Taxable) and its $13,600,000 General Obligation Variable Rate

Bond, Series 2013C (Taxable). Upon completion of this transaction, all bond anticipation notes have been refinanced into long-term debt.

B. Variable Rate Bond

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 Half Moone Cruise & Celebration Center. As of June 30, 2014, $28,395,000 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.

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. Since delivery, the interest rate period on the Series 2007 Bonds has been at the Weekly Rate.

A portion of the Series 2007 Bonds maturing on August 1, 2037, in the amount of $1,910,000 are subject to mandatory redemption. 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.

The City maintains a liquidity facility with respect to the Series 2007 Bonds to assist with the payment of Bonds tendered for purchase by the owners and not remarketed. In 2014, the existing liquidity facility was due to expire, and the City entered into a Standby Bond Purchase Agreement dated as of March 1, 2014 (the "Liquidity Facility") among the City, the Trustee and Royal Bank of Canada (the "Bank") with a termination date of March 18, 2019. The annual rate for the Liquidity Facility fee is 39 basis points (0.39%) for a five-year term. Additionally, the bank provided a rate of 8 basis points (0.08%) to serve as Remarketing Agent. During the fiscal year ended June 30, 2014, the average weekly interest rate on the bonds was 7 basis points (0.07%).

Under the Liquidity Facility, unremarketed Bonds held by the Bank (the "Bank Bonds"), if any, shall bear interest at the Bank Rate and have interest payable to the Bank in accordance with the Liquidity Facility.

Through June 30, 2014**,** all the Series 2007 Bonds have been successfully remarketed by the remarketing agent.

General Obligation Variable Rate Bond, Series 2013C (Taxable)

On November 7, 2013, the City entered into a private placement variable rate loan in the original principal amount of $13,600,000 (the "2013 Variable Rate Loan") with Bank of America, N.A. The proceeds of the loan, along with other available funds, and a portion of the $81,715,000 General Obligation Capital Improvement and Refunding Bonds, Series 2013B were used to refund the City's General Obligation Bond Anticipation Note, Series 2011B (Taxable).

Interest on the 2013 Variable Rate Loan is payable semi-annually on each February 1 and August 1, beginning on February 1, 2014 at an interest rate of LIBOR, plus 0.95%.

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 2008 the City established Parking revenue, Water revenue and Wastewater revenue bond programs, respectively.

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.

On November 7, 2013, the City refunded all of its outstanding Parking System Revenue Bonds with General Obligation Bonds, utilizing a portion of the proceeds from its $130,990,000 General Obligation Capital Improvement and Refunding Bonds, Series 2013A (Tax-Exempt), its $81,715,000 General Obligation Capital Improvement and Refunding Bonds, Series 2013B (Taxable) and its $13,600,000 General Obligation Variable Rate Bond, Series 2013C (Taxable). With the Series 2013 Refunding, the Parking System Master Indenture of Trust has been defeased and the parking division no longer has revenue bonds outstanding.

A summary of general obligation bond and revenue bond transactions for the fiscal year ended June 30, 2014, follows:

		Enterprise Funds			
	Governmental Activities - General Obligation Bonds	Water Utility Bonds	Wastewater Utility Bonds	Parking Facilities Bonds	Total Enterprise Funds
General obligation bonds outstanding at July 1, 2013	$ 637,943,425	$ 1,098,833	$ 104,554,749	$ 73,481,043	$ 179,134,625
Bonds retired	(47,479,552)	(551,047)	(7,190,984)	(976,124)	(8,718,155)
Bonds refunded	(76,436,786)	-	(14,755,059)	(62,643,155)	(77,398,214)
Bonds issued	151,357,645	-	22,242,356	132,055,000	154,297,356
Bonds outstanding at June 30, 2014	665,384,732	547,786	104,851,062	141,916,764	247,315,612
Unamortized premium	53,552,476	-	7,879,182	4,522,121	12,401,303
General obligation bonds outstanding at June 30, 2014, adjusted for unamortized premium	$ 718,937,208	$ 547,786	$ 112,730,244	$ 146,438,885	$ 259,716,915
Revenue bonds outstanding at July 1, 2013		$ 332,445,000	$ 43,390,495	$ 79,605,000	$ 455,440,495
Bonds retired		(7,250,000)	(1,957,500)	(155,000)	(9,362,500)
Bonds refunded		-	-	(79,450,000)	(79,450,000)
Bonds issued		-	7,521,633	-	7,521,633
Bonds outstanding at June 30, 2014		325,195,000	48,954,628	-	374,149,628
Unamortized premium		36,251,492	-	-	36,251,492
Revenue bonds outstanding at June 30, 2014, adjusted for unamortized premium		$ 361,446,492	$ 48,954,628	$ -	$ 410,401,120

General obligation and revenue bonds outstanding at June 30, 2014, 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 2001 QZAB	12/27/2001	1,062,830	none	122,694	-	-	-	122,694
Series 2002 Property Acquisition	8/14/2002	3,400,000	5.38%	3,400,000	-	-	-	3,400,000
Series 2003 VRA	4/8/2003	9,423,794	2.00%	-	-	5,785,061	-	5,785,061
Series 2004 Property Acquisition	7/29/2004	1,775,000	7.00%	831,759	-	-	-	831,759
Series 2004 VRA	9/17/2004	11,100,000	3.10%	-	-	7,595,216	-	7,595,216
Series 2005 Capital Improvement and Refunding	3/16/2005	94,355,000	.125 - 5.00%	21,558,168	-	2,726,833	-	24,285,001
Series 2006 VRA	3/14/2006	11,187,809	2.25%	-	-	8,360,614	-	8,360,614
Series 2006B VRA	9/28/2006	14,250,000	none	-	-	9,975,000	-	9,975,000
Series 2006 Capital Improvement and Refunding	11/15/2006	115,055,000	4.00 - 5.00%	13,261,424	-	1,088,444	325,132	14,675,000
Series 2007 VRDB	3/29/2007	32,365,000	Variable - June 30, 2014, rate of 0.05%	29,050,000	-	-	-	29,050,000
Series 2008A&B Refunding	2/13/2008	17,160,000	.00 - 4.625%	6,425,000	-	-	-	6,425,000
Series 2008C Capital Improvement	6/30/2008	153,605,000	4.70 - 5.00%	18,375,000	-	3,270,000	-	21,645,000
Series 2009A&B Refunding	5/21/2009	77,175,000	2.50 - 5.00%	44,412,944	547,786	530,648	138,622	45,630,000
Series 2010A Capital Improvement	1/21/2010	49,875,000	1.75 - 5.00%	15,909,129	-	1,191,708	3,324,163	20,425,000
Series 2010B Capital Improvement	1/21/2010	117,650,000	.04 - 5.962%	108,841,905	-	8,808,095	-	117,650,000
Series 2010E Capital Improvement	2/25/2010	5,000,000	2.00 - 4.00%	-	-	-	4,250,000	4,250,000
Series 2010F Capital Improvement	2/25/2010	5,000,000	2.50 - 5.60%	4,250,000	-	-	-	4,250,000
Series 2010G Refunding	5/21/2009	90,165,000	4.00 - 5.00%	81,488,752	-	6,778,721	197,527	88,465,000
Series 2012A Refunding	5/30/2012	69,030,000	2.00 - 5.00%	61,445,313	-	5,958,367	1,626,320	69,030,000
Series 2012B Refunding	5/30/2012	7,805,000	2.00 - 4.00%	7,615,000	-	-	-	7,615,000
Series 2012C Capital Improvement	6/27/2012	114,270,000	3.00 - 5.00%	88,190,000	-	20,540,000	-	108,730,000
Series 2012D Capital Improvement	6/27/2012	7,350,000	4.35%	7,350,000	-	-	-	7,350,000
Series 2013A Capital Improvements and Refunding	11/7/2013	130,990,000	2.00 - 5.00%	86,655,000	-	7,595,000	36,740,000	130,990,000
Series 2013B Capital Improvements and Refunding	11/7/2013	81,715,000	280 - 4.955%	-	-	-	81,715,000	81,715,000
Series 2013C QECB	11/7/2013	2,470,000	4.86%	2,470,000	-	-	-	2,470,000
Series 2013D	11/7/2013	13,600,000	Variable - June 30, 2014, rate of 1.10520%	-	-	-	13,600,000	13,600,000
Series 2014 Refunding	4/2/2014	65,155,000	2.00 - 5.00%	52,231,220	-	12,923,780	-	65,155,000
Series 2014A	6/2/2014	11,725,000	1.40%	10,001,425	-	1,723,575	-	11,725,000
Total General Obligation Bonds				$ 665,384,732	$ 547,786	$ 104,851,062	$ 141,916,764	$ 912,700,343

			Business-type Activities		
Bond Issue/Purpose	Dated	Interest Rate	Water Utility	Wastewater Utility	Balance Outstanding
Series 2005 Water Revenue and Refunding	3/23/2005	3.50 - 5.00%	16,520,000	-	16,520,000
Series 2007 Wastewater Revenue	11/9/2007	0.00%	-	13,175,000	13,175,000
Series 2008 Water Revenue	4/23/2008	3.00 - 5.00%	53,300,000	-	53,300,000
Series 2009 Wastewater Revenue	11/17/2009	0.00%	-	6,375,000	6,375,000
Series 2010 Water Revenue	9/30/2010	2.00 - 4.50%	44,635,000	-	44,635,000
Series 2010 Wastewater Revenue	10/19/2010	0.00%	-	9,000,000	9,000,000
Series 2011 Wastewater Revenue	10/21/2011	0.00%	-	9,067,500	9,067,500
Series 2012 Water Revenue Refunding	4/4/2012	2.00 - 5.00%	167,670,000	-	167,670,000
Series 2012 Wastewater Revenue	12/18/2012	0.00%	-	9,410,186	9,410,186
Series 2013 Water Revenue	2/20/2013	5.00%	43,070,000	-	43,070,000
Series 2013 Wastewater Revenue	12/12/2013	0.00%	-	1,926,942	1,926,942
Total Revenue Bonds			$ 325,195,000	$ 48,954,628	$ 374,149,628

The Series 2013C General Obligation Variable Rate Bond reset at an interest rate of 1.1052% as of June 30, 2014 (see Note VII).

The Series 2007 General Obligation Variable Rate Demand Bonds, utilized to finance the construction of the cruise terminal, are remarketed weekly and reset at an interest rate of 0.05% as of June 30, 2014 (see Note VII).

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
2015	48,199,880	28,407,595	11,545,334	9,007,118
2016	44,739,139	27,108,939	10,499,914	8,791,363
2017	44,436,893	25,250,449	11,381,621	8,491,894
2018	43,714,116	23,277,498	11,201,920	8,087,059
2019	47,108,725	21,116,111	10,941,744	7,944,599
2020-2024	206,904,120	76,214,608	57,994,394	34,317,222
2025-2029	140,416,145	35,341,158	53,261,398	23,782,450
2030-2034	70,675,714	9,728,885	40,524,287	13,995,229
2035-2039	13,735,000	2,128,671	39,965,000	4,535,666
2040-2044	5,455,000	579,778	-	-
Total	$ 665,384,732	$ 249,153,692	$ 247,315,612	$ 118,952,601

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
2015	547,786	13,695	7,761,982	3,604,059	3,235,566	5,389,364
2016	-	-	7,356,839	3,478,009	3,143,075	5,313,354
2017	-	-	7,268,171	3,235,593	4,113,450	5,256,301
2018	-	-	6,914,614	2,892,761	4,287,306	5,194,297
2019	-	-	6,909,032	2,829,665	4,032,711	5,114,935
2020-2024	-	-	34,559,874	10,510,144	23,434,519	23,807,079
2025-2029	-	-	26,711,262	4,220,102	26,550,137	19,562,347
2030-2034	-	-	7,369,288	759,461	33,155,000	13,235,768
2035-2039	-	-	-	-	39,965,000	4,535,666
	$ 547,786	$ 13,695	$ 104,851,062	$ 31,529,794	$ 141,916,764	$ 87,409,111

C. Revenue Bonds

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

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

As of June 30, 2014, $1,926,942 had been drawn to pay for capital project expenses. Additional draws for project expenses of $1,120,255 and $4,474,436 from bond issuances in fiscal year 2012 and 2013 respectively, resulted in total VRA drawdowns of $7,521,633 for fiscal year 2014. In conjunction with the state water control board, the VRA administers and manages the Virginia Water Facilities Revolving Fund and the Bond was sold at a true interest cost of 0%.

The detailed requirements to amortize Water and Wastewater revenue bonds are as follows:

Year Ending	Water Revenue		Wastewater Revenue	
June 30,	Principal	Interest	Principal	Interest
2015	$ 7,805,000	$ 15,398,269	$ 2,490,000	$ -
2016	8,750,000	15,047,794	2,741,856	-
2017	10,655,000	14,591,519	2,741,856	-
2018	13,860,000	13,994,269	2,741,856	-
2019	14,820,000	13,291,244	2,741,856	-
2020-2024	89,310,000	54,270,394	13,709,282	-
2025-2029	75,720,000	32,717,994	13,709,282	-
2030-2034	43,325,000	19,207,963	7,526,782	-
2035-2039	43,000,000	9,177,291	551,858	-
2034-2043	17,950,000	1,513,853	-	-
Total	$ 325,195,000	$ 189,210,590	$ 48,954,628	$ -

*Wastewater Revenue Bonds were issued by Virginia Resources Authority at 0% interest

D. Current and Advanced Refundings

The City completed a three-prong sale of $215,175,000 in general obligation (GO) bonds on October 17, 2013. The negotiated sale of GO Capital Improvement Bonds included $81,715,000 in traditional tax-exempt GO bonds to fund the cash flow needs of the City's Capital Improvement Program. Further, the City completed the sale of $130,990,000 of GO Refunding Bonds that refunded previously existing Parking Revenue Bonds and a portion of the GO Bond Anticipation Notes. The City achieved a True Interest Cost (TIC) of 3.97% via negotiated sale, utilizing a syndicate led by Bank of America Merrill Lynch. Aggregate total savings of $3,804,009, or 5.16% of the original debt service requirements, benefitted the Parking Facilities Fund.

Additionally, the City sold $2,470,000 of GO Qualified Energy Conservation Bonds (QECBs). QECBs, authorized by the American Recovery and Reinvestment Act, are bonds with federal tax credits to the bond investor that result in the City paying substantially reduced. The proceeds of the QECB allocations will be issued to fund the costs associated with energy efficiency improvements with the goal of reducing energy consumption by applying energy efficient design features and technologies.

On April 2, 2014, the City sold $65,155,000 of General Obligation Refunding Bonds, Series 2014 that refinance previously issued General Obligation Bonds and lower the interest expense on the bonds. The City achieved a true interest cost (TIC) of 2.69% via negotiated sale, utilizing a syndicate led by Bank of America. The total net present value savings achieved was $4,544,079.75 representing 6.79% of the original bond par amount.

In addition to the fiscal year 2014 refunding transactions disclosed above, 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, 2014, the following defeased bonds from advance refunding are still outstanding:

General Obligation

Defeased In	Original Issue	Amount	Redemption
2010	2005	20,950,000	3/1/2015
2010	2006	7,650,000	10/1/2014
2010	2008C	23,135,000	4/1/2017
2012	2004	12,030,000	8/1/2014
2012	2005	5,580,000	3/1/2015
2012	2006	55,745,000	10/1/2014
2014	2008C	66,825,000	4/1/2017
		$ 191,915,000	

Water Revenue Bonds

Defeased In	Original Issue	Amount	Redemption
2012	2005	$ 2,720,000	11/1/2015

Parking Revenue Bonds

Defeased In	Original Issue	Amount	Redemption
2014	2005A	$ 24,330,000	2/1/2015

E. Forward General Obligation Refunding

On October 2, 2013, the City entered into a Bond Purchase and Loan Agreement with Banc of America Preferred Funding Corporation, under which the City has the ability to issue three separate bonds in the aggregate principal amount of $37,960,000 (collectively, the "Forward Refunding Bonds") to currently refund its outstanding General Obligation Refunding Bonds, Series 2004, General Obligation Capital Improvement and Refunding Bonds, Series 2005 and General Obligation Capital Improvement and Refunding Bonds, Series 2006.

The first of the forward refundings of $11,725,000 was completed on June 2, 2014, and refunded the existing General Obligation Refunding Bonds, Series 2004. By executing the forward refunding, the City achieved $526,194 in net present value savings. The second of the forward refundings was completed on October 1, 2014, which currently refunded the existing General Obligation Refunding Bonds, Series 2006. By executing the forward refunding in October 2013 on the Series 2006 Bonds, the City achieved $487,792 in net present value savings.

As with the first two forward refundings, the City has the ability to terminate the Forward Refunding Agreement without issuing the final Forward Refunding Bonds, and Banc of America is not required to purchase any Forward Refunding Bond unless the City satisfies certain advance conditions specified in the Forward Refunding Agreement.

F. 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 $6,464,172 for the fiscal year ended June 30, 2014.

Future year lease obligations are listed below:

Year Ending June 30,	Operating Lease Obligations
2015	$ 5,051,469
2016	4,493,432
2017	2,276,502
2018	923,494
2019	328,637
Thereafter	3,867,943
Total minimum lease payments	$ 16,941,477

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 Virginia Department of Environmental Quality (DEQ) approved the closure certification and officially designated the facility closed on August 2, 2002. State and federal laws require the City to perform certain maintenance and monitoring activities at the site for 10 years after regulatory closure. During the fiscal year ended June 30, 2010, the DEQ notified the City that it must demonstrate corrective action and 10 years of post-close care costs beyond December 31, 2010. The $2,418,000 reported as an obligation for landfill closure and post-closure costs at June 30, 2014, 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, $1,825,000 is included in the liability above for groundwater corrective action as required by state law. It is not anticipated that a corrective action will be approved within one year, as such the entire amount is reported as a long-term liability.

H. Compensated Absences

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

Primary Government:	
Governmental activities:	
General fund	$ 14,744,660
Non-major governmental and internal service funds	2,011,984
Total governmental	$ 16,756,644
Enterprise funds:	
Water Utility fund	$ 1,053,918
Wastewater Utility fund	358,665
Parking Facilities fund	255,396
Total enterprise funds	$ 1,667,979
Component Unit - School Board	$ 9,433,777

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, 2014, the City's debt limit is $1,842,141,212 of which $929,440,869 is available for the issuance 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, 2014 are as follows:

Projects	Total
General Obligation Bonds Authorized and Unissued:	
Capital Fund Projects	
General Capital Improvement Projects	$ 190,224,904
Maritime Center Capital Improvement Projects	-
Towing and Recovery Capital Improvement Projects	1,291,084
Storm Water Capital Improvement Projects	690,000
Capital Fund Projects Total	$ 192,205,988
Parking Facilities Fund Projects	11,910,929
Wastewater Utility Fund Projects	11,890,748
G.O. Bonds Authorized and Unissued	$ 216,007,665
Revenue Bonds Authorized and Unissued:	
Water Utility Fund Projects	90,085,932
Revenue Bonds Authorized and Unissued	90,085,932
Total Bonds Authorized and Unissued:	$ 306,093,597

K. Changes in Long-Term Obligations

A summary of fiscal year 2014 changes in long-term obligations, net of unamortized discounts and premiums, are as follows:

	Primary Government				
	Beginning Balance, restated	Additions	Reductions	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES:					
Bonds and Notes Payable:					
General obligation bonds	$ 637,943,425	$ 151,357,645	$ 123,916,338	$ 665,384,732	$ 48,199,880
Net Premiums	46,028,111	17,081,139	9,556,774	53,552,476	
Total Bonds and Notes Payable	683,971,536	168,438,784	133,473,112	718,937,208	48,199,880
Other Liabilities:					
Vested compensated absences	16,286,074	8,990,247	8,760,957	16,515,364	10,000,000
Other post-employment benefits	24,590,965	9,208,631	3,817,668	29,981,928	-
Retiree's life insurance	300,000	-	35,000	265,000	35,000
Self-insurance	30,837,179	5,527,877	7,309,828	29,055,228	4,137,702
Landfill closure and post-closure costs	1,412,900	1,005,100	-	2,418,000	800,000
Total Other Liabilities	73,427,118	24,731,855	19,923,453	78,235,520	14,972,702
Governmental Activities					
Long-term liabilities	757,398,654	193,170,639	153,396,565	797,172,728	63,172,582
Internal Service Funds:					
Vested compensated absences	246,140	-	4,860	241,280	168,896
Total Internal Service Funds	246,140	-	4,860	241,280	168,896
Total Governmental Activities	$ 757,644,794	$ 193,170,639	$ 153,401,425	$ 797,414,008	$ 63,341,478
BUSINESS-TYPE ACTIVITIES:					
Bonds and Notes Payable:					
Water	$ 333,543,833	$ -	$ 7,801,047	$ 325,742,786	$ 8,352,786
Wastewater	147,945,244	29,763,989	23,903,543	153,805,690	10,251,982
Parking facilities	153,086,043	132,055,000	143,224,279	141,916,764	3,235,566
Net Premiums	46,729,521	6,748,412	4,825,138	48,652,795	
Total Bonds and Notes Payable	681,304,641	168,567,401	179,754,007	670,118,035	21,840,334
Other Liabilities:					
Vested compensated absences	1,739,414	864,524	935,959	1,667,979	922,206
Other post employment benefits	2,768,619	663,875	377,400	3,055,094	-
Total Other Liabilities	4,508,033	1,528,399	1,313,359	4,723,073	922,206
Total Business-Type Activities	$ 685,812,674	$ 170,095,800	$ 181,067,366	$ 674,841,108	$ 22,762,540
COMPONENT UNITS:					
Bonds and Notes Payable:					
Waterside Associates	$ -	$ -	$ -	$ -	$ -
Other Liabilities - Norfolk Public Schools:					
Vested compensated absences	9,254,571	9,960,644	9,781,438	9,433,777	7,033,777
Other post employment benefits	14,092,158	4,342,609	3,381,441	15,053,326	-
Pollution remediation		-	-	-	-
Workers' compensation claims	2,773,723	1,474,360	502,039	3,746,044	318,515
Claims liability	46,184	136,695	131,785	51,094	30,866
Component Units long-term obligations	$ 26,166,636	15,914,308	$ 13,796,703	$ 28,284,241	$ 7,383,158

IX. Pension Plans

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

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

Plan Description

The ERS is the administrator of a single-employer contributory, defined benefit plan (the Plan) that covers substantially all employees of the City, excluding School Board and Constitutional Officers' employees who are covered by the Virginia Retirement System. The ERS 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 ERS and its benefits are established by Section 37 of the Code of the City of Norfolk, Virginia as amended. All employees hired on or after October 5, 2010 contribute 5% of compensation to the benefit plan. The Norfolk Community Services Board employees became City employees on July 1, 2012 and were required to contribute the additional 5% regardless of hire date. 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. ERS adopted GASB 67 effective July 1, 2013. The City will adopt GASB 68 in fiscal year 2015.

Plan Membership

As of June 30, 2014, the plan membership consists of the following:

Retirees and Beneficiaries receiving benefits:	
General	2,537
Public Safety	1,181
Vested Former Members:	
General	823
Public Safety	229
Active Plan Members:	
General	2,725
Safety	1,219
	8,714

Plan Benefits

ERS provides retirement benefits as well as death and disability benefits. All benefits vest after five years of creditable service. Employee eligibility requirements are as follows:

Retirement (for employees who became members prior to July 1, 1980): Normal retirement is the earlier of age 60 or after completion of 30 years of credited service for general employees, and the earlier of age 55 or after the completion of 25 years of credited service for public safety employees. The normal service retirement benefit per annum is equal to 2.0% of average final compensation (average of the three highest years of compensation) times years of creditable service, with service limited to 35 years. Public safety employees accrue benefits at 2.5% of average final compensation times years of creditable service, not to exceed 65% of average final compensation. Mandatory retirement is age 65 for public safety employees.

Retirement (for employees who became members on or after July 1, 1980): Normal retirement is the earlier of age 60 or after completion of 30 years of credited service for general employees, and age 55 or after the completion of 25 years of credited service for public safety employees. The normal service retirement benefit per annum for general employees is equal to 1.75% of average final compensation times years of creditable service, with service limited to 35 years. Public safety employees accrue benefits at 2.5% of average final compensation times years of creditable service, not to exceed 65% of average final compensation. Mandatory retirement is age 65 for public safety employees.

The Employees' Retirement System(the System) is established by Section 37 of the Code of the City of Norfolk, Virginia, 1979, as amended 1997. The benefit provisions of the System are also determined by this Code section.

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 $38,263,500 for the fiscal year ended June 30, 2014 was based on 12.04% of covered payroll for general employees and for public safety employees. This contribution requirement is recorded in the City's *Statement of Net Position* as a liability payable to the Pension Trust fund and will be made in fiscal year 2015.

Annual Pension Cost

For fiscal year 2014, the ERS's annual pension cost was equal to the City's required and actual contribution under the provisions of GASB 27. The required contribution was determined as part of the June 30, 2014 actuarial valuation.

Three-Year Trend Information

Fiscal Year Ended	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
June 30, 2012	$ 41,466,456	100%	$ -
June 30, 2013	$ 42,330,492	100%	$ -
June 30, 2014	$ 38,263,500	100%	$ -

Funding Status and Funding Progress

The schedule of funding progress, as required under GASB 27, which presents current year information about the actuarial value of the Plan assets and the actuarial accrued liability for pension benefits is as follows:

CITY - EMPLOYEES' RETIREMENT SYSTEM

Valuation Date	Value of Assets	Liability (AAL)	Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	Covered Payroll
June 30, 2014	$1,011,500,000	$1,197,466,212	$185,966,212	84.5%	$182,300,000	102.3%

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

Investment Policy

The Board of Trustees of the ERS has full power to invest and reinvest the trust funds in accordance with Section 51.1-124.30 of the Code of Virginia (1950), as amended. This section requires the board to discharge its duties solely in the interest of the beneficiaries and to invest the assets with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The Board must also diversify such instruments so as to minimize the risk of large losses unless under the circumstances, it is clearly prudent not to do so. The following was the Board's adopted asset allocation policy as of June 30, 2014:

Asset Class	Target Allocation
Fixed Income	35%
Domestic equity	33%
International equity	22%
Real estate	5%
Master limited partnerships	5%

For the year ended June 30, 2014, the annual money-weighted rate of return on investment, net of pension plan investment expense, was 14.38%. The Money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Actuarial Assumptions

The actuarial assumptions above are based on the presumption that the ERS will continue indefinitely. Were the System to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial accrued liability.

For the June 30, 2014 actuarial valuation, the actuarial assumptions included the following:

Actuarial Costs Method	Entry Age Normal
Amortization Method	Level Percent Closed, 20-year layers
Amortization Growth Rate	3%
Asset Valuation Method	3-year Smoothed value
Inflation Rate	3.0%
Salary Increases – General Employees	Average of 5.64% over a 30 year career; based on rates that vary by year of service and are compounded annually
Salary Increases – Public Safety Employees	Average of 6.68% over a 30 year career; based on rates that vary by year of service and are compounded annually
Investment Rate of Return	7%
Mortality	RP-2000 Combined Healthy Mortality projected to 2010 by scale AA for healthy lives; RP-2000 Disabled Mortality projected to 2010 by Scale AA for disabled lives.

The long-term expected rate of return on ERS investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 are summarized in the following table:

Asset Class	30 Year 2014 Long-Term Expected Real Rate of Return
Private Core Real Estate	5.00%
Master Limited Partnerships	6.00%
Core Fixed Income	1.75%
Core Plus Income	2.25%
International Equity (AWI ex US)	5.81%
Domestic Equity (Russell 3000)	4.50%

Discount rate

The discount rate used to measure the total pension liability was 7.0 percent under both GASB 27 and 67. For the purposes of applying GASB 67, the projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long- term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability under GASB 67.

Net Pension Liability

The components of the net pension liability of ERS under GASB 67 at June 30, 2014, were as follows:

Total Pension Liability	$ 1,197,466,212
Plan Fiduciary Net Position	(1,036,178,960)
County's Net Pension Liability	$ 161,287,252
Plan fiduciary net position as a percentage of total pension liability	86.53%

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability under GASB 67 of the ERS, calculated using the discount rate of 7.0 percent, as well as what the ERS's net pension liability would be if it were calculated using a discount rate that is 1-percent-point lower (6.0 percent) or 1-percentage-point higher (8.0 percent) than the current rate:

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
System's net pension liability	$ 285,502,068	$ 161,287,252	$ 54,715,590

B. School Board – Retirement Plan

Plan Description – Virginia Retirement System (VRS)

The School Board contributes to the Virginia Retirement System (VRS), an agent, which administers both an agent multiple-employer (for non-professionals) and a cost-sharing multiple-employer (for professionals) defined benefit pension plan for the School Board. All full-time, salaried permanent employees of the School Board must participate in the VRS. Benefits vest after five years of service. Members

hired before July 1, 2010 and who were vested as of January 1, 2013 are covered under Plan 1. Members hired or rehired on or after July 1, 2010 and Plan 1 members who were not vested on January 1, 2013 are covered under Plan 2. Members hired on or after January 1, 2014 are covered under the Hybrid Retirement Plan (Hybrid Plan) as well as Plan 1 and 2 members who are eligible and opted in during the election window which was January 1, 2014 to April 30, 2014. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2 and the Hybrid Plan, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for nonhazardous duty members is 1.70%. The multiplier for Plan 2 members was reduced to 1.65% effective January 1, 2013 unless they are hazardous duty employees and their employer has elected the enhanced retirement multiplier. The multiplier for the Hybrid Plan is 1.0%.

Retirees are eligible for an annual cost-of-living-adjustment (COLA) effective July 1 of the second calendar year after retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2 and the Hybrid Plan, the COLA cannot exceed 3.00%. 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 General Assembly of Virginia.

VRS issues a publicly available Comprehensive Annual Financial Report that includes financial statements and required supplementary information for VRS. The report may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications or obtained by writing the VRS System at PO Box 2500, Richmond, VA 23218-2500.

Funding Policy

Title 51.1 of the Code of Virginia (1950), as amended, requires plan members to contribute 5% of their annual reported compensation to the VRS. Prior to 2013, the School Board had assumed the 5% member contribution for its employees. Beginning on July 1, 2012, employees are required to pay the 5% member contribution. The employer was required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. The School Board elected to require employees to pay the full 5% member contribution beginning on July 1, 2012. In addition, the School Board is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The School Board's professional and non-professional employees' contribution rates for the fiscal year ended June 30, 2014 were 11.66% and 11.10% of annual covered payroll (not including 5% employee contribution). The School Board's contributions to the VRS for the fiscal years ended June 30, 2014, 2013, and 2012 for professional employees were $24,395,994, $24,033,904, and $22,597,524, respectively, such amounts comprising 100% of the required statutory contributions for each of the three years.

Annual Pension Cost – Agent Multiple-Employer Plan

For 2014, the School Board's annual pension costs of $1,734,810 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, 2011 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) 7.0% investment rate of return (net of administrative expenses), (b) projected salary increases of 3.75% to 5.60% and (c) 2.5% per year cost-of-living adjustments for Plan 1 members and 2.25% cost-of-living adjustments for Plan 2 members. Both (a) and (b) included an inflation component of 2.5%. The actuarial value of the School Board's assets is equal to the modified market value of assets. This method was determined using techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The amortization method is level percentage of projected payroll on a closed basis and the remaining amortization period is 30 years.

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

Fiscal Year Ended	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
June 30, 2012	$ 1,866,524	100%	$ -
June 30, 2013	$ 1,741,681	100%	$ -
June 30, 2014	$ 1,734,810	100%	$ -

Funding Status and Funding Progress

As of June 30, 2013, the most recent actuarial valuation date, the agent multiple employer plan was 75.92% funded. The actuarial accrued liability for benefits was $82,824,011, and the actuarial value of assets was $62,876,545 resulting in an unfunded actuarial accrued liability (UAAL) of $19,947,466. The covered payroll (annual payroll of active employees covered by the plan) was $15,733,483 and the ratio of the UAAL to the covered payroll was 126.78%. 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 current year 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)	(Overfunded) Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	as a % of Covered Payroll
June 30, 2013	$62,876,545	$82,824,011	$19,947,466	75.92%	$15,733,483	126.78%

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

C. State Employees – Virginia Retirement System (VRS)

Plan Description

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

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. 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, 2014 was 12.32% of annual covered payroll.

Annual Pension Cost

For 2014, the City's annual pension cost of $3,114,132 was equal to the City's required and actual contribution. The required contribution was determined as part of the June 30, 2012 actuarial valuation using the entry age normal actuarial cost method. The amortization method is level percent open. These rates are effective from July 1, 2013 through June 30, 2014. The actuarial assumptions included: (a) 7% investment rate of return; (b) projected salary increases that range between 3.50% to 5.35% per year, and (c) 2.5% per year cost-of-living adjustments for Plan 1 members and 2.25% for Plan 2 members. Both (a) and (b) include an inflation component of 2.5%. The actuarial value of the City's assets is equal to the modified market value of assets. This method was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The remaining amortization period is 30 years.

Trend information for the City VRS plan is as follows:

Fiscal Year Ended	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
June 30, 2012	$3,212,447	100%	$ -
June 30, 2013	$3,134,547	100%	$ -
June 30, 2014	$3,114,312	100%	$ -

Funding Status and Funding Progress

The schedule of funding progress which presents current year 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, 2013	$64,945,523	$81,033,885	$16,088,362	80.1%	$27,299,674	58.9%

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

X. Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all City employees, permits them to defer a portion of their salary until future years. In the calendar year 2014, the deferral may be up to 25% of gross income up to a maximum of $17,500 per year with increases to the annual contribution limit for catch-up contributions for participants over age 50 or for participants for three years prior to normal retirement age. The benefits from the deferred compensation plan are not available to employees until termination, retirement, death or unforeseeable emergency.

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

XI. Other Post-employment Benefits (OPEB)

Plan Description

The City of Norfolk and the Norfolk School Board provide post-retirement health care benefits, in accordance with adopted statutes, which require extending access to healthcare benefits to certain retirees. General City employees are eligible to participate at the earlier of age 55 and 15 years of creditable service or 25 years of creditable service. City firefighters and police officers, who have a mandatory retirement age of 65, are eligible to participate at the earlier of age 50 and 15 years of creditable service or 20 years of creditable service. Employees who retire on accidental disability are also eligible. Grandfathered school employees (hired prior to July 1, 2008) who are older than age 50 with at least 5 years of service are eligible as well as non-grandfathered school employees who are older than age 50 with 15 years of creditable service. Retirees that elect to participate may purchase health care coverage using the same health care plans and premium structures available to active employees. Retiree participation, plan/benefit elections and contributions, are administered by the City's Retirement Bureau and the City's and the Schools' benefits offices based on the participation guidelines established by Norfolk City Council and Norfolk School Board. Benefits are currently managed on a pay-as-you-go basis rather than use of an irrevocable trust and a separate financial report of the OPEB Plan is not issued. The Plan is considered a single-employer plan. As of July 1, 2012, the City became responsible for payment of the Line of Duty Act benefits (LODA). These benefits, which cover certain hazardous duty personnel who are paid or who volunteer, are included as OPEB obligations in the City's financial statements.

Funding Policy

No employee contributions are required prior to retirement to participate in or fund the OPEB Plan. The City and Schools committed to a set contribution amount as an explicit subsidy of $25 per month for the City and $75 per month for the Schools per participating retiree. Effective January 1, 2014, the City and Schools eliminated health care coverage for post 65 retirees (e.g. retirees eligible for Medicare) along with the $25 and $75 monthly subsidy, respectively. The pre-65 retirees will continue to receive the

subsidy and will participate in the consortium with the active employees. Retirees may not convert the benefit into an in-lieu payment to secure coverage under independent plans. The Plan sponsors also pay an implicit subsidy by allowing retirees to participate in the same benefit plans under the same premium structure as available to active employees, however, the Plan sponsors are not required to fund the plan other than the pay-as-you-go amount necessary to provide current benefits to employees.

The annual required contribution was determined as part of the July 1, 2013 actuarial valuation using the entry age normal actuarial cost method. The amortization method is level percent open. The actuarial assumptions included: (a) 3.5% investment rate of return and (b) projected salary increases of 3.5% per year. Both (a) and (b) include a medical inflation component of 9.0% (pre-Medicare) grading to 4.0% over 15 years. The actuarial value of the City's assets is equal to the market value of assets. The remaining amortization period is a rolling 30 years.

Annual OPEB Cost and Net OPEB Obligation

The City's and School's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with GASB Statements No. 43 and 45. Under these Statements, 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 ARC represents a level of funding that, if paid on an on-going basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

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

City Employees and Retirees				
June 30, 2012	$ 8,066,866	40%	$	25,458,971
June 30, 2013	$ 6,370,152	59%	$	27,359,584
June 30, 2014	$ 5,363,162	59%	$	30,337,282
Line of Duty Benefits				
June 30, 2014	$ 3,734,104	28%	$	2,699,740
School Employees and Retirees				
June 30, 2012	$ 5,806,648	80%	$	11,711,301
June 30, 2013	$ 4,728,548	83%	$	14,092,158
June 30, 2014	$ 3,630,442	93%	$	15,053,326

The actuarial liabilities of the Plans as of July 1, 2013 are shown below:

	City	Line of Duty	Schools	Total
Actuarial liability:				
Active employees	$ 30,532,920	$ 6,423,267	$ 34,331,974	$ 71,288,161
Retirees	17,600,862	13,522,360	12,118,883	43,242,105
Total actuarial liability	$ 48,133,782	$ 19,945,627	$ 46,450,857	$ 114,530,266
Less: plan assets	-	-	-	-
Unfunded actuarial accrued liability (UAAL)	$ 48,133,782	$ 19,945,627	$ 46,450,857	$ 114,530,266

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:

	City	Line of Duty	Schools	Total
Expected Net OPEB obligation as of June 30, 2013	$ 27,359,584	$ -	$ 14,092,158	$ 41,451,742
Expected Employer contributions FY2013	(3,735,409)	-	(3,928,538)	(7,663,947)
ACTUAL Employer Contributions FY2013	(2,960,169)	-	(3,216,371)	(6,176,540)
Increase In net OPEB Obligation	775,240	-	712,167	1,487,407
Adjusted Net OPEB obligation as of June 30, 2013	28,134,824	-	14,804,325	42,939,149
Annual required contribution (ARC) for FY2014	$ 5,282,794	$ 3,730,368	$ 3,588,153	$ 12,601,315
Interest on net OPEB obligation	1,125,393	52,313	592,173	1,769,879
Adjustment to ARC	(1,045,025)	(48,577)	(549,885)	(1,643,487)
Annual OPEB COST	$ 5,363,162	$ 3,734,104	$ 3,630,442	$ 12,727,708
Plus: adjustment to FY2013 contributions				
Less: expected contributions made	(3,160,704)	(1,034,364)	(3,381,441)	(7,576,509)
Increase in net OPEB obligation	$ 2,202,458	$ 2,699,740	$ 249,001	$ 5,151,199
Net OPEB obligation as of June 30, 2014	$ 30,337,282	$ 2,699,740	$ 15,053,326	$ 48,090,348

Funded Status and Funding Progress

As of July 1, 2013, the most recent actuarial valuation date, the combined OPEB Plans were unfunded. The combined actuarial accrued liability for benefits was $114.5 million and the actuarial value of assets was $0 resulting in an unfunded actuarial accrued liability (UAAL) of $114.5 million. The combined covered payroll of active City and School employees covered by the plan was $426.2 million, and the ratio of the UAAL to the covered payroll was 26.9%. 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 current year 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, 2013	$ -	$ 48,133,782	$ 48,133,782	0.0%	$ 180,447,292	26.7%
Line of Duty Benefits						
July 1, 2013	$ -	$ 19,945,627	$ 19,945,627	0.0%	$ 62,477,160	31.9%
SCHOOL EMPLOYEES AND RETIREES						
July 1, 2013	$ -	$ 46,450,857	$ 46,450,857	0.0%	$ 183,295,993	25.3%

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, 2013 with results projected for the fiscal year ended June 30, 2014. The entry age normal actuarial cost method was used with a level percent open amortization method over 30 years. A discount rate of 4.0% was used. Annual rates of health care inflation used were 8.67% (pre-Medicare) grading to 4.0% over 14 years and the annual rate of salary increases used was 3.5%.

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

XII. Interfund Receivable and Payable Balances

The composition of interfund activity as of June 30, 2014 is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Capital Projects Fund	$ 5,889,063
	Non-major governmental funds	8,790
	Water Utility fund	1,540,376
	Total General fund	$ 7,438,229
Capital Projects Fund	Water Utility fund	$ 205,272
	Wastewater Utility fund	29,486
	Total Capital Projects fund	$ 234,758
Non -major governmental funds	General Fund	$ 18,836
	Total Governmental funds	$ 7,691,823

Receivable Fund	Payable Fund	Amount
Fleet Management Fund	General Fund	$ 915
	Total Internal Service funds	$ 915
	Total Due From Other Funds	$ 7,692,738

Payable Fund	Receivable Fund	
General Fund	Non-major governmental funds	$ 18,836
	Waste Water	10,605
	Internal Service - Fleet	915
		$ 30,356
Capital Projects Fund	General Fund	$ 5,889,063
	Water Utility	4,859
		$ 5,893,922
Non -major governmental funds	General Fund	$ 8,790
	Total Governmental funds	$ 5,933,068

Payable Fund	Receivable Fund	
Water Utility fund	General Fund	$ 1,540,376
	Capital Projects Fund	200,413
		$ 1,740,789
Wastewater Utility fund	Capital Projects Fund	$ 29,486
	General Fund	(10,605)
		$ 18,881
	Total Enterprise funds	$ 1,759,670
	Total Due to Other funds	$ 7,692,738

XIII. Interfund Transfers

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.

The following interfund transfers occurred during fiscal year 2014:

Fund	In	Out
General	$ 12,408,836	$ 85,768,426
Capital projects	6,156,706	42,689
Debt Service	77,082,711	1,231,840
Nonmajor govt	11,985,030	8,181,492
Internal Service	-	2,356,921
Water	-	8,500,000
Wastewater	-	1,500,000
Parking	-	51,915
	$ 107,633,283	$ 107,633,283

The purpose of the transfer balances are as follows:

General fund transfers in of $12,408,836 include $8,500,000 from the Water Utility fund and $1,500,000 from the Wastewater Utility fund which represent a return on investment back to the General fund, $2,356,921 from the closing of the Storehouse fund, and $51,915 from the Parking Facilities fund to cover parking costs of cruise customers at the Maritime Facility.

The General fund transfers out of $85,768,426 represent a transfer of $72,516,849 to the Debt Service fund to fund general obligation debt, $2,109,666 to the Capital Projects fund as a contribution for the annual capital improvement plan budget, $5,971,395 to the Community Services Board fund in support of the facility operations, $3,685,186 to the Grants special revenue fund in support of grant projects, $701,380 to the Cemeteries special revenue fund, and $783,950 to the Emergency Operations Center/E-911 special revenue fund.

Debt service transfers of $77,082,711 include $2,986,514 from the Storm Water special revenue fund, $890,405 from the Public Amenities special revenue fund, $53,323 from the Towing and Recovery special revenue fund, $635,620 from the Tax Increment special revenue fund and $72,516,849 from the General fund to fund the current fiscal year's debt service payments.

The Storm Water special revenue fund transferred $2,986,514 to the Debt Service fund to cover its general obligation debt service cost and $1,315,200 to the Capital Project Fund to support the fund's capital related projects.

The Capital Projects fund transferred $42,689 to the Grants special revenue fund in support of grant projects. Capital projects transfers in included $1,231,840 from the Debt Service Fund.

The Public Amenities special revenue fund transferred $1,500,000 to the Capital Projects fund in support of the fund's capital related projects, and $890,406 to cover its general obligation debt service cost.

The Towing Recovery Operation special revenue fund transferred $53,323 to the Debt Service fund to cover its general obligation debt service cost.

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

The Tax Increment special revenue fund transferred $635,620 to the Debt Service fund to fund current fiscal year debt service payments.

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 $51,915 to the General fund to cover parking costs of cruise customers at the Maritime Facility.

The Cemetery fund transferred $494,850 to the Golf Fund.

XIV. Fund Balance by Functional Category (GASB 54)

In the fund financial statements, fund balances for governmental funds are reported in classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purpose for which amounts in the funds can be spent. Fund balances are reported in five components as follows:

	General fund	Capital Projects fund	Non-major Governmental funds	Total Governmental funds
FUND BALANCES				
Restricted				
- General government	$ 265,000	$ 1,734,601	$ 53,712	$ 2,053,313
- Judicial administration	-	-	361,930	361,930
- Public safety	-	33,209	781,462	814,671
- Public w orks	-	8,530,474	1,320,241	9,850,715
- Health and public assistance	-	-	1,388,080	1,388,080
- Culture and recreation	-	363,636	5,971,311	6,334,947
- Community development	-	271,232	987,464	1,258,696
Total Restricted	265,000	10,933,152	10,864,200	22,062,352
Committed				
- General government	3,000,000	239,475	-	3,239,475
- Public w orks	-	-	3,074,409	3,074,409
- Health and public assistance	-	-	1,774,862	1,774,862
- Culture and recreation	-	-	200,447	200,447
- Other purposes capital	-	14,240,216	-	14,240,216
Total Committed	3,000,000	14,479,691	5,049,718	22,529,409
Assigned				
- General government	2,413,486	45,106	-	2,458,592
- Public safety	-	-	4,004,012	4,004,012
- Public w orks	2,973	521,802	419,672	944,447
- Health and public assistance	-	-	1,917,017	1,917,017
- Culture and recreation	61,598	1,030,930	15,803,794	16,896,322
- Community development	3,017,961	1,615,236	-	4,633,197
- Education	246,600	-	-	246,600
(FY-14 Budget appropriation)	18,158,178	839,052	-	18,997,230
Total Assigned	23,900,796	4,052,126	22,144,495	50,097,417
Unassigned	58,099,913	-	(1,556,529)	56,543,384
Total Unassigned	58,099,913	-	(1,556,529)	56,543,384
Total fund balances	$ 85,265,709	$ 29,464,969	$ 36,501,884	$ 151,232,562

XV. Other Liabilities

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

Governmental Funds:	
General fund - miscellaneous	$ 3,651,643
Nonmajor funds - miscellaneous	109,675
	$ 3,761,318
Internal Service Funds:	
Healthcare Claims	$ 5,705,786
Fleet Management fund - miscellaneous	1,305
	$ 5,707,091
Enterprise Funds:	
Water Utility fund - miscellaneous	$ 3,679,784
Wastewater Utility fund - miscellaneous	90,208
Parking Facilities fund - miscellaneous	172,211
	$ 3,942,203
Fiduciary Funds:	
Other Agency fund	$ 4,395,685
Commonwealth of Virginia	26,161
	$ 4,421,846

XVI. Deferred inflows and Outflows of Resources

Deferred inflows and deferred outflows, as represented in the entity wide and fund financial statements at June 30, 2014 and are comprised of the following:

A. General Fund

Deferred inflows in the General Fund, representing uncollected tax billings not available for funding of current expenditures, were $26,367,333 as of June 30, 2014.

B. Deferred Inflows and Outflows from Refunding Transactions

Refunding transactions for the City of Norfolk have resulted in a Loss on Defeasance on the entity wide financial statements of $18,393,414 for Governmental activities and $7,502,283 for Business-type activities which consists of a loss of $2,010,101 for the Water Utility, $2,533,742 for the Wastewater Utility and $2,958,440 for Parking Facilities. Gains on the Defeasance of debt are reported on the financial statements as deferred inflows of resources and were $100,617 for governmental activities and $17,339 for business type activities, specifically the Wastewater Utility.

XVII. Commitments and Contingencies

A. Capital Projects

Commitments for completion of capital projects in the Business-Type Activities, authorized at June 30, 2014, are as follows:

Water Utility development projects	$39,719,626
Wastewater Utility development projects	13,859,513
Parking Facilities development projects	2,022,377
Total	$55,601,516

See Exhibit J-3 Capital Projects Fund Schedule of Expenditures for listing of capital projects in the Governmental Activities, authorized at June 30, 2014.

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.

On December 17, 2013 the U.S. Department of Housing and Urban Development (HUD), Office of the Inspector General (OIG) issued results of an audit of the City's Community Development Block Grant program. The findings recommended that HUD require the City to provide documentation or evidence to justify unsupported program costs or repay the cost to its program from non-Federal funds. The City and its sub-recipient, Norfolk Redevelopment and Housing Authority (NRHA), are working with the Richmond HUD field office to review all activities to submit a final recommendation to the OIG. While it is probable that repayment of some federal funds will be required, the estimated repayment amount cannot be determined at this time but the range of repayment is estimated to be from $0 to $5,000,000.

The City was a guarantor for $5,125,413 of VRA debt for the Southeastern Public Service Authority (SPSA) as of June 30, 2014. See Note XXI 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 paid the following liabilities for pollution remediation obligations: $85,637 associated with the cleanup of the Battleship Wisconsin, in order to open it to the public for tours, $59,696 associated with extensive renovation on the City Hall Building. The amount of the obligation is based on the contractor's experience in similar instances, taking into account sampling at the site, and applying usual and customary cost code rates. The potential for a change to the estimate is minimal.

	Primary Government				
	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES:					
Pollution remediation obligation	$ 108,019	$ 106,000	$ 145,334	$ 68,685	$ 68,685

E. Encumbrances

Encumbrances as of June 30, 2014 in the General Fund and Capital Projects fund totaled $8,780,888 and $69,104,468 respectively. Encumbrances as of June 30, 2014 for nonmajor governmental funds in the aggregate totaled $17,667,142.

XVIII. Surety Bonds and Insurance

Surety	Official	Amount
Commonwealth of Virginia	C. Evans Poston Jr., Commissioner of the Revenue	$ 3,000
	Anthony Burfoot, 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	$ 1,000,000

XIX. 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, pursuant to an ordinance adopted by City Council, to cover these risks. The program provides for the payment of claims liabilities, property losses, and related expenses covered by a combination of purchased insurance policies and self-insurance plans. The total of insurance premiums, self-insurance claims, and related expense payments made during fiscal year 2014 was $12,554,833.

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, 2014, these liabilities were estimated at $29,055,228 with $4,137,702 projected as the current portion anticipated to be paid within a year. Estimated liabilities at the end of fiscal year 2014 were determined by an independent actuary.

Effective January 1, 2014 the Norfolk Healthcare Consortium (Consortium) began participating in a city-administered health insurance fund, which is reflected as an internal service fund. The Consortium is comprised of the City, Norfolk Public Schools and Norfolk Redevelopment and Housing Authority. Each participating employee and employer deposits their respective premium into the fund. Medical claims, administrative costs, wellness programs costs, fees related to the Affordable Healthcare Act, and benefit consultant costs are expended from the fund. Employee premiums from city departments are netted against related expenses as a recovered cost. The City has recorded $5,705,786 for medical and pharmacy claims incurred but not reported as of June 30, 2014. Payments from the Norfolk Public Schools are made in 10 payments per year

instead of 12, so there is a portion recognized in the financial statements as unearned income. The unearned income as of June 30, 2014 was $8,179,915. The City is responsible for deficit conditions that may exist when liabilities exceed assets and may make additional assessments to consortium members as needed.

Changes in the City's claims liability amount in the fiscal years 2013 through 2014 are as follows:

	Workers Compensation and Risk Management		Health Insurance		Total	
	2014	2013	2014	2013	2014	2013
Estimated Outstanding Claims at the Beginning of year	$ 30,837,179	$ 31,400,391	$ -	$ -	$ 30,837,179	$ 31,400,391
Additional Incurred Claims or Changes in Estimates	5,527,877	4,300,504	$ 49,183,482	-	54,711,359	4,300,504
Claims Paid	(7,309,828)	(4,863,716)	(43,477,696)	-	(50,787,524)	(4,863,716)
Estimated Outstanding Claims at the End of year	$ 29,055,228	$ 30,837,179	$ 5,705,786	$ -	$ 34,761,014	$ 30,837,179

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

The Norfolk Public Schools (NPS) also self-insures its workers compensation and general liability and its future expected self-insured losses as of June 30, 2014 projected at $3,797,138 of which $349,381 is the current portion and a longer-term projection of $3,447,757. NPS provides payments for that entity's risks of loss through a combination of purchased insurance policies and self-insurance plans. These losses are funded through the Public Schools operating budgets and/or the City's fund balance designation.

Changes in the School Board's liability amount in the fiscal years 2013 through 2014 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
2013	$ 2,767,676	$ 794,005	$ 741,774	$ 2,819,907
2014	$ 2,819,907	$ 1,611,055	$ 633,824	$ 3,797,138

XX. 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, 2014. 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, 2014. 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 constructed the City's light rail system.

The participating governments do not have an equity interest in TDC, and accordingly, no equity interest has been reflected in the City's financial statements at June 30, 2014. Complete financial statements of TDC can be obtained from TDC.

XXI. Joint Venture

A. Southeastern Public Service Authority (SPSA)

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

In 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, 2014 were as follows:

Member community	Guarantee percentage	Principal guarantee
Chesapeake	22.49%	$ 6,788,606
Franklin	0.97%	292,794
Isle of Wight	3.98%	1,201,363
Norfolk	16.98%	5,125,413
Portsmouth	10.27%	3,100,000
Southampton	2.10%	633,885
Suffolk	12.87%	3,884,810
Virginia Beach	30.34%	9,158,129
	100.00%	$ 30,185,000

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, 2014. Complete financial statements of the SPSA can be obtained from SPSA.

B. The Slover Library Foundation (the Foundation)

The Slover Library Foundation, a not-for-profit organization, was formed on October 31, 2008 to participate in the funding of a new central library for the City. Construction began in early 2012 and is expected to be completed by early 2015. The new central library will be named the Samuel. L. Slover Library. Two historic downtown structures, the Seaboard Building and the Selden Arcade, will be joined by an architecturally significant structure to create the new technologically advanced library. Funding provided by the Foundation will be used for construction costs as well as purchase and maintenance of technology to be used in the library. The Foundation designates its own management, maintains its own books of account, engages its own independent accountant and receives its revenue from donations made by third parties.

XXII. 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.

B. Norfolk Airport Authority (The 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 Authority 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 facility rental fees, patron membership, planned giving 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.

XXIII. Adoption of New Accounting Pronouncements

The City of Norfolk implemented GASB 65 for the fiscal year ending June 30, 2014. GASB 65 required cost of issuance to be considered period costs and to be expensed in the year incurred. Below are the restated beginning fund balance which represent the change in accounting treatment of debt issuance costs:

	Governmental Activities	Water	Wastewater	Parking	Total Business-Type Activities
Beginning Net Position, July 1, 2013	$ 357,268,396	$ 223,786,829	$ 96,330,179	$ 51,346,202	$ 371,463,210
Adjustment for Debt Issuance Costs	(4,014,149)	(2,995,952)	(157,110)	(1,239,690)	(4,392,752)
Restated Beginning Net Position, July 1, 2013	$ 353,254,247	$ 220,790,877	$ 96,173,069	$ 50,106,512	$ 367,070,458

The new standard requires the disclosure of gain and loss on defeasance as deferred inflows and outflows. These items were previously recorded as part of bonds payable and have been reclassified as of June 20, 2013. The following amounts were reclassified:

	Loss on Defeasance
Governmental Funds	$ 15,048,745
Water Utility	2,121,773
Wastewater Utility	1,621,744
Parking Facilities	2,217,333
	$ 21,009,595

Previously, the annual required contribution was accrued by the Employee Retirement System upon authorization of the actuary's recommendation near the end of each fiscal year and approval of the respective appropriation by the City. Because the City is not legally obligated to contribute this amount to the Plan, GASB 67 does not permit the recognition of the employee contribution as a receivable. Therefore, the prior year employee contribution receivable that was paid in cash during the 2014 fiscal year was reflected in the Statement of Changes in Plan Net Position in accordance with GASB 67. In addition, the beginning Plan net position at June 1, 2013 was adjusted to remove the respective prior year employee contribution receivable. This change results in an adjustment to the plan net position available for pension benefits as of the beginning of the plan year, July 1, 2013 in the amount of $42,330,492.

Plan net position, June 30, 2013	$ 954,693,667
Adjustment under GASB 67	(42,330,492)
Plan net position, July 1, 2013	$ 912,363,175

XXIV. Subsequent Events

Forward General Obligation Refunding

As detailed in Note VIII (E), the City entered into a Bond Purchase and Loan agreement with Banc of America Preferred Funding Corporation and the second of the forward refundings in the amount of $9,915,000 was completed on October 1, 2014 refunding the existing General Obligation Refunding Bonds, Series 2006. The third and final refunding is scheduled for March 2015.

General Obligation Refunding Bonds, Series 2014C

On September 30, 2014, the City issued its $58,510,000 General Obligation Refunding Bonds, Series 2014C. The aggregate true interest cost of the 2014C Bonds was 2.44% and refunded the certain outstanding General Obligation Capital Improvement Bonds, Series 2009A and General Obligation Capital Improvement Bonds, the Series 2012C (Tax-Exempt). The aggregate total savings achieved was $2,341,537, or 4.11% of the refunded bonds.

Line of Credit

On December 17, 2014, the City established a revolving line of credit agreement with Bank of America Merrill Lynch ("BofAML") for up to $125,000,000. This line of credit will be used to provide flexible interim financing for capital improvements projects, including school construction. Borrowings under the line of credit bear interest payable semi-annually in February and August. Tax-exempt borrowings are at a rate of 70% of LIBOR, plus 40 basis points. Taxable borrowings are 100% of LIBOR, plus 50 basis points. LIBOR can be the 1, 3, 6 or 12 month LIBOR rate, chosen by the City on the date of each advance, and will be applicable through the end of the chosen LIBOR Period. The full faith and credit pledge of the City secures the line of credit which will be repaid through the issuance of general obligation bonds or other City sources. There is no minimum advance amount and each advance shall be made on three days' notice given by the City to BofAML. The commitment fee on the unutilized portion of the line will be paid annually in arrears and will be waived in full for any year that has average utilization of at least 40% for that 12-month period.

On December 17, 2014, an initial advance of $1,000,000 was made on the line of credit at the six month LIBOR Period, and therefore $124,000,000 is available. The City may prepay all or any portion of any advance without cost, penalty or premium, on the final business day of the then applicable LIBOR Period with ten (10) business days' electronic notice to BofAML. This line of credit will terminate and all amounts outstanding will be due and payable in full on December 17, 2017, the third anniversary of the closing date. However, the City may request an extension in writing within a time period no greater than 180 days prior to the expiration date of the line of credit and may terminate the agreement on any date 90 days after written notice is provided.

Election of School Board

The City of Norfolk is the only city in south Hampton Roads and one of the few cities in the state with a City Council appointed School Board. In November 2014 Norfolk citizens voted to elect School Board members and this election could occur with the next City Council election in 2016. The School Board would remain the same size at seven members.

Amendment to Fiscal Year 2015 Operating Budget

On October 28, 2014, City Council passed ordinance 45,763 to amend the fiscal year 2015 operating budget. City Council appropriated additional unexpected revenues and authorized various additional expenditures of $3,882,500 and appropriated an additional $1.0 million each to the Risk Management Reserve and the Economic Downturn Reserve.

Waterside Associates

On October 31, 2014 the Norfolk District Associates, LLC was delivered possession of the Waterside Festival Marketplace. Upon delivery Waterside Associates relinquished responsibility for managing operation activities and financial support of Waterside. Waterside Associates will be dissolved in fiscal year 2015.

XXV. Accounting Pronouncements Issued But Not Yet Implemented

The GASB has issued several pronouncements that will impact future financial presentations except for GASB Statement 68. Management has not determined what, if any, impact implementation of the following statements will have on the City.

- GASB Statement 68**:** *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No.27.* This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* as well as the requirements of Statement No. 50, *Pension Disclosures,* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The objective of GASB 68 is to improve accounting and financial reporting by state and local governments for pensions. Governments providing defined benefit pensions will be required to recognize their long-term obligation for pension benefits as a liability. The Statement also requires revised and new disclosures, and required supplementary information. It also requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014.

- GASB Statement 69**:** *Government Combinations and Disposals of Government Operations.* This Statement provides specific accounting and financial reporting guidance for the combination and disposal of entities in a governmental environment. This Statement also enhances the disclosures around these types of activities to improve the usefulness of financial reporting in this area. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2013. Earlier application is encouraged.

- GASB Statement 70**:** *Accounting and Financial Reporting for Non-exchange Financial Guarantees.* This Statement requires specific accounting for governments that extend a non-exchange financial guarantee as well as governments that have issued obligations guaranteed in non-exchange transactions. This Statement also specifies the information required to be disclosed in relation to these types of transactions. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013. Earlier application is encouraged.

- GASB Statement 71*: Pension Transition for Contributions Made Subsequent to the Measurement Date.* This statement will eliminate the source of a potentially significant understatement of restated beginning net position and expense in the first year of implementation of GASB 68 in the accrual-basis financial statements of employers and non-employer contributing entities. The provisions of this Statement should be applied with the implementation of GASB 68.

REQUIRED SUPPLEMENTARY INFORMATION

(*OTHER THAN MANAGEMENT'S DISCUSSION & ANALYSIS*)

(Unaudited)

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CITY OF NORFOLK, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress for Pension and Other Post-Employment Benefit Plans (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, 2009	$ 885,600,000	$ 1,029,600,000	$ 144,000,000	86.0%	$ 179,600,000	80.2%
June 30, 2010	$ 817,700,000	$ 1,046,800,000	$ 229,100,000	78.1%	$ 175,200,000	130.8%
June 30, 2011	$ 832,000,000	$ 1,064,000,000	$ 232,000,000	78.2%	$ 171,000,000	135.7%
June 30, 2012	$ 923,200,000	$ 1,144,400,000	$ 221,200,000	80.7%	$ 167,600,000	132.0%
June 30, 2013	$ 954,500,000	$ 1,159,700,000	$ 205,200,000	82.3%	$ 184,100,000	111.5%
June 30, 2014	$ 1,011,500,000	$ 1,197,500,000	$ 186,000,000	84.5%	$ 182,300,000	102.0%
CITY - VRS EMPLOYEES						
June 30, 2008	$ 47,154,626	$ 52,000,548	$ 4,845,922	90.7%	$ 25,854,549	18.7%
June 30, 2009	$ 51,470,652	$ 58,287,883	$ 6,817,231	88.3%	$ 25,997,389	26.2%
June 30, 2010	$ 54,256,199	$ 67,356,664	$ 13,100,465	80.6%	$ 24,538,680	53.4%
June 30, 2011	$ 57,891,181	$ 71,530,754	$ 13,639,573	80.9%	$ 24,538,681	55.6%
June 30, 2012	$ 59,996,468	$ 76,354,459	$ 16,357,991	78.6%	$ 24,676,799	66.3%
June 30, 2013	$ 64,945,523	$ 81,033,885	$ 16,088,362	80.1%	$ 27,299,674	58.9%
SCHOOL BOARD COMPONENT UNIT - VRS NON-PROFESSIONAL EMPLOYEES						
June 30, 2008	$ 66,558,849	$ 72,573,728	$ 6,014,879	91.7%	$ 17,520,165	34.3%
June 30, 2009	$ 65,474,071	$ 74,800,079	$ 9,326,008	87.5%	$ 16,948,926	55.0%
June 30, 2010	$ 64,120,661	$ 80,984,997	$ 16,864,336	79.2%	$ 16,243,835	103.8%
June 30, 2011	$ 63,440,533	$ 81,830,629	$ 18,390,096	77.5%	$ 15,357,257	119.7%
June 30, 2012	$ 61,872,968	$ 83,259,820	$ 21,386,852	74.3%	$ 14,886,664	143.7%
June 30, 2013	$ 62,876,545	$ 82,824,011	$ 19,947,466	75.9%	$ 15,733,483	126.8%
Other Post-employment Benefits (OPEB):						
CITY EMPLOYEES AND RETIREES						
July 1, 2009	$ -	$ 59,910,937	$ 59,910,937	0.0%	$ 171,944,051	34.8%
July 1, 2010	$ -	$ 60,204,591	$ 60,204,591	0.0%	$ 175,976,672	34.2%
July 1, 2011	$ -	$ 58,495,183	$ 58,495,183	0.0%	$ 170,921,920	34.2%
July 1, 2012	$ -	$ 57,193,058	$ 57,193,058	0.0%	$ 167,592,964	34.1%
July 1, 2013	$ -	$ 48,133,782	$ 48,133,782	0.0%	$ 180,447,292	26.7%
LINE OF DUTY BENEFITS						
July 1, 2013	$ -	$ 19,945,627	$ 19,945,627	0.0%	$ 62,477,160	31.9%
SCHOOL EMPLOYEES AND RETIREES						
July 1, 2009	$ -	$ 80,250,361	$ 80,250,361	0.0%	$ 198,943,586	40.3%
July 1, 2010	$ -	$ 82,776,654	$ 82,776,654	0.0%	$ 198,660,313	41.7%
July 1, 2011	$ -	$ 77,556,192	$ 77,556,192	0.0%	$ 171,691,191	45.2%
July 1, 2012	$ -	$ 69,496,659	$ 69,496,659	0.0%	$ 186,413,340	37.3%
July 1, 2013	$ -	$ 46,450,857	$ 46,450,857	0.0%	$ 183,295,993	25.3%
TOTAL						
July 1, 2009	$ -	$ 140,161,298	$ 140,161,298	0.0%	$ 370,887,637	37.8%
July 1, 2010	$ -	$ 142,981,245	$ 142,981,245	0.0%	$ 374,636,985	38.2%
July 1, 2011	$ -	$ 136,051,375	$ 136,051,375	0.0%	$ 342,613,111	39.7%
July 1, 2012	$ -	$ 126,689,717	$ 126,689,717	0.0%	$ 354,006,304	35.8%
July 1, 2013	$ -	$ 114,530,266	$ 114,530,266	0.0%	$ 426,220,445	26.9%

Note: Effective 1/1/14, the City and School Board no longer offer OPEB to retirees older than 65.
The liability has been adjusted for the change in benefits.

REQUIRED SUPPLEMENTARY INFORMATION FOR EMPLOYEES RETIREMENT SYSTEM

Schedule of Changes in Net Pension Liabiltiy and Related Ratios

	Unaudited **2014**
Total Pension Liability	
Service Costs	$ 24,578,758
Interest	80,203,196
Changes of benefit terms	20,689,842
Difference between expected and actual experience	(10,654,079)
Changes in assumptions	
Benefits Payments, Including refunds of Member Contributions	(77,065,376)
Net change in total pension liability	37,752,341
Total Pension Liability - Beginning	1,159,713,871
Total Pension Liability - Ending	$ 1,197,466,212
Plan Fiduciary Net position	
Employer Contibutions	$ 42,330,492
Employee Contibutions	1,671,644
Net Investment Income	157,291,834
Benefit payments, Includind refunds of member contributions	(77,065,376)
Administrative Expense	(412,809)
Net change in Fiduciary Net Position	123,815,785
Total Net Position - Restated Beginning	912,363,175
Total Net Position - Ending	1,036,178,960
Net Pension Liability	161,287,252
Plan fiduciary net position as a percentage of the total pension liability	86.53%
Covered-Employee payroll	182,298,248
Net Pension liability as a percentage of covered employee payroll	88.47%

Note: The Employees' Retirment System for the City of Norfolk implemented GASB 67 as of June 30, 2014. This schedule is required disclosure under the new accounting standard.

CITY OF NORFOLK, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION FOR EMPLOYEES RETIREMENT SYSTEM
Schedule of Contributions (Unaudited)
Last 10 Fiscal Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
City of Norfolk										
Actuarially determined contributions	$ 42,330,492	$ 41,466,456	$ 42,828,229	$ 35,515,472	$ 28,278,984	$ 25,667,556	$ 25,135,944	$ 25,728,228	$ 23,652,756	$ 23,469,744
Actual contribution	44,002,136	42,473,596	43,422,185	35,655,996	28,278,984	25,667,556	25,135,944	25,728,228	23,652,756	23,469,744
Contribution deficiency (excess)	(1,671,644)	(1,007,140)	(593,956)	(140,524)	-	-	-	-	-	-
Covered-Employee payroll	182,298,248	184,061,572	167,592,964	170,921,920	175,178,794	179,591,163	175,390,364	168,130,339	159,278,751	160,224,137
Contributions as a percentage of covered-employe	23.22%	22.53%	25.55%	20.78%	16.14%	14.29%	14.33%	15.30%	14.85%	14.65%

Schedule of Employer's Net Pension Liability and Related Ratios (Unaudited)

	2014
Total Pension Liability	$ 1,197,466,212
Plan Fiduciary Net Position	(1,036,178,960)
Employer's Net Pension Liability	$ 161,287,252
Plan Fiduciary Net Position as a Percentage of the Total Pension Liab	86.53%
Covered-Employee Payroll	$ 182,298,248
Employer's Net Pension Liability as a percentage of Covered-Empoye	88.47%

Calculation of Money-Weighted Rate of Return (Rmw) Unaudited
Current Fiscal Year

	Plan Investment/ Net External Cash Flows (a)	Periods Invested (b)	Period Weight (c) =(b) /12	(d)=(a) x (1+Rmw)(c)
Beginning Value - July 1	$ 925,523,365	12	1.00	$ 1,058,613,625
Monthly Net External cash flows:				
July	(2,600,000)	11	0.92	(2,940,769)
August	(2,600,000)	10	0.83	(2,908,027)
September	(2,700,000)	9	0.75	(2,986,251)
October	(2,800,000)	8	0.67	(3,062,373)
November	(3,000,000)	7	0.58	(3,244,582)
December	(3,000,000)	6	0.50	(3,208,458)
January	(2,300,000)	5	0.42	(2,432,430)
February	(2,800,000)	4	0.33	(2,928,249)
March	(2,900,000)	3	0.25	(2,999,063)
April	(3,000,000)	2	0.17	(3,067,936)
May	(3,000,000)	1	0.08	(3,033,778)
June	(3,200,000)	0	0.00	(3,200,000)
Ending Value - June 30	$ 1,022,601,389			

Schedule of Investment Returns(Unaudited)
Current Fiscal Year

	2014
Annual Money-weighted Rate of Return net of investment expense	14.38%

Note: The Employees' Retirment System for the City of Norfolk implemented GASB 67 as of June 30, 2014.
This schedule is required disclosure under the new accounting standard.

Schedule of Revenue, Budget and Actual (Unaudited)
General Fund
For the Year Ended June 30, 2014

	Original Budget	Final Budget	Budget Basis Actual	Positive (negative) Variance with Final Budget
General property taxes	$ 255,632,400	$ 255,632,400	$ 254,523,678	$ (1,108,722)
Other local taxes	154,727,600	154,727,600	152,386,188	(2,341,412)
Permits, privilege fees and licenses	2,350,340	2,350,340	3,088,749	738,409
Fines and forfeitures	1,203,300	1,203,300	1,236,647	33,347
Use of money and property	7,071,500	7,071,500	6,565,398	(506,102)
Charges for services	38,372,254	38,372,254	38,221,101	(151,153)
Miscellaneous revenue	11,765,803	11,765,803	10,711,010	(1,054,793)
Recovered costs	10,831,300	10,831,300	11,339,490	508,190
Non-categorical aid - Virginia	31,981,000	31,981,000	33,046,348	1,065,348
Shared expense - Virginia	20,820,050	20,820,050	20,794,727	(25,323)
Categorical aid - Virginia	239,087,828	239,087,828	238,198,195	(889,633)
Categorical aid - Federal	4,554,921	4,554,921	6,436,145	1,881,224
Other sources and transfers	39,102,503	39,102,503	39,726,339	623,836
Total revenue budget	$ 817,500,799	$ 817,500,799	$ 816,274,015	$ (1,226,784)

Exhibit A-3 for GASB 54 includes the General Fund, the Nauticus Fund and the Maritime Facility Fund.

CITY OF NORFOLK, VIRGINIA

Schedule of Expenditures, Budget and Actual (Unaudited)
General Fund
For the Year Ended June 30, 2014

	Original Budget	Final Budget	Budget Basis Actual	Positive (negative) Variance with Final Budget
Legislative	$ 4,607,534	$ 4,649,034	$ 4,571,737	$ 77,297
Executive	2,356,108	2,356,108	2,094,429	261,679
Department of Law	4,040,898	4,094,255	4,078,581	15,674
Finance, City Treasurer, Commissioner of Revenue	8,633,527	8,716,062	8,551,045	165,017
Department of Human Resources	3,300,026	3,300,026	3,149,907	150,119
Courts, Sheriff and Detention	49,204,396	49,258,265	48,914,998	343,267
Department of Public Health	3,690,295	3,690,295	3,663,042	27,253
Department of Human Services	47,930,105	47,892,340	45,459,620	2,432,720
Department of Public Works	42,983,976	42,908,976	41,988,276	920,700
Recreation Parks and Open Space, Maritime Center	23,554,441	23,554,441	22,996,100	558,341
Education	311,957,882	311,957,882	301,157,867	10,800,015
Norfolk Public Libraries	8,277,790	8,277,790	8,082,990	194,800
Elections	843,921	843,921	808,007	35,914
Department of Planning & Community Development	7,292,844	7,292,844	7,043,310	249,534
Department of Cultural Facilities, Arts & Entertainment	6,591,630	6,591,630	6,569,613	22,017
Departmental Support	26,008,132	26,025,132	24,238,137	1,786,995
Outside Agencies	42,034,341	42,284,341	41,543,757	740,584
Department of Police	65,969,280	65,969,280	65,535,023	434,257
Department of Fire and Rescue	40,233,760	40,233,760	40,120,736	113,024
Debt service	75,929,113	75,929,113	74,175,188	1,753,925
Budget and Management	1,417,718	1,379,718	1,225,203	154,515
General Services	20,862,726	20,355,726	20,192,153	163,573
Economic Development	1,876,151	1,876,151	1,821,318	54,833
Communications and Public Relations	2,288,803	2,388,803	2,324,419	64,384
Department of Information Technology	11,130,477	11,030,477	11,021,620	8,857
Office of Grants Management	314,595	314,595	156,422	158,173
Virginia Zoological Park	3,874,679	4,034,183	4,036,419	(2,236)
Office of Homelessness	295,651	295,651	256,635	39,016
Total expenditure budget	$ 817,500,799	$ 817,500,799	$ 795,776,552	$ 21,724,247

Exhibit A-3 for GASB 54 includes the General Fund, the Nauticus Fund and the Maritime Facility Fund.

CITY OF NORFOLK, VIRGINIA

Notes to Required Supplementary Information
Reconciliation of (non-GAAP) Budgetary Basis to GAAP (Unaudited)
June 30, 2014

	General Fund
Sources/inflows of resources:	
Actual amounts (budgetary basis) "available for appropriation" from Exhibit E-1	$ 816,274,015
Differences--budget to GAAP:	
The effects of accounting for school revenue as a component unit	(196,161,599)
The effects of accounting for transfer from fund balance	(19,575,630)
General fund transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(12,408,836)
The effects of reclassification of recovered costs	(9,008,590)
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 579,119,360
Uses/outflows of resources:	
Actual amounts (budgetary basis) "Total charges to appropriations" from Exhibit E-2	$ 795,776,552
Differences--budget to GAAP:	
The effects of accounting for school expenditures as a component unit	(189,303,467)
The effects of reclassification of recovered costs	(8,999,189)
The effects of accounting Naticus fund, Maritime Faciltiy fund and other funds	329,293
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	(611,467)
General fund transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(85,768,426)
Total expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances--Governmental Funds	$ 511,423,296

OTHER SUPPLEMENTARY INFORMATION

COMBINING FINANCIAL STATEMENTS

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

OTHER SCHEDULES

~ Schedule of Expenditures of Federal Awards ~

~ Notes to Schedule of Expenditures of Federal Awards ~

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

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

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

Nonmajor Governmental Funds

Special Revenue Funds

The Special Revenue funds are used to account for proceeds of specific resources that are restricted or committed to expenditures for specific purposes other than debt service or capital projects. The individual special revenue funds are:

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

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

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

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

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

Community Services Board: To account for mental health, mental retardation and substance abuse services provided to the residents of the City of Norfolk.

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

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

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

Tax Increment Financing Fund: To account for debt service requirements for the general obligation bonds and property tax collections within the Broad Creek Renaissance Tax Increment Financing District.

Nonmajor Governmental Funds (Cont'd.)

Permanent Fund

The Permanent fund is used to report resources that are restricted by City Code to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs. The City's permanent fund (non-expendable trust) is used to account for the perpetual care and endowed care at certain City-owned cemeteries, however both the earning and principal is used for purposes that support City the maintenance of owned cemeteries.

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CITY OF NORFOLK, VIRGINIA

Exhibit F-1

Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2014

	Special Revenue Funds											Permanent Funds	Nonmajor Governmental Funds
	Storm Water	Towing	Grants	Community Development	Cemeteries	Community Services Board	Golf	Public Amenities	EOC/ 911	Tax Increment	Total Special Revenue	Non-Expendable trust	
ASSETS													
Cash and short term investments	$ 1,098,598	$ 455,564	$ 3,596,850	$ 21,778	$ 113,379	$ 2,992,446	$ 205,206	$ 15,023,749	$ 242,719	$ 3,915,815	$ 27,666,104	$ 5,922,719	$ 33,588,823
Receivables, net	2,529,204	9,615	1,120,055	790,105	87,605	1,837,245	-	548,828	-	-	6,922,657	10,410	6,933,067
Due from other funds	-	-	18,836	-	-	-	-	-	-	-	18,836	-	18,836
Due from other governments	154,639	-	7,757,822	-	5,194	-	-	-	4,466	-	7,922,121	-	7,922,121
Prepaids	-	-	-	-	-	186,987	-	-	-	-	186,987	379	187,366
Total assets	$ 3,782,441	$ 465,179	$ 12,493,563	$ 811,883	$ 206,178	$ 5,016,678	$ 205,206	$ 15,572,577	$ 247,185	$ 3,915,815	$ 42,716,705	$ 5,933,508	$ 48,650,213
LIABILITIES, DEFERRED INFLOWS													
Vouchers payable	$ 107,887	$ 40,633	$ 1,287,585	$ 169,804	$ 48,648	$ 983,712	$ 17,951	$ -	$ 57,340	$ -	$ 2,713,560	$ -	$ 2,713,560
Contract retainage	-	-	45,936	25,072	-	-	-	-	58	-	71,066	-	71,066
Accrued payroll	75,502	9,092	76,906	-	-	284,663	-	-	101,590	-	547,753	-	547,753
Unearned revenue	524,318	-	-	617,007	-	-	-	-	-	-	1,141,325	-	1,141,325
Due to other funds	-	-	-	-	-	8,790	-	-	-	-	8,790	-	8,790
Due to other governments	-	-	7,508,526	-	-	47,634	-	-	-	-	7,556,160	-	7,556,160
Other liabilities	325	33,585	-	-	75,765	-	-	-	-	-	109,675	-	109,675
Total liabilities	708,032	83,310	8,918,953	811,883	124,413	1,324,799	17,951	-	158,988	-	12,148,329	-	12,148,329
FUND BALANCES													
Restricted	-	-	4,930,692	-	-		-	-	-	-	4,930,692	5,933,508	10,864,200
Committed	3,074,409	-	200,447	-	-	1,774,862	-	-	-	-	5,049,718	-	5,049,718
Assigned	-	381,869	-	-	81,765	1,917,017	187,255	15,572,577	88,197	3,915,815	22,144,495	-	22,144,495
Unassigned	-	-	(1,556,529)	-	-	-	-	-	-	-	(1,556,529)	-	(1,556,529)
Total fund balances	3,074,409	381,869	3,574,610	-	81,765	3,691,879	187,255	15,572,577	88,197	3,915,815	30,568,376	5,933,508	36,501,884
Total liabilities and fund balances	$ 3,782,441	$ 465,179	$ 12,493,563	$ 811,883	$ 206,178	$ 5,016,678	$ 205,206	$ 15,572,577	$ 247,185	$ 3,915,815	$ 42,716,705	$ 5,933,508	$ 48,650,213

Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2014

	Special Revenue Funds											Permanent Funds	Total
	Storm Water	Towing	Grants	Community Development	Cemeteries	Community Services Board	Golf	Public Amenities	EOC/ 911	Tax Increment	Total Special Revenue	Non-Expendable Trust	Nonmajor Governmental Funds
REVENUES													
General property taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,455,700	$ 2,455,700	$ -	$ 2,455,700
Other local taxes	-	-	-	-	-	-	-	5,541,243	3,571,596	-	9,112,839	-	9,112,839
Fines and forfeitures	-	-	5,150	-	-	-	-	-	-	-	5,150	-	5,150
Use of money and property	2,733	656	2,293	-	-	4,940	80,000	-	-	-	90,622	6,531	97,153
Charges for services	14,633,935	1,160,790	80,813	-	1,274,642	5,368,657	897,272	-	2,054	-	23,418,163	163,597	23,581,760
Miscellaneous	33	83,909	1,938,047	172,699	-	279,639	-	-	-	-	2,474,327	-	2,474,327
Intergovernmental:													
Commonwealth of Virginia	46,082	-	9,188,379	-	-	11,094,524	-	-	1,393,254	-	21,722,239	-	21,722,239
Federal government	87,386	4,421	9,814,358	3,979,587	-	3,015,025	-	-	-	-	16,900,777	-	16,900,777
Total revenue	14,770,169	1,249,776	21,029,040	4,152,286	1,274,642	19,762,785	977,272	5,541,243	4,966,904	2,455,700	76,179,817	170,128	76,349,945
EXPENDITURES													
General government	-	-	276,739	-	-	-	-	-	-	-	276,739	-	276,739
Judicial administration	-	-	3,550,903	-	-	-	-	-	-	-	3,550,903	-	3,550,903
Public safety	-	-	2,787,251	-	-	-	-	-	5,775,198	-	8,562,449	-	8,562,449
Public works	9,593,091	1,310,028	2,598,319	-	-	-	-	-	-	-	13,501,438	-	13,501,438
Health and public assistance	-	-	15,510,790	1,250,008	-	26,334,981	-	-	-	-	43,095,779	-	43,095,779
Cultural and recreation	-	-	1,031,058	-	1,931,207	-	1,455,754	6,500	-	-	4,424,519	-	4,424,519
Community development	-	-	1,334,438	2,902,278	-	-	-	-	-	-	4,236,716	-	4,236,716
Total expenditures	9,593,091	1,310,028	27,089,498	4,152,286	1,931,207	26,334,981	1,455,754	6,500	5,775,198	-	77,648,543	-	77,648,543
Excess (deficiency) of revenue over (under) expenditures	5,177,078	(60,252)	(6,060,458)	-	(656,565)	(6,572,196)	(478,482)	5,534,743	(808,294)	2,455,700	(1,468,726)	170,128	(1,298,598)
OTHER FINANCING SOURCES (USES)													
Transfers in	-	-	3,727,875	-	1,006,960	5,971,395	494,850	-	783,950	-	11,985,030	-	11,985,030
Transfers out	(4,301,714)	(53,322)	-	-	(494,850)	-	-	(2,390,406)	-	(635,620)	(7,875,912)	(305,580)	(8,181,492)
Total other financing sources and uses	(4,301,714)	(53,322)	3,727,875	-	512,110	5,971,395	494,850	(2,390,406)	783,950	(635,620)	4,109,118	(305,580)	3,803,538
Net change in fund balances	875,364	(113,574)	(2,332,583)	-	(144,455)	(600,801)	16,368	3,144,337	(24,344)	1,820,080	2,640,392	(135,452)	2,504,940
Fund balances--beginning	2,199,045	495,443	5,907,193	-	226,220	4,292,680	170,887	12,428,240	112,541	2,095,735	27,927,984	6,068,960	33,996,944
Fund balances--ending	$ 3,074,409	$ 381,869	$ 3,574,610	$ -	$ 81,765	$ 3,691,879	$ 187,255	$ 15,572,577	$ 88,197	$ 3,915,815	$ 30,568,376	$ 5,933,508	$ 36,501,884

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 including Sheriff's inmate funds and funds held on behalf of employees.

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

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Exhibit G-1

CITY OF NORFOLK, VIRGINIA

Combining Balance Sheet - Agency Funds

June 30, 2014

	Other	Commonwealth of Virginia	Total
ASSETS			
Cash and short term investments	$ 4,324,938	$ 26,161	$ 4,351,099
Receivables, net of allowance for uncollectible accounts	-	-	-
Other	71,724	-	71,724
Total assets	$ 4,396,662	$ 26,161	$ 4,422,823
LIABILITIES			
Vouchers payable	$ 977	$ -	$ 977
Due to other agencies	4,395,685	26,161	4,421,846
Total liabilities	$ 4,396,662	$ 26,161	$ 4,422,823

Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2014

(Unaudited)

	Other			
	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
ASSETS				
Cash and short term investments	$ 3,987,972	$ 5,093,723	$ 4,756,757	$ 4,324,938
Other receivables	-	88,064	16,340	71,724
Total assets	$ 3,987,972	$ 5,181,787	$ 4,773,097	$ 4,396,662
LIABILITIES				
Vouchers payable	$ 12,047	$ 1,077,635	$ 1,088,705	$ 977
Due to other agencies	3,975,925	5,491,065	5,071,305	4,395,685
Total liabilities	$ 3,987,972	$ 6,568,700	$ 6,160,010	$ 4,396,662

	Commonwealth of Virginia			
	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
ASSETS				
Cash and short term investments	$ 14,435	$ 9,156,260	$ 9,144,534	$ 26,161
Total assets	$ 14,435	$ 9,156,260	$ 9,144,534	$ 26,161
LIABILITIES				
Due to the Commonwealth of Virginia	$ 14,435	$ 9,156,260	$ 9,144,534	$ 26,161
Total liabilities	$ 14,435	$ 9,156,260	$ 9,144,534	$ 26,161

	Total			
	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
ASSETS				
Cash and short term investments	$ 4,002,407	$ 14,249,983	$ 13,901,291	$ 4,351,099
Other receivables	-	88,064	16,340	71,724
Total assets	$ 4,002,407	$ 14,338,047	$ 13,917,631	$ 4,422,823
LIABILITIES				
Vouchers payable	$ 12,047	$ 1,077,635	$ 1,088,705	$ 977
Due to other agencies	3,990,360	14,647,325	14,215,839	4,421,846
Total liabilities	$ 4,002,407	$ 15,724,960	$ 15,304,544	$ 4,422,823

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.

HealthCare Fund – to provide for the self-insured health care costs for the City of Norfolk, Norfolk Public Schools, NHRA and Pre-65 Retirees.

Note: The storehouse fund was closed in fiscal year 2013 by the closing entries and residual transactions occurred in fiscal year 2014.

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CITY OF NORFOLK, VIRGINIA

Exhibit H-1

Combining Statement of Net Position - Internal Service Funds
June 30, 2014

	Healthcare	Storehouse	Fleet Management	Total
ASSETS				
Current assets:				
Cash and short term investments	$ 10,366,938	$ -	$ 331,301	$ 10,698,239
Receivables, net	8,264,907	-	578,931	8,843,838
Due from other funds	-	-	915	915
Total current assets	18,631,845	-	911,147	19,542,992
Noncurrent assets:				
Capital assets:				
Land	-	-	415,000	415,000
Buildings and equipment, net	-	-	3,599,593	3,599,593
Total noncurrent assets	-	-	4,014,593	4,014,593
Total assets	$ 18,631,845	$ -	$ 4,925,740	$ 23,557,585
LIABILITIES				
Current liabilities:				
Vouchers payable	$ 2,100	$ -	$ 1,243,766	$ 1,245,866
Unearned revenue	8,179,915	-	-	8,179,915
Compensated absences	-	-	168,896	168,896
Accrued payroll	-	-	52,603	52,603
Obligations for employees' retirement	-	-	368,748	368,748
Other liabilities	5,705,786	-	1,305	5,707,091
Total current liabilities	13,887,801	-	1,835,318	15,723,119
Noncurrent liabilities:				
Compensated absences	-	-	72,384	72,384
Total noncurrent liabilities	-	-	72,384	72,384
Total liabilities	$ 13,887,801	$ -	$ 1,907,702	$ 15,795,503
NET POSITION				
Net investment in capital assets	$ -	$ -	$ 4,014,593	$ 4,014,593
Unrestricted	4,744,044	-	(996,555)	3,747,489
Total net position	$ 4,744,044	$ -	$ 3,018,038	$ 7,762,082
Total liabilities and net assets	$ 18,631,845	$ -	$ 4,925,740	$ 23,557,585

Combining Statement of Revenues, Expenses and Changes in Fund Net Position - Internal Service Funds For the Year Ended June 30, 2014

	Healthcare	Storehouse	Fleet Management	Total
OPERATING REVENUES				
Charges for services	$ 39,622,727	$ 2,698,984	$ 13,356,230	$ 55,677,941
Miscellaneous	-	-	9,580	9,580
Total operating revenues	39,622,727	2,698,984	13,365,810	55,687,521
OPERATING EXPENSES				
Personal services	-	-	2,469,009	2,469,009
Healthcare costs	34,878,683	-	-	34,878,683
Cost of goods sold	-	2,714,937	6,293,519	9,008,456
Plant operations	-	392	3,059,448	3,059,840
Depreciation	-	-	283,014	283,014
Retirement and OPEB contributions	-	-	368,748	368,748
Other	-	-	1,727,329	1,727,329
Total operating expenses	34,878,683	2,715,329	14,201,067	51,795,079
Operating income (loss)	4,744,044	(16,345)	(835,257)	3,892,442
NONOPERATING REVENUE				
Transfers Out	-	(2,356,921)	-	(2,356,921)
Total nonoperating revenue	-	(2,356,921)	-	-
Net income (loss)	4,744,044	(2,373,266)	(835,257)	1,535,521
Change in net position	4,744,044	(2,373,266)	(835,257)	1,535,521
Net Change in Net Position	4,744,044	(2,373,266)	(835,257)	1,535,521
Net position--beginning	-	2,373,266	3,853,295	6,226,561
Net position--ending	$ 4,744,044	$ -	$ 3,018,038	$ 7,762,082

Combining Statement of Cash Flows - Internal Service Funds
For the Year Ended June 30, 2014

	Healthcare	Storehouse	Fleet Management	Total
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers	$ 39,537,735	$ 2,698,984	$ 13,774,998	$56,011,717
Payments to suppliers	(29,170,797)	(830,408)	(9,401,288)	(39,402,493)
Payments to employees	-	(65,841)	(1,684,263)	(1,750,104)
Other payments	-	-	(1,728,166)	(1,728,166)
Net cash provide by (used in) operating activities	10,366,938	1,802,735	961,281	13,130,954
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Interfund activity	-	-	(632,776)	(632,776)
Net cash provided by noncapital financing activities	-	-	(632,776)	(632,776)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Transfer Out	-	(2,356,921)	-	(2,356,921)
Net cash provided by investing activities	-	(2,356,921)	-	(2,356,921)
Net increase in cash and short term investments	10,366,938	(554,186)	328,505	10,141,257
Cash and short term investments - beginning of the year	-	554,186	2,796	556,982
Cash and short term investments - end of the year	$10,366,938	$ -	$ 331,301	$10,698,239
Reconciliation of Operating Income (Loss) to Net Cash Provided by (used in) Operating Activities				
Operating income (loss)	$ 4,744,044	$ (16,345)	$ (835,257)	$ 3,892,442
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation expense	-	-	283,014	283,014
Change in assets and liabilities:				
Receivables, net	(8,264,907)	10,722	409,188	(7,844,997)
Inventories	-	1,891,193	190,754	2,081,947
Vouchers payable	2,100	(16,994)	962,740	947,846
Accrued payroll	-	(2,277)	6,775	4,498
Obligation for Employees' Retirement System	-	(42,568)	(71,333)	(113,901)
Unearned revenue	8,179,915	-	-	8,179,915
Other liabilities	5,705,786	(20,996)	15,400	5,700,190
Net cash provided by (used in) operating activities	$10,366,938	$ 1,802,735	$ 961,281	$13,130,954

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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CITY OF NORFOLK, VIRGINIA
Schedule of Expenditures of Federal Awards — Schedule I
For the Year Ended June 30, 2014

Federal Granting Agency/Recipient Recipient State Agency/Grant program	CFDA Number	Federal Expenditures	ARRA Expenditures
Department of Agriculture:			
Direct Payments:			
Food Stamp Program - Administration	10.561	$ 3,999,828	
Pass-through Payments:			
State Department of Agriculture:			
National School Breakfast Program	10.553	3,619,363	
National School Lunch Program	10.555	99,682	
National School Lunch Program	10.555	9,265,540	
National School Lunch Program (Commodities)	10.556	1,330,495	
National VA Child & Adult Care Food Program	10.558	450,456	
USDA School Nutrition Program	10.559	563,991	
Department of Housing and Urban Development:			
Direct Payments:			
Community Development Block Grant	14.218	3,979,587	
ESG Administration	14.231	41,511	
For Kids, Inc. Haven Family Services	14.231	29,131	
ESG Planning Council	14.231	37,216	
ESG Outreach Program	14.231	15,657	
ESG Rapid Re-housing Program	14.231	52,449	
ESG Tenant Based Rental Assistance	14.231	16,250	
ESG Homeless Prevention Program	14.231	31,322	
Salvation Army	14.231	20,776	
ESG- Ecumenical Family Shelter	14.231	48,904	
St Columbia Ecumenical	14.231	28,173	
YWCA South Hampton Roads	14.231	40,393	
Shelter Plus Care Program	14.238	437,303	
HOME CHDO Investment Plan	14.239	139,739	
HOME CHDO	14.239	83,841	
Home Administration	14.239	134,498	
Office to End Homelessness	14.239	36,684	
Plume Line Ministries	14.239	30,655	
Habitat for Humanity Real Estate	14.239	99,426	
HOME NRHA Administration	14.239	47,299	
Homebuyer Admin & Assistance	14.239	751,479	
Beacon Light CHDO	14.239	43,344	
Virginia Supportive Housing	14.239	36,000	
HOME HART program	14.239	23,302	
HOME - TBRA Bridge Program	14.239	30,545	
Department of Justice:			
Direct Payments:			
State Criminal Alien Assistance Program	16.606	4,861	
Community Oriented Policing Services:			
COPS Hiring Program	16.710	477,622	
ARRA - COPS Hiring Program	16.710		$ 17,742
Justice and Mental Health Collaboration Program	16.745	6,980	
Edward Byrne Memorial Justice Assistance Grant	16.738	275,103	
Asset Forfeiture - Special Police Grant	16.922	173,488	
Pass-Through Payments:			
Department of Criminal Justice Services:			
Juvenile Accountability Block Grant	16.523	30,473	
VSTOP	16.588	43,200	
Edward Byrne Memorial Justice Assistance Grant	16.738	26,927	

CITY OF NORFOLK, VIRGINIA
Schedule of Expenditures of Federal Awards — Schedule I
For the Year Ended June 30, 2014

Federal Granting Agency/Recipient Recipient State Agency/Grant program	CFDA Number	Federal Expenditures	ARRA Expenditures
Department of Transportation:			
Pass-Through Payments:			
ARRA - Citywide Repaving	20.205		264,671
VDOT - Traffic Management System	20.205	30,921	
VDOT - Citywide Traffic Signal Safety	20.205	531,886	
VDOT - Elizabeth River Trail	20.205	23,540	
VDOT - Congestion Mitigation	20.205	419,639	
VDOT - Citywide retiming	20.205	10,215	
VDOT - Traffic Signal Cabint Upgrade	20.205	107,154	
Selective Enforcement - Alcohol	20.600	23,683	
Selective Enforcement - Speed Initiative	20.607	31,883	
Enviornmental Protection Agency:			
Pass-Through Payments:			
Virginia Resources Authority - Revolving Loan	66.458	6,101,446	
Department of Homeland Security			
Direct Payments:			
Port Security Grant	97.056	1,406	
Pass-Through Payments:			
UASI for License Plate Readers	97.008	134,692	
Emergency Management Performance Grant	97.042	40,268	
Port Security Grant	97.056	125,661	
Homeland Security	97.067	7,024	
FEMA Hazard Mitigation	97.092	5,795	
Homeland Security Grant	97.073	20,263	
Department of Education:			
Direct Payments:			
School Assistance in Federally Affected Areas	84.041	3,494,081	
Pass-Through Payments:			
Department of Education:			
Education Consolidation and Improvement Act of 1981:			
Adult Literacy	84.002	327,591	
Title I:			
Educationally Deprived Children- Programs Operated by LEA's	84.010	11,877,627	
Negligent Delinquent Children	84.010	100,354	
School Improvement - Title I	84.010	596,407	
1003g School Improvement Grant (Award 2009)	84.377	325,800	
1003g School Improvement Grant (Award 2010)	84.377	1,612,102	
ARRA - 1003g School Improvement Funds of ARRA	84.388		953,149
Title III:			
Limited English	84.365	19,965	
Immigrant and Youth State Grant	84.365	5,655	
Title V			
Assistance to States for Education of Handicapped Children:			
Special Education Flow Thru (Federal)	84.027	7,486,052	
Handicapped Preschool Incentive Grant	84.173	235,182	
Title IV-B:			
Vocational Education:			
Carl Perkins Vocational	84.048	642,860	

CITY OF NORFOLK, VIRGINIA
Schedule of Expenditures of Federal Awards — Schedule I
For the Year Ended June 30, 2014

Federal Granting Agency/Recipient Recipient State Agency/Grant program	CFDA Number	Federal Expenditures	ARRA Expenditures
Department of Education (continued):			
Special Projects:			
McKinney Homeless Assistance	84.196	117,578	
Mathematics Institute for Principlas of Schools	84.230	2,119	
21st Century Community Learning Center	84.287	143,718	
Early Reading First	84.359	86,392	
Teacher & Principal Training	84.367	2,458,347	
Fruit and Vegetable Program	10.582	226,018	
Investing in Innovations	84.411A	195,136	
Dept of Mental Health, Mental Retardation and Substance Abuse			
Mental Retardation Early Intervention	84.181	219,261	
Federal Emergency Management Agency			
Direct Payments:			
FEMA Flood Mitigation	97.039	22,837	
Department of Health and Human Services:			
Direct Payments:			
Substance Abuse and Mental Health Services Administration	93.243	326,925	
HIV/AIDS Grant	93.914	5,547,919	
The Planning Council	93.914	36,403	
Pass-Through Payments:			
Projects for Assistance in Transition to Homeless (PATH)	93.150	108,755	
Mental Health VASIP / COSIG	93.243	68,161	
Youth & Family Services Grant	93.556	206,467	
Temporary Assistance to Needy Families	93.558	4,253,150	
Refugee and Entrant Assistance State Administered Prog	93.566	25,592	
Local-Income Home Energy Assistance	93.568	445,085	
Payments to States for Child Care Assistance	93.575	(286)	
Child Development Care	93.596	585,876	
Independent Living Program - Education and Training	93.599	8,382	
Family Preservation	93.645	29,587	
Department of Health and Human Services (continued):			
Foster Care - Title IV - E	93.658	2,202,957	
Adoptive Assistance	93.659	1,614,033	
Social Services Block Grant	93.667	3,622,237	
Independent Living Initiative Program	93.674	52,454	
FAMIS Outreach Grants	93.767	123,249	
Medical Assistance Program - Administrative	93.778	3,539,068	
Mental Health Federal Block Grant	93.958	136,738	
Substance Abuse Federal Black Grant	93.959	1,710,902	
Totals		$ 89,057,702	$ 1,235,562

CITY OF NORFOLK, VIRGINIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014

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, the School Board component unit.

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

2. Basis of Accounting

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

3. Relationship to the Basic Financial Statements

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

Major governmental funds		$ 22,209,686
Non-major governmental funds		16,900,777
Total revenues from federal government		39,110,463
Component Unit - School Board		
Total Federal Grants Awarded	45,992,257	
Direct Payments:		
Navy Junior ROTC	366,836	
Erate - Universal Service Funds	401,277	
Medicaid	2,173,952	
Total - Norfolk Public Schools		48,934,322
Total federal financial assistance reported in basic financial statements		$ 88,044,785
Federal awards not reported as federal revenue in basic financial statements:		
Enterprise - VRA Loan - Wastewater Fund		6,101,446
CSA Federal Revenue		838,294
Federal awards not reported on the SEFA:		
Norfolk Public Schools Direct Payments		(2,942,065)
Build America Bond Interest Rate Subsidy		(2,432,108)
US Marshal Service		(54,572)
Federal Awards reported on SEFA revenue not received		572,137
Other reconciling items		165,347
Total federal awards		$ 90,293,264

Reconciliation to Exhibit A-3

Revenues from federal government	$ 39,110,463
Revenues from Commonwealth of Virginia	114,671,765
Total intergovernmental revenue	$ 153,782,228

CITY OF NORFOLK, VIRGINIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014

4. Clusters

Clustered programs for the year ended June 30, 2014 were as follows:

Grant Program / Cluster	CFDA Number	Federal Expenditures
National School Breakfast Program	10.553	$ 3,619,363
National School Lunch Program	10.555	99,682
National School Lunch Program	10.555	9,265,540
National School Lunch Program (Commodities)	10.556	1,330,495
USDA School Nutrition Program	10.559	563,991
Total Child Nutrition Cluster		$ 14,879,071
Food Stamp Program - Administration	10.561	$ 3,999,828
Total Supplemental Nutrition Assistance Program (SNAP) Cluster		$ 3,999,828
Community Development Block Grants/Entitlement Grants	14.218	$ 3,979,587
Total CDBG - Entitlement Grants Cluster		$ 3,979,587
ESG Administration	14.231	$ 41,511
For Kids, Inc. Haven Family Services	14.231	29,131
ESG Planning Council	14.231	37,216
ESG Outreach Program	14.231	15,657
ESG Rapid Re-housing Program	14.231	52,449
ESG Tenant Based Rental Assistance	14.231	16,250
ESG Homeless Prevention Program	14.231	31,322
Salvation Army	14.231	20,776
ESG- Ecumenical Family Shelter	14.231	48,904
St Columbia Ecumenical	14.231	28,173
YWCA South Hampton Roads	14.231	40,393
Total Emergency Solutions Grants Cluster		$ 361,782
HOME CHDO Investment Plan	14.239	$ 139,739
HOME CHDO	14.239	83,841
Home Administration	14.239	134,498
Office to End Homelessness	14.239	36,684
Plume Line Ministries	14.239	30,655
Habitat for Humanity Real Estate	14.239	99,426
HOME NRHA Administration	14.239	47,299
Homebuyer Admin & Assistance	14.239	751,479
Beacon Light CHDO	14.239	43,344
Virginia Supportive Housing	14.239	36,000
HOME HART program	14.239	23,302
HOME - TBRA Bridge Program	14.239	30,545
Total Home Investment Partnerships Program Cluster		$ 1,456,812
COPS Hiring Program (Stimulus)	16.710	$ 17,742
COPS Hiring Program	16.710	477,622
Total Public Safety Partnership and Community Policing Grants Cluster		$ 495,364
Edward Byrne Memorial Justice Assistance Grant	16.738	$ 275,103
Edward Byrne Memorial Justice Assistance Grant	16.738	26,927
Total JAG Program Cluster		$ 302,030
ARRA - Citywide Repaving	20.205	$ 264,671
VDOT - Traffic Management System	20.205	30,921
VDOT - Citywide Traffic Signal Safety	20.205	531,886
VDOT - Elizabeth River Trail	20.205	23,540
VDOT - Congestion Mitigation	20.205	419,639
VDOT - Citywide retiming	20.205	10,215
VDOT - Traffic Signal Cabinet Upgrade	20.205	107,154
Total Highway Planning and Construction Cluster		$ 1,388,026
Educationally Deprived Children- Programs Operated by LEA's	84.010	$ 11,877,627
School Improvement Grant	84.010	596,407
Negligent Delinquent Children	84.010	100,354
Total Title I, Part A Cluster		$ 12,574,388
Special Education Flow Thru (Federal)	84.027	$ 7,486,052
Handicapped Preschool Incentive Grant	84.173	235,182
Total Special Education Cluster (IDEA)		$ 7,721,234
Limited English	84.365	$ 19,965
Immigrant and Youth State Grant	84.365	5,655
Total English Language Acquisition State Grants Cluster		$ 25,620
1003g School Improvement Grants (Award 2009)	84.377	$ 325,800

CITY OF NORFOLK, VIRGINIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014

1003g School Improvement Grants (Award 2010)	84.377		1,612,102
ARRA - 1003g School Improvement Funds of ARRA	84.388		953,149
Total School Improvement Grants Cluster		$	2,891,051
Substance Abuse and Mental Health Services Administration	93.243	$	326,925
Mental Health VASIP/COSIG	93.243		68,161
Total Substance Abuse and Mental Health Services Cluster		$	395,086
Temporary Assistance for Needy Families	93.558	$	4,253,150
Total TANF Cluster		$	4,253,150
Payments to States for Child Care Assistance	93.575	$	(286)
Child Development Care	93.596		585,876
Total CCDF Cluster		$	585,590
Medical Assistance Program - Administrative	93.778	$	3,539,068
Total Medicaid Cluster		$	3,539,068
HIV/AIDS Grant	93.914	$	5,547,919
The Planning Council	93.914		36,403
Total HIV Emergency Relief Project Cluster		$	5,584,322

CITY OF NORFOLK, VIRGINIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014

5. Sub-recipients

Federal funds passed through to subrecipients for the year ended June 30, 2014 were as follows:

Department of Housing and Urban Development		
Community Development Block Grant (14.218)	$	3,699,434
HOME Grant Program (14.239)		1,186,169
Emergency Solutions Grant Program (14.231)		204,970
Total Department of Housing and Urban Development		**5,090,573**
Department of Health and Human Services		
Temporary Assistance for Needy Families (93.558)		250,172
Child Development Care (93.596)		36,716
HIV/AIDS Grant (93.914)		4,146,370
Total Department of Health and Human Services		**4,433,257**
Total Payment to Sub-Recipients	**$**	**9,523,830**

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SCHEDULE OF REVENUES AND EXPENDITURES
– BUDGET AND ACTUAL –

~Special Revenue Funds~

~Internal Service Funds~

~Capital Projects Fund~

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Schedule of Revenues and Expenditures - Budget and Actual
Towing and Recovery Operations Special Revenue Fund
For the Year Ended June 30, 2014

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Use of money and property	$ 1,200	$ 656	$ (544)
Charges for services	1,617,678	1,160,790	(456,888)
Miscellaneous	88,269	88,330	61
Total revenue	$ 1,707,147	$ 1,249,776	$ (457,371)
Expenditures and transfers:			
Towing and recovery	$ 1,707,147	$ 1,363,350	$ 343,797

Schedule of Revenues and Expenditures - Budget and Actual
Storm Water Utility Special Revenue Fund
For the Year Ended June 30, 2014

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Use of money and property	$ 2,400	$ 2,733	$ 333
Charges for services	14,613,434	14,633,968	20,534
Intergovernmental - federal	-	87,386	87,386
Intergovernmental - state	47,467	46,082	(1,385)
Rollover from prior year	29,940	-	(29,940)
Total revenue	$ 14,693,241	$ 14,770,169	$ 76,928
Expenditures and transfers:			
Storm water	$ 14,663,301	$ 13,894,805	$ 768,496

Schedule of Revenues and Expenditures - Budget and Actual
Golf Special Revenue Fund
For the Year Ended June 30, 2014

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Charges for services	$ 976,707	$ 897,272	$ (79,435)
Use of money and property	84,000	80,000	(4,000)
Transfer in	436,893	494,850	57,957
Total revenue	$ 1,497,600	$ 1,472,122	$ (25,478)
Expenditures:			
Operations	$ 1,497,600	$ 1,455,754	$ 41,846

Schedule of Revenues and Expenditures - Budget and Actual
Emergency Operations Special Revenue Fund (EOC 911)
For the Year Ended June 30, 2014

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Other local taxes	$ 3,571,596	$ 3,571,596	$ -
Recovered cost	1,376,253	1,393,254	17,001
Rollover from last year	141,909	2,054	(139,855)
Transfer in	933,851	783,950	(149,901)
Total revenue	$ 6,023,609	$ 5,750,854	$ (272,755)
Expenditures:			
Operations	$ 6,023,609	$ 5,775,198	$ 248,411

Schedule of Revenues and Expenditures - Budget and Actual
Cemeteries Special Revenue Fund
For the Year Ended June 30, 2014

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Charges for services	$ 824,349	$ 1,274,642	$ 450,293
Miscellaneous	318,878		(318,878)
Recovered cost	300,000	300,000	-
Transfer in	-	1,006,960	1,006,960
Rollover from last year	159,803	159,803	-
Total revenue	$ 1,603,030	$ 2,741,405	$ 1,138,375
Expenditures:			
Operations	$ 2,060,471	$ 2,231,207	$ (170,736)
Transfers Out	$ 457,441	494,850	(37,409)
	$ 2,517,912	$ 2,726,057	$ (208,145)

Schedule of Revenues and Expenditures - Budget and Actual
Public Amenities Special Revenue Fund
For the Year Ended June 30, 2014

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Taxes-Hotel & Restaurant	$ 5,614,100	$ 5,541,243	$ (72,857)
Expenditures:			
Transfer out (CIP)	$ 1,500,000	$ 1,500,000	$ -
Transfer out (Debt Service)	890,406	890,406	-
All purpose	3,223,694	6,500	3,217,194
Total expenditures	$ 5,614,100	$ 2,396,906	$ 3,217,194

Schedule of Revenues and Expenditures - Budget and Actual
Tax Increment Financing Special Revenue Fund
For the Year Ended June 30, 2014

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Taxes-real property	$ 2,455,700	$ 2,455,700	$ -
Expenditures:			
Transfer out (Debt Service)	$ 635,620	$ 635,620	$ -
Community development	18,200,479	-	18,200,479
Total expenditures	$ 18,836,099	$ 635,620	$ 18,200,479

Schedule of Revenues and Expenditures - Budget and Actual
Fleet Internal Service Fund
For the Year Ended June 30, 2014

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Charges for services	$ 12,608,759	$ 13,356,230	$ 747,471
Miscellaneous & recovered costs	104,790	9,580	(95,210)
Other Sources and Transfer In	367,751	-	(367,751)
Total revenue	$ 13,081,300	$ 13,365,810	$ 284,510
Expenditures:			
Fleet	$ 13,081,300	$ 14,201,057	$ (1,119,757)

Schedule of Revenues and Expenditures - Budget and Actual
Storehouse Internal Service Fund
For the Year Ended June 30, 2014

	Budget	Actual Budgetary Basis*	Positive (Negative) Variance
Revenues:			
Charges for services	$ 576,800	$ 2,698,984	$ 2,122,184
Expenditures:			
Storehouse	$ 576,800	$ 2,715,329	$ (2,138,529)

**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.*

Schedule of Revenues and Expenditures - Budget and Actual
Heathcare Management Internal Service Fund
For the Year Ended June 30, 2014

	Budget	Actual Budgetary Basis*	Positive (Negative) Variance
Revenues:			
Charges for services	$ 57,931,973	$ 39,622,727	$ (18,309,246)
Expenditures:			
Healthcare	$ 57,931,973	$ 34,878,683	$ 23,053,290

CITY OF NORFOLK, VA
Schedule of Expenditures - Budget and Actual
From Inception and for the Year Ended June 30, 2014

	Expenditures				
	Project Budget	Prior Years	Current	Total	Available
Community Development					
Neighborhood Project Development	$ 13,931,123	$ 13,516,147	$ 41,488	$ 13,557,635	$ 373,488
Neighborhood Conservation/Revitalization	91,273,775	75,108,427	3,371,645	78,480,072	12,793,703
Broad Creek Renaissance	23,995,015	17,051,201	3,272,844	20,324,045	3,670,970
Neighborhood Streets Improvements	2,300,000	2,206,725	37,389	2,244,114	55,886
Neighborhood commercial Improvements	12,792,778	10,789,172	100,654	10,889,826	1,902,952
Create Special Service Areas	1,250,000	468,445	25,140	493,585	756,415
Other	477,000	267,774	18,993	286,767	190,233
Community Development Total	146,019,691	119,407,891	6,868,153	126,276,044	19,743,647
Cultural Facilities					
Attucks Theatre Renovations	2,550,629	2,558,762	-	2,558,762	(8,133)
Scope and Chrysler Hall Improvements	20,154,821	17,794,870	278,559	18,073,429	2,081,392
Chrysler Museum Improvements	10,808,912	9,789,387	1,000,329	10,789,716	19,196
Civic Building Improvements	1,229,595	1,229,595	-	1,229,595	-
Conference Center	61,468,277	15,047,801	783,069	15,830,870	45,637,407
Harrison Opera House Improvements	404,856	404,856	-	404,856	-
MacArthur Memorial Improvements	2,658,969	2,649,071	9,898	2,658,969	-
Nauticus/Maritime Center Improvements	3,582,500	3,547,923	13,210	3,561,133	21,367
USS Wisconsin Improvements	7,454,060	6,058,952	645,104	6,704,056	750,004
Other	6,876,440	3,918,244	141,767	4,060,011	2,816,429
Cultural Facilities Total	117,189,059	62,999,461	2,871,936	65,871,397	51,317,662
Economic Development					
Acquire/Dispose/Upgrade City Property	55,017,580	47,874,033	3,683,786	51,557,819	3,459,761
Nauticus/Cruise Terminal Development	38,326,404	38,275,583	6,480	38,282,063	44,341
Huntersville Redevelopment	1,000,000	70,882	-	70,882	929,118
Wachovia Center Development	5,375,000	3,553,101	-	3,553,101	1,821,899
Kroc Center Development	4,000,000	3,994,779	-	3,994,779	5,221
Other	13,303,292	12,573,314	228,440	12,801,754	501,538
Economic Development Total	117,022,276	106,341,692	3,918,706	110,260,398	6,761,878
General/Other					
Campostella Landfill Closure	2,500,000	1,612,071	90,111	1,702,182	797,818
Beach Erosion Control	27,793,500	23,343,811	3,015,260	26,359,071	1,434,429
Transfer to Debt Service	1,600,000	5,194,024	-	5,194,024	(3,594,024)
IFMS Implementation	5,900,224	5,900,407	-	5,900,407	(183)
Waterway Dredging Projects	5,559,341	4,583,879	607,845	5,191,724	367,617
Conservation and Green Vision Implementation	6,600,000	4,266,248	-	4,266,248	2,333,752
Public Safety Radio Communication System Upgrade	4,773,308	4,704,074	(406)	4,703,668	69,640
Other	11,982,186	9,273,363	90,134	9,363,497	2,618,689
General/Other Total	66,708,559	58,877,877	3,802,944	62,680,821	4,027,738
Public Buildings and Facilities					
Fire Station Emergency Generation Program	906,700	897,037	-	897,038	9,662
Infrastructure Improvements	4,289,252	3,850,394	20,223	3,870,617	418,635
Annual Roof Maintenance	8,271,000	7,705,448	147,186	7,852,634	418,366
Library Facilities - Anchor Branch	10,476,238	10,303,130	209	10,303,339	172,899
Police Precinct Replacement	20,653,646	20,328,654	332	20,328,986	324,660
Courts Replacement and Renovations	119,510,570	54,009,281	28,992,982	83,002,263	36,508,307
Jail Renovations	2,529,451	1,590,939	844,685	2,435,624	93,827
Selden Arcade Renovations	8,400,543	8,400,543	-	8,400,543	-
City Hall Building Renovations	12,747,477	11,434,803	379,634	11,814,437	933,040
Tow Yard Acquisition	1,660,018	360,017	337,027	697,044	962,974
Fire Facilities Replacement/Improvements	4,143,306	3,750,475	670	3,751,145	392,161
Police Training Facilities	656,000	656,000	-	656,000	-
Main Library Construction	68,227,997	36,585,953	18,433,822	55,019,775	13,208,222
Design /Construct Government Center Plaza	4,750,000	590,302	20,417	610,719	4,139,281
Other	12,683,166	9,964,490	2,706,163	12,670,653	12,513
Public Buildings and Facilities Total	279,905,364	170,427,466	51,883,350	222,310,816	57,594,548

CITY OF NORFOLK, VA
Schedule of Expenditures - Budget and Actual
From Inception and for the Year Ended June 30, 2014

	Expenditures				
	Project Budget	Prior Years	Current	Total	Available
Parks/Recreational Facilities					
Zoo Master Plan	27,093,422	26,086,031	521,086	26,607,117	486,305
Titustown Recreation Center Improvements	3,550,000	3,208,961	-	3,208,961	341,039
Botanical Gardens	2,494,413	1,998,362	461	1,998,823	495,590
Existing Recreation Center Improvements	12,024,832	10,472,514	537,880	11,010,394	1,014,438
Norview Recreation Center	7,949,497	7,947,756	-	7,947,756	1,741
Lambert's Point Golf Course	9,050,000	9,050,000	-	9,050,000	-
Lambert's Point Community & Recreational Center	6,943,007	6,843,948	-	6,843,948	99,059
Harbor Park Improvements	1,924,947	1,347,559	441,730	1,789,289	135,658
Athletic Field Renovations	2,687,105	2,657,897	28,006	2,685,903	1,202
Norfolk Fitness & Wellness Center Renovations	1,803,670	1,803,542	126	1,803,669	1
Broadcreek & Westside Neighborhood Parks	2,616,468	2,490,012	-	2,490,012	126,456
Town Point Park Improvements	11,525,000	11,478,749	-	11,478,749	46,251
Martin Luther King Park	116,020	116,020	-	116,020	-
Waterside Waterfront Renovations	2,459,241	833,241	1,395,293	2,228,534	230,707
Ingleside Gymnasium	6,706,813	6,689,743	3,350	6,693,093	13,720
Other	13,773,658	12,048,621	1,137,204	13,185,824	587,834
Parks/Recreational Facilities Total	112,718,093	105,072,956	4,065,136	109,138,092	3,580,001
Schools					
Blair Middle School Replacement	7,071,710	7,071,710	-	7,071,710	-
Norfolk Public School Initiative	5,265,000	5,263,456	-	5,263,456	1,544
Norview Construction	29,865,659	29,865,659	-	29,865,659	-
Southside Middle School	2,250,000		1,414,923	1,414,923	835,077
High School Athletic Field	1,500,000	1,495,091	-	1,495,091	4,909
Coleman Place Elementary Replacement	20,293,969	20,292,335	1,634	20,293,969	0
Crossroads Elementary Replacement	31,668,525	26,919,388	541,782	27,461,170	4,207,355
Other	59,874,537	17,815,173	4,646,095	22,461,268	37,413,269
Schools Total	157,789,400	108,722,812	6,604,434	115,327,246	42,462,154
Storm Water					
Storm Water Quality Improvements	19,270,000	13,924,033	3,249,393	17,173,426	2,096,574
Storm Water Facility Improvements	3,584,478	2,542,396	398,281	2,940,677	643,801
Old Dominion University Master Plan	1,788,255	1,788,255	-	1,788,255	-
Drain Line Clean & Slip Lining	995,843	995,843	-	995,843	-
Neighborhood Flood Reduction	14,366,000	11,762,572	1,750,779	13,513,351	852,649
Bulkheading Master Project	2,100,000	2,087,100	-	2,087,100	12,900
Other	3,328,175	201,775	-	201,775	3,126,400
Storm Water Total	45,432,751	33,301,974	5,398,453	38,700,427	6,732,324
Transportation					
Old Dominion University Master Plan	6,858,203	6,940,152	353	6,940,505	(82,302)
VDOT Urban Support Program	9,773,026	8,081,433	41,576	8,123,009	1,650,017
Bridge Maintenance & Repair Program	32,918,240	22,313,013	3,294,408	25,607,421	7,310,819
Signal & Intersection Enhancements	11,713,471	8,749,753	860,675	9,610,428	2,103,043
Citywide Soundwall Program	8,405,767	8,337,439	38,702	8,376,141	29,626
Neighborhood Streets Improvements	65,676,469	49,936,598	3,264,609	53,201,207	12,475,262
Atlantic City Development	14,364,676	12,042,300	2,244,939	14,287,239	77,437
Citywide Boat Ramp Improvements	2,388,822	1,932,169	2,665	1,934,834	453,988
Construct Light Rail	105,017,974	70,192,172	103,646	70,295,818	34,722,156
Develop Multi-Modal Transfer Station at Harbor Park	4,350,000	1,961,204	1,503,166	3,464,370	885,630
Other	24,814,746	14,145,353	3,941,623	18,086,976	6,727,770
Transportation Total	286,281,394	204,631,586	15,296,362	219,927,948	66,353,445
Grand Total	$ 1,329,066,587	$ 969,783,715	$ 100,709,475	$ 1,070,493,190	$ 258,573,398

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

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STATISTICAL

SECTION

(Unaudited)

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CITY OF NORFOLK, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2014

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.

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(UNAUDITED)

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

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012 restated	2013 restated	2014
Governmental activities:										
Net investment in capital assets	$ 403,577	$ 391,392	$ 332,988	$ 325,173	$ 252,128	$ 155,954	$ 324,576	$ 295,206	$ 319,550	$ 337,937
Restricted	6,788	6,605	6,731	6,890	64,397	120,974	6,744	11,081	11,111	22,062
Unrestricted	91,869	96,705	127,479	90,917	63,013	76,365	5,347	25,832	22,593	10,416
Subtotal governmental activities net position	502,234	494,702	467,198	422,980	379,538	353,293	336,667	332,119	353,254	370,415
Business-type activities:										
Net investment in capital assets	237,044	259,198	268,503	241,203	237,307	229,693	267,107	270,913	275,195	259,371
Restricted	-	-	2,526	2,506	39,306	40,056	12,928	12,928	13,244	32,495
Unrestricted	48,563	43,383	34,373	72,387	43,921	63,316	62,458	72,063	78,631	92,918
Subtotal business-type activities net position	285,607	302,581	305,402	316,096	320,534	333,065	342,493	355,904	367,070	384,784
Primary government:										
Net investment in capital assets	640,621	650,590	601,491	566,376	489,435	385,647	591,683	566,119	594,745	597,308
Restricted	6,788	6,605	9,257	9,396	103,703	161,030	19,672	24,009	24,355	54,557
Unrestricted	140,432	140,088	161,852	163,304	106,934	139,681	67,805	97,895	101,224	103,334
Total primary government net position	$ 787,841	$ 797,283	$ 772,600	$ 739,076	$ 700,072	$ 686,358	$ 679,160	$ 688,023	$ 720,325	$ 755,199

Note: Restatements are due to implementation of New accounting pronouncements

(UNAUDITED)

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

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013 restated	2014
Program Revenue										
Governmental activities:										
Charges for services										
General government	$ 775	$ 1,230	$ 2,450	$ 2,169	$ 1,800	$ 13,156	$ 18,630	$ 9,441	$ 9,489	$ 4,149
Judicial administration	498	200	778	931	935	3,501	3,629	3,690	3,717	3,142
Public safety	11,608	13,041	2,708	2,307	2,797	5,627	7,942	8,424	10,154	7,613
Public works	9,081	10,121	24,181	27,156	26,999	35,451	36,890	50,597	38,320	37,769
Health and public assistance	130	134	101	166	134	83	82	50	5,349	5,597
Culture and recreation	7,034	6,198	6,126	6,710	6,232	9,224	10,101	9,751	10,297	9,685
Community development	5	1,063	907	760	1,539	2,259	1,479	1,807	2,368	1,960
Capital grant contributions	-	-	-	-	16,933	7,175	-	765	15,000	15,933
Operating grants and contributions	116,399	116,827	115,779	112,960	112,419	127,665	116,648	119,353	131,719	120,713
Total governmental activities program revenue	145,530	148,814	153,030	153,159	169,788	204,141	195,401	203,878	226,413	206,561
Business-type activities:										
Charges for Services										
Water utility	61,002	74,218	69,816	74,240	74,454	78,983	80,573	78,148	76,584	79,097
Wastewater utility	21,329	22,375	22,314	24,917	23,125	23,815	24,362	24,798	25,469	27,119
Parking facilities	21,059	20,911	21,599	20,425	20,048	18,785	19,682	19,452	19,162	20,413
Capital grants and contributions	-	78	731	219	504	366	130	187	-	2,761
Total business-type activities program revenues	103,390	117,582	114,460	119,801	118,131	121,949	124,747	122,585	121,024	129,390
Total primary government program revenues	248,920	266,396	267,490	272,960	287,919	326,090	320,148	326,463	347,437	335,951
Expenses										
Governmental activities:										
General government	74,344	94,763	113,279	113,142	111,629	112,874	103,550	109,188	119,764	122,656
Judicial administration	40,319	42,494	46,944	48,593	52,209	52,020	49,980	51,102	51,654	55,062
Public safety	107,531	106,705	111,803	126,609	120,703	130,263	129,721	129,138	125,270	125,122
Public works	144,438	109,907	119,176	118,888	134,274	132,176	101,137	91,542	71,324	66,909
Health and public assistance	84,173	91,443	93,775	95,234	93,495	91,923	82,368	75,428	90,993	90,919
Culture and recreation	46,267	44,933	52,965	56,890	63,438	73,342	64,352	63,499	56,039	56,499
Community development	16,974	14,930	14,772	15,345	10,867	15,429	18,638	17,223	16,158	12,622
Education	91,865	92,595	97,595	101,095	104,511	101,011	104,511	104,512	109,287	109,467
Interest on long-term debt	18,516	19,565	19,618	21,457	23,788	26,014	27,931	26,822	28,249	25,187
Total government activities expenses:	624,427	617,335	669,927	697,253	714,914	735,052	682,188	668,454	668,738	664,443
Business-type activities:										
Water utility	60,207	62,009	60,511	64,877	66,990	64,316	67,852	64,473	61,358	61,609
Wastewater utility	11,957	15,448	17,377	18,614	21,227	18,983	19,707	18,806	19,983	20,128
Parking facilities	18,640	18,356	18,861	21,539	19,036	20,008	22,050	20,469	20,961	23,677
Total business-type activities expenses	90,804	95,813	96,749	105,030	107,253	103,307	109,609	103,748	102,302	105,414
Total primary government expenses	715,231	713,148	766,676	802,283	822,167	838,359	791,797	772,202	771,040	769,857
Net (Expense) Revenue										
Governmental activities	(478,897)	(468,521)	(516,897)	(544,094)	(545,126)	(530,911)	(486,787)	(464,576)	(442,325)	(457,882)
Business-type activities	12,586	21,769	17,711	14,771	10,878	18,642	15,138	18,837	18,722	23,976
Total primary government net expense	$ (466,311)	$ (446,752)	$ (499,186)	$ (529,323)	$ (534,248)	$ (512,269)	$ (471,649)	$ (445,739)	$ (423,603)	$ (433,906)

(UNAUDITED)

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

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General Revenue and Other Changes in Net Position									restated	
Governmental Activities:										
Taxes:										
Real estate and personal property	$ 193,156	$ 217,787	$ 241,315	$ 240,488	$ 260,640	$ 256,339	$ 255,530	$ 245,439	$ 246,345	$ 254,357
Consumption utility	43,387	43,337	42,586	46,582	44,142	44,053	48,360	43,588	43,211	43,055
Sales and use	29,497	30,652	32,402	31,791	29,484	28,249	28,411	27,599	29,707	29,436
Restaurant food	26,669	27,277	28,578	28,758	28,079	27,292	24,094	30,300	30,818	31,127
Business licenses	22,015	24,412	25,268	26,343	27,692	26,009	25,849	28,667	29,301	29,889
Cigarette	6,948	6,819	6,957	7,577	7,333	7,176	7,161	8,097	7,926	7,409
Motor vehicle licenses	2,605	3,576	3,529	3,498	4,005	4,308	4,313	4,318	4,210	3,966
Other	19,356	21,544	19,800	18,025	17,192	16,528	15,698	18,665	18,124	16,618
Interest and investment earnings	4,916	7,306	6,536	5,307	2,789	892	1,065	916	563	783
Grants and contributions not restricted to specific programs	68,219	68,133	66,524	69,352	60,513	32,892	32,642	32,726	33,539	33,788
Miscellaneous	8,496	15,851	4,845	11,881	9,600	5,637	5,901	4,653	11,501	14,563
Gain on disposal of assets	-	3,249	65	62	-	-	-	-	1,734	
Capital contributions Norfolk Public Schools	-	-	-	-	-	40,387	11,085	-	-	-
Transfers between governmental and business-type activities	10,000	11,868	10,988	10,212	10,215	13,054	10,052	10,087	10,114	10,052
Total governmental activities	435,264	481,811	489,393	499,876	501,684	502,816	470,161	455,055	467,093	475,043
Business-type activities:										
Interest and investment earnings	864	3,161	2,739	3,046	925	618	511	314	234	496
Grants and contributions not restricted to specific programs	-	-	333	-	-	148	557	371	1,626	219
Unrealized gain (loss) on investments	-	-	-	-	-	-	-	-	-	-
Miscellaneous	3,657	3,911	3,554	3,088	2,850	3,432	3,431	3,951	4,042	3,162
Gain (Loss) on disposal of assets	(852)	-	(6)	-	-	2,744	(157)	26	9	(88)
Transfers between governmental and business-type activities	(10,000)	(11,868)	(10,988)	(10,212)	(10,215)	(13,054)	(10,052)	(10,087)	(10,114)	(10,052)
Total business-type activities	(6,331)	(4,796)	(4,368)	(4,078)	(6,440)	(6,112)	(5,710)	(5,425)	(4,203)	(6,263)
Total primary governmental activities	428,933	477,015	485,025	495,798	495,244	496,704	464,451	449,630	462,890	468,780
Change in Net Position										
Governmental activities	(43,633)	13,290	(27,504)	(44,218)	(43,442)	(28,095)	(16,626)	(9,521)	25,485	17,161
Business-type activities	6,255	16,973	13,343	10,693	4,438	12,530	9,428	13,412	15,814	17,713
Total Primary Government changes in net position	$ (37,378)	$ 30,263	$ (14,161)	$ (33,525)	$ (39,004)	$ (15,565)	$ (7,198)	$ 3,891	$ 41,299	$ 34,874

(UNAUDITED)

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

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General fund:										
Nonspendable	$ -	$ -	$ -	$ -	$ -	$ -	$ 5	$ -	$ -	$ -
Restricted	-	-	-	-	-	-	395	330	300	265
Committed	-	-	-	-	-	-	1,899	3,000	3,000	3,000
Assigned	-	-	-	-	-	-	38,014	34,839	33,919	23,901
Unassigned	-	-	-	-	-	-	55,968	54,338	54,055	58,100
Reserved (1)	14,172	16,057	17,223	11,669	7,842	8,296	-	-	-	-
Unreserved (1)	54,007	66,619	71,056	56,302	50,784	53,840	-	-	-	-
Total general fund	68,179	82,676	88,279	67,971	58,626	62,136	96,281	92,507	91,274	85,266
Capital projects fund:										
Nonspendable	-	-	-	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	-	41,063	95,053	-	10,933
Committed	-	-	-	-	-	-	11,978	14,376	13,637	14,480
Assigned	-	-	-	-	-	-	26,307	15,345	7,339	4,052
Unassigned	-	-	-	-	-	-	-	-	-	-
Reserved (1)	82,373	20,885	48,894	57,186	50,987	60,696	-	-	-	-
Unreserved (1)	3,394	-	15,424	64,504	25,939	86,260	-	-	-	-
Total capital projects fund	85,767	20,885	64,318	121,690	76,926	146,956	79,348	124,774	20,976	29,465
All other governmental funds:										
Nonspendable	-	-	-	-	-	-	22	23	24	-
Restricted	-	-	-	-	-	-	2,621	9,474	10,811	10,864
Committed	-	-	-	-	-	-	11,259	3,246	2,454	5,050
Assigned	-	-	-	-	-	-	9,877	13,569	20,708	22,144
Unassigned	-	-	-	-	-	-	-	-		(1,556)
Reserved (1)	27,161	19,075	20,123	30,716	27,049	34,634	-	-	-	-
Unreserved (1)	3,992	17,131	24,211	13,987	12,535	14,008	-	-	-	-
Total other governmental funds	31,153	36,206	44,334	44,703	39,584	48,642	23,779	26,312	33,997	36,502
Total fund balance, governmental funds	$ 185,099	$ 139,767	$ 196,931	$ 234,364	$ 175,136	$ 257,734	$ 199,408	$ 243,593	$ 146,247	$ 151,233

Note:

(1) The City implemented GASB Statement No. 54 during fiscal year 2011. Prior year amounts have not been restated for the implementation of GASB 54.

(UNAUDITED)

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

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Revenue:										
General property taxes	$ 193,293	$ 211,788	$ 235,399	$ 241,290	$ 252,003	$ 257,055	$ 258,004	$ 252,917	$ 246,359	$ 256,979
Other local taxes	2,006	157,616	159,119	162,573	157,927	153,615	153,886	161,234	163,297	161,499
Licenses and permits	211,788	4,088	4,071	4,055	4,012	3,526	3,691	3,574	4,098	3,089
Fines and forfeitures	157,616	1,461	1,605	1,317	1,260	1,164	1,298	1,108	1,102	1,242
Use of money and property	4,088	10,498	11,105	10,560	8,332	6,746	7,169	6,695	6,539	6,329
Charges for services	1,461	32,772	37,071	40,159	40,345	50,540	47,955	47,859	56,077	60,040
Miscellaneous	10,498	33,494	11,691	17,923	12,911	18,080	14,850	11,643	26,178	29,133
Recovered costs (1)	32,772	12,667	8,408	8,622	8,952	9,503	10,723	10,312	11,396	-
Intergovernmental	33,494	149,757	156,637	156,862	149,774	152,619	149,489	161,572	161,148	153,782
Total revenues	647,016	614,141	625,106	643,361	635,516	652,848	647,065	656,914	676,194	672,093
Expenditures:										
Current										
General government	67,434	92,062	102,031	110,974	102,426	97,061	80,855	100,504	112,804	109,292
Judicial administration	38,110	41,795	45,173	47,331	50,347	48,726	47,535	48,233	50,920	51,673
Public safety	102,278	105,634	108,565	116,208	118,073	115,488	115,975	116,296	117,427	113,394
Public works	64,497	46,959	49,161	60,370	56,146	59,574	70,124	62,330	54,427	55,267
Health and public assistance	83,451	91,535	93,397	95,159	91,648	89,682	79,757	74,331	88,413	88,671
Culture and recreation	40,290	42,995	46,397	51,071	52,248	51,708	45,862	44,529	47,153	46,705
Community development	12,716	13,552	11,158	10,745	9,899	10,851	16,565	15,142	15,128	12,482
Education	91,865	92,595	97,595	101,095	104,511	101,011	104,511	104,512	109,287	111,854
Debt Service:										
Principal retirement	47,407	37,660	35,872	40,260	48,092	46,052	50,865	57,683	50,559	48,135
Interest and other charges	18,061	18,802	18,917	20,468	23,666	23,782	29,675	27,360	27,668	28,682
Capital outlay	85,144	91,632	94,595	114,007	104,892	99,210	76,534	98,892	116,580	100,709
Total expenditures	651,253	675,221	702,861	767,688	761,948	743,145	718,258	749,812	790,366	766,864
(Deficiency) of revenues (under) expenditures	(4,237)	(61,080)	(77,755)	(124,327)	(126,432)	(90,297)	(71,193)	(92,898)	(114,172)	(94,771)
Other financing surces (uses):										
Proceeds of refunding bonds	30,389	-	15,480	-	16,000	-	84,136	74,859	-	73,428
Proceeds of debt (general obligation bonds and notes)	70,840	-	121,705	145,663	55,280	156,208	2,821	109,835	-	77,930
Payment to refunded bonds escrow agent	(30,389)	-	(15,480)	-	(16,000)	-	(84,136)	(74,859)	-	(79,964)
Premium on bonds issued	2,259	-	2,070	5,785	1,707	3,633	505	15,311	-	17,081
Debt Issuance Costs										(1,127)
Proceeds from sale or disposal of fixed assets	-	-	-	-	-	-	-	2,700	1,966	
Operating transfers in	82,354	97,185	89,254	109,901	105,641	104,007	104,873	107,136	112,121	107,633
Operating transfers (out)	(72,354)	(86,142)	(78,176)	(99,653)	(95,425)	(90,953)	(95,332)	(97,899)	(102,006)	(95,224)
Total other financing sources (uses)	87,801	15,749	134,919	161,758	67,203	172,895	12,867	137,083	12,081	99,757
Net change in fund balances	$ 83,564	$ (45,331)	$ 57,164	$ 37,431	$ (59,229)	$ 82,598	$ (58,326)	$ 44,185	$ (102,091)	$ 4,986
Debt service as a percentage of noncapital expenditures	11.56%	9.67%	9.01%	9.13%	10.40%	9.69%	12.19%	12.27%	11.57%	11.21%

Note:
1. Beginning in fiscal year 2014, recovered costs are classified as the appropriate revenue or expense reimbursement.

(UNAUDITED)

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

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Function/Program										
Governmental activities:										
General government	$ 25,544	$ 24,802	$ 16,614	$ 17,707	$ 16,042	$ 19,736	$ 21,795	$ 10,466	$ 10,833	$ 5,077
Judicial administration	19,423	19,605	27,904	28,707	23,173	26,461	27,069	27,880	29,479	28,537
Public safety	19,822	20,674	8,137	5,244	11,036	7,459	12,335	14,217	15,980	11,116
Public works	28,440	30,438	44,769	47,407	48,156	55,542	61,552	77,436	68,326	63,124
Health and public assistance	39,064	39,930	42,261	40,567	41,695	62,585	52,280	51,654	62,657	62,224
Culture and recreation	9,956	9,603	9,655	10,359	9,148	23,976	10,330	11,573	26,284	25,837
Community development	3,281	3,762	3,690	3,168	20,538	7,532	10,040	8,538	10,266	7,626
Interest on Long-term debt	-	-	-	-	-	849	-	2,115	2,587	3,021
Total governmental activities	145,530	148,814	153,030	153,159	169,788	204,140	195,401	203,879	226,412	206,562
Business-type activities:										
Water utility	61,002	74,277	70,411	74,416	74,958	79,349	80,703	78,335	76,585	81,757
Wastewater utility	21,329	22,394	22,450	24,960	23,125	23,815	24,362	24,798	25,469	27,219
Parking facilities	21,059	20,911	21,599	20,425	20,048	18,785	19,682	19,452	19,162	20,414
Total business-type activities	103,390	117,582	114,460	119,801	118,131	121,949	124,747	122,585	121,216	129,390
Total primary government	$ 248,920	$ 266,396	$ 267,490	$ 272,960	$ 287,919	$ 326,089	$ 320,148	$ 326,464	$ 347,628	$ 335,952

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	Miscellaneous	Recovered Costs (1)	Inter-Governmental	Totals
2005	$ 193,293	$ 150,477	$ 3,542	$ 1,763	$ 10,232	$ 29,129	$ 18,951	$ 14,188	$ 147,045	$ 568,620
2006	211,788	157,616	4,088	1,461	10,498	32,772	33,494	12,667	149,757	614,141
2007	235,399	159,119	4,071	1,605	11,105	37,071	11,691	8,408	156,637	625,106
2008	241,290	162,573	4,055	1,317	10,650	40,159	17,923	8,622	156,862	643,451
2009	252,004	157,926	4,012	1,260	8,332	40,345	12,911	8,952	149,774	635,516
2010	257,055	153,615	3,526	1,164	6,746	50,540	18,080	9,503	152,619	652,848
2011	258,004	153,886	3,691	1,298	7,169	47,955	14,850	10,723	149,489	647,065
2012	252,917	161,234	3,575	1,108	6,694	47,859	11,643	10,312	161,572	656,914
2013	246,359	163,297	4,098	1,102	6,539	56,077	26,178	11,396	161,148	676,194
2014	256,979	161,500	3,089	1,242	6,329	60,039	29,133	NA	153,782	672,093
Change 2005-2014	32.9%	7.3%	-12.8%	-29.6%	-38.1%	106.1%	53.7%	NA	4.6%	18.2%

City of Norfolk, Virginia
Other Local Tax Revenues by Source, Governmental Funds (2)
Schedule 7
Last Ten Fiscal Years
(Amounts in Thousands)

Fiscal Year	Consumption Utility Taxes	Sales and Use Taxes	Restaurant Food Taxes	Business License Taxes	Cigarette Taxes	Motor Vehicle Licenses	Other	Total
2005	$ 39,371	$ 29,497	$ 22,550	$ 22,015	$ 6,948	$ 2,605	$ 27,491	$ 150,477
2006	43,337	30,652	27,277	24,412	6,819	3,576	21,543	157,616
2007	42,586	32,402	28,578	25,268	6,957	3,529	19,799	159,119
2008	46,582	31,791	28,758	26,343	7,577	3,498	18,024	162,573
2009	44,142	29,484	28,078	27,692	7,333	4,005	17,192	157,926
2010	44,053	28,249	27,292	26,009	7,176	4,308	16,528	153,615
2011	43,188	28,411	28,474	25,849	7,161	4,313	16,490	153,886
2012	43,588	27,599	30,300	28,667	8,097	4,318	18,665	161,234
2013	43,211	29,707	30,818	29,301	7,926	4,209	18,124	163,296
2014	43,055	29,436	31,127	29,889	7,409	3,966	16,618	161,500
Change 2005-2014	9.4%	-0.2%	38.0%	35.8%	6.6%	52.2%	-39.6%	7.3%

Notes:
1. Beginning in 2014, recovered costs are classified as the appropriate revenue or expense reimbursement
2. Presents additional details on Other Local Taxes presented in schedule 6 above.
NA - Not Available

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
2005	$ 10,960,812	$ 1,569,991	$ 305,154	$ 12,835,957	$ 12,835,957
2006	12,691,527	1,655,021	316,863	14,663,411	14,663,411
2007	15,607,512	1,687,318	324,387	17,619,217	17,619,217
2008	18,401,851	1,983,503	193,287	20,578,641	20,578,641
2009	19,397,795	1,676,811	233,703	21,308,309	21,308,309
2010	19,940,273	1,610,680	226,801	21,777,754	21,777,754
2011	19,320,642	1,832,276	230,756	21,383,674	21,383,674
2012	18,676,729	1,613,797	238,497	20,529,023	20,529,023
2013	18,319,947	1,532,337	241,023	20,093,307	20,093,307
2014	18,421,412	1,112,330	258,302	19,792,044	19,792,044

Notes:

1. Real property and personal property includes both general and public service corporations.
2. Other property includes machinery and tools, mobile homes, airplanes and boats.
3. Estimated actual taxable property values are based on data supplied by the City's Commissioner of the Revenue and the City Assessor.

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

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Property tax rate per $100 of assessed value:										
Real property	$ 1.40	$ 1.35	$ 1.27	$ 1.11	$ 1.11	$ 1.11	$ 1.11	$ 1.11	$ 1.11	$ 1.15
Downtown improvement district	0.18	0.18	0.18	0.18	0.18	0.16	0.16	0.16	0.16	0.16
Personal property	4.00	4.00	4.00	4.25	4.25	4.25	4.33	4.33	4.33	4.33
Machinery and tools	4.00	4.00	4.00	4.25	4.25	4.25	4.25	4.25	4.25	4.25
Mobile homes	1.40	1.35	1.27	1.11	1.11	1.11	1.11	1.11	1.11	1.11
Airplanes	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
Boats (pleasure)	0.01	0.01	0.01	0.50	0.50	0.50	0.50	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	1.50	1.50	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
Total direct tax rate	1.63	1.55	1.45	1.25	1.23	1.19	1.19	1.21	1.22	1.22
Assessed value of real property as a percent of fair market value:										
As determined by the City Assessor	100%	100%	100%	100%	100%	96%	100%	100%	98%	100%
As determined by the Commonwealth's Department of Taxation	65%	76%	76%	93%	96%	N/A	N/A	N/A	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 2004 through 2013.
3. The most recent Virginia Assessment/Sales ratio study is for 2013.
4. The total direct tax rate is calculated using a weighted average formula that combines real, personal and other property using the original property tax levy and total taxable property assessed value.

N/A - Not available

(UNAUDITED)

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

	2005			2014		
Taxpayer	Real Property Taxable Assessed Value	Rank	Percentage of Total Assessed Value	Real Property Taxable Assessed Value	Rank	Percentage of Total Assessed Value
Verizon Virginia, Inc.	$ 156,543,958	1	1.43%	$ 98,558,756	4	0.54%
Dominion Virginia Power	154,596,017	2	1.41%	301,301,543	1	1.64%
MacArthur Shopping Center LLC (Taubman Co.)	152,801,100	3	1.39%	183,168,300	2	0.99%
Norfolk Western Railway Company	77,259,985	4	0.70%	128,937,516	3	0.70%
Ford Motor Company	76,934,400	5	0.70%			
Bank of America	72,788,200	6	0.66%			
Military Circle Ltd. Partnership	61,169,100	7	0.56%	60,093,800	10	0.33%
Cox Virginia Telecom	61,046,839	8	0.56%			
New Life Tower	52,428,800	9	0.48%			
Virginia Natural Gas, Inc.	36,130,614	10	0.33%	71,459,122	7	0.39%
Foundation				116,691,000	5	0.63%
Norfolk Southern				94,315,266	6	0.51%
Dominion Enterprises				61,618,200	8	0.33%
Wells Fargo Building				69,376,700	9	0.38%
Total	$ 901,699,013		8.23%	$ 1,185,520,203		6.44%
Total Assessed Value	$ 10,960,812,421			$ 18,421,412,121		

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

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

Tax Year	Original Tax Levy	Adjusted Tax Levy (1)	Current Collections	Percentage of Current Collections to Tax Levy (2)	Delinquent Collections	Total Collections	Percentage of Total Collections to Tax Levy (2)
2005	$ 209,202	$ 183,406	$ 180,348	$ -	$ 3,000	$ 183,348	99.97%
2006	227,796	202,862	197,669	97.44%	5,146	202,815	99.98%
2007	254,703	230,160	219,993	95.58%	10,100	230,093	99.97%
2008	258,016	243,387	220,253	90.49%	23,083	243,336	99.98%
2009	261,535	252,088	233,725	92.72%	16,565	250,290	99.29%
2010	258,544	258,003	239,192	92.71%	16,876	256,068	99.25%
2011	254,756	253,813	235,518	92.79%	16,331	251,849	99.23%
2012	247,528	248,229	233,396	94.02%	12,408	245,804	99.02%
2013	244,309	244,894	229,872	93.87%	10,933	240,805	98.33%
2014	254,008	254,008	240,481	94.67%	-	240,481	94.67%

Notes:

1. Adjusted Tax Levy has been adjusted to reflect residual taxable amount after exonerations and reassessments. Information obtained from Office of the City Treasurer.

2. Percentage of Collections to Tax Levy are calculated using the adjusted Tax Levy amounts. Taxes collected during the current year that relate to prior years are included in the year assessed. Total collections for the year ended June 30, 2014 were $255,840,000 of which $15,359,000 are for prior years and are included under the column entitled "Delinquent Collections."

(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 Position Ratio
Governmental Activities							
2005	$ 436,860	$ 446	$ -	$ 437,306	$ 1,827	5.91%	1.15
2006	397,306	239	-	397,545	1,661	5.01%	1.24
2007	484,782	227	-	469,725	1,941	5.66%	0.99
2008	590,712	2,000	-	592,712	2,439	6.96%	0.71
2009	587,743	1,000	-	588,743	2,413	7.07%	0.64
2010	699,748	1,812	-	701,560	2,889	8.19%	0.50
2011	651,755	1,208	-	652,963	2,676	7.30%	0.52
2012	717,407	-	-	717,407	2,919	7.51%	0.46
2013	664,909	-	-	664,909	2,701	6.92%	0.53
2014	718,937			718,937	N/A	N/A	0.49
Business Type Activities							
2005	$ 91,085	$ -	$ 372,427	$ 463,512	$ 1,936	6.26%	0.62
2006	92,871	-	364,535	467,258	1,952	5.89%	0.65
2007	107,752	-	355,841	463,593	1,916	5.59%	0.66
2008	125,363	-	413,213	538,576	2,217	6.32%	0.59
2009	159,902	-	410,377	570,279	2,338	6.85%	0.56
2010	201,701	-	403,485	605,186	2,492	7.06%	0.55
2011	189,782	-	445,687	635,469	2,605	7.10%	0.54
2012	193,729	-	439,410	633,139	2,576	6.63%	0.56
2013	184,119	-	486,832	670,951	2,726	6.99%	0.55
2014	259,717		410,401	670,118	N/A	N/A	0.55
Total Primary Governmental Activities							
2005	$ 527,945	$ 446	$ 372,427	$ 900,818	$ 3,763	12.17%	0.93
2006	490,177	239	364,535	864,803	3,613	10.90%	0.91
2007	592,534	227	355,841	933,318	3,858	11.25%	0.85
2008	716,075	2,000	413,213	1,131,288	4,656	13.28%	0.68
2009	747,645	1,000	410,377	1,159,022	4,751	13.92%	0.64
2010	901,449	1,812	403,485	1,306,746	5,382	15.25%	0.54
2011	841,537	1,208	445,687	1,288,432	5,281	14.40%	0.53
2012	911,136	-	439,410	1,350,546	5,494	14.15%	0.50
2013	849,028	-	486,832	1,335,860	5,427	13.91%	0.51
2014	978,654	-	410,401	1,389,055	N/A	N/A	0.52

N/A - not available

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

City of Norfolk, Virginia
Debt Capacity Information
Schedule 2
Ratios of General Bonded Debt
Total Assessed Value and 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
2005	$ 527,945	$ 91,085	$ 436,860	$ 12,835,957	$ 239,396	3.40%	$ 1,825
2006	490,177	92,871	397,306	14,663,411	239,355	2.71%	1,660
2007	592,534	107,752	484,782	17,619,217	241,941	2.75%	2,004
2008	716,075	125,363	590,712	20,578,641	242,983	2.87%	2,431
2009	747,645	159,902	587,743	21,308,309	243,957	2.76%	2,409
2010	901,449	201,701	699,748	21,777,754	242,803	3.21%	2,882
2011	841,537	189,782	651,755	21,383,674	243,985	3.05%	2,671
2012	911,136	193,729	717,407	20,529,023	245,803	3.49%	2,919
2013	849,028	184,119	664,909	20,093,307	246,392	3.31%	2,699
2014	978,654	259,717	718,937	19,788,842	N/A	3.63%	N/A

Notes:

1. Assessed value of taxable property is detailed in Revenue Capacity Schedule 1.

2. The source of 2005 through 2009 and 2011 through 2013 population estimates is the Weldon Cooper Center for Public Service, University of Virginia and the U.S. Census Bureau. The source for the 2010 population estimate is the U.S. Census Bureau.

N/A - not available

City of Norfolk, Virginia
Debt Capacity Information
Schedule 3
Computation of Direct Bonded Debt
June 30, 2014

Jurisdiction	Gross Bonded Debt Outstanding (in thousands)	% Applicable to Government	$ Applicable to Government (in thousands)
Direct:			
City of Norfolk	$ 978,654	100%	$ 978,654

Notes:

1. There is no overlapping debt because 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.

(UNAUDITED)

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

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Total assessed value of taxed real property	$10,960,812,421	$12,691,527,668	$15,496,207,804	$18,401,851,069	$19,395,789,387	$19,940,273,451	$19,320,643,495	$18,676,730,533	$18,319,948,478	$18,421,412,121
Debt Limit -10% of total assessed valuation	1,096,081,242	1,269,152,767	1,549,620,780	1,840,185,107	1,939,578,939	1,994,027,345	1,932,064,350	1,867,673,053	1,831,994,848	1,842,141,212
Net debt applicable to debt limitation	514,905,063	478,467,462	579,224,191	697,450,234	738,173,200	889,556,676	829,621,927	877,060,431	818,068,050	912,700,343
Legal Debt Margin	$ 581,176,179	$ 790,685,305	$ 970,396,589	$ 1,142,734,873	$ 1,201,405,739	$ 1,104,470,669	$ 1,102,442,422	$ 990,612,622	$ 1,013,926,798	$ 929,440,869
Net Debt percentage of debt limitation	46.98%	37.70%	37.38%	37.90%	38.06%	44.61%	42.94%	46.96%	44.65%	49.55%

(UNAUDITED)

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

Fiscal Year	Revenue Available for Debt Service (1)	Operating Expenses Less Depreciation & Amortization (2)	Income Available for Debt Service	Debt Service Principal	Debt Service Interest	Debt Service Total	Coverage
2005	$ 69,183,154	$ 34,643,668	$ 34,539,486	$ 6,250,000	$ 14,041,059	$ 20,291,059	1.70
2006	78,788,158	34,144,763	44,643,395	6,580,000	14,827,960	21,407,960	2.09
2007	76,013,563	32,427,377	43,586,186	7,310,000	14,379,821	21,689,821	2.01
2008	78,730,024	37,026,528	41,703,496	7,665,000	14,022,200	21,687,200	1.92
2009	78,020,552	38,182,373	39,838,179	8,050,000	16,411,343	24,461,343	1.63
2010	82,470,020	34,567,741	47,902,279	9,420,000	15,929,680	25,349,680	1.89
2011	83,737,444	37,068,753	46,668,691	9,875,000	16,527,844	26,402,844	1.77
2012	81,295,219	34,667,524	46,627,695	11,285,000	11,184,363	22,469,363	2.08
2013	80,091,220	34,810,702	45,280,518	7,000,000	14,700,777	21,700,777	2.09
2014	82,078,002	34,466,877	47,611,125	7,250,000	15,630,219	22,880,219	2.08

Notes:

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

2. Includes operating expenses, less depreciation and amortization and payment in lieu of taxes (PILOT).

City of Norfolk, Virginia
Debt Capacity Information
Schedule 6
Revenue Bonds Debt Service Coverage
Wastewater Utility Fund
Last Five 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	$ 11,168,344	$ 12,954,086	$ 425,000	$ -	$ 425,000	30.48
2011	24,856,689	11,375,370	13,481,319	850,000	-	850,000	15.86
2012	25,695,602	10,860,728	14,834,874	1,225,000	-	1,225,000	12.11
2013	25,898,789	11,541,897	14,356,892	1,725,000	-	1,725,000	8.32
2014	27,409,238	10,767,704	16,641,534	1,957,500	-	1,957,500	8.50

Notes:

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

2. Includes operating expenses, less depreciation and amortization and payment in lieu of taxes (PILOT).

(UNAUDITED)

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

Fiscal Year	Principal on Serial Bonds	Redemption of Other Long-Term Debt	Interest on Serial Bonds	Interest on Other Debt	Total Debt Service	Total General Expenditures	Ratio of Debt Service to Total General Expenditures
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%
2011	49,650,794	-	28,802,303	-	78,453,097	577,669,780	13.58%
2012	55,716,041	-	26,525,905	-	82,241,946	590,849,686	13.92%
2013	50,558,810	-	27,668,004	-	78,226,814	594,180,698	13.17%
2014	48,400,297	-	28,682,414	-	77,082,711	588,506,007	13.10%

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
2004	238,650	$ 7,054,054	$ 29,152	98,538	5.1
2005	239,396	7,399,230	30,875	96,697	5.0
2006	239,355	7,937,282	32,609	95,812	4.2
2007	241,941	8,292,887	34,375	100,042	4.1
2008	242,983	8,521,652	35,330	100,489	5.3
2009	243,957	8,325,135	34,441	99,110	8.9
2010	242,803	8,567,847	35,271	103,915	9.1
2011	243,985	8,946,520	36,873	103,996	8.3
2012	245,803	9,547,230	38,844	104,512	7.7
2013	245,392	9,601,595	39,009	104,793	7.0

Notes:
1. Population from the Weldon Cooper Center for Public Service, University of Virgina and U.S. Census Bureau. Population data was not available for 2014.
2. Personal income and per capita personal income estimates from U.S. Bureau of Economic Analysis. Data not available for 2014.
3. Unemployment rate and civilian labor force from the U.S. Bureau of Labor Statistics. Data not available for 2014.
4. All information on an average annual calendar year.

(UNAUDITED)

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

	Rank	
Employer	2005	2014
U.S. Department of Defense	1	1
Sentara Healthcare	3	2
Norfolk City Public Schools	2	3
City of Norfolk	4	4
Old Dominion University	7	5
Children's Hospital of the King's Daughters	8	6
BAE Systems Norfolk Ship Repair	-	7
Eastern Virginia Medical School	-	8
Norfolk State University	9	9
Bank of America	6	10
United States Postal Service	10	
Ford Motor Company	5	
Total Employment	94,385	138,691

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

2. The data for 2014 is the quarter ended March 2014, as that is the most current data available.

3. The source of the City's total employment is the Bureau of Labor Statistics.

4. Each of the top 10 employers has 1000+ employees. The actual number of employees 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)
2005	560	1,191	$ 204,391	70	$ 70,677
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	209	535	35,878	38	138,131
2010	191	621	58,729	35	104,922
2011	221	479	37,298	27	40,073
2012	268	371	39,360	26	116,401
2013	385	948	67,302	28	105,635
2014	1,338	432	93,072	30	30,565

Notes:

***** The source of residential and nonresidential construction is the City's Department of Planning.

****** 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)

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Goods-Producing Industries:										
Construction	6.1	6.1	6.1	6.2	6.0	4.9	4.8	4.4	4.1	3.8
Manufacturing	9.8	9.6	8.7	7.9	7.3	7.3	6.7	3.2	6.8	6.7
Service-Providing Industries:										
Wholesale trade	5.0	5.0	5.0	5.1	4.6	4.2	4.0	3.3	3.7	3.5
Retail trade	14.2	14.0	14.3	14.6	13.8	13.0	12.9	12.9	12.6	12.8
Transportation and warehousing	9.7	9.9	9.3	9.4	9.5	8.6	8.8	8.8	9.0	8.8
Utilities	0.8	0.8	0.8	0.8	0.8	***	***	***	***	***
Information	4.2	4.0	3.5	3.7	3.4	2.8	2.6	2.1	2.9	2.9
Finance and insurance	7.1	6.7	6.0	6.6	6.6	5.7	5.5	3.9	5.3	5.3
Real estate and rental and leasing	2.7	2.8	2.9	2.9	2.7	2.7	2.6	2.3	2.5	2.7
Professional and technical services	10.2	10.1	10.2	10.7	11.3	11.6	11.5	10.2	11.0	11.4
Management of companies and enterprises	3.6	3.7	2.7	2.4	2.5	2.2	2.1	1.0	2.0	1.9
Administrative, support and waste services	7.5	7.5	7.4	7.4	7.6	6.5	6.7	5.5	6.8	7.6
Educational services	14.7	15.2	15.5	15.6	16.4	16.6	16.4	1.0	16.0	16.1
Health care and social assistance	19.2	19.6	20.1	20.6	21.3	20.8	21.4	20.5	22.4	22.4
Arts, entertainment and recreation	2.2	2.3	2.4	2.4	2.4	2.2	2.2	2.7	2.3	2.3
Accommodation and food services	11.1	10.9	11.1	10.6	10.3	10.2	10.4	10.5	10.9	10.6
Public administration	12.3	12.1	12.2	12.1	13.7	14.1	14.0	14.5	14.4	12.7
Other services	4.2	4.3	4.1	4.0	3.9	3.7	3.8	4.0	4.1	4.2
Total (adjusted for rounding)	144.6	144.6	142.3	143.0	144.1	137.1	136.4	110.8	136.8	135.7

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

2. All information on an average annual calendar year.

3. Asterisks indicate non-disclosable data.

4. This schedule includes data for the ten year period 2004 - 2013 as calendar year. Calendar year data not available for 2014.

(UNAUDITED)

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

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Function/Program										
Governmental activities:										
General government	457	450	477	264	481	438	492	501	461	425
Judicial administration	20	16	17	18	16	14	12	10	13	12
Public safety										
Police	858	839	1,031	887	861	878	891	879	828	837
Fire	507	499	508	508	517	517	510	517	507	504
Other	84	84	-	-	84	83	90	90	77	76
Public works	389	392	379	346	414	440	431	427	395	388
Health and public assistance	513	562	469	598	487	485	532	534	709	697
Culture and recreational	483	406	478	569	558	509	512	501	459	456
Community development	74	70	59	95	75	113	137	142	94	96
Business-type activities:										
Water utility	279	264	261	290	268	269	289	289	266	273
Wastewater utility	91	95	96	103	99	95	103	104	99	99
Parking facilities	77	78	90	88	89	87	85	85	85	76
Total full-time equivalent positions	3,832	3,755	3,865	3,766	4,073	4,050	4,103	4,079	3,993	3,937

Notes:

1. Data obtained from City's Human Resources Information System

(UNAUDITED)

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

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Function/Program										
Police:										
Service calls	206,378	191,037	237,451	258,254	242,139	245,336	241,282	251,099	245,620	259,938
Arrests	22,799	22,235	22,222	24,050	26,583	28,069	27,930	29,080	27,073	25,850
Reports filed	34,167	29,600	31,986	31,220	32,477	31,487	30,507	28,649	28,035	26,060
Fire:										
Incidences (fires, EMS)	39,605	40,337	31,266	41,212	39,714	40,234	40,641	45,350	44,370	43,713
Highways and Streets:										
Streets resurfacing (miles)	83	77	70	80	66	69	67	139	53	76
Sanitation:										
Total solid waste collected and disposed (tons)	104,247	99,131	97,143	93,799	92,333	100,480	84,162	89,106	83,297	79,382
Water Utilities:										
Water delivered to water mains (gallons in thousands)	24,723,000	21,721,000	24,326,000	24,150,000	22,974,000	22,666,500	22,810,560	22,039,690	21,532,680	21,147,530
Total water consumption (gallons in thousands)	22,991,359	23,012,112	22,474,000	24,455,000	21,293,000	21,280,000	21,155,000	20,360,972	20,109,000	20,241,312
Percent of unmetered water	7.95%	7.13%	7.30%	6.95%	7.31%	6.11%	7.25%	7.62%	6.62%	4.29%
Average daily delivery (gallons in thousands)	67,740	68,090	66,650	66,200	62,900	62,100	62,494	60,217	58,994	57,938
Maximum daily pumpage (gallons in thousands)	81,470	83,640	83,600	82,000	79,000	76,400	80,200	76,310	74,640	74,890
Minimum daily pumpage (gallons in thousands)	58,410	57,200	56,200	52,200	52,000	52,200	52,350	50,070	49,890	48,030

(UNAUDITED)

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

	Fiscal Year									
Function/Program	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Public Safety:										
Police										
Stations	2	3	3	3	3	3	3	3	3	3
Fire										
Fire stations	15	14	14	14	14	14	14	14	14	14
Education:										
High schools	5	5	5	5	5	5	5	5	5	5
Middle schools	9	9	9	9	9	8	8	8	8	8
Elementary (K - 8 & Pre K - 8)	35	35	35	35	35	35	35	34	33	33
Other educational facilities	11	11	11	11	9	5	5	6	6	6
Libraries	10	10	10	11	11	11	11	11	11	11
Public Recreation:										
Parks:										
Acreage	590	591	587	586	587	587	587	587	587	587
Regional parks	1	1	1	1	2	2	2	2	2	2
Neighborhood parks	121	121	85	85	71	71	71	71	71	71
Preserves and nature areas	1	1	1	1	1	1	1	1	1	1
Nature education centers	3	3	1	1	1	1	1	1	1	1
Playgrounds	45	45	79	123	100	101	101	101	102	105
Hiking trails (miles)	10	11	1	2	2	2	2	2	2	2
Recreation:										
Acreage	243	231	860	868	954	957	957	957	957	957
Recreational and senior centers	22	22	18	19	25	30	30	30	30	30
Swimming pools	6	6	6	8	6	6	6	6	6	6
Tennis Courts	152	152	101	134	148	148	148	142	142	142
Baseball/softball diamonds	36	36	63	99	86	86	86	86	86	86
Football/soccer fields	18	18	47	65	49	49	49	49	49	49
Field hockey	4	4	5	5	3	3	3	3	3	3
Basketball courts	42	42	229	179	204	203	203	201	201	201
Municipal beaches	3	3	3	3	3	3	3	3	3	3
Municipal Golf courses	1	2	3	3	3	3	3	3	3	3
Public Services:										
Transportation and Engineering:										
Streets (lane miles)	2,015	2,183	2,193	2,210	2,193	2,188	2,188	2,189	2,174	2,175
Sidewalks (miles)	968	968	968	968	968	968	968	968	968	887
Bridges	50	50	49	49	49	50	50	50	50	50
Signalized intersections	299	299	283	287	284	301	304	305	304	311
Street lights	31,721	29,888	30,200	30,583	30,653	30,717	31,277	31,132	31,138	31,138
Utilities:										
Water fund capital assets (in thousands)	$ 424,948	$ 425,289	$ 431,655	$ 436,488	$ 437,973	$ 442,304	$ 448,407	$ 470,466	$ 480,999	$ 487,577
Wastewater fund capital assets (in thousands)	120,685	134,152	147,020	163,068	177,928	183,974	198,842	214,308	229,891	238,931
Total utilities assets (in thousands)	$ 545,633	$ 559,441	$ 578,675	$ 599,556	$ 615,901	$ 626,278	$ 647,842	$ 684,774	$ 710,094	$ 726,479
Water customer accounts	64,905	65,548	65,000	65,549	64,433	66,140	64,289	64,440	64,654	64,856
Miles of water main in the system	817	825	827	829	832	835	838	824	826	828
Convention Center:										
Meeting rooms	7	7	8	8	8	8	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	58,430
Meeting/ballroom space (square feet)	9,700	9,700	9,700	9,700	9,700	9,700	9,700	9,700	9,700	9,700
Parking Facilities:										
Parking lots/garages	28	28	21	23	23	26	25	24	24	24
Parking meters	600	660	718	669	614	584	584	756	738	752
Stormwater Management:										
Miles of storm sewers	351	351	357	357	357	357	357	357	366	386

(UNAUDITED)

City of Norfolk, Virginia
Operating Information
Schedule 4
Water System Statistics
As of June 30, 2014

Average Metered Consumption (million gallons per day)

Fiscal Year	Norfolk Retail	Virginia Beach	U.S. Navy	Chesapeake	Total
2010	17.6	33.4	4.1	3.2	58.3
2011	17.4	33.7	4.3	2.2	57.6
2012	17.1	32.4	4.0	2.3	55.8
2013	16.8	32.2	4.0	2.5	55.5
2014	16.7	31.8	4.3	2.3	55.1

Retail Customers' Average Annual Costs - Norfolk Retail

Fiscal Year	Revenue	Volume (Mgal[1])	Average Cost ($/Mgal[1])
2010	$ 33,401,000	6,432,000	$ 5.19
2011	34,472,000	6,362,000	5.42
2012	33,537,000	6,241,000	5.37
2013	33,813,000	6,134,000	5.51
2014	34,920,000	6,092,000	5.73

Wholesale Customers' Average Annual Costs - Virginia Beach

Fiscal Year	Revenue	Volume (Mgal[1])	Average Cost ($/Mgal[1])
2010	$ 26,742,000	12,189,000	$ 2.19
2011	28,703,000	12,307,800	2.33
2012	25,519,000	11,826,000	2.16
2013	22,643,000	11,739,000	1.93
2014	23,188,000	11,614,000	1.99

Wholesale Customers' Average Annual Costs -
U.S. Navy, including Norfolk and Virginia Beach Facilities

Fiscal Year	Revenue	Volume (Mgal[1])	Average Cost ($/Mgal[1])
2010	$ 8,108,000	1,479,000	$ 5.48
2011	8,837,000	1,562,000	5.66
2012	8,534,000	1,460,000	5.85
2013	8,768,000	1,444,000	6.07
2014	9,927,000	1,571,000	6.32

Wholesale Customers' Average Annual Costs - Chesapeake

Fiscal Year	Revenue	Volume (Mgal[1])	Average Cost ($/Mgal[1])
2010	$ 6,048,000	1,180,000	$ 5.13
2011	4,299,000	803,000	5.35
2012	4,691,000	840,000	5.58
2013	5,099,000	897,500	5.68
2014	4,912,000	835,300	5.88

(1) "Mgal" means 1,000 gallons

Additional Information:

1) Water Utility Fund Annual Budget is contained in the City of Norfolk Approved Operating Budget.
July 1, 2013 - June 30, 2014
July 1, 2014 - June 30, 2015

2) Water Utility Fund Financial Statements are contained in the financial section "Enterprise Funds" of each respective year's Comprehensive Annual Financial Report.

3) Financial information on the Water Utility Fund is provided in the "Introductory Section" and the "Financial Section" of each respective year's Comprehensive Annual Financial Report.

(UNAUDITED)

City of Norfolk, Virginia
Operating Information
Schedule 5
Wastewater System Statistics
As of June 30, 2014

The Wastewater System

The City owns and operates a sanitary sewer system (the "Wastewater System") which collects and conveys wastewater to the regional treatment agency, the Hampton Roads Sanitation District.

Approximate population served	246,392	citizens
Total wastewater pumping stations	131.0	pump stations
Miles of gravity wastewater mains	909.0	miles
Miles of wastewater force mains	67.0	miles

Organization and Management

The Department of Utilities is responsible for the operation of two enterprise funds, the Water Utilities Fund and the Wastewater Utilities Fund. Kristen M. Lentz, P.E. is the Director of Utilities and Eric G. Tucker is the Assistant Director of Utilities. The Department, which is comprised of eight divisions, is organized as follows: Water Production, Water Quality, Wastewater, Water Distribution, Water Accounts, Engineering, Accounting & Budget and the Director's Office.

Rates

Each customer using the Wastewater System is charged at a rate based on the water meter flow unless an effluent meter is used. In the absence of an effluent meter, the water meter flow is used. Rates are set by City Council. Effective in Fiscal Year 2005, the City Council established a long-term retail rate plan and starting in 2006, Fiscal Year wastewater rates increase annually by 4.0% and produces the following rates:

Fiscal Year	Retail Rate
2014	$3.53 per 100 cubic feet
2015	$3.67 per 100 cubic feet
Thereafter	4.0% annual increases each July 1

Largest Users

Rank	Entity	Usage (CCF)
1	Norfolk Redevelopment and Housing Authority	377,162
2	BAE Systems	162,996
3	Virginia & Norfolk International Terminals	148,730
4	Old Dominion University	112,551
5	S.L. Nusbaum Realty	68,553

Operating Income

	Fiscal Year 2013	Fiscal Year 2014
Total Operating Revenues	$ 25,898,789	$ 27,409,238
Total Operating Expenses	16,941,909	16,500,470
Total Operating Income	$ 8,956,880	$ 10,908,768

(UNAUDITED)

City of Norfolk, Virginia
Operating Information
Schedule 6
Parking System Statistics
As of June 30, 2014

Short-term Parking Rates at all City-Owned Facilities, Except the MacArthur Center Garages

Time	Hourly Rates	Time	Hourly Rates
0 to 1 Hour	$1.50	6 PM to 9 PM/Collect-On-Entry	$3.00
1 to 2 Hours	3.00	9 PM to 3 AM/Collect-On-Entry	5.00
2 to 3 Hours	4.50	Special Event Rate/Collect-On-Entry	5.00
3 to 4 Hours	6.00		
4 to 5 Hours	7.50		
5 to 6 Hours	9.00		
6 to 7 Hours	10.50		
7 to 8 Hours	12.00		
Maximum Daily Rate (up to 24 Hours)	13.00		
Lost Ticket/Per Day	13.00		

Short-term Parking Rates at the MacArthur Center Garages

Monday - Friday	Saturday & Sunday
$1.00 for first hour - third hour	$1.00 for entry prior to 6 PM
$2.00 for each additional hour until 6 PM	$2.00 for entry after 6 PM
$2.00 for entry after 6 PM	
Maximum of $10.00 per 24-hour period	Maximum of $10.00 per 24-hour period

Special Event Rates

All facilities, except the MacArthur Center Garages, have a collect-on-entry, special event rate of $5.00 per vehicle. The MacArthur Center Garages special event fee is $2.00 per vehicle.

Metered Parking Rates

Metered Area	General Location	Hourly Rate
Tier 1	All streets west of St. Paul's Boulevard, City Hall Avenue and south, Waterside Drive and north, and all streets east of Boush Street including Boush Street	$0.45 per 15 minutes
Tier 2	All remaining downtown areas with meters	$0.35 per 15 minutes
Education Lot	Corner of St. Paul's Boulevard and City Hall Avenue	$0.50 per 30 minutes
Spotswood Lot	Located off Colley Avenue, between Brandon and Spotswood Avenue	$0.50 per half hour; $2.00 maximum four hour limit
ODU Village	161 meters located on 41st, 43rd, 45th,46th, 47th Street and Monarch Way	$0.50 per 30 minutes

Monthly Parking Rates at all City-Owned Facilities

Daytime rates vary from $37.00 unreserved per month in outlying lots to $130.00 for reserved spaces in the core downtown. Nightly monthly parking rates vary from $20.00 per month to $43.00 per month.

Parking Fines

Parking Violation	Fine Schedule	Parking Violation	Fine Schedule
Overtime Parking - Meter	$25.00	No Parking - This Side	$30.00
Overtime Parking - Time Zone	40.00	No Stopping Zone	40.00
Overtime Parking - Meter Feeding	30.00	Restricted City Lot	35.00
No Parking	40.00	Handicapped Parking	255.00
No Parking - Fire Hydrant	75.00	Taxi Stand	40.00
No Parking - Cross Walk	40.00	Blocking Driveway	35.00
No Parking - Loading Zone	35.00	Overnight Parking	30.00
No Parking - Here to Corner	35.00	Parking off of Roadway	40.00
No Parking - Facing Wrong Way	30.00	Blocking Fire Lane	105.00
No Parking - Bus Stop	40.00		
No Parking - Street Cleaning	45.00		

Parking Fines

Fiscal Year	Parking Tickets Issued	Revenue	Collection Rate
2010	62,670	$ 2,072,073	81%
2011	62,731	2,062,060	82%
2012	58,928	2,169,813	87%
2013	56,751	1,822,693	85%
2014	57,409	2,382,072	100%

Additional Information

1) Parking Facilities Fund Annual Budget is contained in the City of Norfolk Approved Operating Budget.
July 1, 2013 - June 30, 2014
July 1, 2014 - June 30, 2015

2) Parking Facilities Fund Financial Statements are contained in the financial section "Enterprise Funds" of each respective year's Comprehensive Annual Financial Report.

3) Financial information on the Parking Facilities Fund is provided in the "Introductory Section" and the "Financial Section" of each respective year's Comprehensive Annual Financial Report.

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OTHER REPORTS OF INDEPENDENT AUDITORS

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COMPLIANCE SECTION

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KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

Independent Auditors' 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 Auditing Standards*

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

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns* (Specifications), issued by the Auditor of Public Accounts of the Commonwealth of Virginia, 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, Virginia (the City) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 22, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, 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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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

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determination of financial statement amounts, and certain provisions of other laws and regulations specified in the Specifications, Chapters Two and Three. 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 herein under *Government Auditing Standards*. However, the results of our tests disclosed instances of noncompliance or other matters that are required to be reported under the Specifications and which are described in the accompanying schedule of findings and responses as items 2014-013 through 2014-015.

Responses to the Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and the Specifications in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Norfolk, Virginia
January 22, 2015

KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

Independent Auditors' Report on Compliance for Each Major Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

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

Report on Compliance for Each Major Federal Program

We have audited the City of Norfolk's (the City's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2014. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

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Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as the following items:

Finding #	CFDA #	Program (or Cluster) Name	Compliance requirement
2014-001	14.218	Community Development Block Grant	Cash Management
2014-001	14.239	Home Investment Partnerships Program	Cash Management
2014-002	14.218	Community Development Block Grant	Subrecipient Monitoring
2014-002	14.239	Home Investment Partnerships Program	Subrecipient Monitoring
2014-003	14.218	Community Development Block Grant	Reporting
2014-005	14.239	Home Investment Partnerships Program	Reporting
2014-007	84.010	Title I, Part A	Procurement and Suspension and Debarment
2014-007	84.377, 84.388 (ARRA)	School Improvement Grants	Procurement and Suspension and Debarment
2014-010	93.558	Temporary Assistance for Needy Families	Eligibility
2014-011	93.914	HIV Emergency Relief Project Grants	Allowable Costs/Activities

Our opinion on each major federal program is not modified with respect to these matters. The City's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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.

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 a 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. A significant deficiency in internal control over compliance is a deficiency, or a 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as the following items that we consider to be significant deficiencies:

Finding #	CFDA #	Program (or Cluster) Name	Compliance requirement
2014-001	14.218	Community Development Block Grant	Cash Management
2014-001	14.239	Home Investment Partnerships Program	Cash Management
2014-002	14.218	Community Development Block Grant	Subrecipient Monitoring
2014-002	14.239	Home Investment Partnerships Program	Subrecipient Monitoring
2014-003	14.218	Community Development Block Grant	Reporting
2014-005	14.239	Home Investment Partnerships Program	Reporting
2014-006	14.239	Home Investment Partnerships Program	Matching, Level of Effort, and Earmarking
2014-007	84.010	Title I, Part A	Procurement and Suspension and Debarment
2014-007	84.377, 84.388 (ARRA)	School Improvement Grants	Procurement and Suspension and Debarment
2014-008	84.010	Title I, Part A	Special Tests and Provisions - Comparability
2014-009	93.558	Temporary Assistance for Needy Families	Special Tests and Provisions Non-Cooperation
2014-010	93.558	Temporary Assistance for Needy Families	Eligibility
2014-011	93.914	HIV Emergency Relief Project Grants	Allowable Costs / Activities
2014-012	93.914	HIV Emergency Relief Project Grants	Matching, Level of Effort, and Earmarking

The City's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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 as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated January 22, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the financial statements as a whole. The accompanying schedule of expenditures of federal awards included at

page 109 is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

Norfolk, Virginia
January 22, 2015

THE CITY OF NORFOLK, VIRGINIA

Year ended June 30, 2014

(1) Summary of Auditors' Results

Financial Statements

(a) The type of report issued on the financial statements: **Unmodified opinion**

(b) Material weaknesses in internal control were disclosed by the audit of the financial statements: **None**

(c) Significant deficiencies in internal control were disclosed by the audit of the financial statements: **None**

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

Federal Awards

(a) Material weaknesses in internal control over major programs: **None**

(b) Significant deficiencies in internal control over major programs: **2014-001 through 2014-003 and 2014-005 through 2014-012**

(c) The type of report issued on compliance each for major programs:

Federal programs	CFDA No.	Type
Community Development Block Grant	14.218	Unqualified
Home Investment Partnerships Program	14.239	Unqualified
Title I, Part A Cluster	84.010	Unqualified
School Improvement Grants Cluster	84.377 and 84.388 (ARRA)	Unqualified
Temporary Assistance for Needy Families (TANF)	93.558	Unqualified
HIV Emergency Relief Project Grants	93.914	Unqualified
Medical Assistance Program (Medicaid)	93.778	Unqualified
Substance Abuse Prevention and Treatment Block Grant	93.959	Unqualified
Impact Aid Grant	84.041	Unqualified

(d) Any audit findings, which are required to be reported under Section 510(a) of OMB Circular A-133: **2014-001 through 2014-0003, 2014-005, 2014-007, 2014-010 and 2014-011**

(e) Major programs:

- Community Development Block Grant: CFDA No. 14.218
- Home Investment Partnerships Program: CFDA No. 14.239
- Title I, Part A Cluster: CFDA No. 84.010
- School Improvement Grants Cluster: CFDA Nos. 84.377 and 84.388 (ARRA)
- Temporary Assistance for Needy Families (TANF): CFDA No. 93.558
- HIV Emergency Relief Project Grants: CFDA No. 93.914

- Medical Assistance Program (Medicaid): CFDA No. 93.778
- Substance Abuse Prevention and Treatment Block Grant: CFDA No. 93.959
- Impact Aid Grant: CFDA No. 84.041

(f) Dollar threshold used to determine Type A programs: $2,708,798

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

(2) Financial Statement Findings

None

(3) Findings and Questioned Costs Related to Federal Awards

Finding# 2014-001: Cash Management

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

Community Development Block Grant, CFDA No. 14.218, Program Year 2014, U.S. Department of Housing and Urban Development, award B13-MC-51-0016

Home Investment Partnerships Program, CFDA No. 14.239, Program Year 2014, U.S. Department of Housing and Urban Development, award M13-MC-51-0203

Recipient

City of Norfolk

Criteria

In accordance with 24 CFR Section 84.22, payment methods shall be established to minimize the time elapsing between the transfer of funds from the U.S. Treasury and the issuance or redemption of checks, warrants, or payment by other means by the recipients. Additionally, recipients must maintain or demonstrate the willingness to maintain written procedures that minimize the time elapsing between the transfer of funds and disbursement by the recipient. The general rule as clarified in *Chapter 11: Financial Management Guidelines* is three business days of deposit of the funds. If payment takes longer than three business days, written justification should be maintained in the recipient's files.

Condition Found

Community Development Block Grant: In our sample of sixty-five cash management samples, there were fourteen cash advances that were not disbursed to vendors within three business days of deposit of the CDBG funds and no documentation was included in the recipient's files indicating the reason why disbursement of the CDBG funds took longer than three business days.

Additionally, there was one cash management sample that included two invoices where management prematurely requested reimbursement for retainage prior to completion of the project and prior to the vendor requesting payment of the retainage. Upon receipt of the retainage from HUD, management did not disburse the funds to the vendor within the three-business day time frame. In our allowable cost sample, KPMG identified another invoice that included a request for retainage prior to completion of the project and prior to the vendor requesting payment for the retainage.

Home Investment Partnerships Program: In our sample of seventeen cash management samples, there were six cash advances that were not disbursed to vendors within three business days of deposit of the HOME funds and no documentation was included in the recipient's files indicating the reason why disbursement of the HOME funds took longer than three business days.

Perspective and Questioned Costs

Community Development Block Grant: Out of sixty-five instances of cash management selected for testwork, thirteen cash advance samples were disbursed within 4 to 7 working days from the receipt of the CDBG funds and one cash advance sample was disbursed 12 working days from the receipt of the CDBG funds. As the expenditures were allowable, there are no questioned costs in relation to these findings.

Out of sixty-five instances of cash management selected for testwork, one reimbursement request included two invoices requesting reimbursement for retainage in the amount of $9,196 prior to completion of the project and prior to the vendor requesting payment of the retainage. An additional sample in our allowable costs sample requested reimbursement for retainage in the amount of $7,560 prior to completion of the project and prior to the vendor requesting payment of the retainage. The retainage was otherwise allowable, therefore there are no questioned costs with this finding.

Home Investment Partnerships Program: Out of seventeen instances of cash management selected for testwork, six cash advance samples were disbursed within 4 to 5 working days from the receipt of the HOME funds. As the expenditures were allowable, there are no questioned costs in relation to these findings.

Cause and Effect

The requirement to disburse cash advance funds from HUD within three business days of receipt of the funds or to maintain written justification in the recipient's files as to the reason the funds could not be disbursed within three business days was not administered correctly. Management requested reimbursement for retainage prior to the expense being incurred.

Recommendation

The City should implement a process to ensure that cash advances from HUD are disbursed within three business days of receipt of funds or ensure documentation is included in their files as to the reasons why the disbursement of funds could not be made in three business days.

Views of Responsible Officials

Management agrees with the finding. The City has revised its process to address both the issues that led to the delays and the documentation efforts in the event that inevitable delays occur. In addition to changes in production, these revisions include training regarding the specific payment rules for HUD contracts. The request for reimbursement for retainage was an error and the process has been corrected to properly reflect the expenditure for accounting purposes but to hold the retainage in abeyance with respect to grant drawdowns until such time as there is evidence of project completion and impending payment. This process was already in place elsewhere in City grant program administration, as the issue was limited to one specific type of projects.

THE CITY OF NORFOLK, VIRGINIA

Year ended June 30, 2014

Finding# 2014-002: Subrecipient Monitoring

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

Community Development Block Grant: CFDA No. 14.218, Program Year 2014, U.S. Department of Housing and Urban Development, award B13-MC-51-0016

Home Investment Partnerships Program: CFDA No. 14.239, Program Year 2014, U.S. Department of Housing and Urban Development, award M13-MC-51-0203

Recipient

City of Norfolk

Criteria

In accordance with 31 USC 7502(f), each agency which provides federal awards to a recipient shall review the audit of the recipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings pertaining to federal awards provided to the recipient. A management decision on the audit findings must be issued within 6 months after receipt of the subrecipient's independent audit report.

Condition Found

Community Development Block Grant: In our sample of six subrecipients tested, management did not complete the review of one subrecipient's independent audit report within 6 months of receiving the audit report.

Home Investment Partnerships Program: In our sample of two subrecipients tested, management did not complete the review of one subrecipient's independent audit report within 6 months of receiving the audit report.

Perspective and Questioned Costs

Community Development Block Grant: Out of six instances of subrecipients selected for testwork, one subrecipient's audit report was received on February 14, 2014 and was not reviewed and assessed by management until September 10, 2014. There are no questioned costs related to this finding.

Home Investment Partnerships Program: Out of two instances of subrecipients selected for testwork, one subrecipient's audit report was received on February 2, 2014 and was not reviewed and assessed by management until September 10, 2014. There are no questioned costs related to this finding.

Cause and Effect

Management was unaware of the requirement to review the subrecipient's independent audit report and provide an assessment on the audit findings within 6 months of receipt of the independent audit report.

Recommendation

The City should implement a process to ensure that all subrecipient's independent audit reports are reviewed and all audit findings are assessed within 6 months of receipt of the audit report.

Views of Responsible Officials

Management agrees with the finding. The audit assessment was required to be completed by August 14, 2014 within the six months of the date of the audit report. However, the time allowed for review and sign off was insufficient to meet the issuance deadline and the audit assessment was completed on September 10, 2014. Management has made note of this requirement and will record the audit assessment due date in the subrecipient project file to ensure timely issuance in the future.

Finding# 2014-003: Reporting

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

Community Development Block Grant: CFDA No. 14.218, Program Year 2014, U.S. Department of Housing and Urban Development, award B13-MC-51-0016

Recipient

City of Norfolk

Criteria

In accordance with OMB No. 2506, grantees may include reports generated by the Integrated Disbursement and Information System as part of their annual performance and evaluation report that must be submitted for the CDBG Entitlement Program 90 days after the end of the grantee's program year.

In accordance with 24 CFR part 135, a HUD-60002, Section 3 Summary Report for Economic Opportunities for Low and Very Low-Income Persons is required to be completed annually to report the annual accomplishments regarding employment and other economic opportunities provided to low and very low-income persons under Section 3 of the Housing and Urban Development Act of 1968. The requirements of Section 3 reporting is applicable to recipients of housing and community development program assistance for a Section 3 covered project(s) for which the amount of the assistance exceeds $200,000.

In accordance with OMB and HUD requirements, an SF-425 Federal Financial Report must be completed quarterly for the Community Development Block Grant. According to the *Federal Financial Report Instructions* published by the OMB, when completing the SF-425 Federal Financial Report, management should enter the cumulative amounts from the date of the inception of the award through the end date of the reporting specified on the report.

Condition Found

Financial Summary Report: In our review of the CDBG Financial Summary Report, information included in the report was not calculated correctly, which lead to incorrect reporting of an earmarking ratio. Additionally, there was a lack of segregation of duties in the preparation and review of the CDBG Financial Summary Report as the report was completed and reviewed by the same individual.

HUD-60002, Section 3 Summary Reports: In our sample of two Section 3 Summary Reports, both reports were completed incorrectly as the reports were completed on the wrong fiscal year.

SF-425 Federal Financial Reports: In our sample of three quarterly SF-425 Federal Financial Reports, all three reports were completed on a quarterly basis. Information was not included on a cumulative basis from the inception of the award through the end date of the report in accordance with the instructions.

Perspective and Questioned Costs

Financial Summary Report: Although one of the three earmarking ratios was calculated incorrectly, the City was in compliance with the earmarking requirements. The City resubmitted the Financial Summary Report. As such, the following was not considered a compliance finding. There are no questioned costs associated with this finding.

HUD-60002, Section 3 Summary Reports: There are no questioned costs associated with this finding as management was able to subsequently resubmit the Section 3 Summary Reports. The following is considered a compliance finding as the reports were not completed correctly.

SF-425 Federal Financial Report: The three reports tested were completed on a quarterly basis instead of a cumulative basis. There are no questioned costs associated with this finding.

Cause and Effect

Management did not perform a detail review of the Financial Summary Report and HUD-60002, Section 3 Summary Reports prior to submission of the CAPER. The requirement to report amounts on the SF-425 Federal Financial Reports on a cumulative basis was not administered consistently with the Federal Financial Report Instructions. The City followed informal guidance provided by a representative from the awarding agency and completed the SF-425 Federal Financial Reports on a quarterly basis.

Recommendation

The City should implement a process to ensure that all reports submitted to HUD are properly reviewed prior to submission to ensure compliance with the reporting requirements.

Views of Responsible Officials

Management agrees with the findings – The Financial summary was prepared and due to staffing changes a formal review was not completed. Procedures are in place to ensure a complete review is done prior to submission. The *Section 3 Summary Reports* are generally submitted electronically through the *Section 3 60002 Summary Reporting System*. During the program year, HUD advised the City that the system was not available due to technical difficulties. HUD further indicated that no findings would be assessed for delayed submission of *Section 3 Summary Reports*. However, in order to provide the same level of reporting to HUD for FY 2014 as in prior years, the City decided to submit paper versions of the reports as part of the Consolidated Annual Performance and Evaluation Report (CAPER). The paper reports differed from the electronic version which staff was much more familiar. The errors involved the reporting period end dates resulted in the Section 3 Reports having to be resubmitted. Management has made note of the required information should paper submissions be necessary in the future.

The City did receive formal guidance from HUD to submit reports on a quarterly not cumulative basis. The City has redone the SF-425 to be on a cumulative basis.

THE CITY OF NORFOLK, VIRGINIA

Year ended June 30, 2014

Finding# 2014-004: Not used

Finding# 2014-005: Reporting

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

Home Investment Partnerships Program: CFDA No. 14.239, Program Year 2014, U.S. Department of Housing and Urban Development, award M13-MC-51-0203

Recipient

City of Norfolk

Criteria

In accordance with the Government Funding Transparency Act of 2008 (Public Law 110-252) and 2 CFR part 170, recipients of federal awards greater than $25,000 must report certain information about themselves and their first-tier subrecipients for awards obligated on or after October 1, 2010.

In accordance with 24 CFR part 135, a HUD-60002, Section 3 Summary Report for Economic Opportunities for Low and Very Low-Income Persons is required to be completed annually to report the annual accomplishments regarding employment and other economic opportunities provided to low and very low-income persons under Section 3 of the Housing and Urban Development Act of 1968. The requirements of Section 3 reporting is applicable to recipients of housing and community development program assistance for a Section 3 covered project(s) for which the amount of the assistance exceeds $200,000.

Condition Found

Transparency Act Reporting: Management did not complete the reporting requirements under the Transparency Act.

HUD-60002, Section 3 Summary Report: Management did not complete the HUD-60002, Section 3 Summary Report for one of their subrecipients.

Perspective and Questioned Costs

There are no questioned costs associated with this finding as management has now submitted the HUD-60002, Section 3 Summary Report and is in the process of finalizing the submission of the Transparency Act Report.

Cause and Effect

Management was unaware of the requirement to complete reporting under the Transparency Act. Management was not aware the HUD-60002, Section 3 Summary Report was required for the subrecipient as the expenditures occurred in the beginning of the fiscal year.

Recommendation

The City should implement a process to ensure that reporting requirements are completed in accordance with federal regulations.

Views of Responsible Officials

Management agrees with this finding. The City was unaware of the Transparency Act reporting requirement, but has made note of the necessity of submitting the reports. The reports required for FY 2014 have been completed and are in the process of being submitted pending creation of an account in the FFATA system. The *Section 3 Summary Reports* are generally submitted electronically through the *Section 3 60002 Summary Reporting System*. During the program year, HUD advised the City that the system was not available due to technical difficulties. HUD further indicated that no findings would be assessed for delayed submission of *Section 3 Summary Reports*.

Finding# 2014-006: Matching, Level of Effort, and Earmarking

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

Home Investment Partnerships Program: CFDA No. 14.239, Program Year 2014, U.S. Department of Housing and Urban Development, award M13-MC-51-0203

Recipient

City of Norfolk

Criteria

In accordance with 24 CFR 92.218 and 92.508, each participating jurisdiction must make contributions to housing that qualifies as affordable housing under the HOME program throughout the fiscal year. The jurisdiction must establish and maintain sufficient records to enable HUD to determine whether the participating jurisdiction has met the requirement of the local match.

Condition Found

The matching report for fiscal year 2014 submitted to HUD was not prepared accurately. The beginning balance was understated by $1,000,000 and the local match for the current year inaccurately reported an additional $102,224.88 in funds spent outside the federal fiscal year.

Perspective and Questioned Costs

Although the information submitted on the matching report was inaccurate, the City was in compliance with their matching requirements. The City subsequently resubmitted the HOME Match Report. As such, the following was not considered a compliance finding. There are no questioned costs associated with this finding.

Cause and Effect

Management's control over the review of the HOME Match Report was not operating effectively, which led to inaccurate information being submitted to HUD.

Recommendation

The City should implement a process to ensure that all reports submitted to HUD are properly reviewed prior to submission.

Views of Responsible Officials

Management agrees with the finding. The error was based on carrying over an incorrect figure and including a portion of funds from a fiscal year not captured on the report. The errors contained in the report have been corrected and the revised report has been resubmitted to HUD. Management will ensure that this report is reviewed for accuracy in subsequent submissions.

Finding# 2014-007: Procurement and Suspension and Debarment

Program, CFDA No., Program Year, Federal Agency, Pass-Through agency, Grant Number

Title I, Part A, CFDA No. 84.010, Program Years 2011, 2012, and 2013, U.S. Department of Education, Virginia Department of Education, awards 2011-S010A110046, 2012-S010A110046, and 2013-S010A110046

School Improvement Grants, CFDA No. 84.377 and 84.388 (ARRA), Program Year 2014, U.S. Department of Education, Virginia Department of Education, awards 118-S388A090047 – 42990, 118-S377A090047 – 43040

Recipient

Norfolk Public Schools

Criteria

In accordance with 2 CFR part 215.43, all procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition. Awards shall be made to the bidder or offeror whose bid or offer is responsive to the solicitation and is most advantageous to the recipient, price, quality, and other factors considered. In accordance with 2 CFR part 214.44, all recipients shall establish written procurement procedures.

In accordance with 2 CFR part 180, Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principles are suspended or debarred. "Covered Transactions" include those procurement contracts for goods or services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed $25,000 or meet certain other specified criteria. When a nonfederal entity enters into a covered transaction with an entity at a lower tier, the nonfederal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA) (now called System for Award Management SAM), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.

Condition Found

Title I, Part A (Suspension and Debarment – For four of the six vendors tested, management was unable to provide documentation that they had determined whether the vendor was suspended or debarred prior to use of the vendors' services.

For one of the vendors selected for testwork, management utilized their agreement with the Cooperative Purchasing Network for Public Schools, under which they purchase goods or services through procurement performed by members of the Cooperative Purchasing Network. For this procurement, management was

unable to provide documentation as to its assessment of suspension and debarment prior to use of the vendor.

School Improvement Grants (Procurement) – Per review of the Norfolk Public School's Procurement Manual, purchases over $50,000 require competitive sealed bidding or negotiations. For one of the five vendors tested, the total purchases under the grant amounted to $82,310. Management was unable to provide documentation for management's solicitation or receipt of bids for the services provided.

School Improvement Grants (Suspension and Debarment) – For all four of our samples tested, management was unable to provide documentation that they had determined whether the vendor was suspended or debarred prior to use of the vendors' services.

For two of the vendors selected for testwork, management utilized their agreement with the Cooperative Purchasing Network for Public Schools or a cooperative agreement, under which they purchase goods or services through procurement performed by members of the Cooperative Purchasing Network or another locality. For these two instances, management was unable to provide documentation as to its assessment of suspension and debarment prior to use of the vendor.

Perspective and Questioned Costs

Suspension and Debarment – There were no questioned costs as none of the vendors noted were identified as being suspended or debarred based on a subsequent review of the System for Award Management.

Procurement – This procurement was a second phase of a previously procurement. As a result, management was unable to subsequently obtain competitive bids for the same service. As a result, the questioned costs, if any, cannot be estimated. The City spent $82,310 on goods or services that were allowable under the grant.

Cause and Effect

Suspension and Debarment – Management had not implemented a process for all types of contracts that supported management's determination and verification that a vendor was not suspended or debarred at the time of procurement.

Procurement – Management had not implemented a process to verify that each vendor went through the procurement process required by their Procurement Manual and the Virginia Procurement Act.

Recommendation

Suspension and Debarment – The Schools should implement a process to verify and document vendors' suspension and debarment through the SAM, collecting a certification from the entity, or adding a clause or condition to the covered transaction with the entity before entering to the contract with the vendor.

Procurement – The Schools should implement a process to verify and document procurement procedures over all vendors.

Views of Responsible Officials

Management agrees with the finding. A process has been put in place effective July 23, 2014, which includes a "Contract Checklist" that requires the Debarment/Suspension verification via www.SAM.gov be

performed to ensure the vendor is not suspended or debarred at the time of the procurement, and a copy of that verification document is to be included in our contract records, for all procurements subject to this requirement. Additionally, management will ensure that established requirements are followed for all procurements.

Finding# 2014-008: Special Tests and Provisions – Comparability

Program, CFDA No., Program Year, Federal Agency, Pass-Through agency, Grant Number

Title I, Part A, CFDA No. 84.010, Program Years 2011, 2012, and 2013, U.S. Department of Education, Virginia Department of Education, awards 2011-S010A110046, 2012-S010A110046, and 2013-S010A110046

Recipient

Norfolk Public Schools

Criteria

In accordance with Section 1120A of the No Child Left Behind Act, a local educational agency may receive funds under Title I, Part A and Title I, Part C only if state and local funds will be used in schools served under this part to provide services that, taken as a whole, are at least comparable to services in schools that are not receiving funds under this part. Each local educational agency shall develop procedures for compliance with the comparability requirements and maintain records that are updated biennially documenting such agency's compliance with the comparability requirements (the Comparability Report).

Condition Found

Management uses the average number of students per instructional staff as a measure of comparability. The Comparability Report submitted to the Department of Education included inaccurate information related to the number of instructional staff at each school. Although the Comparability Report included inaccurate information, the City of Norfolk was still in compliance with the comparability requirements.

Perspective and Questioned Costs

Although the information submitted on the Comparability Report was inaccurate, the City is still in compliance with their comparability requirements. The City resubmitted the Comparability Report. As such, the following was not considered a compliance finding. There are no questioned costs associated with this finding.

Cause and Effect

Management had not implemented a review process over the submission of the Comparability Report.

Recommendation

The Schools should implement a process to review the information included in the Comparability Report.

Views of Responsible Officials

Management agrees with the finding. Norfolk Public Schools has an established process whereby data for the Comparability Report is provided by the Department of Human Resources to the Office of Federal Programs for submission to the Department of Education (DOE). Prior to the submission of the Comparability Report, appropriate personnel from Human Resources, Federal Programs and Business & Finance meet to review and discuss the reasonableness and accuracy of the report. As a result of personnel turnover in multiple areas, this review did not occur prior to the initial submission of the Comparability Report to the DOE. A revised Comparability Report was prepared, reviewed by appropriate Norfolk Public Schools personnel and resubmitted to the DOE. The revised report confirmed Norfolk Public Schools continued compliance with the comparability requirements. Management will ensure that the Comparability Report is reviewed prior to submission in the future.

Finding# 2014-009: Special Tests and Provisions – Child Support Non-Cooperation

Program, CFDA No., Program Year, Federal Agency, Pass-Through agency, Grant Number

Temporary Assistance for Needy Families, CFDA No. 93.558, Program Year 2014, U.S. Department of Health and Human Services (HHS), Commonwealth of Virginia Department of Social Services, awards BEN-13-045-12

Recipient

City of Norfolk

Criteria

In accordance with 45 CFR Section 264.30, once notified by the Virginia 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 80 instances of noncooperation tested, 3 families received additional monthly payments after benefits should have been terminated.

Perspective and Questioned Costs

Out of eighty instances of noncooperation selected for testwork, three families received additional payments totaling $2,405.50. The total amount sampled was $22,997. Because the City is the administrator of the program and the state provides payments directly to the individuals, there are no questioned costs to the City in relation to these findings.

Cause and Effect

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

Recommendation

The City should enhance its process to ensure that benefit are terminated timely for all cases referred by the DSCE due to noncooperation.

Views of Responsible Officials

Management concurs with the finding. Over the past few years, the City has worked to strengthen and improve internal controls and the findings were only a result of extraordinary circumstances/requirements beyond our local agency control. Additional demands on existing eligibility staff due to a challenging VDSS computer system change, the addition of FAMIS caseloads transferred from DMAS, and extensive changes in federal requirements for eligibility for MAGI that affected a large portion of our benefit operations were the factors that caused an increase in the instance of errors from (1) instance in 2013 to (3) instances in 2014 for this program.

The City is committed to continuous improvement of internal controls and will redistribute the Standard Operating Procedure and review compliance with the supervisors. The TANF and VIEW workers continue to receive refresher training on DCSE policy. Notifications are received on the first of the month from the ADAPT notification system. On the sixth of the month, the Supervisor receives an alert on cases that have not been processed and alerts the worker to process immediately. Supervisors will continue to review 100% of case actions. Program Supervisors, on the ninth of the month, will check the notification system to make sure that case actions have been taken in ADAPT and on the work list. Standard operating procedures have been established to ensure timely and accurate processing of cases. All workers are advised to review the wrap-up menu screens in ADAPT to ensure accurate TANF payments. Workers will establish a claim or create a benefit adjustment as soon as possible following the discovery of an error.

While we do recognize that the three families received $2,405, this total amount was paid over a period of 7 months and we perceive that the materiality of this amount to be small in comparison to the sample.

Finding# 2014-010: Eligibility

Program, CFDA No., Program Year, Federal Agency, Pass-Through agency, Grant Number

Temporary Assistance for Needy Families, CFDA No. 93.558, Program Year 2014, U.S. Department of Health and Human Services (HHS), Commonwealth of Virginia Department of Social Services, award BEN-13-045-12

Recipient

City of Norfolk

Criteria

In accordance with the eligibility requirements of the TANF grant, the City is required to maintain sufficient documentation and approval support for the determination of compliance with the eligibility criteria for the individuals applying for TANF assistance. Specifically, the TANF Guidance Manual section 201.1 specifies each factor that is required for the individual to be eligible to receive benefits.

Condition Found

In our sample of sixty-five cases tested for eligibility, there were two exceptions. One family received TANF benefits and was not eligible for TANF benefits. The family received ineligible payments in the amount of $540. Another family marked on their application that an individual in the family was either in violation of parole or fleeing capture to avoid prosecution or punishment of felony, which would have resulted in a reduction of eligible TANF benefits. The family received TANF benefits without a reduction

in TANF benefits or investigation by management to the validity of the response on the application at the time of the application.

In addition, in one out of eighty samples items for the special tests and provisions – noncooperation, a recipient receiving benefit payments was incorrectly determined to be ineligible during the processing of the noncooperation reduction. The recipient's benefit payments were incorrectly reduced for three months and resulted in an underpayment of $43.25.

Perspective and Questioned Costs

Two out of sixty-five cases selected for eligibility testwork were deemed inappropriately determined. For one of the cases, the individual was determined to not be in violation of parole or fleeing capture to avoid prosecution or punishment of felony at a later date and a reduction in TANF benefits was not required. Another case was identified in error during the testing of another compliance requirement. Eligibility is tested on an attribute and case basis and the total population tested is not quantified.

Cause and Effect

The requirement to review and determine eligibility was not administered properly, which led to inconsistencies in the process.

Recommendation

The City should implement a process to ensure that all eligibility applications are properly approved, and maintained. We further recommend that the City increase the frequency and precision level of management's review to ensure errors are detected and resolved in a timely manner.

Views of Responsible Officials

Management agrees with the findings. Individual training on proper procedures and TANF policies have been reinforced with all workers. Supervisors from the Intake Units will monitor the first 10 TANF cases monthly. Intake was redesigned in the past year so that TANF applications are assigned to one of the three units (WDC and Berkley). Additionally, dedicated worker(s) from the Intake Units may be assigned to all TANF applications for processing. The TANF refresher quarterly training power points will be used in Unit meetings to reinforce payment accuracy.

Finding# 2014-011: Allowable Costs / Activities

Program, CFDA No., Program Year, Federal Agency, Pass-Through agency, Grant Number

HIV Emergency Relief Grant, CFDA No. 93.914, Program Years March 1, 2013 through February 28, 2014 and March 1, 2014 through February 28, 2015, U.S. Department of Health and Human Services (HHS), awards H89HA00053-15-02 and H89HA0053-16-01.

Recipient

City of Norfolk

Criteria

In accordance with OMB Circular A-87, Attachment A, Paragraph C(2), for costs to be allowable under federal awards, the cost must be necessary and reasonable for proper and efficient performance and administration of federal awards.

Condition Found

In a sample of twenty-five expenditures tested, there was one instance where management reimbursed their subrecipient for $13.33 in late fees incurred by the subrecipient. The late fees were determined not to be a necessary for reasonable for administration of federal awards.

Perspective and Questioned Costs

Per review of the grant detail, questioned costs do not appear to be greater than $13.33. The reimbursement of late fees appears to be isolated to one invoice.

Cause and Effect

While the grant and applicable cost circulars do not specifically address late fees, late fees should not be considered a reasonable cost and therefore should not be allowable.

Recommendation

The City should implement a process to ensure that all expenditures spent by the subrecipients and subsequently reimbursed are allowable costs in accordance with OMB A-87.

Views of Responsible Officials

Management agrees with this finding. While there is no federal authoritative guidance that addresses late fees and that an occasional payment of a late fee can be incurred in the ordinary course of business, late fees should not be reimbursed to providers.

Finding# 2014-012: Matching, Level of Effort, and Earmarking

Program, CFDA No., Program Year, Federal Agency, Pass-Through agency, Grant Number

HIV Emergency Relief Grant, CFDA No. 93.914, Program Years March 1, 2013 through February 28, 2014 and March 1, 2014 through February 28, 2015, U.S. Department of Health and Human Services (HHS), awards H89HA00053-15-02 and H89HA0053-16-01

Recipient

City of Norfolk

Criteria

In accordance with 42 USC 300ff-15(a)(1)(B-C), each political subdivision within the metropolitan area is required to maintain its level of expenditures for HIV-related services to individuals with HIV disease at a level equal to its level of such expenditures for the preceding fiscal year. Political subdivisions within the Transitional Grant Area (TGA) may not use funds received under the HIV grants to maintain the required level of HIV-related services in accordance with 42 USC 300ff-15(a)(1)(B).

Condition

Management does not consistently execute its process to effectively monitor political subdivision spending within the TGA in accordance with the criteria above.

Perspective and Questioned Costs

Although management did not effectively monitor the spending in the TGA, the City and TGA met the Maintenance of Effort requirements. As such, the following is not considered a compliance finding. There were no questioned costs associated with this finding.

Cause and Effect

Ineffective monitoring of political subdivision spending can lead to noncompliance with the requirement to spend an amount that is equal to or exceeds the amount spent on HIV-related expenditures in the preceding fiscal year.

Recommendation

The City should implement a process to ensure that HIV-related expenditures spent by the TGA are effectively monitored during the year to ensure that the compliance requirement is satisfied.

Views of Responsible Officials

Management agrees with the finding. The City has a policy for monitoring HIV expenditures and written documentation of contacts to the Hampton Roads Regional Jail (HRRJ) and Virginia Beach City Jail. However while the efforts in monitoring were extensive, obtaining information from one entity was difficult so the information was not complete.

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

State Finding 2014-013: Terminated Users

In accordance with the Auditor of Public Accounts *Specifications for Counties, Cities and Towns, Chapter 3, Section 15,* local government officials are required to terminate the access privileges of all VDSS system users within three working days of employment termination. In our testwork of thirteen terminated employees, four employees were not terminated within the three-day threshold. We recommend that the City implement a management review control over the access termination process to ensure that access is terminated within the appropriate time frame.

Views of Responsible Officials

Management concurs with this finding. The City will implement a management review control over the access termination process to ensure that access is terminated within the appropriate time frame. Management will implement a two part control including a monthly reviews of all users terminated during the previous month. Management will also send monthly reminders to all supervisors notifying them of the requirement the City has to clear system access for all users within three days of termination of employment.

THE CITY OF NORFOLK, VIRGINIA

Year ended June 30, 2014

State Finding 2014-014: Conflicts of Interest

In accordance with the Auditor of Public Accounts *Specifications for Counties, Cities and Towns, Chapter 3, Section 5,* local elected government officials are required to file a statement of economic interest with the clerk of the governing body annually and certain other local government officials are required to file financial or real estate disclosures annually. The act requires local government officials to provide extensive disclosure of personal financial interest that may cause conflicts. The annual disclosure forms are required to be filed on or before January 15 of each year. In our testwork of disclosure forms of 15 local government officials, three were not filed on or before the deadline date. We recommend that the City implement a management review control over the process to ensure the disclosure forms are submitted within the appropriate time frame.

Views of Responsible Officials

Management concurs with the findings. Management communicated extensively with officials to obtain the disclosure forms. Due to the difficulty in obtaining the forms, when reappointing officials, City Council will be informed of the failure to provide forms in a timely manner for those that did not comply.

State Finding 2014-015: Unclaimed Property

In accordance with the Virginia Uniform Disposition of Unclaimed Property Act in Chapter 11.1 of Title 55 of the Code of Virginia, local governments holding funds or other property presumed abandoned under the Act must file a report listing the unclaimed property of as June 30 of each year. Section 55-210.9 states that all intangible property (checks are defined as intangible property in accordance with Section 55-210.2) held for the owner by any public authority that has remained unclaimed by the owner for more than one year after it became payable is presumed abandoned. Management filed the reports timely, but in our testwork of thirty-five outstanding checks at June 30, one check totaling $313.63 was improperly excluded from the reports filed to the state. Upon subsequent review, it was determined fourteen checks totaling $6,597.63 were improperly excluded from the reports filed to the state. We recommend that management implement a control across the City to ensure that all unclaimed property is accurately and completely submitted to the state.

Views of Responsible Officials

Management agrees with the finding. The checks in question were identified as part of the "Unclaimed Property" process and included in the final checklist review used to ensure compliance. However, mistakenly, the spreadsheet containing these checks was omitted from the final report and that omission was not observed in the submission phase. The check in question has been reported to the state. Management will implement a second level of review of the final submission prior to its release.

CITY OF NORFOLK, VIRGINIA

Corrective Action Plan
Year Ended June 30, 2014

Financial Statement Findings

There were no financial statement findings.

Federal Award Findings

Finding# 2014-1: Cash Management – Community Development Block Grant and Home Investment Partnership Program

Name of Contact Person: Kimberly Pierce, Assistant Director of Neighborhood Development
Alice Kelly, Director Finance

Corrective Action: City will implement a process to ensure that cash advances from HUD are disbursed within three business days of receipt of funds or ensure documentation is included in their files as to the reasons why the disbursement of funds could not be made in three business day. Also, Management will implement training regarding the specific payment rules for HUD contracts.

Proposed Completion Date: Immediately

Finding# 2014-2: Subrecipient Monitoring- Community Development Block Grant and Home Investment Partnership Program

Name of Contact Person: Kimberly Pierce, Assistant Director of Neighborhood Development

Corrective Action: The City will ensure that the audit assessment of subrecipeients independent audit reports is submitted on a timely manner i.e, within the six months of the date of the audit report by recording the audit assessment due date in the subrecipient project file to ensure timely issuance in the future.

Proposed Completion Date: Immediately

Finding# 2014-3: Reporting- Community Development Block Grant

Name of Contact Person: Kimberly Pierce, Assistant Director of Neighborhood Development
Alice Kelly, Director Finance

Corrective Action: The City will implement steps to include management involvement in the review of all reports prior to submission to HUD to ensure compliance with the reporting requirements.

Proposed Completion Date: Immediately

Finding# 2014-4: Not used

Finding# 2014-5: Reporting- Home Investment Partnerships

Name of Contact Person: Kimberly Pierce, Assistant Director of Neighborhood Development

Corrective Action: The City will develop procedures and policies to ensure that reporting requirements are completed in accordance with federal regulations.

Proposed Completion Date: Immediately

Finding# 2014-5: Reporting- Home Investment Partnerships

Name of Contact Person: Kimberly Pierce, Assistant Director of Neighborhood Development

Corrective Action: The City will implement a process to ensure that reporting requirements are completed in accordance with federal regulations.

Proposed Completion Date: Immediately

Finding# 2014-6: Matching, Level of Effort, and Earmarking- Home Investment Partnerships

Name of Contact Person: Kimberly Pierce, Assistant Director of Neighborhood Development

Corrective Action: The City will ensure that all reports submitted to HUD are properly reviewed prior to submission.

Proposed Completion Date: Immediately

Finding# 2014-7: **Procurement and Suspension and Debarment-** ***School Improvement Grants & Title I, Part A***

Name of Contact Person: Dr. Michael Thornon, Chief of Operations Norfolk Public Schools
Shenette Felton

Corrective Action: The Schools implemented a process which includes a "Contract Checklist" that requires the Debarment/Suspension verification via www.SAM.gov.

Proposed Completion Date: Effective July23, 2014

Finding# 2014-8: Special Tests and Provisions – Comparability- Title I, Part A

Name of Contact Person: Dr. Michael Thornon, Chief of Operations Norfolk Public Schools
Shenette Felton,

Corrective Action: The Schools will implement a process to review the information included in the Comparability Report provided by the Department of Human Resources to the Office of Federal Programs for submission to the Department of Education (DOE).

Proposed Completion Date: Immediately

Finding# 2014-9 : Special Tests and Provisions – Child Support Non-Cooperation- Temporary Assistance for Needy Families

Name of Contact Person: Stephen Hawks, Director of Human Services

Corrective Action: The City will redistribute the Standard Operating Procedure and review compliance with the supervisors. Also, TANF and VIEW workers will continue to receive refresher training on DCSE policy.

Proposed Completion Date: Immediately

Finding# 2014-10 :* Eligibility- *Temporary Assistance for Needy Families

Name of Contact Person: Stephen Hawks, Director of Human Services

Corrective Action: The City will implement individual training on proper procedures and TANF policies have been reinforced with all workers. Additionally, supervisors from the Intake Units will monitor the first 10 TANF cases monthly.

Proposed Completion Date: Immediately

CITY OF NORFOLK, VIRGINIA

Corrective Action Plan
Year Ended June 30, 2014

Finding# 2014-11 : **Allowable Costs / Activities-** HIV Emergency Relief Grant

Name of Contact Person: Chrisitne Carroll, Program Manager Ryan White Title I

Corrective Action: The City will communicate to staff that late fees should not be reimbursed to providers.

Proposed Completion Date: Immediately

Finding# 2014-12 : **Matching, Level of Effort, and Earmarking-** HIV Emergency Relief Grant

Name of Contact Person: Chrisitne Carroll, Program Manager Ryan White Title I

Corrective Action: The City has a policy for monitoring HIV expenditures and a written documentation of contacts to the Hampton Roads Regional Jail (HRRJ) and Virginia Beach City Jail.

Proposed Completion Date: Immediately

KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

Independent Auditors' 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 Auditing Standards*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns* (Specifications), issued by the Auditor of Public Accounts of the Commonwealth of Virginia, 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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 23, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, 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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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, and certain provisions of other laws and regulations specified in the Specifications, Chapters Two and Three. 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 herein under *Government Auditing Standards*. However, the results of our tests disclosed instances of noncompliance or other matters that are required to be reported under the Specifications and which are described in the accompanying schedule of findings and responses as items 2013-010 through 2013-014.

Responses to the Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and the Specifications in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Norfolk, Virginia
December 23, 2013

KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

Independent Auditors' Report on Compliance for Each Major Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

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

Report on Compliance for Each Major Federal Program

We have audited the City of Norfolk's (the City's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2013. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Basis for Qualified Opinion on Disaster Grants – Public Assistance

As described in the accompanying schedule of findings and questioned costs, the City did not comply with the reporting requirements regarding CFDA 97.036 Disaster Grants – Public Assistance as described in finding number 2013-008. Compliance with such reporting requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

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Qualified Opinion on Disaster Grants – Public Assistance

In our opinion, except for the noncompliance described in the basis for qualified opinion paragraph, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 97.036 Disaster Grants – Public Assistance for the year ended June 30, 2013.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as the following items:

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
2013-003	93.558	Temporary Assistance for Needy Families	Eligibility
2013-004	93.558	Temporary Assistance for Needy Families	Subrecipient Monitoring
2013-005	16.804 (ARRA)	Justice Assistance Grant	Reporting
2013-005	16.710 (ARRA)	Public Safety Partnership and Community Policing Grants	Reporting
2013-006	93.959	Substance Abuse Prevention and Treatment Block Grant	Procurement and Suspension and Debarment
2013-006	84.010, 84.389 (ARRA)	Title 1, Part A	Procurement and Suspension and Debarment
2013 – 006	84.377, 84.388 (ARRA)	School Improvement Grants	Procurement and Suspension and Debarment
2013 – 008	97.036	Disaster Grants – Public Assistance	Reporting
2013-009	20.205 (ARRA)	Highway Planning and Construction	Reporting

Our opinion on each major federal program is not modified with respect to these matters. The City's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our

audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and 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 a 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 item 2013-008 for reporting under the Disaster Grant – Public Assistance, CFDA#20.205 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a 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 the following items to be significant deficiencies:

Finding #	**CFDA #**	**Program (or Cluster) Name**	**Compliance Requirement**
2013-001	93.558	Temporary Assistance for Needy Families	Special Tests and Provisions – Non-Cooperation
2013-002	93.558	Temporary Assistance for Needy Families	Special Tests and Provisions – Refusal to Work
2013-003	93.558	Temporary Assistance for Needy Families	Eligibility
2013-005	16.804 (ARRA)	Justice Assistance Grant	Reporting
2013-005	16.710 (ARRA)	Public Safety Partnership and Community Policing Grants	Reporting
2013-006	93.959	Substance Abuse Prevention and Treatment	Procurement and

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
		Block Grant	Suspension and Debarment
2013-006	84.010, 84.389 (ARRA)	Title 1, Part A	Procurement and Suspension and Debarment
2013-006	84.388 (ARRA)	School Improvement Grants	Procurement and Suspension and Debarment
2013-007	93.914	HIV Emergency Relief Project Grants	Matching, Level of Effort, and Earmarking
2013-009	20.205 (ARRA)	Highway Planning and Construction	Reporting

The City's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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 as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 23, 2013, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

Norfolk, Virginia
December 23, 2013

(e) Major programs:

- Temporary Assistance for Needy Families (TANF): CFDA No. 93.558
- State Administrative Matching Grants for the Supplemental Nutrition Assistance Program: CFDA No. 10.561
- Justice Assistance Grant: CFDA No. 16.804 (ARRA)
- Disaster Grants – Public Assistance: CFDA No. 97.036
- Substance Abuse Prevention and Treatment Block Grant: CFDA No. 93.959
- Capitalization Grants for Clean Water State Revolving Funds: CFDA No. 66.458
- Title I, Part A Cluster: CFDA Nos. 84.010 and 84.389 (ARRA)
- School Improvement Grants Cluster: CFDA Nos. 84.377 and 84.388 (ARRA)
- Highway Planning and Construction: CFDA No. 20.205 (ARRA)
- HIV Emergency Relief Project Grants: CFDA No. 93.914
- Public Safety Partnership and Community Policing Grants: CFDA No. 16.710 (ARRA)

(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: No

(2) Financial Statement Findings

None

(3) Findings and Questioned Costs Related to Federal Awards

Finding# 2013-001: Special Tests and Provisions – Child Support Non-Cooperation

Program, CFDA No., Program Year, Federal Agency, Pass-Through Agency, Grant Number

Temporary Assistance for Needy Families: CFDA No. 93.558, Program Year 2013, U.S. Department of Health and Human Services (HHS) – Commonwealth of Virginia Department of Social Services, award BEN-10-057-16.

Recipient

City of Norfolk

Criteria

In accordance with 45 CFR Section 264.30, once notified by the Virginia 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 80 instances of noncooperation tested, one family received an additional monthly payment after benefits should have been terminated.

Perspective and Questioned Costs

Out of 80 instances of noncooperation selected for testwork, 1 family received an additional payment of $240. The total amount sampled was $21,337. 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 these findings.

Cause and Effect

The requirement to stop benefits based on a DCSE referral was not administered in a timely manner, indicating inconsistencies in the process.

Recommendation

The City should enhance its process to ensure that benefits are terminated timely for all cases referred by the DCSE due to noncooperation.

Views of Responsible Officials

Management agrees with the finding. The TANF and VIEW workers continue to receive refresher training on DCSE policy. Notifications are received on the first of the month from the ADAPT notification system. On the 6th of the month, the Supervisor receives an alert on cases that have not been processed and alerts the worker to process immediately. Supervisors will continue to review 100% of case actions. Program Supervisors, on the 9th of the month, will check the notification system to make sure the case actions have been taken in ADAPT and on the work list. Standard operating procedures have been established to ensure timely and accurate processing of cases. All workers are advised to review the wrap-up menu screens in ADAPT to ensure accurate TANF payments. Workers will establish a claim or create a benefit adjustment as soon as possible following the discovery of an error.

Finding# 2013-002: Special Tests and Provisions – Refusal to Work (VIEW)

Program, CFDA No., Program Year, Federal Agency, Pass-Through Agency, Grant Number

Temporary Assistance for Needy Families: CFDA No. 93.558, Program Year 2012, U.S. Department of Health and Human Services (HHS) – Commonwealth of Virginia Department of Social Services, award BEN-10-057-16.

Recipient

City of Norfolk

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 80 Refusal to Work (VIEW) sanctions tested, one family received an additional two months of TANF benefit payments after assistance should have been terminated and one family did not have a sanction imposed in a timely manner.

Perspective and Questioned Costs

One out of 80 sanctions selected for testwork received additional payments of $640. Each sanction selected for testwork represented the last full monthly payment for assistance. The total amount sampled was $24,246. Another family did not have a sanction imposed in a timely manner; however, no additional payments were made due to an unrelated sanction on the recipient's account. Because the City is the administrator of these 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, indicating inconsistencies in the process.

Recommendation

The City should implement a process to ensure that all sanctions are imposed in a timely manner.

Views of Responsible Officials

Management agrees with the finding. The request to sanction continues to be sent immediately by the VIEW unit to the TANF Benefits Supervisor. The benefit worker sends the Advanced Notice of Proposed Action within three working days. On the 23rd of each month, the VIEW worker checks the profile to make sure the case is discontinued or suspended. If the action was not taken, the Benefit Supervisor follows up to ensure all actions are taken before the end of the month. The Benefit Supervisor will review the cases with a more precise level of detail and more often so that if an error is found, it can be corrected in a timely manner.

Finding# 2013-003: Eligibility

Program, CFDA No., Program Year, Federal Agency, Pass-Through Agency, Grant Number

Temporary Assistance for Needy Families: CFDA No. 93.558, Program Year 2012, U.S. Department of Health and Human Services (HHS) – Commonwealth of Virginia Department of Social Services, award BEN-10-057-16.

THE HONORABLE MEMBERS OF CITY COUNCIL

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

Recipient

City of Norfolk

Criteria

In accordance with the eligibility requirements of the TANF grant, the City is required to maintain sufficient documentation and approval support for the determination of compliance with the eligibility criteria for individuals applying for TANF assistance. Specifically, the TANF Guidance Manual section 201.1 specifies each factor that is required for the individual to be eligible to receive benefits.

Condition Found

In a sample of 40 cases tested for eligibility, one family received two months of TANF benefit payments for a total of $305 before a signed application was received from the applicant. The signature by the applicant evidences the applicant's final approval of the accuracy of the information contained in the application. Another family did not have the completed application to support the criteria above. This family received 5 months of TANF benefit payments in the amount of $1,015.

In addition, in one out of 80 sample items for the special tests and provisions - noncooperation, an ineligible recipient was receiving benefit payments. The individual selected for noncooperation testwork reapplied for benefits after March 1, 2012 and based on eligibility criteria, was erroneously approved. The family received two months of ineligible payments in the amount of $501.

Perspective and Questioned Costs

Two out of 40 cases selected for eligibility testwork were deemed inappropriately determined. Another case was identified in error during the testing of another compliance requirement. Eligibility is tested on an attribute and case basis and the total population tested is not quantified.

Cause and Effect

The City should implement a process to ensure that all eligibility applications are properly reviewed, approved, and maintained. We further recommend that the City increase the frequency and precision of management's review of applications for benefits to ensure errors are detected and resolved in a timely manner.

Recommendation

The City should implement a process to ensure that all eligibility applications are properly approved and maintained. We further recommend that the City increase the frequency and precision level of management's review to ensure errors are detected and resolved in a timely manner.

Views of Responsible Officials

Management agrees with the finding. Individual training on proper procedures and TANF policies have been reinforced with all workers.

THE HONORABLE MEMBERS OF CITY COUNCIL

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

Finding# 2013-004: Subrecipient Monitoring

Program, CFDA No., Program Year, Federal Agency, Pass-Through Agency, Grant Number

Temporary Assistance for Needy Families: CFDA No. 93.558, Program Year 2012, U.S. Department of Health and Human Services (HHS) – Commonwealth of Virginia Department of Social Services, award BEN-10-057-16.

Recipient

City of Norfolk

Criteria

In accordance with 2 CFR section 25.110 and appendix A to 2 CFR part 25, the City is required to ensure that all Non-ARRA subrecipients have provided a Dun and Bradstreet Data Universal Number system (DUNS) number as part of their subaward application or, if not with the application, then before any award is made. In accordance with 2 CFR section 25.205, the City may not make an award to an entity until a valid DUNS number is obtained. In accordance with 2 CFR section 25.210, the City can add the DUNS number to an renewal contract if the contract had previously been approved.

Condition Found

For one subrecipient tested, management of the TANF grant did not obtain the DUNS number from the subrecipient prior to the approval of the subrecipient's contract renewal for fiscal year 2013.

Perspective and Questioned Costs

There are no questioned costs associated with the failure to obtain the DUNS number as management was able to subsequently obtain the required information

Cause and Effect

Management's controls did not operate effectively to ensure that the City was in compliance with the requirement regarding the acquisition of the DUNS number.

Recommendation

We recommend that the City develop procedures and policies to ensure it obtains DUNS numbers for all subrecipients prior to approval of subawards and upon subaward renewals.

Views of Responsible Officials

Management agrees with the finding. Department management has worked with the City's Purchasing Agent to enhance the existing procurement policy by requiring departments to submit a copy of the applicable federal grant when submitting requisitions and requests for proposals that will utilize federal grant funding. This requirement will alert the Office of Purchasing of all funding requirements including that of obtaining a DUNS numbers prior to approval of the procurement. Additionally, management will ensure that all subrecipients obtain a DUNS number, and will confirm DUNS numbers and active status each year prior to contract renewals.

THE HONORABLE MEMBERS OF CITY COUNCIL

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

Finding# 2013-005: Reporting

Program, CFDA No., Program Year, Federal Agency, Pass-Through Agency, Grant Number

- Justice Assistance Grant: CFDA No. 16.804 (ARRA), Program Year 2013, U.S. Department of Justice, award 2009-SB-B9-1941.
- Public Safety Partnership and Community Policing Grants: CFDA No. 16.710 (ARRA), Program Year 2013, U.S. Department of Justice, award 2009RJWX0085.

Recipient

City of Norfolk

Criteria

In accordance with the American Recovery and Reinvestment Act of 2009, the City of Norfolk is required to accurately complete and submit to FederalReporting.gov, a report under Section 1512, ARRA Funds Received and Expenditures Made, for each quarter no later than the 10th day after the end of each calendar quarter.

Condition Found

Justice Assistance Grant: Of the two Section 1512 ARRA reports tested, both reports were inaccurately submitted to FederalReporting.gov. In addition our sample of two Section 1512 ARRA reports were found to have been prepared, reviewed, and submitted by the same individual.

Public Safety Partnership and Community Policing Grants: Of the three Section 1512 ARRA reports tested, one report was inaccurately submitted to FederalReporting.gov. In addition, in our sample of three Section 1512 ARRA reports, all three were found to have been prepared, reviewed, and submitted by the same individual.

Perspective and Questioned Costs

Justice Assistance Grant: Of the two Section 1512 ARRA reports tested, one report overstated expenditures by $175,619 and one report understated expenditures by $177,156, for a total net difference of $1,537.

Public Safety Partnership and Community Policing Grants: The report identified understated expenditures by $29,861.

Cause and Effect

The requirement to accurately report ARRA expenditures to the federal government during the quarter was not administered consistently, which led to inaccurate reporting. In addition, the absence of proper segregation of duties increases the risk of reporting errors.

Recommendation

We recommend that the City implement a control to ensure that all reports are reviewed by someone other than the preparer prior to their submission to ensure that the reports are completed in an accurate manner.

Views of Responsible Officials

Management agrees with the finding in that the reports are required to be submitted with accurate information reflecting the activities for the quarter. The City has reviewed the reporting requirements related to Section 1512 ARRA funds and also improved procedures on oversight in order to ensure accuracy of information provided to the federal government.

Finding# 2013-006: Procurement and Suspension and Debarment

Program, CFDA No., Program Year, Federal Agency, Pass-Through Agency, Grant Number

- Substance Abuse Prevention and Treatment Block Grant: CFDA No. 93.959, Program Year 2013, U.S. Department of Health and Human Services (HHS) – Virginia Department of Behavioral Health and Developmental Services, awarded through a performance contract that did not disclose an award number.
- Title 1, Part A, CFDA No. 84.010 and 84.389 (ARRA), Program Years 2010, 2011, 2012, and 2013, U.S. Department of Education, Virginia Department of Education, awards 2010-S010A100046, 2011-S010A110046, 2012-S010A120046, and 2013-S010A130046.
- School Improvement Grants, CFDA No. 84.377 and 84.388 (ARRA), Program Year 2013, U.S. Department of Education, Virginia Department of Education, awards 118-S388A090047 – 42990 and 118-S377A090047 – 43040.

Recipient

City of Norfolk and the Norfolk Public Schools

Criteria

In accordance with 2 CFR part 180, Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principles are suspended or debarred. “Covered Transactions” include those procurement contracts for goods or services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed $25,000 or meet certain other specified criteria. When a nonfederal entity enters into a covered transaction with an entity at a lower tier, the nonfederal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA) (now called System for Award Management “SAM), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.

Condition Found

Substance Abuse Prevention and Treatment Block Grant (City of Norfolk): For two out of three vendors sampled, management was unable to provide documentation demonstrating the required review of the vendor's suspension and debarment status prior to awarding the vendor a contract. For one of the two vendors, a suspension and debarment certification was supposed to be included in the bid package received. However, a different document was incorrectly submitted in place of the certification in the final bid package and the omission was not identified or remediated.

Title I (Norfolk Public Schools): In a sample of seven vendors tested, management was unable to provide documentation of management's review of suspension and debarment prior to use of vendor's services.

For four of the seven vendors selected for testwork, management utilized a cooperative agreement, under which they purchase goods or services through a procurement process performed by another municipality or school district. For these four instances, management was unable to provide documentation as to its assessment of suspension and debarment prior to use of the vendor.

School Improvement (Norfolk Public Schools): Management utilized a cooperative agreement, under which they purchase goods or services through a procurement process performed by another municipality or school district, for one of four vendors selected for testwork. For this procurement, management was unable to provide documentation as to its assessment of suspension and debarment prior to use of the vendor.

Perspective and Questioned Costs

There were no questioned costs as none of the vendors noted were identified as being suspended or debarred based on a subsequent review of the System for Award Management.

Cause and Effect

Management had not implemented a process for all types of contracts that supported management's determination and verification that a vendor was not suspended or debarred at the time of procurement.

Recommendation

The City and Schools should implement a process to verify and document vendors' suspension and debarment through the SAM, collecting a certification from the entity, or adding a clause or condition to the covered transaction with the entity before entering into the contract with the vendor.

Views of Responsible Officials

City Officials:

Management agrees with the finding and has remedied the situation for future procurements by including a specific memorandum that asks the buyer to certify that the vendor is neither suspended nor debarred before entering into the contract.

School Officials:

Management agrees with the finding and has remedied the condition for future procurements by utilizing SAM.gov for all contracts. A screen shot of the SAM search will be placed in the contract folder as evidence of the verification. The purchasing department's web page has also been updated to include a link to the SAM site and all buyers have a established login credentials.

Finding# 2013-007: Matching, Level of Effort, and Earmarking

Program, CFDA No., Program Year, Federal Agency, Pass-Through Agency, Grant Number

HIV Emergency Relief Grant: CFDA No. 93.914, Program Years March 1, 2012 through February 28, 2013 and March 1, 2013 through February 28, 2014, U.S. Department of Health and Human Services (HHS), awards H89HA00053 and H89HA0053-14-00.

Recipient

City of Norfolk

Criteria

In accordance with 42 USC 300ff-15(a)(1)(B-C), each political subdivision within the metropolitan area is required to maintain its level of expenditures use for HIV-related services to individuals with HIV disease at a level equal to its level of such expenditures for the preceding fiscal year. Political subdivisions within the Transitional Grant Area (TGA) may not use funds received under the HIV grants to maintain the required level of HIV-related services in accordance with 42 USC 300ff-15(a)(1)(B).

Condition

Upon initial inquiry, management was not aware of all Transitional Grant Area costs expensed; therefore, management did not effectively monitor political subdivision spending within the Transitional Grant Area in accordance with the criteria above.

Perspective and Questioned Costs

There were no questioned costs associated with this finding.

Cause and Effect

Ineffective monitoring of political subdivision spending can lead to noncompliance with the requirement to spend an amount that is equal to or exceeds the amount spent on HIV related expenditures in the preceding fiscal year.

Recommendation

The City should implement a process to ensure that HIV related expenditures spent by the TGA are effectively monitored during the year to ensure that the compliance requirement is satisfied.

Views of Responsible Officials

An effort has been made to identify all sources of local expenditures spent by the members of the TGA. In the future, these local costs will be monitored on a periodic basis throughout the year to ensure compliance with the maintenance of effort requirement.

Finding# 2013-008: Reporting

Program, CFDA No., Program Year, Federal Agency, Pass-Through Agency, Grant Number

Disaster Grants – Public Assistance: CFDA No. 97.036, Program Year March 21, 2012 through March 28, 2013, U.S. Department of Homeland Security, award FEMA-4024-PW-00756.

Recipient

City of Norfolk

Criteria

In accordance with the Commonwealth of Virginia Department of Emergency Management information for the City of Norfolk dated April 10, 2012, the City of Norfolk is required to complete and submit to the Viriginia Department of Emergency Management (VDEM) quarterly progress reports on outstanding large projects no later than 15th day after a quarter-end. The performance report is required under 44 CFR 13.40.

Condition

One outstanding large project existed during the fiscal year 2013; project number 756 for the Lamberts Point Golf Course. The respective project worksheet was signed by FEMA for approval of the obligated funds on March 21, 2012. No quarterly progress reports were completed and submitted to VDEM during the 2012 or 2013 fiscal year for this outstanding large project.

In addition, the final reporting and requirements for reimbursement from the state were not performed on a timely basis. The state requires actual receipts to be submitted to the state agency in order to provide reimbursement to the City. Other than the Lambert Golf Course, all allowable federal expenditure activity caused by the Hurricane Irene event between August 26, 2011 and August 28, 2011 was incurred by the City as of June 30, 2012. At the time of the audit field work for the June 30, 2013 audit, management had not submitted the reimbursement requests to the state.

Perspective and Questioned Costs

There were no questioned costs associated with this finding.

Cause and Effect

Management was not aware of the requirement to accurately and timely report to the state on outstanding large projects.

Recommendation

The City should implement a process to ensure that all reports are completed and submitted in a timely and accurate manner while monitoring which projects are open and which projects are ongoing.

Views of Responsible Officials

The City concurs with the recommendation, and will assure that the City, will prepare progress reports as guided by the grant primary recipient, VDEM, and that agency's established reporting systems. Previously, there was a misunderstanding that reports were required when no new activity or significant change in project status had occurred during the reporting periods.

Finding# 2013-009: Reporting

Program, CFDA No., Program Year, Federal Agency, Pass-Through Agency, Grant Number:

Highway Paving and Construction, CFDA No. 20.205 (ARRA), Program Year 2013, U.S. Department of Transportation, Virginia Department of Transportation, project number U000-122-219 (UPC 94434).

Criteria

In accordance with the American Recovery and Reinvestment Act Information for Virginia Localities dated February 1, 2010, the City of Norfolk is required to complete and submit to the Virginia Department of Transportation (VDOT) the Monthly Status Report (1585), Employment Summary Report (1587), and Project Certifications through the VDOT reporting tool no later than the 5th, 13th, and 30th of each month, respectively.

Condition

Upon review of 4 months of VDOT report submissions, none of the monthly status reports and the employment status reports were submitted within the required timelines. However, all the project certifications were submitted within the required timelines.

In addition, the information in relation to the percentage of completion and amount disbursed contained in the monthly status report did not agree to source documentation in 4 out of 4 instances; although, the information is available from other sources such as the monthly reimbursement requests.

Perspective and Questioned Costs

This is a repeat finding from the prior year audit. The project was substantially complete before the prior year audit report was issued. There are no known questioned costs associated with this finding.

Cause and Effect

The requirement to accurately and timely report to the state was not administered consistently, which lead to instances of noncompliance in the process.

Recommendation

City management should develop and implement a policy to ensure that all reports are completed and submitted in a timely and accurate manner.

Views of Responsible Officials

Management agrees with the finding in that reports are required to be submitted accurately and on time even in instances when there is no activity to report. The City has reviewed the reporting and certification requirements and due dates with VDOT in order to ensure timely submission of data. The City will improve procedures on oversight to ensure reports are submitted by the required due dates.

Information will never match on the monthly status reports because the grant flows through two entities, VDOT and the City. The amount dispersed is the amount VDOT reimbursed the City plus any administrative costs charged to the grant. VDOT is the recipient of the grant and would be the entity that reconciles the amount.

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

State Finding 2013-010: Comprehensive Services Act Pool Fund Disbursements

In accordance with the Auditor of Public Accounts *Specifications for Counties, Cities, and Towns, Chapter 3,* Section 12, local government officials are required to determine the allowability of expenditures for troubled youths and families prior to disbursing the funds. In a sample of 25 payments tested, one payment was made for room and board in the amount of $3,565. The amount was approved, but it was not specifically approved by a Comprehensive Service Act representative as required by the *Chapter 3, Section 12*. City management should develop and implement a process to ensure that allowable costs are approved by the appropriate personnel prior to being processed for disbursement with CSA funds.

Views of Responsible Officials

Management concurs with this finding. The City has updated our expenditure approval process to accommodate unusual and irregular fund source changes that require additional approvals to ensure expenditures have the necessary approvals affixed to supporting documents in the future.

State Finding 2013-011: Terminated Users

In accordance with the Auditor of Public Accounts *Specifications for Counties, Cities, and Towns, Chapter 3, Section 15*, local government officials are required to terminate the access privileges of all VDSS system users within three working days of employment termination. In our testwork of 10 terminated employees, four employees were not terminated within the three-day threshold. We recommend that the City implement a management review control over the access termination process to ensure that access is terminated within the appropriate time frame.

Views of Responsible Officials

Management concurs with this finding. The City will implement a management review control over the access termination process to ensure that access is terminated within the appropriate time frame.

State Finding 2013-012: Business Continuity Plan

In accordance with the Auditor of Public Accounts *Specification for Counties, Cities, and Towns, Chapter 3, Section 15*, local government officials are required to prepare a written Business Continuity Plan based on the Department Plan Template updated within the previous 12 months. KPMG obtained the Business Continuity Plan, noting that the Plan had not been updated since August 2011. We recommend the City develop and implement a process to ensure the Business Continuity Plan is being updated on an annual basis.

Views of Responsible Officials

Management concurs with this finding. The City is currently working to update the business continuity plan with a goal of having it completed by the end of the year.

State Finding 2013-013: Annual Access Review

In accordance with the Auditor of Public Accounts *Specification for Counties, Cities, and Towns, Chapter 3, Section 15*, local government officials are required to review local employees' access to systems to determine whether the current computer access request form on file is appropriate and matches the access granted in the system. Local government officials are also required to review the access at least once per year. In a sample of 25 employees, one individual had access to the OASIS system, that was not authorized on their computer access request form.

Additionally, there was no direct evidence of review that was performed by local government for any of the 25 employees selected in fiscal year 2013.

Views of Responsible Officials

Management concurs with this finding. While the City did conduct a review of the access granted to our systems for our employees, the certifications/documentation reviewed did not satisfy the new APA guidelines that were issued in July 2013. The City will communicate and work with the State Security Office to ensure that the City's future processes will satisfy the new APA requirements.

THE HONORABLE MEMBERS OF CITY COUNCIL

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

State Finding 2013-014: Unclaimed Property

In accordance with the Virginia Uniform Disposition of Unclaimed Property Act in Chapter 11.1 of Title 55 of the Code of Virginia, local governments holding funds or other property presumed abandoned under the Act must file a report listing the unclaimed properly as of June 30 of each year. Section 55-210.9 states that all intangible property (checks are defined as intangible property in accordance with 55.210.2) held for the owner by any public authority that has remained unclaimed by the owner for more than one year after it became payable is presumed abandoned. Management filed the reports timely, but in our testwork of 30 outstanding checks at June 30, two checks totaling $932.59 were improperly excluded from the reports filed with the state. We recommend that management implement a control across the City to ensure that all unclaimed property is accurately and completely submitted to the state.

Views of Responsible Officials

Management concurs with this finding. One check was not timely escheated due to human error. With regard to the second check that was not timely escheated, the City was awaiting response from another agency as it dealt with an offender's open case file. Internal controls in this area have been enhanced such that a separate individual will review and verify the list of checks that need to be escheated to ensure unclaimed property is submitted by the required deadlines.