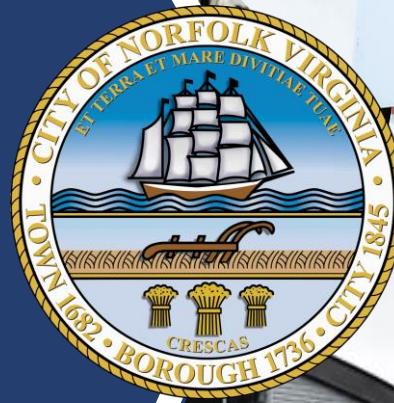




City of Norfolk, Virginia

Comprehensive Annual Financial Report



2018

Year Ended June 30, 2018



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**City of Norfolk, Virginia
Comprehensive Annual
Financial Report
For the Fiscal Year Ended
June 30, 2018**

**Prepared by:
The Department of Finance**

**Christine Garczynski
Director of Finance**



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CITY OF NORFOLK, VIRGINIA

Code of Ethics

The City of Norfolk conducts its business fairly, impartially, ethically and in compliance with all laws and regulations. The City is committed to conducting its business with integrity underlying all relationships, including those with citizens, customers, suppliers, communities and among employees. The highest standards of ethical conduct are required of City employees in performing their responsibilities. Employees will not engage in conduct or activity that may raise questions as to the City's honesty, impartiality or reputation, or otherwise negatively reflect on the City.

Values

Accountability, Integrity, Innovation and Respect

Acknowledgments

This report has been accomplished through the efficient and dedicated services of the staff of the Department of Finance and contributing departments and our independent auditors, CliftonLarsonAllen LLP. The contributions of all are invaluable and clearly reflect the high standards set by the City of Norfolk.

It is also appropriate to thank the City Manager, Deputy City Managers, Mayor and Members of the City Council for making possible the excellent financial position of the City through their interest and support in planning and conducting the financial affairs of the City.



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**CITY OF NORFOLK, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2018**

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CITY OF NORFOLK, VIRGINIA COMPREHENSIVE ANNUAL FINANCIAL REPORT

June 30, 2018

Municipal Officials

Honorable City Council

President and Mayor
Vice Mayor
Member
Member
Member
Member
Member
Member

Kenneth Cooper Alexander
Theresa W. Whibley
Mamie B. Johnson
Andria P. McClellan
Paul R. Riddick
Thomas R. Smigiel
Martin A. Thomas
Angelia Williams Graves

City Manager Douglas L. Smith

Chief Deputy City Manager
Deputy City Manager
Deputy City Manager
Deputy City Manager
City Attorney
City Auditor
City Clerk
City Real Estate Assessor
City Treasurer
Registrar of Voters
Commissioner of the Revenue
Executive Director of Community Services Board
Director of Budget & Strategic Planning
Director of Cultural Facilities, Arts & Entertainment
Interim Director of Economic Development
Director of Emergency Preparedness & Response
Director of Finance
Director of Fire & Rescue Services
Director of General Services
Director of Human Resources
Director of Human Services
Director of Information Technology
Director of Libraries
Director of Marketing & Communications
Director of National Maritime Center (Nauticus)
Acting Director of Planning & Community Development
Chief of Police
Director of Public Health
Director of Public Works
Director of Recreation, Parks & Open Space
Director of Utilities
Director of Zoological Park

Wynter Benda
Michael Goldsmith
James Rogers
Catheryn Whitesell
Bernard A. Pishko, Esquire
John H. Sanderlin, Jr., CPA
R. Breckenridge Daughtrey
W.A. Rodda, CAE, RES
Daun Hester
Stephanie Iles
C. Evans Poston, Jr.
Sarah Paige-Fuller
Gregory Patrick
John S. Rhamstine
George Homewood
James Redick
Christine Garczynski
Jeffrey Wise
Nikki Riddick
Marva Smith
Stephen Hawks
Steven DeBerry
Sonal Rastogi
Michael G. Brown
Stephen Kirkland
Leonard Newcomb
Larry Boone
Demetria Lindsay, M.D.
Richard Broad, P.E.
Darrell Crittendon
Kristen M. Lentz, P.E.
Gregory Bockheim



CITY OF NORFOLK, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
June 30, 2018
Municipal Officials

JUDICIAL

Fourth Judicial Circuit Court

Chief Judge
Judge
Judge
Judge
Judge
Judge
Judge
Clerk

Jerrauld C. Jones
Junius P. Fulton, III
Mary Jane Hall
John R. Doyle, III
Everett A. Martin, Jr.
David W. Lannetti
Joseph A. Migliozi, Jr.
Michelle J. Atkins
George E. Schaefer, III

Norfolk General District Court

Chief Judge
Judge
Judge
Judge
Judge
Clerk

Michael C. Rosenblum
Bruce A. Wilcox
S. Clark Daugherty
Joan E. Mahoney
Tasha D. Scott
Thomas E. Baldwin

Norfolk Juvenile and Domestic Relations District Court

Chief Judge
Judge
Judge
Judge
Clerk

Lynn M. Simmons
M. Randolph Carlson, II
Lauri D. Hogge
Robert McLanahan Smith III
Debra A. Hill

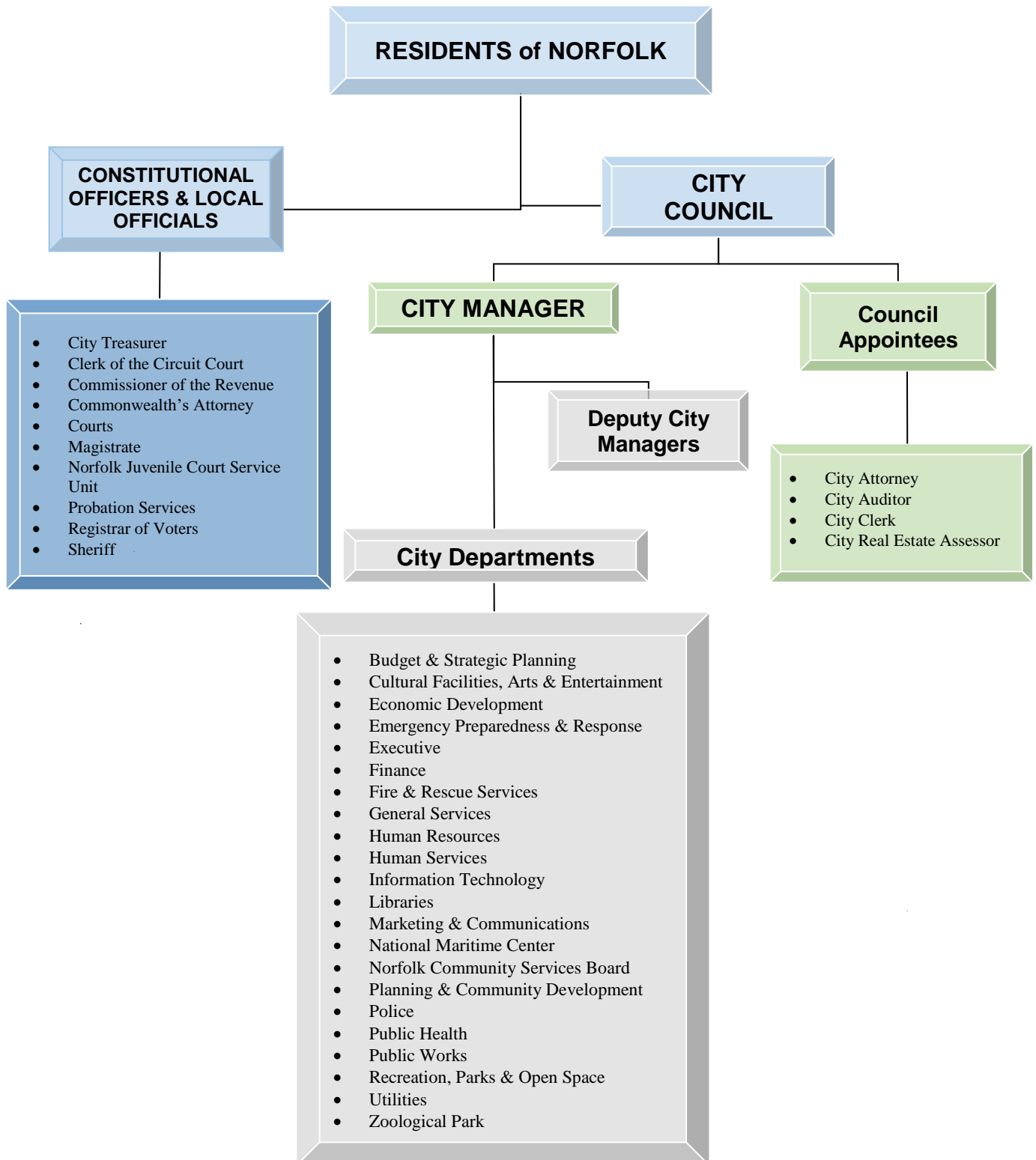
Other Judicial Officials

Commonwealth's Attorney
Sheriff

Gregory D. Underwood
Joseph Baron

CITY OF NORFOLK, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2018

**ORGANIZATIONAL
CHART**



December 19, 2018

To the Honorable Council and
Residents of Norfolk, Virginia:

The Comprehensive Annual Financial Report (CAFR) of the City of Norfolk (the City) for the fiscal year that ended June 30, 2018, is hereby submitted. The *Code of Virginia* and the Charter of the City of Norfolk require the City to publish, at the close of each fiscal year, a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with *Government Auditing Standards* by a firm of licensed certified public accountants. This report has been prepared by the Department of Finance and complies with state law and guidelines of the Auditor of Public Accounts of the Commonwealth of Virginia.

Responsibility for the accuracy of the data and the completeness and fairness of presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that presents fairly the financial position and results of operations of various funds and component units of the City as of June 30, 2018. Extensive disclosures have been included to enable the reader to gain a comprehensive understanding of the City's financial activities.

Important information regarding the financial statements and audit is discussed under the Financial Information located on page 9.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (the MD&A). The 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 U.S. Office of Management and Budget Uniform Guidance. These reports are available in the Other Reports of Independent Auditors section of this report.

Profile of the City

The City of Norfolk was established as a town in 1682, as a borough in 1736 and incorporated as a city in 1845. The City is the economic, business, educational and cultural center of southeastern Virginia. Its 66 square miles lie at the mouth of the James, Elizabeth and Nansemond Rivers and the southern shores of the Chesapeake Bay, and are adjacent to the Atlantic Ocean and the cities of Chesapeake, Portsmouth and Virginia Beach. The waterways have been central to Norfolk's identity and an ongoing source of its financial stability, thanks to a major international port, significant military facilities and related businesses. Miles of bay, riverfront and lake shore provide ample recreational opportunities and are the centerpiece of dozens of historic neighborhoods.



The City Council is comprised of eight members, who formulate policies for the administration of the City. Seven members are elected through a ward system and the Mayor, Kenny Alexander, is elected at-large. The Vice Mayor, Dr. Theresa Whibley, 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 implements the policies of the City Council, directs business procedures and appoints, with the power to remove, the heads of executive departments and other employees of the City except those otherwise specifically covered by statutory provisions. Douglas L. Smith has held the position of City Manager since June of 2017.

The City provides a full range of general governmental services for its residents. These services include 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; collection and disposal of refuse 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 all funds including City, state and federal pass-through funds for education, social service, correctional facilities and judicial activities. Cities in Virginia have sole jurisdiction over the entire area within their boundaries and operate independently from

any other municipal government. City jurisdictions do not overlap with any other municipal jurisdiction 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.

Financial Information

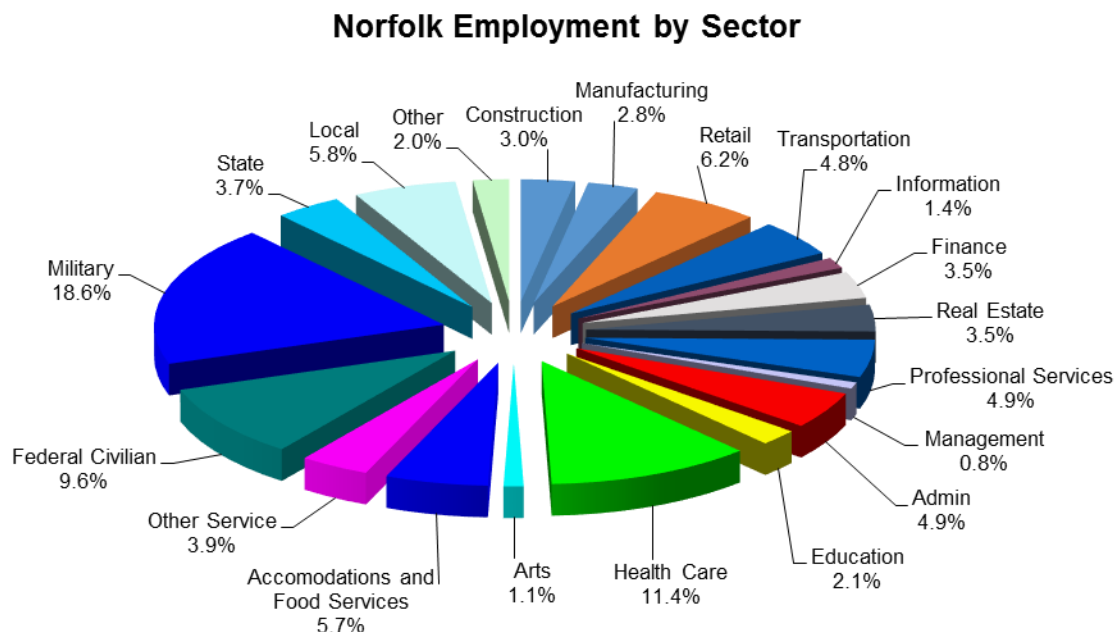
All the financial activities of the financial reporting entity are included within this report. In accordance with the requirements of the Governmental Accounting Standards Board (GASB), the financial reporting entity consists of the primary government (the City of Norfolk), as well as its component units. The City has included the financial data of two discrete component units which are legally separate entities: The School Board for the City of Norfolk and the Economic Development Authority (EDA). The discretely presented component units are reported in a separate column in the financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position, results of operations, and cash flows from those of the primary government. The Employees' Retirement System of the City is a blended component unit, and although legally separate, it is considered a part of the City's operations, and therefore data from this entity is combined with financial information from the City. 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 fiscal year 2018 budget is shaped by the City's commitment to make bold decisions, while working within our financial policies. It supports City Council's priorities of public safety, education and housing and builds on the momentum created by prudent financial choices, creativity and a commitment to meeting the needs of residents. Resilience continues to be the lens through which we make decisions, and the budget reflects this through a focus on addressing the City's flooding issues throughout the next century, deconcentrating poverty, and balancing our economic portfolio. The fiscal year 2019 financial plan builds on work the City has accomplished together and funds City Council's and the community's priorities of investing in neighborhoods, housing, public safety, education and resilience. The City is taking on big, bold challenges that include investing in education, inclusive economic growth, infrastructure, and addressing maintenance of our buildings, vehicles, equipment and in technology. The City manages resources for its community in a thoughtful and effective way. However, the City's responsibility is about more than sound financial management of public resources. Ultimately, the budget is about helping people thrive in Norfolk, helping them have the best quality of life possible. Norfolk has an outstanding quality of life thanks to long-standing partnerships among the community, our elected leaders, and City staff. Sustaining and even elevating that quality of life requires innovative ways to approach. Both fiscal year budgets were structurally balanced and reinforced the commitment to further strengthen the City's long-term financial sustainability. The City's commitment to good financial management and delivering excellent core services to residents remains strong.

Local Economic Condition and Outlook

The City has a stable economic base anchored by the world's largest naval station and the Port of Virginia, one of the busiest ports on the east coast. Norfolk is a leader in health care, education and finance within the Hampton Roads region. While Norfolk's economy is grounded by its maritime assets and is the core of a military region, the economy also benefits from diverse corporate strength. As shown in the following chart, except for the military, no one sector constitutes more than 12 percent of total employment. This diversity acts as a mitigating factor against any Federal Government's reduction in defense spending. In addition, the City continues to promote comprehensive urban revitalization, to foster job growth and to expand economic opportunities that enhance diversification, while capitalizing on Norfolk's competitive advantages. Since 2013, the City has announced approximately \$2.4 billion in new development, business and pending public/private projects. The City recognizes that expanding its business and industrial tax base will ease the burden on homeowners and it is committed to promoting economic development throughout the City.



Source: Bureau of Economic Analysis, total full-time and part-time employment by North American Industry Classification System industry, for 2017; Total employment – 212,616.

With 212,616 jobs, Norfolk serves its role well as the Hampton Roads region's urban job center and has the highest job density in the region. Norfolk's vibrancy and favorable economic climate has spurred the development of a number of new businesses over the last year, as well as encouraged the expansion of existing businesses. Additionally, Norfolk's reputation as an entrepreneurial hub is fast-growing. This spirit of hard work is evident throughout the City, as residents, businesses, and military personnel and their families revitalize old spaces, create new businesses and infuse energy into emerging industries.

Military

The presence of the military in Norfolk has a significant impact on the local economy. The City is the home of the world's largest naval complex, which celebrated its centennial in 2017. The complex serves as the headquarters for Commander in Chief of U.S. Atlantic Command, NATO's Supreme Allied Command Atlantic, Commander in Chief U.S. Atlantic Fleet and other major naval commands. Hampton Roads is the largest center of Coast Guard units in the world with the Atlantic Area Command and Maritime Defense Zone Atlantic in Portsmouth and its Maintenance & Logistic Command Atlantic headquarters in downtown Norfolk.



According to the most recent data available to the City, the U.S. Navy's direct economic impact on the region was \$13.4 billion in fiscal year 2017, comprised of a total annual payroll of \$11.4 billion and the balance consumed on goods and services and procurement contracts. The impact was an increase of nearly \$600 million over the previous fiscal year. The region and particularly the City expects to continue as a center of activity for the U.S. Navy with current total personnel (military and civilian) of more than 71,000, with an additional 5,600 military contractor personnel.

The Hampton Roads region is home to six aircraft carriers, including the Gerald R. Ford. While not a permanent homeporting, the Gerald R. Ford will be in the region for a few years due to schedule and maintenance requirements for the Navy bringing in more than 2,500 personnel to the region. The additional carrier joined the USS Dwight D. Eisenhower, USS John C. Stennis (currently undergoing overhaul at Newport News Shipbuilding), USS Harry S. Truman, USS George Washington and the USS George H.W. Bush at Naval Station Norfolk. In addition, the region is home port to approximately 65 ships and home to 39 aircraft squadrons with about 75 homeported operating units in the City.

The Port of Virginia and Shipping

The City also serves as a gateway between world commerce centers and the Heartland, which offers efficient train routing between the Port of Virginia and the Midwest. 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. The Port of Virginia is a hub port; an important distinction for the shipping public. Nearly 30 international shipping lines offer direct, dedicated service to and





from Virginia, with connections to over 200 countries around the world. In an average week, more than 40 international containers, breakbulk and roll-on / roll-off vessels are serviced at our marine terminals. It facilitates \$242 million worth of commerce a day, and a full nine percent — or 343,000 — of Virginia’s jobs are port-related. Located on 648 acres, Norfolk International Terminals (NIT) is the Port of Virginia’s oldest and largest terminal and one of the largest general cargo ports on the east coast. On July 1, 2017, construction began at the south berth of NIT. When complete

in 2024, the project will increase the terminal's annual capacity by 400,000 containers, or 46 percent and is expected to create more than 50,000 jobs in Virginia and elsewhere.

Transportation

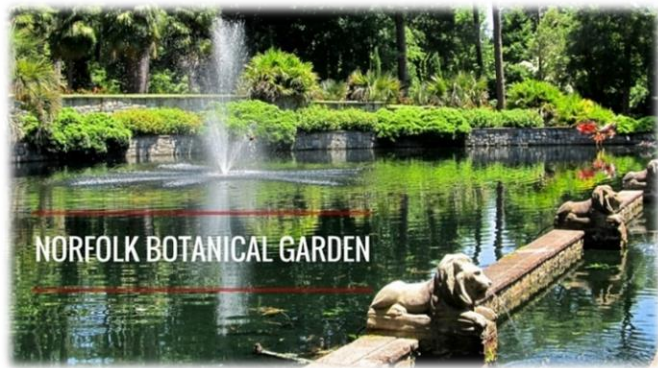
Norfolk leads the way as the most multi-modal city in the Hampton Roads region. Norfolk



International Airport is the primary airport serving Hampton Roads and northeast North Carolina, with approximately \$100 million in construction on major projects that began in FY 2018. Designated as Virginia’s first green airport, Norfolk International Airport is served by Allegiant Air, American Airlines, Delta, Frontier, Southwest, United and their regional partners. Offering over 150 arrivals and departures daily to major cities

throughout the U.S., Norfolk International Airport presently ranks in the top 15 percent of commercial service airport in the United States with nearly 3.4 million scheduled passengers served in 2017.

Adjacent to the celebrated Norfolk Botanical Garden, Norfolk International Airport is surrounded by year-round beauty and is a role model for reconciling air facilities and a delicate ecological sanctuary.



The City's light rail system, the Tide, has exceeded 10 million rides since it began operations in August of 2011. The Tide runs from the Eastern Virginia Medical School complex near Fort Norfolk to the Newtown Road/Virginia Beach city line. The City is in the preliminary study stages of expansion to connect the existing 7.4-mile light rail to the region’s largest employer – Norfolk Naval Station.

Amtrak passenger rail line service connecting Norfolk to Washington, D.C. via Petersburg and Richmond began operation in December of 2012. From the 3,500 square foot train station located at Harbor Park, the intercity passenger rail serves a multi-modal center, which includes a light rail station. The facility will link intercity passenger rail to the light rail and regional bus systems, ferry service, cruise ship facilities and provide direct interstate access.



The Virginia Port Authority opened its 26-lane, \$42 million technology-driven North Gate complex at Norfolk International Terminals in June of 2017. The gate was coupled in December of 2017 with the \$176 million I-564 Intermodal Connector to give truckers direct interstate access. The Virginia Port Authority is creating a new intermodal gate complex at NIT. This project is expected to cost approximately \$29 million and connect with the I-564 intermodal connector project with the goals of easing commuting around NIT, reducing truck traffic on local roads and increasing cargo velocity and efficiency at NIT.



Education – Pre-K to 12

Norfolk Public Schools (NPS) is on a mission to ensure that all students maximize their academic potential, develop skills for lifelong learning and become successful contributors to a global society. Norfolk offers innovative public school programs, which include Early Childhood Education, a unique, comprehensive program full-day preschool classrooms ensuring 3-year-olds and 4-year-olds enter school with critical early literacy and numeracy skills. NPS has an astounding array of academically challenging programs from which to choose, including five middle school specialty programs, five high school specialty programs, three K-8 choice schools, one 3-8 school, two Pre-K-2 schools, two 3-5 schools and one Pre-K-8 school.



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 350 students from six cities and two counties in its Downtown location in Norfolk on Granby Street.

Education remains a priority for the City, which made a commitment to build or replace six schools starting in 2010. In fiscal year 2014, City Council approved a \$0.04 real estate tax rate increase. Two cents of the increase is dedicated to the City's School Construction, Technology, and Infrastructure ("CTI") Program. This dedicated source allows the City to partially fund the design and construction of several new schools. NPS is the largest urban school division and the seventh largest division overall in the Commonwealth of Virginia. The division enrolls a racially and economically diverse population of approximately 32,000 students, supported by more than 4,600 employees in 55 facilities. Following the replacement of five schools from 2012 to 2017, the City is working with the federal government on the replacement of the Camp Allen Elementary School. Camp Allen is located on Naval Station Norfolk and is part of a federal initiative to upgrade schools on military bases and serving military dependents. U.S. Department of Defense dollars will pay 80 percent of the nearly \$28.7 million construction cost.



Higher Education

Higher education plays a critical role in developing a highly skilled and competitive workforce. The City is home to several institutions of higher learning: Old Dominion University ("ODU"), Norfolk State University ("NSU"), Tidewater Community College ("TCC") and Eastern Virginia Medical School ("EVMS"). ODU is one of only 100 public research universities nationwide. NSU is Virginia's largest public, historically black university and one of the largest predominately black institutions in the nation. Located in Downtown, TCC has five buildings, including the Jeanne and George Roper Performing Arts Center. EVMS, dedicated solely to biomedical and health education, has an economic impact on the regional economy of \$1.2 billion annually. In 2018, EVMS announced a new \$80 million, 11-story Education and Academic Support Building to address growth in enrollment over the past several years. Completion is expected in 2020. Sentara Healthcare will triple its financial support for EVMS with a commitment of \$130 million over the next five years. For the period 2018 through 2023, annual funding given by Sentara to EVMS will increase from a previous amount of \$9 million per year to \$26 million per year.

Healthcare

Within the City, there are five general, acute care and specialized hospitals including Sentara Norfolk General Hospital ("Sentara Norfolk General"), Sentara Leigh Hospital, Bon Secours DePaul Medical Center, Children's Hospital of The King's Daughters ("CHKD") and Lake Taylor Transitional Care Hospital ("Lake Taylor Transitional"). As the region's first magnet hospital, Sentara Norfolk General Hospital, a 525-bed tertiary care facility, is home to the area's only Level I Trauma Center, burn trauma unit and nationally ranked heart program at Sentara Heart Hospital. Sentara was named a Top 15 Health System for 2018 by IBM Watson Health. The \$199 million expansion and modernization project is anticipated to be completed in 2020. The project will add floors to two existing wings, expand the emergency department, expand and modernize 18 operating rooms, replace a 48-bed ward-style Special Care Nursery with a state-of-the-art unit with private and semi-private rooms, and consolidate the hospital's 54 intensive care unit beds on two floors.

CHKD, the site of Virginia's only free-standing, full-service pediatric hospital is home to one of the nation's top pediatric residency programs. With 206 beds, the hospital serves the medical and surgical needs of children throughout the greater Hampton Roads metro area, the eastern shore of Virginia and northeastern North Carolina. In March of 2018, CHKD filed a Certificate of Public Need application with the State Health Commissioner seeking approval to build a 60-bed facility for children and adolescents.

Sentara Leigh Hospital's \$126 million expansion was completed in 2016. The expansion project included two five-story patient towers, an orthopedic and rehabilitation center, and a two-story atrium lobby, as well as a new multi-story parking garage. The Sentara Leigh campus continues to expand and broke ground in spring, 2018 on a \$93.5 million Cancer Center project. The 230,000 square foot facility is to be completed in 2020. Another addition to the campus is a \$24 million, 60,000 square foot regional orthopedic medical office building currently under construction and anticipated to open in 2019.

Bon Secours DePaul Medical Center has undergone a substantial phased expansion over the past five years including a new comprehensive cancer care facility and medical office building on the campus. Mercy Health and Bon Secours officials finalized a definitive merger agreement in September. The combined entity comprises 43 hospitals across seven states and more than 2,100 employed physicians. The merged entity will accrue \$8 billion in net operating revenue and \$239 million in operating income, making it the fifth largest Catholic health system in the nation.

New 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.

Norfolk announced approximately 1,800 jobs in fiscal year 2018, from a variety of industries including manufacturing, information systems and maintenance companies.

Instant Systems, an innovative medical packaging firm located in the City's Central Business Park. Instant Systems is increasing its capacity by 400% while working with the state on

building its export capabilities and access grant funding from the Virginia Jobs Investment Program for worker retraining. As a result of the industries growing impact, Instant Systems has invested \$1 million in Norfolk to expand its biotechnology packaging operations and hired 71 new employees.

Computerized Imaging Reference Systems, Inc. (CIRS), a world leader in the manufacturing of phantom tissues simulation technology and medical devices opened its new 50,000 square foot facility in 2018, also in Central Business Park.

Food and beverage investment has seen an emergence in breweries. For example, O'Conner Brewing, named Virginia's highest growth manufacturing company by Fast 50 Virginia Chamber, expanded its manufacturing line with a \$1 million investment.

Tegra Global, an apparel embellishment company with warehousing and distribution for NIKE, Under Armor, and others is adding 300 jobs and expanding by 135,000 square feet.

Norfolk Industrial Park is the home of Land and Coates (\$7.2 million investment) and its tenant, MS International, Inc. (\$1.5 investment, 10 jobs). MS International, new to the region, is a leading nationwide distributor of flooring, countertop, wall tile and hardscaping products.

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

Residential Development

One of Norfolk's greatest strength is its neighborhoods. With over 120 civic leagues and over 95,000 housing units, Norfolk offers a diversity of housing choices that range from charming starter houses to grand residences and from downtown lofts and town homes to brand new developments along the Chesapeake Bay. By increasing the diversity of housing opportunities, the City expects to increase the diversity of its citizenry and expand the tax base. The City's goal for



neighborhood and commercial development is to provide an environment that increases private sector investment, retail sales generation and corresponding municipal revenue generation, create a framework for targeted and coordinated public and private investment and build upon and coordinate with other ongoing community development initiatives.

Residential investment continues to grow throughout the City, particularly in Downtown. Several new projects have recently opened in Downtown. These include 450 Boush (a mixed-use project with 150 units and 10,000 square feet of retail), the second phase of Rockefeller Apartments, a new building that will include 40 apartments. The former Bank of America



building conversion into a 300-unit luxury apartment development called the Icon at CityWalk, located on Main Street in Downtown. Two other conversion projects are underway on Granby Street: The Savoy with 36 new units and 151 Granby, with 8 new units. Downtown projects completed within the past few years include the Metro on Granby, the Wainwright Downtown (126 units), The James (79 units), The Seaboard (135 units), The Law Building (135 units), and the Virginia Building (32 units and two

retail spaces). St. Paul's Apartments, with 120 new units, will be the first residential project in the St. Paul's area. Together, approximately 1,500 new apartments have been or are going to be added to Downtown since 2010, bringing the estimated Downtown population to well over 6,000 residents. Front Street Apartments in the Fort Norfolk area, Banks at Berkley (50 units) and Claremont Apartments (156 apartments and 25 single-family homes) in Berkley/Campostella, the Element at Ghent (164 units), Fort Tar Lofts (13 units), The Promenade Pointe (187 units), The Pointe at Pickett Farm (300 units), 1500 Monticello (a mixed-use project with 207 units and 10,131 square feet of retail space) and The Watermark (372 units). Another major project in the Fort Norfolk area is the River Tower at Harbor's Edge, an expansion of Harbor's Edge, a full-service, premier Life Plan Retirement Community on the Elizabeth River. When completed in 2020, the \$167 million project will deliver a 24-story River Tower and add 142 luxury residences and more than 95,000 square foot of common space. In September of 2018, the Ghent area was named a Great Place in America by the American Planning Association.



The seven-mile stretch of beaches on the Chesapeake Bay known as Ocean View experienced redevelopment over the past decade. The East Beach section of Ocean View has 700 housing units with prices ranging from \$350,000 to over \$1.5 million, with an average home sales price of \$733,507. A portion of the homes are currently occupied with the remainder of the properties planned for development. Lot sales total approximately \$47 million representing nearly \$230 million in home values and approximately \$2.6 million in annual real estate taxes to the City. East Beach Phase 7, the final phase of East Beach consists of 38,000 square feet of retail and commercial space, as well as a mixture of 80 townhomes, single family homes, cottages and carriage houses. Also along the Chesapeake Bay, Pinewell Station, with 145 apartments, is being planned for the former Ramada Hotel site and Captain's Landing, with 38 townhouses, and Villa Marina Apartments, with 111 apartments and The Tern, with 85 townhouses, are in the planning stage. Broad Creek is a \$200 million community near Norfolk State University with 600 mixed-income homes. In Broad Creek, the region's first mixed-use, mixed-income community, construction is complete on 400 rental units and 70 homes. Construction on Broad Creek Village, a mixed-use residential and retail development, began during 2008, and is being followed by Broad Creek's final phase of 200 mixed-income residential units north of Princess Anne Road.



An exciting new district has sprung up, known as the “Railroad District” and has been awarded a 2018 Real Estate Development & Reuse award by the International Economic Development Council for Catalyzing Development in Historic Districts. To allow Residential and Commercial land uses, not otherwise permitted within the base zoning district in the Norfolk & Western Railroad State and National Historic District, the City created a new historic overlay district, "Norfolk & Western Historic Overlay". Using both programs, 7 existing warehouses were brought back into productive use as rental housing and commercial spaces following \$80 million in rehabilitation projects. Since 2016, 271 apartments and 11 commercial uses have opened in existing light industrial warehouses, with more on the drawing table. The 167-acre district is seeing entrepreneurs moving in with trendy concepts, creating a viable live/work community. There are 140 properties containing 207 resources, 160 of which are contributing to the Railroad District. The surge in popularity of industrial breweries and loft apartments in historic buildings created a need for a successful integration of mixed-use projects, while ensuring preservation of industrial uses.

Commercial Development

Norfolk continues to see commercial development within its borders. Simon Property Group Inc. has opened the first phase of Simon Premium Outlet Park. This represents an investment of approximately \$75 million to build an outlet center on an existing City-owned golf course. The redevelopment plan calls for the City to retain approximately 65 acres for green space and walking trails around the lake creating new public open space. Phase I of the Simon Premium Outlet Park includes approximately 85 stores, 332,000 square feet of leasable space and is anticipated to generate an estimated \$2.5 million in tax revenue.



Adjacent to the Simon Norfolk Premium Outlets will be a 331,000 square foot IKEA. Construction began in 2017, with a planned opening in spring 2020. IKEA is anticipated to bring more than \$2.5 million in direct tax revenue.



Movement Mortgage, one of the fastest-growing mortgage banks in the country, relocated its largest operations center to the adaptive re-use of the former J.C. Penney department store at Military Circle Mall owned by the Norfolk Economic Development Authority, known as 824 Military. Movement Mortgage transferred 550 jobs to Norfolk, with the planned addition of 200 more jobs to support its rapid national growth. The relocation of Movement Mortgage is anticipated to bring approximately \$230,000 in new direct annual tax revenue. Optima Health is also occupying space at 824 Military and added 200 new jobs.



In August of 2018, Optima Health leased the 45,000 square feet remaining in the 824 Military building and have plans to hire an additional 200 by the end of the calendar year.

With a capital investment of \$32.5 million ADP, a comprehensive Human Capital Management solutions provider, moved to Downtown at the Atlantic at City Walk. The Atlantic features high ceilings, advanced fiber optics and connectivity. ADP is Downtown's largest employer with approximately



2,100 new jobs and an immediate impact of \$1 million in tax revenue. Quality of Life, Arts and Culture

Norfolk offers a mix of cultural attractions and entertainment for its citizens and tourist. Theatre venues include the Attucks Theatre, the Harrison Opera House, Chrysler Museum, and the "Theater District" which includes Chrysler Hall, Jeanne and George Roper Theater, Wells Theatre and the NorVa.



The 80,000 square foot Peter G. Decker, Jr. Half Moone Center is located in the harbor between Town Point Park and Nauticus/Battleship Wisconsin. The Peter G. Decker, Jr. Half Moone Center continues to serve as a multi-purpose facility for the City offering five distinct event spaces that can accommodate from 50 to 1,500 guests.



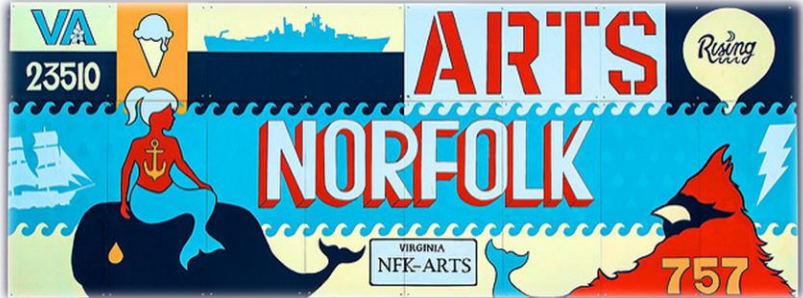
In 2018, the City and Carnival cruises announced the return of the cruise line to the City. Carnival's return in 2019 alone is predicted to provide the City with over \$300,000 in new revenues. Carnival will set sail again May of 2019, with destinations to the Bahamas, Caribbean and beginning in 2020 Cuba.

Building and the retrofitted Selden Arcade into the Selden Market with a seamless expansion to a modern six-story addition creating a state-of-the-art, highly efficient library complex. The Slover's connectivity into the Selden Arcade, nestled between The Main and the Slover, makes it an exciting, progressive and vibrant anchor in Downtown. In August of 2018, the Slover Library opened the Maker Studio in Selden Market and is fully equipped with 3D printers and more!



Arts District

Norfolk's first official arts district, the NEON District, is home to a new wave of passion and creativity in downtown. NEON, or New Energy of Norfolk, draws from the neighborhood's history with the automobile industry as it moves into a new and vibrant future. Long time cultural institutions like the Chrysler Museum of Art and Harrison Opera House anchor the District. Whether you are a local or visiting for the first time, the NEON District offers a unique cultural experience. Within a few short blocks you can see a muralist at work, take in an improv comedy performance at Push Comedy Theater, watch a live glass-working demonstration, shop for unique home goods, get a tattoo or dine out at an eclectic restaurant. The neighborhood is fast transforming into the place to be.



Tidewater Community College's Norfolk Campus is in the heart of downtown. The urban campus is strategically located in the cultural, business and theater district of the City of Norfolk. The campus includes the Jeanne and George Roper Performing Arts Center, formerly the historic Loews State Theater, as well as a student center that complements the landscape and includes an outdoor gathering space just off Granby Street.



Through a new partnership with the City, Tidewater Community College will transform Norfolk's NEON District with its newly announced plan to build the Patricia and Doug Perry Visual and Culinary Arts and Hospitality Center at the site of the Greyhound Station. The 47,000-square-foot center will be a jewel to downtown and could be open as soon as summer 2019.

Other recent investments to the City's cultural attractions include the Virginia Arts Festival headquarters, a home for the Hurrah Players, and the Perry Glass Studio of the Chrysler Museum of Art Glass Art Studio. The Virginia Arts Festival headquarters houses year-round education outreach activities, a rehearsal and intimate performance space, as well as the Festival's administrative offices. Adjacent to the Virginia Arts Festival



headquarters is the new home of the Hurrah Players, which features a 100-seat theater and two rehearsal halls. The Perry Glass Studio Chrysler Museum Glass Studio supports artists working in a variety of glassmaking processes, including blown glass, casting, fusing, flame working and cold working. Located adjacent to the museum, the Glass Studio is the only one of its kind in the Mid-Atlantic region and complements the museum's extensive glass collection. One of Norfolk's most notarized venues, Chrysler Hall is slated to receive a \$40 million upgrade, anticipated to start in 2019.

Hotel Development

Norfolk has approximately 5,000 hotel rooms, including nearly 1,650 in the Downtown area. Tourism and conventions employ over 7,000 workers in the City and generate an estimated \$28.8 million in state taxes and \$23.9 million in local tax revenue. It is estimated travelers to the City spend over \$764 million annually. The new Hilton Norfolk at The Main and The Exchange conference center opened in March of 2017. The \$164 million public/private Downtown project included a 50,000 square foot conference center; a 4-Star Hilton hotel with approximately 300 rooms, three full-service restaurants and a parking garage. The project has created approximately 250 jobs and an estimated \$2 million in annual tax revenue.



Development is underway for an Autograph Collection Marriott hotel, a boutique hotel to be located at the 200 block of Granby Street in the former Royster building. With the help of the Perry family, who are the developers of the project, the \$27 million investment will have a glass art theme and is expected to open spring 2020.

Norfolk's only waterfront hotel, the Sheraton Norfolk Waterside, is expected to complete its \$12 million-dollar renovation in August of 2018. The upgrades include a renovation of its 468-rooms, a 1,100 square foot presidential suite, newly renovated lobby, and a 24-hour fitness center.



The Marriott Waterside is undergoing a \$25 million renovation to modernize the hotel. Included in the agreement is a \$4 million dollar improve to the City-owned conference center, which is a part of the hotel.

Public Safety

This City's new courthouse complex houses the General District, Circuit, and Juvenile and Domestic Relations Courts. The complex was built in two phases to allow uninterrupted court operations. The first building was constructed next to St. Paul's Boulevard. Phase I grand opening was in January 2015 and now houses General District Court and Circuit Court. The former General District Courts portion of the Public Safety building was demolished to make way for the Phase II addition. The project was completed in March of 2018. This state-of-the-art courts facility will be a LEED-certifiable (Leadership in Energy and Environmental Design) green building. The total cost is approximately \$121 million and represents Norfolk's largest investment in a public building.



Waterfront Recreation Investment

Norfolk has seven miles of Chesapeake Bay beachfront and a total of 144 miles of shoreline including along Downtown's Elizabeth River, the Lafayette River, lakes, the Hampton Roads Harbor and the Chesapeake Bay. Town Point Park, located in the Downtown area along the Elizabeth River, brings thousands of visitors Downtown annually and generates both tax and parking revenue.



The Waterside District is a regional destination located in the heart of the central business district and adjacent to the City of Norfolk's world-class waterfront and festival site. The project which opened in May of 2017, is a \$40 million public-private partnership between Norfolk and

Cordish Companies. The anchor is a 30,000 square foot section known as "The Marketplace" that has nine businesses and restaurants, including a live performance stage and roof top deck. For the summer of 2018, a new SkyStar Observation Wheel was added to the district as a summer attraction.

Norfolk's strong, diverse and stable economy, paired with the current developments, added almost 6,000 new jobs between 2015 and the end of the fiscal year 2018.

Sports and Recreation

Norfolk is home to the Norfolk Tides, a AAA minor league baseball team (the "Tides"). The Baltimore Orioles will continue as the parent club for the Norfolk Tides through the 2020 season. Norfolk is also home to the Norfolk Admirals, an East Coast Hockey League affiliate of the National Hockey League's (NHL) Arizona Coyotes and of the American Hockey League's (AHL) Tucson Roadrunners. Old Dominion University competes in the Conference USA. Norfolk State University has a long-established football program, which currently competes in the Mid-Eastern Athletic Conference.



Additionally, located at Harbor Park is the Norfolk Boxing Center, a 13,000 square foot state-of-the-art facility that boasts two U.S.A. Boxing regulation-sized competition rings, stadium-style seating and the capacity to host larger shows and championship bouts.



Adopted Financial Policies

City Council is committed to strengthening the City's long-term fiscal sustainability and supporting activities of a Well-Managed Government. The City has adopted formal financial policies (the "Financial Policies") in an effort to strengthen the City's long-term fiscal responsibility by emphasizing budget and debt policies and provide a framework within which future financial decisions will be considered and made. The Financial Policies were most recently updated and approved by City Council in July of 2013. The City is structurally balanced.

The policies provide that with the achievement of a structurally balanced budget, the undesignated, unassigned surplus in the General Fund of at least 0.5% of the General Fund budget (up to \$2 million) will be used to finance capital projects, reduce debt or fund reserves. The Financial Policies also provide that the City will add to its General Fund Unassigned Reserve, Risk Management Reserve and Economic Downturn Reserve in that order of priority. The Financial Policies establish the minimum balances at 5% of the General Fund budget for the General Fund Unassigned Reserve with no maximum balance, \$3 million for the Risk Management Reserve (with a maximum balance of \$5 million), plus three (3) years of self-insured expenses and \$3 million for the Economic Downturn Reserve (with a maximum balance of \$5 million). The City reached full funding of all three reserves in Fiscal Year 2017 and has maintained the maximum balance through Fiscal Year 2018.

Long-Term Financial Planning

The City prepares a five-year annual financial plan with revenue and expenditure projections. The multi-year forecast serves as a planning tool for the City's annual budget. Additionally, the multi-year budgeting process allows the City to systematically plan for multi-year program financing guided by the strategic plan. The City's budget guiding principles are based on a five-pronged approach of raising revenue, reducing expenditures, becoming more efficient, growing the economy, and sharing services and leveraging resources. Continuing good fiscal practices helps ensure ongoing structural balance.

Debt Administration

Norfolk borrows money by issuing general obligation and revenue bonds to finance major capital projects. Bond financing spreads the cost of land acquisition and building construction over a period of many years, rather than charging the full cost to current taxpayers. The City has the same obligation to adhere to sound financial management that a home or business does. For general capital debt, the City adheres to adopted financial policies that promote effective financial management. The City has two measures of debt affordability and is in compliance with both of them.

The City has strong credit ratings for a local government for its general obligation bonds: 'Aa2' by Moody's Investors Service ("Moody's"), 'AA+' by S&P Global Ratings ("S&P") and 'AA+' from Fitch Ratings ("Fitch"). S&P Global Ratings boosted Norfolk's rating outlook from stable to positive, while Fitch and Moody's affirmed the City's strong credit rating, with an assigned 'stable' outlook in October of 2017. Factors contributing to the credit rating include the City's financial position, current and future debt burden, financial management and the health of the economy.

The details of bonds outstanding and bonds authorized, but not issued are shown in Note IX to the financial statements. Tables 1 through 7 of the Statistical Section provide detailed historical information regarding the debt position and debt service requirements of the City.

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.

BUILDING
A WELL-MANAGED
GOVERNMENT



Some of the key fiscal 2018 initiatives include:

Resilience – Designing the Coastal Community of the Future

Norfolk is a recognized leader – domestically and internationally – in the resilience movement. Named as one of the world's first members of 100 Resilient Cities (100RC), a program pioneered by The Rockefeller Foundation, Norfolk is helping to build a global practice of resilience by working with cities around the world. As a member of 100RC, Norfolk has taken a proactive approach to addressing the impact of sea level rise with a resilience strategy, which embraces the City's relationship with its adjacent bay, rivers, streams, ponds and marshes.



In 2015, Norfolk adopted a comprehensive resilience strategy to address the challenges facing the City. This strategy is driven by three goals: (1) design the coastal community of the future, (2) create economic opportunity by advancing efforts to grow existing and new industry sectors and (3) advance initiatives to connect communities, deconcentrate poverty and strengthen neighborhoods.



Norfolk is undertaking many initiatives to address its resilience goals, including the following:

1. Partnering with the U.S. Navy and the City of Virginia Beach on a Joint Use Land Study to mitigate the impacts of sea level rise on Navy operations: the study is expected to be completed in August of 2018.
2. Encouraging or requiring resiliency as part of development activities: the City is updating its zoning code and includes resilient development activities as part of its comprehensive long-term plan (PlaNorfolk 2030). These efforts go far beyond the FEMA floodplain requirements and include provisions that target Norfolk's unique situation and circumstances.

3. Seeking grants and other outside funding to help defray the cost of resiliency projects: in 2016, Norfolk and several partners in the Commonwealth received a \$120.5 million grant from the U.S. Department of Housing and Urban Development's National Disaster Resilience Competition. Grant funds will be used to address coastal resilience in the City's Ohio Creek watershed area.



To effectively align opportunities, connect internal and external stakeholders and resources, in fiscal year 2018 the City created a multi-disciplinary Resilience Office to expand and institutionalize this integrated approach to building the City's resilience to the environmental, economic, and social stresses and potential shocks that challenge the City. The Resilience Office will continue to actively leverage opportunities and resources across City departments, local community, as well as national and international partners.

Norfolk is a Smart City

A Smart City integrates multiple technologies to enhance the quality of life, livability, workability, and sustainability for residents, businesses, and visitors. As dependency on technology grows, the City needs to be able to accommodate changes that allow connectivity with our mobile customers. By using a holistic approach to technology integration, service delivery becomes intelligent, interconnected, and efficient.

As a Smart City, technology and data analytics are embedded in the infrastructure to improve real time responses. In support of the Smart City initiative, in fiscal year 2018 Norfolk joined the Regional Connectivity Ring (RCR) to bring faster broadband internet services to the region. Norfolk finds itself in a unique position as it relates to high speed technology, as a result of two major transatlantic fiber lines. Together these cables provide access to expanded economic markets, as well as research and development hubs. This combined with the transatlantic cables will mean that fiber companies will be interested in building infrastructure in our region. Additionally, more high-tech companies will be interested in moving to our region due to the proximity of fiber and the transatlantic cables



To connect our region and expand broadband access, the five southside cities are investing in an initiative to implement a Regional Connectivity Ring (RCR). This ring will be approximately 103 miles of fiber which will connect the five cities to the super highway of the transatlantic cables. It will also create opportunities for regional government collaboration, connecting high education centers, and providing opportunities for businesses throughout the region. Norfolk's section is identified on the map by the gold section of the ring.

Community Engagement

Community engagement has become a year-round conversation with residents. Participation in government creates ownership at all levels, empowers citizens, engages people in decision-making, and ensures transparency. Community engagement improves resource management and the ability of local authorities to solve problems, creates more inclusive and cohesive communities, and increases the number and quality of initiatives. We are committed to continually improve methods for residents to connect and define the City's future.

INTERNAL CONTROL AND BUDGET ACCOUNTING

The City's management team is responsible for establishing and maintaining an internal control structure designed to ensure the assets of the government are protected from loss, theft or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes the cost of a control should not exceed the benefits likely to be derived and the evaluation of costs and benefits requires estimates and judgments by management.

The City's control environment reflects the attitude of management at all levels towards ethical behavior, organizational values, competence, integrity and the well-being of the organization. The City's Ethical Fitness: Setting the Tone at the Top initiative was rolled out in 2015 to all City employees and is required for all new employees throughout the fiscal year. All City employees are required to complete a bi-annual Ethics and Compliance awareness training. The Culture of the Team Norfolk training program includes a series of training modules geared towards promoting a professional environment and ethical culture throughout the City.

Budget controls ensure compliance with legal provisions embodied in the annual appropriated budget approved by City Council. Activities of the General, certain Special Revenue, Debt Service, Enterprise and School Board Governmental Component Unit Funds are included in the annual appropriated budget. The level of budget control is established by each organizational unit. Additional controls are exercised administratively.

As a recipient of federal financial assistance, the City also is responsible for maintaining an adequate internal control structure. This structure allows the City to ensure and document compliance with the U.S. Office of Management and Budget Super Circular for major federal award programs. These reports are available in the Other Reports of Independent Auditors section of this report.

AWARDS AND RECOGNITION

The City received a number of awards and was recognized by a variety of organizations. Among these awards and recognitions are:

#19 Best Fleets in North America, *National Automotive Fleet Association*, 2018; **Shipper of the Year**, *Lidl US*, 2017; **Ranked 3rd for Digital City (Population 125,000 to 249,999)**, *the Center for Digital Government's*, 2017; **Ranked 2nd for Friendliest City in USA**, *Travel and Leisure*, 2017; **Ranked Top 10 in Cities Where Millennials Are Moving**, *SmartAsset*, 2018; **Ranked 4th Among Top Charming Cities in the South**, *CNN Travel*, 2018; **Top 50 Best Places to Travel**, *Travel and Leisure*, 2017; **Norfolk's Continued Participation in the What Works Cities Initiative**, *Bloomberg Philanthropies*, 2018; **Granby Street Named "8 Amazing American Streets You've Never Heard Of"** *New York Posts*, 2017; **Norfolk Fiscal Year 2017 Employees' Retirement System Received 13th consecutive GFOA recognition for its CAFR**, *Government Finance Officers Association of the United States and Canada*, 2017; **Norfolk Fiscal Year 2017 Popular Annual Financial Report (PAFR) Received 1st GFOA recognition for its PAFR**, *Government Finance Officers Association of the United States and Canada*, 2018; **Norfolk Fiscal Year 2017 Report to Our Citizens Received 1st Certificate of Excellence in Citizen-Centric Reporting**, *Association of Government Accountants (AGA)*, 2018; **Norfolk Fiscal Year 2017 Distinguished Budget Presentation Award**, *Government Finance Officers Association of the United States and Canada*, 2018.

INDEPENDENT AUDIT

According to the City Charter and Section 15.2-2511 of the *Code of Virginia*, as amended, an annual audit by an independent auditor of the City is required. Accordingly, the records have been audited by CliftonLarsonAllen LLP. As a result of an audit of the City's financial records, CliftonLarsonAllen LLP has issued an unmodified opinion with respect to the City's financial statements for the year ended June 30, 2018. The independent auditors' report is presented in the financial section of this report.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2017. This was the 32nd consecutive year that the City received this prestigious award.

This award is valid for a period of one year only. We believe that the FY 2018 CAFR continues to meet the requirements and it will be submitted to GFOA again this year.

ACKNOWLEDGMENTS

We express our sincere appreciation to all staff who contributed to this report, especially the members of the CAFR Team in the Financial Reporting and Financial Operations Divisions of the Department of Finance, who prepared and compiled this report and maintain the accounting records of the City on a current and timely basis. We commend them for their professionalism, hard work and continued efforts to improve both the financial reporting of the City and this report. In addition, we acknowledge the professionalism, knowledge and assistance of each City department throughout the year in the efficient administration of the City's financial operations.

We also thank the Office of the City Auditor and CliftonLarsonAllen LLP for their coordination and support during the year.

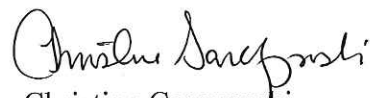
This CAFR reflects our commitment to the residents and businesses of Norfolk, the City Council and all interested readers of this report to provide information in conformance with the highest standards of financial reporting.

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. The City Council's oversight of the financial affairs has resulted in this strong financial report and is commended for their dedication in supporting the policies and practices that made it so.

Respectfully submitted,



Douglas L. Smith
City Manager



Christine Garczynski
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, 2017

Christopher P. Morrell

Executive Director/CEO



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**CITY OF NORFOLK, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2018**

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)**

Other Supplementary Information





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INDEPENDENT AUDITORS’ REPORT



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, 2018, 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 accounting principles generally accepted in the United States of America; 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards 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 entity'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 entity'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.

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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

During fiscal year ended June 30, 2018, the City adopted GASB Statement No 75. *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result of the implementation of these standards, the City reported a restatement for the change in accounting principle (See Note XXVI). Our auditor's opinion is not modified with respect to the restatement.

Other Matters

Required Supplementary Information

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

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 combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is also presented for purposes of additional analysis and is not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections 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 December 19, 2018, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's 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 City's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Arlington, Virginia
December 19, 2018

**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, 2018

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, 2018. 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 and deferred outflows of resources of the City, on a government-wide basis excluding component units, exceeded its liabilities and deferred inflows of resources at the close of fiscal year 2018 by \$715,533,246 (net position). Of this amount, there is a negative unrestricted net position of \$9,835,060. Total net position increased by \$24,647,841 and unrestricted net position increased by \$54,941,591 from the prior fiscal year end.
- As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$30,114,118, an increase of \$73,356,969 in comparison with the prior year. This increase was primarily attributable the issuance of bonds offset by the continuous usage of the City's line of credit for funding of capital projects. The City issued \$123,084,974 in general obligation bonds in fiscal year 2018. There is a negative unassigned total governmental fund balance of \$58,659,242 on June 30, 2018.
- The General fund, on a current financial resources basis, reported an increase in fund balance of \$8,452,455 from the prior year.
- At the end of the current fiscal year, the total unassigned fund balance for the General fund was \$70,962,327, or 8.3 percent of the original General fund budget.
- The City's total outstanding bonded indebtedness increased by \$15,974,090 during the current fiscal year primarily due to the issuance of bonds to pay for several large capital projects including a courthouse, five new schools and conference center.

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2018

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 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, public works, judicial administration, community development, health and public assistance, education, 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

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2018

the City is financially accountable: Norfolk Public Schools ("School Board") and Norfolk Economic Development Authority ("EDA"). Financial information for these component units is reported separately from the financial information presented for the primary government and can be found on pages 70 - 71 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 combined 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 61 - 64 of this report.

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

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2018

The enterprise funds are used to account for Water and Wastewater Utilities 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 two internal service funds, Fleet Management and Healthcare during fiscal year 2018. The internal service funds are allocated to governmental 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 65 – 67 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 pension trust fund, the Commonwealth of Virginia agency fund and other agency funds. Fiduciary funds are not included in the government-wide financial statements because the resources of those funds are dedicated for specific non-city programs. The accounting for fiduciary funds is much like that used in proprietary funds.

The fiduciary fund financial statements can be found in pages 68 - 69 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 75.

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning budgetary comparisons for the General fund, the City's Net Pension Liability and other post-employment benefits to its employees. Required supplementary information can be found on pages 157 – 171 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented on pages 177 - 178 and 181 -183, respectively, of this report.

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2018

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 and deferred outflows exceeded liabilities and deferred inflows by \$715,533,246 at the close of fiscal year 2018.

By far, the largest portion of the City's net position, \$682,866,373 or 95.4 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 and deferred inflows and outflows of resources 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 net 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 5.9 percent represent resources that are subject to external restrictions on how they may be used. The negative balance of \$9,835,060 of unrestricted net position is due to the adoption of GASB 68 and GASB 75 and the recognition of the net pension liability to the City's employee retirement system and the Virginia retirement system and total OPEB liability.

Summary of the City of Norfolk's Net Position

	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Current and Other Assets	\$ 297,830,502	\$ 246,796,261	\$ 181,716,449	\$ 148,693,080	\$ 479,546,951	\$ 395,489,341
Capital Assets	1,208,714,466	1,199,901,330	1,014,922,454	1,008,227,591	2,223,636,920	2,208,128,921
Total Assets	1,506,544,968	1,446,697,591	1,196,638,903	1,156,920,671	2,703,183,871	2,603,618,262
Deferred Outflows of Resources	105,724,255	100,730,698	30,710,653	24,260,561	136,434,908	124,991,259
Total Assets and Deferred Outflows of Resources	\$ 1,612,269,223	\$ 1,547,428,289	\$ 1,227,349,556	\$ 1,181,181,232	\$ 2,839,618,779	\$ 2,728,609,521
Long-Term Liabilities	\$ 1,102,672,228	\$ 954,893,541	\$ 733,195,460	\$ 682,081,649	\$ 1,835,867,688	\$ 1,636,975,190
Other Liabilities	240,341,499	325,568,852	27,473,102	60,346,905	267,814,601	385,915,757
Total Liabilities	1,343,013,727	1,280,462,393	760,668,562	742,428,554	2,103,682,289	2,022,890,947
Deferred Inflows of Resources	19,250,936	13,554,031	1,152,308	1,279,138	20,403,244	14,833,169
Total Liabilities and Deferred Inflows of Resources	\$ 1,362,264,663	\$ 1,294,016,424	\$ 761,820,870	\$ 743,707,692	\$ 2,124,085,533	\$ 2,037,724,116
Net Position:						
Net Investment in Capital Assets	351,887,472	365,913,403	330,978,901	342,470,182	682,866,373	708,383,585
Restricted	6,485,061	12,041,423	36,016,872	35,237,048	42,501,933	47,278,471
Unrestricted	(108,367,973)	(124,542,961)	98,532,913	59,766,310	(9,835,060)	(64,776,651)
Total Net Position	\$ 250,004,560	\$ 253,411,865	\$ 465,528,686	\$ 437,473,540	\$ 715,533,246	\$ 690,885,405

For governmental activities, total net position decreased by \$3,407,305 or 1.3 percent overall during the current fiscal year. Factors that contributed to the change in total governmental net position include the adoption of GASB Statement No. 75 which

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2018

increased long-term liabilities offset by a reduction in other liabilities primarily due paying down the line of credit liability.

For business-type activities, net position increased by \$28,055,146 or 6.4 percent during the fiscal year. Of this amount, an increase of \$20,163,351, \$8,347,537, and a decrease of \$455,742 are changes attributed to the Water Utility, Wastewater Utility and Parking Facilities funds, respectively. Overall revenues increased by \$5,087,385 compared to prior year due to increases in rates and consumption for Water and Wastewater Utilities funds and an increase in activity for Parking Facilities fund.

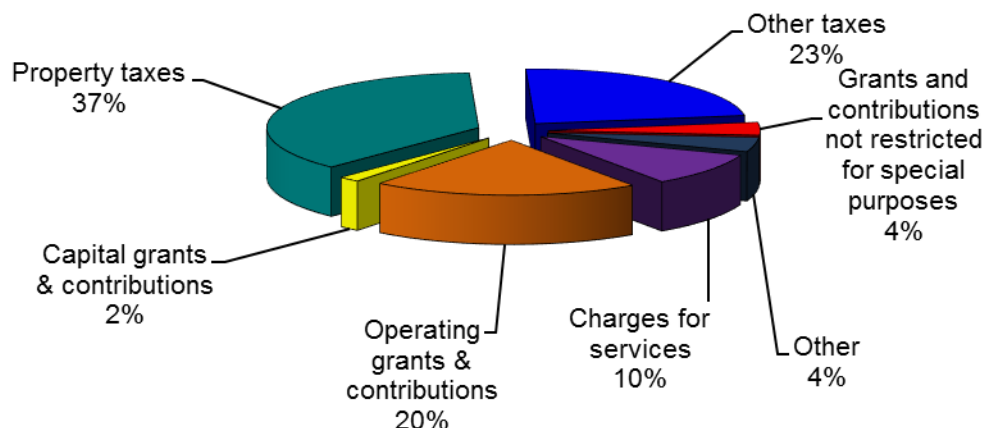
The following presents key programmatic and functional elements of changes in government-wide net position:

Changes in the City of Norfolk's Net Position

	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program Revenues:						
Charges for Services	\$ 73,176,531	\$ 74,932,416	\$ 139,291,143	\$ 134,170,141	\$ 212,467,674	\$ 209,102,557
Operating Grants & Contributions	151,518,592	135,193,939	-	-	151,518,592	135,193,939
Capital Grants & Contributions	11,954,157	5,941,421	144,186	188,476	12,098,343	6,129,897
General Revenues:						
Property Taxes	277,131,597	271,460,824	-	-	277,131,597	271,460,824
Other Taxes	174,138,870	169,538,978	-	-	174,138,870	169,538,978
Grants and Contributions not restricted for specific purposes	28,158,027	36,440,122	-	-	28,158,027	36,440,122
Other	31,459,597	31,027,100	2,820,076	2,809,403	34,279,673	33,836,503
Total Revenues	747,537,371	724,534,800	142,255,405	137,168,020	889,792,776	861,702,820
Expenses:						
General Government	152,832,372	155,158,869	-	-	152,832,372	155,158,869
Judicial Administration	57,118,257	55,547,417	-	-	57,118,257	55,547,417
Public Safety	160,378,339	133,377,565	-	-	160,378,339	133,377,565
Public Works	69,193,737	80,825,192	-	-	69,193,737	80,825,192
Health and Public Assistance	87,826,832	89,102,636	-	-	87,826,832	89,102,636
Culture and Recreation	46,798,591	62,996,097	-	-	46,798,591	62,996,097
Community Development	23,320,454	15,402,399	-	-	23,320,454	15,402,399
Education	131,136,839	114,971,922	-	-	131,136,839	114,971,922
Interest on Long-Term Debt	24,965,263	19,326,292	-	-	24,965,263	19,326,292
Water Utility	-	-	61,275,639	65,319,522	61,275,639	65,319,522
Wastewater Utility	-	-	21,011,809	22,071,798	21,011,809	22,071,798
Parking Facilities	-	-	23,083,990	21,077,539	23,083,990	21,077,539
Total Expenses	753,570,684	726,708,389	105,371,438	108,468,859	858,942,122	835,177,248
Increase (decrease) in Net Position before Transfers	(6,033,313)	(2,173,589)	36,883,967	28,699,161	30,850,654	26,525,572
Transfers	10,000,000	10,000,000	(10,000,000)	(10,000,000)	-	-
Increase (decrease) in Net Position	3,966,687	7,826,411	26,883,967	18,699,161	30,850,654	26,525,572
Net Position Beginning of Year, Restated	246,037,873	245,585,454	438,644,719	418,774,379	684,682,592	664,359,833
Net Position End of Year	\$ 250,004,560	\$ 253,411,865	\$ 465,528,686	\$ 437,473,540	\$ 715,533,246	\$ 690,885,405

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2018

Governmental Activities: Revenues by Source



Governmental Activities – The City's total revenues from governmental activities were \$747,537,371 for the fiscal year that ended June 30, 2018. The largest sources of revenue for the City are property taxes and other taxes which comprise 60 percent of total governmental revenues. Revenues from property taxes, which are comprised of personal and real estate taxes, increased by \$5,670,773 compared to prior year. The real estate (general tax) tax rate for fiscal year 2018 was \$1.15 per \$100 of assessed value which had previously changed to set aside \$0.02 for school construction technology and infrastructure spending. Revenues from other taxes increased by \$4,599,892 or 2.7 percent in comparison to the prior year. Other taxes include sales & use, consumers' utility, restaurant food, business license and hotel/motel taxes.

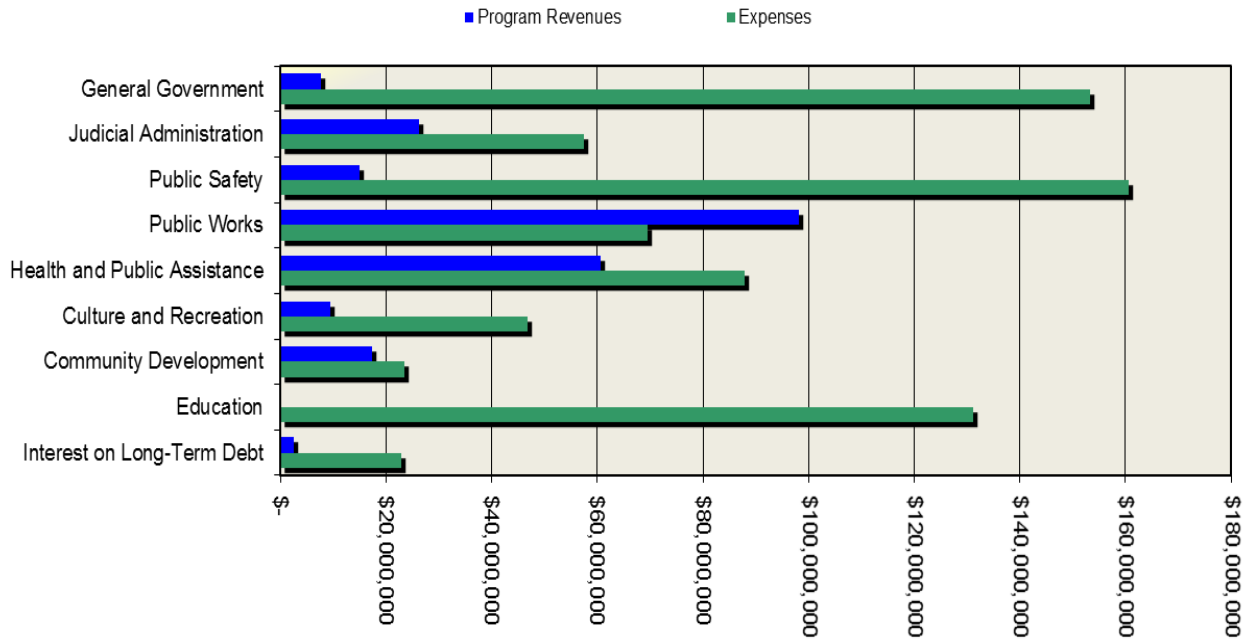
Operating grants and contributions for governmental activities ended the fiscal year at \$151,518,592 which represents an increase of approximately 12.1 percent from the prior year. For the 2018 fiscal year, there was \$28,158,027 in grants and contributions not restricted for specific programs which represents a decrease of approximately 22.7 percent from the prior year. Other revenue remained flat in comparison to prior year.

The City's expenses for governmental activities cover a wide array of services, with \$160,378,339 or 21.3 percent related to public safety, \$152,832,372 or 20.3 percent related to general government and \$131,136,839 or 17.4 percent for education, (including payments to the School Board, a component unit). Overall, expenses for governmental activities increased by 3.7 percent primarily due to cost of living increases as well as an increase in pension expense.

Depreciation expense for governmental activities of \$47,958,300 was recorded.

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2018

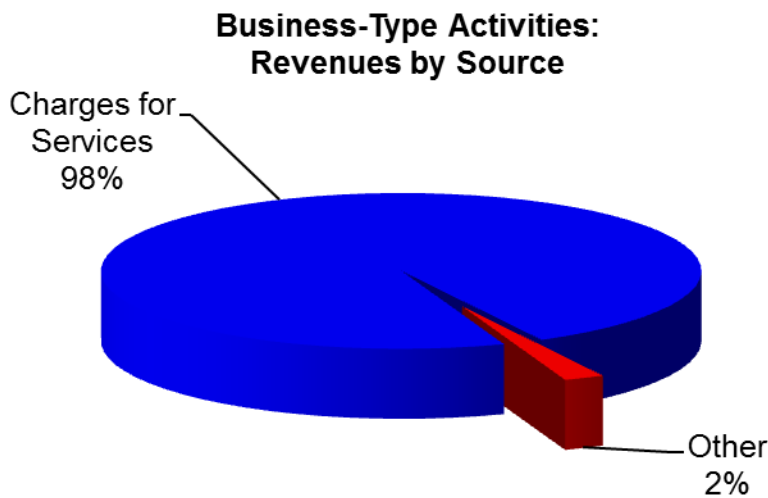
Governmental Activities
Expenses and Program Revenues



CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2018

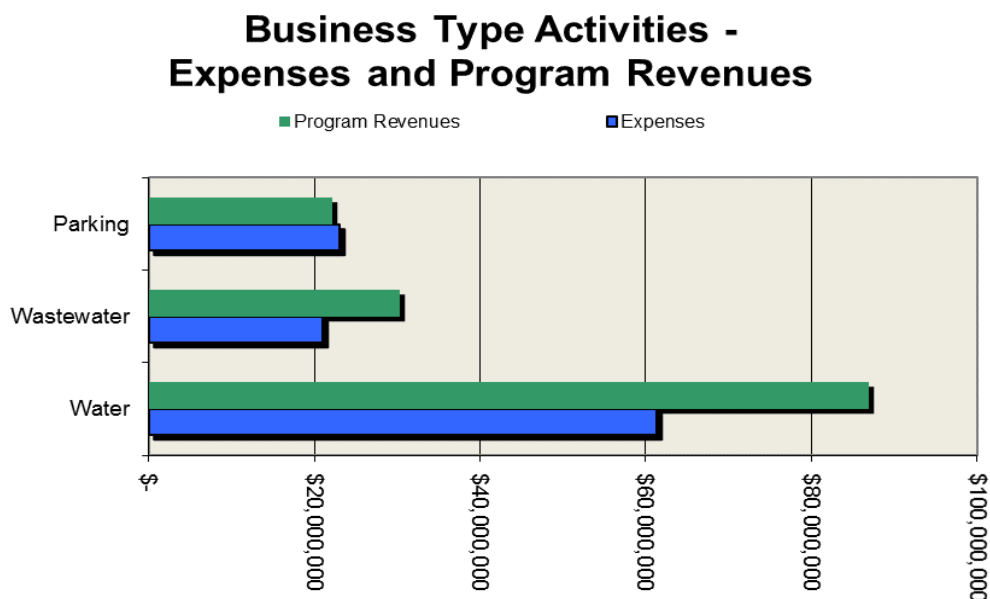
Business-type Activities – Business-type activities increased the City's net position by \$26,883,967. Key elements of this change are as follows:

- Revenue from charges for services for business-type activities increased by 3.8 percent. Water Utility charges for services increased \$2,412,773 and Wastewater Utility charges for services increased \$1,136,152.
- Parking Facilities revenues increased 1,572,077 or 7.6 percent from the prior year.



Total operating expenses for business-type activities decreased overall by \$1,210,083 or 1.4 percent. The Water Utility fund's expenses decreased by \$1,413,515. The Wastewater Utility fund's expenses decreased by \$2,098,515. The Parking Facilities fund's expenses increased by \$2,301,947.

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2018



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 balance of \$30,114,418, an increase of \$73,356,969 over the prior year due to timing of the issuance of bonds. Of the total ending fund balance, \$6,485,061 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 \$16,669,715 of total ending fund balance and represents amounts within fund balance that have been

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2018

designated for a specific purpose by City Council. Included in this classification are amounts designated by City Council for the City's self-insured workers' compensation and general liability programs. Assigned fund balance is \$65,618,884 of total ending fund balance and represents funds intended to be used by the City for specific purposes. Encumbrances that are not considered committed are included in this classification. The unassigned deficit balance of \$58,659,242 is due to the delay in issuance of debt and is covered by available cash and outstanding line of credit draws.

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 fund budget, which was \$42,863,808 for fiscal year 2018.

For the general fund, on the budgetary basis of accounting, the City ended the fiscal year with revenues over projections by \$5,898,707. Total expenditures were less than appropriations by \$18,104,184.

The general fund experienced an overall increase in revenue of \$11,104,991 or 1.8 percent over the prior year. Overall expenditures increased by \$23,645,191 or 4.4 percent from fiscal year 2017. General fund financial and budget highlights of the 2018 fiscal year include:

- General property tax revenues increased by \$7,860,583 or 3.0 percent;
- Other local tax revenues increased by \$4,008,132 or 2.5 percent;
- General government expenditures increased by \$8,806,730 or 7.4 percent; and
- Education expenditures increased by \$6,000,000 or 5.2 percent.

The City spent \$62,500,544 from the Capital Projects fund to support major capital projects, including construction of the second phase of the new courthouse, three new schools, repairs to City and School buildings, infrastructure and neighborhood improvements. The fund had a total fund balance (deficit) of \$128,798,692, primarily due to the use of a line of credit rather than issuing bond proceeds to finance all capital expenditures. In fiscal year 2018, the City issued bonds, but also used cash on hand and a line of credit to fund these expenditures.

The Debt Service fund did not have any assets, liabilities or net position at fiscal year-end. During the year bonds were issued to refund existing debt and new debt was also issued. Additionally, a net \$33,300,000 was repaid to the line of credit established for flexible, interim financing for the management of capital projects for governmental and business-type funds.

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

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2018

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, 2018, totaled \$682,866,373. 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 16.7 percent of total general governmental assets.

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

- Construction of the second phase of the new courthouse complex of \$4.7 million;
- \$4.8 million for construction of the new Broad Creek library;
- \$3.5 million in new fire facilities;
- \$3.5 million in improvements to neighborhood streets throughout the City; and
- \$19.6 million for new school construction.

Construction in progress totaled \$89.6 million for governmental activities at the end of the fiscal year. Construction in progress totaled \$43.2 million for business-type activities, which includes Water Utility, Wastewater Utility and Parking Facilities projects.

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

	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Land	\$ 99,348,960	\$ 98,580,920	\$ 52,119,012	\$ 49,812,941	\$ 151,467,972	\$ 148,393,861
Buildings, equipment and vehicles	737,437,422	666,802,310	901,129,087	887,437,994	1,638,566,509	1,554,240,304
Improvements other than buildings	80,141,523	71,557,332	14,647,761	15,053,011	94,789,284	86,610,343
Construction in progress	89,634,487	156,944,974	43,166,572	52,180,462	132,801,059	209,125,436
Intangible assets	582,199	715,190	3,860,022	3,743,183	4,442,221	4,458,373
Infrastructure	201,569,875	205,300,604	-	-	201,569,875	205,300,604
Total	<u>\$ 1,208,714,466</u>	<u>\$ 1,199,901,330</u>	<u>\$ 1,014,922,454</u>	<u>\$ 1,008,227,591</u>	<u>\$ 2,223,636,920</u>	<u>\$ 2,208,128,921</u>

Additional information on the City's capital assets can be found in Note VI on pages 98 - 100 of this report.

Long-term Debt – At June 30, 2018, the City (including the enterprise funds) had total bonded debt outstanding of \$1,454,417,871. Of this amount, \$1,065,675,115

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2018

comprises debt backed by the full faith and credit of the City. The remainder of the City's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

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

City of Norfolk's Bonded Debt

	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
General obligation bonds	\$ 656,212,948	\$ 611,875,024	\$ 242,888,532	\$ 244,032,413	\$ 899,101,480	\$ 855,907,437
Line of Credit	156,573,635	189,802,546	10,000,000	10,088,750	166,573,635	199,891,296
Revenue bonds	-	-	388,742,756	382,645,048	388,742,756	382,645,048
Total	<u>\$ 812,786,583</u>	<u>\$ 801,677,570</u>	<u>\$ 641,631,288</u>	<u>\$ 636,766,211</u>	<u>\$ 1,454,417,871</u>	<u>\$ 1,438,443,781</u>

The City's total debt outstanding increased by \$15,974,090 or 1.1 percent during the fiscal year. The City used line of credit draws to meet 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 adopted measures of affordability. The measures or debt limits are 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	S&P Global Ratings	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.

The Commonwealth of Virginia imposes a constitutional statutes limit for the amount of general obligation debt the City may issue up to 10 percent of its total assessed

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2018

valuation. The City's general obligation debt outstanding is significantly below the City's current debt limitation of \$1,987,088,097.

Additional information on the City's long-term debt can be found in Note IX on pages 102 - 110 of this report.

Economic Factors and Next Year's Budgets and Rates

- The City has shown signs of rebounding from the recession. Real estate assessments which drive the City's largest locally generated revenue is projected to rise for the sixth straight year. Residential assessments which make up the majority of overall real estate assessments are projected to rise for the fifth straight year as the housing market continues to recover. Significant economic development as a result of the City's public-private partnerships are also beginning to come to fruition and are expected to generate new jobs and tax revenue. Considering the effects of the national, state and local economic conditions, the City has taken a diversified approach that analyzes ways to raise revenues, reduce expenditures, become more efficient, grow the economy, share services, and leverage resources to develop the fiscal year 2019 budget as in prior years.
- Taxable real estate assessments are projected to rise slightly in the 2018 fiscal year by 2.5 percent.
- The following reflects major other tax change projections in comparison to the fiscal year 2018 budget:
 - Hotel taxes – 8.2 percent increase;
 - Restaurant food taxes – 3.2 percent increase; and
 - Personal property taxes – 1.9 percent increase.
- Rate increases for the Storm Water, Water Utility and Wastewater Utility funds continue to provide necessary funding to finance capital improvements.

All of these factors were considered in preparing the City's budget for fiscal year 2019. The fiscal year 2019 operating budget includes transfers in from non-general funds of approximately \$17.3 million and carrying forward prior year unspent appropriations and closeout of accounts totaling approximately \$4.0 million.

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2018

The adopted fiscal year 2019 budget includes a 10-cent increase in the real estate tax rate from \$1.15 to \$1.25 per \$100 of assessed value projected to generate approximately \$18.5 million. The following table represents changes in the Storm Water, Waste Management, Wastewater and Water Utility fees implemented with the City's fiscal year 2019 budget.

Description	FY 2019 Approved	FY 2018 Approved
Wastewater Fees	\$4.30/100 cubic feet	\$4.13/100 cubic feet
Water Fees	\$5.11/100 cubic feet	\$4.93/100 cubic feet
Stormwater Fees – Residential	\$11.70/month	\$11.40/month
Stormwater Fees – Commercial	\$8.38/month per 2,000 sq. ft.	\$8.16/month per 2,000 sq. ft.
Refuse Disposal – Residential Single or Multiple Units (4 or less)	\$25.01/unit/month	\$28.01/unit/month
Refuse Disposal – Residential Multiple Units (5 or more)	\$43.94/container/month	\$46.94/container/month
Refuse Disposal – Commercial Business once per week	\$61.18/unit/month	\$61.18/unit/month
Refuse Disposal – Commercial Business 5 times per week	\$151.64/unit/month	\$151.64/unit/month
Refuse Disposal – Commercial Combined Commercial and Residential	\$89.19/unit/month	\$89.19/unit/month

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2018

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.

BASIC FINANCIAL STATEMENTS





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CITY OF NORFOLK, VIRGINIA

Exhibit 1

Statement of Net Position
June 30, 2018

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and short-term investments	\$ 162,816,605	\$ 132,945,295	\$ 295,761,900	\$ 54,932,349
Receivables, net:				
Taxes	42,620,119	-	42,620,119	-
Accounts	17,479,980	20,596,267	38,076,247	8,795,269
Notes	-	-	-	354,434
Accrued investment income	103,492	99,112	202,604	-
Internal balances	28,669,153	(28,669,153)	-	-
Due from other governments	42,379,996	-	42,379,996	18,883,940
Due from primary government	-	-	-	351,039
Due from component unit	1,515,251	-	1,515,251	-
Due from other fiduciary funds	47,648	-	47,648	-
Inventories	-	2,862,026	2,862,026	1,439,659
Deposits	189,324	-	189,324	-
Property held for resale	-	-	-	947,952
Prepaid items	2,008,934	62,443	2,071,377	1,304,606
Restricted cash and investments	-	53,820,459	53,820,459	3,876,750
Non-depreciable capital assets	189,048,461	97,973,364	287,021,825	1,962,141
Depreciable capital assets, net	1,019,666,005	916,949,090	1,936,615,095	25,268,692
Total assets	<u>\$ 1,506,544,968</u>	<u>\$ 1,196,638,903</u>	<u>\$ 2,703,183,871</u>	<u>\$ 118,116,831</u>
Deferred outflows of resources				
Related to pensions	\$ 78,519,276	\$ 7,519,808	\$ 86,039,084	\$ 33,601,835
Related to OPEB	3,566,242	265,457	3,831,699	6,037,047
Loss on defeasance of bonds	23,638,737	22,925,388	46,564,125	-
Total deferred outflow of resources	<u>105,724,255</u>	<u>30,710,653</u>	<u>136,434,908</u>	<u>39,638,882</u>
Total assets and deferred outflows of resources	<u><u>\$ 1,612,269,223</u></u>	<u><u>\$ 1,227,349,556</u></u>	<u><u>\$ 2,839,618,779</u></u>	<u><u>\$ 157,755,713</u></u>
LIABILITIES				
Vouchers payable	\$ 29,769,742	\$ 7,029,126	\$ 36,798,868	\$ 4,715,327
Employees withholdings	2,345,007	-	2,345,007	-
Contract retainage	8,778,123	1,747,326	10,525,449	5,308
Accrued interest	10,121,071	6,124,144	16,245,215	-
Accrued payroll	5,159,664	495,360	5,655,024	38,837,796
Due to other governments	7,335,183	-	7,335,183	3,269,221
Due to primary government	-	-	-	1,834,617
Due to component unit	351,039	-	351,039	-
Other payables	-	-	-	10,076,347
Unearned revenue	10,338,121	-	10,338,121	842,652
Other current liabilities	9,569,914	2,077,146	11,647,060	602,724
Line of credit	156,573,635	10,000,000	166,573,635	-
Long-term liabilities:				
Due within one year	63,476,769	30,910,394	94,387,163	7,797,765
Net pension liability	261,892,552	25,078,170	286,970,722	292,589,142
Net OPEB liability	66,529,614	2,868,813	69,398,427	92,586,358
Due in more than one year	710,773,293	674,338,083	1,385,111,376	21,826,031
Total liabilities	<u>\$ 1,343,013,727</u>	<u>\$ 760,668,562</u>	<u>\$ 2,103,682,289</u>	<u>\$ 474,983,288</u>
Deferred inflows of resources				
Related to pensions	\$ 13,083,193	\$ 1,027,116	\$ 14,110,309	\$ 48,084,456
Related to OPEB	5,968,385	108,246	6,076,631	15,491,403
Gain on defeasance of bonds	199,358	16,946	216,304	-
Total deferred inflows of resources	<u>19,250,936</u>	<u>1,152,308</u>	<u>20,403,244</u>	<u>63,575,859</u>
Total liabilities and deferred inflows of resources	<u><u>\$ 1,362,264,663</u></u>	<u><u>\$ 761,820,870</u></u>	<u><u>\$ 2,124,085,533</u></u>	<u><u>\$ 538,559,147</u></u>
NET POSITION				
Net investment in capital assets	\$ 351,887,472	\$ 330,978,901	\$ 682,866,373	\$ 10,810,833
Restricted for:				
Endowed care - nonexpendable	5,673,814	-	5,673,814	-
General government	145,000	-	145,000	-
Judicial administration	162,602	-	162,602	-
Public safety	311,369	-	311,369	-
Health and public assistance	19,554	-	19,554	-
Culture and recreation	157,782	-	157,782	-
Community development	13,073	-	13,073	-
Public works	1,867	-	1,867	-
Capital projects	-	-	-	1,798,424
Water utility	-	25,842,093	25,842,093	-
Wastewater utility	-	214,085	214,085	-
Parking fund	-	9,960,694	9,960,694	-
Other Programs	-	-	-	13,125,592
Unrestricted	(108,367,973)	98,532,913	(9,835,060)	(406,538,283)
Total net position (deficit)	<u>\$ 250,004,560</u>	<u>\$ 465,528,686</u>	<u>\$ 715,533,246</u>	<u>\$ (380,803,434)</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 1,612,269,223</u></u>	<u><u>\$ 1,227,349,556</u></u>	<u><u>\$ 2,839,618,779</u></u>	<u><u>\$ 157,755,713</u></u>

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

CITY OF NORFOLK, VIRGINIA

Exhibit 2

**Statement of Activities
For the Year Ending June 30, 2018**

		Program Revenues			Net (Expense) Revenue and Changes in Net Position				
			Operating	Capital	Primary Government				
Functions/Programs	Expenses	Charges for	Grants and	Grants and	Governmental	Business-Type		Component	
		Services	Contributions	Contributions	Activities	Activities	Total	Units	
Primary government:									
Governmental activities:									
General government	\$ 152,832,372	\$ 4,727,734	\$ 2,841,885	\$ -	\$ (145,262,753)	\$ -	\$ (145,262,753)	\$ -	
Judicial administration	57,118,257	2,507,437	23,655,740	-	(30,955,080)	-	(30,955,080)	-	
Public safety	160,378,339	7,801,940	7,188,658	-	(145,387,741)	-	(145,387,741)	-	
Public works	69,193,737	41,184,830	44,944,949	11,954,157	28,890,199	-	28,890,199	-	
Health and public assistance	87,826,832	6,385,352	54,154,329	-	(27,287,151)	-	(27,287,151)	-	
Culture and recreation	46,798,591	9,305,002	184,430	-	(37,309,159)	-	(37,309,159)	-	
Community development	23,320,454	1,264,236	16,052,092	-	(6,004,126)	-	(6,004,126)	-	
Education	131,136,839	-	-	-	(131,136,839)	-	(131,136,839)	-	
Interest on long-term debt	24,965,263	-	2,496,509	-	(22,468,754)	-	(22,468,754)	-	
Total governmental activities	753,570,684	73,176,531	151,518,592	11,954,157	(516,921,404)	-	(516,921,404)	-	
Business-type activities:									
Water utility	61,275,639	86,941,868	-	2,537	-	25,668,766	25,668,766	-	
Wastewater utility	21,011,809	30,200,664	-	141,649	-	9,330,504	9,330,504	-	
Parking facilities	23,083,990	22,148,611	-	-	-	(935,379)	(935,379)	-	
Total business-type activities	105,371,438	139,291,143	-	144,186	-	34,063,891	34,063,891	-	
Total primary government	\$ 858,942,122	\$ 212,467,674	\$ 151,518,592	\$ 12,098,343	\$ (516,921,404)	\$ 34,063,891	\$ (482,857,513)	\$ -	
Component units:									
Norfolk Public Schools	\$ 343,637,951	\$ 3,233,964	\$ 210,572,122	\$ 2,703,000				\$ (127,128,865)	
Norfolk Economic Development Authority	5,689,636	555,710	-	-				(5,133,926)	
Total component units	\$ 349,327,587	\$ 3,789,674	\$ 210,572,122	\$ 2,703,000				(132,262,791)	
General revenues:									
Taxes:									
General property taxes - real estate and personal property					277,131,597	-	277,131,597	-	
Consumption utility taxes					41,291,684	-	41,291,684	-	
Sales and use taxes					32,798,796	-	32,798,796	-	
Restaurant food taxes					37,989,576	-	37,989,576	-	
Business license taxes					28,528,845	-	28,528,845	-	
Hotel/Motel taxes					10,756,491	-	10,756,491	-	
Cigarette taxes					7,491,839	-	7,491,839	-	
Admissions taxes					4,555,453	-	4,555,453	-	
Motor vehicle licenses					4,759,778	-	4,759,778	-	
Franchise, recordation and other miscellaneous local taxes					5,966,408	-	5,966,408	-	
Use of money and property					270,149	670,788	940,937	2,596,542	
Gain on Investment					-	(52,211)	(52,211)	5,304,771	
Grants and contributions not restricted to specific programs					28,158,027	142,057	28,300,084	-	
Miscellaneous					31,189,448	2,059,442	33,248,890	961,507	
Commonwealth of Virginia					-	-	-	30,899,041	
Payment from Primary Government					-	-	-	122,215,638	
Transfers					10,000,000	(10,000,000)	-	-	
Total general revenues and transfers					520,888,091	(7,179,924)	513,708,167	161,977,499	
Changes in net position					3,966,687	26,883,967	30,850,654	29,714,708	
Net position - beginning					253,411,865	437,473,540	690,885,405	(318,112,020)	
Restatement related to OPEB					(7,373,992)	1,171,179	(6,202,813)	(92,406,122)	
Net position - ending					\$ 250,004,560	\$ 465,528,686	\$ 715,533,246	\$ (380,803,434)	

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

CITY OF NORFOLK, VIRGINIA

Exhibit A-1

**Balance Sheet - Governmental Funds
June 30, 2018**

	Major Funds			Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	Capital Projects	Debt Service		
ASSETS					
Cash and short-term investments	\$ 103,811,095	\$ 15,486,124	\$ -	\$ 27,424,521	\$ 146,721,740
Receivables, net:					
Taxes	41,913,838	-	-	706,281	42,620,119
Accounts	5,001,931	-	-	8,460,151	13,462,082
Accrued investment income	102,534	-	-	958	103,492
Due from other funds	8,272,258	28,675,386	-	127,841	37,075,485
Due from other governments	24,134,435	1,589,394	-	15,899,696	41,623,525
Due from Other Agencies	1,515,251	-	-	-	1,515,251
Due from fiduciary funds	47,648	-	-	-	47,648
Deposits	12,676	176,648	-	-	189,324
Total assets	<u>\$ 184,811,666</u>	<u>\$ 45,927,552</u>	<u>\$ -</u>	<u>\$ 52,619,448</u>	<u>\$ 283,358,666</u>
LIABILITIES, DEFERRED INFLOWS					
Vouchers payable	\$ 20,466,729	\$ 4,292,384	\$ -	\$ 3,834,849	\$ 28,593,962
Employee withholdings	2,345,007	-	-	-	2,345,007
Contract retainage	331,215	8,252,477	-	194,431	8,778,123
Accrued payroll	4,786,082	-	-	327,544	5,113,626
Notes payable	-	156,573,635	-	-	156,573,635
Due to other funds	128,074	5,256,709	-	3,021,549	8,406,332
Due to other governments	36,253	-	-	-	36,253
Due to component unit	-	351,039	-	-	351,039
Unearned revenue	-	-	-	7,298,930	7,298,930
Other liabilities	3,261,156	-	-	5,899	3,267,055
Total liabilities	<u>31,354,516</u>	<u>174,726,244</u>	<u>-</u>	<u>14,683,202</u>	<u>220,763,962</u>
Deferred Inflow of Resources					
Revenues levied for the next year and unavailable revenue	28,884,786	-	-	3,595,500	32,480,286
FUND BALANCES					
Restricted	145,000	-	-	6,340,061	6,485,061
Committed	9,347,282	-	-	7,322,433	16,669,715
Assigned	44,117,755	-	-	21,501,129	65,618,884
Unassigned	70,962,327	(128,798,692)	-	(822,877)	(58,659,242)
Total fund balances (deficit)	<u>124,572,364</u>	<u>(128,798,692)</u>	<u>-</u>	<u>34,340,746</u>	<u>30,114,418</u>
Total liabilities and fund balances	<u>\$ 184,811,666</u>	<u>\$ 45,927,552</u>	<u>\$ -</u>	<u>\$ 52,619,448</u>	<u>\$ 283,358,666</u>

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

CITY OF NORFOLK, VIRGINIA
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2018

Exhibit A-2

Fund balances - total governmental funds	\$	30,114,418
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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	\$	2,808,470,722	
Accumulated depreciation		<u>(1,602,977,734)</u>	
			1,205,492,988

Recognition of deferred inflows as revenue in government wide statements		29,085,107
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Other long-term assets are not available to pay for
current-period expenditures and therefore are
deferred in the funds:

Deferred inflows related to pensions		(12,968,821)	
Deferred outflows related to pensions		77,611,956	
Deferred inflows related to OPEB		(5,938,107)	
Deferred outflows related to OPEB		3,536,441	
Loss on defeasance		23,638,737	
Gain on defeasance		(199,358)	

Long-term liabilities, including bonds payable, are not
due and payable in the current period and therefore
are not reported in the funds:

Bonds payable	(656,212,948)	
Unamortized bond premium	(63,967,119)	
Net pension liability	(258,900,595)	
Other post-employment benefits	(66,187,356)	
Compensated absences	(19,451,506)	
Workers' compensation and claims liability	(31,616,500)	
Prepaid debt service	1,829,131	
Other	(2,734,458)	
Accrued interest payable	<u>(10,121,071)</u>	
		(1,107,362,422)

Internal service funds		6,237,150
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Receivable for Build America Bonds - interest rate subsidy		756,471
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Net position of governmental activities	<u>\$</u>	<u>250,004,560</u>
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The accompanying notes are an integral part of the basic financial statements.

CITY OF NORFOLK, VIRGINIA

Exhibit A-3

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ending June 30, 2018

	Major Funds			Nonmajor	Total
	General	Capital	Debt	Governmental	Governmental
	Fund	Projects	Service	Funds	Funds
REVENUES					
General property taxes	\$ 272,292,962	\$ -	\$ -	\$ 5,266,000	\$ 277,558,962
Other local taxes	163,653,948	-	-	10,484,922	174,138,870
Permits and licenses	3,292,146	-	-	-	3,292,146
Fines and forfeitures	1,067,796	-	-	(184)	1,067,612
Use of money and property	7,218,466	133,197	-	151,952	7,503,615
Charges for services	21,187,427	-	-	41,195,865	62,383,292
Miscellaneous	9,192,510	5	-	2,118,670	11,311,185
Intergovernmental	136,027,038	11,954,157	-	45,308,407	193,289,602
Total revenues	<u>613,932,293</u>	<u>12,087,359</u>	<u>-</u>	<u>104,525,632</u>	<u>730,545,284</u>
EXPENDITURES					
Current operating:					
General government	127,385,076	-	-	3,817,697	131,202,773
Judicial administration	48,968,656	-	-	3,043,667	52,012,323
Public safety	114,236,758	-	-	9,667,792	123,904,550
Public works	24,655,168	-	-	42,226,968	66,882,136
Health and public assistance	70,032,115	-	-	16,669,430	86,701,545
Culture and recreation	43,727,974	-	-	2,240,494	45,968,468
Community development	10,956,137	-	-	11,281,329	22,237,466
Education	120,971,922	-	-	-	120,971,922
Debt service:					
Principal	-	-	52,583,233	-	52,583,233
Interest and other charges	-	-	27,316,523	-	27,316,523
Debt issuance costs	(465,814)	1,238,543	134,319	-	907,048
Capital outlay	3,618,000	62,500,544	-	1,819,901	67,938,445
Total expenditures	<u>564,085,992</u>	<u>63,739,087</u>	<u>80,034,075</u>	<u>90,767,278</u>	<u>798,626,432</u>
Excess (deficiency) of revenues over expenditures	<u>49,846,301</u>	<u>(51,651,728)</u>	<u>(80,034,075)</u>	<u>13,758,354</u>	<u>(68,081,148)</u>
OTHER FINANCING SOURCES (USES)					
Issuance of refunding bonds	-	-	27,743,705	-	27,743,705
Issuance of debt	-	95,305,270	-	-	95,305,270
Proceeds sale of capital assets	18,691,961	1,385,353	-	-	20,077,314
Payment to bond refunding escrow agent	-	-	(31,799,277)	-	(31,799,277)
Premium on bonds	-	15,921,216	4,189,889	-	20,111,105
Transfers in	16,888,089	3,902,456	79,899,758	7,859,918	108,550,221
Transfers out	<u>(76,973,896)</u>	<u>(2,790,717)</u>	<u>-</u>	<u>(18,785,608)</u>	<u>(98,550,221)</u>
Total other financing sources and uses	<u>(41,393,846)</u>	<u>113,723,578</u>	<u>80,034,075</u>	<u>(10,925,690)</u>	<u>141,438,117</u>
Net changes in fund balances	8,452,455	62,071,850	-	2,832,664	73,356,969
Fund balances - beginning	116,119,909	(190,870,542)	-	31,508,082	(43,242,551)
Fund balances - ending	<u>\$ 124,572,364</u>	<u>\$ (128,798,692)</u>	<u>\$ -</u>	<u>\$ 34,340,746</u>	<u>\$ 30,114,418</u>

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 Ending June 30, 2018

Net change in fund balances--total governmental funds		\$ 73,356,969
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	\$ 56,861,502
	Subtract disposals	(90,065)
	Subtract depreciation expense	<u>(47,715,336)</u>
		9,056,101
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the fund.		(3,597,993)
Bonds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		
	Less debt issued	(123,084,974)
	Add debt repayment	78,747,050
	Premium on bond sale	(19,901,110)
	Loss on defeasance of debt	2,656,126
	Gain on defeasance of debt	27,613
	Amortization of premiums, gains and losses	<u>8,999,988</u>
		(52,555,307)
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	(1,188,087)
	Retires life insurance	20,000
	Net OPEB Liability, Net of changes in deferred inflows and outflows	(21,546,094)
	Unpaid claims	301,733
	Prepaid debt service	868,810
	Landfill closure	(45,786)
	Net Pension Liability, Net of changes in deferred inflows and outflows	(5,129,316)
	Accrued interest payable	<u>(1,424,867)</u>
		(28,143,607)
Internal service funds are used by management to charge the costs of certain services to individual funds. The net revenue (expense) of the Internal Service funds is reported with governmental activity.		5,885,058
Adjustment for federal interest rate subsidy		(34,534)
Change in net position of governmental activities		<u><u>\$ 3,966,687</u></u>

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

CITY OF NORFOLK, VIRGINIA

Exhibit B-1

Statement of Fund Net Position - Proprietary Funds
June 30, 2018

	Business-Type Activities				Governmental Activities- Internal Service Funds
	Water Utility	Wastewater Utility	Parking Facilities	Total	
ASSETS					
Current assets:					
Cash and short-term investments	\$ 87,030,356	\$ 24,995,355	\$ 20,919,584	\$ 132,945,295	\$ 16,094,865
Restricted short-term investments	-	132	-	132	-
Receivables, net					
Accounts	9,026,961	2,810,492	1,886,595	13,724,048	3,999,723
Unbilled accounts	5,110,413	1,394,654	367,152	6,872,219	-
Accrued investment income	91,046	3,976	4,090	99,112	-
Internal balances	30,377	-	-	30,377	-
Inventories	2,841,275	20,751	-	2,862,026	179,803
Prepaid Expenses	62,443	-	-	62,443	-
Restricted cash and investments	25,842,093	14,065,999	13,912,235	53,820,327	-
Total current assets	<u>130,034,964</u>	<u>43,291,359</u>	<u>37,089,656</u>	<u>210,415,979</u>	<u>20,274,391</u>
Noncurrent assets:					
Capital assets:					
Non-depreciable capital assets	49,466,915	12,526,342	35,980,107	97,973,364	415,000
Depreciable capital assets	771,499,463	354,742,679	233,150,235	1,359,392,377	10,946,100
Accumulated depreciation	<u>(254,103,048)</u>	<u>(94,277,036)</u>	<u>(94,063,203)</u>	<u>(442,443,287)</u>	<u>(8,139,622)</u>
Capital assets, net	566,863,330	272,991,985	175,067,139	1,014,922,454	3,221,478
Total assets	<u>\$ 696,898,294</u>	<u>\$ 316,283,344</u>	<u>\$ 212,156,795</u>	<u>\$ 1,225,338,433</u>	<u>\$ 23,495,869</u>
Deferred outflows of resources					
Related to pensions	5,049,890	1,518,840	951,078	7,519,808	907,320
Related to OPEB	174,958	59,828	30,671	265,457	29,801
Loss on defeasance of bonds	12,973,660	3,182,861	6,768,867	22,925,388	-
Total deferred outflows	<u>\$ 18,198,508</u>	<u>\$ 4,761,529</u>	<u>\$ 7,750,616</u>	<u>\$ 30,710,653</u>	<u>\$ 937,121</u>
Total assets and deferred outflows of resources	<u>\$ 715,096,802</u>	<u>\$ 321,044,873</u>	<u>\$ 219,907,411</u>	<u>\$ 1,256,049,086</u>	<u>\$ 24,432,990</u>
LIABILITIES					
Current liabilities:					
Vouchers payable	\$ 4,333,248	\$ 2,337,706	\$ 358,172	\$ 7,029,126	\$ 1,175,779
Contract retainage	1,222,734	496,578	28,014	1,747,326	-
Accrued interest	2,676,763	1,400,825	2,046,556	6,124,144	-
Accrued payroll	331,218	107,519	56,623	495,360	46,038
Internal balances	13,266,296	226,145	15,207,089	28,699,530	-
Unearned Revenue	-	-	-	-	6,932,638
Current portion of bonds payable	14,200,000	11,729,554	3,927,755	29,857,309	-
Notes Payable	-	-	10,000,000	10,000,000	-
Compensated absences	693,578	217,942	141,565	1,053,085	154,327
Other current liabilities	1,587,947	256,751	232,448	2,077,146	6,295,000
Total current liabilities	<u>38,311,784</u>	<u>16,773,020</u>	<u>31,998,222</u>	<u>87,083,026</u>	<u>14,603,782</u>
Noncurrent liabilities:					
General obligation bonds payable	-	108,390,206	141,212,643	249,602,849	-
Revenue bonds payable	362,918,244	61,166,289	-	424,084,533	-
Net pension liability	16,800,083	5,012,377	3,265,710	25,078,170	2,991,946
Net OPEB liability	1,921,852	573,380	373,581	2,868,813	342,257
Compensated absences	398,966	157,358	94,377	650,701	113,205
Total noncurrent liabilities	<u>382,039,145</u>	<u>175,299,610</u>	<u>144,946,311</u>	<u>702,285,066</u>	<u>3,447,408</u>
Total liabilities	<u>\$ 420,350,929</u>	<u>\$ 192,072,630</u>	<u>\$ 176,944,533</u>	<u>\$ 789,368,092</u>	<u>\$ 18,051,190</u>
Deferred inflows of resources					
Related to Pensions	\$ 622,487	\$ 183,360	\$ 221,269	\$ 1,027,116	\$ 114,372
Related to OPEB	72,075	21,503	14,668	108,246	30,278
Gain on bonds refunding	-	15,514	1,432	16,946	-
Total deferred inflows of resources	<u>\$ 694,562</u>	<u>\$ 220,377</u>	<u>\$ 237,369</u>	<u>\$ 1,152,308</u>	<u>\$ 144,650</u>
Total liabilities and deferred inflows of resources	<u>\$ 421,045,491</u>	<u>\$ 192,293,007</u>	<u>\$ 177,181,902</u>	<u>\$ 790,520,400</u>	<u>\$ 18,195,840</u>
NET POSITION					
Net investment in capital assets	\$ 198,238,577	\$ 106,046,148	\$ 26,694,176	\$ 330,978,901	\$ 3,221,478
Restricted for:					
Other purposes:					
Water Utility fund operations	25,842,093	-	-	25,842,093	-
Wastewater Utility fund operations	-	214,085	-	214,085	-
Parking Facilities fund operations	-	-	9,960,694	9,960,694	-
Unrestricted	69,970,641	22,491,633	6,070,639	98,532,913	3,015,672
Total net position	<u>\$ 294,051,311</u>	<u>\$ 128,751,866</u>	<u>\$ 42,725,509</u>	<u>\$ 465,528,686</u>	<u>\$ 6,237,150</u>

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

CITY OF NORFOLK, VIRGINIA

Exhibit B-2

**Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds
For the Year Ending June 30, 2018**

	Business-Type Activities				Governmental Activities - Internal Service Funds
	Water Utility	Wastewater Utility	Parking Facilities	Total	
Operating revenues:					
Charges for services	\$ 86,941,868	\$ 30,200,664	\$ 22,148,611	\$ 139,291,143	\$ 90,428,356
Miscellaneous	1,946,239	114,414	-	2,060,653	16,197
Total operating revenues	<u>88,888,107</u>	<u>30,315,078</u>	<u>22,148,611</u>	<u>141,351,796</u>	<u>90,444,553</u>
Operating expenses:					
Personal services	15,568,266	4,727,120	7,932,890	28,228,276	2,825,866
Healthcare costs	-	-	-	-	73,324,995
Cost of goods sold	-	-	-	-	3,671,782
Plant operations	6,124,685	3,176,671	1,768,612	11,069,968	3,808,754
Chemicals	2,701,962	33,199	9,602	2,744,763	-
Depreciation and amortization	14,223,536	6,690,810	6,908,930	27,823,276	242,963
Retirement and OPEB expense	2,725,371	819,779	527,279	4,072,429	478,669
Administrative expenses	1,763,464	1,388,960	441,387	3,593,811	-
Other	8,945,749	1,202,933	611,054	10,759,736	206,466
Total operating expenses	<u>52,053,033</u>	<u>18,039,472</u>	<u>18,199,754</u>	<u>88,292,259</u>	<u>84,559,495</u>
Operating income (loss), net	<u>36,835,074</u>	<u>12,275,606</u>	<u>3,948,857</u>	<u>53,059,537</u>	<u>5,885,058</u>
Nonoperating revenues (expenses):					
Interest income	531,889	21,428	117,471	670,788	-
Intergovernmental revenue	-	142,057	-	142,057	-
Interest expense and fiscal charges, net of capitalized interest	(9,229,310)	(3,030,498)	(4,884,236)	(17,144,044)	-
Gain (loss) on sale or disposal of capital assets	6,704	58,161	-	64,865	-
Gain (loss) on investments	-	(52,211)	-	(52,211)	-
Miscellaneous revenue (expense)	(1,211)	-	-	(1,211)	-
Total nonoperating revenues (expenses)	<u>(8,691,928)</u>	<u>(2,861,063)</u>	<u>(4,766,765)</u>	<u>(16,319,756)</u>	<u>-</u>
Net income (loss) before contributions and transfers	28,143,146	9,414,543	(817,908)	36,739,781	5,885,058
Capital contribution	2,537	141,649	-	144,186	-
Transfers out	<u>(8,500,000)</u>	<u>(1,500,000)</u>	<u>-</u>	<u>(10,000,000)</u>	<u>-</u>
Changes in net position	19,645,683	8,056,192	(817,908)	26,883,967	5,885,058
Total net position - beginning	<u>273,887,960</u>	<u>120,404,329</u>	<u>43,181,251</u>	<u>437,473,540</u>	<u>673,322</u>
Restatement related to OPEB	517,668	291,345	362,166	1,171,179	(321,230)
Total net position - ending	<u>\$ 294,051,311</u>	<u>\$ 128,751,866</u>	<u>\$ 42,725,509</u>	<u>\$ 465,528,686</u>	<u>\$ 6,237,150</u>

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

CITY OF NORFOLK, VIRGINIA

Exhibit B-3

Statement of Cash Flows - Proprietary Funds
For the Year Ending June 30, 2018

	Business-Type Activities				Governmental Activities - Internal Service Funds
	Water Utility	Wastewater Utility	Parking Facilities	Total	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers	\$ 87,568,516	\$ 30,249,771	\$ 21,941,403	\$ 139,759,690	\$ 88,056,826
Payments to suppliers	(9,502,420)	(3,409,994)	(1,333,768)	(14,246,182)	(3,209,814)
Payments to employees	(17,596,112)	(5,298,472)	(8,154,658)	(31,049,242)	(80,728,565)
Other payments	(9,514,610)	(2,409,392)	(1,106,768)	(13,030,770)	(208,064)
Net cash and short-term investments provided by (used in) operating activities	50,955,374	19,131,913	11,346,209	81,433,496	3,910,383
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Internal activity	248,357	(63,637)	307,657	492,377	(32)
Intergovernmental revenues	-	142,057	362,166	504,223	-
Operating subsidies and transfers to other funds	(8,500,000)	(1,500,000)	-	(10,000,000)	-
Net cash provided by (used in) noncapital financing activities	(8,251,643)	(1,421,580)	669,823	(9,003,400)	(32)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Proceeds from issuance of debt	161,245,000	17,103,018	32,732,904	211,080,922	-
Capital contributions	2,537	141,649	-	144,186	-
Purchases of capital assets	(22,830,725)	(13,123,462)	(1,622,843)	(37,577,030)	-
Proceeds from sale of capital assets	6,704	58,161	-	64,865	-
Proceeds from refunding debt	(143,535,000)	(2,255,000)	(30,855,000)	(176,645,000)	-
Principal paid on capital debt	(13,860,000)	(11,343,996)	(4,278,099)	(29,482,095)	-
Interest paid on capital debt	(1,946,988)	(2,289,569)	(3,476,038)	(7,712,595)	-
Net cash provided by (used in) capital and related financing activities	(20,918,472)	(11,709,199)	(7,499,076)	(40,126,747)	-
CASH FLOWS FROM INVESTING ACTIVITIES:					
Proceeds from sales and maturities of investments	30,530,445	22,111,993	(1,762,677)	50,879,761	-
Purchase of investments	(29,458,967)	(25,368,276)	-	(54,827,243)	-
Interest and dividends	446,536	17,919	114,128	578,583	-
Net cash provided by (used in) investing activities	1,518,014	(3,238,364)	(1,648,549)	(3,368,899)	-
Net increase (decrease) in cash and short-term investments	23,303,273	2,762,770	2,868,407	28,934,450	3,910,351
Cash and short-term investments - beginning of the year	63,727,083	22,232,585	18,051,177	104,010,845	12,184,514
Cash and short-term investments - end of the year	\$ 87,030,356	\$ 24,995,355	\$ 20,919,584	\$ 132,945,295	\$ 16,094,865
Reconciliation of Operating Income (Loss) to Net Cash Provided by (used in) Operating Activities:					
Operating income (loss)	\$ 36,835,074	\$ 12,275,606	\$ 3,948,857	\$ 53,059,537	\$ 5,885,058
Adjustments to reconcile operating income (loss) to net cash and short-term investments provided by (used in) operating activities:					
Depreciation expense and amortization	14,223,536	6,690,810	6,908,930	27,823,276	242,963
Change in assets, deferred outflows and liabilities, deferred inflows:					
Receivables, net	(1,319,591)	(65,307)	(207,208)	(1,592,106)	(2,534,358)
Inventories	245,177	(1,040)	680,143	924,280	(179,803)
Prepays	-	-	-	-	-
Vouchers payable	(904,997)	(199,084)	(22,201)	(1,126,282)	256,675
Accrued payroll	69,867	34,152	(10,541)	93,478	2,234
Net pension liability	1,004,136	170,061	118,558	1,292,755	92,487
OPEB liability	(376,478)	44,214	-	(332,264)	-
Other liabilities	1,178,650	182,501	(70,329)	1,290,822	145,127
Net cash and short-term investments provided by (used in) operating activities	\$ 50,955,374	\$ 19,131,913	\$ 11,346,209	\$ 81,433,496	\$ 3,910,383
Noncash investing, capital and financing activities:					
Unrealized gain / (loss) on investments	\$ (1,211)	\$ (52,211)	\$ -	\$ (53,422)	\$ -
Loss on sale or disposal of capital assets	\$ 6,704	\$ 58,161	\$ -	\$ 64,865	\$ -
Acquisition of capital assets through change in contract retainage	\$ (452,514)	\$ 242,007	\$ (270,351)	\$ (480,858)	\$ -
Acquisition of capital assets through vouchers payable	\$ (2,588,076)	\$ 10,013	\$ -	\$ (2,578,063)	\$ -
Capitalized interest, less interest earned on certain long-term construction contracts	\$ 932,160	\$ (85,823)	\$ -	\$ 846,337	\$ -
Deferred inflow of resources	\$ 380,166	\$ (111,830)	\$ 731,412	\$ 999,748	\$ 408,071

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

CITY OF NORFOLK, VIRGINIA
Statement of Fiduciary Net Position
June 30, 2018

Exhibit C-1

	Pension Trust Fund Employees' Retirement System	Agency Funds
ASSETS		
Cash and short-term investments	\$ 24,102,000	\$ 7,095,938
Investments, fair value:		
United States Treasury securities	63,560,000	-
Fixed income securities	113,245,000	-
Equity securities	78,009,000	-
Future/Options/Swaps	3,562,000	-
Balanced commingled funds:		
Equity	597,182,000	-
Fixed income	177,645,000	-
Real estate	80,566,000	-
Total investments	<u>1,113,769,000</u>	<u>-</u>
Receivables:		
Accounts, net of allowance for uncollectible accounts	14,000	-
Accrued investment income	945,000	-
Due from broker for securities sold	47,444,000	-
Other	-	173,544
Total assets	<u>\$ 1,186,274,000</u>	<u>\$ 7,269,482</u>
LIABILITIES		
Vouchers payable	\$ 2,255,000	\$ 341,838
Due to brokers for securities purchased	108,634,000	-
Due to governmental funds	-	47,679
Other liabilities	55,000	6,879,965
Total liabilities	<u>\$ 110,944,000</u>	<u>\$ 7,269,482</u>
NET POSITION		
Restricted for:		
Net position held in trust for pension benefits	<u>\$ 1,075,330,000</u>	<u>\$ -</u>

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

CITY OF NORFOLK, VIRGINIA
Statement of Changes in Fiduciary Net Position
Pension Trust Fund - Employees' Retirement System
For the Year Ending June 30, 2018

Exhibit C-2

Changes to net position attributed to:

Investment income:

Net appreciation in fair value of investments	\$ 63,750,000
Interest	4,103,000
Dividends	6,286,000
Other	976,000
	<u>75,115,000</u>

Less investment expense	<u>(2,452,000)</u>
Net investment income	72,663,000

Employer contributions	35,494,000
Employee contributions	9,668,000
Purchase of service	190,000
Total	<u>118,015,000</u>

Benefit payments and expenses:

Refunds of contributions	1,229,000.00
Benefits paid to plan members and beneficiaries	84,704,000
Administrative costs	764,000
Total	<u>86,697,000</u>

Net decrease	31,318,000
---------------------	-------------------

Net position held in trust for pension benefits:

Net position - beginning	<u>1,044,012,000</u>
Net Position - end	<u><u>\$ 1,075,330,000</u></u>

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

CITY OF NORFOLK, VIRGINIA
Statement of Net Position - Component Units
June 30, 2018

Exhibit D-1

	Norfolk Public Schools	Norfolk Economic Development Authority	Total
ASSETS			
Cash and cash equivalents	\$ 41,424,080	\$ 11,399,461	\$ 52,823,541
Accounts receivable, net of allowance for uncollectible accounts	8,778,722	16,547	8,795,269
Notes receivable	-	354,434	354,434
Due from primary government	351,039	-	351,039
Due from other governments	18,883,940	-	18,883,940
Inventories	1,439,659	-	1,439,659
Property held for sale	-	947,952	947,952
Restricted cash	-	3,876,750	3,876,750
Investments	-	2,108,808	2,108,808
Deferred rent receivable	-	1,304,606	1,304,606
Non-depreciable capital assets	487,500	1,474,641	1,962,141
Depreciable capital assets, net	10,244,068	15,024,624	25,268,692
Total assets	81,609,008	36,507,823	118,116,831
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows Related to pensions	33,601,835	-	33,601,835
Deferred Outflows Related to OPEB	6,037,047	-	6,037,047
Total assets and deferred outflows	\$ 121,247,890	\$ 36,507,823	\$ 157,755,713
LIABILITIES			
Vouchers payable	\$ 4,447,143	\$ 268,184	\$ 4,715,327
Contract retainage	5,308	-	5,308
Accrued payroll	38,837,796	-	38,837,796
Unearned revenues	277,573	565,079	842,652
Due to primary government	-	1,834,617	1,834,617
Revolving loan program	-	602,724	602,724
Due to other government agencies	3,269,221	-	3,269,221
Other payable	1,876,347	8,200,000	10,076,347
Current portion of long-term liabilities	7,697,765	100,000	7,797,765
Long-term notes payable	-	16,320,000	16,320,000
Net pension liability	292,589,142	-	292,589,142
Other post-employment benefits liability	92,586,358	-	92,586,358
Other long-term liabilities	5,506,031	-	5,506,031
Total liabilities	\$ 447,092,684	\$ 27,890,604	\$ 474,983,288
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	48,084,456	-	48,084,456
Deferred inflows related to OPEB	15,491,403	-	15,491,403
Total liabilities and deferred inflows	\$ 510,668,543	\$ 27,890,604	\$ 538,559,147
NET POSITION			
Net investment in capital assets	\$ 10,731,568	\$ 79,265	\$ 10,810,833
Restricted for:			
Capital projects	1,798,424	-	1,798,424
Child nutrition	9,617,259	-	9,617,259
Other programs	492,941	3,015,392	3,508,333
Unrestricted	(412,060,845)	5,522,562	(406,538,283)
Total net position (deficit)	\$ (389,420,653)	\$ 8,617,219	\$ (380,803,434)

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 Ending June 30, 2018**

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grant Contributions	Capital Grant Contributions	Norfolk Public Schools	Norfolk Economic Development Authority	Totals
Norfolk Public Schools:							
Instructional	\$ 248,834,723	\$ 2,039,832	\$ 193,740,898	\$ -	\$ (53,053,993)	\$ -	\$ (53,053,993)
Administration, attendance and health	16,603,028	-	-	-	(16,603,028)	-	(16,603,028)
Pupil transportation	11,384,155	-	-	-	(11,384,155)	-	(11,384,155)
Operation and maintenance	33,344,782	-	-	-	(33,344,782)	-	(33,344,782)
Information technology	11,076,104	-	-	-	(11,076,104)	-	(11,076,104)
School facilities	5,302,714	-	-	2,703,000	(2,599,714)	-	(2,599,714)
Food services	17,089,454	1,194,132	16,831,224	-	935,902	-	935,902
Community services	2,991	-	-	-	(2,991)	-	(2,991)
Total Norfolk Public Schools	343,637,951	3,233,964	210,572,122	2,703,000	(127,128,865)	-	(127,128,865)
Norfolk Economic Development Authority:							
Economic development	5,222,448	555,710	-	-	-	(4,666,738)	(4,666,738)
Interest expense	467,188	-	-	-	-	(467,188)	(467,188)
Total Norfolk Economic Development Authority	5,689,636	555,710	-	-	-	(5,133,926)	(5,133,926)
Total component units	\$ 349,327,587	\$ 3,789,674	\$ 210,572,122	\$ 2,703,000	\$ (127,128,865)	\$ (5,133,926)	\$ (132,262,791)
General revenues:							
Use of money and property					692,304	1,904,238	2,596,542
Payment from Primary Government					120,971,933	1,243,705	122,215,638
Miscellaneous					961,507	-	961,507
Gain on Investment					-	5,304,771	5,304,771
Intergovernmental revenue - Commonwealth of Virginia					30,899,041	-	30,899,041
Total general revenues					153,524,785	8,452,714	161,977,499
Changes in net position					26,395,920	3,318,788	29,714,708
Net position - beginning, restated					(415,816,573)	5,298,431	(410,518,142)
Net position - ending					<u>\$ (389,420,653)</u>	<u>\$ 8,617,219</u>	<u>\$ (380,803,434)</u>

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, 2018

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CITY OF NORFOLK, VIRGINIA
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I. Summary of Significant Accounting Policies

A. Financial Reporting Entity Information

The City of Norfolk (the "City") was incorporated February 13, 1845, and operates under a charter adopted February 7, 1918, which mandates a Council-Manager form of government. The City and its component units provide the following municipal services to approximately 247,000 residents, as authorized by its charter or code: public safety, highway and street maintenance, water production and quality, solid waste management, wastewater treatment, cultural and parking facilities, environmental storm water management, public health, social programs, parks and recreation, public education, public improvements, planning and zoning code enforcement, public libraries and general administration.

Blended Component Unit: *The Employees' Retirement System of the City of Norfolk (ERS)* has a 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 primary 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), Norfolk Public Schools held elections for two of the seven seats on its School Board for the first time in May of 2016 with the remaining five seats being filled as a result of elections held in May of 2018. (In November 2014, voters elected to have School Board members elected and replace the City Council-appointed seven-member School Board.) In January 2015, City Council approved that the School Board members would be elected based on the same ward system used to elect City Council members. Beginning July 1, 2018, the School Board will be an elected body. The School Board is a corporate body and in its corporate capacity is vested with all of the duties, obligations and responsibilities imposed upon school boards by law. The City Council is required to appropriate annually to the School Board the amount needed for the support of the public schools in maintaining educational programs which meet the standards of quality prescribed by law. Categorical aid from the Commonwealth of Virginia (the Commonwealth) and the federal government designated for educational purposes is included in the City's General Fund budgetary revenue. This categorical aid, plus moneys derived from local sources, provides the funds for the major share of the School Board's operations. On an ongoing basis, the City also issues debt to finance needed capital

CITY OF NORFOLK, VIRGINIA
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projects of the school system. The School Board presently operates 33 elementary schools, eight middle schools, five high schools and several auxiliary schools, including alternative, magnet and specialty programs.

The Economic Development Authority (EDA), a political subdivision of the Commonwealth, was created by ordinance of the City of Norfolk in 1972, pursuant to the provisions of the Industrial Development and Revenue Bond Act. The EDA 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 and issue industrial development bonds. 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, maintains its own books of account and receives revenue from administrative fees charged to borrowers. Additionally, there is the potential of financial benefit to the City.

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/retirement

The School Board for the City of Norfolk
800 East City Hall Avenue
P.O. Box 1357
Norfolk, Virginia 23510
www.nps.k12.va.us

The Norfolk Economic Development Authority
999 Waterside Drive, Suite 2430
Norfolk, Virginia 23510
www.norfolkdevelopment.com

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 non-fiduciary 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.

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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 in 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.
- 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 and other agencies.

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 or operated 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 include community development, emergency call center services, tax increment financing districts, environmental storm water, towing and recovery operations, waste management, and individual grant programs.

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

- *Internal Service funds* account for the City's self-insured healthcare program 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 described in Note XX.
- The *Pension Trust fund* accounts for the activities of the Employees' Retirement System (ERS), which accumulates resources for pension benefit payments to qualified employees.
- The *Endowed Care fund* is used to report resources that are restricted by the City Code to be used for perpetual and endowed care at certain City-owned cemeteries. Both the investment earnings and the principal may be used to support maintenance of City-owned cemeteries.
- The *Agency funds* are used to account for the assets held by the City 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

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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 fund revenue susceptible to accrual include the following:

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

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.

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, as well as 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

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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/911 special revenue fund, Golf special revenue fund, Towing & Recovery Operations special revenue fund, Tax Increment Financing special revenue fund, Waste Management special revenue fund, and internal service funds. The General Fund budget includes the budgets for Norfolk Public Schools, Maritime Center and the Community Services Board. Project length budgets are appropriated for the Capital Projects fund, Community Development special revenue 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 Revenue 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. GAAP.

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

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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 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 S & P Global Ratings or P-1 by Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements, Virginia State Non-Arbitrage Program (SNAP) and the State Treasurer's Local Government Investment Pool (LGIP). SNAP and LGIP investments are valued at amortized costs and qualify as external investment pools per GASB 79, *Certain External Investment Pools and Pool Participants*. The LGIP and SNAP are 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. Pursuant to the Code of Virginia, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their monthly meetings.

The City has no formal policy regarding credit risk, interest rate risk, concentration of credit risk, custodial credit risk, or foreign investment risk. The City's fixed income investments as of June 30, 2018 were rated by Standard and Poor's and the ratings are presented below using the Standard and Poor's rating scale. The Pension Trust fund is authorized to invest in common stocks and other investments as directed by statutes of the Commonwealth.

Investments, with the exception of external investment pools and real estate which are reported at amortized cost or net asset value, are reported at fair value as established by generally accepted accounting principles. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See additional disclosure within footnote II.

The City uses the pooled cash investment method, and 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

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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 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 Fleet Management fund, and the Healthcare fund primarily support governmental activities and are therefore included 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 expense reimbursements 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. 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

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

recorded at estimated historical cost. Gifts or donated capital assets are recorded at their acquisition 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 City, 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	4-20	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

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

J. Land and Land Improvement Held for Resale

Land and land improvements held for resale are recorded at the lower of cost or estimated acquisition value. Cost is determined by acquisition price, if purchased, or at estimated acquisition value at the date of contribution, if contributed. Subsequent land improvements are added to land and land improvements held for sale.

K. 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 government-wide financial statements.

Upon retirement, School Board employees are paid \$20 for each day of accumulated sick leave. 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.

L. 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 has 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.

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

Under GASB Statement No. 54, positive unassigned fund balances are only reported in the General fund. However, in governmental funds other than the General fund, expenditures incurred for a specific purpose might exceed the amount restricted, committed, or assigned to that purpose, and a negative residual amount may result which is classified as a negative unassigned fund balance in the applicable governmental fund. Negative unassigned fund balances within the Capital Projects fund and Grants fund are a result of timing and will correct themselves when permanent financing is put in place for all capital project expenditures incurred to date and when revenue generation occurs once encumbrances become expenditures, respectively.

M. Estimates

The preparation of financial statements in conformity with U.S. GAAP 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.

N. 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 with the applicable bond premium or discount. Bond issuance costs are expensed in the period incurred. Refer to Note IX for details on the amounts reported in Long-term Obligations.

Gains and losses on defeasance from refunding bonds are reported in the government-wide and proprietary fund financial statements as deferred inflows and outflows of resources 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.

O. Deferred Inflows and Outflows of Resources

The City reports deferred inflows and outflows on its fund level balance sheets and government-wide statement of net position. Deferred inflows arise when potential revenue does not meet the “measurable” 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.

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The City reports the gains and losses on defeasance from debt refundings and certain components of the net pension liability as deferred inflows and outflows.

P. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position and the additions and deductions there to, of each of the plans that the City and its component units participate in, which include the Virginia Retirement System (VRS) City of Norfolk Constitutional Offices, VRS Teacher Retirement Plan, the VRS Political Subdivision Retirement Plan and the City of Norfolk Employees' Retirement Plan (ERS) have been determined on the same basis as they were reported by each respective plan. With the exception of deferred outflows related to employer contributions made after the measurement date, deferred inflows and outflows are amortized over a closed five-year period or the average remaining service life of the effected employees. Deferred outflows of resources related to employer contributions made after the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The allocation of proportionate shares of the ERS net pension liability and other pension amounts to participating funds is based on employer contributions.

Q. Other Post-employment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense of each of the plans that the City and its component units participate in have been determined on the same basis as they were reported by each respective plan. Deferred outflows of resources related to employer contributions made after the measurement date will be recognized as a reduction of the net OPEB liability in the next fiscal year. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. The allocation of proportionate shares of the net OPEB liability and other OPEB amounts to participating funds is based on employer contributions.

II. Deposits and Investments

Custodial Credit Risk - Deposits

The City maintains a cash and investments pool for all funds except the Pension Trust and Endowed Care 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 Endowed Care 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

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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 percent to 130 percent 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 (System) 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. The City uses the segmented time distribution method to evaluate interest rate risks as disclosed below as of June 30, 2018.

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Primary Government and Fiduciary Funds

Investment Type	Total Investments	Investment Maturities				
		Less than 1 year	1-3 years	3-6 years	6-10 years	10 years +
Corporate Bonds	\$ 41,691,599	\$ -	\$ 8,174,599	\$ 15,810,000	\$ 14,009,000	\$ 3,698,000
Futures/Options/Swaps	3,562,000	105,000	328,000	1,151,000	1,812,000	166,000
Asset Backed Securities	3,360,000	-	-	515,000	888,000	1,957,000
U.S. Government Securities	86,418,741	5,437,754	35,408,987	2,500,000	19,461,000	23,611,000
Mortgage Backed Securities	70,257,000	16,000	-	2,206,000	892,000	67,143,000
Equity Funds	597,182,000	-	-	-	-	597,182,000
Common Stock	8,955,000	-	-	-	-	8,955,000
Master Limited Partnerships	67,466,000	-	-	-	-	67,466,000
Municipal Bonds	3,397,893	-	-	-	-	2,934,000
Commercial Paper	4,765,798	4,765,798	463,893	-	-	-
Certificates of Deposit	4,778,946	3,199,871	1,579,075	-	-	-
Foreign Government Securities	3,301,531	-	3,301,531	-	-	-
Fixed Income Funds	177,645,000	-	-	-	-	177,645,000
Domestic Equity Funds	1,588,000	-	-	-	-	1,588,000
Real Estate Funds	80,566,000	-	-	-	-	80,566,000
External investment pools	67,423,807	67,423,807	-	-	-	-
Total	\$ 1,222,359,315	\$ 80,948,230	\$ 49,256,085	\$ 22,182,000	\$ 37,062,000	\$ 1,032,911,000

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 unrestricted short-term investments	\$ 295,761,900
Restricted cash and investments	53,820,459
Total	<u>\$ 349,582,359</u>
Per Exhibit C-1 (Fiduciary):	
Cash and short-term investments	\$ 31,197,938
Investments	1,113,769,000
Total	<u>\$ 1,144,966,938</u>
Total Primary Government and Fiduciary funds	<u>\$ 1,494,549,297</u>
Less cash	272,189,982
Deposits and investments reported above	<u>\$ 1,222,359,315</u>

Credit Risk Related to Issuer

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's Pension Trust fund's formal policy governing credit risk is that securities rated below investment grade by two of the three primary rating agencies, Moody's Investors Service, Inc. ("Moody's"), Fitch Ratings ("Fitch"), and Standard and Poor's Global Ratings ("S&P"), are not permitted without the written permission of the board. PIMCO, one of the ERS fund 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 ERS's financial statements. Investments in derivatives with a fair value of \$3,562,000 were held at June 30, 2018. For accounting purposes, all derivative instruments are considered to be investments

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and not hedges. ERS 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, 2018, 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.

Ratings (S&P)	The Primary Government's Rated Debt Investment													External Investment Pools
	Corporate Debt	Futures/Options/ Swaps	Asset Backed Securities	Foreign Government Securities	Equity Funds	U.S. Government Securities	Mortgage Backed Securities	Commercial Paper	Certificates of Deposit	Common Stock	Master Limited Partnerships	Municipal Bonds	Fixed Income/ Equity Real Estate Funds	
AAA	\$ 792,786	\$ -	\$ 1,268,000	-	-	\$ -	\$ 1,912,000	-	-	-	-	-	-	-
AAAm	-	-	-	-	-	-	-	-	-	-	-	-	-	66,489,389
AA+	2,044,433	-	1,529,000	3,301,531	-	80,098,741	67,857,000	-	-	-	-	87,000	-	934,418
AA	758,101	-	-	-	-	478,000	-	-	-	-	-	390,000	-	-
AA-	1,475,699	-	-	-	-	964,000	-	-	1,579,075	-	-	1,037,893	-	-
AAm-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A+	395,580	-	-	-	-	4,778,000	-	-	-	-	-	764,000	-	-
A	3,498,000	-	515,000	-	-	-	8,000	-	-	-	-	377,000	-	-
A-	5,130,000	-	-	-	-	-	-	4,765,798	3,199,871	-	-	513,000	-	-
BBB+	7,996,000	-	-	-	-	-	-	-	-	-	-	111,000	-	-
BBB	9,783,000	-	11,000	-	-	-	13,000	-	-	-	-	-	-	-
BBB-	8,683,000	-	-	-	-	-	-	-	-	-	-	-	-	-
BB+	646,000	-	-	-	-	-	-	-	-	-	-	-	-	-
BB	-	-	-	-	-	-	-	-	-	-	-	-	-	-
BB-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B+ and Below	200,000	-	37,000	-	-	-	462,000	-	-	-	-	-	-	-
Not Rated	289,000	3,562,000	-	-	597,182,000	100,000	5,000	-	-	8,955,000	67,466,000	118,000	259,799,000	-
Total	\$ 41,691,599	\$ 3,562,000	\$ 3,360,000	\$ 3,301,531	\$ 597,182,000	\$ 86,418,741	\$ 70,257,000	\$ 4,765,798	\$ 4,778,946	\$ 8,955,000	\$ 67,466,000	\$ 3,397,893	\$ 259,799,000	\$ 67,423,807

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 percent 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 percent in these ratings and the purchase of bonds rated below Baa3 or BBB-.

The following table represents the fair value of investments that represent 5% or more of the System's net position at June 30, 2018:

SSGA MSCI ACWI IMI Index Fund	\$ 597,182,000
SSGA Bond Market Index Fund	\$ 148,705,000

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Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The City's Pension Trust does not have a formal policy; however, it manages its' exposure to fair value loss by requiring international securities investment managers to maintain diversified portfolios by issuer to limit foreign currency and security risks. The exposure to foreign currency risk in both cash and investments is presented below:

Currency	Fixed-Income
New Zealand Dollar	\$ 20,000
Canadian Dollar	22,000
Euro Currency	67,000
Japanese Yen	31,000
Pound Sterling	477,000
	<u>\$ 617,000</u>

Neither the City, nor its component units, have a formal policy to limit foreign currency risk. Risk of loss arises from changes in currency exchange rates.

Fair Value Measurement

In accordance with the authoritative guidance on fair value measurements and disclosures under U.S. GAAP, the funds disclose the fair values of their investments in a hierarchy that prioritized the inputs to valuation techniques used to measure fair value. GAAP requires that investments be measured and reported at fair market value and the disclosure of inputs used in the valuation process. The hierarchy gives the highest priority to valuations based upon unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to valuations based upon unobservable inputs that are significant to the valuation (level 3 measurements). The guidance established three levels of the fair value hierarchy as follows:

Level 1 – Quoted prices in active markets for identical assets. Equity securities are priced using an exchange traded price or a broker quote in an active market.

Level 2 – Inputs other than quoted prices that are observable for the asset, including quoted prices for similar investments based on interest rates, credit risk and alike factors. The United States treasury and fixed income securities are priced using pricing models based on a compilation of primarily observable market information or a broker quote in a non-active market for an identical or similar security. The certificate of deposit is valued based on discounted cash flows using current interest rates at the stated maturity. The short-term investment trades daily without restriction at \$100 per unit.

Level 3 – Unobservable inputs for the assets, including the fund's own assumptions for determining fair value.

Portfolio investments are assigned a level based upon the observability of the inputs which are significant to the overall valuation. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

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The table below provides the inputs used to determine the fair value at June 30, 2018.

	June 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)
Investments measured at fair value			
Cash Equivalents			
Short Terms	\$ 22,100,000	\$ -	\$ 22,100,000
Short Term Fund	4,854,000	-	4,854,000
	<u>\$ 26,954,000</u>	<u>\$ -</u>	<u>\$ 26,954,000</u>
Fixed Income Securities			
U.S. Treasury Securities	\$ 86,418,741	\$ -	\$ 86,418,741
Corporate Bonds	41,691,599	-	41,691,599
Futures/Options/Swaps	3,562,000	-	3,562,000
Commercial Paper	4,765,798	-	4,765,798
Certificates of Deposit	4,778,946	-	4,778,946
Municipals	3,397,893	-	3,397,893
Asset Backed Securities	3,360,000	-	3,360,000
Mortgage Backed Securities	70,257,000	-	70,257,000
Foreign Government Securities	3,301,531	-	3,301,531
Total Fixed Income Securities	<u>\$ 221,533,508</u>	<u>\$ -</u>	<u>\$ 221,533,508</u>
Equity Securities			
Common Stock	\$ 8,955,000	\$ 8,955,000	\$ -
Master Limited Partnerships	67,466,000	67,466,000	-
Domestic Equity Funds	1,588,000	1,588,000	-
Total Equity Securities	<u>\$ 78,009,000</u>	<u>\$ 78,009,000</u>	<u>\$ -</u>
Commingled Securities			
Fixed Income Fund	\$ 28,940,000	\$ -	\$ 28,940,000
Total Commingled Securities	<u>\$ 28,940,000</u>	<u>\$ -</u>	<u>\$ 28,940,000</u>
Total investments by fair value level	<u>\$ 355,436,508</u>	<u>\$ 78,009,000</u>	<u>\$ 277,427,508</u>
Investments Measured at the net asset value (NAV)			
Commingled Funds			
Equity Funds	\$ 597,182,000		
Fixed Income Funds	148,705,000		
Real Estate Funds	80,566,000		
Total investments measured at NAV	<u>826,453,000</u>		
Investments Measured at amortized costs			
External Investment Pools	67,423,807		
Less Cash Equivalents	<u>(26,954,000)</u>		
Total investments	<u>\$ 1,222,359,315</u>		

External investment pools include the PFM, LGIP and SNAP. These investments are reported at amortized cost in accordance with Rule 2a-7, and qualify as external investment pools per GASB79, *Certain External Investment Pools and Pool Participants*. The City held \$38,703,037 in LGIP funds and \$28,720,770 in PFM funds (\$15,521,806 invested in the SNAP program) at June 30, 2018.

The remaining commingled funds are reported at net asset value (NAV) as a practical expedient, based on the fair market values of the underlying securities in the respective fund.

1. **Equity Funds.** This type includes an investment in an equity fund with an investment object to track the performance of the MSCI ACWI IMI index over the long-term. These investments can be redeemed semi-monthly with semi-monthly notice.
2. **Fixed Income Funds.** This type includes 2 investments in fixed income funds. An investment in a liquid short-term fund which invest approximately 65% of its total

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assets in a diversified portfolio of fixed income instruments. This investment can be redeemed within 3-7 business days with 1 day notice. An investment in a fund with an investment objective to track the performance of the Barclay's U.S. Aggregate Bond Index over the long-term. This investment can be redeemed within 1-15 days, depending on trade size, with 1 day notice.

3. Real estate funds. This type includes 2 investments in real estate funds that invest in U.S. real estate. These funds compare themselves to the NCREIF Fund index – Open-End diversifies Core Equity (NFI-ODCE) benchmark. These investments can be redeemed quarterly with a 45-60 day notice.

School Board

At June 30, 2018, the School Board had cash of \$53,686,524, including \$12,262,444 held in agency funds.

Economic Development Authority (EDA)

Cash includes cash on hand and cash deposited with financial institutions. At June 30, 2018, there was \$15,276,211 in cash and cash equivalents (\$3,876,750 which is considered restricted), including \$568,565 held in the Local Government Investment Pool (LGIP), which is carried at amortized cost because it qualifies as an external investment pool under GASB 79, *Certain External Investment Pools and Pool Participants*.

The Authority considers all funds with an original maturity of greater than three months, but less than on year, to be short-term investments. At June 30, 2018, the Authority held a certificate of deposit yielding 1% in the amount of \$2,108,808, which is carried at fair value.

The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When considering fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at measurement date.
- Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantively the full term of the asset or liability.
- Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

Fair value of the certificate of deposit is determined based on a discounted cash flow analysis using prevailing rates over the stated term, which are level 2 inputs. Fair value approximates cost due to the short-term nature of the instrument.

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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, 2018, 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, \$4.33 for business furniture, fixtures and equipment, \$1.50 for recreational vehicles, \$4.25 for machinery and tools, \$1.15 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 installments 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, 2018:

Storm Water special revenue fund	\$ 870,646
Water Utility fund	5,110,413
Wastewater Utility fund	1,394,654
Parking Facilities fund	367,152
	<u>\$ 7,742,865</u>

The associated revenue is included in charges for services. All amounts were billed in July 2018.

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B. Allowances for Uncollectible Accounts Receivable

Allowances for uncollectible accounts receivable are generally established using historical collection data, consideration of economic conditions, specific account analysis and subsequent cash receipts. The allowances at June 30, 2018, are as follows:

Primary Government:

General Fund:	
Taxes	\$ 12,169,287
Accounts	17,949,200
Community Services Board	635,119
Total General Fund	<u>30,753,606</u>
Storm Water special revenue fund	538,100
Waste Management special revenue fund	1,181,400
Parking Facilities fund	11,903,607
Water Utilities fund	1,827,599
Wastewater Utilities fund	1,000,000
Total Primary Government	<u><u>\$ 47,204,312</u></u>

V. Due From Other Governments

Amounts due from other governments, at June 30, 2018, are as follows:

	General Fund	Capital Projects Fund	Special Revenue Funds	Total Governmental Funds	Component Unit School Board
Commonwealth of Virginia:					
Non-categorical aid	\$ 23,942,391	\$ -	\$ -	\$ 23,942,391	\$ 6,401,697
Nonmajor governmental funds grants	-	-	2,554,933	2,554,933	-
Total - Commonwealth of Virginia	<u>23,942,391</u>	<u>-</u>	<u>2,554,933</u>	<u>26,497,324</u>	<u>6,401,697</u>
Federal Government:					
Major governmental funds	192,044	1,589,394	-	1,781,438	12,482,243
Nonmajor governmental funds grants	-	-	13,344,763	13,344,763	-
Total - Federal Government	<u>192,044</u>	<u>1,589,394</u>	<u>13,344,763</u>	<u>15,126,201</u>	<u>12,482,243</u>
Total - Due from other governments	<u><u>\$ 24,134,435</u></u>	<u><u>\$ 1,589,394</u></u>	<u><u>\$ 15,899,696</u></u>	<u><u>\$ 41,623,525</u></u>	<u><u>\$ 18,883,940</u></u>

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VI. Capital Assets

A summary of changes in capital assets, at June 30, 2018, follows:

	Primary Government		
	Beginning Balance	Additions	Ending Balance
Governmental activities:			
Non-depreciable capital assets:			
Land	\$ 98,580,920	\$ 768,040	\$ 99,348,960
Intangible assets	65,014	-	65,014
Construction in progress	156,944,974	42,943,694	89,634,487
Total non-depreciable assets	255,590,908	43,711,734	189,048,461
Depreciable assets:			
Buildings	1,024,977,843	99,250,270	1,124,228,113
Improvements other than buildings	106,719,810	13,381,219	120,101,029
Equipment and vehicles	150,947,736	4,338,271	149,739,635
Intangible assets	4,950,607	-	4,937,683
Infrastructure	1,225,831,073	6,434,188	1,231,776,901
Total depreciable assets	2,513,427,069	123,403,948	2,630,783,361
Less accumulated depreciation/amortization:			
Buildings	(402,600,329)	(25,107,675)	(427,708,004)
Improvements other than buildings	(35,162,478)	(4,797,028)	(39,959,506)
Equipment and vehicles	(106,522,940)	(7,755,689)	(108,822,322)
Intangible assets	(4,300,431)	(132,991)	(4,420,498)
Infrastructure	(1,020,530,469)	(10,164,917)	(1,030,207,026)
Total accumulated depreciation/amortization	(1,569,116,647)	(47,958,300)	(1,611,117,356)
Depreciable assets, net	944,310,422	75,445,648	1,019,666,005
Total governmental activities capital assets, net	\$ 1,199,901,330	\$ 119,157,382	\$ (110,344,246)
Business-Type activities:			
Non-depreciable capital assets:			
Land	\$ 49,812,941	\$ 2,306,071	\$ 52,119,012
Intangible assets	2,474,561	213,219	2,687,780
Construction in progress	52,180,462	31,890,760	43,166,572
Total non-depreciable assets	104,467,964	34,410,050	97,973,364
Depreciable assets:			
Land improvements	20,787,445	-	20,787,445
Buildings	478,395,875	1,032,824	479,237,592
Equipment and vehicles	812,774,266	39,588,597	851,893,349
Intangible assets	6,890,727	583,264	7,473,991
Totals depreciable assets	1,318,848,313	41,204,685	1,359,392,377
Less accumulated depreciation/amortization:			
Land improvements	(5,734,434)	(405,250)	(6,139,684)
Buildings	(144,361,487)	(10,578,671)	(154,940,158)
Equipment and vehicles	(259,323,189)	(16,207,182)	(275,061,696)
Intangible assets	(5,669,576)	(632,173)	(6,301,749)
Total accumulated depreciation/amortization	(415,088,686)	(27,823,276)	(442,443,287)
Depreciable assets, net	903,759,627	13,381,409	916,949,090
Business-Type activities capital assets, net	\$ 1,008,227,591	\$ 47,791,459	\$ (41,096,596)
Component units activities:			
Non-depreciable capital assets:			
Land	\$ 1,962,141	\$ -	\$ 1,962,141
Total non-depreciable assets	1,962,141	-	1,962,141
Depreciable assets:			
Buildings and mobile classrooms	7,785,898	-	7,785,898
Building improvements	14,766,578	95,481	14,862,059
Equipment and vehicles	36,804,284	2,396,736	37,636,363
Intangible assets	1,323,387	-	1,323,387
Total depreciable assets	60,680,147	2,492,217	61,607,707
Less accumulated depreciation:			
Buildings and mobile classrooms	(5,469,607)	(307,538)	(5,777,145)
Building improvements	-	(794,983)	(794,983)
Equipment and vehicles	(28,344,109)	(1,650,155)	(28,523,211)
Intangible assets	(1,175,353)	(68,323)	(1,243,676)
Total accumulated depreciation	(34,989,069)	(2,820,999)	(36,339,015)
Depreciable assets, net	25,691,078	(328,782)	25,268,692
Component units activities capital assets, net	\$ 27,653,219	\$ (328,782)	\$ (93,604)

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

General government	\$ 17,274,023
Judicial administration	4,051,497
Public safety	3,310,322
Public works, which includes the depreciation of infrastructure assets	11,903,438
Health and sanitation	189,781
Culture and recreation	10,973,177
Community development	13,099
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	242,964
Total depreciation expense	<u><u>\$ 47,958,300</u></u>
Business-type activities:	
Water Utility fund	\$ 14,223,536
Wastewater Utility fund	6,690,810
Parking Facilities fund	6,908,930
Total depreciation expense	<u><u>\$ 27,823,276</u></u>
Component unit activities	
School Board	\$ 2,026,016
Norfolk Economic Development Authority	794,983
Total depreciation expense	<u><u>\$ 2,820,999</u></u>

The following is a summary by fund of interest expense/revenue capitalized during the fiscal year ended June 30, 2018:

	<u>Expense</u>	<u>Revenue</u>	<u>Capitalized</u>
Water Utility fund	\$ 1,232,430	\$ (300,270)	\$ 932,160
Wastewater Utility fund	164,925	(250,748)	(85,823)
	<u><u>\$ 1,397,355</u></u>	<u><u>\$ (551,018)</u></u>	<u><u>\$ 846,337</u></u>

VII. Property Held for Resale

On October 18, 2013, the Norfolk Redevelopment and Housing Authority (NRHA) donated property, approximately 114 acres which was formerly part of the Lake Wright Golf Course to the Authority, with an estimated fair value of \$19,400,000, as determined by an independent appraiser. The Authority entered into an agreement on November 12, 2013, amended on July 1, 2014, to sell a portion of that property, approximately 51 acres, to Simon Acquisition II, LLC (Simon). The fulfillment of the sales agreement was accomplished in two separate transactions. On May 6, 2016, Simon closed on the purchase of the property of 44.39 acres of the property with a purchase price of \$4,217,050. On October 5, 2016, Simon closed on the purchase of an additional 6.279 acres of property with a purchase price of \$596,505. At closing, Simon took responsibility for the completion of the Force Main Relocation and the construction of certain infrastructure, which would be funded by the City (up to \$12,000,000) and the City's Wastewater Utility fund (approximately \$2,500,000), who would have title to the

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infrastructure assets. The total purchase price of both parcels of was \$4,813,555 funded by Simon through payment of the construction of infrastructure improvements on behalf of the City. The purchase price of these acres was below market which resulted in a loss. The decision to incur a loss was in support of the development plans of the City and also based on the purchaser paying for infrastructure costs. The infrastructure costs, consisting of items such as roads and a retention basis, became an asset of the Authority and ultimately were transferred to the City who has the responsibility to maintain the assets. As of June 30, 2017, infrastructure costs totaled \$11,752,510, excluding the \$2,500,000 in sewer improvements funded by the City's Wastewater Utility fund, and were completed in fiscal year 2017. These assets were transferred to the City in fiscal year 2017.

The Authority also entered into a real estate purchase agreement on August 28, 2014, to sell approximately 30 acres of the remaining Lake Wright Golf Course property to Northampton Development, LLC. The agreement was amended on July 17, 2015, to restate the "feasibility period" to commence on April 15, 2016, ending the earlier of two years from that date or eight months after the property is rezoned. On June 27, 2018, the Authority sold 32.93 acres for \$9,816,460 to Northampton Development, LLC. As part of the agreement, \$1,515,251 is due to the City and \$8,200,000 is due to Simon. 4.41 acres of Lake Wright Golf Course property was retained by the Authority and is held for resale recorded at \$602,952.

In addition, land and land improvements held for resale also includes three acres which are recorded at approximately \$115,000 per acre. On June 11, 2018, the Authority entered into a purchase and sale agreement with JSR Properties, LLC to purchase approximately 1.022 acres of this land for \$165,000. At June 30, 2018, they had not yet closed on the property.

VIII. Short-term Obligations

A. Variable Rate Bonds

General Obligation Variable Rate Demand Bonds, Series 2007

The City issued \$32,365,000 in General Obligation Variable Rate Demand Bonds, Series 2007 (AMT) on March 29, 2007, to finance the Half Moone Cruise & Celebration Center. As of June 30, 2018, \$24,605,000 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

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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"). The annual Liquidity Facility fee is 39 basis points (0.39%) for a five-year term. Additionally, RBC provided a rate of 8 basis points (0.08%) to serve as Remarketing Agent. During the fiscal year ended June 30, 2018, the average weekly interest rate on the Series 2007 Bonds was 113 basis points (1.13%).

Under the Liquidity Facility, un-remarketed 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, 2018, all the Series 2007 Bonds have been successfully remarketed by the remarketing agent.

B. General Obligation Variable Rate Bond

On November 7, 2013, the City entered into a private placement variable rate loan in the original principal amount of \$13,600,000 (the "2013D Variable Rate Loan") with Bank of America, N.A. As of June 30, 2018, \$12,005,000 remains outstanding and included in the City's long-term debt.

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%. During the fiscal year ended June 30, 2018, the average weekly interest rate on the 2013D Variable Rate Loan was 253.21 basis points (2.5321%).

C. Line of Credit

On December 17, 2014, the City established a revolving line of credit agreement with Bank of America, N.A. ("BANA") for up to \$125,000,000 which was later amended in May 2016, to increase the maximum available credit to \$200,000,000. This line of credit has been used to provide flexible interim financing for capital improvements projects, including school construction. Further, the City maintains discretion over future increases and decreases to the line of credit maximum to the line of credit maximum available amount dependent upon future cash flow needs of capital improvement projects. Borrowings under the line of credit bear interest payable semi-annually in February and August. Tax-exempt borrowings are at a rate of 70 percent of LIBOR, plus 40 basis points. Taxable borrowings are 100 percent 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 BANA. The commitment fee on the unutilized

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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 percent for that 12-month period.

On September 13, 2017, The City amended its existing credit agreement with BANA to extend the termination date of the Line of Credit from December 17, 2017, to December 17, 2018.

Activity for the year ended June 30, 2018 is as follows:

	Balance at June 30, 2017	Additions	Deductions	Balance at June 30, 2018
Capital Projects fund	\$ 189,802,546	\$ 141,752,018	\$ (174,980,929)	\$ 156,573,635
Parking Facilities fund	10,088,750	66,690	(155,440)	10,000,000
	<u>\$ 199,891,296</u>	<u>\$ 141,818,708</u>	<u>\$ (175,136,369)</u>	<u>\$ 166,573,635</u>

IX. 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 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.

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A summary of general obligation bond and revenue bond transactions for the fiscal year ended June 30, 2018, follows:

	Governmental	Enterprise Funds			
	Activities - General	Water	Wastewater	Parking	Total
	Obligation Bonds	Utility	Utility	Facilities	Enterprise Funds
		Bonds	Bonds	Bonds	
General obligation bonds outstanding at July 1, 2017	\$ 611,875,024	\$ -	\$ 103,836,780	\$ 140,195,633	\$ 244,032,413
Bonds retired	(47,337,050)	-	(7,487,077)	(4,278,099)	(11,765,176)
Bonds refunded/defeased	(31,410,000)	-	(2,255,000)	(30,855,000)	(33,110,000)
Bonds issued	123,084,974	-	10,998,391	32,732,904	43,731,295
Bonds outstanding at June 30, 2018	656,212,948	-	105,093,094	137,795,438	242,888,532
Unamortized (discount) premium	63,967,119	-	10,930,199	7,344,960	18,275,159
General obligation bonds outstanding at June 30, 2018, adjusted for unamortized (discount) premium	<u>\$ 720,180,067</u>	<u>\$ -</u>	<u>\$ 116,023,293</u>	<u>\$ 145,140,398</u>	<u>\$ 261,163,691</u>
Revenue bonds outstanding at July 1, 2017		\$ 319,630,000	\$ 63,015,048	\$ -	382,645,048
Bonds retired		(13,860,000)	(3,856,919)	-	(17,716,919)
Bonds refunded		(143,535,000)	-	-	(143,535,000)
Bonds issued		161,245,000	6,104,627	-	167,349,627
Revenue bonds outstanding at June 30, 2018		323,480,000	65,262,756	-	388,742,756
Unamortized (discount) premium		53,638,244	-	-	53,638,244
Revenue bonds outstanding at June 30, 2018, adjusted for unamortized (discount) premium		<u>\$ 377,118,244</u>	<u>\$ 65,262,756</u>	<u>\$ -</u>	<u>\$ 442,381,000</u>
Total bonds outstanding at June 30, 2018, adjusted for unamortized (discount)/premium	<u>\$ 720,180,067</u>	<u>\$ 377,118,244</u>	<u>\$ 181,286,049</u>	<u>\$ 145,140,398</u>	<u>\$ 703,544,691</u>

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General obligation and revenue bonds outstanding at June 30, 2018, are composed of the following individual issues:

Bond Issue/Purpose	Dated	Issue Amount	Interest Rate	Governmental		Business-type Activities		Balance Outstanding
				Public	Wastewater	Parking		
				Improvement	Utility	Facilities		
Series 1989 Property Acquisition	7/11/1989	\$ 1,500,000	6.76%	\$ 1,500,000	\$ -	\$ -	\$ 1,500,000	
Series 2002 Property Acquisition	8/14/2002	3,400,000	5.375%	3,400,000	-	-	3,400,000	
Series 2003 GO Wastewater VRA	4/8/2003	9,423,794	2.00%	-	3,722,463	-	3,722,463	
Series 2004 Property Acquisition	7/29/2004	1,775,000	7.00%	125,244	-	-	125,244	
Series 2004 GO Wastewater VRA	9/17/2004	11,100,000	3.10%	-	5,367,856	-	5,367,856	
Series 2006 GO Wastewater VRA	3/14/2006	11,187,809	2.25%	-	6,140,867	-	6,140,867	
Series 2006B GO Wastewater VRA	9/28/2006	14,250,000	0.00%	-	7,125,000	-	7,125,000	
Variable - June 30, 2018, rate of								
Series 2007 VRDB	3/29/2007	32,365,000	1.51%	24,605,000	-	-	24,605,000	
Series 2008A&B Refunding	2/13/2008	17,160,000	4.625%	630,000	-	-	630,000	
Series 2009A&B Refunding	5/21/2009	77,175,000	4.00 - 5.00%	5,602,287	97,713	-	5,700,000	
Series 2010B Capital Improvement	1/21/2010	117,650,000	4.65 - 5.962%	94,027,143	7,632,857	-	101,660,000	
Series 2010F Capital Improvement	2/25/2010	5,000,000	4.35 - 5.60%	3,250,000	-	-	3,250,000	
Series 2010G Refunding	10/19/2010	90,165,000	4.00 - 5.00%	47,224,675	5,252,298	178,026	52,654,999	
Series 2012A Refunding	5/30/2012	69,030,000	2.00 - 5.00%	50,661,667	4,961,469	1,271,864	56,895,000	
Series 2012B Refunding	5/30/2012	7,805,000	2.00 - 3.00%	2,880,000	-	-	2,880,000	
Series 2012C Capital Improvement	6/28/2012	114,270,000	4.00 - 5.00%	14,015,000	3,240,000	-	17,255,000	
Series 2012D Capital Improvement	6/28/2012	7,350,000	4.35%	7,350,000	-	-	7,350,000	
Series 2013A Capital Improvements and Refunding	11/7/2013	130,990,000	4.00 - 5.00%	33,750,000	2,290,000	-	36,040,000	
Series 2013B Capital Improvements and Refunding	11/7/2013	81,715,000	1.941 - 4.955%	-	-	71,455,000	71,455,000	
Series 2013C QECB	11/7/2013	2,470,000	4.855%	2,470,000	-	-	2,470,000	
Variable - June 30, 2018, rate of								
Series 2013D Refunding	11/7/2013	13,600,000	3.04%	-	-	12,005,000	12,005,000	
Series 2014 Refunding	4/2/2014	65,155,000	2.00 - 5.00%	47,383,692	11,921,308	-	59,305,000	
Series 2014B Refunding	10/1/2014	9,900,000	3.290%	7,536,620	535,460	127,920	8,200,000	
Series 2014C Refunding	9/30/2014	58,510,000	2.00 - 5.00%	49,242,050	7,817,950	-	57,060,000	
Series 2015 Refunding	3/2/2015	16,320,000	3.320%	8,072,829	1,017,171	-	9,090,000	
Series 2016A	10/19/2016	106,680,000	2.50-5.00%	69,430,000	19,815,000	6,690,000	95,935,000	
Series 2016B Refunding	10/19/2016	69,870,000	3.00-5.00%	49,377,986	7,157,291	13,334,724	69,870,001	
Series 2016C	10/19/2016	10,500,000	3.00-3.050%	10,500,000	-	-	10,500,000	
Series 2017 GO Storm Water VRA	5/31/2017	2,405,791	0.000%	525,050	-	-	525,050	
Series 2017A GO Capital Improvement	12/5/2017	103,520,000	3.00 - 5.00%	94,910,000	8,610,000	-	103,520,000	
Series 2017B GO Capital Improvement	12/5/2017	3,590,000	3.793%	-	-	3,590,000	3,590,000	
Series 2017C GO Refunding	12/5/2017	59,275,000	2.00 - 5.00%	27,743,705	2,388,391	29,142,904	59,275,000	
Total General Obligation Bonds				<u>\$ 656,212,948</u>	<u>\$ 105,093,094</u>	<u>\$ 137,795,438</u>	<u>\$ 899,101,480</u>	
Bond Issue/Purpose	Dated	Interest Rate	Business-type Activities			Balance Outstanding		
			Wastewater		Utility			
			Water	Utility	Utility			
Series 2007 Wastewater Revenue	11/9/2007	0.00%	-	-	9,775,000	9,775,000		
Series 2008 Water Revenue	4/23/2008	5.00%	1,355,000	-	-	1,355,000		
Series 2009 Wastewater Revenue	11/17/2009	0.00%	-	-	4,875,000	4,875,000		
Series 2010 Water Revenue	9/30/2010	2.50 - 4.50%	22,755,000	-	-	22,755,000		
Series 2010 Wastewater Revenue	10/19/2010	0.00%	-	-	7,000,000	7,000,000		
Series 2011 Wastewater Revenue	10/21/2011	0.00%	-	-	7,207,500	7,207,500		
Series 2012 Water Revenue Refunding	4/4/2012	5.00%	54,445,000	-	-	54,445,000		
Series 2012 Wastewater Revenue	12/18/2012	0.00%	-	-	9,569,454	9,569,454		
Series 2013 Wastewater Revenue	12/12/2013	0.00%	-	-	8,750,000	8,750,000		
Series 2015 Wastewater Revenue	3/2/2015	0.00%	-	-	8,083,620	8,083,620		
Series 2015A Water Revenue	4/16/2015	5.25%	29,660,000	-	-	29,660,000		
Series 2015B Water Revenue Refunding	4/16/2015	5.00 - 5.25%	54,020,000	-	-	54,020,000		
Series 2016 Wastewater Revenue	4/21/2016	0.00%	-	-	5,356,380	5,356,380		
Series 2017 Wastewater Revenue	5/31/2017	0.00%	-	-	4,594,457	4,594,457		
Series 2017 Water Revenue Refunding	12/18/2017	5.00%	134,545,000	-	-	134,545,000		
Series 2018 Water Revenue	3/26/2018	2.50 - 5.00%	26,700,000	-	-	26,700,000		
Series 2018 Wastewater Revenue	6/22/2018	0.00%	-	-	51,345	51,345		
Total Revenue Bonds				<u>\$ 323,480,000</u>	<u>\$ 65,262,756</u>	<u>\$ 388,742,756</u>		

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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 1.48% as June 30, 2018 (see Note VIII).

The Series 2013D General Obligation Variable Rate Bond reset at an interest rate of 3.04% as of June 30, 2018 (See Note VIII).

B. General Obligation Bonds

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

Year Ending June 30,	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	Principal	Interest	Principal	Interest
2019	\$ 47,557,656	\$ 29,698,758	\$ 11,560,844	\$ 9,784,194
2020	55,972,895	26,226,673	12,545,160	9,308,656
2021	52,993,589	23,954,418	12,741,645	8,730,967
2022	49,480,455	21,593,359	12,549,961	8,355,983
2023	47,996,441	19,379,345	13,255,322	7,906,758
2024-2028	201,180,165	67,767,681	63,956,696	31,614,892
2029-2033	127,723,025	29,116,870	46,398,237	20,909,345
2034-2038	61,514,404	8,174,957	46,506,858	9,914,552
2039-2043	8,619,318	1,519,426	13,203,809	3,308,893
2044-2048	3,175,000	302,625	10,170,000	1,029,456
Total	\$ 656,212,948	\$ 227,734,112	\$ 242,888,532	\$ 110,863,696

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

Year Ending June 30,	<u>Wastewater Utility Fund</u>		<u>Parking Facilities Fund</u>	
	Principal	Interest	Principal	Interest
2019	\$ 7,633,087	\$ 4,200,021	\$ 3,927,755	\$ 5,584,173
2020	8,002,033	3,866,308	4,543,127	5,442,348
2021	8,293,165	3,408,566	4,448,481	5,322,401
2022	8,324,975	3,177,942	4,224,986	5,178,041
2023	8,380,459	2,870,554	4,874,863	5,036,204
2024-2028	37,796,600	9,827,491	26,160,096	21,787,401
2029-2033	14,511,166	4,896,267	31,887,072	16,013,077
2034-2038	6,031,609	2,257,906	40,475,249	7,656,647
2039-2043	3,400,000	1,105,000	9,803,809	2,203,893
2044-2048	2,720,000	272,000	7,450,000	757,456
Total	\$ 105,093,094	\$ 35,882,055	\$ 137,795,438	\$ 74,981,641

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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 that 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, 2018, draws for project expenses of \$1,773,118, \$4,280,164 and \$51,345 from bond issuances in fiscal year 2016, 2017 and 2018 respectively, resulted in total Virginia Resources Authority ("VRA") drawdowns of \$6,104,628 for fiscal year 2018. In conjunction with the state water control board, the VRA administers and manages the Virginia Water Facilities Revolving Fund and the Bonds were sold at 0% interest.

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

Year Ending June 30,	Water Revenue		Wastewater Revenue	
	Principal	Interest	Principal	Interest
2019	\$ 14,200,000	\$ 15,858,467	\$ 4,096,467	\$ -
2020	13,830,000	15,044,375	4,211,328	-
2021	15,965,000	14,311,275	4,212,612	-
2022	17,170,000	13,504,400	4,213,896	-
2023	18,335,000	13,027,150	4,213,896	-
2024-2028	81,395,000	49,803,025	21,069,478	-
2029-2033	49,375,000	34,121,969	16,844,478	-
2034-2038	44,580,000	23,071,275	6,279,322	-
2039-2043	42,670,000	12,791,769	121,279	-
2044-2048	25,960,000	2,029,850	-	-
Total	\$ 323,480,000	\$ 193,563,555	\$ 65,262,756	\$ -

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

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

D. Current and Advanced Refundings

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

At June 30, 2018, the following defeased bonds from advance refunding are still outstanding:

General Obligation

Defeased In	Original Issue	Amount	Redemption
2015	2009A	17,775,000	11/1/2019
2015	2012C	39,150,000	4/1/2021
2017	2009A	4,440,000	11/1/2019
2017	2012C	33,925,000	4/1/2021
2017	2013A	31,540,000	8/1/2023
2018	2010G	5,310,000	10/1/2020
2018	2013A	53,815,000	8/1/2023
		<u>\$ 185,955,000</u>	

Water Revenue Bonds

Defeased In	Original Issue	Amount	Redemption
2015	2008	47,140,000	11/1/2018
2018	2010	17,815,000	11/1/2020
2018	2012	82,650,000	5/1/2022
2018	2013	43,070,000	5/1/2021
		<u>\$ 190,675,000</u>	

E. Economic Development Authority

In April 2016, the City and the Economic Development Authority of the City of Norfolk (the "EDA") entered into a financing agreement, with Bank of America, N.A. ("BANA") to provide funds for an economic development project in the City in the maximum principal amount of \$14,500,000. The City and the EDA also entered into a cooperation agreement related to the financing, whereby the City provides a general obligation guarantee of the payments required under the financing agreement. Principal advances under the agreement will bear interest at 1-month LIBOR rate plus 85 basis points which is set at the date of the first advance, and resets on the first day of the calendar month thereafter. Principal payments of \$100,000 are due February 1 in each of the first four years of the agreement, with the balance of the outstanding principal due at maturity in 2021. In addition to funds made available under the cooperation agreement, the EDA expects to pay for debt service on the financing agreement from other sources such as a portion of the City's cigarette tax revenues and lease revenue from the leasing of the facility. At June 30, 2018, \$14,420,000 in funds have been drawn of which \$13,920,000 was outstanding at the end of the year. No further draws will be made.

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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 \$4,507,567 for the fiscal year ended June 30, 2018.

Future year lease obligations are listed below:

Year Ending June 30,	Operating Lease Obligations
2019	4,415,295
2020	3,435,873
2021	3,106,643
2022	2,659,592
2023	1,479,214
2024-2028	3,042,020
2029-2033	658,044
Total minimum lease payments	<u>\$ 18,796,681</u>

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 years of post-close care costs beyond December 31, 2010. The \$2,589,457 reported as an obligation for landfill closure and post-closure costs at June 30, 2018, 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, \$1,954,408 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:

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

Primary Government	
Governmental Activities:	
General Fund	\$ 17,970,634
Nonmajor governmental funds	1,480,872
Internal service funds	<u>267,532</u>
Total Governmental	<u>\$ 19,719,038</u>
Enterprise funds:	
Water Utility fund	\$ 1,092,544
Wastewater Utility fund	375,300
Parking Facilities fund	<u>235,942</u>
Total Enterprise funds	<u>\$ 1,703,786</u>
Component Unit - School Board	<u>\$ 9,086,289</u>

I. Debt Limit

The Commonwealth of Virginia imposes a legal limit of 10 percent of the assessed valuation of taxed real property as a ceiling in the amount of general obligation borrowings, which may be issued by the City without referendum. At June 30, 2018, the City's debt limit is \$1,987,088,097 of which \$907,492,982 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, 2018, are as follows:

<u>Projects</u>	<u>Total</u>
General Obligation Bonds Authorized and Unissued:	
General Capital Improvement Projects	\$ 235,102,265
Storm Water Capital Improvement	1,781,231
Parking Facilities Fund Projects	9,348,509
Wastewater Utility Fund Projects	<u>11,018,569</u>
General Obligation Bonds Authorized and Unissued:	<u>\$ 257,250,574</u>
Revenue Bonds Authorized and Unissued:	
Water Utility Fund Projects	\$ 57,490,656
Revenue Bonds Authorized and Unissued:	<u>\$ 57,490,656</u>
Total Bonds Authorized and Unissued:	<u>\$ 314,741,230</u>

CITY OF NORFOLK, VIRGINIA
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For the Year Ended June 30, 2018

K. Changes in Long-Term Obligations

A summary of fiscal year 2018 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
<u>GOVERNMENTAL ACTIVITIES:</u>					
Bonds and Line of Credit:					
General obligation bonds	\$ 611,875,024	\$ 123,084,974	\$ (78,747,050)	\$ 656,212,948	\$ 47,557,656
Net Premiums	53,065,997	19,901,110	(8,999,988)	63,967,119	-
Total Bonds	664,941,021	142,986,084	(87,747,038)	720,180,067	47,557,656
Other Liabilities:					
Vested compensated absences	18,263,419	11,720,066	(10,531,979)	19,451,506	11,220,000
Other post-employment benefits	48,988,931	26,068,409	(8,869,984)	66,187,356	-
Retiree's life insurance	165,000	-	(20,000)	145,000	20,000
Self-insurance	31,918,233	7,063,273	(7,365,006)	31,616,500	4,524,774
Net Pension Liability	254,616,212	161,278,256	(156,993,873)	258,900,595	-
Landfill closure and post-closure costs	2,543,671	45,786	-	2,589,457	-
Total Other Liabilities	356,495,466	206,175,790	(183,780,842)	378,890,414	15,764,774
Governmental Activities					
Long-term liabilities	1,021,436,487	349,161,874	(271,527,880)	1,099,070,481	63,322,430
Internal Service Funds:					
Net Pension Liability	\$ 3,060,974	\$ 1,590,935	\$ (1,659,952)	\$ 2,991,957	\$ -
Other post-employment benefits	334,451	36,003	(28,196)	342,258	-
Vested compensated absences	266,541	146,382	(145,391)	267,532	154,339
Total Internal Service Funds	3,661,966	1,773,320	(1,833,539)	3,601,747	154,339
Total Governmental Activities	<u>\$ 1,025,098,453</u>	<u>\$ 350,935,194</u>	<u>\$ (273,361,419)</u>	<u>\$ 1,102,672,228</u>	<u>\$ 63,476,769</u>
<u>BUSINESS-TYPE ACTIVITIES:</u>					
Bonds and Line of Credit:					
Water utilities	\$ 319,630,000	\$ 161,245,000	\$ (157,395,000)	\$ 323,480,000	\$ 14,200,000
Wastewater utilities	166,851,828	17,103,018	(13,598,996)	170,355,850	11,729,554
Parking facilities	140,195,633	32,732,904	(35,133,099)	137,795,438	3,927,755
Net Premiums	56,703,245	33,528,614	(18,318,456)	71,913,403	-
Total Bonds Payable	683,380,706	244,609,536	(224,445,551)	703,544,691	29,857,309
Other Liabilities:					
Vested compensated absences	1,738,323	1,059,503	(1,094,040)	1,703,786	1,053,085
Net Pension Liability	23,874,694	14,895,713	(13,692,237)	25,078,170	-
Other post-employment benefits	2,608,620	472,344	(212,151)	2,868,813	-
Total Other Liabilities	28,221,637	16,427,560	(14,998,428)	29,650,769	1,053,085
Total Business-Type Activities	<u>\$ 711,602,343</u>	<u>\$ 261,037,096</u>	<u>\$ (239,443,979)</u>	<u>\$ 733,195,460</u>	<u>\$ 30,910,394</u>
	Beginning Balance, restated	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<u>COMPONENT UNITS:</u>					
Other Liabilities:					
Vested compensated absences	\$ 9,247,154	\$ 10,771,332	\$ (10,932,197)	\$ 9,086,289	\$ 6,814,717
Other post-employment benefits	110,149,401	1,046,174	(18,609,217)	92,586,358	-
Net Pension Liability	350,483,940	-	(57,894,798)	292,589,142	-
Workers' compensation claims	3,590,006	492,569	(431,417)	3,651,158	581,216
Long-term Notes Payable	12,685,000	3,835,000	(100,000)	16,420,000	100,000
Claims liability	41,198	517,065	(91,914)	466,349	301,832
Component Units					
long-term obligations	\$ 486,196,699	\$ 16,662,140	\$ (88,059,543)	\$ 414,799,296	\$ 7,797,765

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

The City and its component units participate in four defined benefit pension retirement plans. These include the Employees' Retirement System (ERS) of the City of Norfolk (Note X.A); a Virginia Retirement System (VRS) agent multiple-employer plan for the benefit of state employees in constitutional offices (Note X.B); a Virginia Retirement System (VRS) cost sharing plan administered by the Commonwealth of Virginia for the benefit of Norfolk School Board employees (Note X.B); and a VRS agent multiple-employer plan for the benefit of Norfolk School Board Political Subdivision Employee (Note X.B). 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 employees and Constitutional Officers' employees who are covered by the VRS. The ERS provides retirement benefits, as well as death and disability benefits. Cost-of-living adjustments ("COLAs") are not required, are not regularly instituted and are available solely at the discretion of the City Council. The ERS and its benefits are established by Chapter 37 of the Code of the City of Norfolk, Virginia, as amended. ERS pension expenses and liabilities are allocated based on the employer's contribution to the Plan.

Plan Membership

As of June 30, 2017, the actuarial valuation and net pension liability measurement date, the following employees were covered by the benefit terms:

Retirees and Beneficiaries receiving benefits:	
General	2,691
Public Safety	1,222
Vested Former Members:	
General	957
Public Safety	286
Active Plan Members:	
General	2,851
Public Safety	1,240
	<u>9,247</u>

CITY OF NORFOLK, VIRGINIA
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Plan Benefits

The 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. There is no mandatory retirement age for general employees.

Effective December 13, 2011, all employees hired on or after December 2011 are required to meet the vesting requirement of five years in order to be eligible to receive benefits under the Plan with the exception of Norfolk Community Services Board employees. The aforementioned had their prior service with the Norfolk Community Services Board counted towards the five-year vesting requirement without this service being deemed creditable service in the Plan.

Effective January 1, 2015, the City Council adopted Ordinance Number 45,566 that established a Deferred Retirement Option Program (DROP) for policemen and firemen eligible for normal service retirement. Eligible members may elect to participate for a maximum of four years, deferring receipt of a reduced retirement benefit of seventy percent (70%) while continuing employment with the City without loss of any other employee benefits.

Upon the member's election to participate in the DROP; the amount of creditable service and the average final compensation becomes frozen for purposes of determining pension benefits. The participant is considered retired for all purposes related to the Plan and does not accrue additional retirement benefits, except for ad hoc costs-of-living adjustments ("COLAs"), if applicable. The DROP participant's monthly pension is held in lieu of being paid to the participant. Upon termination of employment, the participant will receive the DROP balance and will begin receiving

CITY OF NORFOLK, VIRGINIA
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the monthly pension directly. The participant's DROP balance is not credited with investment gains and losses.

Contributions

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. Effective January 8, 2015, all Plan members pay contribution on a salary reduction basis in the amount of 5 percent of earnable compensation, with the exception of the City Council members hired before October 5, 2010. Employees of the Norfolk Community Services Board at June 30, 2012, who became City employees on July 1, 2012, were also required to pay member contributions effective January 8, 2015. Total employer contributions to the ERS plan were \$35,493,794 and \$33,457,377 for the years ended June 30, 2018 and 2017, respectively. These contributions combined with employee contributions of \$9,668,000 and \$9,450,000 for the year ended June 30, 2018 and June 30, 2017, respectively were expected to cover the actuarially determined contributions.

Actuarial Assumptions

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

For the June 30, 2017 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	3.0%
Asset Valuation Method	3-year Smoothed Value
Inflation Rate	3.0%
Salary Increases – General	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	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	7.0%
Mortality	RP-2000 Combined Healthy Mortality projected to 2010 by Scale AA for health lives RP-2000 Disabled Mortality projected to 2010 by Scale AA for disabled lives

The long-term expected rate of return on the 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

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asset allocation percentage and by adding expected inflation. The target allocation and 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, 2017, are summarized in the following table:

Asset Class	30-year 2017	Target
	Long-term Expected Real Rate of Return	Allocations
Private Core Real Estate	4.75%	7.5%
Master Limited Partnerships	6.50%	7.5%
Core Fixed Income	1.00%	30.0%
Core Plus Income	1.50%	0.0%
Equity (ACWI IMI)	5.15%	55.0%
		<u>100.0%</u>

Discount Rate

The discount rate used to measure the total pension liability was 7.07%. 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. The GASB 67 depletion schedule, as prepared by the actuary based on those assumptions was presented for 99 years. Based on the assumptions, the pension plan's fiduciary net position was projected to be available to make projected future payments and pay administrative expenses. Projected benefit payments are discounted at the long-term expected return of 7.07% (net of investment expenses) to the extent the fiduciary net position is available to make the payments and at the municipal bond rate to the extent they are not available. The single equivalent rate to determine the total pension liability as of the measurement date of June 30, 2017 was 7.07%.

Net Pension Liability

The net pension liability was measured as of June 30, 2017 with an actuarial valuation date of June 30, 2017. Pension expense and liability are allocated to governmental and enterprise funds based on the actual employer contributions. Governmental funds typically used to liquidate the pension liability include the General fund, Storm Water, Towing, Waste Management, Grants, Community Development, Cemeteries, EOC/911 and Resiliency special revenue funds. The employer contributions made in fiscal year 2018 of \$32,422,926 for governmental activities and \$3,070,868 for business-type activities are included as deferred outflows. As of June 30, 2018, the City reported a net pension liability of \$257,322,829 in governmental activities and \$25,078,171 in business-type activities. The net pension liability is allocated based on employer's contributions during the measurement period. The percentage for governmental activities and business-type activities for 2017 was 91.1% and 8.9%, respectively. Changes to the ERS net pension liability are as follows:

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	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2016	\$ 1,245,862,000	\$ 974,522,000	\$ 271,340,000
Service cost	26,310,000	-	26,310,000
Interest	86,974,000	-	86,974,000
Changes in Benefits Terms	590,000	-	590,000
Contributions - employer	-	33,457,000	(33,457,000)
Contributions - employee	-	9,450,000	(9,450,000)
Net investment income	-	111,228,000	(111,228,000)
Benefits payments, including refunds of member contributions	(83,977,000)	(83,977,000)	-
Difference between expected and actual Experience	(2,543,000)	-	(2,543,000)
Change in assumptions	53,197,000	-	53,197,000
Administrative expense	-	(668,000)	668,000
Balances at June 30, 2017	\$ 1,326,413,000	\$ 1,044,012,000	\$ 282,401,000

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

The following presents the net pension liability, calculated using the discount rate of 7.07%, as well as what the City's ERS net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.07%) or 1-percentage-point higher (8.07%) than the current rate:

	1% Decrease (6.07%)	Current Discount Rate (7.07%)	1% Increase (8.07%)
ERS Net Pension Liability	\$ 428,092,000	\$ 282,401,000	\$ 159,146,000

Pension Expense and Deferred Inflows and Outflows of Resources Related to the ERS Pension

Total pension expense included for the City is \$38,876,116 for Governmental activities and \$3,845,955 for business-type activities or \$42,722,071 combined for the City.

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At June 30, 2018, deferred (inflows) outflows reported in the City's financial statements are as follows:

	Deferred (Inflows) Outflows of Resources		
	Governmental Activities	Business-Type Activities	Total
Net difference between expected and actual experience	\$ (6,040,215)	\$ (585,772)	\$ (6,625,987)
Net difference between projected and actual earnings on plan investments	7,401,877	725,710	8,127,587
Change in assumptions	(3,561,580)	(343,662)	(3,905,242)
Change in assumptions	36,354,694	3,543,059	39,897,753
Net change in proportionate share (Internal Service Funds)	1,890	-	1,890
Net change in proportionate share (Parking Facilities)	-	(97,682)	(97,682)
Net change in proportionate share (Water and Wastewater Utility)	-	180,174	180,174
Net change in proportionate share (Governmental Funds)	(84,385)	-	(84,385)
	<u>\$ 34,072,281</u>	<u>\$ 3,421,827</u>	<u>\$ 37,494,108</u>

Deferred outflows related to pension contributions made after the measurement date of \$32,422,925 for governmental activities and \$3,070,865 for business-type activities, but before the end of the City's contributing reporting period will be recognized as a reduction of the net pension liability in the subsequent fiscal period. Other amounts related to deferred (inflows) outflows of resources will be recognized in pension expense as follows:

	Amortization of Deferred (Inflows) Outflows		
Year Ended:	Governmental Activities	Business-type Activities	Total
2019	\$ 4,553,396	\$ 500,868	\$ 5,054,264
2020	23,485,298	2,323,083	25,808,381
2021	14,060,843	1,331,619	15,392,462
2022	(8,027,256)	(733,743)	(8,760,999)
2023	-	-	-
	<u>\$ 34,072,281</u>	<u>\$ 3,421,827</u>	<u>\$ 37,494,108</u>

B. Virginia Retirement System (VRS)

Plan Description – Virginia Retirement System

The School Board and the City of Norfolk both participate in pensions offered by the Virginia Retirement System (VRS), which include two agent multiple-employer plans (for school employee political subdivisions and City of Norfolk state constitutional offices) and a cost-sharing multiple-employer (for teachers) defined benefit pension plan as well as a hybrid plan which contains both defined benefit and defined contribution aspects. All full-time, salaried permanent employees of the School Board, Constitutional Offices of the City of Norfolk, (Commissioner of the Revenue, City Treasurer, Circuit Courts, Commonwealth's Attorney, Sheriff employees) and

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other members of the School Board must participate in the VRS and are automatically covered by the respective VRS Plans upon employment. Members earn one month of service credit for each month they are employed and for which the City or the School Board and member pay contributions to 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. The Hybrid Plan combines the features of a defined benefit plan and a defined contribution plan. The defined benefit is based on a member's age, creditable service and average final compensation. The benefit from the defined contribution component is dependent upon member and employee contributions as well as investment performance. 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%. The 2014 valuation included hybrid retirement plan members for the first time.

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 5.0%; under Plan 2 and the Hybrid Plan, the COLA cannot exceed 3.0%. 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.

The VRS issues a publicly available Comprehensive Annual Financial Report that includes financial statements and required supplementary information for the 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 P.O. Box 2500, Richmond, Virginia 23218-2500.

Detailed information about the VRS Teacher Retirement Plan's fiduciary net position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

The GASB 68 agent multiple-employer plan's annual actuarial report prepared by VRS for School Board contains combined information related to the School Board and Southeastern Cooperative Educational Programs (SECEP), a joint venture for which the School Board acts as a fiscal agent. As such, amounts reflected herein present only the School Board's proportionate share as of the measurement date which amounted to 99.26% and 99.18% as of June 30, 2017 and 2016, respectively. The

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City's participation in the VRS agent multiple-employer plan resides solely within the governmental activities. The GASB 68 cost sharing plan's actuarial report contains combined information related to the School Board, SECEP, the Governor's School and Access College. As such, amounts herein present only the School Board's proportionate share as of the measurement date of the VRS Teacher Retirement Plan which amounted to 2.701% as of June 30, 2017 and 2.403% as of June 30, 2016.

Contributions

The contribution requirement for active employees governed by Section 51.1-145 of the Code of Virginia (1950), as amended, by the Virginia General Assembly changed the funding requirements for VRS employees. Employees are required to contribute 5.00% of their annual reported compensation to the VRS. The Employers actuarially determined contribution rates as of June 30, 2017, not including the employee 5.00% contributions were 8.95% of covered payroll for the City of Norfolk employees, 14.66% of the annual covered payroll for School Board professional employees and 8.49% of annual covered payroll for the other school employees based on the June 30, 2015 actuarial valuation. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

The School Board's contributions to the VRS for the fiscal years ended June 30, 2018, 2017 and 2016 for professional employees were \$29,028,062, \$26,582,248 and \$25,755,298, respectively: such amounts comprised 100% of the required statutory contributions for each of the three years. The School Board's contributions to the VRS for political subdivisions for the years ended June 30, 2018, 2017, and 2016 were \$1,434,613, \$1,408,370 and \$1,794,211, respectively.

The City of Norfolk contributions to the VRS for constitutional offices for the fiscal years ended June 30, 2018, 2017 and 2016 were \$2,337,890, \$2,406,428 and \$2,804,570, respectively, which is 100% of the actuarial determined contribution.

Actuarial Assumptions

The total pension liability was based on an actuarial valuation as of June 30, 2016, using the entry age normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

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Actuarial cost method	Entry Age Normal
Amortization method	Level Percent Closed
Remaining amortization period	28, 20, and 19 years
Asset valuation method	5-year Smoothed Market
Actuarial assumptions	
Investment rate of return	7%, net of investment expense
Projected salary increases	3.50-5.35%
Includes inflation at	2.50%
Cost-of-living adjustments	2.25-2.5%

Mortality rates were based on the following (Agent Multiple Plans)

Pre-Retirement	RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with Scale BB to 2020; males 95% of rates; females 105% of rates
Post-Retirement	RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 3 years; females 1% increase compounded from ages 70 to 90
Post-Disablement	RP-2014 Disabled Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates

Mortality rates were based on the following (Cost Sharing Plan+A30)

Pre-Retirement	RP-2014 White Collar Employee rates to age 80, White Collar Healthy Annuitant rates at ages 81 and older projected with scale BB to 2020
Post-Retirement	RP-2014 White Collar Employee rates to age 49, White Collar Health Annuitant rates at ages 50 and older projected with scale BB; males 1% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2% increase compounded from ages 75 to 90
Post-Disablement	RP-2041 Disabled Mortality Rates projected with scale BB to 2020; 115% for males and females

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follow:

- Updated mortality table to 2020
- Lowered rates at older ages and changed final retirement from 70 to 75
- Adjust withdrawal rates to better fit experience
- Lowered disability rates
- Salary scale remained unchanged

The long-term expected rate of return on pension plan investments was determined using a lag-normal distribution analysis 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

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inflation. The target allocation and best estimate of arithmetic real rates of return for each major asset class are summarize in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-term Expected Real Rate of Return	Weighted Average Long-term Expected Real Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
Inflation			2.50%
*Expected arithmetic nominal return			7.30%

*The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, included expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, the assumption is that the employer will contribute 100% of the actuarially determined contribution rates. 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 active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Expense and Deferred Inflows and Outflows of Resources

Deferred inflows and outflows are recorded for the net differences between actual and projected investment earnings, contributions made subsequent to the measurement date of June 30, 2017, and changes in proportionate share between June 30, 2017 and June 30, 2018. Pension expense reported for the fiscal year ended June 30, 2018 for the City for Norfolk, the School Board Political Subdivisions and the School Board Teachers was \$1,032,682, \$444,864 and \$16,191,191, respectively. At June

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30, 2018, the reported deferred inflows of resources related to pensions from the following sources:

Deferred Inflows of Resources			
	Agent Multiple-Employer Plans		Cost Sharing Plan
	City of Norfolk Constitutional Offices	School Board Non-Professional	School Board Teachers
Change in proportion and difference between contribution and proportionate rate	\$ -	\$ 12,826	\$ 16,244,230
Change in assumptions	658,164	531,530	-
Differences between expected and actual experience	1,328,606	868,785	20,099,179
Net difference between projected and actual earnings on Plan investments	1,410,243	4,157,218	6,170,688
	<u>\$ 3,397,013</u>	<u>\$ 5,570,359</u>	<u>\$ 42,514,097</u>

Deferred Outflows of Resources			
	Agent Multiple-Employer Plans		Cost Sharing Plan
	City of Norfolk Constitutional Offices	School Board Non-Professional	School Board Teachers
Change in proportion and difference between contribution and proportionate rate	\$ -	\$ 9,873	\$ 69,018
Differences between expected and actual experience	-	3,060,270	-
Net difference between projected and actual earnings on plan investments	-	-	-
	<u>\$ -</u>	<u>\$ 3,070,143</u>	<u>\$ 69,018</u>

Contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. The City of Norfolk, the School Board Teachers and the School Board Political Subdivisions contributed \$2,337,890, \$29,028,062 and \$1,434,613, respectively in fiscal year 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Amortization of Deferred Inflows and Outflows			
	Agent Multiple-Employer Plans		Cost Sharing Plan
	City of Norfolk Constitutional Employees	School Board Political Subdivisions	School Board Teachers
Year Ended:			
2019	\$ (1,749,283)	\$ (1,772,535)	\$ (15,883,553)
2020	(347,541)	(2,995)	(5,075,166)
2021	(385,130)	30,212	(7,062,325)
2022	(915,059)	(754,898)	(12,007,041)
2023	-	-	(2,416,994)
	<u>\$ (3,397,013)</u>	<u>\$ (2,500,216)</u>	<u>\$ (42,445,079)</u>

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Plan Membership

As of June 30, 2016, actuarial valuation, the plan memberships consisted of the following:

	Agent Multiple-Employer Plans	
	City of Norfolk Constitutional Offices	School Board Political Subdivisions
Inactive member or their beneficiaries		
currently receiving benefits	269	609
Inactive members:		
Vested	92	44
Non-vested	225	255
Active elsewhere in the VRS	195	100
Total inactive members	512	399
Active members	604	643
Total	1,385	1,651

Change in Net Pension Liability

Below are the schedules of changes in Net Pension Liability for each of the agent multiple-employer plans:

City of Norfolk

	Total Pension Liability (a)	Increase(Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at June 30, 2016	\$ 97,751,527	\$ 87,540,574	\$ 10,210,953
Service cost	3,487,288	-	3,487,288
Interest	6,689,417	-	6,689,417
Change in assumptions	(893,223)	-	(893,223)
Difference between expected and actual	(599,933)	-	(599,933)
Contributions - employer	-	2,355,587	(2,355,587)
Contributions - employee	-	1,362,997	(1,362,997)
Net Investment income	-	10,677,625	(10,677,625)
Benefits payments, including refunds of employee contributions	(4,376,843)	(4,376,843)	-
Administrative expense	-	(61,057)	61,057
Other changes	-	(9,527)	9,527
Balance at June 30, 2017	\$ 102,058,233	\$ 97,489,356	\$ 4,568,877

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School Board Political Subdivisions

	Total Pension Liability (a)	Increase(Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at June 30, 2016	\$ 87,659,874	\$ 73,963,087	\$ 13,696,787
Service cost	1,552,054	-	1,552,054
Interest	5,976,337	-	5,976,337
Change in assumptions	(850,485)	-	(850,485)
Difference between expected and actual	(645,773)	-	(645,773)
Contributions - employer	-	1,408,370	(1,408,370)
Contributions - employee	-	807,063	(807,063)
Net Investment income	-	8,876,608	(8,876,608)
Benefits payments, including refunds of employee contributions	(4,705,681)	(4,705,681)	-
Administrative expense	-	(52,631)	52,631
Change in proportionate share	75,502	41,197	34,305
Other changes	-	(17,088)	17,088
Balance at June 30, 2017	\$ 89,061,828	\$ 80,320,925	\$ 8,740,903

All amounts reflected in this schedule are based on the School Board's proportionate share as of the June 30, 2017 measurement date for the June 30, 2018 net pension liability of 99.26 %.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the proportionate share of the net pension liability using the discount rate of 7.00%, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
Agent Multiple-Employer Plans			
School Board non-professional employee net pension liability	\$ 23,730,918	\$ 8,740,903	\$ 5,234,423
City of Norfolk's constitutional offices net pension liability	\$ 18,924,065	\$ 4,568,877	\$ (7,269,185)
Cost Sharing Plans			
School Board Teachers net pension liability	\$ 423,880,984	\$ 283,848,240	\$ 168,013,653

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Payables to the Pension Plan

As of June 30, 2018, the School Board reported a payable of \$196,949 for the outstanding amount of contributions to the political subdivision pension plan required for the year ended June 30, 2018.

As of June 30, 2018, the School Board reported a payable of \$3,590,980 for the outstanding amount of contributions to the teacher's pension plan required for the year ended June 30, 2018.

XI. Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all City employees, permits them to defer a portion of their salary until future years. In the calendar year 2018, the deferral may be up to 25 percent of gross income up to a maximum of \$18,500 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.

XII. Other Post-employment Benefits (OPEB)

A. City of Norfolk Sponsored Other Post-employment Benefits

Plan Description

The City of Norfolk and the Norfolk School Board provide post-retirement healthcare 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 healthcare 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 School Boards' benefits offices based on the participation guidelines established by the Norfolk City Council and the Norfolk School Board. Benefits are currently managed on a pay-as-you-go basis and a separate financial report of the OPEB Plan is not issued. No assets

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are accumulated in a trust that meets the criteria established in paragraph 4 of Governmental Accounting Standards Board Statement No. 75. Therefore, rather than a net OPEB liability, the City and School Board report a total OPEB liability. 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 part of the total OPEB liability in the City's financial statements.

Employees Covered by Benefit Terms

As of the June 30, 2017 actuarial valuation, the following employees were covered by the benefit terms of the Plan:

	City	Line of Duty	School Board
Inactive member or their beneficiaries			
currently receiving benefits	197	70	204
Active members	3,944	1,148	4,541
Total	<u>4,141</u>	<u>1,218</u>	<u>4,745</u>

Contributions

No employee contributions are required prior to retirement to participate in or fund the OPEB Plan. The City and the School Board committed to a set contribution amount as an explicit subsidy of \$25 or \$35 per month for the City and \$75 per month for the School Boards per participating retiree. Effective January 1, 2014, the City and the School Boards eliminated healthcare coverage for post 65 retirees (e.g. retirees eligible for Medicare) along with the \$25 or \$35 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.

Total OPEB Liability

The City's and the School Boards' total OPEB liability was measured as of June 30, 2017. The total OPEB liability was determined by an actuarial valuation performed as of June 30, 2017 using updated actuarial assumptions applied to all periods included in the measurement.

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Actuarial Assumptions

For the June 30, 2017 actuarial valuation, the actuarial assumptions included the following:

Actuarial Costs Method	Entry Age Normal
Amortization Method	Level Percent Open
Asset Valuation Method	Not Applicable
Investment Rate of Return	3.58%
Rate of Salary Increases	3.50%
Rate of Medical Inflation	7.55% (Pre-Medicare) grading to 3.00% over 18 years
Mortality (City)	108% of RP-2014 adjusted back to 2006 using MP-2014 and brought forward to 2016 using MP-2016 and generational improvements of 0.75% per year (ages<86) thereafter 100% of RP-2014 Disabled Mortality adjusted back to 2006 using MP-2014 and brought forward to 2016 using MP-2016 and generational improvements of 0.75% per year (ages<86) thereafter
Mortality (School Board)	RP-2014 White Collar Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with Scale BB to 2020 RP-2014 White Collar Employee Rates to age 49, White Collar Healthy Annuitant at ages 50 and older projected with Scale BB to 2020; males 1% increase compounded from ages 70 to 90; females setback 3 years with 1.5% increase compounded from ages 65 to 74 and 2% increase compounded from ages 75 to 90 RP-2014 Disabled Mortality Rates projected with Scale BB to 2020; 115% of rates for males and females

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.

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

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Discount Rate

The discount rate used to measure the total OPEB liability as of June 30, 2017 was 3.58%. Since the Plan utilizes a pay-as-you-go contribution policy, the discount rate used at the June 30, 2017 measurement date was based on the Bond Buyer GO 20-Bond Municipal Bond Index.

Changes in Total OPEB Liability

The total pension liability was measured at of June 30, 2017 with an actuarial valuation date of June 30, 2017. OPEB expense and liability are allocated to governmental and enterprise funds. As of June 30, 2018, the City reported a total OPEB liability of \$66,256,614 in governmental activities and \$2,868,813 in business-type activities. Changes to the total OPEB liability are as follows:

	City	Line of Duty	School Board	Total OPEB Liability
Balance at June 30, 2016	\$ 29,647,567	\$ 22,284,435	\$ 60,290,035	\$ 112,222,037
Service cost	2,638,578	991,486	1,468,830	5,098,894
Interest	864,633	637,503	1,702,533	3,204,669
Change in benefits	-	19,652,972	-	19,652,972
Difference between expected and actual	(1,413,447)	(2,397)	(3,274,812)	(4,690,656)
Assumption changes	1,815,771	(5,648,603)	(10,475,847)	(14,308,679)
Contributions - employer	-	-	-	-
Net Investment income	-	-	-	-
Benefits payments	(1,247,913)	(822,158)	(2,580,746)	(4,650,817)
Administrative expense	-	-	-	-
Balance at June 30, 2017	\$ 32,305,189	\$ 37,093,238	\$ 47,129,993	\$ 116,528,420

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability using the discount rate of 3.58%, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.58%) or one percentage point higher (4.58%) than the current rate:

	1% Decrease (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)
City	\$ 36,830,512	\$ 32,305,189	\$ 28,616,463
Line of Duty	\$ 42,289,273	\$ 37,093,238	\$ 32,857,795
School Board	\$ 53,731,980	\$ 47,129,993	\$ 41,748,517

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Sensitivity of the Total OPEB Liability to Changes in Healthcare Cost Trend Rates

The following presents the total OPEB liability as well as what the total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (6.55% decreasing to 2.00%)	Healthcare Cost Trend Rates (7.55% decreasing to 3.00%)	1% Increase (8.55% decreasing to 4.00%)
City	\$ 30,135,827	\$ 32,305,189	\$ 34,712,151
Line of Duty	\$ 34,602,349	\$ 37,093,238	\$ 39,856,943
School Board	\$ 43,965,115	\$ 47,129,993	\$ 50,641,507

OPEB Expense and Deferred Inflows and Outflows of Resources

OPEB expense reported for the fiscal year ended June 30, 2018 for the City (including Line of Duty) and the School Board was \$24,035,362 and \$1,206,982, respectively. At June 30, 2018, the reported deferred inflows of resources and deferred outflows of resources related to the OPEB Plan from the following sources:

Deferred Inflows of Resources			
	City	Line of Duty	School Board
Change in assumptions	\$ -	\$ 4,841,660	\$ 8,979,297
Net change in proportionate share (Internal Service Funds)	17,443		
Net change in proportionate share (Parking Facilities)	658		
Net change in proportionate share (Governmental Funds)	3,289		
Differences between expected and actual experience	1,211,526	2,055	2,806,981
Total	<u>\$ 1,232,916</u>	<u>\$ 4,843,715</u>	<u>\$ 11,786,278</u>

Deferred Outflows of Resources			
	City	Line of Duty	School Board
Change in assumptions	\$ 1,556,375	\$ -	\$ -
Net change in proportionate share (Water & Wastewater Utility)	21,390		
Differences between expected and actual experience	-	-	-
Total	<u>\$ 1,577,765</u>	<u>\$ -</u>	<u>\$ -</u>

Contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the fiscal year ended June 30, 2019. The City and the School Board contributed \$2,253,934 and \$1,262,442, respectively in fiscal year 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

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Amortization of Deferred Inflows and Outflows

	City	Line of Duty	School Board
Year Ended:			
2019	\$ 57,475	\$ (807,285)	\$ (1,964,381)
2020	57,475	(807,285)	(1,964,381)
2021	57,475	(807,285)	(1,964,381)
2022	57,475	(807,286)	(1,964,381)
2023	57,475	(807,287)	(1,964,381)
2024-2028	57,474	(807,287)	(1,964,373)
	<u>\$ 344,849</u>	<u>\$ (4,843,715)</u>	<u>\$ (11,786,278)</u>

Other OPEB Plans

The City provides supplemental life insurance benefits through General fund appropriation to the state employees of its constitutional offices. The respective costs and related net OPEB liability of these benefits are not significant.

B. Virginia Retirement System Post-employment Benefits Trust Funds

The Virginia Retirement System (VRS) is an independent agency of the Commonwealth of Virginia. VRS administers several post-employment benefit trust funds. The School Board participates in two of those funds, the Group Life Insurance Plan (GLI) and the Retiree Health Insurance Credit Plan (HIC). The VRS Board of Trustees is responsible for the general administration and operation of the pension plans and other employee benefit plans. VRS issues a Comprehensive Annual Financial Report (CAFR) containing the financial statements and required supplementary information for all of the system's pension and other employee benefit trust funds. The VRS CAFR is publicly available on the VRS website at www.varetire.org. The pension and other trust funds administered by VRS are classified as fiduciary funds and are included in the basic financial statements of the Commonwealth of Virginia.

Group Life Insurance (GLI)

The Virginia Retirement System Group Life Insurance Program is a multiple employer, cost-sharing plan. It provides coverage to state employees, teachers, and employees of participating political subdivisions. The GLI program was established pursuant to §51.1-500 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. The GLI program is a defined benefit plan that provides a basic group life insurance benefit for employees of participating employers.

Plan Description

The VRS Group Life Insurance Program upon employment automatically covers all full-time salaried permanent employees of the state agencies, teachers and employees of participating political subdivisions. In addition to the basic GLI benefits,

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members are also eligible to elect additional coverage for themselves as well as spouse or dependent children through the Optimal Group Life Insurance Program.

Contributions

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate of the GLI Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% of the 1.31% and the employer component was 0.52% of the covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability.

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5%
Salary Increases, including inflation	
Teachers	3.5% - 5.35%
Locality – General employees	3.5% - 5.35%
Investment Rate of Return	7.0% net of plan investment expenses, including inflation
Mortality Rates – Teachers:	
Pre-Retirement	RP-2014 White Collar Employee Rates to age 80, White Healthy Annuitant Rates at ages 81 and older projected with Scale BB to 2020
Post-Retirement	RP-2014 White Collar Employee Rates to age 49, White Collar Healthy Annuitant rates at ages 50 and older projected with Scale BB to 2020; males 1% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2% increase compounded from ages 75 to 90
Post-Disablement	RP-2014 Disability Mortality Rates with Scale BB to 2020; 115% of rates for males and females

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The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumption as a result of the experience study are as follows:

Mortality Rates	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

The estimated Group Life Insurance OPEB liability (NOL) applicable to the School Board determined by VRS in accordance with GASB Statement No. 74 less the School Board's proportion of the Plan Fiduciary Net Position is as follows:

Total GLI OPEB Liability	\$ 34,249,839
Plan Fiduciary Net Position	<u>18,089,171</u>
GLI Net OPEB Liability	<u>\$ 16,160,668</u>

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 7.00%. The projections of cash flows used to determine the discount rate assumed that employer contributions would be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by the school divisions for the VRS GLI OPEB plan will be subject to the portion of the VRS Board certified rates that are funded by the Virginia Assembly. From July 1, 2019 on, school divisions are assumed to contribute 100% of the actuarially determined contribution rates.

Long-Term Expected Rate of Return

The long-term expected rate of return on VRS System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of VRS System investment expense and inflation) are developed for each major asset class. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

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Asset Class (Strategy)	Target Allocation	Arithmetic Long-term Expected Real Rate of Return	Weighted Average Long-term Expected Real Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	<u>100.00%</u>		<u>4.80%</u>
		Inflation	<u>2.50%</u>
		*Expected arithmetic nominal return	<u>7.30%</u>

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability using the discount rate of 7.0%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.0%) or one percentage point higher (8.0%) than the current rate:

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
GLI Net OPEB Liability - Teachers	\$ 19,296,417	\$ 14,976,053	\$ 11,370,748
GLI Net OPEB Liability - Political Subdivisions	\$ 1,530,466	\$ 1,184,614	\$ 902,736

VRS GLI OPEB Expense and Deferred Inflows and Outflows of Resources for Teachers

For the year ended June 30, 2018, the School Board recognized OPEB Group Life Insurance expense of \$89,395. At June 30, 2018, the School Board reported deferred outflows of resources and deferred inflows of resources related to VRS GLI OPEB as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in proportion and difference between contribution and proportionate rate	\$ -	\$ 511,111
Change in assumptions	-	771,794
Differences between expected and actual experience	5,058	331,624
Net difference between projected and actual earnings on Plan investments	-	563,247
Contributions after measurement date	<u>2,358,991</u>	
	<u>\$ 2,364,049</u>	<u>\$ 2,177,776</u>

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Other amounts reported as deferred outflows of resources and deferred inflows of resources related to GLI OPEB will be recognized in GLI OPEB expense as follows:

Amortization of Deferred Inflows and Outflows

Year Ended:		
2019	\$	(473,166)
2020		(473,166)
2021		(473,166)
2022		(473,194)
2023		(280,026)
	\$	<u>(2,172,718)</u>

VRS GLI OPEB Expense and Deferred Inflows and Outflows of Resources for Political Subdivisions

For the year ended June 30, 2018, the School Board recognized OPEB Group Life Insurance expense of \$14,626 and a Net OPEB liability of \$1,184,614. At June 30, 2018, the School Board reported deferred outflows of resources of \$200,057, of which \$197,106 was due to contributions subsequent to the measurement date. The School Board also reported deferred inflows of resources \$131,624 related to VRS GLI OPEB.

Employer Contribution

Employers' proportionate shares were calculated based on historical employer contributions. Although GASB Statement No. 75 encourages the use of the employer's projected long-term contribution efforts to the other post-employment benefit plan, allocating on the basis of historical employer contributions is considered acceptable. Employer contributions recognized by the VRS GLI OPEB Plan that are not representative of the future contribution efforts are excluded in the determination of employers' proportionate shares. The School Board's total employer contribution into the GLI program for the year ended June 30, 2017 was \$1,205,119.

Health Insurance Credit Plan (HIC)

Plan Description

The Virginia Teacher Employee Health Insurance Credit Program automatically covers all full-time, salaried, permanent (professional) employees of public school divisions. This plan is administered by the Virginia Retirement System along with other pension and OPEB plans. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The health insurance credit is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and end upon the retiree's death. The program was established in 1993 for retired teacher employees covered under VRS who retired with at least 15 years of service credit. At retirement, for teacher and other professional school employees, the monthly benefit is \$4.00 per year of service per month with no cap on the benefit amount. For teachers

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or other professional employees who retire on disability or go on long-term disability under the Virginia Local Disability Program (VLDP), the monthly benefit is either:

- \$4.00 per month multiplied by twice the amount of service credit, or
- \$4.00 per month multiplied by the amount of service earned had the employee been active until age 60, whichever is lower.

Contributions

The contribution requirement for active employees is governed by §51.1-1401(E) of the Code of Virginia, as amended, but may be impacted as a result of funding provided to the school divisions by the Virginia General Assembly. Each school division's contractually required employer contribution rate for the year ended June 30, 2018 was 1.23% of covered employee compensation for employees in the VRS Teacher Employee Health Insurance Credit Program. This rate was based on an actuarial valuation as of June 30, 2015. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Actuarial Assumptions

The total Teacher Health Insurance Credit OPEB liability was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5%
Salary Increases, including inflation	3.5% - 5.95%
Investment Rate of Return	7.0% net of plan investment expenses, including inflation
Mortality Rates – Teachers:	
Pre-Retirement	RP-2014 White Collar Employee Rates to age 80, White Healthy Annuitant Rates at ages 81 and older projected with Scale BB to 2020
Post-Retirement	RP-2014 White Collar Employee Rates to age 49, White Collar Healthy Annuitant rates at ages 50 and older projected with Scale BB to 2020; males 1% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2% increase compounded from ages 75 to 90
Post-Disablement	RP-2014 Disability Mortality Rates with Scale BB to 2020; 115% of rates for males and females

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The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumption as a result of the experience study are as follows:

Mortality Rates	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

The net Health Insurance Credit OPEB liability (NOL) was determined in accordance with GASB Statement No. 74. As of June 30, 2017, the NOL portion of the VRS Teacher Health Insurance Credit Program applicable to the School Board is as follows:

Total Teacher HIC OPEB Liability	\$ 36,846,954
Plan Fiduciary Net Position	<u>7,551,257</u>
HIC Net OPEB Liability	<u><u>\$ 29,295,697</u></u>

Plan fiduciary net position as a percentage of the total Teacher HIC liability was 7.04%. The total Teacher HIC OPEB liability is calculated by the VRS actuary, and each plan's fiduciary net position is reported in the VRS financial statements.

Discount Rate

The discount rate used to measure the total HIC OPEB liability was 7.00%. The projections of cash flows used to determine the discount rate assumed that employer contributions would be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by the school divisions for the VRS HIC OPEB plan will be subject to the portion of the VRS Board certified rates that are funded by the Virginia Assembly. From July 1, 2019 on, school divisions are assumed to contribute 100% of the actuarially determined contribution rates.

Long-Term Expected Rate of Return

The long-term expected rate of return on VRS System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of VRS System investment expense and inflation) are developed for each major asset class. The target asset allocation

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and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-term Expected Real Rate of Return	Weighted Average Long-term Expected Real Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	<u>100.00%</u>		<u>4.80%</u>
	Inflation		2.50%
	*Expected arithmetic nominal return		<u>7.30%</u>

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability using the discount rate of 7.0%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.0%) or one percentage point higher (8.0%) than the current rate:

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
HIC Net OPEB Liability	\$ 32,673,489	\$ 29,295,697	\$ 26,385,653

VRS HIC OPEB Expense and Deferred Inflows and Outflows of Resources

For the year ended June 30, 2018, the School Board recognized OPEB Health Insurance Credit expense of \$2,227,779. At June 30, 2018, the School Board reported deferred outflows of resources and deferred inflows of resources related to VRS HIC OPEB as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	\$ -	\$ 1,041,879
Differences between expected and actual experience	8,561	52,992
Net difference between projected and actual earnings on Plan investments	-	300,854
Contributions after measurement date	2,201,938	
	<u>\$ 2,210,499</u>	<u>\$ 1,395,725</u>

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Other amounts reported as deferred outflows of resources and deferred inflows of resources related to GLI OPEB will be recognized in GLI OPEB expense as follows:

Amortization of Deferred Inflows and Outflows

Year Ended:		
2019	\$	(291,100)
2020		(291,100)
2021		(291,100)
2022		(290,864)
2023		(223,000)
	\$	<u>(1,387,164)</u>

Employer Contribution

Employers' proportionate shares were calculated based on historical employer contributions. Although GASB Statement No. 75 encourages the use of the employer's projected long-term contribution efforts to the other post-employment benefit plan, allocating on the basis of historical employer contributions is considered acceptable. Employer contributions recognized by the VRS HIC OPEB Plan that are not representative of the future contribution efforts are excluded in the determination of employers' proportionate shares. The School Board's total employer contribution into the HIC program for the year ended June 30, 2017 was \$2,022,912.

Other OPEB Plans

The City provides supplemental life insurance benefits through General fund appropriation to the state employees of its constitutional offices. The respective costs and related net OPEB liability of these benefits are not significant.

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XIII. Interfund Receivable and Payable Balances

The composition of interfund activity as June 30, 2018, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	Amount
General fund	Capital Projects fund	\$ 5,256,709
	Non-major Governmental funds	2,874,453
	Water Utility fund	141,096
	Total General fund	<u>\$ 8,272,258</u>
Capital Projects fund	Parking Facilities fund	\$ 15,207,089
	Water Utility fund	13,125,200
	Wastewater Utility fund	196,001
	Non-major Governmental funds	147,096
	Total Capital Projects fund	<u>\$ 28,675,386</u>
Non-major Governmental funds	General fund	\$ 127,841
	Total Non-major Governmental funds	<u>127,841</u>
	Total Governmental funds	<u>\$ 37,075,485</u>
<u>Receivable Fund</u>	<u>Payable Fund</u>	Amount
Water Utility fund	General fund	\$ 233
	Wastewater Utility fund	30,144
	Total Water Utility fund	<u>\$ 30,377</u>
	Total Enterprise and Internal Service funds	<u>\$ 30,377</u>
	Total Due from Other funds	<u>\$ 37,105,862</u>
<u>Payable Fund</u>	<u>Receivable Fund</u>	
General fund	Non-major Governmental funds	\$ 127,841
	Water Utility fund	233
	Total General fund	<u>\$ 128,074</u>
Capital Projects fund	General fund	\$ 5,256,709
	Total Capital Projects fund	<u>\$ 5,256,709</u>
Non-major Governmental funds	General fund	\$ 2,874,453
	Capital Projects fund	147,096
	Total Non-major Governmental funds	<u>\$ 3,021,549</u>
	Total Governmental funds	<u>\$ 8,406,332</u>
<u>Payable Fund</u>	<u>Receivable Fund</u>	
Water Utility fund	General fund	\$ 141,096
	Capital Projects fund	\$ 13,125,200
	Total Water Utility fund	<u>\$ 13,266,296</u>
Wastewater Utility fund	Capital Projects fund	\$ 196,001
	Water Utility fund	\$ 30,144
	Total Wastewater Utility fund	<u>\$ 226,145</u>
Parking Facilities Fund	Capital Projects fund	\$ 15,207,089
	Total Parking Facilities fund	<u>\$ 15,207,089</u>
	Total Enterprise and Internal Service funds	<u>\$ 28,699,530</u>
	Total Due to Other funds	<u>\$ 37,105,862</u>

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XIV. 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 2018:

Fund	In	Out
General	\$ 16,888,089	\$ 76,973,896
Capital Projects	3,902,456	2,790,717
Debt Service	79,899,758	-
Non-major Governmental	7,859,918	18,785,608
Water Utility	-	8,500,000
Wastewater Utility	-	1,500,000
	<u>\$ 108,550,221</u>	<u>\$ 108,550,221</u>

The purpose of the transfer balances are as follows:

General fund transfers in of \$16,888,089 include \$8,500,000 from the Water Utility fund, \$185,824 from the Waste Management fund, \$1,500,000 from the Wastewater Utility fund, \$3,702,265 from the Tax Increment Financing special revenue fund, and \$3,000,000 from the Public Amenities special revenue fund.

The General fund transfers out of \$76,973,896 represent a transfer of \$70,617,439 to the Debt Service fund to fund general obligation debt, \$1,587,256 to the Capital Projects fund as a contribution for the annual capital improvement plan budget, \$3,974,057 to the Grants special revenue fund in support of grant projects, \$112,148 to the Cemeteries special revenue fund, \$85,472 to the Towing & Recovery Operations special revenue fund and \$570,834 to the Emergency Operations Center/911 special revenue fund.

The Capital Projects fund transferred \$2,790,717 to the Grants special revenue fund for matching. Capital projects transfers in included \$1,587,256 from the General fund, \$1,000,000 from the Public Amenities special revenue fund and \$1,315,200 from the Storm Water special revenue fund.

Debt service transfers in of \$79,899,758 include \$3,422,084 from the Storm Water special revenue fund, \$3,381,960 from the Public Amenities special revenue fund, \$203,402 from the Towing & Recovery Operations special revenue fund, \$711,139 from the Waste Management special revenue fund, \$1,563,734 from the Tax Increment Financing special revenue fund and \$70,617,439 from the General fund to fund the current fiscal year's debt service payments.

The Storm Water special revenue fund transferred \$3,422,084 to the Debt Service fund to cover its general obligation debt service cost, and \$1,315,200 to the Capital Projects fund to support the fund's capital related projects.

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The Public Amenities special revenue fund transferred \$3,000,000 to the General fund, \$1,000,000 to the Capital Projects fund and \$3,381,960 to cover its general obligation debt service cost.

The Towing & Recovery Operations special revenue fund transferred \$203,402 to the Debt Service fund to cover its general obligation debt service cost.

The Endowed Care special revenue fund transferred \$300,000 to the Cemeteries fund in support of the City's cemeteries.

The Tax Increment Financing special revenue fund transferred \$3,702,265 to the General fund and \$1,563,734 to the Debt Service fund to cover its general obligation debt service costs.

The Water and Wastewater Utility funds transferred \$8,500,000 and \$1,500,000 to the General fund, respectively.

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XV. 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	\$ 145,000	\$ -	\$ -	\$ 145,000
Judicial administration	-	-	162,602	162,602
Public safety	-	-	311,369	311,369
Public works	-	-	1,867	1,867
Health and public assistance	-	-	19,554	19,554
Culture and recreation	-	-	5,831,596	5,831,596
Community development	-	-	13,073	13,073
Total Restricted	<u>145,000</u>	<u>-</u>	<u>6,340,061</u>	<u>6,485,061</u>
Committed				
General government	9,347,282	-	-	9,347,282
Judicial administration	-	-	72,221	72,221
Public safety	-	-	27,251	27,251
Public works	-	-	6,092,791	6,092,791
Health and public assistance	-	-	1,018,333	1,018,333
Culture and recreation	-	-	111,837	111,837
Total Committed	<u>9,347,282</u>	<u>-</u>	<u>7,322,433</u>	<u>16,669,715</u>
Assigned				
General government	25,400,423	-	1,714,825	27,115,248
Judicial administration	-	-	-	-
Public safety	-	-	527,558	527,558
Public works	-	-	5,162,074	5,162,074
Health and public assistance	747,729	-	104,696	852,425
Culture and recreation	86,405	-	13,874,019	13,960,424
Community development	-	-	117,957	117,957
Education	15,000,000	-	-	15,000,000
(FY-2019 Budget appropriation)	2,883,198	-	-	2,883,198
Total Assigned	<u>44,117,755</u>	<u>-</u>	<u>21,501,129</u>	<u>65,618,884</u>
Unassigned				
Other	<u>70,962,327</u>	<u>(128,798,692)</u>	<u>(822,877)</u>	<u>(58,659,242)</u>
Total Unassigned	<u>70,962,327</u>	<u>(128,798,692)</u>	<u>(822,877)</u>	<u>(58,659,242)</u>
Total fund balances	<u>\$ 124,572,364</u>	<u>\$ (128,798,692)</u>	<u>\$ 34,340,746</u>	<u>\$ 30,114,418</u>

There is a fund deficit in the Capital Projects fund of \$128,798,692 resulting from a management decision to finance capital projects with existing cash and draws from a Line of Credit established with the Bank of America to reduce interest expense. The line of credit draws, over time, will be replaced with long-term debt.

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XVI. Deferred Inflows and Outflows of Resources

Deferred inflows and deferred outflows of resources, as represented in the entity wide and fund financial statements at June 30, 2018, are comprised of the following:

A. Unavailable Revenues

Deferred inflows in the General fund and nonmajor governmental funds, representing uncollected tax billings and other accounts receivable not available for funding of current expenditures, were \$28,884,786 and \$3,595,500, respectively as of June 30, 2018.

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 \$23,638,737 for governmental activities and \$22,925,388 for business-type activities which consists of a loss of \$12,973,660 for the Water Utility fund, \$3,182,861 for the Wastewater Utility fund and \$6,768,867 for Parking Facilities fund. Gains on the defeasance of debt are reported on the financial statements as deferred inflows of resources and were \$199,358 for governmental activities and \$16,946 for business-type activities, specifically \$15,514 for the Wastewater Utility fund and \$1,432 for Parking Facilities fund.

C. Deferred Inflows and Outflows Related to Pensions

Deferred inflows from pension-related items represent the difference between actual and estimated experience and is amortized over a five-year period or estimated remaining service life. As June 30, 2018, the amount reported as governmental activities was \$13,083,193 (which includes the Fleet Management fund of \$114,372), and the amounts reported in business-type activities were \$622,487 for the Water Utility fund, \$183,360 for the Wastewater Utility fund, and \$221,269 for the Parking Facilities fund.

Deferred outflows from pension-related items represent the difference between projected and actual investment earnings as well as contributions made in fiscal year 2018 that will not be reflected in the pension liabilities because they were made after the measurement date. The amounts included as deferred outflows of resources in the June 30, 2018 financial statements are \$78,519,276 for governmental activities (which includes \$907,320 in the Fleet Management fund), \$5,049,890 for the Water Utility fund, \$1,518,840 for the Wastewater Utility fund and \$951,078 for the Parking Facilities fund.

D. Deferred Inflows and Outflows Related to OPEB

Deferred inflows from OPEB-related items represent the difference between actual and estimated experience and changes in assumptions and are amortized over a seven-year period. As June 30, 2018, the amount reported as governmental activities was \$5,968,385 (which includes the Fleet Management fund of \$30,278), and the

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amounts reported in business-type activities were \$72,075 for the Water Utility fund, \$21,503 for the Wastewater Utility fund and \$14,668 for the Parking Facilities fund.

Deferred outflows from OPEB-related items represent the difference between actual and estimated experience and changes in assumptions as well as contributions made in fiscal year 2018 that will not be reflected in the OPEB liabilities because they were made after the measurement date. The amounts included as deferred outflows of resources in the June 30, 2018 financial statements are \$3,566,242 for governmental activities (which includes \$29,801 in the Fleet Management fund), \$174,958 for the Water Utility fund, \$59,828 for the Wastewater Utility fund and \$30,671 for the Parking Facilities fund.

XVII. Commitments and Contingencies

A. Capital Projects

Commitments for completion of capital projects in the business-type activities, authorized at June 30, 2018, are as follows:

Water Utility fund projects	\$24,995,454
Wastewater Utility fund projects	12,523,924
Parking Facilities fund projects	<u>2,484,280</u>
Total	<u><u>\$40,003,658</u></u>

See Exhibit J-3 Schedule of Expenditures – Budget and Actual for listing of capital projects in the governmental activities, authorized at June 30, 2018.

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.

C. Litigation

In fiscal year 2017, the City received notice of threatened litigation for unlawful conviction and incarceration for four separate plaintiffs. This litigation resulted in a settlement that has been accrued in fiscal year 2018. From time to time the City and its component units are defendants in a number of lawsuits. Although it is not possible to determine the final outcome on these matters, management and the City Attorney are of the opinion that the liability will not be material and will not have a significant effect on the City's financial condition.

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D. Pollution Remediation Obligation

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

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

At June 30, 2018, the Wastewater Utility fund recorded a liability for pollution remediation in the amount of \$294,102.

E. Encumbrances

Encumbrances as of June 30, 2018, in the General fund and Capital Projects fund totaled \$15,099,361 and \$58,216,933 respectively. Encumbrances as of June 30, 2018, for nonmajor governmental funds in the aggregate totaled \$30,456,119.

XVIII. Surety Bonds and Insurance

<u>Surety</u>	<u>Official</u>	<u>Amount</u>
Commonwealth of Virginia	C. Evans Poston Jr., Commissioner of the Revenue	\$ 3,000
	Daun Hester, City Treasurer	1,500,000
	Joe Baron, Sheriff	30,000
	George E. Schaefer, III Clerk of the Circuit Court	<u>2,235,000</u>
	Total Commonwealth of Virginia	<u>\$ 3,768,000</u>
Commonwealth of Virginia	All employees of the City Treasurer, Sheriff, Commissioner of the Revenue, Commonwealth's Attorney and Clerk of the Circuit Court	
	Performance of Duty Bond	<u>\$ 500,000</u>
City of Norfolk	Travelers Insurance Co. All City employees	<u>\$ 1,000,000</u>

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

XIX. Tax Abatements

As of June 30, 2018, the City provides tax abatements through five programs – the Tax Abatement Program, Technology Zone, New Business License Incentive Program, Local Utility Tax Relief and the Economic Development Program. The details of these programs for the fiscal year ended June 30, 2018, are as follows:

		Tax Abatement Program	Technology Zone	New Business License Incentive Program	Local Utility Tax Relief	Economic Development Program
1	Purpose of the program	Encourages significant improvement of residential, commercial and industrial properties throughout the City, that is of the highest construction quality and architectural design complementing the surrounding area.	Intended to reduce business, professional and occupational license tax for technology-related businesses up to 5 years if they are established in the "Technology Zone."	A temporary exemption in business license tax is available to new businesses that locate in Norfolk after January 1, 2016.	Intended to reduce business utility taxes for a five-year period if they are located in the "Enterprise Zone (EZ)."	To incentivize businesses to locate to the City of Norfolk.
2	Type of tax abatement	Property Tax	Business, professional and occupational license tax	Business License Tax	Utility Tax	Personal Property, Real Estate and Business Tangible Property
3	Authority for program	Norfolk Municipal Code Section 24-203 & Section 27-76	Norfolk Code of Ordinance Chapter 45.6	"Norfolk Municipal Code Section 24-25.9 and 24-25.2	City Ordinance § 45.5-5	City Council, designated to the City Manager
4	Administering department	Office of the Real Estate Assessor	Department of Development	Commissioner of the Revenue	Department of Development	Department of Development
5	Criteria to be eligible to receive abatement	A. Residential structure must be at least 15 years old and improvements will increase assessed value by at least 20%. B. Multi-family, commercial or industrial structure must be at least 50 years old and improvements will increase assessed value by at least 40%.	Applicants must meet criteria of establishing their technology related business according to certain criteria mention in the above-mentioned ordinance.	The business must apply and meet several criteria. Below is a list of the top 3 requirements: 1) Must be locating to Norfolk for the first time (name change, merger or acquisition are disqualifiers). 2) Must not file a consolidated financial statement with a parent or other affiliated entity with combined taxable gross	Existing EZ businesses must make a \$100,000 taxable investment within the Enterprise Zone. New EZ businesses must make a \$500,000 taxable investment within the Enterprise Zone.	The City evaluates all economic development opportunities on an individual basis. The economic development agreements are specific to each developer and generally constitute a significant economic development opportunity for the City and have a positive factor in achieving the objectives of the

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

		Tax Abatement Program	Technology Zone	New Business License Incentive Program	Local Utility Tax Relief	Economic Development Program
				receipts of more than \$1 million. 3) Can't be considered an affiliated group or have a franchisee relationship.		City and are worthy of inducement.
6	"How recipients' taxes are reduced"	Through a reduction of the property's assessed value recipients will not pay full taxes on those improvements for 14 years. The increase in assessed value due to the improvements will not be recognized for tax purposes for the first 10 years following the commencement of the tax abatement.	Through a reduction in business, professional and occupational license.	Reduction in business license tax.	Reduction in utility tax.	Taxes are reduced through performance grant payments that are provided to the recipient in the subsequent year.
7	How the amount of abatement is determined	The increase in assessed value due to the improvements will be recognized for tax purposes on a sliding scale in the 11th year through 15th year following the start of the tax abatement as soon: <ul style="list-style-type: none"> • 11th year – 20% • 12th year – 40% • 13th year – 60% • 14th year – 80% • 15th year – 100% 	Below is the schedule for the reduction of tax: <ul style="list-style-type: none"> • Year 1 - 2 = 100% • Year 3 - 4 = 50% 	Receives a \$50 per tax class reduction for the first two years. The abatement eligibility is determined by a qualification process. The taxpayer must answer 25 questions to qualify.	Below is the schedule for the reduction of tax: <ul style="list-style-type: none"> • 1st year - 50% • 2nd year - 40% • 3rd year - 30% • 4th year - 20% • 5th year - 10% 	Specific percentages are identified in each agreement that apply to various items (i.e. assessed value, value of business personal property, etc.). Percentages are not uniform and are independently determined during negotiation of agreement.
8	Terms for recapture if conditions unmet	Because taxes are not abated until after the improvements have been made, there is no provisions for recapturing abated taxes	Because taxes are not abated until after the requirements have been made, there is no provisions for recapturing abated taxes	If the business estimates its gross receipts will exceed \$1 million, but the actual gross receipts are less than \$1 million, the benefits of the program are not available unless the business completes the qualification	Because taxes are not abated until after the requirements have been made, there is no provisions for recapturing abated taxes	Because taxes are not abated until after the requirements have been made, there is no provisions for recapturing abated taxes

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

		Tax Abatement Program	Technology Zone	New Business License Incentive Program	Local Utility Tax Relief	Economic Development Program
				process. Likewise, if the qualifying business estimated less than \$1 million and the actual gross receipts were more than \$1 million the business is responsible for the entire tax amount and will be removed from the program.		
9	Types of commitments made by the City, other than to reduce taxes	N/A	N/A	N/A	N/A	There are some, but they vary by contract. These include percentage back for gross receipts and utility charges.
10	Gross dollar amount, on accrual basis, by which the tax revenues were reduced due to the abatement	<u>2018</u> \$2,448,701	<u>2018</u> \$ -	<u>2018</u> \$12,424	<u>2018</u> \$2,725	<u>2018</u> \$1,858,476

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

XX. 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 2018 was \$9,425,772.

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, 2018 these liabilities were estimated at \$31,616,500 with \$4,524,774 projected as the current portion anticipated to be paid within a year. Estimated liabilities at the end of fiscal 2018 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, the 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 \$6,295,000 for medical and pharmacy claims incurred, but not reported as of June 30, 2018. 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, 2018 was \$6,932,638. 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 2018 and 2017 are as follows:

	Workers' Compensation and Risk Management		Health Insurance		Total	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Estimated Outstanding Claims at the Beginning of year	\$ 31,918,233	\$ 29,296,575	\$ 6,582,000	\$ 6,187,000	\$ 38,500,233	\$ 35,483,575
Additional Incurred Claims or Changes in Estimates	7,063,273	8,420,622	74,443,438	80,841,472	81,506,711	89,262,094
Claims Paid	(7,365,006)	(5,798,964)	(74,730,438)	(80,446,472)	(82,095,444)	(86,245,436)
Estimated Outstanding Claims at the End of year	<u>\$ 31,616,500</u>	<u>\$ 31,918,233</u>	<u>\$ 6,295,000</u>	<u>\$ 6,582,000</u>	<u>\$ 37,911,500</u>	<u>\$ 38,500,233</u>

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

The City in its General fund has committed \$5,000,000 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, 2018, projected at \$4,117,507 of which \$883,048 is the current portion and a longer-term projection of \$3,223,459. The 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 NPS operating budgets and/or the City's fund balance designation.

Changes in the School Board's liability amount in the fiscal years 2017 and 2018 are as follows:

	Estimated Outstanding Losses at the Beginning of Year	Additional Incurred Claims or Changes in Estimates	Claims Paid	Estimated Outstanding Losses at the End of Year
2017	\$ 3,734,035	\$ 237,046	\$ (339,877)	\$ 3,631,204
2018	\$ 3,631,204	\$ 1,009,634	\$ (523,331)	\$ 4,117,507

XXI. Jointly Governed Organizations

A. Hampton Roads Regional Jail Authority (HRRJA)

HRRJA is a regional organization which includes the cities of Chesapeake, 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, 2018. Complete financial statements of HRRJA can be obtained from HRRJA.

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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 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, 2018. Complete financial statements of the Commission can be obtained from the Commission.

C. Transportation District Commission of Hampton Roads (TDC)

TDC known as Hampton Roads Transit (HRBT) a political subdivision of the common wealth, was formed on May 9, 1923, as a joint exercise of governmental power in accordance with Chapter 32 of Title 15.2 of the Code of Virginia. HRBT provides public transportation facilities and services within the cities of Norfolk, Chesapeake, Hampton, Newport News and Virginia Beach, Virginia. Oversight responsibility is exercised by all of the participating localities through their designated representatives. Responsibility for the day-to-day operation HRBT rests with professional management. HRBT was 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, 2018. Complete financial statements of TDC can be obtained from TDC.

XXII. Joint Ventures

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 Board of Directors consisting of eight member representatives appointed by each of the member cities and counties. Budgeting and financing of SPSA is subject to the approval of the Board of Directors, with each individual having a single vote. 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.

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

In June 2010, SPSA entered into a debt repayment plan with the Virginia Resources Authority (VRA) which required that the eight member communities guarantee repayment of the remaining VRA bonds outstanding through a general obligation pledge. The final payment on these bonds was made in fiscal year 2018, thus ending the requirement to guarantee repayment.

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 June 30, 2018. 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 central library for the City. The new central library was named the Slover Library. Two historic downtown structures, the Seaboard Building and the Selden Arcade, were joined by an architecturally significant structure to create a new technologically advanced library. Funding provided by the Foundation in the future will be used for purchase and maintenance of technology 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 third parties.

C. Norfolk Botanical Garden Society (The Society)

The City of Norfolk has an agreement with the Norfolk Botanical Garden Society to operate the Norfolk Botanical Garden which are owned by the City. This agreement expires on June 30, 2022. The Society receives annual funding from the City of Norfolk for improvements and operating costs.

XXIII. 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. The City does not exercise a significant degree of oversight responsibility for the NRHA develops its own operating budget without approval from City Council and executes contracts on its own behalf. NRHA is responsible for its own financial matters as it maintains its own book of accounts, is audited annually by independent accountants it engages, and has authority over earnings, deficits and moneys other than City contract funds. The City contracts with NRHA to complete specific projects, generally capital improvement projects.

The City currently has two significant projects with the NRHA; (1) Waterside Redevelopment and (2) Conference center hotel and garage. The City conveyed ownership of Waterside to the NRHA and agreed to provide \$32 million in development

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

support. NRHA will operate Waterside upon completion. The City and Professional Hospitality Resources, Inc. have constructed a conference center, hotel and parking garage that opened in fiscal year 2017. The City contributed up to \$64 million to the development costs. The conference center and garage will initially be owned by NRHA; however, ownership will revert back to the City once all agreements have been finalized. The ownership of the garage reverted back to the City in 2017.

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 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. The City owns the museum building and provides support for its maintenance.

D. The Hospital Authority of Norfolk (HAN)

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

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

XXIV. Subsequent Events

On October 23, 2018 the City transferred \$10,000,000 of General Obligation Capital Improvement Bonds, Series 2017A, previously issued to the Wastewater Fund, to the General Fund. The movement of bond proceeds was necessary to align the timing on bond issuance with funding of capital project expenditures.

On December 4, 2018, The City amended its existing credit agreement with Bank of America Merrill Lynch ("BAML") to extend the termination date of the Line of Credit from December 17, 2018, to December 17, 2019.

XXV. Adoption of New Accounting Pronouncements

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement applies to government employers who provide OPEB plans to their employees and basically parallels GASB Statement 68 and replaces GASB Statement 45. GASB Statement No. 75 requires governments to report a liability on the financial statements for the OPEB that they provide. The Statement is effective for fiscal years beginning after June 15, 2017. As a result, opening net position as of July 1, 2017 has been restated and a total OPEB liability has been recorded.
- GASB Statement No. 85, *Omnibus 2017*. This Statement addresses practice issues that have been identified during the implementation and application of certain GASB statements including topics related to blending component units, goodwill, fair value measurement and postemployment benefits. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which monetary assets acquired with only existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. There was no impact on net position or results of operations.

XXVI. Restatement for a Change in Accounting Principle

During the fiscal year ended June 30, 2018, the City adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This pronouncement requires the restatement of the June 30, 2017 net position as follows:

	Governmental Activities	Water Utility Fund	Wastewater Utility Fund	Parking Facilities Fund	Total Business-Type Activities	Total Primary Government	Total Component Unit
Balance, June 30, 2017, as originally reported	\$ 253,411,865	\$ 273,887,960	\$ 120,404,329	\$ 43,181,251	\$ 437,473,540	\$ 690,885,405	\$ (318,112,020)
Restatement for OPEB	(7,373,992)	517,668	291,345	362,166	1,171,179	(6,202,813)	(92,406,122)
Restated Balance at June 30, 2017	\$ 246,037,873	\$ 274,405,628	\$ 120,695,674	\$ 43,543,417	\$ 438,644,719	\$ 684,682,592	\$ (410,518,142)

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

XXVII. Accounting Pronouncements Issued, But Not Yet Implemented

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

- GASB Statement No. 83, *Certain Asset Retirement Obligations*. This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. This Statement is effective for reporting periods beginning after June 15, 2018.
- GASB Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported by establishing criteria for identifying fiduciary activities of all state and local governments. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.
- GASB Statement No. 87, *Leases*. The objective of this Statement is to improve accounting and financial reporting for leases by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Replacements*. The objective of this Statement is to improve the information that is disclosed related to debt, including direct borrowings and direct placements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.
- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period to enhance relevance and comparability of information while simplifying the accounting. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.
- GASB Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*. The objective of this Statement is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

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

(Unaudited)





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CITY OF NORFOLK
Norfolk Employees' Retirement System
Schedule of Changes in Net Pension Liability and Related Ratios (unaudited)
For Fiscal Years

	2018	2017	2016	2015
Total Pension Liability				
Service Costs	\$ 26,310,000	\$ 25,919,058	\$ 25,467,399	\$ 24,578,759
Interest	86,974,000	84,710,490	82,839,251	80,203,196
Changes of benefit terms	590,000	568,480	352,800	20,689,842
Difference between expected and actual experience	(2,543,000)	(2,665,615)	(2,471,392)	(10,654,079)
Changes in assumptions	53,197,000	(6,508,735)	-	-
Benefits payments, including refunds of member contributions	(83,977,000)	(80,783,975)	(79,031,490)	(77,065,376)
Net change in total pension liability	80,551,000	21,239,703	27,156,568	37,752,342
Total Pension Liability - Beginning	1,245,862,000	1,224,622,781	1,197,466,213	1,159,713,871
Total Pension Liability - Ending	<u>\$ 1,326,413,000</u>	<u>\$ 1,245,862,484</u>	<u>\$ 1,224,622,781</u>	<u>\$ 1,197,466,213</u>
Plan Fiduciary Net position				
Employer contributions	\$ 33,457,000	\$ 30,761,340	\$ 34,932,005	\$ 42,330,492
Employee contributions	9,450,000	8,733,481	4,914,726	1,671,644
Net investment income	111,228,000	3,278,018	16,596,553	157,291,834
Benefit payments, including refunds of member contributions	(83,977,000)	(80,783,975)	(79,031,489)	(77,065,376)
Administrative expense	(668,000)	(671,568)	(386,495)	(412,809)
Net change in Fiduciary Net Position	69,490,000	(38,682,704)	(22,974,700)	123,815,785
Total Net Position - Beginning	974,522,000	1,013,204,260	1,036,178,960	912,363,175
Total Net Position - Ending	<u>\$ 1,044,012,000</u>	<u>\$ 974,521,556</u>	<u>\$ 1,013,204,260</u>	<u>\$ 1,036,178,960</u>
Net Pension Liability	<u>\$ 282,401,000</u>	<u>\$ 271,340,928</u>	<u>\$ 211,418,521</u>	<u>\$ 161,287,253</u>
Plan fiduciary net position as a percentage of the total pension liability	78.71%	78.22%	82.74%	86.53%
Covered payroll	\$ 188,068,000	\$ 175,678,692	\$ 178,467,817	\$ 177,560,789
Net Pension liability as a percentage of covered payroll	150.16%	154.45%	118.46%	90.83%

*This schedule is intended to illustrate the requirement to show information for 10 years.
Additional years will be included as they become available.

CITY OF NORFOLK
Norfolk Employees' Retirement System
Schedule of Employer Contributions (unaudited)
Last 10 Fiscal Years
(Amounts in thousands)

Fiscal Year	Actuarially Determined Required Contributions*	Employer Contributions*	Contribution Deficiency (Excess)	Employer's Covered Payroll **	Contributions as a % of Covered Payroll
2018	\$ 35,494	\$ 35,494	\$ -	\$ 191,549	18.53%
2017	33,457	33,457	-	188,068	17.79%
2016	30,761	30,761	-	175,679	17.51%
2015	38,263	34,932	3,331	178,468	19.57%
2014	42,330	42,330	-	177,561	23.84%
2013	41,466	41,466	-	184,062	22.53%
2012	42,828	42,828	-	167,593	25.55%
2011	35,515	35,515	-	170,922	20.78%
2010	28,279	28,279	-	175,179	16.14%
2009	25,668	25,668	-	179,591	14.29%

* The actuarially determined contribution and the employer contributions were adjusted for years prior to 2014 to retrospectively apply to the timing of recognition under GASB 67.

** The actuarial determination of the ADC is based on the projection of covered payroll for the period for which the ADC will apply. The covered payroll was provided by the actuary. For the years 2014 through 2018, the balances exclude payroll for active employees participating in DROP for which contributions are not made.

CITY OF NORFOLK
Virginia Retirement System State Constitutional Offices
Schedule of Changes in Net Pension Liability and Related Ratios (unaudited)
For Fiscal Years

	2018	2017	2016	2015
Total Pension Liability				
Service costs	\$ 3,487,288	\$ 3,496,157	\$ 3,531,000	\$ 3,600,000
Interest	6,689,417	6,370,650	6,001,000	5,574,000
Difference between expected and actual experience	(599,933)	(1,331,914)	(763,000)	-
Changes in assumptions	(893,223)	-	-	-
Benefits payments, including refunds of member contributions	(4,376,843)	(3,585,300)	(3,377,000)	(2,798,000)
Net change in total pension liability	4,306,706	4,949,593	5,392,000	6,376,000
Total Pension Liability - Beginning	97,751,527	92,801,934	87,410,000	81,034,000
Total Pension Liability - Ending	<u>\$ 102,058,233</u>	<u>\$ 97,751,527</u>	<u>\$ 92,802,000</u>	<u>\$ 87,410,000</u>
Plan Fiduciary Net position				
Employer contributions	\$ 2,355,587	\$ 2,804,570	\$ 2,830,000	\$ 3,167,000
Employee contributions	1,362,997	1,357,832	1,373,000	1,422,000
Projected earnings on plan investments	10,677,625	1,525,201	3,742,000	10,933,000
Benefit payments, including refunds of member contributions	(4,376,843)	(3,585,300)	(3,377,000)	(2,798,000)
Administrative expense	(61,057)	(52,120)	(50,000)	(57,000)
Other	(9,527)	(639)	(3,000)	1,000
Net change in Fiduciary Net Position	9,948,782	2,049,544	4,515,000	12,668,000
Total Net Position - Beginning	87,540,574	85,491,030	80,975,000	68,307,000
Total Net Position - Ending	<u>\$ 97,489,356</u>	<u>\$ 87,540,574</u>	<u>\$ 85,490,000</u>	<u>\$ 80,975,000</u>
Net Pension Liability	<u>\$ 4,568,877</u>	<u>\$ 10,210,953</u>	<u>\$ 7,312,000</u>	<u>\$ 6,435,000</u>
Plan fiduciary net position as a percentage of the total pension liability	95.52%	89.55%	92.12%	92.64%
Covered payroll	\$ 26,351,750	\$ 27,083,985	\$ 26,861,778	\$ 26,952,068
Net Pension liability as a percentage of covered payroll	17.34%	37.70%	27.22%	23.88%

*This schedule is intended to illustrate the requirement to show information for 10 years.
Additional years will be included as they become available.

CITY OF NORFOLK
Virginia Retirement System State Constitutional Offices

Schedule of Employer Contributions (unaudited)

Last 10 Fiscal Years

(Amounts in thousands)

Fiscal Year	Contractually Required Contributions	Contributions in Relation to Contractually Required Contributions	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2018	\$ 2,338	\$ 2,338	\$ -	\$ 27,840	8.40%
2017	2,356	2,356	-	26,352	8.94%
2016	2,805	2,805	-	27,084	10.36%
2015	2,830	2,830	-	26,862	10.54%
2014	3,167	3,167	-	26,952	11.75%
2013	3,135	3,135	-	27,300	11.48%
2012	3,212	3,212	-	24,677	13.02%
2011	3,289	3,289	-	24,539	13.40%
2010	3,371	3,371	-	24,539	13.74%
2009	3,490	3,490	-	25,997	13.42%

Note: Covered payroll prior to June 30, 2014, was calculated on payroll subject to pension coverage. Under GASB 68, covered payroll should include total payroll for employees covered under pension plan whether that payroll is subject to pension coverage or not.

See accompanying independent auditors' report

SCHOOL BOARD OF THE CITY OF NORFOLK
A Component Unit of the City of Norfolk
Virginia Retirement System Teachers Retirement Plan
Schedule of the School Board's Proportionate Share of the Net Pension Liability (unaudited)
For Fiscal Years
(Amounts in thousands)

	2018	2017	2016	2015
School Board's proportion of the Net Pension Liability	2.701%	2.400%	2.430%	2.467%
School Board's proportionate share of the Net Pension Liability	\$ 283,848	\$ 336,787	\$ 305,901	\$ 298,089
Covered payroll	\$ 192,822	\$ 194,172	\$ 189,624	\$ 189,067
School Board's proportionate of the Net Pension Liability as a percentage of its covered payroll	147%	173%	161%	158%
Plan fiduciary net position as a percentage of the total pension liability	72.92%	68.28%	70.68%	70.88%

*The schedule is intended to illustrate the requirement to show information for 10 years. Since 2015 was the first year for presentation, no older data is available. Additional years will be included as they become available.

SCHOOL BOARD OF THE CITY OF NORFOLK
A Component Unit of the City of Norfolk
Virginia Retirement System Teachers Retirement Plan
Schedule of School Board Contributions (unaudited)
Last 10 Fiscal Years
(Amounts in thousands)

Fiscal Year	Contractually Required Contributions	Contributions in Relation to Contractually Required Contributions	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2018	\$ 29,028	\$ 29,028	\$ -	\$ 188,385	15.41%
2017	26,582	26,582	-	192,822	13.79%
2016	25,755	25,755	-	194,172	13.26%
2015	26,206	26,206	-	189,624	13.82%
2014	21,056	21,056	-	189,067	11.14%
2013	20,911	20,911	-	144,714	14.45%
2012	19,516	19,516	-	148,138	13.17%
2011	16,027	16,027	-	135,016	11.87%
2010	21,492	21,492	-	157,542	13.64%
2009	26,461	26,461	-	157,178	16.84%

Note: Covered payroll prior to June 30, 2014, was calculated on payroll subject to pension coverage. Under GASB 68, covered payroll should include total payroll for employees covered under pension plan whether that payroll is subject to pension coverage or not.

SCHOOL BOARD OF THE CITY OF NORFOLK
A Component Unit of the City of Norfolk
Virginia Retirement System School Board Political Subdivisions
Schedule of Changes in the School Board's Net Pension Liability and Related Ratios (unaudited)
For Fiscal Years
(Amounts in thousands)

	2018	2017	2016	2015
Total Pension Liability				
Service costs	\$ 1,552	\$ 1,527	\$ 1,563	\$ 1,530
Interest	5,976	5,891	5,770	5,586
Changes in assumptions	(850)	-	-	-
Difference between expected and actual experience	(646)	(1,511)	(1,027)	-
Benefits payments, including refunds of member contributions	(4,706)	(4,814)	(4,343)	(4,659)
Change in proportionate share	76	1	21	
Net change in total pension liability	1,402	1,094	1,984	2,457
Total Pension Liability - Beginning	87,660	86,566	84,582	82,125
Total Pension Liability - Ending	<u>\$ 89,062</u>	<u>\$ 87,660</u>	<u>\$ 86,566</u>	<u>\$ 84,582</u>
Plan Fiduciary Net Position				
Employer contributions	\$ 1,408	\$ 1,794	\$ 1,768	\$ 1,722
Employee contributions	807	800	785	775
Projected earnings on plan investments	8,877	1,248	3,321	10,151
Benefit payments, including refunds of member contributions	(4,706)	(4,814)	(4,343)	(4,659)
Administrative expense	(52)	(47)	(47)	(56)
Change in proportionate share	41	1	18	
Other	(17)	(17)	(11)	1
Net change in Fiduciary Net Position	6,358	(1,035)	1,491	7,934
Total Net Position - Beginning	73,963	74,998	73,507	65,573
Total Net Position - Ending	<u>\$ 80,321</u>	<u>\$ 73,963</u>	<u>\$ 74,998</u>	<u>\$ 73,507</u>
Net Pension Liability	<u>\$ 8,741</u>	<u>\$ 13,697</u>	<u>\$ 11,568</u>	<u>\$ 11,075</u>
Plan fiduciary net position as a percentage of the total pension liability	90.19%	84.37%	86.64%	86.91%
Covered payroll	\$ 23,756	\$ 22,219	\$ 22,224	\$ 21,766
Net Pension liability as a percentage of covered payroll	36.79%	61.65%	52.05%	50.88%

*The schedule is intended to illustrate the requirement to show information for 10 years.
Since 2016 was the first year for presentation, no older data is available. However, additional years will be included as they become available.

SCHOOL BOARD OF THE CITY OF NORFOLK
A Component Unit of the City of Norfolk
Virginia Retirement System School Board Political Subdivisions
Schedule of School Board Contributions (unaudited)
Last 10 Fiscal Years
(Amounts in thousands)

Fiscal Year	Contractually Required Contributions	Contributions in Relation to Contractually Required Contributions	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2018	\$ 1,435	\$ 1,435	\$ -	\$ 22,292	6.44%
2017	1,408	1,408	-	23,756	5.93%
2016	1,794	1,794	-	22,219	8.07%
2015	1,768	1,768	-	22,224	7.96%
2014	1,722	1,722	-	21,766	7.91%
2013	1,734	1,734	-	15,661	11.07%
2012	1,858	1,858	-	14,818	12.54%
2011	1,923	1,923	-	15,287	12.58%
2010	1,928	1,928	-	16,169	11.92%
2009	2,016	2,016	-	16,871	11.95%

Note: Covered payroll prior to June 30, 2014, was calculated on payroll subject to pension coverage. Under GASB 68, covered payroll should include total payroll for employees covered under pension plan whether that payroll is subject to pension coverage or not.

CITY OF NORFOLK
City OPEB Liability
Schedule of Changes in Total OPEB Liability and Related Ratios (unaudited)
For Fiscal Years

2018

Total OPEB Liability

Service Costs	\$ 2,638,578
Interest	864,633
Changes of benefit terms	-
Difference between expected and actual experience	(1,413,447)
Changes in assumptions	1,815,771
Benefits payments, including refunds of member contributions	<u>(1,247,913)</u>
Net change in total OPEB liability	2,657,622
Total OPEB Liability - Beginning	<u>29,647,567</u>
Total OPEB Liability - Ending	<u><u>\$ 32,305,189</u></u>

Covered employee payroll	\$ 196,905,143
--------------------------	----------------

Net OPEB liability as a percentage of covered employee payroll	16.41%
--	--------

*The schedule is intended to illustrate the requirement to show information for 10 years. Since 2018 was the first year for presentation, no older data is available. However, additional years will be included as they become available.

CITY OF NORFOLK
City Line of Duty OPEB Liability
Schedule of Changes in Total OPEB Liability and Related Ratios (unaudited)
For Fiscal Years

2018

Total OPEB Liability

Service Costs	\$ 991,486
Interest	637,503
Changes of benefit terms	19,652,972
Difference between expected and actual experience	(2,397)
Changes in assumptions	(5,648,603)
Benefits payments, including refunds of member contributions	<u>(822,158)</u>
Net change in total OPEB liability	14,808,803
Total OPEB Liability - Beginning	<u>22,284,435</u>
Total OPEB Liability - Ending	<u><u>\$ 37,093,238</u></u>

Covered employee payroll	\$ 68,244,678
--------------------------	---------------

Net OPEB liability as a percentage of covered employee payroll	54.35%
--	--------

*The schedule is intended to illustrate the requirement to show information for 10 years. Since 2018 was the first year for presentation, no older data is available. However, additional years will be included as they become available.

CITY OF NORFOLK
School Board OPEB Liability
Schedule of Changes in Total OPEB Liability and Related Ratios (unaudited)
For Fiscal Years

2018

Total OPEB Liability

Service Costs	\$ 1,468,830
Interest	1,702,533
Changes of benefit terms	-
Difference between expected and actual experience	(3,274,812)
Changes in assumptions	(10,475,847)
Benefits payments, including refunds of member contributions	<u>(2,580,746)</u>
Net change in total OPEB liability	(13,160,042)
Total OPEB Liability - Beginning	<u>60,290,035</u>
Total OPEB Liability - Ending	<u><u>\$ 47,129,993</u></u>

Covered employee payroll	\$ 202,324,943
--------------------------	----------------

Net OPEB liability as a percentage of covered employee payroll	23.29%
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*The schedule is intended to illustrate the requirement to show information for 10 years. Since 2018 was the first year for presentation, no older data is available. However, additional years will be included as they become available.

SCHOOL BOARD OF THE CITY OF NORFOLK
A Component Unit of the City of Norfolk
Virginia Retirement System - Health Insurance Credit Program (HIC)
Schedule of the School Board's Share of the Net OPEB Liability (unaudited)
For Fiscal Years
(Amounts in thousands)

	2018
School Board's proportion of contributions of the Net HIC OPEB Liability	2.70%
School Board's proportionate share of the Net HIC OPEB Liability	\$ 29,296
Covered payroll	\$ 177,333
School Board's proportionate of the Net HIC OPEB Liability as a percentage of its covered payroll	16.52%
Plan fiduciary net position as a percentage of the Total HIC OPEB Liability	7.00%

*The schedule is intended to illustrate the requirement to show information for 10 years. Since 2018 was the first year for presentation, no older data is available. Additional years will be included as they become available.

*The amount presented have a measurement date of the previous fiscal year end.

SCHOOL BOARD OF THE CITY OF NORFOLK
A Component Unit of the City of Norfolk
Virginia Retirement System - Group Life Insurance Program (GLI) Teachers
Schedule of the School Board's Share of the Net OPEB Liability (unaudited)
For Fiscal Years
(Amounts in thousands)

	2018
School Board's proportion of contributions of the Net GLI OPEB Liability	1.16%
School Board's proportionate share of the Net GLI OPEB Liability	\$ 14,976
Covered payroll	\$ 183,561
School Board's proportionate of the Net GLI OPEB Liability as a percentage of its covered payroll	8.16%
Plan fiduciary net position as a percentage of the Total GLI OPEB Liability	49.00%

*The schedule is intended to illustrate the requirement to show information for 10 years. Since 2018 was the first year for presentation, no older data is available. Additional years will be included as they become available.

*The amount presented have a measurement date of the previous fiscal year end.

SCHOOL BOARD OF THE CITY OF NORFOLK
A Component Unit of the City of Norfolk
Virginia Retirement System - Group Life Insurance Program (GLI) Political Subdivisions
Schedule of the School Board's Share of the Net OPEB Liability (unaudited)
For Fiscal Years
(Amounts in thousands)

	2018
School Board's proportion of contributions of the Net GLI OPEB Liability	0.09%
School Board's proportionate share of the Net GLI OPEB Liability	\$ 1,185
Covered payroll	\$ 14,529
School Board's proportionate of the Net GLI OPEB Liability as a percentage of its covered payroll	8.16%
Plan fiduciary net position as a percentage of the Total GLI OPEB Liability	49.00%

*The schedule is intended to illustrate the requirement to show information for 10 years. Since 2018 was the first year for presentation, no older data is available. Additional years will be included as they become available.

*The amount presented have a measurement date of the previous fiscal year end.

SCHOOL BOARD OF THE CITY OF NORFOLK
A Component Unit of the City of Norfolk
Virginia Retirement System - Health Insurance Credit Program (HIC)
Schedule of School Board Contributions (unaudited)
Last 10 Fiscal Years
(Amounts in thousands)

Fiscal Year	Contractually Required Contributions	Contributions in Relation to Contractually Required Contributions	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2018	\$ 2,181	\$ 2,181	\$ -	\$ 177,333	1.23%

*The schedule will eventually report 10 years of data as the information becomes available.

SCHOOL BOARD OF THE CITY OF NORFOLK
A Component Unit of the City of Norfolk
Virginia Retirement System - Group Life Insurance Program (GLI) Teachers
Schedule of School Board Contributions (unaudited)
Last 10 Fiscal Years
(Amounts in thousands)

Fiscal Year	Contractually Required Contributions	Contributions in Relation to Contractually Required Contributions	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2018	\$ 888	\$ 888	\$ -	\$ 207,479	0.43%
2017	981	1,039	(58)	185,045	0.53%
2016	958	868	90	180,745	0.53%
2015	957	866	91	180,487	0.53%
2014	949	860	89	179,135	0.53%
2013	757	482	275	172,021	0.44%
2012	790	588	202	179,569	0.44%
2011	687	366	321	190,873	0.36%
2010	689	516	173	191,294	0.36%
2009	747	747	-	186,719	0.40%

See accompanying independent auditors' report

SCHOOL BOARD OF THE CITY OF NORFOLK
A Component Unit of the City of Norfolk
Virginia Retirement System - Group Life Insurance Program (GLI) Political Subdivisions
Schedule of School Board Contributions (unaudited)
Last 10 Fiscal Years
(Amounts in thousands)

Fiscal Year	Contractually Required Contributions	Contributions in Relation to Contractually Required Contributions	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2018	\$ 75	\$ 75	\$ -	\$ 14,529	0.52%
2017	75	68	7	14,112	0.53%
2016	73	66	7	13,832	0.53%
2015	72	65	7	13,600	0.53%
2014	72	65	7	13,590	0.53%
2013	57	36	21	12,952	0.44%
2012	58	37	21	13,287	0.44%
2011	51	28	23	14,143	0.36%
2010	53	40	13	14,811	0.36%
2009	58	58	-	14,493	0.40%

See accompanying independent auditors' report

CITY OF NORFOLK, VIRGINIA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended JUNE 30, 2018

A. VRS Teacher Retirement Plan

Changes of benefit terms and assumptions

There have been no actuarially material changes to the VRS benefit provisions since the prior actuarial valuation. The 2014 valuation includes hybrid retirement plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is still a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017 is not material.

The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

- Updated mortality table to a more current table
- Lowered rates at older ages and changed final retirement from 70 to 75
- Adjusted withdrawal rates to better fit experience
- Lowered disability rates
- Salary scale remained unchanged

B. VRS Retirement Plan for Political Subdivisions

Changes of benefit terms and assumptions

There have been no actuarially material changes to the VRS benefit provisions since the prior actuarial valuation. The 2014 valuation includes hybrid retirement plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is still a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017 is not material.

The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

- Updated mortality table to a more current table
- Lowered rates at older ages and changed final retirement from 70 to 75
- Adjusted withdrawal rates to better fit experience
- Lowered disability rates
- Salary scale remained unchanged

CITY OF NORFOLK, VIRGINIA

Exhibit E-1

**Schedule of Revenue, Budget and Actual (Unaudited)
General Fund
For the Year Ending June 30, 2018**

	Original Budget	Final Budget	Budget Basis Actual	Positive (negative) Variance with Final Budget
General property taxes	\$ 272,214,800	\$ 272,214,800	\$ 272,292,964	\$ 78,164
Other local taxes	166,625,000	166,625,000	163,653,946	(2,971,054)
Permits, privilege fees and licenses	3,191,900	3,191,900	3,298,466	106,566
Fines and forfeitures	1,215,000	1,215,000	1,067,796	(147,204)
Use of money and property	7,704,583	7,704,583	7,652,925	(51,658)
Charges for services	25,970,611	26,000,611	23,456,647	(2,543,964)
Miscellaneous revenue	8,970,789	8,970,789	24,999,761	16,028,972
Recovered costs	11,758,591	11,728,591	11,774,831	46,240
Non-categorical aid - Virginia	34,807,100	34,807,100	35,048,144	241,044
Shared expense - Virginia	21,377,000	21,377,000	21,663,467	286,467
Categorical aid - Virginia	265,985,727	265,985,727	261,736,804	(4,248,923)
Categorical aid - Federal	8,701,490	8,701,490	7,775,547	(925,943)
Other sources and transfers	28,753,463	33,853,463	33,853,463	-
Total revenue budget	\$ 857,276,054	\$ 862,376,054	\$ 868,274,761	\$ 5,898,707

Exhibit A-3 for GASB 54 includes the General Fund, the Nauticus Fund and the Community Services Board.

CITY OF NORFOLK, VIRGINIA

Exhibit E-2

**Schedule of Expenditures, Budget and Actual (Unaudited)
General Fund
For the Year Ending June 30, 2018**

	Original Budget	Final Budget	Budget Basis Actual	Positive (negative) Variance with Final Budget
Legislative	\$ 5,121,896	\$ 5,121,896	\$ 4,726,284	\$ 395,612
Executive	4,056,549	4,183,549	4,109,315	74,234
Department of Law	4,613,010	4,613,010	4,686,066	(73,056)
Finance, City Treasurer, Commissioner of Revenue	10,640,713	11,127,713	10,945,208	182,505
Department of Human Resources	3,505,621	3,535,621	3,512,190	23,431
Courts, Sheriff and Detention	51,998,261	51,498,261	49,596,689	1,901,572
Department of Public Health	3,409,151	3,409,151	3,274,697	134,454
Department of Human Services	74,367,775	73,999,952	70,585,838	3,414,114
Department of Public Works	27,605,306	27,059,306	26,557,054	502,252
Recreation Parks and Open Space, Maritime Center	22,985,680	22,985,680	22,515,070	470,610
Education	325,292,145	325,292,145	319,940,089	5,352,056
Norfolk Public Libraries	12,184,268	12,184,268	11,711,945	472,323
Elections	862,298	862,298	865,305	(3,007)
Department of Planning & Community Development	5,032,672	4,826,307	4,614,682	211,625
Department of Neighborhood Development	4,360,937	4,389,937	4,256,044	133,893
Department of Cultural Facilities, Arts & Entertainment	5,872,356	5,872,356	5,914,239	(41,883)
Departmental Support	20,575,989	19,599,489	17,005,414	2,594,075
Outside Agencies	45,075,920	43,098,027	42,595,065	502,962
Department of Police	72,523,769	71,548,835	71,231,450	317,385
Department of Fire and Rescue	44,621,442	44,451,442	44,304,698	146,744
Debt service	66,639,496	77,239,496	76,705,820	533,676
Office of Budget and Strategic Planning	1,432,603	1,440,253	1,434,312	5,941
Resilience	370,766	374,631	318,557	56,074
General Services	25,560,491	25,495,491	24,886,942	608,549
Economic Development	2,163,109	2,163,109	2,146,739	16,370
Communications and Public Relations	24,616	17,758	13,543	4,215
Department of Information Technology	11,725,686	11,332,544	11,203,991	128,553
Virginia Zoological Park	4,353,369	4,353,369	4,318,921	34,448
Office of Homelessness	300,160	300,160	295,703	4,457
Total expenditure budget	\$ 857,276,054	\$ 862,376,054	\$ 844,271,870	\$ 18,104,184

Exhibit E-2 for GASB 54 includes the General fund, the Maritime Center and the Community Services Board.

CITY OF NORFOLK, VIRGINIA
Notes to Required Supplementary Information
Reconciliation of (non-GAAP) Budgetary Basis to GAAP (Unaudited)
For the Year Ending June 30, 2018

	General Fund
<u>Sources/inflows of resources:</u>	
Actual amounts (budgetary basis) "available for appropriation" from Exhibit E-1	\$ 868,274,761
Differences--budget to GAAP:	
The effects of accounting for school revenue as a component unit	(195,198,369)
The effects of accounting for transfer from fund balance	(16,965,374)
General fund transfers from other funds are inflows of budgetary resources, but are not revenues for financial reporting purposes	(16,888,089)
The effects of reclassification of recovered costs	(16,012,314)
Gross proceeds from other financing sources	(9,278,322)
Total revenues as reported on the Statement of Revenues, Expenditure and Changes in Fund Balances - Governmental Funds	<u>\$ 613,932,293</u>
<u>Uses/outflows of resources:</u>	
Actual amounts (budgetary basis) "Total charges to appropriations" from Exhibit E-2	\$ 844,271,870
Differences--budget to GAAP:	
The effects of accounting for school expenditures as a component unit	(183,926,850)
The effects of accounting for Special Revenue fund as a non major fund	-
The effects of reclassification of recovered costs	(9,744,136)
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	(9,540,996)
General fund transfers to other funds are outflows of budgetary resources, but are not expenditures for financial reporting purposes	(76,973,896)
Total expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	<u>\$ 564,085,992</u>

There were no material violations of the annual appropriated budget for the General fund for fiscal year 2018.



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OTHER SUPPLEMENTARY INFORMATION

COMBINING FINANCIAL STATEMENTS

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

OTHER SCHEDULES

~ Schedule of Expenditures of Federal Awards ~

~ Notes to Schedule of Expenditures of Federal Awards ~

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

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

**Schedule of Expenditures – Budget and Actual –
Capital Improvement Program ~**





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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.

Waste Management Fund: To account for the costs and revenues associated with the City's solid waste and environmental management programs.

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

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

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

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

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

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

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

Resiliency Fund: To account for the receipt and disbursement of revenue from the National Disaster Resilience Grant.



Nonmajor Governmental Funds (Cont'd.)

Endowed Care Fund: The Endowed Care fund is used to report resources that are restricted by City Code. The City's Endowed Care fund is used to account for the perpetual care and endowed care at certain City-owned cemeteries. Both the earnings and principal are used for purposes that support the maintenance of City-owned cemeteries.



CITY OF NORFOLK, VIRGINIA

Exhibit F-1

**Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2018**

	Special Revenue Funds											Total Special Revenue	Endowed Care Fund	Nonmajor Governmental Funds
	Storm Water	Towing	Waste Management	Grants	Community Development	Cemeteries	Golf	Public Amenities	EOC/ 911	Tax Increment	Resiliency			
ASSETS														
Cash and short-term investments	\$ 2,137,596	\$ 31,244	\$ 3,680,752	\$ 2,040,681	\$ -	\$ 7,418	\$ 254,184	\$ 11,540,254	\$ 282,208	\$ 1,714,825	\$ -	\$ 21,689,162	\$ 5,735,359	\$ 27,424,521
Receivables, net	3,048,722	31,994	2,533,743	2,145,760	463,371	207,560	-	721,827	-	-	-	9,152,977	13,455	9,166,432
Accrued investment income	299	-	593	66	-	-	-	-	-	-	-	958	-	958
Due from other funds	-	-	-	127,841	-	-	-	-	-	-	-	127,841	-	127,841
Due from other governments	90,507	-	-	11,930,542	630,719	-	-	-	4,466	-	3,243,462	15,899,696	-	15,899,696
Prepaid	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Restricted cash and cash equivalents	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	\$ 5,277,124	\$ 63,238	\$ 6,215,088	\$ 16,244,890	\$ 1,094,090	\$ 214,978	\$ 254,184	\$ 12,262,081	\$ 286,674	\$ 1,714,825	\$ 3,243,462	\$ 46,870,634	\$ 5,748,814	\$ 52,619,448
LIABILITIES, DEFERRED INFLOWS														
Vouchers payable	\$ 450,370	\$ 40,528	\$ 693,976	\$ 1,740,550	\$ 1,474	\$ 54,452	\$ -	\$ -	\$ 42,754	\$ -	\$ 735,745	\$ 3,759,849	\$ 75,000	\$ 3,834,849
Contract retainage	9,013	-	-	185,418	-	-	-	-	-	-	-	194,431	-	194,431
Accrued payroll	94,232	9,503	80,261	34,584	-	23,761	-	-	85,203	-	-	327,544	-	327,544
Accrued expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unearned revenue	-	-	-	7,298,930	-	-	-	-	-	-	-	7,298,930	-	7,298,930
Due to other funds	147,096	-	-	23,751	229,607	113,378	-	-	-	-	2,507,717	3,021,549	-	3,021,549
Due to component units	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	319	5,580	-	-	-	-	-	-	-	-	-	5,899	-	5,899
Total liabilities	701,030	55,611	774,237	9,283,233	231,081	191,591	-	-	127,957	-	3,243,462	14,608,202	75,000	14,683,202
DEFERRED INFLOWS OF RESOURCES														
Revenue not available for current obligations	537,329	-	2,042,040	-	863,009	153,122	-	-	-	-	-	3,595,500	-	3,595,500
FUND BALANCES														
Nonspendable	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Restricted	-	-	-	666,247	-	-	-	-	-	-	-	666,247	5,673,814	6,340,061
Committed	4,038,765	-	-	3,245,865	-	-	37,803	-	-	-	-	7,322,433	-	7,322,433
Assigned	-	7,627	3,398,811	3,699,547	-	43,140	216,381	12,262,081	158,717	1,714,825	-	21,501,129	-	21,501,129
Unassigned	-	-	-	(650,002)	-	(172,875)	-	-	-	-	-	(822,877)	-	(822,877)
Total fund balances	4,038,765	7,627	3,398,811	6,961,657	-	(129,735)	254,184	12,262,081	158,717	1,714,825	-	28,666,932	5,673,814	34,340,746
Total liabilities and fund balances	\$ 5,277,124	\$ 63,238	\$ 6,215,088	\$ 16,244,890	\$ 1,094,090	\$ 214,978	\$ 254,184	\$ 12,262,081	\$ 286,674	\$ 1,714,825	\$ 3,243,462	\$ 46,870,634	\$ 5,748,814	\$ 52,619,448

CITY OF NORFOLK, VIRGINIA

Exhibit F-2

**Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ending June 30, 2018**

	Special Revenue Funds											Endowed Care Fund	Total Nonmajor Governmental Funds
	Storm Water	Towing	Waste Management	Grants	Community Development	Cemeteries	Golf	Public Amenities	EOC/ 911	Tax Increment	Resiliency	Total Special Revenue	
REVENUES													
General property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	5,266,000	\$ -	\$ 5,266,000	\$ -
Other local taxes	-	-	-	-	-	-	-	6,913,326	3,571,596	-	-	10,484,922	-
Fines and forfeitures	-	-	-	(184)	-	-	-	-	-	-	-	(184)	-
Use of money and property	946	-	6,327	531	-	-	15,000	-	-	-	-	22,804	129,148
Charges for services	16,342,606	1,358,870	21,693,040	322,277	-	1,287,740	-	-	351	-	-	41,004,884	190,981
Miscellaneous	94,528	2,265	48,418	1,901,356	72,103	-	-	-	-	-	-	2,118,670	-
Intergovernmental:													
Commonwealth of Virginia	449,362	-	-	16,071,150	-	-	-	-	1,591,684	-	-	18,112,196	-
Federal government	83,947	4,248	-	14,765,116	4,658,990	-	-	-	-	-	7,683,910	27,196,211	-
Total revenue	16,971,389	1,365,383	21,747,785	33,060,246	4,731,093	1,287,740	15,000	6,913,326	5,163,631	5,266,000	7,683,910	104,205,503	320,129
EXPENDITURES													
General government	-	-	-	2,533,754	-	-	-	1,283,943	-	-	-	3,817,697	-
Judicial administration	-	-	-	3,043,667	-	-	-	-	-	-	-	3,043,667	-
Public safety	-	-	-	4,009,131	-	-	-	-	5,658,661	-	-	9,667,792	-
Public works	11,697,747	1,263,731	19,119,296	10,146,194	-	-	-	-	-	-	-	42,226,968	-
Health and public assistance	-	-	-	16,208,586	460,844	-	-	-	-	-	-	16,669,430	-
Cultural and recreation	-	-	-	359,061	-	1,872,433	9,000	-	-	-	-	2,240,494	-
Community development	-	-	-	1,142,071	2,455,348	-	-	-	-	-	7,683,910	11,281,329	-
Capital Outlay	-	-	-	-	1,819,901	-	-	-	-	-	-	1,819,901	-
Total expenditures	11,697,747	1,263,731	19,119,296	37,442,464	4,736,093	1,872,433	9,000	1,283,943	5,658,661	-	7,683,910	90,767,278	-
Excess (deficiency) of revenue over (under) expenditures	5,273,642	101,652	2,628,489	(4,382,218)	(5,000)	(584,693)	6,000	5,629,383	(495,030)	5,266,000	-	13,438,225	320,129
OTHER FINANCING SOURCES (USES)													
Transfers in	-	85,472	-	6,791,464	-	412,148	-	-	570,834	-	-	7,859,918	-
Transfers out	(4,737,284)	(203,402)	(896,962)	-	-	-	-	(7,381,960)	-	(5,266,000)	-	(18,485,608)	(300,000)
Total other financing sources and uses	(4,737,284)	(117,930)	(896,962)	6,791,464	-	412,148	-	(7,381,960)	570,834	(5,266,000)	-	(10,625,690)	(300,000)
Net change in fund balances	536,358	(16,278)	1,731,527	2,409,246	(5,000)	(172,545)	6,000	(1,752,577)	75,804	-	-	2,812,535	20,129
Fund balances--beginning	3,502,407	23,905	1,667,284	4,552,411	5,000	42,810	248,184	14,014,658	82,913	1,714,825	-	25,854,397	5,653,685
Fund balances--ending	\$ 4,038,765	\$ 7,627	\$ 3,398,811	\$ 6,961,657	\$ -	\$ (129,735)	\$ 254,184	\$ 12,262,081	\$ 158,717	\$ 1,714,825	\$ -	\$ 28,666,932	\$ 5,673,814

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:

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 healthcare costs for the City of Norfolk, Norfolk Public Schools, NRHA and Pre-65 Retirees.





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CITY OF NORFOLK, VIRGINIA

Exhibit G-1

**Combining Statement of Net Position - Internal Service Funds
June 30, 2018**

	Healthcare	Fleet Management	Total
ASSETS			
Current assets:			
Cash and short-term investments	\$ 14,606,866	\$ 1,487,999	\$ 16,094,865
Receivables, net	3,810,811	188,912	3,999,723
Prepaid expenses	179,803	-	179,803
Total current assets	<u>18,597,480</u>	<u>1,676,911</u>	<u>20,274,391</u>
Noncurrent assets:			
Capital assets:			
Land	-	415,000	415,000
Buildings and equipment, net	-	10,946,100	10,946,100
Accumulated depreciation	-	(8,139,622)	(8,139,622)
Total noncurrent assets	<u>-</u>	<u>3,221,478</u>	<u>3,221,478</u>
Deferred outflows of resources			
Related to pensions	-	907,320	907,320
Related to OPEB	-	29,801	29,801
Total assets	<u>\$ 18,597,480</u>	<u>\$ 5,835,510</u>	<u>\$ 24,432,990</u>
LIABILITIES			
Current liabilities:			
Vouchers payable	\$ 621,285	\$ 554,494	\$ 1,175,779
Unearned revenue	6,932,638	-	6,932,638
Compensated absences	-	154,327	154,327
Accrued payroll	-	46,038	46,038
Other liabilities	6,295,000	-	6,295,000
Total current liabilities	<u>13,848,923</u>	<u>754,859</u>	<u>14,603,782</u>
Noncurrent liabilities:			
Compensated absences	-	113,205	113,205
Net pension liability	-	2,991,946	2,991,946
Net OPEB liability	-	342,257	342,257
Total noncurrent liabilities	<u>-</u>	<u>3,447,408</u>	<u>3,447,408</u>
Deferred inflows of resources			
Related to pensions	-	114,372	114,372
Related to OPEB	-	30,278	30,278
Total deferred inflows	<u>-</u>	<u>144,650</u>	<u>144,650</u>
Total liabilities	<u>\$ 13,848,923</u>	<u>\$ 4,346,917</u>	<u>\$ 18,195,840</u>
NET POSITION			
Net investment in capital assets	\$ -	\$ 3,221,478	\$ 3,221,478
Unrestricted	4,748,557	(1,732,885)	3,015,672
Total net position	<u>\$ 4,748,557</u>	<u>\$ 1,488,593</u>	<u>\$ 6,237,150</u>

CITY OF NORFOLK, VIRGINIA

Exhibit G-2

**Combining Statement of Revenues, Expenses and
Changes in Fund Net Position - Internal Service Funds
For the Year Ended June 30, 2018**

	Healthcare	Fleet Management	Total
OPERATING REVENUES			
Charges for services	\$ 79,256,365	\$ 11,171,991	\$ 90,428,356
Miscellaneous	-	16,197	16,197
Total operating revenues	<u>79,256,365</u>	<u>11,188,188</u>	<u>90,444,553</u>
OPERATING EXPENSES			
Personal services	-	2,825,866	2,825,866
Healthcare costs	73,324,995	-	73,324,995
Cost of goods sold	-	3,671,782	3,671,782
Plant operations	-	3,808,754	3,808,754
Depreciation and amortization	-	242,963	242,963
Retirement and OPEB expense	-	478,669	478,669
Other	-	206,466	206,466
Total operating expenses	<u>73,324,995</u>	<u>11,234,500</u>	<u>84,559,495</u>
Operating income (loss)	<u>5,931,370</u>	<u>(46,312)</u>	<u>5,885,058</u>
Net income (loss)	<u>5,931,370</u>	<u>(46,312)</u>	<u>5,885,058</u>
Net change in net position	5,931,370	(46,312)	5,885,058
Net position - beginning	(1,182,813)	1,856,135	673,322
Restatement related to OPEB	-	(321,230)	(321,230)
Net position - ending	<u>\$ 4,748,557</u>	<u>\$ 1,488,593</u>	<u>\$ 6,237,150</u>

CITY OF NORFOLK, VIRGINIA

Exhibit G-3

**Combining Statement of Cash Flows - Internal Service Funds
For the Year Ended June 30, 2018**

	Healthcare	Fleet Management	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	\$ 76,875,920	\$ 11,180,906	\$ 88,056,826
Payments to employees	-	(3,209,814)	(3,209,814)
Payments to suppliers	(73,721,647)	(7,006,918)	(80,728,565)
Other payments	-	(208,064)	(208,064)
Net cash provided by (used in) operating activities	<u>3,154,273</u>	<u>756,110</u>	<u>3,910,383</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Interfund activity	<u>-</u>	<u>(32)</u>	<u>(32)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Purchases of capital assets	-	-	-
Capital Contributions	<u>-</u>	<u>-</u>	<u>-</u>
Net cash provided by capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>
Net increase in cash and short-term investments	3,154,273	756,078	3,910,351
Cash and short-term investments - beginning of the year	<u>11,452,593</u>	<u>731,921</u>	<u>12,184,514</u>
Cash and short-term investments - end of the year	<u>\$ 14,606,866</u>	<u>\$ 1,487,999</u>	<u>\$ 16,094,865</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (used in) Operating Activities			
Operating income (loss)	\$ 5,931,370	\$ (46,312)	\$ 5,885,058
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation expense	-	242,963	242,963
Change in assets, deferred outflows and liabilities and deferred inflows:			
Receivables, net	(2,527,076)	(7,282)	(2,534,358)
Prepaid expenses	(179,803)	-	(179,803)
Vouchers payable	(216,849)	473,524	256,675
Accrued payroll	-	2,234	2,234
Net pension liability	-	92,487	92,487
Unearned revenue	146,631	-	146,631
Other liabilities	-	(1,504)	(1,504)
Net cash provided by (used in) operating activities	<u>\$ 3,154,273</u>	<u>\$ 756,110</u>	<u>\$ 3,910,383</u>
Noncash investing, capital, and financing activities:			
Capital Contributions	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>



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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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CITY OF NORFOLK, VIRGINIA
Combining Balance Sheet - Agency Funds
June 30, 2018
(unaudited)

Exhibit H-1

	Other	Commonwealth of Virginia	Total
ASSETS			
Cash and short-term investments	\$ 7,086,543	\$ 9,395	\$ 7,095,938
Other	173,544	-	173,544
Total assets	<u>\$ 7,260,087</u>	<u>\$ 9,395</u>	<u>\$ 7,269,482</u>
LIABILITIES			
Vouchers payable	\$ 341,838	\$ -	\$ 341,838
Due to governmental funds	47,679	-	47,679
Due to other agencies	6,870,570	9,395	6,879,965
Total liabilities	<u>\$ 7,260,087</u>	<u>\$ 9,395</u>	<u>\$ 7,269,482</u>

CITY OF NORFOLK, VIRGINIA

Exhibit H-2

**Combining Statement of Changes in Assets and Liabilities
Agency Funds**

For the Year Ended June 30, 2018
(unaudited)

	Other			
	Balance			Balance
	June 30, 2017	Additions	Deductions	June 30, 2018
ASSETS				
Cash and short-term investments	\$ 6,219,032	\$ 7,603,247	\$ 6,735,736	\$ 7,086,543
Other receivables	107,306	142,476	76,238	173,544
Total assets	<u>\$ 6,326,338</u>	<u>\$ 7,745,723</u>	<u>\$ 6,811,974</u>	<u>\$ 7,260,087</u>
LIABILITIES				
Vouchers payable	\$ 5,170	\$ 1,390,197	\$ 1,053,529	\$ 341,838
Due to governmental funds	-	407,065	359,386	47,679
Due to other agencies	6,321,168	8,834,226	8,284,824	6,870,570
Total liabilities	<u>\$ 6,326,338</u>	<u>\$ 10,631,488</u>	<u>\$ 9,697,739</u>	<u>\$ 7,260,087</u>
Commonwealth of Virginia				
	Balance			Balance
	June 30, 2017	Additions	Deductions	June 30, 2018
ASSETS				
Cash and short-term investments	\$ 4,795	\$ 5,686,356	\$ 5,681,756	\$ 9,395
Total assets	<u>\$ 4,795</u>	<u>\$ 5,686,356</u>	<u>\$ 5,681,756</u>	<u>\$ 9,395</u>
LIABILITIES				
Due to the Commonwealth of Virginia	\$ 4,795	\$ 5,686,356	\$ 5,681,756	\$ 9,395
Total liabilities	<u>\$ 4,795</u>	<u>\$ 5,686,356</u>	<u>\$ 5,681,756</u>	<u>\$ 9,395</u>
Total				
	Balance			Balance
	June 30, 2017	Additions	Deductions	June 30, 2018
ASSETS				
Cash and short-term investments	\$ 6,223,827	\$ 13,289,603	\$ 12,417,492	\$ 7,095,938
Other receivables	107,306	142,476	76,238	173,544
Total assets	<u>\$ 6,331,133</u>	<u>\$ 13,432,079</u>	<u>\$ 12,493,730</u>	<u>\$ 7,269,482</u>
LIABILITIES				
Vouchers payable	\$ 5,170	\$ 1,390,197	\$ 1,053,529	\$ 341,838
Due to other funds	-	407,065	359,386	47,679
Due to other agencies	6,325,963	14,520,582	13,966,580	6,879,965
Total liabilities	<u>\$ 6,331,133</u>	<u>\$ 16,317,844</u>	<u>\$ 15,379,495</u>	<u>\$ 7,269,482</u>

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS





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CITY OF NORFOLK, VIRGINIA
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

Federal Grantor/Pass-Through Entity/ Program Title	CFDA Number		Federal Expenditures (\$)	Program Total (\$)	Passed Through to Sub-Recipients (\$)
DEPARTMENT OF AGRICULTURE					
<u>Direct Payments:</u>					
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561		4,113,618		
Pilot Projects to Reduce Dependency and Increase Work Requirements and Work Effort under SNAP	10.596		51,220		
<u>Pass-through Payments:</u>					
Virginia Department of Agriculture					
School Breakfast Program (Child Nutrition Cluster) - 1	10.553		4,239,768		
National School Lunch Program (Child Nutrition Cluster) - 2	10.555		9,936,523		
Special Milk Program for Children	10.556		856,729		
Child and Adult Care Food Program	10.558		726,102		
Summer Food Service Program for Children (Child Nutrition Cluster)	10.559		594,645		
Fresh Fruit and Vegetable Program	10.582		318,896		
Virginia Department of Juvenile Justice					
School Breakfast Program (Child Nutrition Cluster) - 1	10.553		34,272		
National School Lunch Program (Child Nutrition Cluster) - 2	10.555		53,809		
1 - Total for School Breakfast Program (10.553)				4,274,040	
2 - Total for National School Lunch Program (10.555)				9,990,332	
DEPARTMENT OF DEFENSE					
<u>Direct Payments:</u>					
Competitive Grants: Promoting K-12 Student Achievement at Military-Connected Schools	12.556		449,189		
Community Investment	12.600		10,418,444		
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT					
<u>Direct Payments:</u>					
Community Development Block Grants/Entitlement Grants (CDBG - Entitlement Grants Cluster)	14.218		4,735,049		1,459,034
Emergency Solutions Grant Program	14.231		287,287		169,218
Shelter Plus Care	14.238		412,245		
Home Investment Partnerships Program	14.239		1,048,585		333,395
<u>Pass-through Payments:</u>					
Virginia Department of Housing and Community Development					
National Resilient Disaster Recovery Competition	14.272		7,683,910		
DEPARTMENT OF INTERIOR					
<u>Pass-through Payments:</u>					
National Fish and Wildlife Foundation					
Hurricane Sandy Disaster Relief - Coastal Resiliency Grants	15.153		2,528,830		
DEPARTMENT OF JUSTICE					
<u>Direct Payments:</u>					
Drug Court Discretionary Grant Program	16.585		36,494		
Public Safety Partnership and Community Policing Grants	16.710		9,815		
Edward Byrne Memorial Justice Assistance Grant	16.738		1,729		
Equitable Sharing Program	16.922		228,924		
<u>Pass-through Payments:</u>					
Virginia Department of Criminal Justice Services					
Crime Victim Assistance	16.575	15-J4979DV15	662,516		
Violence Against Women Formula Grants	16.588		147,472		
State Criminal Alien Assistance Program	16.606		2,303		
Edward Byrne Memorial Justice Assistance Grant	16.738		107,251		
3 - Total for Edward Byrne Memorial Justice Assistance Grant (16.738)				108,980	
DEPARTMENT OF TRANSPORTATION					
<u>Pass-through Payments:</u>					
Virginia Department of Transportation					
Highway Planning and Construction (Highway Planning and Construction Cluster)	20.205	3SRS	2,007,800		
State and Community Highway Safety (Highway Safety Cluster)	20.600	154AL-2016-56022-6222	43,642		
Alcohol and Open Container Requirements (Highway Safety Cluster)	20.607		40,030		
NATIONAL ENDOWMENT FOR THE ARTS					
<u>Direct Payments:</u>					
Promotion of the Arts - Grants to Organizations and Individuals	45.024		96,000		
ENVIRONMENTAL PROTECTION AGENCY					
<u>Pass-through Payments:</u>					
Virginia Resources Authority					
Capitalization Grants for Clean Water State Revolving Funds (Clean Water State Revolving Fund Cluster)	66.458	C-515550E-01, C-515574E-01 C-515593E-01, C-515565GE-02	6,499,897		

CITY OF NORFOLK, VIRGINIA
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

Federal Grantor/Pass-Through Entity/ Program Title	CFDA Number		Federal Expenditures (\$)	Program Total (\$)	Passed Through to Sub-Recipients (\$)
DEPARTMENT OF EDUCATION					
<u>Direct Payments:</u>					
Impact Aid	84.041		2,126,257		
<u>Pass-through Payments:</u>					
Virginia Department of Education					
Adult Education - Basic Grants to States	84.002	3ABE V002A100047	263,014		
Title I Grants to Local Educational Agencies	84.010	3CH1 S010A030046, 3CH4 S010A030046 3S12 S010A100046	14,352,939		
Special Education - Grants to States (Special Education Cluster)	84.027	3FTF H027A100107	7,547,778		
Career and Technical Education - Basic Grants to States	84.048	3CPV VA048A110046	814,687		
Special Education - Preschool Grants (Special Education Cluster)	84.173	3619 H173A120112	205,351		
Education for Homeless Children and Youth	84.196	3HLA G11810	34,355		
Twenty-First Century Community Learning Centers	84.287	s287c130047	185,901		
English Language Acquisition State Grants	84.365	3LEP S365A10046	57,812		
Improving Teacher Quality State Grants	84.367	3TPT S367A100044	1,978,972		
Investing in Innovation (I3) Fund	84.411	3IIG 12-219-317101	44,689		
Preschool Development Grants	84.419	3VPI S419B150010	1,692,139		
Virginia Department of Behavioral Health and Developmental Services					
Special Education - Grants for Infants and Families	84.181		214,866		
DEPARTMENT OF HEALTH AND HUMAN SERVICES					
<u>Direct Payments:</u>					
HIV Emergency Relief Project Grants	93.914		5,761,576		4,600,270
<u>Pass-through Payments:</u>					
Virginia Department of Social Services					
Promoting Safe and Stable Families	93.556	0950114, 0950115	129,915		
Temporary Assistance for Needy Families (TANF Cluster) - 4	93.558	0400115, 0400116	3,875,761		229,799
Refugee and Entrant Assistance - State Administered Programs	93.566	0500115, 0500116	6,117		
Low-Income Home Energy Assistance	93.568	0600415, 0600416	508,678		
Child Care and Development Block Grant	93.575		(582)		
Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CCDF Cluster)	93.596	0760115, 0760116	604,712		
Chafee Education and Training Vouchers Program (ETV)	93.599	9160114, 9160115	(1,936)		
Adoption Incentive Payments	93.603		5,459		
Stephanie Tubbs Jones Child Welfare Services Program	93.645	900115	12,054		
Foster Care - Title IV-E	93.658	1100115, 1100116	2,529,833		
Adoption Assistance	93.659	1120115, 1120116	2,483,715		
Social Services Block Grant	93.667	1000115, 1000116	2,853,411		
Chafee Foster Care Independence Program	93.674	9150115, 9150116	30,405		
Children's Health Insurance Program	93.767	0540115, 0540116	166,051		
Medical Assistance Program - Administrative (Medicaid Cluster)	93.778		3,902,009		
Virginia Department of Behavioral Health and Developmental Services					
Projects for Assistance in Transition from Homeless (PATH)	93.150	SM016047-16	107,819		
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243		1,038,927		
Temporary Assistance for Needy Families (TANF Cluster) - 4	93.558		56,902		
Opioid STR	93.788		544,514		
Mental Health Federal Block Grant	93.958	SM010053-16	135,589		
Substance Abuse Federal Block Grant	93.959	STI010053-16	1,913,764		
4 - Total for Temporary Assistance for Needy Families (93.558)				3,932,663	
DEPARTMENT OF HOMELAND SECURITY					
<u>Direct Payments:</u>					
Port Security Grant Program - 5	97.056		305,839		
<u>Pass-through Payments:</u>					
Virginia Department of Emergency Management					
Hazard Mitigation Grant	97.039		1,755,572		
Port Security Grant Program - 5	97.056		20,850		
Homeland Security Grant Program	97.067		28,096		
State Homeland Security Program (SHSP)	97.073		19,754		
5 - Total for Port Security Grant Program (97.056)				326,689	
TOTAL FEDERAL EXPENDITURES			\$ 116,686,558		\$ 6,791,716

CITY OF NORFOLK, VIRGINIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2018

1. General

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

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

2. Basis of Accounting

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

3. Relationship to the Basic Financial Statements

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

Major governmental funds	\$ 38,865,772
Non-major governmental funds	27,196,211
Total revenues from federal government	<u>66,061,983</u>

Component Unit - School Board

Total Federal Grants Awarded	\$ 49,430,042
Other Federal Amounts not reported on SEFA	
Direct Payments:	
Total - Norfolk Public Schools	49,430,042

CSA Pool - Medicaid Adjustment

**Total federal financial assistance reported in
basic financial statements**

\$ 115,492,025

Federal awards not reported as federal revenue in
basic financial statements:

Enterprise - VRA Loan - Wastewater Fund & Storm Water Fund	6,499,897
VDOT	993,168
CSA	490,688
Federal awards not reported on the SEFA:	
Norfolk Public Schools Direct Payments	(2,942,153)
Build America Bond Interest Rate Subsidy	(2,584,704)
Recognition of DOD Revenue	(1,535,713)
Other reconciling items	273,350

Grant funds recorded as revenue in financial statements, not on schedule of federal awards (CSB)

Total federal awards

\$ 116,686,558

Reconciliation to Exhibit A-3

Revenues from federal government	\$ 66,061,983
Revenues from Commonwealth of Virginia	127,227,619
Total intergovernmental revenue	<u>\$ 193,289,602</u>

CITY OF NORFOLK, VIRGINIA
CITY OF NORFOLK, VIRGINIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2018

4. Clusters

Clustered programs for the year ended June 30, 2018 were as follows:

Grant Program / Cluster	CFDA Number	Federal Expenditures
School Breakfast Program	10.553	\$ 4,274,040
National School Lunch Program	10.555	9,990,332
Summer Food Service Program for Children	10.559	594,645
Total Child Nutrition Cluster		\$ 14,859,017
Community Development Block Grants/Entitlement Grants	14.218	\$ 4,735,049
Total CDBG - Entitlement Grants Cluster		\$ 4,735,049
Highway Planning and Construction	20.205	\$ 2,007,800
Total Highway Planning and Construction Cluster		\$ 2,007,800
State and Community Highway Safety	20.600	\$ 43,642
Alcohol and Open Container Requirements	20.607	40,030
Total Highway Safety Cluster		\$ 83,672
Capitalization Grants for Clean Water State Revolving Funds	66.458	\$ 6,499,897
Total Clean Water State Revolving Fund Cluster		\$ 6,499,897
Special Education - Grants to States	84.027	\$ 7,547,778
Special Education - Preschool Grants	84.173	205,351
Total Special Education Cluster		\$ 7,753,129
Temporary Assistance for Needy Families	93.558	\$ 3,932,663
Total TANF Cluster		\$ 3,932,663
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	\$ 604,712
Total CCDF Cluster		\$ 604,712
Medical Assistance Program - Administrative	93.778	\$ 3,902,009
Total Medicaid Cluster		\$ 3,902,009

CITY OF NORFOLK, VIRGINIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2018

5. Virginia Resources Authority Loans

The City reports on the Schedule of Federal Awards, loan proceeds drawn from the Virginia Resources Authority. The loans are a pass-through award from the U. S. Environmental Protection Agency and administered by the Virginia Resources Authority Department of Environmental Quality. The balances at the end of the fiscal year 2018 are as follows:

	June 30, 2017 VRA	Disbursements	Total Loan	Total Amount	June 30, 2018
Loan number	Loan Balances	Made During FY 2018	Amount Disbursed	Available to be Drawn	Outstanding Loan Balances
C-515550E-01	\$ 3,733,261	\$ 1,773,118	\$ 5,506,379	\$ 493,621	\$ 5,506,379
C-515574E-01	314,293	4,280,164	4,594,457	1,905,543	4,594,457
C-515593E-01	-	51,346	51,346	7,448,655	51,346
C-515565GE-02	93,781	395,269	489,050	2,405,791	489,050
TOTALS	\$ 4,141,335	\$ 6,499,897	\$ 10,641,232	\$ 12,253,610	\$ 10,641,232

6. Indirect Cost Rate

For the Fiscal Year 2018, the City did not use the 10 percent de minimis cost rate for indirect cost billings to federal grants where an indirect cost is permitted. The City develops an indirect cost rate with the cost allocation plan that is used by the Human Services department for indirect cost billings.



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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 Ending June 30, 2018**

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Use of money and property	\$ -	\$ -	\$ -
Charges for services	1,809,130	1,358,870	(450,260)
Intergovernmental federal	-	4,248	4,248
Miscellaneous	19,000	2,265	(16,735)
Transfer in	-	85,472	85,472
Total revenue	<u>\$ 1,828,130</u>	<u>\$ 1,450,855</u>	<u>\$ (377,275)</u>
Expenditures and transfers:			
Towing and recovery	\$ 1,655,060	\$ 1,263,731	\$ 391,329
Transfer out	173,070	203,402	(30,332)
Total expenditures	<u>\$ 1,828,130</u>	<u>\$ 1,467,133</u>	<u>\$ 360,997</u>

**Schedule of Revenues and Expenditures - Budget and Actual
Storm Water Utility Special Revenue Fund
For the Year Ending June 30, 2018**

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Use of money and property	\$ 565	\$ 946	\$ 381
Charges for services	16,422,016	16,342,606	(79,410)
Miscellaneous	51,116	94,528	43,412
Intergovernmental - federal	-	533,309	533,309
Total revenue	<u>\$ 16,473,697</u>	<u>\$ 16,971,389</u>	<u>\$ 497,692</u>
Expenditures and transfers:			
Public works	\$ 11,745,327	\$ 11,697,747	\$ 47,580
Transfer out	4,728,370	4,737,284	(8,914)
Total expenditures	<u>\$ 16,473,697</u>	<u>\$ 16,435,031</u>	<u>\$ 38,666</u>

**Schedule of Revenues and Expenditures - Budget and Actual
Golf Special Revenue Fund
For the Year Ending June 30, 2018**

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Charges for services	\$ 15,000	\$ 15,000	\$ -
Expenditures:			
Golf operations	\$ 15,000	\$ 9,000	\$ 6,000

**Schedule of Revenues and Expenditures - Budget and Actual
Emergency Operations Special Revenue Fund (EOC 911)
For the Year Ending June 30, 2018**

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Other local taxes	\$ 3,571,596	\$ 3,571,596	\$ -
Charges for services	4,500	\$ 351	(4,149)
Recovered cost	1,392,000	1,591,684	199,684
Federal aid	113,617	-	(113,617)
Transfer in	1,346,241	570,834	(775,407)
Total revenue	\$ 6,427,954	\$ 5,734,465	\$ (693,489)
Expenditures:			
Operations	\$ 6,427,954	\$ 5,658,661	\$ 769,293
Total expenditures	\$ 6,427,954	\$ 5,658,661	\$ 769,293

**Schedule of Revenues and Expenditures - Budget and Actual
Cemeteries Special Revenue Fund
For the Year Ending June 30, 2018**

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Charges for services	\$ 1,386,217	\$ 1,287,740	\$ (98,477)
Recovered cost	300,000	300,000	-
Transfer in	339,088	112,148	(226,940)
Rollover from last year*	95,808	95,808	-
Total revenue	<u>\$ 2,121,113</u>	<u>\$ 1,795,696</u>	<u>\$ (325,417)</u>
Expenditures:			
Cemetery operations	<u>\$ 2,121,113</u>	<u>\$ 1,872,433</u>	<u>\$ 248,680</u>

*Not considered as revenue on a GAAP basis

**Schedule of Revenues and Expenditures - Budget and Actual
Public Amenities Special Revenue Fund
For the Year Ending June 30, 2018**

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Taxes-Hotel & Restaurant	\$ 6,644,000	\$ 6,913,326	\$ 269,326
Miscellaneous	77,000	-	77,000
Rollover from last year*	2,179,293	2,179,293	-
Total revenue	<u>\$ 8,900,293</u>	<u>\$ 9,092,619</u>	<u>\$ 346,326</u>
Expenditures:			
Transfer out (CIP)	\$ 1,000,000	\$ 1,000,000	\$ -
Transfer out (Debt Service)	3,381,960	3,381,960	-
Transfer out (General Fund)	3,000,000	3,000,000	-
All purpose	1,518,333	1,283,943	234,390
Total expenditures	<u>\$ 8,900,293</u>	<u>\$ 8,665,903</u>	<u>\$ 234,390</u>

*Not considered as revenue on a GAAP basis

**Schedule of Revenues and Expenditures - Budget and Actual
Tax Increment Financing Special Revenue Fund
For the Year Ending June 30, 2018**

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Taxes-real property	\$ 5,266,000	\$ 5,266,000	\$ -
Rollover from last year	-	-	-
Total revenue	<u>\$ 5,266,000</u>	<u>\$ 5,266,000</u>	<u>\$ -</u>
Expenditures:			
Transfer out (Debt Service)	\$ 1,563,735	\$ 1,563,735	\$ -
Transfer out (General Fund)	3,702,265	3,702,265	-
Total expenditures	<u>\$ 5,266,000</u>	<u>\$ 5,266,000</u>	<u>\$ -</u>

**Schedule of Revenues and Expenditures - Budget and Actual
Community Development Fund
For the Year Ending June 30, 2018**

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Intergovernmental Federal	<u>\$ 5,032,672</u>	<u>\$ 4,731,093</u>	<u>\$ (301,579)</u>
Expenditures:			
Operations	<u>\$ 5,032,672</u>	<u>\$ 4,736,093</u>	<u>\$ 296,579</u>

Note: Budgets for the Community Development fund are for multiple years and are not included in the annual presentation.

**Schedule of Revenues and Expenditures - Budget and Actual
Waste Management Special Revenue Fund
For the Year Ending June 30, 2018**

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Use of money and property	\$ 11,535	\$ 6,327	\$ (5,208)
Charges for services	22,219,679	21,196,037	(1,023,642)
Recovered costs	420,000	497,003	77,003
Miscellaneous	15,000	48,418	33,418
Total revenue	<u>\$ 22,666,214</u>	<u>\$ 21,747,785</u>	<u>\$ (918,429)</u>
Expenditures and transfers:			
Public works	\$ 21,320,146	\$ 19,119,296	\$ 2,200,850
Transfer out	1,346,068	896,962	449,106
Total expenditures	<u>\$ 22,666,214</u>	<u>\$ 20,016,258</u>	<u>\$ 2,649,956</u>

Schedule of Revenues and Expenditures - Budget and Actual
Grants Funds
For the Year Ending June 30, 2018

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Fines and forfeitures	\$ -	\$ -	\$ -
Use of money and property	-	531	531
Charges for services	-	322,277	322,277
Intergovernmental			
Federal	-	14,765,116	14,765,116
State	-	16,071,150	16,071,150
Operating Transfers	-	6,791,464	6,791,464
Miscellaneous	-	1,901,356	1,901,356
Total revenue	<u>\$ -</u>	<u>\$ 39,851,894</u>	<u>\$ 39,851,894</u>
Expenditures and transfers:			
General government	\$ -	\$ 2,533,938	\$ (2,533,938)
Judicial administration	-	3,043,667	(3,043,667)
Public safety	-	4,009,131	(4,009,131)
Public works	-	10,146,194	(10,146,194)
Health and public assistance	-	16,208,586	(16,208,586)
Cultural and recreation	-	359,061	(359,061)
Community development	-	1,142,071	(1,142,071)
Total expenditures	<u>\$ -</u>	<u>\$ 37,442,648</u>	<u>\$ (37,442,648)</u>

Note: Budgets for the Grants special revenue fund are for multiple years and are not included in the annual presentation.

**Schedule of Revenues and Expenditures - Budget and Actual
Fleet Internal Service Fund
For the Year Ending June 30, 2018**

	<u>Budget</u>	<u>Actual Budgetary Basis</u>	<u>Positive (Negative) Variance</u>
Revenues:			
Charges for services	\$ 11,512,575	\$ 11,171,991	\$ (340,584)
Miscellaneous & capital contributions	118,865	16,197	(102,668)
Total revenue	<u>\$ 11,631,440</u>	<u>\$ 11,188,188</u>	<u>\$ (443,252)</u>
Expenditures:			
Fleet	<u>\$ 11,631,440</u>	<u>\$ 11,234,500</u>	<u>\$ 396,940</u>

**Schedule of Revenues and Expenditures - Budget and Actual
Healthcare Management Internal Service Fund
For the Year Ending June 30, 2018**

	<u>Budget</u>	<u>Actual Budgetary Basis</u>	<u>Positive (Negative) Variance</u>
Revenues:			
Charges for services	<u>\$ 94,666,785</u>	<u>\$ 79,256,365</u>	<u>\$ (15,410,420)</u>
Expenditures:			
Healthcare	<u>\$ 94,666,785</u>	<u>\$ 73,324,995</u>	<u>\$ 21,341,790</u>

CITY OF NORFOLK, VA
Capital Improvement Program
Schedule of Expenditures - Budget and Actual
From Inception and for the Year Ending June 30, 2018

	Expenditures				
	Project Budget	Prior Years	Current	Total	Available
Community Development					
Neighborhood Project Development	\$ 1,935,000	\$ 1,619,855	\$ -	\$ 1,619,855	\$ 315,145
Neighborhood Conservation/Revitalization	46,390,203	47,113,385	-	47,113,385	(723,182)
Broad Creek Renaissance	34,646,668	24,460,867	1,646,808	26,107,675	8,538,993
Neighborhood Streets Improvements	1,200,000	1,386,169	8,924	1,395,093	(195,093)
Neighborhood commercial Improvements	79,748,695	77,860,112	1,664,268	79,524,380	224,315
Create Special Service Areas	744,950	493,585	-	493,585	251,365
Other	974,774	798,024	176,750	974,774	-
Community Development Total	165,640,290	153,731,997	3,496,750	157,228,747	8,411,543
Cultural Facilities					
Attucks Theatre Renovations	2,550,629	2,558,762	-	2,558,762	(8,133)
Scope and Chrysler Hall Improvements	23,150,279	19,038,498	2,312,627	21,351,125	1,799,154
Chrysler Museum Improvements	14,358,912	13,366,111	850,000	14,216,111	142,801
Civic Building Improvements	1,229,595	1,217,017	-	1,217,017	12,578
Conference Center	68,960,523	65,619,457	-	65,619,457	3,341,066
Harrison Opera House Improvements	404,856	404,856	-	404,856	-
MacArthur Memorial Improvements	2,658,969	2,658,969	-	2,658,969	-
Nauticus/Maritime Center Improvements	4,337,500	824,619	-	824,619	3,512,881
USS Wisconsin Improvements	9,389,974	8,400,603	355,617	8,756,220	633,754
Other	7,411,339	5,204,158	329,824	5,533,982	1,877,357
Cultural Facilities Total	134,452,576	119,293,050	3,848,068	123,141,118	11,311,458
Economic Development					
Acquire/Dispose/Upgrade City Property	74,946,472	60,268,466	1,990,226	62,258,692	12,687,780
Nauticus/Cruise Terminal Development	37,821,404	38,114,269	-	38,114,269	(292,865)
Huntersville Redevelopment	1,000,000	924,423	-	924,423	75,577
Wachovia Center Development	3,553,101	3,553,101	-	3,553,101	-
Kroc Center Development	4,000,000	3,994,779	-	3,994,779	5,221
Other	16,553,258	16,065,758	-	16,065,758	487,500
Economic Development Total	137,874,235	122,920,796	1,990,226	124,911,022	12,963,213
General/Other					
Campostella Landfill Closure	4,000,000	2,084,898	281,848	2,366,746	1,633,254
Beach Erosion Control	30,962,900	28,384,514	491,012	28,875,526	2,087,374
Transfer to Debt Service	1,600,000	6,392,418	-	6,392,418	(4,792,418)
IFMS Implementation	5,900,224	5,900,407	-	5,900,407	(183)
Waterway Dredging Projects	6,709,341	5,788,028	65,039	5,853,067	856,274
Conservation and Green Vision Implementation	5,377,373	4,877,374	-	4,877,374	499,999
Public Safety Radio Communication System Upgrade	4,703,668	4,703,668	-	4,703,668	-
Upgrade and Expand Broadband Infrastructure	711,171	366,555	-	366,555	344,616
Other	27,233,847	15,213,400	3,889,454	19,102,854	8,130,993
General/Other Total	87,198,524	73,711,262	4,727,353	78,438,615	8,759,909
Public Buildings and Facilities					
Fire Station Emergency Generation Program	1,670,188	1,671,777	-	1,671,777	(1,589)
Infrastructure Improvements	18,189,028	4,087,102	609,783	4,696,885	13,492,143
Annual Roof Maintenance	8,771,000	8,772,413	140,204	8,912,617	(141,617)
Library Facilities - Anchor Branch	20,476,238	14,906,063	4,791,813	19,697,876	778,362
Police Precinct Replacement	20,328,986	20,328,986	-	20,328,986	-
Courts Replacement and Renovations	122,620,170	115,868,302	4,692,700	120,561,002	2,059,168
Jail Renovations	9,567,510	6,187,797	1,619,044	7,806,841	1,760,669
Selden Arcade Renovations	8,400,543	8,400,543	-	8,400,543	-
City Hall Building Renovations	20,746,839	15,235,218	1,179,225	16,414,443	4,332,396
Tow Yard Acquisition	697,045	337,027	-	337,027	360,018
Fire Facilities Replacement/Improvements	11,268,306	6,309,848	3,548,196	9,858,044	1,410,262
Police Training Facilities	656,000	656,000	-	656,000	-
Main Library Construction	69,727,997	67,466,575	-	67,466,575	2,261,422
Design /Construct Government Center Plaza	4,750,000	1,562,335	597,866	2,160,201	2,589,799
Other	15,720,132	12,582,363	164,910	12,747,273	2,972,859
Public Buildings and Facilities Total	333,589,982	284,372,349	17,343,741	301,716,090	31,873,892

CITY OF NORFOLK, VA
Capital Improvement Program
Schedule of Expenditures - Budget and Actual
From Inception and for the Year Ending June 30, 2018

	Expenditures				
	Project Budget	Prior Years	Current	Total	Available
Parks/Recreational Facilities					
Zoo Master Plan	28,407,037	27,085,163	405,150	27,490,313	916,724
Titustown Recreation Center Improvements	3,550,000	3,000,000	-	3,000,000	550,000
Botanical Gardens	2,494,413	1,998,823	-	1,998,823	495,590
Existing Recreation Center Improvements	14,096,438	12,588,740	517,001	13,105,741	990,697
Norview Recreation Center	7,947,756	7,947,756	-	7,947,756	-
Lambert's Point Golf Course	9,050,000	9,050,000	-	9,050,000	-
Lambert's Point Community & Recreational Center	6,854,193	6,854,193	-	6,854,193	-
Harbor Park Improvements	4,924,747	2,842,207	529,787	3,371,994	1,552,753
Athletic Field Renovations	2,685,903	2,685,903	-	2,685,903	-
Norfolk Fitness & Wellness Center Renovations	1,803,669	1,803,669	-	1,803,669	-
Broad creek & Westside Neighborhood Parks	2,610,062	2,610,012	-	2,610,012	50
Town Point Park Improvements	11,478,749	11,478,749	-	11,478,749	-
Martin Luther King Park	116,019	116,019	-	116,019	-
Waterside Waterfront Renovations	3,446,789	3,166,626	-	3,166,626	280,163
Ingleside Gymnasium	6,920,874	6,920,874	-	6,920,874	-
Other	13,727,383	13,641,193	-	13,641,193	86,190
Parks/Recreational Facilities Total	120,114,032	113,789,927	1,451,938	115,241,865	4,872,167
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	1,535,212	1,313,413	-	1,313,413	221,799
High School Athletic Field	1,495,091	1,495,091	-	1,495,091	-
Coleman Place Elementary Replacement	20,293,970	20,293,970	-	20,293,970	-
Crossroads Elementary Replacement	34,093,708	31,679,616	(7,310)	31,672,306	2,421,402
Larchmont Elementary School	23,109,625	21,513,149	1,297,504	22,810,653	298,972
Ocean View Elementary School	22,847,436	19,292,765	2,510,607	21,803,372	1,044,064
South Side TEM Academy at Campestella	35,629,524	33,999,924	59,817	34,059,741	1,569,783
Broad Creek Elementary School	21,961,042	21,457,784	21,157	21,478,941	482,101
Camp Allen Elementary School	28,686,000	7,426,776	13,023,055	20,449,831	8,236,169
Other	43,759,262	35,318,176	2,782,994	38,101,170	5,658,092
Schools Total	275,613,239	235,991,489	19,687,824	255,679,313	19,933,926
Storm Water					
Storm Water Quality Improvements	13,070,000	9,666,411	1,432,557	11,098,968	1,971,032
Storm Water Facility Improvements	19,003,340	15,484,223	-	15,484,223	3,519,117
Old Dominion University Master Plan	1,788,255	1,788,255	-	1,788,255	-
Drain Line Clean & Slip Lining	1,227,843	995,843	-	995,843	232,000
Neighborhood Flood Reduction	21,562,748	16,627,542	994,997	17,622,539	3,940,209
Bulkheading Master Project	2,100,000	2,087,100	-	2,087,100	12,900
Other	8,588,975	1,991,662	(336,577)	1,655,085	6,933,890
Storm Water Total	67,341,161	48,641,036	2,090,977	50,732,013	16,609,148
Transportation					
Old Dominion University Master Plan	10,304,203	5,610,091	-	5,610,091	4,694,112
VDOT Urban Support Program	9,773,025	8,582,158	13,424	8,595,582	1,177,443
Bridge Maintenance & Repair Program	37,918,240	30,750,726	2,114,445	32,865,171	5,053,069
Signal & Intersection Enhancements	12,681,470	11,365,356	350,396	11,715,752	965,718
Citywide Soundwall Program	8,405,656	8,397,670	1,995	8,399,665	5,991
Neighborhood Streets Improvements	75,023,285	69,103,938	2,198,984	71,302,922	3,720,363
Atlantic City Development	14,356,810	13,899,027	-	13,899,027	457,783
Citywide Boat Ramp Improvements	2,388,822	2,000,571	386,234	2,386,805	2,017
Construct Light Rail	105,010,914	70,303,888	-	70,303,888	34,707,026
Develop Multi-Modal Transfer Station at Harbor Park	4,350,000	3,846,809	-	3,846,809	503,191
Other	33,462,019	22,306,245	2,798,189	25,104,434	8,357,585
Transportation Total	313,674,444	246,166,479	7,863,667	254,030,146	59,644,298
Grand Total	\$ 1,635,498,483	\$ 1,398,618,385	\$ 62,500,544	\$ 1,461,118,929	\$ 174,379,554

STATISTICAL
SECTION
(Unaudited)





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CITY OF NORFOLK, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2018

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)

	2009	2010	2011	2012 restated	2013 restated	2014	2015 restated	2016	2017	2018 restated
Governmental activities:										
Net investment in capital assets	\$ 252,128	\$ 155,954	\$ 324,576	\$ 295,206	\$ 319,550	\$ 337,937	\$ 428,380	\$ 386,641	\$ 365,913	\$ 351,887
Restricted	64,397	120,974	6,744	11,081	11,111	22,062	10,485	12,412	12,042	6,485
Unrestricted	63,013	76,365	5,347	25,832	22,593	(149,763)	(217,542)	(153,467)	(124,543)	(108,368)
Subtotal governmental activities net position	379,538	353,293	336,667	332,119	353,254	210,236	221,323	245,586	253,412	250,004
Business-type activities:										
Net investment in capital assets	237,307	229,693	267,107	270,913	275,195	259,371	266,206	301,340	342,470	330,979
Restricted	39,306	40,056	12,928	12,928	13,244	32,495	29,610	31,766	35,237	36,017
Unrestricted	43,921	63,316	62,458	72,063	78,631	77,120	100,988	85,668	59,766	98,533
Subtotal business-type activities net position	320,534	333,065	342,493	355,904	367,070	368,986	396,804	418,774	437,473	465,529
Primary government:										
Net investment in capital assets	489,435	385,647	591,683	566,119	594,745	597,308	694,586	687,981	708,383	682,866
Restricted	103,703	161,030	19,672	24,009	24,355	54,557	40,095	44,178	47,279	42,502
Unrestricted	106,934	139,681	67,805	97,895	101,224	(72,643)	(116,554)	(67,799)	(64,777)	(9,835)
Total primary government net position	<u>\$ 700,072</u>	<u>\$ 686,358</u>	<u>\$ 679,160</u>	<u>\$ 688,023</u>	<u>\$ 720,324</u>	<u>\$ 579,222</u>	<u>\$ 618,127</u>	<u>\$ 664,360</u>	<u>\$ 690,885</u>	<u>\$ 715,533</u>

Note: Restatements are due to implementation of new accounting pronouncements.

* GASB 75 was implemented effective July 1, 2017.

(UNAUDITED)

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

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Program Revenue										
Governmental activities:										
Charges for services										
General government	\$ 1,800	\$ 13,156	\$ 18,630	\$ 9,441	\$ 9,489	\$ 4,149	\$ 7,152	\$ 4,642	\$ 4,822	\$ 4,728
Judicial administration	935	3,501	3,629	3,690	3,717	3,142	2,938	2,729	2,688	2,507
Public safety	2,797	5,627	7,942	8,424	10,154	7,613	7,563	8,307	8,364	7,802
Public works	26,999	35,451	36,890	50,597	38,320	37,769	41,821	42,341	40,322	41,185
Health and public assistance	134	83	82	50	5,349	5,597	5,577	6,310	6,390	6,385
Culture and recreation	6,232	9,224	10,101	9,751	10,297	9,685	8,948	10,054	9,835	9,305
Community development	1,539	2,259	1,479	1,807	2,368	1,960	2,557	2,370	2,511	1,264
Capital grant contributions	16,933	7,175	-	765	15,000	15,933	1,000	5,672	5,941	11,954
Operating grants and contributions	112,419	127,665	116,648	119,353	131,719	120,713	125,802	132,611	135,194	151,519
Total governmental activities program revenue	169,788	204,141	195,401	203,878	226,413	206,561	203,358	215,036	216,067	236,649
Business-type activities:										
Charges for services										
Water utility	74,454	78,983	80,573	78,148	76,584	79,097	82,996	80,749	84,529	86,942
Wastewater utility	23,125	23,815	24,362	24,798	25,469	27,119	28,144	27,823	29,065	30,201
Parking facilities	20,048	18,785	19,682	19,452	19,162	20,413	19,520	19,612	20,577	22,148
Capital grants and contributions	504	366	130	187	-	2,761	3,006	338	188	144
Total business-type activities program revenues	118,131	121,949	124,747	122,585	121,215	129,390	133,666	128,522	134,359	139,435
Total primary government program revenues	287,919	326,090	320,148	326,463	347,628	335,951	337,024	343,558	350,426	376,084
Expenses										
Governmental activities:										
General government	111,629	112,874	103,550	109,188	119,764	122,656	126,959	130,550	155,159	152,832
Judicial administration	52,209	52,020	49,980	51,102	51,654	55,062	49,056	51,926	55,547	57,118
Public safety	120,703	130,263	129,721	129,138	125,270	125,122	120,710	119,828	133,378	160,378
Public works	134,274	132,176	101,137	91,542	71,324	66,909	81,171	79,200	80,825	69,194
Health and public assistance	93,495	91,923	82,368	75,428	90,993	90,919	86,776	85,730	89,103	87,827
Culture and recreation	63,438	73,342	64,352	63,499	56,039	56,499	58,443	60,064	62,996	46,799
Community development	10,867	15,429	18,638	17,223	16,158	12,622	13,040	16,734	15,402	23,320
Education	104,511	101,011	104,511	104,512	109,287	109,467	117,722	114,769	114,972	131,137
Interest on long-term debt	23,788	26,014	27,931	26,822	28,249	25,187	22,060	22,950	19,326	24,965
Total government activities expenses	714,914	735,052	682,188	668,454	668,738	664,443	675,937	681,751	726,708	753,570
Business-type activities:										
Water utility	66,990	64,316	67,852	64,473	61,358	61,609	59,448	59,415	65,319	61,276
Wastewater utility	21,227	18,983	19,707	18,806	19,983	20,128	19,142	19,226	22,072	21,012
Parking facilities	19,036	20,008	22,050	20,469	20,961	23,677	20,045	20,651	21,078	23,084
Total business-type activities expenses	107,253	103,307	109,609	103,748	102,302	105,414	98,635	99,292	108,469	105,372
Total primary government expenses	822,167	838,359	791,797	772,202	771,040	769,857	774,572	781,043	835,177	858,942
Net (Expense) Revenue										
Governmental activities	(545,126)	(530,911)	(486,787)	(464,576)	(442,325)	(457,882)	(472,579)	(466,715)	(510,641)	(516,921)
Business-type activities	10,878	18,642	15,138	18,837	18,913	23,976	35,031	29,230	25,890	34,063
Total primary government net expense	\$ (534,248)	\$ (512,269)	\$ (471,649)	\$ (445,739)	\$ (423,412)	\$ (433,906)	\$ (437,548)	\$ (437,485)	\$ (484,751)	\$ (482,858)

(UNAUDITED)

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

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
General Revenue and Other Changes in Net Position										
Governmental Activities:										
Taxes:										
Real estate and personal property	\$ 260,640	\$ 256,339	\$ 255,530	\$ 245,439	\$ 246,345	\$ 254,357	\$ 263,490	\$ 263,395	\$ 271,461	\$ 277,132
Consumption utility	44,142	44,053	48,360	43,588	43,211	43,055	42,961	41,849	41,452	41,292
Sales and use	29,484	28,249	28,411	27,599	29,707	29,436	29,981	30,330	31,185	32,799
Restaurant food	28,079	27,292	24,094	30,300	30,818	31,127	32,634	34,224	34,934	37,990
Business licenses	27,692	26,009	25,849	28,667	29,301	29,889	28,640	28,935	30,557	28,529
Cigarette	7,333	7,176	7,161	8,097	7,926	7,409	7,821	7,784	7,860	7,492
Motor vehicle licenses	4,005	4,308	4,313	4,318	4,210	3,966	3,953	4,488	4,642	4,760
Other	17,192	16,528	15,698	18,665	18,124	16,618	18,280	18,424	18,909	21,277
Interest and investment earnings	2,789	892	1,065	916	563	783	164	291	249	270
Grants and contributions not restricted to specific programs	60,513	32,892	32,642	32,726	33,539	33,788	33,793	34,863	36,440	28,158
Miscellaneous	9,600	5,637	5,901	4,653	11,501	14,563	11,916	16,404	30,778	31,189
Gain on disposal of assets	-	-	-	-	1,734	-	-	-	-	-
Capital contributions Norfolk Public Schools	-	40,387	11,085	-	-	-	-	-	-	-
Transfers between governmental and business-type activities	10,215	13,054	10,052	10,087	10,114	10,052	10,033	10,000	10,000	10,000
Total governmental activities	501,684	502,816	470,161	455,055	467,093	475,043	483,666	490,987	518,467	520,888
 Business-type activities:										
Interest and investment earnings	925	618	511	314	234	496	112	295	432	671
Grants and contributions not restricted to specific programs	-	148	557	371	1,626	219	214	149	150	142
Unrealized gain (loss) on investments	-	-	-	-	-	-	-	-	-	(52)
Miscellaneous	2,850	3,432	3,431	3,951	4,042	3,162	2,506	2,295	2,228	2,059
Gain (Loss) on disposal of assets	-	2,744	(157)	26	9	(88)	(2)	-	-	-
Transfers between governmental and business-type activities	(10,215)	(13,054)	(10,052)	(10,087)	(10,114)	(10,052)	(10,033)	(10,000)	(10,000)	(10,000)
Total business-type activities	(6,440)	(6,112)	(5,710)	(5,425)	(4,203)	(6,263)	(7,203)	(7,261)	(7,190)	(7,180)
Total primary governmental activities	495,244	496,704	464,451	449,630	462,890	468,780	476,463	483,726	511,277	513,708
 Change in Net Position										
Governmental activities	(43,442)	(28,095)	(16,626)	(9,521)	25,485	17,161	11,087	24,272	7,826	3,967
Business-type activities	4,438	12,530	9,428	13,412	15,814	17,713	27,828	21,969	18,700	26,883
Total Primary Government changes in net position	\$ (39,004)	\$ (15,565)	\$ (7,198)	\$ 3,891	\$ 41,299	\$ 34,874	\$ 38,915	\$ 46,241	\$ 26,526	\$ 30,850

(UNAUDITED)

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

	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
General Fund:										
Nonspendable	\$ -	\$ -	\$ 5	\$ -	\$ -	\$ -	\$ -	\$ 139	\$ -	\$ -
Restricted	-	-	395	330	300	265	2,100	3,015	165	145
Committed	-	-	1,899	3,000	3,000	3,000	4,000	5,000	8,698	9,347
Assigned	-	-	38,014	34,839	33,919	23,901	25,904	26,557	36,605	44,118
Unassigned	-	-	55,968	54,338	54,055	58,100	65,580	73,077	70,652	70,962
Reserved ⁽¹⁾	7,842	8,296	-	-	-	-	-	-	-	-
Unreserved ⁽¹⁾	50,784	53,840	-	-	-	-	-	-	-	-
Total General Fund	58,626	62,136	96,281	92,507	91,274	85,266	97,584	107,788	116,120	124,572
Capital Projects Fund:										
Restricted	-	-	41,063	95,053	-	10,933	-	-	-	-
Committed	-	-	11,978	14,376	13,637	14,480	14,704	6,170	-	-
Assigned	-	-	26,307	15,345	7,339	4,052	-	-	-	-
Unassigned	-	-	-	-	-	-	(84,624)	(216,480)	(190,871)	(128,799)
Reserved ⁽¹⁾	50,987	60,696	-	-	-	-	-	-	-	-
Unreserved ⁽¹⁾	25,939	86,260	-	-	-	-	-	-	-	-
Total Capital Projects Fund	76,926	146,956	79,348	124,774	20,976	29,465	(69,920)	(210,310)	(190,871)	(128,799)
All Other Governmental Funds:										
Nonspendable	-	-	22	23	24	-	-	-	-	-
Restricted	-	-	2,621	9,474	10,811	10,864	8,385	9,397	6,223	6,340
Committed	-	-	11,259	3,246	2,454	5,050	2,764	3,138	5,872	7,323
Assigned	-	-	9,877	13,569	20,708	22,144	17,843	26,554	20,345	21,501
Unassigned	-	-	-	-	-	(1,556)	(2,913)	(2,689)	(932)	(823)
Reserved ⁽¹⁾	27,049	34,634	-	-	-	-	-	-	-	-
Unreserved ⁽¹⁾	12,535	14,008	-	-	-	-	-	-	-	-
Total other governmental funds	39,584	48,642	23,779	26,312	33,997	36,502	26,079	36,400	31,508	34,341
Total fund balance, governmental funds	\$ 175,136	\$ 257,734	\$ 199,408	\$ 243,593	\$ 146,247	\$ 151,233	\$ 53,743	\$ (66,122)	\$ (43,243)	\$ 30,114

(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.

(2) The decrease in the Capital Projects fund balance is primarily attributable to timing of the City's external borrowing (see page 34).

(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									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue:										
General property taxes	\$ 252,003	\$ 257,055	\$ 258,004	\$ 252,917	\$ 246,359	\$ 256,979	\$ 262,433	\$ 265,943	\$ 269,816	\$ 277,559
Other local taxes	157,927	153,615	153,886	161,234	163,297	161,499	164,270	166,034	169,539	174,139
Licenses and permits	4,012	3,526	3,691	3,574	4,098	3,089	3,013	3,038	3,576	3,292
Fines and forfeitures	1,260	1,164	1,298	1,108	1,102	1,242	1,264	1,111	921	1,068
Use of money and property	8,332	6,746	7,169	6,695	6,539	6,329	9,668	7,354	7,786	7,504
Charges for services	40,345	50,540	47,955	47,859	56,077	60,040	59,983	62,709	62,315	62,383
Miscellaneous	12,911	18,080	14,850	11,643	26,178	29,133	10,142	11,325	12,080	11,311
Recovered costs ⁽¹⁾	8,952	9,503	10,723	10,312	11,396	-	-	-	-	-
Intergovernmental	149,774	152,619	149,489	161,572	161,148	153,782	158,840	166,686	176,784	193,289
Total revenues	<u>635,516</u>	<u>652,848</u>	<u>647,065</u>	<u>656,914</u>	<u>676,194</u>	<u>672,093</u>	<u>669,613</u>	<u>684,200</u>	<u>702,817</u>	<u>730,545</u>
Expenditures:										
Current										
General government	102,426	97,061	80,855	100,504	112,804	109,292	110,904	118,468	127,367	131,203
Judicial administration	50,347	48,726	47,535	48,233	50,920	51,673	51,360	50,513	50,767	52,012
Public safety	118,073	115,488	115,975	116,296	117,427	113,394	112,055	116,436	121,494	123,905
Public works	56,146	59,574	70,124	62,330	54,427	55,267	61,369	58,716	63,231	66,882
Health and public assistance	91,648	89,682	79,757	74,331	88,413	88,671	85,631	85,815	87,330	86,702
Culture and recreation	52,248	51,708	45,862	44,529	47,153	46,705	48,765	44,531	44,825	45,968
Community development	9,899	10,851	16,565	15,142	15,128	12,482	12,303	13,677	14,994	22,237
Education	104,511	101,011	104,511	104,512	109,287	111,854	117,722	114,769	114,972	120,972
Debt service:										
Principal retirement	48,092	46,052	50,865	57,683	50,559	48,135	49,255	46,175	50,663	52,583
Interest and other charges	23,666	23,782	29,675	27,360	27,668	28,682	26,896	26,955	27,150	27,317
Debt issuance costs	-	-	-	-	-	1,127	680	318	-	907
Capital outlay	104,892	99,210	76,534	98,892	116,580	100,709	103,113	140,093	98,492	67,938
Total expenditures	<u>761,948</u>	<u>743,145</u>	<u>718,258</u>	<u>749,812</u>	<u>790,366</u>	<u>767,991</u>	<u>780,053</u>	<u>816,466</u>	<u>801,285</u>	<u>798,626</u>
(Deficiency) of revenues (under) expenditures	<u>(126,432)</u>	<u>(90,297)</u>	<u>(71,193)</u>	<u>(92,898)</u>	<u>(114,172)</u>	<u>(95,898)</u>	<u>(110,440)</u>	<u>(132,266)</u>	<u>(98,468)</u>	<u>(68,081)</u>
Other financing sources (uses):										
Proceeds of refunding bonds	16,000	-	84,136	74,859	-	73,428	74,094	-	49,378	27,744
Proceeds from capital leases	-	-	-	-	-	-	-	2,400	-	-
Proceeds from line of credit	-	-	-	-	-	-	1,000	-	-	-
Cost of Issuance	-	-	-	-	-	1,127	811	-	(1,106)	-
Proceeds of debt (general obligation bonds and notes)	55,280	156,208	2,821	109,835	-	77,930	-	-	90,094	95,305
Payment to refunded bonds escrow agent	(16,000)	-	(84,136)	(74,859)	-	(79,964)	(81,267)	-	(55,684)	(31,799)
Premium on bonds issued	1,707	3,633	505	15,311	-	17,081	7,530	-	22,586	20,111
Miscellaneous	-	-	-	-	-	-	-	-	-	-
Proceeds from sale or disposal of fixed assets	-	-	-	2,700	1,966	-	-	-	6,080	20,077
Operating transfers in	105,641	104,007	104,873	107,136	112,121	107,633	102,604	107,953	106,474	108,550
Operating transfers (out)	(95,425)	(90,953)	(95,332)	(97,899)	(102,006)	(95,224)	(92,571)	(97,953)	(96,474)	(98,550)
Total other financing sources (uses)	<u>67,203</u>	<u>172,895</u>	<u>12,867</u>	<u>137,083</u>	<u>12,081</u>	<u>102,011</u>	<u>12,201</u>	<u>12,400</u>	<u>121,348</u>	<u>141,438</u>
Net change in fund balances	<u>\$ (59,229)</u>	<u>\$ 82,598</u>	<u>\$ (58,326)</u>	<u>\$ 44,185</u>	<u>\$ (102,091)</u>	<u>\$ 6,113</u>	<u>\$ (98,239)</u>	<u>\$ (119,866)</u>	<u>\$ 22,880</u>	<u>\$ 73,357</u>
Debt service as a percentage of noncapital expenditures	10.40%	9.69%	12.19%	12.27%	11.57%	11.22%	11.28%	10.91%	10.95%	10.77%

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)

Function/Program	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Governmental activities:										
General government	\$ 16,042	\$ 19,736	\$ 21,795	\$ 10,466	\$ 10,833	\$ 5,077	\$ 12,739	\$ 7,798	\$ 6,725	\$ 7,570
Judicial administration	23,173	26,461	27,069	27,880	29,479	28,537	23,113	25,811	27,242	26,163
Public safety	11,036	7,459	12,335	14,217	15,980	11,116	14,226	11,662	12,606	14,991
Public works	48,156	55,542	61,552	77,436	68,326	63,124	76,359	69,609	77,639	98,084
Health and public assistance	41,695	62,585	52,280	51,654	62,657	62,224	57,059	72,181	70,931	60,539
Culture and recreation	9,148	23,976	10,330	11,573	26,284	25,837	9,947	17,301	10,020	9,489
Community development	20,538	7,532	10,040	8,538	10,266	7,626	7,498	8,255	8,360	17,316
Interest on Long-term debt	-	849	-	2,115	2,587	3,021	2,417	2,419	2,544	2,497
Total governmental activities	<u>169,788</u>	<u>204,140</u>	<u>195,401</u>	<u>203,879</u>	<u>226,412</u>	<u>206,562</u>	<u>203,358</u>	<u>215,036</u>	<u>216,067</u>	<u>236,649</u>
Business-type activities:										
Water utility	74,958	79,349	80,703	78,335	76,585	81,757	85,925	81,087	84,718	86,944
Wastewater utility	23,125	23,815	24,362	24,798	25,469	27,219	28,144	27,823	29,065	30,342
Parking facilities	<u>20,048</u>	<u>18,785</u>	<u>19,682</u>	<u>19,452</u>	<u>19,162</u>	<u>20,414</u>	<u>19,596</u>	<u>19,612</u>	<u>20,576</u>	<u>22,149</u>
Total business-type activities	<u>118,131</u>	<u>121,949</u>	<u>124,747</u>	<u>122,585</u>	<u>121,216</u>	<u>129,390</u>	<u>133,665</u>	<u>128,522</u>	<u>134,359</u>	<u>139,435</u>
Total primary government	<u>\$ 287,919</u>	<u>\$ 326,089</u>	<u>\$ 320,148</u>	<u>\$ 326,464</u>	<u>\$ 347,628</u>	<u>\$ 335,952</u>	<u>\$ 337,023</u>	<u>\$ 343,558</u>	<u>\$ 350,426</u>	<u>\$ 376,084</u>

(UNAUDITED)

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

Fiscal Year	General Property Taxes	Other Local Taxes	Licenses and Permits	Fines and Forfeitures	Use of Money and Property	Charges for Services	Miscellaneous	Recovered Costs ⁽¹⁾	Inter-Governmental	Totals
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
2015	262,433	164,271	3,013	1,264	9,668	59,983	10,141	NA	158,840	669,613
2016	265,943	166,034	3,038	1,111	7,354	62,709	11,325	NA	166,686	684,200
2017	269,816	169,539	3,576	921	7,786	62,315	12,080	NA	176,784	702,817
2018	277,559	174,139	3,292	1,068	7,504	62,383	11,311	NA	193,289	730,545
Change 2009-2018	10.1%	10.3%	-17.9%	-15.2%	-9.9%	54.6%	-12.4%	NA	29.1%	15.0%

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
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
2015	42,961	29,981	32,634	28,640	7,821	3,953	18,281	164,271
2016	41,849	30,330	34,224	28,935	7,784	4,488	18,424	166,034
2017	41,452	31,185	34,934	30,557	7,860	4,642	18,909	169,539
2018	41,292	32,799	37,990	28,529	7,492	4,760	21,277	174,139
Change 2009-2018	-6.5%	11.2%	35.3%	3.0%	2.2%	18.9%	23.8%	10.3%

Notes:

- Beginning in fiscal year 2014, recovered costs are classified as the appropriate revenue or expense reimbursement
- Presents additional details on Other Local Taxes presented in schedule 6 above.

NA - Not Available

(UNAUDITED)

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

Year	Real Property	Personal Property	Other Property	Total Taxable Assessed Value	Estimate Actual Taxable Value
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	1,512,332	258,302	20,192,046	20,192,046
2015	18,734,201	1,902,442	255,710	20,892,353	20,892,353
2016	19,106,737	1,952,955	277,301	21,336,993	21,336,993
2017	19,433,889	2,219,662	265,149	21,918,700	21,918,700
2018	19,870,881	1,938,053	288,054	22,096,988	22,096,988

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

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Property tax rate per \$100 of assessed value:										
Real property	\$ 1.11	\$ 1.11	\$ 1.11	\$ 1.11	\$ 1.11	\$ 1.15	\$ 1.15	\$ 1.15	\$ 1.15	\$ 1.15
Downtown improvement district	0.18	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16
Personal property	4.25	4.25	4.33	4.33	4.33	4.33	4.33	4.33	4.33	4.33
Machinery and tools	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25
Mobile homes	1.11	1.11	1.11	1.11	1.11	1.15	1.11	1.15	1.15	1.15
Airplanes	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
Boats (pleasure)	0.50	0.50	0.50	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	1.23	1.19	1.19	1.21	1.22	1.22	1.22	1.24	1.23	1.25

Assessed value of real property as
a percent of fair market value:

As determined by the City Assessor	100%	100%	96%	100%	100%	98%	100%	100%	100%	100%
As determined by the Commonwealth's Department of Taxation	93%	96%	N/A	100%	100%	99%	100%	99%	97%	97%

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 2009 through 2018.
3. The most recent Virginia Assessment/Sales ratio study is for 2018.
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**

Taxpayer	2009				2018			
	Real Property Taxable Assessed Value	Rank	Percentage of Total Assessed Value		Real Property Taxable Assessed Value	Rank	Percentage of Total Assessed Value	
MacArthur Shopping Center	\$ 173,032,800	2	0.89%		\$ 224,757,700	1	1.13%	
Virginia Power Co.	213,915,347	1	1.10%					
ODU Real Estate Foundation					126,931,700	2	0.64%	
Verizon Virginia Inc.	127,474,415	3	0.66%					
Norfolk Hotel Associates LLC					86,480,100	3	0.44%	
Northern Southern	101,237,252	4	0.52%		83,103,200	4	0.42%	
Bank of America	91,022,200	5	0.47%					
SLNWC Office Company LLC					75,490,500	5	0.38%	
MPB, Inc.					70,836,400	6	0.36%	
Military Circle LLC	66,464,200	7	0.34%		64,623,100	7	0.33%	
Dominion Enterprises					62,260,100	8	0.31%	
Dominion Tower LP	59,223,100	9	0.31%					
Ford Motor Company	81,588,900	6	0.42%					
WIM Core Portfolio Owner, LLC					59,324,400	9	0.30%	
LCP Waterside Hotel Owner, LLC					58,738,600	10	0.30%	
Cox Virginia Telecom	62,969,166	8	0.32%					
North Pines Associates	51,557,000	10	0.27%					
Total	<u>\$ 1,028,484,380</u>		<u>5.30%</u>		<u>\$ 912,545,800</u>		<u>4.59%</u>	
Total Assessed Value	\$ 19,397,795,455				\$ 19,870,880,968			

Note:

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

(UNAUDITED)

City of Norfolk, Virginia
Revenue Capacity Information
Schedule 4
Property Tax Levy and Collections 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⁾
2009	\$ 261,535	\$ 251,910	\$ 233,725	92.78%	\$ 18,140	\$ 251,865	99.98%
2010	258,544	257,744	239,192	92.80%	18,512	257,704	99.98%
2011	254,756	253,426	235,518	92.93%	17,875	253,393	99.99%
2012	247,528	247,486	233,396	94.31%	14,036	247,432	99.98%
2013	244,309	243,842	229,872	94.27%	12,367	242,239	99.34%
2014	254,008	254,810	240,481	94.38%	12,463	252,944	99.27%
2015	256,040	259,542	245,803	94.71%	11,729	257,532	99.23%
2016	264,043	265,831	251,933	94.77%	11,260	263,193	99.01%
2017	268,718	270,311	255,712	94.60%	10,470	266,182	98.47%
2018	275,648	275,648	262,585	95.26%	-	262,585	95.26%

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, 2018, were \$276,239,000 of which \$13,654,000 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/ Line of Credit	Revenue Bonds	Total Outstanding Debt	Outstanding Debt per Capita (Actual)	% of Personal Income	Debt to Net Position Ratio
Governmental Activities							
2009	\$ 587,743	\$ 1,000	\$ -	\$ 588,743	\$ 2,413	7.09%	0.64
2010	699,748	1,812	-	701,560	2,889	8.46%	0.50
2011	651,755	1,208	-	652,963	2,677	7.72%	0.52
2012	717,407	-	-	717,407	2,919	8.07%	0.46
2013	664,909	-	-	664,909	2,699	7.25%	0.54
2014	718,937	-	-	718,937	2,918	7.82%	0.52
2015	665,809	1,000	-	666,809	2,698	7.06%	0.33
2016	611,876	175,289	-	787,165	3,186	8.34%	0.31
2017	664,941	189,803	-	854,744	3,471	N/A	0.30
2018	720,180	156,574	-	876,754	N/A	N/A	0.29
Business-Type Activities							
2009	\$ 159,902	\$ -	\$ 410,377	\$ 570,279	\$ 2,338	6.87%	0.56
2010	201,701	-	403,485	605,186	2,492	7.30%	0.55
2011	189,782	-	445,687	635,469	2,606	7.51%	0.54
2012	193,729	-	439,410	633,139	2,576	7.12%	0.56
2013	184,119	-	486,832	670,951	2,723	7.32%	0.55
2014	259,717	-	410,401	670,118	2,720	7.29%	0.57
2015	247,490	-	443,911	691,401	2,797	7.32%	0.57
2016	236,084	16,711	436,720	689,515	2,791	7.31%	0.61
2017	258,922	10,089	424,459	693,470	2,816	N/A	0.63
2018	261,164	10,000	442,381	713,545	N/A	N/A	0.65
Total Primary Governmental Activities							
2009	\$ 747,645	\$ 1,000	\$ 410,377	\$ 1,159,022	\$ 4,751	13.96%	0.67
2010	901,449	1,812	403,485	1,306,746	5,382	15.76%	0.57
2011	841,537	1,208	445,687	1,288,432	5,283	15.23%	0.54
2012	911,136	-	439,410	1,350,546	5,494	15.19%	0.51
2013	849,028	-	486,832	1,335,860	5,422	14.57%	0.55
2014	978,654	-	410,401	1,389,055	5,638	15.11%	0.49
2015	913,299	1,000	443,911	1,358,210	5,495	14.39%	0.46
2016	847,960	192,000	436,720	1,476,680	5,976	15.65%	0.45
2017	923,863	199,892	424,459	1,548,214	6,287	N/A	0.45
2018	981,344	166,574	442,381	1,590,299	N/A	N/A	0.45

N/A - not available

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

(UNAUDITED)

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

Fiscal 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
2009	\$ 747,645	\$ 159,902	\$ 587,743	\$ 21,308,309	243,957	2.76%	3,065
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	246,394	3.63%	2,918
2015	914,299	247,490	665,809	20,892,353	247,189	3.19%	2,694
2016	1,039,960	252,795	787,165	21,366,996	247,087	3.68%	3,186
2017	1,123,755	269,011	854,744	21,918,700	246,256	3.90%	3,471
2018	1,147,918	271,164	876,754	22,096,988	N/A	3.97%	N/A

Notes:

1. Assessed value of taxable property is detailed in Revenue Capacity Schedule 1.
2. The source of 2009 and 2011 through 2017 population estimates is the Weldon Cooper Center for Public Service, University of Virginia. The source for the 2010 population estimate is the U.S. Census Bureau.
3. Gross Bonded Debt includes unamortized premiums.

N/A - not available

City of Norfolk, Virginia
Debt Capacity Information
Schedule 3
Computation of Direct Bonded Debt
June 30, 2018

Jurisdiction	Gross Bonded Debt Outstanding (in thousands)	% Applicable to Government	\$ Applicable to Government (in thousands)
Direct:			
City of Norfolk	\$ 1,147,918	100%	\$ 1,147,918

Notes:

1. There is no overlapping debt because cities in Virginia have jurisdiction over the entire area within their boundaries and operate independently of any municipal government.

(UNAUDITED)

City of Norfolk, Virginia
Debt Capacity Information
Schedule 4
Legal Debt Margin
June 30, 2018

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total assessed value of taxed real property	\$ 19,395,789,387	\$ 19,940,273,451	\$ 19,320,643,495	\$ 18,676,730,533	\$ 18,319,948,478	\$ 18,421,412,121	\$ 18,734,201,726	\$ 19,106,737,956	\$ 19,433,889,018	\$ 19,870,880,970
Debt Limit -10% of total assessed valuation	1,939,578,939	1,994,027,345	1,932,064,350	1,867,673,053	1,831,994,848	1,842,141,212	1,873,420,173	1,910,673,796	\$ 1,943,388,902	\$ 1,987,088,097
Net debt applicable to debt limitation	738,173,200	889,556,676	829,621,927	877,060,431	818,068,050	912,700,343	914,299,379	988,381,839	1,065,983,734	1,079,595,115
Legal Debt Margin	<u>\$ 1,201,405,739</u>	<u>\$ 1,104,470,669</u>	<u>\$ 1,102,442,422</u>	<u>\$ 990,612,622</u>	<u>\$ 1,013,926,798</u>	<u>\$ 929,440,869</u>	<u>\$ 959,120,794</u>	<u>\$ 922,291,955</u>	<u>\$ 877,405,167</u>	<u>\$ 907,492,982</u>
Net Debt percentage of debt limitation	38.06%	44.61%	42.94%	46.96%	44.65%	49.55%	48.80%	51.73%	54.85%	54.33%

(UNAUDITED)

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

Fiscal Year	Revenue Available for Debt Service ⁽¹⁾	Operating Expenses Less Depreciation & Amortization ⁽²⁾	Income Available for Debt Service	Debt Service			Coverage
				Principal	Interest	Total	
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
2015	85,490,793	36,882,803	48,607,990	7,805,000	13,905,866	21,710,866	2.24
2016	83,103,038	32,731,817	50,371,221	8,750,000	16,612,870	25,362,870	1.99
2017	86,970,065	37,735,743	49,234,322	10,090,000	15,988,725	26,078,725	1.89
2018	89,419,996	34,889,820	54,530,176	13,860,000	14,376,733	28,236,733	1.93

Notes:

1. Includes operating revenue, plus interest income not capitalized.
2. Includes operating expenses, less depreciation/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 Eight Fiscal Years

Fiscal Year	Revenue Available for Debt Service ⁽¹⁾	Operating Expenses Less Depreciation & Amortization ⁽²⁾	Income Available for Debt Service	Debt Service			Coverage
				Principal	Interest	Total	
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
2015	28,241,721	10,581,959	17,659,762	2,490,000	-	2,490,000	7.09
2016	28,028,027	10,347,338	17,680,689	3,019,967	-	3,019,967	5.85
2017	29,246,659	12,826,121	16,420,538	3,488,443	-	3,488,443	4.71
2018	30,336,506	11,186,214	19,150,292	3,856,919	-	3,856,919	4.97

Notes:

1. Includes operating revenue, plus interest income not capitalized.
2. Includes operating expenses, less depreciation/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
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%
2015	49,212,914	-	26,896,108	-	76,109,022	593,478,745	12.82%
2016	46,175,445	-	26,955,137	-	73,130,582	596,768,904	12.25%
2017	50,663,318	-	27,149,634	-	77,812,952	618,253,753	12.59%
2018	52,583,233	-	27,316,523	-	79,899,756	644,120,067	12.40%

Notes:

1. Total general expenditures include the expenditures of the General fund and Debt Service fund.
2. Total general expenditures are presented using the modified accrual basis of accounting.

(UNAUDITED)

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

<u>Year</u>	<u>Population</u>	<u>Personal Income (000's)</u>	<u>Per Capita Personal Income</u>	<u>Civilian Labor Force Estimates</u>	<u>% Unemployed</u>
2008	241,201	\$ 8,692,900	\$ 36,040	100,847	5.3%
2009	241,725	8,276,010	34,237	98,751	8.5%
2010	242,803	8,380,127	34,501	112,449	8.8%
2011	243,985	8,608,415	35,342	112,932	8.3%
2012	245,803	8,928,833	36,308	112,848	7.6%
2013	246,392	8,842,338	36,066	112,742	7.0%
2014	246,394	9,122,284	37,052	112,175	6.4%
2015	247,189	9,529,615	38,676	111,318	5.6%
2016	247,087	9,433,045	35,940	110,644	5.2%
2017	246,256	9,811,229	40,094	113,166	4.9%

Notes:

1. Population from the Weldon Cooper Center for Public Service, University of Virginia and U.S. Census Bureau. Population data was not available for 2018.
2. Personal income and per capita personal income estimates from U.S. Bureau of Economic Analysis. Data not available for 2018.
3. Unemployment rate and civilian labor force from the U.S. Bureau of Labor Statistics.
4. All information on an average annual calendar year.

(UNAUDITED)

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

Employer	Rank	
	2009	2018
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	5	5
Children's Hospital of the King's Daughters	6	6
Eastern Virginia Medical School		
Medical College of Hampton Roads	8	7
U.S. Navy Exchange		
United States Postal Service	9	
The Wellpoint Companies		9
Norshipco	10	
Norfolk State University	7	10
Portfolio Recovery Associates		8
Total Employment	96,041	143,903

Notes:

1. The source of the City's top ten employers is the Virginia Employment Commission.
2. The data for 2018 is the quarter ended December 2017, as that is the most current data available.
3. The source of the City's total employment is the Bureau of Labor Statistics, June 2018.
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

Year	Residential Construction			Non-Residential Construction		
	Building Permits	Number of Units	Estimated Value (in thousands)	Building Permits	Estimated Value (in thousands)	
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	384	822	63,728	28	105,635	
2014	432	1,393	93,072	33	37,575	
2015	399	729	59,018	36	233,824	
2016	384	894	74,377	20	91,171	
2017	459	1,193	68,571	25	82,443	
2018	346	597	54,899	15	118,459	

Notes:

- 1) The source of residential and nonresidential construction is the City's Department of Planning.
- 2) Non-residential 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									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Goods-Producing Industries:										
Construction	5.9	5.0	4.7	4.4	4.1	3.8	3.8	4.2	4.1	4.6
Manufacturing	7.1	7.1	6.8	6.5	6.8	6.7	6.1	6.3	6.0	6.1
Service-Providing Industries:										
Wholesale trade	4.7	4.3	4.1	3.9	3.7	3.5	3.5	3.5	3.5	3.3
Retail trade	14.1	12.9	12.8	12.9	12.6	12.8	12.7	12.7	12.7	12.8
Transportation and warehousing	9.6	8.8	8.8	8.8	9.0	8.8	8.8	8.8	8.6	8.6
Information	3.5	3.0	2.7	2.5	2.9	2.9	2.8	2.9	3.0	2.9
Finance and insurance	6.6	6.1	5.4	5.5	5.3	5.3	5.6	5.2	5.3	5.1
Real estate and rental and leasing	2.8	2.7	2.6	2.6	2.5	2.7	2.6	2.6	2.5	2.6
Professional and technical services	11.4	11.7	11.6	11.5	11.0	11.4	11.0	10.5	10.4	10.7
Management of companies and enterprises	2.6	2.3	2.1	2.0	2.0	1.9	1.8	1.7	1.6	1.6
Administrative, support and waste services	7.6	6.6	6.6	7.4	6.8	7.6	7.7	7.7	7.3	8.3
Educational services	15.8	16.1	16.1	15.9	16.0	16.1	15.9	15.6	15.4	15.0
Health care and social assistance	21.2	20.7	21.0	21.9	22.4	22.4	21.8	22.0	22.8	23.1
Arts, entertainment and recreation	2.5	2.3	2.2	2.3	2.3	2.3	2.3	2.2	2.3	2.3
Accommodation and food services	10.5	10.3	10.3	10.9	10.9	10.6	10.5	10.9	11.2	11.5
Public administration	13.5	14.1	13.9	14.2	14.4	12.7	12.4	18.0	18.4	18.2
Other services	3.9	3.8	3.8	4.0	4.1	4.2	4.3	4.1	4.2	4.5
Total (adjusted for rounding)	144.0	138.7	136.3	138.0	137.8	136.4	134.4	139.7	140.2	141.9

Notes:

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. This schedule includes data for the ten-year period 2008 - 2017 as calendar year. Calendar year data not available for 2018.

(UNAUDITED)

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

<u>Function/Program</u>	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Governmental activities:										
General government	481	438	492	501	461	425	473	450	453	441
Judicial administration	16	14	12	10	13	12	10	10	10	10
Public safety										
Police	861	878	891	879	828	837	823	838	874	843
Fire	517	517	510	517	507	504	489	489	504	482
Other	84	83	90	90	77	76	76	74	70	65
Public works	414	440	431	427	395	388	369	383	387	379
Health and public assistance	487	485	532	534	709	697	697	715	710	686
Culture and recreational	558	509	512	501	459	456	429	442	446	455
Community development	75	113	137	142	94	96	103	128	132	131
Business-type activities:										
Water utility	268	269	289	289	266	273	265	262	259	258
Wastewater utility	99	95	103	104	99	99	95	94	92	91
Parking facilities	89	87	85	85	85	76	63	58	53	54
 Total full-time equivalent positions	 3,949	 3,928	 4,084	 4,079	 3,993	 3,937	 3,892	 3,941	 3,990	 3,895

Note:

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

Function/Program	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Police:										
Service calls	242,139	245,336	241,282	251,099	245,620	259,938	240,459	241,530	235,763	247,070
Arrests	26,583	28,069	27,930	29,080	27,073	25,850	21,404	19,364	17,938	19,382
Reports filed	32,477	31,487	30,507	28,649	28,035	26,060	26,039	27,322	27,287	24,168
Fire:										
Incidences (fires, EMS)	39,714	40,234	40,641	45,350	44,370	43,713	44,699	46,670	47,232	45,039
Highways and Streets:										
Streets resurfacing (miles)	66	69	67	139	53	76	25.6	41	78	77
Sanitation:										
Total solid waste collected and disposed (tons)	92,333	100,480	84,162	89,106	83,297	79,382	80,128	84,162	87,851	81,974
Water Utilities:										
Water delivered to water mains (gallons in thousands)	22,974,000	22,666,500	22,810,560	22,039,690	21,532,680	21,147,530	21,530,000	21,349,210	21,920,310	21,498,500
Total water consumption (gallons in thousands)	21,293,000	21,280,000	21,155,000	20,360,972	20,109,000	20,241,312	20,054,780	19,282,870	19,649,330	19,548,271
Percent of unmetered water	7.31%	6.11%	7.25%	7.62%	6.62%	4.29%	6.85%	9.68%	10.36%	9.07%
Average daily delivery (gallons in thousands)	62,900	62,100	62,494	60,217	58,994	57,938	59,000	58,320	60,060	59,900
Maximum daily pumpage (gallons in thousands)	79,000	76,400	80,200	76,310	74,640	74,890	88,970	67,610	72,220	81,000
Minimum daily pumpage (gallons in thousands)	52,000	52,200	52,350	50,070	49,890	48,030	51,110	51,010	48,120	50,000

(UNAUDITED)

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

Function/Program	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Public Safety:										
Police										
Stations	3	3	3	3	3	3	3	3	3	3
Fire										
Fire stations	14	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	8	8	8	8	8	7	8	8	8
Elementary (K - 8 & Pre K - 8)	35	35	35	34	33	33	33	33	33	33
Other educational facilities	9	5	5	6	6	6	7	10	10	10
Libraries	11	11	11	11	11	11	11	11	11	12
Public Recreation:										
Parks:										
Acreage	587	587	587	587	587	587	587	630	630	630
Regional parks	2	2	2	2	2	2	2	2	2	2
Neighborhood parks	71	71	71	71	71	71	71	72	72	72
Preserves and nature areas	1	1	1	1	1	1	1	1	1	1
Nature education centers	1	1	1	1	1	1	1	1	1	1
Playgrounds	100	101	101	101	102	105	106	106	106	106
Hiking trails (miles)	2	2	2	2	2	2	2	5	5	5
Recreation:										
Acreage	954	957	957	957	957	957	957	981	981	981
Recreational and senior centers	25	30	30	30	30	30	30	30	30	30
Swimming pools	6	6	6	6	6	6	6	6	6	6
Tennis courts	148	148	148	142	142	142	142	142	142	142
Baseball/softball diamonds	86	86	86	86	86	86	86	86	86	86
Football/soccer fields	49	49	49	49	49	49	49	49	49	49
Field hockey	3	3	3	3	3	3	3	3	3	3
Basketball courts	204	203	203	201	201	201	201	201	201	201
Municipal beaches	3	3	3	3	3	3	3	3	3	3
Municipal golf courses	3	3	3	3	3	3	2	2	2	2
Public Services:										
Transportation and Engineering:										
Streets (lane miles)	2,193	2,188	2,188	2,189	2,174	2,175	2,166	2,195	2,213	2,220
Sidewalks (miles)	968	968	968	968	968	887	887	902	902	906
Bridges	49	50	50	50	50	50	52	52	53	53
Signalized intersections	284	301	304	305	304	311	312	312	313	315
Street lights	30,653	30,717	31,277	31,132	31,138	31,138	31,269	31,289	32,081	32,121
Utilities:										
Water fund capital assets (in thousands)	\$ 437,973	\$ 442,304	\$ 448,407	\$ 470,466	\$ 480,999	\$ 487,577	\$ 503,659	\$ 533,746	\$ 561,297	\$ 566,863
Wastewater fund capital assets (in thousands)	177,928	183,974	198,842	214,308	229,891	238,931	249,210	261,039	266,307	272,992
Total utilities assets (in thousands)	\$ 615,901	\$ 626,278	\$ 647,842	\$ 684,774	\$ 710,094	\$ 726,479	\$ 752,869	\$ 794,785	\$ 827,604	\$ 839,855
Water customer accounts	64,433	66,140	64,289	64,440	64,654	64,856	65,687	65,426	65,673	65,984
Miles of water main in the system	832	835	838	824	826	828	828	821	822	944
Convention Center:										
Meeting rooms	8	8	8	8	8	8	8	8	58	58
Meeting/ballroom space/exhibit (square feet)	68,130	68,130	68,130	68,130	68,130	68,130	68,130	68,130	118,879	118,879
Parking Facilities:										
Parking lots/garages	23	26	25	24	24	24	24	25	27	27
Parking meters	614	584	584	756	738	752	676	643	643	643
Storm Water Management:										
Miles of storm sewers	357	357	357	357	366	386	386	404	385	385

(UNAUDITED)
City of Norfolk, Virginia
Operating Information
Schedule 4
Water System Statistics
As of June 30, 2018

Average Metered Consumption (million gallons per day)

Fiscal Year	Norfolk Retail	Virginia Beach	U.S. Navy	Chesapeake	Total
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
2015	16.8	30.8	5.0	2.3	54.9
2016	15.8	30.9	4.2	2.0	52.9
2017	15.7	31.5	4.6	2.1	53.8
2018	15.6	30.7	5.1	2.2	53.6

Retail Customers' Average Annual Costs - Norfolk Retail

Fiscal Year	Revenue	Volume (Mgal ¹)	Average Cost (\$/Mgal ¹)
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
2015	35,846,000	6,136,000	5.84
2016	35,288,000	5,769,000	6.12
2017	36,213,000	5,717,000	6.33
2018	37,929,000	5,702,000	6.65

Wholesale Customers' Average Annual Costs - Virginia Beach

Fiscal Year	Revenue	Volume (Mgal ¹)	Average Cost (\$/Mgal ¹)
2014	\$ 23,188,000	11,614,000	\$ 1.99
2015	23,771,000	11,257,000	2.11
2016	23,731,000	11,263,000	2.11
2017	24,722,000	11,489,000	2.15
2018	23,548,000	11,200,000	2.10

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

Fiscal Year	Revenue	Volume (Mgal ¹)	Average Cost (\$/Mgal ¹)
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
2015	12,017,000	1,838,000	6.54
2016	10,356,000	1,530,000	6.77
2017	11,710,000	1,662,000	7.05
2018	13,310,000	1,844,000	7.22

Wholesale Customers' Average Annual Costs - Chesapeake

Fiscal Year	Revenue	Volume (Mgal ¹)	Average Cost (\$/Mgal ¹)
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
2015	5,009,000	823,800	6.08
2016	4,718,000	720,000	6.55
2017	5,100,000	781,000	6.53
2018	5,471,000	802,000	6.82

(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, 2017 - June 30, 2018
July 1, 2018 - June 30, 2019

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, 2018

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	246,256	citizens
Total wastewater pumping stations	133	pump stations
Miles of gravity wastewater mains	685	miles
Miles of wastewater force mains	68	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 Robert Carteris 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
2017	\$3.97 per 100 cubic feet
2018	\$4.13 per 100 cubic feet
Thereafter	4.0% annual increases each July 1

Largest Users

Rank	Entity	Usage (CCF)
1	Norfolk Redevelopment and Housing Authority	444,853
4	Old Dominion University	128,249
2	Sentara Norfolk General	123,500
3	BAE Systems	115,909
5	S.L.Nusbaum Realty Co.	70,318

Operating Income

	Fiscal Year 2017	Fiscal Year 2018
Total Operating Revenues	\$ 29,240,091	\$ 30,315,078
Total Operating Expenses	19,452,987	18,039,472
Total Operating Income	\$ 9,787,104	\$ 12,275,606

(UNAUDITED)
City of Norfolk, Virginia
Operating Information
Schedule 6
Parking System Statistics
As of June 30, 2018

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
\$1.00 for first hour - third hour
\$2.00 for each additional hour until 6 PM
\$2.00 for entry after 6 PM
Maximum of \$10.00 per 24-hour period

Saturday & Sunday
\$1.00 for entry prior to 6 PM
\$2.00 for entry after 6 PM
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 41 st , 43 rd , 45 th , 46 th , 47 th 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
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%
2015	46,593	2,292,227	94%
2016	41,850	2,153,328	87%
2017	39,542	1,956,999	82%
2018	36,990	2,089,907	87%

Additional Information

1) Parking Facilities Fund Annual Budget is contained in the City of Norfolk Approved Operating Budget.

July 1, 2017 - June 30, 2018

July 1, 2018 - June 30, 2019

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



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COMPLIANCE SECTION





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**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 the City Council
City of Norfolk, Virginia
Norfolk, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, 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, 2018, 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 19, 2018.

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) as a basis for designing 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 a 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.

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. 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 instances of noncompliance or other matter that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs as items 2018-004 through 2018-006.

City of Norfolk's Response to Findings

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

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 result 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* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Arlington, Virginia
December 19, 2018

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

We have audited City of Norfolk, Virginia's (the City) compliance with the types of compliance requirements described in the *OMB 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, 2018. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2018-001 through 2018-003. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 the Uniform Guidance, 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.

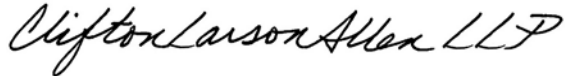
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a 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 have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2018-001 through 2018-003, that we consider to be significant deficiencies.

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

The Honorable Members of City Council
City of Norfolk, Virginia

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Arlington, Virginia
December 19, 2018

**CITY OF NORFOLK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018**

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

1. Type of auditors' report issued: Unmodified
2. Internal control over financial reporting:
 - Material weakness(es) identified? _____ yes x no
 - Significant deficiency(ies) identified? _____ yes x none reported
3. Noncompliance material to financial statements noted? _____ yes x no

Federal Awards

1. Internal control over major federal programs:
 - Material weakness(es) identified? _____ yes x no
 - Significant deficiency(ies) identified? x yes _____ none reported
2. Type of auditors' report issued on compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? x yes _____ no

Identification of Major Federal Programs

CFDA Number(s)	Name of Federal Program or Cluster
14.218	Community Development Block Grant
14.272	National Disaster Resilience Grant
84.010	Title I
84.027, 84.173	Special Education Cluster
93.914	HIV/Emergency Relief Project Grants

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 3,000,000

Auditee qualified as low-risk auditee?

 x yes _____ no

**CITY OF NORFOLK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018**

SECTION II – FINANCIAL STATEMENT FINDINGS

None

SECTION III – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL PROGRAMS

2018-001

Federal agency: Department of Health and Human Services

Federal program title: HIV/Emergency Relief Project Grants

CFDA Number: 93.914

Pass-Through Agency: None

Pass-Through Number(s): None

Recipient: City of Norfolk

Award Periods: March 1, 2017 – February 28, 2018; March 1, 2018 – February 28, 2019

Type of Finding: Significant Deficiency in Internal Control over Compliance, Noncompliance

Criteria or specific requirement: The City is required to submit Federal Financial Report SF-425 on a quarterly basis.

Condition: The City did not file SF-425 for the quarter ending March 31, 2018.

Questioned costs: None

Context: Due to the grant period ending at February 28, 2018, there was uncertainty as to whether the SF-425 for March 31, 2018 needed to be filed in addition to a close out report for the grant year.

Effect: The City was not in compliance with the reporting requirements of the program.

Cause: The City did not have proper procedures in place to ensure required reports were filed in a timely manner.

Recommendation: We recommend that the City review its policies and procedures and make revisions where necessary to ensure all required reports are prepared and submitted in a timely basis to the grantor.

Views of responsible officials: The City will enhance existing policies and procedures as well as administrative oversight to ensure required reports are submitted timely and requirements of grantors are adhered to. Additional meetings will be held with staff to more closely monitor progress. The City recognizes the importance of and is committed to ongoing quality improvement and working to improve internal controls that ensure compliance.

**CITY OF NORFOLK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018**

2018-002

Federal agency: Department of Health and Human Services

Federal program title: HIV/Emergency Relief Project Grants

CFDA Number: 93.914

Pass-Through Agency: None

Pass-Through Number(s): None

Recipient: City of Norfolk

Award Periods: March 1, 2017 – February 28, 2018; March 1, 2018 – February 28, 2019

Type of Finding: Significant Deficiency in Internal Control over Compliance

Criteria or specific requirement: When a non-Federal entity enters into a covered transaction with an entity at a lower tier, the non-Federal entity must verify that the entity, as defined in 2 CFR section 180.995 and agency adopting regulations, is not suspended or debarred or otherwise excluded from participating in the transaction.

Condition: The program did not verify suspension and debarment requirements for two out of five contracts tested.

Questioned costs: None

Context: The City does not have a centralized process for verifying contractors are not suspended and/or debarred. Instead, program managers are responsible for this verification.

Cause: Program personnel were not aware that the suspension and debarment requirements were applicable to consultants that do not provide direct services to clients.

Effect: The City could enter into agreements and/or contracts with vendors that are suspended or debarred.

Recommendation: We recommend that the City review its policies and procedures and make changes as necessary to ensure all vendors are verified for suspension and debarment prior to entering into any agreements and/or contracts.

Views of responsible officials: The City office responsible for the grant will revise policies and procedures and implement a process to ensure all vendors are verified for suspension and debarment prior to entering into any agreements or contracts. Direction and training will be provided to employees to follow proper procedures such as utilizing SAM.gov to screen for suspended or debarred vendors prior to contract execution. The City recognizes the importance of and is committed to ongoing quality improvement and working to improve internal controls that ensure compliance.

**CITY OF NORFOLK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018**

2018-003

Federal agency: Department of Housing and Urban Development

Federal program title: Community Development Block Grant

CFDA Number: 14.218

Pass-Through Agency: None

Pass-Through Number(s): None

Recipient: City of Norfolk

Award Period: July 1, 2017 – June 30, 2018

Type of Finding: Significant Deficiency in Internal Control over Compliance, Noncompliance

Criteria or specific requirement: Per 2 CFR section 200.313(d)(1), property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property, who holds title, the acquisition date, cost of the property, percentage of federal participation in the project costs for the federal award in which it was acquired, the location, use and condition of the property and any ultimate disposition data.

Condition: The City does not maintain property records for equipment purchased with federal funds in accordance with 2 CFR section 200.313(d)(1).

Questioned costs: None

Context: The City's property records do not include serial numbers or other identification numbers for all property, the source of funding, who holds title, the location and use of the property.

Cause: Program personnel were not aware of the requirements applicable to purchasing equipment with federal funding.

Effect: The City is not in compliance with the requirements of the program.

Recommendation: We recommend that the City review its policies and procedures and make changes as necessary to ensure property records of equipment purchased with federal funds are in accordance with 2 CFR 200.313(d)(1).

Views of responsible officials: The City will revise policies and procedures and implement a process to maintain a listing of property records of equipment purchased with federal funds in accordance with 2 CFR 200.313(d)(1). The City recognizes the importance of and is committed to ongoing quality improvement and working to improve internal controls that ensure compliance.

**CITY OF NORFOLK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018**

SECTION IV – FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA

2018-004: Failure to Comply with the Virginia Reporting Requirements

Criteria: In accordance with the Auditor of Public Accounts *Specifications for Counties, Cities and Towns*, Chapter 2, Section 9, the City must submit their audited financial report to the Auditor of Public Accounts by November 30 each year in accordance with Section 15.2-2510 of the Code of Virginia.

Condition: The City did not submit their audited financial statements to the Auditor of Public Accounts by the November 30 deadline.

Cause: The lack of sufficient employee resources within the City during the year resulted in their inability to have required financial statement schedules and reconciliations available for audit to allow sufficient time for completion of the audit process by the required due date.

Effect: The City is not in compliance with Virginia requirements to submit their audited financial statements by November 30.

Recommendation: We recommend that the City implement policies and procedures to ensure that the required financial statement schedules and reconciliations are available for audit to allow sufficient time for completion of the audit process by the prescribed deadlines.

Views of Responsible Officials: The City will enhance existing policies and procedures as well as administrative oversight to ensure required reports are submitted timely and requirements of the Commonwealth are adhered to. The City will continue to refine its closing schedule and reconciliation processes to allow sufficient time for completion of the audit process by the prescribed deadlines. Additional meetings will be held with staff to more closely monitor progress. The City recognizes the importance of and is committed to ongoing quality improvement and working to improve internal controls that ensure compliance.

2018-005: Failure to Comply with Virginia Stormwater Utility Reporting Requirements

Criteria: In accordance with the Auditor of Public Accounts *Specifications for Counties, Cities and Towns*, Chapter 3, Section 17, the City must submit the Annual Stormwater Utility Report to the Auditor of Public Accounts by October 1 each year in accordance with Section 15.2-2114 of the Code of Virginia.

Condition: The Stormwater Utility Report was submitted to the Auditor of Public Accounts on October 11, 2018.

Cause: The lack of sufficient employee resources within the City during the year resulted in their inability to complete the Stormwater Utility Report on time.

Effect: The City is not in compliance with Virginia requirements to submit their 2018 Stormwater Utility Report by October 1, 2018.

Recommendation: We recommend that the City implement policies and procedures to ensure that the required Annual Stormwater Utility Report is submitted by the prescribed deadlines.

**CITY OF NORFOLK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018**

Views of Responsible Officials: The City will put in place additional back up measures and an enhanced communication channel to ensure that this deadline is not missed in the future. The City recognizes the importance of and is committed to ongoing quality improvement and working to improve internal controls that ensure compliance.

2018-006: Lack of Documented VDSS Acceptable Use Policy

Criteria: In accordance with the Auditor of Public Accounts *Specifications for Counties, Cities and Towns*, Chapter 3, Section 15, the City is responsible for having employees read and acknowledge their understanding of the VDSS Acceptable Use Policy.

Condition: For one out of twenty-five employees tested, the City did not have documentation indicating the employee had acknowledged reading and understanding the VDSS Acceptable Use Policy.

Cause: The City did not have adequate procedures in place to ensure that documentation was maintained related to the VDSS Acceptable Use Policy.

Effect: The City is not in compliance with Virginia requirements to maintain documentation of employee acknowledgement of the VDSS Acceptable Use Policy.

Recommendation: We recommend that the City implement policies and procedures to ensure that a documented VDSS Acceptable Use Policy is on file for all required employees.

Views of Responsible Officials: The City will enhance controls previously implemented and administrative oversight to ensure adherence with this requirement to maintain a documented VDSS Acceptable Use Policy on file for all required employees. The City recognizes the importance of and is committed to ongoing quality improvement and working to improve internal controls that ensure compliance.



City of Norfolk
810 Union Street
Norfolk, Virginia 23510
www.Norfolk.gov



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